Chartered Insurance Institute

R02

Diploma in Regulated Financial Planning

Unit 2 – Investment principles and risk

Based on the 2019/2020 syllabus
examined until 31 August 2020

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Contents

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Based on the 2019/2020 syllabus examined until 31 August 2020

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 R02 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 R02 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 R02 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/learning/qualifications/diploma-in-regulated-financial-planning-qualification/unit-investment-principles-and-risk-r02/**
2) Select ‘exam guide update’ 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 R02 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 R02 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 analyse the subject matter. Each learning outcome begins with one of these cognitive skills:

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

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

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

Examination Information

The method of assessment for the R02 examination is 100 multiple choice questions (MCQs): 72 standard format and 28 multiple response format. 2 hours are allowed for this examination.

The R02 syllabus provided in this examination guide will be examined from 1 September 2019 until 31 August 2020.

Candidates will be examined on the basis of English law and practice in the tax year 2019/2020 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

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

R02 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.

Investment principles and risk

Chartered Insurance Institute

Purpose

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

- characteristics, inherent risks, behaviour and correlation of asset classes, and investment products;
- macro-economic environment and its impact on asset classes;
- merits and limitations of the main investment theories;
- nature and impact of the main types of risk on investment performance;
- performance of investments.

Summary of learning outcomes	Number of questions in the examination*
1. Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.	17 standard format/ 11 multiple response
2. Understand the macro-economic environment and its impact on asset classes.	6 standard format
3. Understand the merits and limitations of the main investment theories.	7 standard format
4. Apply the principles of the time value of money.	3 standard format
5. Analyse and explain the nature and impact of the main types of risk on investment performance.	5 standard format
6. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products.	15 standard format/ 7 multiple response
7. Apply the investment advice process.	11 standard format
8. Understand the principles of investment planning.	8 standard format
9. Analyse the performance of investments.	10 multiple response

*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: 72 standard format and 28 multiple response questions. 2 hours are allowed for this examination.**
- **This syllabus will be examined from 1 September 2019 to 31 August 2020.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2019/2020 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/learning/qualifications/unit-investment-principles-and-risk-r02/**
  2. **Select qualification update on the right hand side of the page.**

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1. Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.

1.1 Analyse the characteristics and inherent risks of the main asset classes.

1.2 Analyse the behaviour and correlation of asset classes and their relevance to asset allocation.

2. Understand the macro-economic environment and its impact on asset classes.

2.1 Explain the key economic trends and their impact on asset classes.

2.2 Explain the key economic indicators, their trends and interpretation.

2.3 Explain the impact of monetary and fiscal policy.

3. Understand the merits and limitations of the main investment theories.

3.1 Explain the main investment theories, their benefits and limitations.

3.2 Explain portfolio theory, diversification and hedging.

3.3 Explain behavioural finance and its impact on investment markets and individuals.

4. Apply the principles of the time value of money.

4.1 Apply the principles of the time value of money.

4.2 Calculate compound interest, discounts, real returns and nominal returns.

5. Analyse and explain the nature and impact of the main types of risk on investment performance.

5.1 Explain the nature and impact of the main types of risk on investment performance.

5.2 Analyse the nature and impact of the main types of risk on investment performance.

6. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products.

6.1 Explain the advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products.

6.2 Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of the main types of indirect investment products.

7. Apply the investment advice process.

7.1 Explain the Know Your Client requirements applied to the investment advice process.

7.2 Apply asset allocations to different client risk profiles and requirements.

8. Understand the principles of investment planning.

8.1 Explain the main approaches to asset allocation.

8.2 Explain the portfolio construction process.

8.3 Explain the basic principles of platforms.

9. Analyse the performance of investments.

9.1 Analyse portfolio performance using different benchmarks and other methods.

9.2 Apply an appropriate investment portfolio review process.

Reading list

The following list provides details of further reading 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 listed here will help you keep up-to-date with developments and 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 https://www.cii.co.uk/knowledge-services/.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources , please go to https://www.cii.co.uk/knowledge-services/ or email knowledge@cii.co.uk.

CII study text

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

Books (and ebooks)

Mastering financial calculations: a step-by-step guide to the mathematics of financial markets instruments. 3rd ed. Bob Steiner. Harlow: FT Prentice Hall, 2012. *

Investments. 10th global edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2014.

Investments: principles and concepts. Charles P Jones. Wiley, 2014.

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

The Financial Times guide to investing. 3rd edition. Glen Arnold. FT Prentice Hall, 2014.

Winning client trust : the retail distribution review and the UK financial services industry's battle for their clients' hearts and minds. Chris Davies. London: Ecademy Press, 2011.*

Ebooks

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

Investment risk management. Greg Filbeck, H. Kent Baker. New York: Oxford University Press, 2015.

Investor behaviour: the psychology of financial planning and investing. H. Kent Baker. Hoboken, New Jersey: Wiley, 2014.

Finance: a quantitative introduction. Piotr and Lucia Staszkiewicz. Amsterdam: Academic Press, 2015.

Portfolio management: a strategic approach. John Wyzalek, Ginger Levin. Boca Raton: Auerback Publications, 2015.

Journals and magazines

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).

Investment adviser. London: Financial Times Business. Weekly. Available via www.ftadviser.com.

Investment week. London: Incisive Financial Publishing. Weekly. Available online via www.investmentweek.co.uk.

