

THE CHARTERED INSURANCE INSTITUTE



FA4

Certificate in Investment Operations

FA4 – Collective investment scheme administration

Based on the 2017/2018 syllabus
examined until 31 August 2018

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FA4 – Collective investment scheme administration

Based on the 2017/2018 syllabus examined until 31 August 2018

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the FA4 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 one hour 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 an FA4 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 FA4 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 FA4 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for FA4 encompass the skill levels of *know* or *understand*. Different skill levels lead to different types of question, examples of which follow.

- | | |
|---------------------|--|
| <i>Know</i> - | Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a <i>know</i> learning outcome can only test knowledge. |
| <i>Understand</i> - | To answer questions based on understanding, the candidate must be able to link pieces of information together in cause-and-effect relationships. Typically questions may ask 'Why'. Questions set on an <i>understand</i> learning outcome can test either knowledge or understanding or both. |

Examination Information

The method of assessment for the FA4 examination is 50 multiple choice questions (MCQs). 1 hour is allowed for this examination.

The FA4 syllabus provided in this examination guide will be examined from 1 September 2017 to 31 August 2018.

Candidates will be examined on the basis of English law and practice in the tax year 2017/2018 unless otherwise stated.

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.

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.

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, under 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.

Collective investment scheme administration

Purpose

At the end of this unit, candidates should understand the:

- main features of collective investment schemes;
- regulatory framework applicable to collective investment schemes;
- roles and responsibilities associated with collective investment schemes;
- registration process, dealing and settlement, contract notes/dematerialisation, transfers and reconciliation.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the function of collective investment schemes (CIS) and the construction and establishment of their funds.	4
2. Understand the investment and borrowing options of collective investment schemes.	3
3. Know the regulatory framework applicable to collective investment schemes and the key requirements relating to promotion and product disclosure.	5
4. Understand the roles and responsibilities of the auditor, authorised fund manager, depositary, trustee and custodian.	7
5. Know registration, dealing and settlement, contract notes/dematerialisation and transfers and the key types and features of reconciliation.	11
6. Know the roles, responsibilities and regulatory requirements relating to custody of assets.	3
7. Know the main types of corporate action.	1
8. Know the requirements for reports, accounts, performance measurements and meetings.	3
9. Understand valuation and pricing.	5
10. Understand the tax considerations in the fund and of investors.	3
11. Understand how income is distributed.	3
12. Understand fund promotion and distribution, including remuneration/costs.	1
13. Understand investor rights and protections.	1

*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: 50 multiple choice questions (MCQs). 1 hour is allowed for this examination.
- This syllabus will be examined from 1 September 2017 until 31 August 2018.
- Candidates will be examined on the basis of English law and practice in the tax year 2017/2018 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. Understand the function of collective investment schemes (CIS) and the construction and establishment of their funds.**
 - 1.1 Describe why collective investment schemes (CIS) were introduced and the main types that exist.
 - 1.2 Describe the requirements for establishing a fund and its structure.
- 2. Understand the investment and borrowing options of collective investment schemes.**
 - 2.1 Know the general principles surrounding prudent spread of risk and investment limits.
 - 2.2 Know the definitions of different types of securities and the specific investment limits that apply for Undertakings for Collective Investment in Transferable Securities (UCITS) funds, non-UCITS funds and other types of scheme.
 - 2.3 Know the rules concerning borrowing, stock lending and underwriting.
- 3. Know the regulatory framework applicable to collective investment schemes and the key requirements relating to promotion and product disclosure.**
 - 3.1 Identify the regulatory framework for collective investment schemes.
 - 3.2 Identify what information must be supplied to collective investment scheme investors.
 - 3.3 Know when client agreements are required and the main content.
- 4. Understand the roles and responsibilities of the auditor, authorised fund manager, depositary, trustee and custodian.**
 - 4.1 Describe the appointment and role of auditors and the key features of the audit process.
 - 4.2 Describe the operation of the manager's box and cancellation issues.
 - 4.3 Describe the appointment and role of the authorised fund manager and powers of delegation.
 - 4.4 Describe the appointment and responsibilities of the Trustee, Depositary or Custodian.
- 5. Know registration, dealing and settlement, contract notes/dematerialisation and transfers and the key types and features of reconciliation.**
 - 5.1 Know how title to fund investments is held and how dealing and settlement takes place.
 - 5.2 Know how investor dealing takes place.
 - 5.3 Know the requirements for share registers and transfer of title.
 - 5.4 Know the types and features of cash and unit/share reconciliation.
- 6. Know the roles, responsibilities and regulatory requirements relating to custody of assets.**
 - 6.1 Describe the appointment and role of a custodian and their role in relation to dealing and settlement.
 - 6.2 Describe the rules on operation of client money accounts, provision of custody services and responsibility for client assets and reporting.
 - 6.3 Know the rules on providing custody.
- 7. Know the main types of corporate action.**
 - 7.1 Describe the main types of corporate action and their impact on shareholdings.
- 8. Know the requirements for reports, accounts, performance measurements and meetings.**
 - 8.1 Describe the required content of long and short reports and what investors should look for.
- 9. Understand valuation and pricing.**
 - 9.1 Identify how and when valuations are made.
 - 9.2 Calculate prices using methods permitted by regulation.
- 10. Understand the tax considerations in the fund and of investors.**
 - 10.1 Know the basis on which collective investment schemes are taxed and how Stamp Duty Reserve Tax is calculated and accounted for.
 - 10.2 Describe the tax treatment for investors in collective investment schemes funds.
- 11. Understand how income is distributed.**
 - 11.1 Calculate the income available for distribution.
 - 11.2 Describe payment methods, the provision of tax vouchers and the concept of equalisation and how it is calculated.

