



Chartered
Insurance
Institute

R01

Diploma in Regulated Financial Planning

Unit 1 – Financial services, regulation and ethics

Based on the 2018/2019 syllabus
examined until 31 August 2019

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Unit 1 – Financial services, regulation and ethics

Based on the 2018/2019 syllabus examined until 31 August 2019

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 R01 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 R01 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 R01 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 R01 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 R01 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* and *evaluate* 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.

Evaluation - To answer questions requiring evaluation or critical evaluation, the candidate must be able to assess 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 evaluation.

Examination Information

The method of assessment for the R01 examination is 100 multiple choice questions (MCQs): 87 standard format and 13 multiple response format. 2 hours are allowed for this examination.

The R01 syllabus provided in this examination guide will be examined from 1 September 2018 until 31 August 2019.

Candidates will be examined on the basis of English law and practice in the tax year 2018/2019 unless otherwise stated. It should be assumed that all individuals are domiciled, resident and ordinarily 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.

R01 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.

A standard format 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.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

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.

Financial services, regulation and ethics

Purpose

At the end of this unit, candidates will have investigated the:

- purpose and structure of the UK financial services industry;
- how the retail customer is served by the financial services industry;
- regulatory framework, powers and responsibilities to protect the consumer;
- legal concepts and considerations relevant to financial advice;
- Code of Ethics and its impact on the business behaviours of individuals.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the UK financial services industry in its European and global context.	6 standard format
2. Understand how the retail consumer is served by the financial services industry.	12 standard format
3. Understand the legal concepts and considerations relevant to financial advice.	9 standard format
4. Understand the regulation of financial services.	6 standard format
5. Understand the financial regulators' responsibilities and approach to regulation.	29 standard format
6. Apply the principles and rules as set out in the regulatory framework.	4 standard format/ 5 multiple response
7. Apply the regulatory advice framework in practice for the consumer.	5 standard format/8 multiple response
8. Understand the range of skills required when advising clients.	4 standard format
9. Understand the financial regulators' use of principles and outcomes based regulation to promote ethical and fair outcomes.	7 standard format
10. Apply the Code of Ethics and professional standards to business behaviours of individuals.	2 standard format
11. Critically evaluate the outcomes that distinguish between ethical and compliance driven behaviours.	3 standard format

*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: 100 questions: 87 standard format and 13 multiple response questions. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2018 to 31 August 2019.
- Candidates will be examined on the basis of English law and practice in the tax year 2018/2019 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. Understand the UK financial services industry in its European and global context.**
 - 1.1 Describe the role, structure and context of the UK and international financial services markets.
 - 1.2 Explain the function and operation of financial services within the economy.
 - 1.3 Describe the role of government and the impact of the EU on UK regulation.
- 2. Understand how the retail consumer is served by the financial services industry.**
 - 2.1 Explain the obligations that the financial services industry has towards consumers.
 - 2.2 Explain consumers' main financial needs and how these may be prioritised and met.
- 3. Understand the legal concepts and considerations relevant to financial advice.**
 - 3.1 Explain the concepts of legal persons, powers of attorney, law of contract and agency, and ownership of property.
 - 3.2 Explain relevant laws governing insolvency and bankruptcy.
 - 3.3 Explain relevant laws governing wills, intestacy and trusts.
- 4. Understand the regulation of financial services.**
 - 4.1 Examine the roles of the PRA, FCA, HM Treasury and the Bank of England in regulating the market.
 - 4.2 Examine the role of other regulatory bodies and sources of additional oversight.
 - 4.3 Examine the statutory framework of regulation, including the role of EU regulation and key directives.
- 5. Understand the financial regulators' responsibilities and approach to regulation.**
 - 5.1 Explain the financial regulators' statutory objectives and how they are structured to achieve these objectives.
 - 5.2 Explain the main principles and rules in the PRA and FCA handbooks.
 - 5.3 Explain the approach to risk based supervision, discipline and enforcement, and sanctions to deal with criminal activities.
- 6. Apply the principles and rules as set out in the regulatory framework.**
 - 6.1 Apply the FCA's and PRA's regulatory principles and rules.
 - 6.2 Apply current anti-money laundering, proceeds of crime and data protection obligations.
 - 6.3 Apply the rules of relevant dispute resolution and compensation schemes.
- 7. Apply the regulatory advice framework in practice for the consumer.**
 - 7.1 Apply client relationships, regulated advice standards, and the adviser responsibilities in terms of these.
 - 7.2 Monitor and review client plans and circumstances.
- 8. Understand the range of skills required when advising clients.**
 - 8.1 Examine the range of skills required when advising clients.
- 9. Understand the financial regulators' use of principles and outcomes based regulation to promote ethical and fair outcomes.**
 - 9.1 Examine the Financial Conduct Authority's Principles for Businesses and the obligations these place on firms.
 - 9.2 Examine the impact of corporate culture and leadership.
 - 9.3 Examine the responsibilities of approved persons and the need for integrity, competence and fair outcomes for clients.
- 10. Apply the Code of Ethics and professional standards to business behaviours of individuals.**
 - 10.1 Apply the professional principles and values of ethical and sustainable advice.
 - 10.2 Identify ethical dilemmas and apply the steps involved in managing ethical dilemmas.
- 11. Critically evaluate the outcomes that distinguish between ethical and compliance driven behaviours.**
 - 11.1 Evaluate the indicators of ethical behaviour and of limiting behaviour to compliance within the rules.
 - 11.2 Critically evaluate the outcomes that distinguish ethical and compliant behaviours.

Reading list

The following list provides details of additional resources 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 resources will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can access most of the additional study materials below via the Knowledge Services webpage at www.cii.co.uk/knowledge.

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

Financial services, regulation and ethics. London: CII. Study text R01.

Books

A practitioner's guide to MiFID. 2nd ed. Jonathan Herbst. London: Sweet and Maxwell, 2015.

A practitioner's guide to the UK financial services rulebooks. 6th. ed. Ruth Fox, Ben Kingsley (eds.). London: Sweet and Maxwell, 2013.

Business ethics and values: individual, corporate and international perspectives. 4th ed. Colin Fisher and Alan Lovell. FT Prentice Hall, 2012.

Competition law and policy in the EU and UK. 5th ed. Barry Rodger, Angus MacCulloch. Routledge-Cavendish, 2015.*

Ethics and finance: an introduction. John Hendry. Cambridge: Cambridge University Press, 2013.