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.*

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. An investor pays a clean price of £116.80 for £100 nominal value of stock with a 6% coupon. Assuming the stock has exactly six years to run until maturity, using the simplified method what is the gross redemption yield?

A. 2.74%
B. 2.80%
C. 5.14%
D. 8.80%

2. Kathryn is buying a primary residence for £140,000 and Michael is buying a primary residence for £260,000. How much **more** Stamp Duty Land Tax will Michael pay than Kathryn, if both are repeat purchasers?

A. £2,700
B. £3,000
C. £5,000
D. £6,400

3. A limited company has 6,000 ordinary shareholders. In the current financial year the profits attributable to these shareholders are £1,060,000 and ordinary dividend payments are £410,000. What is the dividend cover?

A. 2.46
B. 2.59
C. 2.71
D. 3.87

4. An investment property is purchased for £180,000. The transaction costs totalled £3,600. If the rent is £800 per month, of which 20% is earmarked for general expenses, what will the net yield on this purchase be?

A. 4.18%
B. 4.27%
C. 5.22%
D. 5.33%

5. The share price of company X is 260p and the earnings per share is 18p. The share price of company Y is 182p and the earnings per share is 31p. The price earnings ratios of companies X and Y respectively, would be

A. 14.44 and 5.87.
B. 5.87 and 14.44.
C. 6.92 and 17.03.
D. 17.03 and 6.92.

6. John owns a number of fixed interest securities and is seeking clarification on the difference between the gross and net redemption yields. The **principal** difference is

A. the rate of internal taxation within the investment.
B. the tax treatment of the coupon, in the investor's hands.
C. whether they purchased on a cum or ex dividend basis.
D. whether they were purchased on a direct or indirect basis.

7. Stacey has recently bought her first house with a purchase price of £570,000. How much Stamp Duty Land Tax did she pay, if anything?

A. Nothing.
B. £18,500
C. £20,000
D. £28,500

8. A limited company has 10,000,000 ordinary shares in issue and £2,500,000 available for distribution as dividends. The current share price is 500p. What is the dividend yield?

A. 1%
B. 2.5%
C. 5%
D. 10%

9. Paulina purchases shares in two listed companies as per the following table

Equity	Number purchased	Purchase cost
X	550	£9,800
Y	499	£10,600

What total Panel on Takeovers and Mergers (PTM) levy will she pay?

A. £1
B. £2
C. £106
D. £204

10. A client invests £10,000 in each of the following three equity-based funds

Investment	Charge	Returns per annum
X	5.5% Initial	3.50%
Y	4.0% Exit	4.00%
Z	3.5% Exit	3.50%

Fund X has an initial charge only. Funds Y and Z have an exit charge only. At the end of the three years when all three funds are encashed, which investment, if any, will be worth the most?

A. They will all be worth the same.
B. Investment X.
C. Investment Y.
D. Investment Z.

11. The current price of share X is 247p and the earnings per share is 36p. The current price of share Y, in the same sector, is 206p and the earnings per share is 21p. In general terms, this indicates that

A. share X is more highly favoured by investors than share Y.
B. share X will provide better value than share Y.
C. share Y has higher expectations for growth than share X.
D. share Y is significantly underpriced.

12. Three assets are correlated as follows

Asset	X	Y	Z
X	1.0	0.8	-0.2
Y	0.8	1.0	0.3
Z	-0.2	0.3	1.0

In respect of these correlation values

A. if asset X rises by 7% asset Z is likely to rise by 2%.
B. if asset X rises by 9% asset Y is likely to rise by 7.2%.
C. if asset Z falls by 4% asset X is likely to fall by 0.8%.
D. if asset Z falls by 3% asset Y is likely to fall by 3%.

13. An investment manager recently completed four UK-registered share purchases on the same day

Method	**Purchase Price**
Crest	£1,500
Crest	£7,500
Stock transfer form	£1,500
Stock transfer form	£7,500

The total combined amount of Stamp Duty and Stamp Duty Reserve Tax payable on these transactions is

A. £90
B. £95
C. £180
D. £184

14. Stefan, a retail client, wishes to create non-correlation for his portfolio through the purchase of two assets as per the following table

Asset	**W**	**X**	**Y**	**Z**
W	1.0	-0.3	-0.9	0.2
X	-0.3	1.0	0.7	1.0
Y	-0.9	0.7	1.0	0.5
Z	0.2	1.0	0.5	1.0

He would **best** achieve this by purchasing assets

A. W and X.
B. W and Y.
C. X and Z.
D. Z and W.

15. Two companies have financial data as per the following table

Company	**X**	**Y**
Share Price	174p	220p
Earnings per share	28p	16p
Dividend per share	12p	11p

In respect of their dividend coverage

A. company X's dividend cover is 4.35 times.
B. company X's dividend cover is 0.43 times.
C. company Y's dividend cover is 1.45 times.
D. company Y's dividend cover is 20 times.

16. Bikram, a higher-rate taxpayer, is considering an investment of £20,000 into each of two corporate bond funds within his stocks and shares ISA, as per the following table

Fund	Type	Running yield
X	Investment grade	4.1% per annum
Y	High yield	6.8% per annum

What total, combined income would he receive in the first year?

