

Sample multiple-choice questions:

Diploma in Regulated Financial Planning

These sample MCQs give an insight into the types of questions contained in Diploma in Regulated Financial Planning exams (units R01–R05).

Contents:

- (R01) Financial services, regulation and ethics **pg 2–3**
- (R02) Investment principles and risk **pg 4–5**
- (R03) Personal taxation **pg 6–7**
- (R04) Pensions and retirement planning **pg 8–9**
- (R05) Financial protection **pg 10–11**

Note: Before the day of the exam, we recommend you use our online exam simulation to familiarise yourself with the exam process. This can be accessed at www.cii.co.uk/online

(R01) Financial services, regulation and ethics

1. When determining the interaction between the UK and EU on the regulation of the financial services industry, the UK government must always

- A. seek approval from the European Commission before implementing any new regulations.
- B. implement new EU Directives by passing acts of Parliament.
- C. accommodate all EU Decisions in UK legislation.
- D. provide copies of new regulation to the European Commission within a reasonable period of time for their approval.

Learning Outcome: 1.3

Key: B

2. A client has previously written to her former adviser opting out of any marketing activities from the firm or any third parties. However she continues to receive direct investment offers from the firm. She should complain based on the firm not complying with which set of regulations?

- A. Conduct of Business rules.
- B. Data Protection Act 1998.
- C. Distance Selling Regulations.
- D. Treating Customers Fairly.

Learning Outcome: 4.2

Key: B

3. The Financial Services and Markets Act 2000 regulates the provision of which type(s) of financial advice?

- A. Advice to vulnerable individuals only.
- B. Advice to all individuals.
- C. Advice to all individuals and group personal pensions schemes only.
- D. Advice to all individuals unless they are elective professional clients.

Learning Outcome: 4.3

Key: B

4. Simon has experience of dealing with retail clients and is now in training to qualify as a pension transfer specialist. As a consequence, which of the following statements are true?

- A. He must have at least 3 years experience as an adviser before his training can commence.
- B. His firm is allowed to impose a time limit on completion of the qualification.
- C. His supervisor must also be suitably qualified.
- D. Once qualified, CPD requirements are waived for 12 months.
- E. Once qualified, records of his training must be maintained for at least 5 years.

Learning Outcome: 6.1

Keys: B, C

(R02) Investment principles and risk

1. The efficient frontier curve shows the optimum balance between

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

Learning Outcome: 3.1

Key: A

2. A UK investor holds a portfolio of overseas equities and is concerned about the exchange rate risk. Which strategy could he use to mitigate this risk?

- A. Arbitrage.
- B. Gearing.
- C. Hedging.
- D. Pound cost averaging.

Learning Outcome: 5.1

Key: C

3. When constructing a portfolio for a UK resident basic-rate taxpayer who requires an income, the most tax efficient solution would be achieved by

- A. only investing in offshore products.
- B. holding fixed-interest funds within a stocks and shares ISA.
- C. purchasing National Savings & Investments (NS&I) Fixed-Interest Savings Certificates.
- D. holding high-yielding equities within a stocks and shares ISA.

Learning Outcome: 8.2

Key: B

4. The principal reasons for using the Sharpe ratio when calculating a portfolio's performance are

- A. it indicates the percentage return above/below the risk-free rate for each unit of risk taken.
- B. it will always be quoted on a rolling quarterly basis.
- C. a positive Sharpe ratio will always guarantee positive returns.
- D. the higher the number, the more a portfolio manager can be said to have added value.

Learning Outcome: 9.1

Keys: A, D

(R03) Personal taxation

1. **Pauline, a basic-rate taxpayer, has a portfolio which comprises of various equity and fixed-interest unit trusts and OEICs. She should be aware that**
- A. any losses from this portfolio are allowable for Capital Gains Tax calculations.
 - B. her entire portfolio will be subject to a 10% tax credit.
 - C. only the proceeds of sale from the OEICs could be subject to Capital Gains Tax.
 - D. the taxation of dividends on the OEICs held will be treated the same way as the unit trusts.
 - E. she can never reclaim any tax deducted at source.