Financial services law. 3rd ed. Michael Blair, et al. Oxford: Oxford University Press, 2014.

Modern financial regulation. Jonathan Kirk, James Ross. London: Jordan Publishing, 2013.

The business ethics twin-track: combining controls and culture to minimise reputational risk. Steve Giles. Chichester: Wiley, 2015.*

The law and regulation of finance. Alastair Hudson. 2nd. ed. London: Sweet & Maxwell, 2013.

Winning client trust. Chris Davies. London: Ecademy Press, 2011.

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Business ethics. Michael Boylan. 2nd ed. Chichester: Wiley, 2014.

Business ethics in the 21st Century. Norman E. Bowie. Dordrecht: Springer, 2013.

Business ethics in the social context: law, profits, and the evolving moral practice of business. Lisa Newton. Cham [Switzerland]: Springer, 2014.

Consumer credit: law and practice. 2nd ed. Alexander G.L. Hill-Smith. Oxon: Informa Law, 2015.

International finance regulation: the quest for financial stability. Georges Ugeux. Wiley, 2014.

Promoting information in the marketplace for financial services: financial market regulation and international standards. Paul Latimer, Philipp Maume. Cham [Switzerland]: Springer, 2014.

The role of law and regulation in sustaining financial markets. Niels Philipsen, Guangdong Xu. Hoboken: Routledge, 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).

- The regulation of retail investment business. Kevin Morris.
- The regulatory framework. Simon Collins.
- The regulation of mortgage intermediaries. Brad Baker.
- The regulation of investment intermediaries. Kevin Morris.

The EU single market. The European Commission. Updated as necessary. Available online at http://ec.europa.eu/internal_market

Code of ethics explained. Duncan Minty. CII Faculty lecture, 2014. Available online at www.cii.co.uk/30790

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. Available online at www.ftadviser.com.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at www.thepfs.org/financial-solutions-archive (CII/PFS members only).

Reference materials

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2005.*

Financial Conduct Authority (FCA) Handbook. Available at www.handbook.fca.org.uk/handbook.

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

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009.

Prudential Regulation Authority (PRA) Rulebook Online. Available at www.prarulebook.co.uk

* Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS members only).

Examination guide

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 version of the examination guide.

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. How does the UK financial market operate in respect of both investments and loans?
 - A. All short-term investments are used to create short-term loans.
 - B. Financial intermediaries help transform short-term savings to long-term loans.
 - C. Long-term risk is transformed to short-term risk via financial intermediation.
 - D. Small investments are grouped together to facilitate larger loans via financial disintermediation.

2. How do the financial markets across the various EU Member States operate?
 - A. As a single market governed by European Parliament.
 - B. As independent markets regulated by bodies in each Member State where capital may flow in and out without restriction.
 - C. As independent markets regulated by the European Central Bank where capital may flow in and out without restriction.
 - D. As independent markets regulated by bodies in each Member State where capital flow is restricted by limits set centrally.

3. Within the UK economy, an example of disintermediation would be the
 - A. arrangement of a life assurance policy through an independent adviser.
 - B. arrangement of a personal loan with a bank.
 - C. purchase of securities from a stockbroker.
 - D. purchase of UK gilts from the Debt Management Office.

4. A UK life assurance company is establishing a separate offshore company in the Isle of Man. In respect of the relevant EU Directives, the UK company should be aware that
 - A. all EU Directives that apply to the UK company will automatically apply to the company in the Isle of Man.
 - B. EU Directives will not apply in respect of the company in the Isle of Man.
 - C. the UK company's registration by the Financial Conduct Authority will be automatically passported to the Isle of Man.
 - D. the Isle of Man regulators must apply all EU Directives to non UK-based companies only.

5. How do EU Directives affect UK financial services companies, if at all?
 - A. Directives are binding on companies immediately and must be implemented as prescribed in the Directive.
 - B. Directives are binding on all companies and the methods of implementation will be prescribed by the Government.
 - C. Directives do not affect UK financial services companies.
 - D. Directives may be considered by the Government and implemented only if it is considered appropriate to do so.

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6. With respect to UK short-dated gilts, index-linked gilts and National Savings & Investments products, a financial adviser should be aware that they
- A. are always tax free for the investor.
 - B. are all issued by the Debt Management Office.
 - C. are all used by the Government to raise funds.
 - D. cannot be purchased by corporate investors.
7. When the Bank of England announces it will undertake quantitative easing, a financial adviser should consider that
- A. interest rates will fall as a result.
 - B. a new tranche of gilts will be issued.
 - C. the Debt Management Office will offer to buy back a limited number of gilts.
 - D. the Bank of England will purchase an amount of gilts that are in circulation.
8. The tripartite regulators of UK financial firms, when considering issues relating to financial stability, will report to
- A. the European Systemic Risk Board.
 - B. the European Central Bank.
 - C. the Financial Action Task Force.
 - D. the Basel Committee on banking supervision.
9. Terry has various debts, including a mortgage, a credit card, a secured personal loan and a hire purchase finance agreement on his car. When considering how he might reduce his outgoings, he should be aware that
- A. the secured loan cannot be repaid until his mortgage is repaid.
 - B. debt consolidation may involve increasing the term of his repayments.
 - C. an introductory deal on a credit card is always available.
 - D. a hire purchase agreement cannot be repaid before the end of the term.
10. A client is considering mortgage payments for both capital and interest and interest-only mortgages. He should be aware that if interest rates stay constant throughout the mortgage term, compared to a capital and interest mortgage, an interest-only mortgage will result in
- A. a lower monthly cost, but a higher overall borrowing cost.
 - B. a higher monthly cost, but a lower overall borrowing cost.
 - C. both a lower monthly and overall borrowing cost.
 - D. both a higher monthly and overall borrowing cost.
11. Michael, aged 27, has recently purchased a property with a mortgage on a capital and interest basis. He is single and has no dependants and is employed by the local authority. Michael's **main** priority is **most likely** to be arranging an
- A. amount of life assurance that remains constant over the term of the loan.
 - B. amount of life assurance that reduces over the term of the loan.
 - C. amount of income protection insurance sufficient to continue meeting the mortgage payments.
 - D. investment vehicle to create a lump sum to repay the mortgage at the end of the term.