A. £1,308
B. £1,744
C. £2,044
D. £2,180

17. A property investor owns two commercial properties as per the following table

Type	Market value	Borrowing	Remaining lease term
Retail unit	£460,000	£240,000	32 years
Industrial unit	£345,000	£200,000	22 years

He should be aware that

A. the retail unit has the lower level of gearing.
B. the industrial unit is more sensitive to any short-term change in borrowing costs.
C. he will pay a higher rate of Stamp Duty Land Tax upon disposal of the retail unit.
D. he will be subject to void risk on the industrial unit only.

18. If the M0 measure of money growth is consistent, but the M4 measure shows a sharp decline, this is **usually** an indication that

A. deflation has been experienced.
B. interest rates have increased.
C. lending activity has reduced.
D. the velocity of money has increased.

19. If the annual rate of inflation falls from 1.8% to 0.3%, this is an example of

A. deflation.
B. disinflation.
C. fiscal loosening.
D. monetary loosening.

20. The price of conventional gilts has recently fallen. The **most likely** reason is because

A. equity prices experienced a sharp rise.
B. an increase in the inflation rate was predicted.
C. interest rates have fallen.
D. real returns on cash-based investments fell.

21. In a period when interest rates have fallen substantially, the nominal value of a conventional fixed-interest security at maturity will

A. increase significantly.
B. decrease significantly.
C. remain constant.
D. increase in line with inflation.

22. When interpreting the money supply rates for the UK economy, a financial adviser should be aware that

A. change in the rate of money supply is the principal cause of change in the economic cycle.
B. contraction in the M0 measure indicates consumers are spending less money.
C. expansion of the M0 measure indicates banks are increasing their levels of new lending.
D. volatile money supply will lead to volatile inflation.

23. A **key** effect of globalisation on the UK economy is

A. an influx of overseas financial institutions via the passporting rules.
B. the reduced competitiveness of labour intensive industries.
C. reduced consumer choice in technology products.
D. upward pressure on wage price inflation.

24. If the Government decides to boost declining Gross Domestic Product (GDP) by using fiscal measures, this could be achieved by

A. increasing the rate of Value Added Tax.
B. reducing the Bank of England's target inflation rate.
C. reducing the level of gilt issuance.
D. reducing the rate of Corporation Tax.

25. An investment manager has constructed a portfolio of UK equities using Modern Portfolio Theory (MPT). One of the **key** limitations of this approach is that

A. diversification will be neglected.
B. income will often be sacrificed for capital growth.
C. performance will be derived from a relatively small number of shares.
D. systematic risk cannot be fully addressed.

26. An investor wants to create an equity portfolio using the Capital Asset Pricing Model (CAPM) which produces an expected return of 8% per annum. What **key** factor will they need to consider?

A. Alpha.
B. Beta.
C. Covariance.
D. Standard deviation.

27. The efficient frontier curve shows the optimum balance between

A. inflation and return.
B. return and taxation.
C. risk and return.
D. taxation and risk.

28. An actively managed equity portfolio is benchmarked against the FTSE 100 Index. The portfolio has a beta of 0.85 and an alpha of 1.15. What does this indicate about the investment manager's performance?

A. He was overweight blue chip equities.
B. He was underweight blue chip equities.
C. His fund is slightly more volatile than the benchmark.
D. He has added value through his stock selection.

29. A retail investor is studying the risk-adjusted return of an actively-managed UK-equities collective fund. In order to calculate the Sharpe ratio, the investor will need to know the

A. alpha of the fund.
B. beta of the relevant equity market.
C. expected market return.
D. standard deviation of the fund.

30. Behavioural finance suggests that an individual investor would be **most likely** to

A. underestimate their ability to achieve good investment returns.
B. base their investment decisions upon technical data.
C. give too much weight to recent positive investment returns.
D. be more pessimistic when markets go up.

31. A financial adviser has recommended collective investments which are negatively correlated to each other. This will ensure that they

A. are capable of generating income and growth.
B. have a degree of diversification.
C. have a combined beta of less than 1.
D. have an alpha with a negative value.

32. Bill and Wendy wish to fund a single school fees payment of £14,000 in four years' time. If the interest rate is 5% per annum, how much will they have to invest now?

A. £10,969.21
B. £11,517.83
C. £11,666.00
D. £12,093.99

33. A deposit account pays an interest rate of 6% per annum, compounded on a quarterly basis. What will the annual equivalent rate (AER) be?

A. 6.09%
B. 6.14%
C. 6.28%
D. 6.42%

34. A lump sum of £10,000 is invested at 4% per annum for three years and then the resultant sum is reinvested at 5% per annum for two years. What will be the final sum at the end of the term?

A. £12,320.00
B. £12,401.63
C. £12,520.87
D. £12,897.69

35. An investor has increased the number of UK equities in his portfolio from 10 to 40. This action is **most likely** to

A. increase counterparty risk.
B. increase default risk.
C. reduce non-systematic risk.
D. reduce systematic risk.

36. Portfolio X consists of blue chip shares and portfolio Y consists of unlisted shares. What type of risk is likely to be significantly higher for portfolio Y when compared to portfolio X?

A. Default risk.
B. Event risk.
C. Inflation risk.
D. Liquidity risk.

37. In order to reduce the interest-rate risk of a bond portfolio, a fund manager would **usually**

A. increase the modified duration of the portfolio.
B. reduce the modified duration of the portfolio.
C. purchase longer-dated bonds.
D. sell shorter-dated bonds.