- 12. Understand fund promotion and distribution, including remuneration/costs.**
 - 12.1** Describe how funds are distributed.
- 13. Understand investor rights and protections.**
 - 13.1** Describe cancellation rights available to investors and the impact of shortfalls or the requirements for stakeholder products and the meetings of unit/shareholders.

Reading list

The following list provides details of various publications which may assist you 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 you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Collective investment scheme administration. London: CII. Study text FA4.

Books

“Pooled investments”. Chapter – FT guide to investing. Glen Arnold. 3rd ed. Harlow, Essex: Pearson Education, 2014.

Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

Recent developments in investment product design. Nick Edwards.

Additional articles and technical bulletins are available under the Personal Finance section of the website at www.cii.co.uk/knowledge/personal-finance.

Journals and magazines

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

Financial times. London: Financial Times. Daily. Also available online at www.ft.com.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Also available at www.thepfs.org/knowledge (CII/PFS members only).

Money management. London: FT Business. Monthly. Also available via www.ftadviser.com.

Reference materials

Collective investment schemes. Timothy C Cornick. Sweet and Maxwell. Updated by installments.

Dictionary of banking and finance. P H Collin. A&C Black, 2005.*

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.*

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via www.cii.co.uk/lamont (CII/PFS members only).

*Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS 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 current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent versions of the examination guides.

Exam technique/study skills

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

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).

1. Before its publication, the prospectus for the launch of a new scheme is required to be approved by its directors. This is because the scheme is
 - A. an ISA.
 - B. an open-ended investment company.
 - C. outside the scope of the UCITS scheme directive.
 - D. a unit trust.
2. When applying for authorisation of a new unit trust, the regulations require the submission of a business plan for the period of
 - A. one year.
 - B. three years.
 - C. five years.
 - D. seven years.
3. Which type of collective scheme would **best** be described as non-retail?
 - A. An Exchange Traded Fund.
 - B. An investment trust.
 - C. An open-ended investment company.
 - D. A qualified investor scheme.
4. What is the **maximum** percentage of a unit trust's overall value that is allowed to be invested in unapproved securities?
 - A. 5%
 - B. 10%
 - C. 15%
 - D. 20%
5. When a transferable security has a transferable title, this **usually** means that the current holder who wants to exchange it does so
 - A. for an agreed price and relinquishes all ownership at the time of exchange.
 - B. for its current value whilst retaining an element of ownership.
 - C. in part or in full for an agreed price provided ownership is relinquished within seven years.
 - D. only under specified market conditions to a new owner of equivalent expertise.
6. When stock lending is used by an open-ended investment company, the transaction is entered into by the
 - A. auditor.
 - B. Authorised Corporate Director.
 - C. Depositary.
 - D. fund manager.

7. A collective investment scheme provider is required to retain complaints correspondence for what **minimum** period following the date of receipt?
 - A. One year.
 - B. Two years.
 - C. Three years.
 - D. Four years.

8. Under the Data Protection Act 1998, what rule applies to the provision of access to manual records for a data subject, when compared to the level of access required for computer records?
 - A. It is at the data controller's discretion, provided the level of access is deemed to be reasonable.
 - B. Manual records must be viewed at the data controller's office, whereas an online link may be provided for computer records.
 - C. The same level of access must be given.
 - D. There is no right of access for manual records.