12. Claire, aged 38, is concerned about funding the future further education costs for her children, aged 9 and 10. When considering an appropriate timescale for any investment and reflecting her medium attitude to risk, she is **most likely** to consider using
- A. instantly-accessible deposit accounts providing a guaranteed return.
 - B. a range of tax-efficient savings plans investing in a range of investment types.
 - C. contributing to a pension plan and drawing income to fund her children's education costs.
 - D. an equity release arrangement secured on her home to fund the education costs.
13. John, aged 64, is married to Margaret, aged 62, and they are both approaching retirement. They have always worked for the same company and have both accrued pension benefits through the company's group money purchase scheme. If they both purchase annuities at retirement and both wish to receive the **maximum** possible income level, they should both select
- A. an index-linked annuity payable on a single-life basis with no guarantee.
 - B. an index-linked annuity payable on a joint-life basis with a 10-year guarantee.
 - C. a level annuity on a single-life basis with no guarantee.
 - D. a level annuity on a joint-life basis with a 10-year guarantee.
14. Geoffrey and Andrew are brothers and have both retired. All of Geoffrey's retirement income, but only part of Andrew's, is treated as earned income. This is because
- A. Andrew was an employee, Geoffrey was self-employed.
 - B. Geoffrey is aged 59, Andrew is aged 69.
 - C. only Andrew receives two forms of State Pension.
 - D. only Andrew took out a purchased life annuity with the funds raised from his pension commencement lump sum entitlement.
15. When considering estate and Inheritance Tax planning for a retired couple, who have no outstanding debts or liabilities and a substantial estate, their **first** priority should be
- A. arranging a joint whole of life assurance policy under trust and payable on a second death basis to cover the potential tax liability.
 - B. ensuring that they have sufficient resources to pay for long-term care.
 - C. starting to gift assets outside of the estate using annual allowances.
 - D. writing a valid will.
16. Bob and Gillian, both aged 28, have recently arranged an interest-only mortgage on their first home which they intend to repay with the proceeds of a trust fund that Bob will receive when he attains the age of 35. To ensure that this loan is adequately protected in the event of death before the trust fund is distributed, the **most suitable** arrangement is **likely** to be
- A. a reducing term assurance policy on Bob's life only for the outstanding mortgage amount.
 - B. a level term assurance policy on a joint-life basis for the outstanding mortgage amount.
 - C. an income protection insurance policy for both of them to cover the monthly repayments.
 - D. a whole of life assurance policy on Bob's life only for the outstanding mortgage amount.

17. Kim and Richard have two children, aged five and seven. They have no outstanding mortgage and Richard is the sole wage earner. To ensure that Kim is able to continue looking after the children in the event of Richard's death, they should consider a family income benefit policy based on
- A. Richard's life and his income level.
 - B. Kim's life and her income requirement.
 - C. Richard's life and Kim's income requirement.
 - D. Kim's life and her expenditure.
18. Jerry, a 37-year-old higher-rate taxpayer, is looking to provide a lump sum in the future, for the benefit of his 15-year-old son, Paul, when he finishes further education at the age of 22. Jerry wishes to invest £8,000 per annum. It is **likely** that the **most** tax-efficient method of achieving this would be to consider
- A. taking the pension commencement lump sum from his pension scheme.
 - B. arranging an onshore life assurance bond and assigning the value to Paul at the age of 22.
 - C. utilising his own ISA allowances and gifting the proceeds to Paul at the age of 22.
 - D. investing in a Junior ISA.
19. Currently, **maximum** entitlement to the state pension is determined by
- A. a complete National Insurance contribution record for the entire working life of the individual.
 - B. a complete National Insurance contribution record for a specific period of the working life of the individual.
 - C. the amount of Class 2 National Insurance contributions that have been paid by the individual.
 - D. the amount of Class 4 National Insurance contributions that have been paid by the individual.
20. A self-employed jeweller wanting to purchase a shop using his pension scheme should consider a
- A. Retirement Annuity Contract.
 - B. Section 32 buy-out bond.
 - C. self-invested personal pension (SIPP).
 - D. small self-administered scheme (SSAS).
21. A financial adviser has been approached by his client, Billy, who has recently been appointed as a deputy by the Court of Protection on behalf of his mother, Betty, who has lost mental capacity. Betty is a joint trustee of a discretionary trust with her brother, Jimmy. Who will have the power to act on any advice given in relation to the trust assets?
- A. Billy only.
 - B. Jimmy only.
 - C. Only Billy and Jimmy acting together.
 - D. Either Billy or Jimmy.

22. An independent financial adviser within a large authorised firm is recommending a new personal pension arrangement to her client. She is acting as
- A. agent of personal pension provider only.
 - B. agent to the client only.
 - C. agent for the client and the pension provider jointly.
 - D. agent for the authorised firm only.
23. Katrina entered into a personal loan arrangement with a finance company 3 months before her 18th birthday. What is the legal position in respect of this arrangement?
- A. The contract is valid as she was within 6 months of her 18th birthday.
 - B. Katrina can avoid all liability under the contract.
 - C. Katrina's parents could be made liable for the debt.
 - D. the contract is automatically made void from outset.
24. Tony, Peter and Steve jointly own an investment property as tenants in common. Tony owns 20%, Steve owns 30% and Peter owns 50% of the property. The property is subject to a mortgage. If Tony dies, what will happen to his share of the property?
- A. It will be automatically shared equally between Steve and Peter.
 - B. It will be passed to Tony's estate.
 - C. It will be passed to Steve and Peter in proportion with their current respective shareholdings in the property.
 - D. It will be passed to the lender to repay Tony's share of the mortgage.
25. Michaela owns a property outright and in perpetuity, but does **NOT** own the freehold. This is **most likely** to be because the ownership is
- A. on a commonhold basis.
 - B. on a leasehold basis.
 - C. subject to feudal tenure.
 - D. subject to a shared ownership agreement.
26. In a case of bankruptcy, who has a statutory duty to investigate, where necessary, the bankrupt's affairs and send a report to the creditors?
- A. An insolvency practitioner appointed by the creditors.
 - B. The lead creditor.
 - C. The Official Receiver.
 - D. The trustee in bankruptcy.
27. Jessica wrote a will some time ago leaving most of her assets to her husband and a small bequest to her mother. What is the impact, if any, of her recent divorce on the will?
- A. Her divorce has no impact on the will.
 - B. The bequest to her mother remains valid and her ex-husband will only receive the statutory amount.
 - C. The will becomes invalid and all her assets would pass according to the laws of intestacy.
 - D. The will remains valid and her assets distributed as if her ex-husband had predeceased her.