38. A UK investor is looking to purchase international equities via an open-ended investment company. In respect of currency risk he should be aware that

A. a fund with a covered call strategy will reduce the currency risk.
B. a hedged share class will reduce the currency risk.
C. purchasing share classes issued in local currencies will automatically remove the currency risk.
D. purchasing a UK domiciled fund containing international equities will automatically remove the currency risk.

39. Angela has £8,000 and borrows a further £2,000 to purchase some shares. The purchase price of the shares was £2.00 and she subsequently sold them for £1.80 each. Allowing for repayment of the borrowing, what percentage of her original capital would be lost?

A. 10%
B. 12.5%
C. 17.5%
D. 20%

40. A retail client wishes to compare the risks of investing in the FTSE All-Share Index using three different portfolios as per the following table

Portfolio	Asset Type	Number of holdings	Beta	Gearing
X	Direct equities	6	1.55	25%
Y	Investment trust	25	1.75	35%
Z	Open-ended investment company	55	0.95	0%

With regard to risk, he should be aware that

A. portfolio X has the highest risk from gearing.
B. portfolio Y has the lowest risk from gearing.
C. portfolio Y has the lowest systematic risk.
D. portfolio Z has the lowest non-systematic risk.

41. Gemma, Linda and Natalie have each received a £1,000 dividend from a UK Real Estate Investment Trust. Gemma is a basic-rate taxpayer, Linda a higher-rate taxpayer and Natalie an additional-rate taxpayer. If their respective dividend allowances are not available, what is their combined total Income Tax liability of these dividends?

A. £706
B. £725
C. £781
D. £1,050

42. A hedge fund manager is reviewing his current portfolio and wishes to limit downside risk. He would **normally** be expected to address this by

A. buying call options.
B. buying put options.
C. deferring new investments.
D. increasing gearing.

43. The manager of a Venture Capital Trust (VCT) has received the following subscriptions

Investor	Tax Status	Amount
Colin	Basic-rate taxpayer	£5,000
Betty	Higher-rate taxpayer	£10,000
Alan	Additional-rate taxpayer	£100,000

The total amount of Income Tax relief on these investments would be

A. £23,000
B. £24,000
C. £34,500
D. £50,000

44. Jebran and Irmak are both higher-rate taxpayers, who have fully utilised their Capital Gains Tax exemption in the tax year 2019/2020, have invested in offshore funds. They have realised gains as follows

Investor	Fund	Gain
Jebran	Reporting	£10,000
Irmak	Non-reporting	£10,000

If no allowances are available to them, what will their respective tax liabilities be?

A. Jebran will pay £1,200 more than Irmak.
B. Jebran will pay £2,000 more than Irmak.
C. Irmak will pay £1,200 more than Jebran.
D. Irmak will pay £2,000 more than Jebran.

45. Malcolm, a higher-rate taxpayer, invested £20,000 in an onshore investment bond and after four and a half years, makes his first partial surrender of £9,000. The Income Tax liability as a result of this withdrawal will be

A. £800
B. £1,000
C. £1,120
D. £1,600

46. Janet and Graham have made gains of £18,000 and £26,000 respectively in their unit trust holdings. Neither has made any other gains or losses in the tax year 2019/2020. If Janet is a higher-rate taxpayer and Graham is a basic-rate taxpayer, what is their combined Capital Gains Tax liability on these gains?

A. £2,600
B. £3,080
C. £4,000
D. £4,200

47. An investment trust returns 6% over a given period, compared to the benchmark index which returns 8%. If the investment trust has a beta of 1, this difference can be explained by the

A. fund having a negative alpha.
B. fund having a positive alpha.
C. fund having a standard deviation of 0.75.
D. fund having a standard deviation of 1.33.

48. Gao and Sying are both UK higher-rate taxpayers. Gao makes a fully chargeable gain of £6,000 from his onshore bond and Sying makes a fully chargeable gain of £6,000 under her offshore bond. Their respective Income Tax liabilities will result in

A. Gao paying £1,200 more than Sying.
B. Gao paying £2,400 more than Sying.
C. Sying paying £1,200 more than Gao.
D. Sying paying £2,400 more than Gao.

49. James and Maria are married and have 3 children aged 16, 18 and 20. What is the **maximum** amount the family can pay into stocks and shares ISAs in the tax year 2019/2020?

A. £60,000
B. £64,368
C. £80,000
D. £84,368

50. Davina, an additional-rate taxpayer, holds units in two equity-based unit trust funds. In the tax year 2019/2020 she receives one dividend payment of £1,600 and one dividend payment of £750 is reinvested to purchase more units in the fund. If her dividend allowance is **NOT** available, what is her combined Income Tax liability on the payments?

A. £520.00
B. £609.60
C. £763.75
D. £895.35

51. Henrique, a higher-rate taxpayer and Gregorio, an additional-rate taxpayer, have made a gain on their respective onshore investment bonds. Upon encashment if they each receive a chargeable gain of £8,000, what is their combined total personal Income Tax liability?