9. Ken will soon receive investment management services from Eric. The legal basis for the provision of Eric's services is **likely** to be contained in the
 - A. client agreement.
 - B. cooling-off notice.
 - C. key investor information document.
 - D. suitability report.

10. At what stage(s) of the product life cycle do the principles of the fair treatment of customers apply?
 - A. At the advice stage only.
 - B. At the product design stage only.
 - C. At the product design and promotion stages only.
 - D. At all stages.

11. Instead of producing a detailed prospectus, it is common to supply investors of a collective investment scheme with
 - A. an auditor's report.
 - B. a key features document.
 - C. a marketing brochure.
 - D. a suitability report.

12. A unit trust fund manager's box holds insufficient units to fulfil investment deals already accepted. What action should the manager **normally** take?
 - A. Cancel some or all of these deals and refund the payment.
 - B. Defer some or all of these deals until sufficient units become available.
 - C. Instruct the registrar to create more units.
 - D. Instruct the trustees to create more units.

13. The manager of a unit trust has appointed a new auditor and has proposed the level of fees payable. Who is **normally** required to approve these audit fees?
- A. The Financial Conduct Authority.
 - B. The shareholders.
 - C. The trustees.
 - D. The unitholders.
14. Brian is a partner in an audit firm which operates in partnership with a collective investment scheme. How will this affect his potential appointment as the official auditor to the scheme?
- A. The appointment will be deemed valid.
 - B. Brian cannot be appointed.
 - C. Brian may only act if no other auditing firm is available.
 - D. The Financial Conduct Authority may grant special dispensation.
15. The manager of a unit trust intends to retire. Assuming the proposed new manager is eligible under the Financial Services and Markets Act 2000 rules, who **must** approve the appointment?
- A. The auditors.
 - B. The regulator.
 - C. The trustees.
 - D. The unitholders.
16. The authorised fund manager (AFM) of a unit trust currently holds a negative box position. To avoid a serious breach, the AFM **must**
- A. cease trading until the situation is rectified.
 - B. defer further unit sales until sufficient units have been repurchased.
 - C. instruct the trustee to create sufficient new units to rectify the shortfall.
 - D. report the situation to the regulator.
17. Who is responsible for the calculation of an open-ended investment company's fund prices?
- A. The auditor.
 - B. The Authorised Corporate Director.
 - C. The Depositary.
 - D. The trustees.
18. Who is responsible for reporting any material breach of the rules by a unit trust to the regulator?
- A. The auditor.
 - B. The fund manager.
 - C. The registrar.
 - D. The trustees.

- 19.** What price is **normally** paid to unitholders on the redemption of their unit trust holding?
- A. Bid price.
 - B. Cancellation price.
 - C. Creation price.
 - D. Offer price.
- 20.** What does the Collective Investment Schemes Sourcebook (COLL) state about levying a charge on shareholders to view the share register for an open-ended investment company scheme?
- A. A charge must not apply.
 - B. Any charge must reflect the actual costs involved.
 - C. It should be no more than £10 per inspection.
 - D. It should be no more than £25 per inspection.
- 21.** A fund manager offers both retail and institutional classes of share. The difference in these share classes is **normally** designed to reflect the
- A. balance required between income and capital growth.
 - B. length of investment term anticipated.
 - C. level of investment available.
 - D. level of risk to be taken.
- 22.** Following the sale of units under a unit trust, funds did **NOT** arrive by the T+4 deadline and the transaction was cancelled. As a result, these units are
- A. converted into realisable funds.
 - B. offered to an institutional investor.
 - C. placed in the manager's box.
 - D. transferred to the trustees.
- 23.** The settlement period regarding the sale of units in an equity unit trust took seven working days. This was permitted because the
- A. seller was a foreign institution.
 - B. seller required a currency not normally held by the manager.
 - C. size of the sale exceeded purchases of units during the same business day.
 - D. size of the sale led to a pricing of the units on a bid basis.
- 24.** Matthew has transferred his open-ended investment company to a flexible power of appointment interest in possession trust with a legal firm as trustee and his two daughters as beneficiaries. As a result, the legal owner is
- A. the two daughters.
 - B. the legal firm.
 - C. the elder of the two daughters.
 - D. Matthew.