28. Ethel has purchased shares for £5,000 and placed them under a trust for her grandson. She has arranged the trust so that he will automatically receive the shares at the age of 18, but there will **NOT** be any access before that time. The trust she is **most likely** to have used is a
- A. bare trust.
 - B. discretionary trust.
 - C. discounted gift trust.
 - D. flexible trust.
29. In creating a trust for her client, a solicitor recommends the inclusion of a charging clause in the trust wording. What is this **most likely** to relate to?
- A. To allow ad hoc payments to beneficiaries, for their education or advancement.
 - B. To allow professional trustees to be remunerated for their services.
 - C. To clearly set out the costs of preparing and executing the trust deed under the Law Society rules.
 - D. To prevent trustees from deriving any personal benefit from the trust.
30. How does the Financial Services Act 2012 directly affect the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) in respect of financial stability?
- A. It transfers all responsibility to the Bank of England.
 - B. It makes the FCA and PRA directly accountable to the Chancellor of the Exchequer.
 - C. It requires the FCA and the PRA to have an appropriate strategy, and work with the Bank of England and HM Treasury to achieve a satisfactory outcome.
 - D. It requires the FCA and the PRA to work with the European Central Bank to facilitate cross-border co-operation on money laundering activities.
31. A professional firm of pension trustees have been deemed to be in breach of the law whilst administering and managing an occupational pension scheme. What maximum fine may be levied by The Pensions Regulator against the firm?
- A. £5,000
 - B. £10,000
 - C. £50,000
 - D. £100,000
32. An authorised firm is using the services of an external compliance consultancy to advise the firm on all compliance matters. In respect of this arrangement, the authorised firm should be aware that
- A. responsibility for compliance issues ultimately rests with the senior management of the firm.
 - B. the compliance officer may delegate all responsibility to the external consultants.
 - C. the consultants will be ultimately responsible for all compliance matters.
 - D. the firm need not appoint a compliance officer, providing that the consultants have been approved by the Financial Conduct Authority.

33. In what circumstances would the Financial Services Compensation Scheme provide a compensation payment to a customer?
- A. When a complaint has been upheld by the Financial Ombudsman Service, but the regulated firm refuses to compensate the customer.
 - B. When the scheme is instructed to do so by the Financial Conduct Authority.
 - C. When compensation is due and the firm that the customer dealt with is unable to meet its liabilities and is no longer trading.
 - D. When compensation is due and the regulated firm has a large excess on their professional indemnity insurance policy.
34. What is the **main** function of the Financial Action Task Force with regard to the EU Money Laundering Directives?
- A. To set standards required to deal with money laundering and terrorist financing.
 - B. To replace the Joint Money Laundering Steering Group and its role as an organisation fighting financial crime.
 - C. To retrieve money obtained through criminal activities.
 - D. To implement and monitor compliance with the Money Laundering Regulations 2007.
35. The Financial Conduct Authority's strategic objective is to
- A. ensure that the relevant markets function well.
 - B. increase consumer protection for financial products and investments.
 - C. reduce financial crime.
 - D. work with the Bank of England to increase financial stability.
36. What is the **main** purpose of the stress-testing which the Financial Conduct Authority requires of certain authorised firms?
- A. To assess firms' ability to meet capital and liquidity levels during challenging economic circumstances.
 - B. To assess the impact on investors' returns when stock markets are subject to volatility.
 - C. To measure firms' levels of customer service when business volumes are high.
 - D. To test firms' disaster recovery procedures in the event of loss of data.
37. In relation to breaches of the current Money Laundering Regulations, the Financial Conduct Authority (FCA) has the power to act against
- A. any firms, but not individuals, regardless of whether they are on the FCA register.
 - B. any firms or individuals regardless of whether they are on the FCA register.
 - C. only firms on the FCA register.
 - D. only firms or individuals on the FCA register.

38. What is the **maximum** term of imprisonment which may be imposed, if any, on an individual who is found guilty of insider dealing?
- A. One year.
 - B. Five years.
 - C. Seven years.
 - D. Unlimited.
39. Following a breach of their rules, the Financial Conduct Authority has issued a public statement about a firm's behaviour. The offence is **most likely** to have been
- A. market manipulation.
 - B. insider dealing.
 - C. money laundering.
 - D. a significant failure in financial reporting.
40. A financial adviser is suspected of financial mis-conduct in relation to her regulated activities. How may the Financial Conduct Authority deal with the matter?
- A. It cannot deal with the matter directly and must instruct the Crown Prosecution Service.
 - B. It may deal with the matter using civil proceedings only.
 - C. It may deal with the matter using criminal proceedings only.
 - D. It may deal with the matter using civil or criminal proceedings.
41. The objective of the Money Advice Service is to implement the National Strategy for Financial Capability by **primarily** providing information to
- A. any individual seeking information on financial products.
 - B. individuals who do not have their own financial adviser.
 - C. those on low incomes.
 - D. younger people who do not hold any financial products.
42. To assist in delivering the Financial Conduct Authority's National Strategy for Financial Capability, the **main** role of the Money Advice Service is to provide consumers with
- A. generic information on relevant product types, excluding regulated investments.
 - B. generic information on relevant product types, including regulated investments.
 - C. personalised recommendations on products of a limited number of providers, excluding regulated investments.
 - D. personalised recommendations on products of a limited number of providers, including regulated investments.
43. How is an authorised firm affected by the Financial Conduct Authority's fair treatment of customers requirements?
- A. They must be evidenced in all areas of the firm.
 - B. They only apply to customer-facing staff.
 - C. They only apply to senior management.
 - D. They only apply to investment-related business.