A. £3,200
B. £3,600
C. £4,000
D. £5,000

52. Mei-Xing, an additional-rate taxpayer, has invested in two new issue Enterprise Investment Schemes (EISs) as per the following table

EIS	Date of investment	Amount invested
X	August 2018	£400,000
Y	August 2019	£450,000

She should be aware that

A. she may invest a maximum amount of up to £150,000 in the current tax year.
B. EIS X will qualify for business property relief from September 2020.
C. EIS Y will qualify for Income Tax relief of £202,500.
D. she must hold both EISs for at least 5 years for any disposal to be exempt from Capital Gains Tax.

53. A client is unsure of the nature of her collective investments, except she has been told there is a significant discount to net asset value. What investments does she hold?

A. Exchange Traded Funds.
B. Investment trusts.
C. Open-ended investment company shares.
D. Unit trusts.

54. David Karen, both in their 50s, are higher-rate taxpayers. They wish to invest £250,000 for long term growth. What would be the **main advantage** of investing in an offshore investment bond?

A. Any death benefits will be free from Inheritance Tax.
B. Any withdrawals will be tax free.
C. They can control the timing of future personal taxation.
D. They will automatically pay basic-rate tax upon any surrender once they have retired.

55. Janet, a retail client, has an existing portfolio and a medium attitude to risk. Her financial adviser has recommended that her latest lump sum investment is fully invested in government bonds. This recommendation is justified because

A. all her existing investments are solely in equities.
B. interest rates are expected to rise.
C. she has fully used her ISA allowances for the current tax year.
D. she is a higher-rate taxpayer.

56. A retail client wishing to invest on an ethical basis would invest via a collective fund rather than via direct equities because

A. the annual management charge will be capped at the stakeholder limit.
B. a collective fund may offer more detailed ethical screening of underlying investments.
C. he will have greater engagement with company management on ethical issues.
D. the returns will be higher.

57. Edward has recently received an inheritance and is considering phasing the cash proceeds into a range of equity unit trusts. What is the **main** benefit of phasing?

A. To eliminate systematic risk.
B. To enhance Capital Gains Tax benefits.
C. To protect against potential market volatility.
D. To protect the unit trusts' prices from falling.

58. Neil has agreed to use a passive management style for his equities-based UK portfolio. This means that he

A. believes active fund managers will consistently outperform the benchmark index.
B. believes active fund managers will consistently underperform the benchmark index.
C. has increased his risk profile.
D. has reduced his risk profile.

59. The completion of a fact-find and satisfaction of the know your client requirements will help the

A. financial adviser to calculate the total expense ratio for his services.
B. financial adviser to decide how to charge for his services.
C. client to choose between active or passive investment management.
D. client to identify their investment time horizon and objectives.

60. An investment portfolio incorporating lifestyling would

A. exactly match the client's attitude to risk.
B. increase its gilt exposure in the early years.
C. maintain a balanced exposure across asset classes throughout its life.
D. reduce its equity exposure in later years.

61. A client's investment portfolio is benchmarked equally against the FTSE All-Share Index and the Dow Jones Eurostoxx 50 Index. This indicates that the portfolio consists of a mix of

A. small cap only UK and European equities.
B. UK equities and US equities.
C. UK equities and European equities.
D. UK passively and actively managed funds.

62. A client has an investment portfolio of £250,000. Their **main** time horizon is 15 years but they also have a secondary time horizon of 2 years relating to a planned capital withdrawal of £25,000 which is currently held in cash within the portfolio. In considering how to benchmark their portfolio, which approach would be **most appropriate**?

A. They should not adopt any benchmark as the time horizons are too far apart.
B. The entire portfolio should be benchmarked to a 2-year time horizon.
C. 90% of the portfolio should be benchmarked to a 15-year time horizon.
D. The entire portfolio should be benchmarked to a 15-year time horizon.

63. When agreeing the benchmark for an investment portfolio with a client, it is important that the chosen benchmark is

A. always in line with the client's long term investment objectives.
B. always positively correlated with the portfolio's underlying assets.
C. always the lowest risk for the available choices.
D. derived from the efficient frontier curve.

64. Andrea has a medium attitude to risk and a very low capacity for loss. When considering the asset allocation for her new investment portfolio, her financial adviser should be aware that

A. Andrea's attitude to risk must be reduced from medium to very low.
B. Andrea's capacity loss must be taken into account when creating the portfolio.
C. no medium risk assets can be used in the portfolio's asset allocation.
D. only stakeholder products can be used in the portfolio's asset allocation.

65. What is the **main advantage** of investing in an in-house fettered fund of funds compared to an unfettered fund of funds?

A. The investment choice is likely to be wider.
B. The investment returns are more likely to be higher.
C. The management charges are likely to be lower.
D. The volatility will be lower.

66. The relationship between the Ongoing Charges Figure (OCF) and Portfolio Turnover Rate (PTR) can best be described as

A. the OCF includes all dealing costs and increases proportionately to the PTR.
B. the OCF does not include dealing costs and is independent of the PTR.
C. both the OCF and PTR include the dealing costs for the previous 12 months only.
D. the PTR is the best measure of the total cost of investing in a fund.

67. An investment manager is constructing a portfolio for a retail client using a top-down approach. Having determined the asset allocation, what is **generally** the next step in the process?

A. apply a geographical distribution.
B. prioritise the investment style.
C. select a relevant benchmark.
D. select the individual funds.

68. A financial adviser is researching ethical funds for a client who has expressed a desire to avoid companies that manufacture armaments. As part of his fund selection criteria in order to meet the client's requirements the adviser will consider funds that

A. operate a positive engagement process.
B. operate a thematic approach.
C. screen on a negative basis.
D. screen on a positive basis.