25. An investment manager encounters difficulties in reconciling his records with those of the registrar and requests the registrar to provide details of any holdings and transactions that have taken place. What charge, if any, is the registrar permitted to make?
- A. £10 plus VAT.
 - B. £25 plus VAT.
 - C. £50 plus VAT.
 - D. A charge is not permitted.
26. Regular reconciliations of the total number of unit or shareholders with the number of shares in issue should be undertaken at least
- A. daily.
 - B. weekly.
 - C. monthly.
 - D. at the frequency set by the Depositary.
27. A scheme registrar has accepted a written instruction from a financial adviser to change a client's registered address. What action, if any, will the registrar **normally** take?
- A. Send an acknowledgement to the financial adviser only.
 - B. Send an acknowledgement to the shareholders' current addresses only.
 - C. Send an acknowledgement to the shareholders' previous and current addresses.
 - D. No action will be taken.
28. The records relating to the transfer of shares in a collective investment scheme **must** be retained by the registrar for at least
- A. one year.
 - B. three years.
 - C. five years.
 - D. six years.
29. The safe custody of an open-ended investment company scheme's assets have been entrusted to a third party firm specialising in custody services. Who will be liable for any scheme losses in relation to these assets if the firm defaults?
- A. The authorised fund manager.
 - B. The Depositary.
 - C. The third party custodian.
 - D. The trustees.
30. A large investment firm is obliged to submit the Client Money and Asset Return (CMAR) to the regulator on what periodic basis?
- A. Daily.
 - B. Weekly.
 - C. Monthly.
 - D. Quarterly.

31. The **maximum** proportion of its client money account that an investment firm is permitted to hold with an associated bank is
- A. 5%
 - B. 10%
 - C. 20%
 - D. 25%
32. Under the Companies Act 2006, when consolidating or sub-dividing shares, what rule **normally** applies regarding the proportion of paid to unpaid amounts?
- A. The ratio existing prior to the exercise should be maintained.
 - B. An alteration in the ratio which falls within 10% may proceed without shareholder approval.
 - C. Only under a consolidation exercise may the ratio be altered solely with director approval.
 - D. Only under a sub-division exercise may the ratio be altered solely with director approval.
33. The Portfolio Turnover Ratio (PTR) was shown in the annual long report for an open-ended investment company, which has been operating for seven years. For how many preceding years **must** the PTR also appear?
- A. One year.
 - B. Two years.
 - C. Three years.
 - D. Five years.
34. When compiling the comparative tables for a unit trust's annual long report, what unit price(s) **must** be shown for each of the relevant years?
- A. The average price only.
 - B. The highest price only.
 - C. The lowest price and the highest price.
 - D. The mid-year price and the average price.
35. A short report for an authorised fund **must** include for the relevant period a
- A. fund manager's report.
 - B. report of the auditor.
 - C. report of the Depository.
 - D. review of investment activities and investment performance.
36. A unit price of 135.2p was used for a particular unit trust and it was discovered soon after that the correct price should have been higher. What **lowest** possible correct price would trigger the de minimis rule?
- A. 135.9p
 - B. 136.6p
 - C. 137.0p
 - D. 140.0p

37. A pricing error, which **marginally** exceeded the de minimis threshold level, occurred under a collective investment scheme. How soon should it **normally** be reported by the trustees to the Financial Conduct Authority?
- A. Immediately on discovery.
 - B. Within 14 days of discovery.
 - C. As soon as procedures are implemented to avoid any repetition.
 - D. When the next quarterly return is due.
38. For Qualifying Money Market schemes, where the instruments in which they invest are valued on an amortised basis, at what **minimum** frequency should comparisons be made to the market place to ensure they are broadly in line?
- A. Daily.
 - B. Weekly.
 - C. Every 10 days.
 - D. Every 14 days.
39. The maximum offer price of a unit trust is being calculated before the initial charge is added. This is determined by the value of the underlying securities, cash and accumulated net income
- A. minus the cost of selling the relevant securities in the market.
 - B. minus the value of institutional sales contracted to be made in the following 30 business days.
 - C. plus the cost, excluding Stamp Duty, of buying the relevant securities in the market.
 - D. plus the cost, including Stamp Duty, of buying the relevant securities in the market.
40. With regard to the **maximum** spread, how does the valuation of a unit on an offer basis differ from one on a bid basis?
- A. On a bid basis, the buying price of the unit is likely to be closer to the bid end of the spread than the selling price of the unit.
 - B. On a bid basis, the bid-offer spread is smaller.
 - C. On an offer basis, the buying price of the unit is closer to the offer end of the bid-offer spread, whereas the selling price of the unit is closer to the bid end.
 - D. On an offer basis, both the buying price and selling price of the unit are likely to be closer to the offer end of the bid-offer spread.
41. The valuation of a collective investment vehicle's assets is £100,000,000. There are 100,000,000 shares, with a market price of £1.20. This shows that the investment vehicle is an
- A. investment trust trading at a discount.
 - B. investment trust trading at a premium.
 - C. open-ended investment company trading at a premium.
 - D. open-ended investment company with a dilution levy applying.