44. In the Prudential Standards section of the combined handbook of the Financial Conduct Authority Handbook and the Prudential Regulation Authority, which type(s) of firm are covered by the MIPRU requirements?
- A. All authorised firms.
 - B. Discretionary fund managers only.
 - C. Administrators, home finance providers, intermediaries, and general insurance intermediaries only.
 - D. Investment management firms only.
45. The rules in section 12 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), are **primarily** aimed at dealing with the issues of
- A. liquidity and the management of liquidity issues.
 - B. money laundering responsibilities.
 - C. professional indemnity insurance requirements.
 - D. training and competence requirements for approved persons.
46. Gavin, a financial adviser, has sold a payment protection insurance contract to his client. In respect of this sale, he should be aware that the sale is
- A. not regulated.
 - B. regulated by the provisions of the Insurance: Conduct of Business sourcebook (ICOBS).
 - C. regulated by the provisions of the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).
 - D. regulated by the provisions of the Financial Services Act 2012.
47. A financial adviser may transact business without the prior existence of a client agreement when
- A. the client is a retail client.
 - B. a stakeholder pension is being effected.
 - C. risk warnings are not required.
 - D. the business is transacted by telephone.
48. The client's best interests rule applies to
- A. all types of client except those transacting execution-only business.
 - B. retail clients only.
 - C. execution-only clients only.
 - D. eligible counterparties only.
49. An independent financial adviser is comparing free asset ratios. This is **most likely** to be because she is
- A. considering a with-profits investment.
 - B. completing her six-monthly Financial Conduct Authority return.
 - C. compiling complaints data.
 - D. seeking to comply with data protection requirements.

50. An authorised firm holding client money for designated investment purposes **must** carry out a reconciliation of client bank account records at least once
- A. every business day.
 - B. every two business days.
 - C. per week.
 - D. per month.
51. In an authorised firm, the services of a nominee company are being used. This would **typically** be to
- A. protect the assets of a client.
 - B. increase the returns on an investment or deposit.
 - C. reduce the level of client fees charged.
 - D. comply with Data Protection legislation.
52. What is the **maximum** financial penalty, if any, that the Financial Conduct Authority can impose on an authorised advisory firm engaging in misleading conduct?
- A. No financial penalties may be imposed.
 - B. £5,000,000
 - C. £10,000,000
 - D. There is no upper limit.
53. Which authorised firms undertaking financial advice activities in the UK are exempt from the Financial Conduct Authority's Training and Competence Rules?
- A. Building societies only.
 - B. General insurance intermediaries only.
 - C. Non-MiFID firms only.
 - D. Non-UK-domiciled firms only.
54. Danny is employed as a financial adviser by an appointed representative of an authorised firm. With whom does the **primary** responsibility for assessing Danny's continuing competency lie?
- A. Both Danny and the appointed representative.
 - B. Both the authorised firm and the appointed representative.
 - C. The appointed representative only.
 - D. The authorised firm only.
55. Following the cessation of her employment, for how long **must** training and competence records be kept in respect of an employee of a MiFID firm engaged in retail investment mediation only?
- A. One year.
 - B. Three years.
 - C. Five years.
 - D. Indefinitely.

56. Patrick has recently left an authorised firm where he advised on pension transfers. For what **minimum** period, if any, **must** the firm retain his training records?
- A. Three years.
 - B. Five years.
 - C. Seven years.
 - D. Indefinitely.
57. How, if at all, does being made bankrupt affect an individual in terms of being fit and proper to give financial advice that is regulated by the Financial Conduct Authority (FCA)?
- A. Bankrupt individuals cannot give regulated advice in any circumstances.
 - B. Bankrupt individuals can always give regulated advice, but cannot have any oversight responsibilities.
 - C. Bankruptcy has no impact if a person is already authorised.
 - D. Bankruptcy would not automatically preclude an individual from giving advice and each case is individually assessed by the FCA.
58. By what **latest** point **must** an authorised firm satisfy itself that a new employee meets the Financial Conduct Authority's fit and proper criteria?
- A. On receipt of a completed job application form.
 - B. Before the start date.
 - C. Within 3 months of the start date.
 - D. Within 12 months of the start date.
59. Martin has recently become a trainee financial adviser for the first time, although he has no financial services qualifications. In what circumstances, if any, may he be allowed to provide advice to clients without supervision?
- A. In no circumstances.
 - B. Only when advising existing clients of the firm.
 - C. Only when providing advice and recommendations for auto-enrolment scheme provision.
 - D. Only when conducting execution-only business.
60. In relation to enforcement action against an authorised firm, the **main** options open to the Financial Conduct Authority are
- A. civil proceedings and criminal proceedings only.
 - B. disciplinary action and civil proceedings only.
 - C. disciplinary action and criminal proceedings only.
 - D. disciplinary action, civil proceedings and criminal proceedings.

61. If the Financial Conduct Authority identifies an unfavourable trend in pension advice that may **NOT** be in the best interests of consumers, how is it **most likely** to react in the first instance?
- A. Complete an immediate programme of inspections across all authorised firms.
 - B. Introduce a new minimum qualification level requirement for all pension advisers.
 - C. Issue a guidance statement to all authorised firms.
 - D. Temporarily prohibit all pension advice activities for authorised firms.

62. A director of a publicly-quoted company has been found guilty of insider dealing and misconduct. What is the **maximum** fine, if any, that may be imposed?
- A. £250,000
 - B. £500,000
 - C. £1,000,000
 - D. Unlimited.

63. An authorised firm **must** report changes to its business, in line with the Financial Conduct Authority's ad hoc reporting requirements, in which circumstances shown below?

i	The appointment of a new director
ii	The appointment of a new customer services manager
iii	New head office premises being established
iv	The appointment of a new pension transfer adviser
v	Reissuing a sales aid

- A. i, iii and iv only.
 - B. i, ii and iv only.
 - C. ii, iv and v only.
 - D. iii, iv and v only.
64. Three financial advisers have transacted business over the past 12 months as follows

Adviser	Types of business
Rob	Pension transfers, life assurance
Derek	Pension transfers, regular contribution stakeholder pensions
Tim	Cash ISAs, equity release

From this information, it can be deduced that

- A. Tim will not need to keep his suitability records indefinitely.
- B. Rob will be subject to the greatest supervisory monitoring requirements.
- C. Derek will need to keep his Training and Competence records the longest.
- D. Rob and Derek are likely to be supervisors.

65. Following settlement of a Financial Ombudsman Service (FOS) case, the complainant's costs were £5,000 and the respondent's costs were £10,000. The FOS recommended monetary award was £150,000 plus costs. If the complaint was referred to the FOS on 1 August 2017 excluding interest, how much was the respondent obliged to pay to the complainant?
- A. £105,000
 - B. £150,000
 - C. £155,000
 - D. £165,000
66. The Financial Ombudsman Service (FOS) received a complaint in 2017 and has recommended a monetary award of £130,000 for reputational damage and £3,000 for interest. The complainant's costs are £30,000. Assuming that FOS make the judgement that the respondent should meet the claim against them, the amount that is binding on the respondent is
- A. £130,000
 - B. £150,000
 - C. £153,000
 - D. £163,000
67. Under the terms of the Financial Conduct Authority Handbook, which category of client may be referred to as a per se eligible counterparty?
- A. An American private bank.
 - B. A government of a country.
 - C. A large public limited company.
 - D. A local authority.

