

UK financial services, regulation and ethics

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

- purpose and structure of the UK financial services industry;
- different financial asset classes and product types;
- process of giving advice and the main areas covered;
- ethics, regulatory processes, rules and legislation underpinning UK financial services;
- use of the Financial Services Authority's (FSA) regulatory powers and responsibilities to protect the market's integrity and the impact on individuals and firms of the FSA's regulatory powers.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the purpose and structure of the UK financial services industry	5
2. Understand the main financial asset classes and their characteristics, covering past performance, risk and return	6
3. Understand the main financial services product types and their functions	5
4. Understand the purpose of the main areas of financial advice	6
5. Understand the process of giving financial advice, including the importance of regular reviews of the consumer's circumstances	7
6. Understand the legal concepts relevant in financial advice	7
7. Understand the UK taxation and social security systems and how they affect personal financial circumstances	8
8. Understand the impact of inflation, interest rate volatility and other relevant socio-economic factors on personal financial plans	4
9. Understand the main aims and activities of the FSA and its approach to ethical conduct by firms and individuals	6
10. Understand the FSA's approach to regulating firms and individuals	6
11. Understand the effect of the FSA's rules on the control structures of firms and their relationship with the FSA	7
12. Understand how the FSA's Conduct of Business rules apply to the process of advising clients	15
13. Understand how the Anti-Money Laundering rules apply to dealings with private and intermediate clients	6
14. Understand the rules for dealing with complaints and compensation	3
15. Understand how the Access to Medical Reports Act 1988 and the Data Protection Act 1998 affect the provision of financial advice and the conduct of firms generally	5
16. Understand the relevance of other non-tax laws and regulations to firms and to the process of advising clients	4

*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 multiple choice questions (MCQs). 2 hours are allowed for this examination.
- **This syllabus will be examined from 1 September 2009 until 31 August 2010.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2009/2010 unless otherwise stated.**
- **Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.**

1. Understand the purpose and structure of the UK financial services industry

- 1.1 The function of the financial services industry in the economy – transferring funds between individuals, businesses and government – risk management;
- 1.2 The main institutions/organisations – markets, retail institutions, wholesale institutions;
- 1.3 The role of the EU and of the UK government – regulation, taxation, economic and monetary policy, provision of welfare and benefits.

2. Understand the main financial asset classes and their characteristics, covering past performance, risk and return

- 2.1 Cash deposits;
- 2.2. Government securities and corporate bonds – fixed Interest and index-linked;
- 2.3 Equities;
- 2.4 Property – residential and commercial.

3. Understand the main financial services product types and their functions

- 3.1 Direct investment – cash, government securities and corporate bonds, equities and property;
- 3.2 Collective investments – structure, tax and charges – OEICs/unit trusts/UCITS, investment trusts and companies, life assurance contracts, offshore funds;
- 3.3 Derivatives – their structure and purpose;
- 3.4 Mortgages and other loans – personal and commercial.

4. Understand the purpose of the main areas of financial advice

- 4.1 Budgeting;
- 4.2 Protection;
- 4.3 Borrowing and debt;
- 4.4 Investment and saving;
- 4.5 Retirement planning;
- 4.6 Estate planning;
- 4.7 Tax planning;
- 4.8 Generic financial advice and money guidance.

5. Understand the process of giving financial advice, including the importance of regular reviews of the consumer's circumstances

- 5.1 The relationship between the client and the adviser – agreeing client goals, and the adviser's responsibilities with regard to confidentiality, trust, consumer protection and regulatory requirements, e.g. client agreement, statutory status disclosure;
- 5.2 Fact-finding – gathering the information needed to provide financial advice;
- 5.3 Identification of needs and possible solutions – factors determining how to match solutions with consumer needs and demands;
- 5.4 Assessment of affordability and suitability;

- 5.5 Communication skills – giving advice and adapting advice to customers with different capacities and needs;
- 5.6 The importance of regular reviews of the consumer's circumstances and arrangements to monitor the continuing position and advise on appropriate changes;
- 5.7 The importance of treating customers fairly within the advice process;
- 5.8 The purpose of advice.

6. Understand the legal concepts relevant in financial advice

- 6.1 Legal identity – individuals, wills, intestacy, personal representatives and administration of estates, trustees, companies, unincorporated and limited liability partnerships;
- 6.2 Contract, including capacity to contract;
- 6.3 Agency;
- 6.4 Types of property and its ownership;
- 6.5 Powers of Attorney and Lasting Powers of Attorney;
- 6.6 Insolvency and bankruptcy.

7. Understand the UK taxation and social security systems and how they affect personal financial circumstances

- 7.1 UK Income Tax system – liability to Income Tax, allowances, reliefs, rates, grossing up interest and dividends, employed and self-employed income;
- 7.2 Capital Gains Tax – liability to CGT, disposals, death, deductions, losses, main exemptions, entrepreneurs' relief, basic calculation of chargeable gains;
- 7.3 Inheritance Tax – the nil rate band, transfer of unused nil rate band; allowances and exemptions, potentially exempt transfers (PET) and lifetime transfers, how the tax is collected and who is responsible for its payment;
- 7.4 Stamp Taxes – Stamp Duty Reserve Tax and Stamp Duty Land Tax;
- 7.5 National Insurance;
- 7.6 State benefits and tax credits.