69. Pauline has agreed that her investment portfolio should be constructed in accordance with the MSCI WMA Private Investor Growth Index. Her discretionary fund manager has decided that owing to current economic conditions, he will deviate frequently in the short-term from the prescribed asset allocation model. His decision is an example of

A. optimisation.
B. partial replication.
C. strategic asset allocation.
D. tactical asset allocation.

70. Ivona, a higher-rate taxpayer, owns several direct equities. A **main** benefit to her of transferring the equities to a wrap would be

A. a consolidated tax statement.
B. exemption from money laundering requirements.
C. higher levels of dividends.
D. longer settlement periods.

71. Fund X has a Total Expense Ratio (TER) of 2.1% and Fund Y has a TER of 2.25%. What is the **most likely** reason for the difference in TERs?

A. Fund X has a lower beta.
B. Fund X has lower dealing costs.
C. Fund Y has a higher alpha.
D. Fund Y has higher custodian and legal fees.

72. Balan and Jagdeep each have funds with similar underlying holdings. Why does Balan pay significantly more in management charges than Jagdeep?

A. Balan is exposed to UK equities whereas Jagdeep is exposed to overseas equities.
B. Balan is relatively risk averse whereas Jagdeep is relatively adventurous.
C. Only Jagdeep has holdings in index tracking funds.
D. Only Jagdeep is subject to pound cost averaging.

For Questions 73-100 more than 1 option is correct. You must select all the correct options to gain the mark.

73. When comparing a property authorised investment fund (PAIF) with a property investment trust

- **A.** only under the PAIF is the price of shares directly linked to the value of the underlying investments.
- **B.** only the PAIF is permitted to borrow money to invest.
- **C.** only under the investment trust can the share price move independently of the value of the underlying investments.
- **D.** under the PAIF a non-taxpayer can reclaim the tax deducted from any property income payments.

74. Patrick, a retail client, is looking to invest in commodities in order to increase the diversification of his equity portfolio. If he proceeds

- **A.** as a private investor, he can only invest in soft commodities.
- **B.** the expected returns will be more correlated to bonds than equities.
- **C.** he could invest in commodities funds.
- **D.** commodities with a negative correlation to his equities will increase the diversification within his portfolio.

75. Elaine, an experienced investor, has diversified her portfolio into listed property company shares. She should be aware that listed property company shares

- **A.** offer greater diversification than direct property investment.
- **B.** will not be eligible for a stocks and shares ISA investment.
- **C.** will never fall in value.
- **D.** are affected by the quality of the company management.

76. Maarav has £90,000 in a buiding society deposit account and Pinar has £110,000 in a National Savings & Investments Direct Saver account. Both accounts offer the same rate of interest. When comparing the characteristics of the two accounts

- **A.** Pinar's account has a higher level of capital protection in the event of default.
- **B.** Maarav's account will be subject to a penaity upon early withdrawal.
- **C.** Maarav's and Pinar's accounts will both pay interest on a gross basis.
- **D.** Pinar's account will not have voting rights.

77. Sam is considering a short-term money market fund and a standard money market fund. In respect of the main differences between them, he should be aware that

- **A.** only the short-term fund has a weighted average maturity of no more than 60 days.
- **B.** only the standard money market fund has a weighted average life of no more than six months.
- **C.** both funds could hold commercial bills.
- **D.** both funds could hold certificates of deposit maturing in one month.

78. Abel holds preference shares in a listed company and Handan holds ordinary shares in the same listed company. As a consequence

A. both of them will automatically be entitled to vote at the company's general meetings.
B. Abel is more likely to receive a higher income stream than Handan.
C. both of them rank behind the company's bonds in the event of liquidation.
D. both of them are likely to be entitled to convert their holdings into other types of share offered by the company.

79. Shirley invests in a number of gilts and corporate bonds. When comparing these

A. gilts are always less volatile than corporate bonds.
B. corporate bonds are always classed as sub-investment grade.
C. investors requiring ultra-long duration would favour gilts rather than corporate bonds.
D. a requirement for a higher yield would favour corporate bonds over gilts.

80. What are the **usual** characteristics of a company traded on AIM compared to the FTSE 100 Index?

A. It has a wider share price spread.
B. It has smaller market capitalisation.
C. It will have lower share price volatility.
D. It will have lower returns.

81. Harvey owns ordinary and convertible preference shares in the same listed UK company. He should be aware that

A. if the company's profit improves, both shares should increase in value.
B. if the company's profit falls, both shares will decrease in value.
C. if the company fails, the convertible preference shares rank higher than the ordinary shares.
D. the price of the convertible preference shares will be influenced by the price of the ordinary shares.

82. Joichiro has been advised to include UK-listed Exchange Traded Funds (ETFs) tracking the FTSE All-Share Index in his investment portfolio. He should be aware that ETFs

A. tend to be more expensive than actively managed funds.
B. do not incur Stamp Duty Reserve Tax on purchase.
C. are priced and traded once every business day.
D. have a low tracking error in comparison to their index benchmark.

83. Doreen is considering investing in a structured product. The use of a futures contract within the product means that

A. the product can always be encashed at any time without penalty or financial loss.
B. she may be exposed to counterparty risk.
C. she will always receive at least a full return of capital at maturity.
D. she may receive greater returns than those achieved by the underlying index.