68. Several financial transactions have taken place as follows

	Adviser status	Sale type	Client	Product arranged
i)	Direct life office	Internet	Retail	Term assurance
ii)	Independent	In person	Professional	Whole of life
iii)	Single tied	Direct offer	Retail	Stocks and shares ISA
iv)	Multi tied	Postal	Retail	Savings endowment
v)	Direct life office	Internet	Professional	Income protection insurance

For which of the transactions is a client agreement required?

- A. ii and iv only.
- B. iii and v only.
- C. i, ii and iv only.
- D. i, ii, iii, iv and v.

69. An authorised firm arranged the following products for retail clients on the 1 January

i	A stakeholder personal pension
ii	A cash ISA
iii	A level term assurance policy
iv	An Enterprise Investment Scheme
v	An open-ended investment company (OEIC) product

Which of these products would still be within their cancellation period on the 28 January?

- A. i only.
 B. i and iii only.
 C. i, iv and v only.
 D. ii, iii, iv and v only.
70. A financial adviser recommends that a retail client makes a top-up contribution to an existing annual premium personal pension policy and also makes payments into an open-ended investment company (OEIC) and a unit trust. When preparing a suitability report, the financial adviser **must** give his reasons for recommending the
- A. top-up contribution only.
 B. top-up contribution and the OEIC only.
 C. OEIC and the unit trust only.
 D. top-up contribution, the OEIC and the unit trust.
71. Matt and Julia, both aged 19, wish to arrange new Help to Buy ISAs. What **maximum** amount of contributions may be invested, in total for Matt and Julia, in the first year of their Help to Buy ISAs?
- A. £4,800
 B. £6,800
 C. £8,060
 D. £30,480
72. A financial adviser discovers during a fact-find interview that her client is willing to expand on his future hopes and aspirations. She decides to adapt her line of questioning to make more use of
- A. direct questions.
 B. open-ended questions.
 C. scripted questions.
 D. leading questions.
73. During a fact-find interview, a financial adviser discovers the client is unable to recall the details of his current remuneration. The correct course of action for the financial adviser to take is to
- A. terminate the interview with immediate effect.
 B. continue the interview to its conclusion and then decline to offer the client any advice.
 C. make an estimate of the missing information and base any recommendation on the estimate.
 D. continue the interview and agree to collect the information at a later date.

74. **Typically**, how should a financial adviser gather hard facts during the fact-finding process?
- A. By asking open questions.
 - B. By asking closed questions.
 - C. By writing to the companies with whom the client already has financial arrangements.
 - D. By seeking written responses from the client only.
75. A financial adviser is specifically discussing issues relating to best in class and engagement with his client. This is **most likely** to be because the client
- A. is risk averse.
 - B. is seeking capital growth rather than income.
 - C. wishes to maximise her investment returns.
 - D. wishes to take an ethical approach.
76. To comply with the Financial Conduct Authority's Principles for Businesses that relate to protection of clients' assets, a firm **must** arrange adequate protection
- A. in all cases where the firm has direct responsibility for the assets.
 - B. only where clients' assets under the firm's control exceed £1,000,000.
 - C. only where clients have a high level of borrowing in comparison with their income level.
 - D. only where clients have purchased products that are inconsistent with their risk profile.
77. What discretion does an authorised firm have, if any, when it sets out to comply with the Financial Conduct Authority's Principles for Businesses?
- A. It can apply for exemption if its application is supported by a designated professional body.
 - B. It can apply for exemption provided it is responsible for the activities of less than 10 appointed representatives.
 - C. Some discretion is allowed to the firm in how they comply with the obligations.
 - D. A firm's obligations are prescribed in a regularly-updated tariff and no discretion is allowed.
78. An authorised firm should adapt its recruitment and remuneration policies to have a positive impact on the fair treatment of customers outcomes by
- A. appointing only graduates for placement into positions with the greatest customer interface.
 - B. creating a corporate culture that makes knowledge and training central to career progression.
 - C. offering only non-financial incentives to its most prolific new business producers.
 - D. promoting only those with a proven record of sales success into senior customer-facing positions.
79. Strong leadership within a firm is cited as an example of good practice by the Financial Conduct Authority because it **usually** indicates that
- A. the firm's advisory staff maintain qualifications significantly above the benchmark level.
 - B. the firm has eliminated products carrying high levels of risk.
 - C. positive and fair outcomes exist for customers.
 - D. there is not excessive interference from corporate stakeholders.

80. Who within an authorised firm is **ultimately** responsible for compliance with the Financial Conduct Authority's outcomes-based regulatory regime?
- A. Senior management only.
 - B. The compliance officer only.
 - C. All members of staff.
 - D. The Money Laundering Reporting Officer only.
81. Shaun is an architect and a client of Alice, who is a financial adviser. Shaun refers his employee, Brian, to Alice for pensions and protection advice. Brian informs Alice that he is dissatisfied with the benefits package he receives from Shaun. Alice is wary of a potential conflict of interest and **must** therefore
- A. advise Brian on pension matters, but not on protection matters.
 - B. advise Brian on protection matters, but not on pension matters.
 - C. decline to offer Brian any financial advice.
 - D. maintain strict neutrality.
82. If an authorised firm discovers that one of its advisers no longer meets the fit and proper requirements as he is currently in mortgage arrears, what action **must** the firm take, if any?
- A. None, as this would be an internal matter.
 - B. Notify the Financial Conduct Authority.
 - C. Refer the adviser to a debt counselling organisation.
 - D. Terminate the adviser's employment within a maximum period of three months..
83. The Financial Conduct Authority's Statements of Principle and Code of Practice for Approved Persons (APER), expects financial advisers to
- A. not terminate a contract and replace it with one providing similar benefits.
 - B. act with integrity at all times.
 - C. take additional qualifications at least once every two years to maintain professional knowledge.
 - D. always consider compliant outcomes rather than ethical outcomes.
84. Nigel is a financial adviser within a large bank and is advising Robert on retirement and investment planning. Robert has disclosed to Nigel that his net profit last year was £7,500, but, as a self-employed landscape gardener, he regularly accepts cash payments for work completed and does not declare this additional income to H M Revenue & Customs (HMRC). Considering **solely** the ethical requirements of the Financial Conduct Authority's Statements of Principle and Code of Practice for Approved Persons (APER), what action should Nigel take if any with regard to Robert's additional income?
- A. He needs to not take any action as Robert is contributing less than £7,500 per annum to his pension.
 - B. Report his concerns to the bank's Money Laundering Reporting Officer.
 - C. Report his additional income to the pension provider immediately.
 - D. Report this matter to HMRC.