Learning Outcome: 2.2

Keys: A, D

2. **Philip took out a qualifying onshore endowment policy for 20 years which he made paid-up in year 9. This means that he may become personally liable to tax on the policy proceeds**
- A. at maturity.
 - B. if he makes a partial surrender.
 - C. if he assigns the policy to his wife.
 - D. on settlement of a critical illness claim.

Learning Outcome: 2.2

Keys: A, B

3. Bill, a single man, having made full use of his annual gift allowances, made a potentially exempt transfer of £100,000 four and a half years before his death. He has made no other gifts. His residual estate is now valued at £500,000. The Inheritance Tax liability at death is

- A. £30,000
- B. £46,000
- C. £94,000
- D. £110,000

Learning Outcome: 4.1

Key: D

4. On Brian's death, his estate was valued at £820,000. He bequeathed £40,000 to a registered charity and split the balance equally between his registered civil partner and his brother. Assuming he made no lifetime transfers, what will the Inheritance Tax liability be?

- A. £22,750
- B. £26,000
- C. £29,750
- D. £34,000

Learning Outcome: 4.1

Key: B

(R04) Pensions and retirement planning

1. Trevor is a member of a defined benefit company pension scheme. Which factor relating to his circumstances confirms that he will avoid incurring a special annual allowance charge in the current tax year?

- A. He is a member of an Employer Financed Retirement Benefit Scheme (EFRBS).
- B. He is aged 61.
- C. His total annual earnings have never exceeded £110,000.
- D. His benefits include the maximum level of death benefit.

Learning Outcome: 2.2

Key: C

2. Stephen is about to commence taking benefits from his personal pension scheme, which includes protected rights. He should be aware that

- A. he can take up to 25% of the total fund as a pension commencement lump sum.
- B. he has the right to exercise the open market option.
- C. his whole pension fund must provide limited price indexation in payment.
- D. the value of the protected rights element will not count towards the lifetime allowance.

Learning Outcome: 6.3

Keys: A, B

- 3. Frank, age 55, is considering adopting a lifestyle investment technique as he aims to build up his personal pension prior to retirement. He should be aware that**
- A. the asset mix of the fund will be adjusted automatically on pre-determined dates.
 - B. his ongoing exposure to equities will reduce with lifestyling.
 - C. after 10 years, a maximum of 25% of the investments will be in bonds.
 - D. lifestyling is likely to be appropriate if he intends to purchase a conventional annuity with his entire fund.

Learning Outcome: 8.1

Keys: A, B, D

(R05) Financial protection

1. Under an employer's group life assurance policy, what is the normal tax treatment of the death benefit?

- A. It is liable to Inheritance Tax.
- B. It is liable to Capital Gains Tax.
- C. It is liable to Income Tax.
- D. It is not liable to any form of taxation.

Learning Outcome: 5.1

Key: D

2. If an income protection insurance (PHI) policy has reviewable premiums, this usually means that the insurance company can

- A. alter the cost of the cover.
- B. withdraw cover on any anniversary date.
- C. only increase premiums in line with inflation.
- D. pay benefits for less than the full period of incapacity.

Learning Outcome: 6.1

Key: A

3. Apart from comparing cover and costs, what other key factor should usually be considered if a financial adviser intends to recommend that a client cancels an existing term assurance policy and replaces it with a new one?

- A. The insurable interest.
- B. The underwriting requirements.
- C. The secondhand policy market value.
- D. The chargeable gains.

Learning Outcome: 10.2

Key: B

4. The primary purpose of a key person insurance policy is to provide funds on the death of the life assured directly to the deceased's

- A. children only.
- B. employer only.
- C. estate only.
- D. spouse only.

Learning Outcome: 10.2

Key: B