84. Ian is considering National Savings & Investments (NS&I) Income Bonds and Jenny is considering NS&I Premium Bonds. When comparing these products

A. only Income Bonds pay out a rate of interest.
B. the maximum investment in Premium Bonds is £40,000.
C. Ian and Jenny could purchase both products on a joint basis.
D. Ian and Jenny would both be able to withdrawal their money without penalty.

85. Priya is considering a junior ISA (JISA) for her son Shaan, aged 14. She should be aware that

A. she may transfer Shaan's existing Child Trust Fund into a JISA.
B. she may invest in both cash and stocks and shares components of a JISA.
C. Shaan assumes responsibility for the account at age 16.
D. the JISA allowance forms part of her stocks and shares ISA allowance.

86. Frank, a non-taxpayer, has an investment bond. He is considering switching his existing equity and fixed interest funds into a property fund. He should be aware that

A. the new fund is likely to have significant holdings in commercial property.
B. the value of the property fund's assets may be established by regular professional valuation.
C. encashment of the property fund may sometimes be suspended for several months.
D. he can reclaim the tax on income and gains deducted internally with the fund.

87. A retail client is considering investing in hedge funds. He should be aware that

A. higher charges are likely to apply than to traditional investment funds.
B. a wide range of investment methods may be employed.
C. liquidity risk is not an issue.
D. derivatives may be used for more than just efficient portfolio management.

88. Sanyu, a higher-rate taxpayer, has invested in a Real Estate Investment Trust (REIT). In respect of the income payments from the REIT he should be aware that

A. he will not be subject to further taxation on any property income distribution he receives.
B. he may offset any dividend payments against his dividend allowance.
C. if held within a stocks and shares ISA, Sanyu will be able to receive the property income distribution on a gross basis.
D. the dividend income will be paid net of 20% withholding tax.

89. Adam has owned a small number of direct equities, but now wishes to follow his financial adviser's recommendation to invest in collective funds. This will enable Adam to

A. choose which shares will be in his portfolio.
B. receive professional fund management.
C. gain exposure to a maximum of 50 different underlying investments per fund.
D. reduce the non-systematic risk.

90. David is considering the purchase of an Exchange Traded Note (ETN) or an index tracking open-ended investment company (OEIC) as a way of investing in the FTSE All-Share Index. In comparing them, he should be aware that

A. the funds may use different methods to generate returns from the same index.
B. ETNs usually carry counterparty risk.
C. only the OEIC can be held in a stocks and shares ISA.
D. both can be traded on a real time basis.

91. The **main** reasons for using the Sharpe ratio when calculating a portfolio's performance are

A. it is an indicator of the portfolio's risk adjusted return.
B. it will always be quoted on a rolling quarterly basis.
C. it analyses market movement only, removing manager risk.
D. the higher the number, the more a portfolio manager can be said to have added value.

92. The time-weighted rate of return of an investment portfolio

A. is always higher than the money-weighted rate of return.
B. is calculated by separately determining individual discreet returns.
C. assumes an even flow of money in and out of the portfolio.
D. can only be used to measure periods of up to 12 months.
E. is determined by compounding the returns of sub-periods.

93. Neil's investment manager has recommended a switch of investments to rebalance his portfolio. Therefore

A. Neil's risk profile must have become more cautious.
B. it is possible that the switch will result in a Capital Gains Tax liability.
C. Neil's portfolio is guaranteed to become more tax efficient.
D. Neil would always buy more of the worst performing asset.
E. Neil could see his best performing asset sold.

94. An independent financial adviser firm offers both advisory and discretionary management services. When comparing these

A. only the advisory service requires a client's approval before making a purchase.
B. the advisory service will always have a lower level of adviser charge.
C. the discretionary service will always include a wider range of investments.
D. both services must act in accordance with the client's agreed investment objectives and level of risk.

95. A fund's portfolio return is 15%, compared to a benchmark return of 7%. The tracking error is 6%. Therefore, when applying the information ratio (IR) to evaluate this performance the

A. fund is likely to have outperformed the sector average fund.
B. fund is more likely to be managed on an active rather than passive basis.
C. IR is 0.36.
D. risk-free rate of return is required in order to calculate the IR.

96. When evaluating performance, a financial adviser would use the time-weighted return to

A. calculate the beta of the highest performing stocks within a portfolio over a given period.
B. calculate the alpha derived from a manager's stock picking skill as opposed to the market return.
C. compare the performance between portfolios from different managers.
D. identify a portfolio's overall return from several different sub-periods.

97. Ivor, a portfolio manager, provides an advisory management service to Richard, covering both investments trusts and direct equities. In respect of the ongoing maintenance of Richard's investments trusts

A. the investment trusts should be switched into direct equities once their value reaches £50,000.
B. Richard is likely to have less administrative involvement with the investment trust than with the direct equities.
C. the investment trusts and direct equities will have the same beta values within the portfolio.
D. Richard has to give agreement before Ivor can purchase additional direct equities.

98. When using alpha in order to assess and evaluate portfolio performance, a financial adviser should be aware that

A. alpha can be a measure of a fund manager's stock picking skills.
B. alpha is the output derived from the Capital Asset Pricing Model (CAPM) equation.
C. alpha cannot be used where the investment is a fund of funds.
D. a positive alpha indicates that the portfolio is likely to have outperformed the market return.