85. When establishing a new risk profile questionnaire for its clients, an authorised firm should consider the use of
- A. clearly-phrased and unambiguous questions.
 - B. additional charts and graphs.
 - C. technical phrases and abbreviations.
 - D. open questions.
86. Janine has joined an authorised firm as a senior manager and overhears one of the staff members, Tim, discussing how he takes advantage of the firm's lax accounting procedures to handle stolen cheques. He suggests that Janine may wish to become involved in the illegal activities. What action should Janine take?
- A. Ask Tim to explain his actions and then dismiss him.
 - B. Dismiss Tim immediately without further recourse.
 - C. Report the matter immediately to the firm's compliance officer without saying anything to Tim.
 - D. Tighten the firm's accounting procedures to restrict the illegal activities where possible.
87. A financial adviser engages in ethical behaviour. The outcome of this for a client is **most likely** to be
- A. advice which meets the client's needs.
 - B. receipt of recommendations which are socially and ethically responsible.
 - C. product recommendations that focus on stakeholder contracts.
 - D. a waiver of Financial Ombudsman Service referral rights.

For Questions 88-100 more than 1 option is correct. You must select all the correct options to gain the mark.

88. Which member of staff in an authorised firm would **usually** be deemed to be carrying out controlled functions?
- A. A complaints department assistant.
 - B. A customer services manager.
 - C. An investment adviser.
 - D. A discretionary fund manager.
89. In respect of an authorised firm’s record-keeping requirements
- A. all advice records must be kept indefinitely.
 - B. pension transfer records can be destroyed after seven years.
 - C. financial promotions for occupational pension contracts must be kept for a minimum of six years.
 - D. pension opt-out records must be kept indefinitely.
 - E. life assurance advice and recommendation records must be kept for a minimum of five years.

90.

March							April							May							June						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
	1	2	3	4	5	6					1	2	3	2	3	4	5	6	7	8					1	2	3
7	8	9	10	11	12	13	4	5	6	7	8	9	10	9	10	11	12	13	14	15	6	7	8	9	10	11	12
14	15	16	17	18	19	20	11	12	13	14	15	16	17	16	17	18	19	20	21	22	13	14	15	16	17	18	19
21	22	23	24	25	26	27	18	19	20	21	22	23	24	23	24	25	26	27	28	29	20	21	22	23	24	25	26
28	29	30	31	25	26	27	28	29	30	30	31	27	28	29	30												

Frank posted a letter of complaint to his independent financial adviser (IFA) on 1 March, which was received by the firm on 3 March. The firm sent an acknowledgement on 5 March, a holding response on 30 March and a final response on 26 April. From this information, it can be deduced that the

- A. acknowledgement was not sent within the prescribed time limit.
 - B. final response was sent within the prescribed time limit.
 - C. Frank was not kept informed of progress correctly.
 - D. IFA must have informed Frank of his Financial Ombudsman Service referral rights by 26 April.
91. Jim, a sole trader independent financial adviser, is considering his position regarding the Financial Ombudsman Service’s (FOS) rules and jurisdiction. He should be aware that
- A. the maximum award ignoring costs and interest for complaints is currently £150,000.
 - B. his costs cannot be deducted from a compensation award.
 - C. the 15-year long-stop rule does not apply.
 - D. all FOS decisions are binding on both Jim and the complainant.

92. What circumstances would give rise to a financial crime under the Financial Conduct Authority's jurisdiction?
- A. Failing to report a suspicious transaction.
 - B. Using privileged information about a company to make a financial gain.
 - C. Failing to keep client records up to date.
 - D. Knowingly recommending a product with high charges.
93. Martin is an independent financial adviser. In the course of dealing with his clients he
- A. is not required to offer a fee charging option.
 - B. always acts as an agent for his clients.
 - C. may not refer clients to professional connections.
 - D. may undertake pension transfer business if suitably qualified.
94. Who may be categorised as a per se professional client?
- A. A firm authorised by the Financial Conduct Authority.
 - B. A mortgage applicant in the UK.
 - C. A national central bank.
 - D. A small limited company with a turnover of £10,000.
95. When a firm of independent financial advisors makes a recommendation and completes a financial transaction for a client, in respect of the firm's fiduciary relationship with the client, the firm should be aware that
- A. it acts as an agent for the client only.
 - B. its relationship stops if the client declines a recommendation.
 - C. its relationship continues during all stages of the transaction.
 - D. the responsibilities of the relationship are greater for a professional client than a retail client.
96. When an authorised firm is dealing with execution-only and limited advice transactions, the firm should be aware that the
- A. client can always insist on proceeding on a limited advice basis.
 - B. know your customer requirements only apply to limited advice transactions.
 - C. firm is required to assess the appropriateness of limited advice transactions only.
 - D. complaint-handling rules in relation to the Financial Ombudsman Service only apply to limited advice transactions.
97. When considering client cancellation rights, an authorised firm should be aware that
- A. if cancellation rights are not issued when required, a client may cancel at any future point.
 - B. for pension transfers, the firm may issue a pre-sale right to withdraw as an alternative.
 - C. the firm must always accept a notice to cancel an annuity, even if the annuitant is deceased.
 - D. the firm must maintain records of cancellation notices for personal pensions for a maximum of 3 years only.
 - E. cancellation rights on open market options apply for 30 days before the annuity is processed.

98. In connection with suitability reports, an authorised firm should be aware that
- A. they are always required for friendly society plans.
 - B. for a regular premium personal pension, they must include a comparison with a stakeholder pension.
 - C. they are required if a client commences income withdrawal from a flexi-access drawdown pension plan.
 - D. they are required for both limited advice and execution-only transactions.
99. When considering a client's circumstances, a financial adviser becomes aware of a material change. At what point should he **usually** take account of the change?
- A. Within 30 days of the change.
 - B. Only at the next annual review.
 - C. When the change affects the current or previous recommendations made.
 - D. When the change affects the current or future needs.
 - E. On the specific plan anniversary for those products that are affected.
100. When making referrals to a professional connection, an authorised firm should be aware that
- A. referrals may be made to only one specialist firm in each area of expertise.
 - B. client permission is always required.
 - C. if referrals are made to another authorised firm, responsibility for the client advice must be clearly agreed.
 - D. a solicitor to whom a client is referred must also be authorised to give advice on investment business.
 - E. a fee-sharing agreement is always required.