42. David receives dividends totalling £8,000 during the tax year 2017/2018. How much of this, if any, is liable for Income Tax?
- A. Nil.
 - B. £3,000
 - C. £5,000
 - D. £8,000
43. A shareholder in an open-ended investment company gifted his shareholding to his sister. He has made no other gifts. This gift **must** be included in the Inheritance Tax calculation resulting from his subsequent death, but only if death occurred within what **maximum** period following the date he made the gift?
- A. 3 years.
 - B. 5 years.
 - C. 7 years.
 - D. 10 years.
44. The managers of an open-ended investment company have disposed of £500,000 of gilts and £500,000 of FTSE 100 shares. In both cases, they have realised significant gains. What rate(s) of tax apply to which gains, if at all?
- A. Both gains are liable to tax, 20% on the gilts and 10% on the shares.
 - B. Only the gains on the shares are liable to tax at 18%.
 - C. Only the gains on the shares are liable to tax at 28%.
 - D. Neither gain is liable to tax.
45. An investor received an equalisation payment in respect of his unit trust holding. What action did he take for this to happen?
- A. Assigned ownership of the units to another financial institution.
 - B. Assigned ownership of the units to another individual.
 - C. Purchased some units.
 - D. Sold some units.
46. A unit trust has 75% of its assets in interest bearing holdings. If an income distribution is made to a basic-rate taxpayer, what rate of Income Tax, if any, is applied to this payment at source?
- A. Nil.
 - B. 7.5%
 - C. 10%
 - D. 20%

47. The administrators of an equity unit trust have noticed that certain distributions have been unclaimed, some for just over three years, some for just over six years and some for just over seven years. What should be done?
- A. All should be added to the capital account.
 - B. Apart from the ones for three years, they should all be added to the capital account.
 - C. Apart from the ones for three years, they should be repaid to the originating companies.
 - D. The ones for three and six years should be added to the capital account and the ones for seven years should be repaid to the originating companies.
48. An equalisation payment for a unit trust holder represents a
- A. full refund of the original capital invested and is not subject to Income Tax.
 - B. full refund of the original capital invested and is subject to Income Tax.
 - C. partial refund of the original capital invested and is not subject to Income Tax.
 - D. partial refund of the original capital invested and is subject to Income Tax.
49. A new open-ended investment company has been launched and as a result of the marketing material, some potential customers have asked to be sent the prospectus by post. The managers are required to provide the prospectus
- A. for inspection at their offices only.
 - B. for inspection at their offices and online.
 - C. in paper form, as requested, and sent without charge.
 - D. in paper form, as requested, but may levy a charge at their discretion.
50. A meeting in respect of a collective investment scheme was adjourned due to a lack of the requisite quorum. What **minimum** number of days **must** pass before the meeting can be reconvened?
- A. 5 days.
 - B. 7 days.
 - C. 10 days.
 - D. 14 days.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 6			Learning Outcome 11		
1	B	1.2	29	B	6.1	45	C	11.2
2	B	1.2	30	C	6.3	46	A	11.2
3	D	1.1	31	C	6.2	47	B	11.1
3 Questions			3 Questions			48	C	11.2
						4 Questions		
Learning Outcome 2			Learning Outcome 7					
4	B	2.1	32	A	7.1	Learning Outcome 12		
5	A	2.2	1 Question			49	C	12.1
6	C	2.3				1 Question		
3 Questions			Learning Outcome 8					
			33	D	8.1	Learning Outcome 13		
Learning Outcome 3			34	C	8.1	50	B	13.1
7	C	3.1	35	A	8.1	1 Question		
8	C	3.1	3 Questions					
9	A	3.3						
10	D	3.2	Learning Outcome 9					
11	B	3.2	36	A	9.2			
5 Questions			37	D	9.2			
			38	B	9.1			
Learning Outcome 4			39	D	9.2			
12	D	4.2	40	D	9.2			
13	C	4.1	41	B	9.1			
14	B	4.1	6 Questions					
15	C	4.2						
16	C	4.2	Learning outcome 10					
17	C	4.3	42	B	10.2			
18	D	4.4	43	C	10.2			
7 Questions			44	D	10.1			
			3 Questions					
Learning Outcome 5								
19	A	5.2						
20	A	5.3						
21	C	5.2						
22	C	5.2						
23	B	5.3						
24	B	5.3						
25	D	5.4						
26	C	5.4						
27	C	5.1						
28	D	5.1						
10 Questions								