8. Understand the impact of inflation, interest rate volatility and other relevant socio-economic factors on personal financial plans

- 8.1 Definitions of inflation and deflation;
- 8.2 The difference between fixed and variable interest rates and how they affect the affordability, suitability and performance of financial products in both the long and short term.

9. Understand the main aims and activities of the FSA and its approach to ethical conduct by firms and individuals

- 9.1 The Financial Services and Markets Act 2000;
- 9.2 The FSA's aims and objectives, statutory objectives, role and activities;
- 9.3 The FSA's principles for businesses and approved persons – how they reflect the need for ethical behaviour by firms and approved persons, FSA guidance, treating customers fairly;

- 9.4 Arrangements, systems and controls for senior managers;
- 9.5 The fit and proper test for approved persons;
- 9.6 The prevention of crime, including market abuse and insider dealing.

10. Understand the FSA's approach to regulating firms and individuals

- 10.1 Authorisation of firms;
- 10.2 Regulated activities and regulated investments;
- 10.3 Different types of financial adviser, their main responsibilities and restrictions;
- 10.4 Capital adequacy;
- 10.5 FSA supervision and the risk-based approach;
- 10.6 Discipline and enforcement, including notification requirements.

11. Understand the effect of the FSA's rules on the control structures of firms and their relationship with the FSA

- 11.1 Approved persons and controlled functions;
- 11.2 Advertising and financial promotion rules;
- 11.3 Reporting and record keeping;
- 11.4 Training and competence rules;
- 11.5 Specific rules for independent financial advisers.

12. Understand how the FSA's Conduct of Business rules apply to the process of advising clients

- 12.1 Types of customer;
- 12.2 Terms of business, client agreements and client money;
- 12.3 Status disclosure and information about services and remuneration;
- 12.4 Scope of advice and the range of advice for advisers;
- 12.5 Advice and know your customer rules;
- 12.6 Suitability and appropriateness;
- 12.7 Execution-only sales;
- 12.8 Cancellation;
- 12.9 Product disclosure, including charges and commissions;
- 12.10 Regulatory rules for mortgage advice – MCOB;
- 12.11 Regulatory rules for general insurance advice – ICOBS;
- 12.12 Record keeping.

13. Understand how the Anti-Money Laundering rules apply to dealings with private and intermediate clients

- 13.1 Proceeds of crime – definition, Proceeds of Crime Act 2002;
- 13.2 The current Money Laundering regulations;
- 13.3 Client identification procedures;
- 13.4 Record keeping requirements;
- 13.5 Reporting procedures;
- 13.6 Enforcement;
- 13.7 Types of transaction.

14. Understand the rules for dealing with complaints and compensation

- 14.1 Firms' internal complaints procedures;
- 14.2 The Financial Ombudsman Service (FOS);
- 14.3 The Financial Services Compensation Scheme (FSCS).

15. Understand how the Access to Medical Reports Act 1988 and the Data Protection Act 1998 affects the provision of financial advice and the conduct of firms generally

- 15.1 Definitions in the Data Protection Act;
- 15.2 The data protection principles;
- 15.3 Enforcement of the Data Protection Act;
- 15.4 Principles of the Access to Medical Reports Act;
- 15.5 The effects of the Access to Medical Reports Act upon clients, advisers and life assurance companies.

16. Understand the relevance of other non-tax laws and regulations to firms and to the process of advising clients

- 16.1 The Office of Fair Trading;
- 16.2 Consumer Credit legislation;
- 16.3 The Pension Regulator's rules with respect to pension schemes;
- 16.4 Stakeholder products;
- 16.5 The Employment Equality (Age) Regulations 2006;
- 16.6 EU directives.

Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

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.

CII/PFS members can borrow most of the study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to www.cii.co.uk/knowledge.

UK financial services, regulation and ethics. London: CII. Coursebook CF1.

The regulatory framework. Simon Collins. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

The regulation of insurance, investment and mortgage intermediaries. Tony Wiltshire. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

The regulation of retail investment business. Tony Wiltshire. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

Reference materials

The Handbook. London: Financial Services Authority. Available online at <http://fsahandbook.info>

Periodicals

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

Financial Solutions. London: Personal Finance Society. Six issues a year. Also available online at www.cii.co.uk/knowledge/financialsolutions. (CII/PFS members only).

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

The Journal. London: CII. Six issues a year. Also available online (CII/PFS members only) at www.cii.co.uk/knowledge/journal.

Money Management. London: Financial Times Business. Monthly.

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

PFS Focus. London: CII Knowledge Services.

Comprehensive archive of PFS publications, including technical and regulatory updates and technical tips. Available online at www.cii.co.uk/knowledge/pfs (CII/PFS members only).

Examination guides

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/PFS members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.