INCOME TAX

RATES OF TAX

2018/2019

Starting rate of 0% on savings income up to*	£5,000
Personal Savings Allowance	
Basic rate	£1,000
Higher rate	£500
Basic rate of 20%	£0 to £34,500
Higher rate of 40%	£34,501 to £150,000
Additional rate of 45%	£150,001 and over

**Not available if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance	£2,000
Dividend tax rates	
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%
Trusts	
Standard rate band	£1,000
Rate applicable to trusts	
- Dividends	38.1%
- other income	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) §	£11,850
Transferable Tax allowance for married couples and civil partners	£1,190
Rent-a-room tax-free income	£7,500

§ Reduced allowance of £1 for every £2 of adjusted net income over and above £100,000

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	per week
Lower Earnings Limit (LEL)	£116
Primary threshold	£162
Upper Earnings Limit (UEL)	£892

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£162	£162**
NICs rate charged up to (per week)	£892	No limit
2% NICs on earnings over	£892	n/a

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.95 where profits exceed £6,205 per annum.
Class 3 (voluntary)	Flat rate per week £14.65.
Class 4 (self-employed)	9% on profits between £8,424 - £46,350. 2% on profits above £46,350.

CAPITAL GAINS TAX

TAX RATES	2018/2019
Individuals:	
Up to basic rate limit	10%
Above basic rate limit	20%
Surcharge for residential property and carried interest	8%
Trustees and Personal Representatives	20%
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.*

EXEMPTIONS	
Individuals, estates etc	£11,700
Trusts generally	£5,850
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

2018/2019

Lifetime Allowance	£1,030,000
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£4,000

* Tapered by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 if 'threshold income' is also over £110,000.

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

2018/2019

Transfers made on death	
- Up to £325,000	Nil
- Excess over £325,000	40%
Reduced rate (where appropriate charitable contributions are made)	36%
Chargeable lifetime transfers to trusts	20%

MAIN EXEMPTIONS

Transfers to	
- UK-domiciled spouse/civil partner	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000
- main residence nil-rate band*	£125,000
- UK-registered charities	No limit

* Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.

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

Wedding/civil partnership gifts by	
- Parent	£5,000
- Grandparent/bride or groom	£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%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CORPORATION TAX

2018/2019

Standard rate 19%

VALUE ADDED TAX

2018/2019

Standard rate 20%
Annual registration threshold £85,000
Deregistration threshold £83,000

STAMP DUTY LAND TAX

Residential

Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

- *Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons in some circumstances.*
- *First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional rates of LBTT and LTT apply in Scotland and Wales respectively for the purchase of additional residential properties. First-time buyers benefit from LBTT relief in Scotland. There is no LTT relief for first-time buyers in Wales.*

MAIN SOCIAL SECURITY BENEFITS

2018/2019

Child Benefit	First child	£20.70
	Subsequent children	£13.70
	Guardian's allowance	£17.20
Basic State Pension	Single	£125.95
	Married	£201.45
New State Pension	Single	£164.35
Pension Credit	Single person standard minimum guarantee	£163
	Married couple standard minimum guarantee	£248.80
Bereavement Support Payment *	Higher rate - lump sum	£3,500
	Higher rate - monthly payment	£350
	Standard rate – lump sum	£2,500
	Standard rate – monthly payment	£100

** Only applicable where spouse or civil partner died on or after 6 April 2007.*

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Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format									Multiple Response Format		
Learning Outcome 1			Learning Outcome 5			Learning Outcome 8			Learning Outcome 6 & 7		
1	B	1.1	35	A	5.1	72	B	8.1	88	C, D	6.1
2	B	1.1	36	A	5.1	73	D	8.1	89	C, D, E	6.1
3	D	1.2	37	B	5.1	74	B	8.1	90	B, D	6.2
4	B	1.3	38	C	5.1	75	D	8.1	91	A, B, C	6.3
5	B	1.3	39	D	5.1	4 Questions			92	A, B	6.2
6	C	1.3	40	D	5.1				93	B, D	7.1
7	D	1.3	41	A	5.1	Learning Outcome 9			94	A, C	7.1
8	A	1.3	42	B	5.1	76	A	9.1	95	A, C	7.1
8 Questions			43	A	5.2	77	C	9.1	96	A, B, D	7.1
			44	C	5.2	78	B	9.2	97	A, B, E	7.1
Learning Outcome 2			45	A	5.2	79	C	9.2	98	B, C	7.1
9	B	2.2	46	B	5.2	80	A	9.2	99	C, D	7.2
10	A	2.2	47	D	5.2	81	D	9.3	100	B, C	7.1
11	C	2.2	48	A	5.2	82	B	9.3	13 Questions		
12	B	2.2	49	A	5.2	7 Questions					
13	C	2.2	50	A	5.2						
14	D	2.2	51	A	5.2	Learning Outcome 10					
15	D	2.2	52	D	5.2	83	B	10.1			
16	B	2.2	53	D	5.2	84	B	10.2			
17	C	2.2	54	D	5.2	2 Questions					
18	C	2.2	55	C	5.2						
19	B	2.2	56	D	5.2	Learning Outcome 11					
20	C	2.2	57	D	5.2	85	A	11.1			
12 Questions			58	B	5.2	86	C	11.2			
			59	A	5.2	87	A	11.3			
Learning Outcome 3			60	D	5.3	3 Questions					
21	B	3.1	61	C	5.1						
22	B	3.1	62	D	5.3						
23	B	3.1	28 Questions								
24	B	3.1									
25	A	3.1	Learning Outcome 6								
26	C	3.2	63	A	6.1						
27	D	3.3	64	A	6.2						
28	A	3.3	65	C	6.3						
29	B	3.3	66	D	6.3						
9 Questions			4 Questions								
Learning Outcome 4			Learning Outcome 7								
30	C	4.1	67	B	7.1						
31	C	4.2	68	A	7.1						
32	A	4.2	69	B	7.1						
33	C	4.3	70	C	7.1						
34	A	4.3	71	B	7.2						
5 Questions			5 Questions								