99. Roger's portfolio is entirely invested in UK unit trusts and open-ended investment companies (OEICs). He is discussing with his financial adviser the merits of restructuring his portfolio by switching some capital into UK equity investment trusts. Roger should be made aware that

A. switching from unit trusts is a much more costly exercise than switching from OEICs.
B. his overall annual management charge is likely to rise significantly when he adds investment trusts to his portfolio.
C. investment trusts may be purchased for more than their net asset value.
D. once he restructures, his portfolio could benefit from the effects of gearing.

100. A financial adviser is reviewing the investment portfolio of a new client. The client is unhappy with the portfolio's performance. The adviser should

A. determine if there have been any changes to the client's original objectives.
B. ignore the existing asset allocation and reconstruct the entire portfolio.
C. switch the portfolio into cash pending his response to the client.
D. re-establish the client's attitude to risk.

INCOME TAX

RATES OF TAX	2019/2020
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 £37,500
Higher rate of 40%	£37,501 to £150,000
Additional rate of 45%	£150,001 and over

**Not available if taxable non-savings income exceeds the starting rate band of £5,000.*

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) §	£12,500
Marriage Allowance	£1,250
Rent-a-room scheme - tax-free income allowance	£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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Class 1	**Employee**	**Employer**
NICs rate	12%	13.8%
No NICs on the first (per week)*	£166	£166**
NICs rate charged up to (per week)	£962	No limit
2% NICs on earnings over	£962	n/a

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £118 per week. This £118 to £166 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 £3.00 where profits exceed £6,365 per annum.
Class 3 (voluntary)	Flat rate per week £15.00.
Class 4 (self-employed)	9% on profits between £8,632 - £50,000. 2% on profits above £50,000.

CAPITAL GAINS TAX

TAX RATES	**2019/2020**
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 two years.*

EXEMPTIONS	
Individuals, estates etc	£12,000
Trusts generally	£6,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

	2019/2020
Lifetime Allowance	£1,055,000
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	2019/2020
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*	£150,000
- 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

	2019/2020
Standard rate	19%

VALUE ADDED TAX

	2019/2020
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

		2019/2020
Child Benefit	First child	£20.70
	Subsequent children	£13.70
	Guardian's allowance	£17.60
Basic State Pension	Single	£129.20
	Married	£206.65
Single Tier State Pension	Single	£168.60
Pension Credit	Single person standard minimum guarantee	£167.25
	Married couple standard minimum guarantee	£255.25
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.*

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome
Standard Format		
Learning Outcome 1		
1	A	1.1
2	A	1.1
3	B	1.1
4	A	1.1
5	A	1.1
6	B	1.1
7	B	1.1
8	C	1.1
9	A	1.1
10	C	1.1
11	C	1.1
12	B	1.2
13	B	1.1
14	D	1.1
15	C	1.1
16	D	1.1
17	A	1.1
17 Questions		
Learning Outcome 2		
18	C	2.3
19	B	2.3
20	B	2.3
21	C	2.3
22	B	2.2
23	B	2.1
24	D	2.3
7 Questions		
Learning Outcome 3		
25	D	3.1
26	B	3.1
27	C	3.1
28	D	3.2
29	D	3.2
30	C	3.3
31	B	3.2
7 Questions		
Learning Outcome 4		
32	B	4.2
33	B	4.1
34	B	4.2
3 Questions		

Question	Answer	Learning Outcome
Learning Outcome 5		
35	C	5.2
36	D	5.1
37	B	5.2
38	B	5.1
39	B	5.1
5 Questions		
Learning Outcome 6		
40	D	6.1
41	C	6.2
42	B	6.2
43	C	6.2
44	D	6.2
45	A	6.2
46	A	6.2
47	A	6.1
48	C	6.2
49	C	6.2
50	D	6.2
51	B	6.2
52	B	6.2
53	B	6.2
14 Questions		
Learning Outcome 7		
54	C	7.1
55	A	7.2
56	B	7.1
57	C	7.1
58	B	7.1
59	D	7.1
60	D	7.1
61	C	7.1
62	C	7.1
63	A	7.1
64	B	7.2
11 Questions		
Learning Outcome 8		
65	C	8.2
66	B	8.2
67	A	8.2
68	C	8.2
69	D	8.1
70	A	8.3
71	D	8.2
72	C	8.2
8 Questions		

Question	Answer	Learning Outcome
Multiple Response Format		
Learning Outcome 1, 6 & 9		
73	A, C, D	1.1
74	C, D	1.1
75	A, D	1.1
76	A, C, D	1.1
77	A, C, D	1.1
78	B, C	1.1
79	C, D	1.1
80	A, B	1.1
81	A, C, D	1.1
82	B, D	6.2
83	B, D	6.2
84	A, D	6.2
85	A, B, C	6.2
86	A, B, C	6.2
87	A, B, D	6.2
88	B, C	6.2
89	B, D	6.2
90	A, B	6.2
91	A, D	9.1
92	B, E	9.1
93	B, E	9.2
94	A, D	9.2
95	A, B	9.1
96	C, D	9.1
97	B, D	9.2
98	A, D	9.1
99	C, D	9.2
100	A, D	9.2
28 Questions		