



Chartered
Insurance
Institute

J12

Securities advice and dealing

Based on the 2020/2021 syllabus
examined until 31 August 2021

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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 J12 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 J12 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 J12 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 <https://www.cii.co.uk/learning/qualifications/unit-securities-advice-and-dealing-j12/>
- 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 J12 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 J12 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, analyse and assess 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.

Assess - To answer questions requiring assessment, the candidate must be able to evaluate 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 assessment.

Examination Information

The method of assessment for the J12 examination is 60 multiple choice questions (MCQs) and 3 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.

The J12 syllabus provided in this examination guide will be examined from 1 September 2020 until 31 August 2021.

Candidates will be examined on the basis of English law and practice in the tax year 2020/2021 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

The general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

J12 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.

Section A consists of 60 multiple choice questions. A multiple choice question consists of a problem followed by **four** options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only **one** correct or best response to the problem posed.

Section B contains three case studies each followed by five questions. **Four** options follow each question. The options are labelled A, B, C and D. Only **one** of these options will be correct or best.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are not permitted, 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.

Securities advice and dealing

Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the features and risks of different securities;
- the structure and features of the securities market;
- relevant factors and considerations for appropriate investment recommendations.

Summary of learning outcomes	Number of questions in the examination*
1. Analyse the characteristics, features, behaviours and risks of securities and equities in the context of the market for these products.	39
2. Understand the structure, features, and regulatory and trading environment of the securities market.	9
3. Apply dealing principles and practice relevant to client investment activity.	3
4. Understand clearing, settlement and custody principles and practice relevant to client investment activity.	4
5. Assess the factors that influence market behaviour relevant to investment advice.	5
6. Apply the relevant factors and considerations to decide and implement appropriate investment recommendations.	15 case study related questions

* 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: 60 multiple choice questions (MCQs) and 3 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2020 to 31 August 2021.
- Candidates will be examined on the basis of English law and practice in the tax year 2020/2021 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 from the list provided
 4. Select qualification update on the right hand side of the page

- 1. Analyse the characteristics, features, behaviours and risks of securities and equities in the context of the market for these products.**
 - 1.1 Analyse the characteristics, features, behaviours and risks of debt securities.
 - 1.2 Analyse the characteristics, features, behaviours and risks of equities.
 - 1.3 Explain the characteristics, features, behaviours and risks of the main competing asset classes and onshore/offshore investment products.
- 2. Understand the structure, features, and regulatory and trading environment of the securities market.**
 - 2.1 Describe the key features of the main trading markets.
 - 2.2 Describe the role, structure and regulation of the global securities market.
- 3. Apply dealing principles and practice relevant to client investment activity.**
 - 3.1 Apply dealing principles and practice.
- 4. Understand clearing, settlement and custody principles and practice relevant to client investment activity.**
 - 4.1 Explain the principles and practices of clearing, settlement and custody.
- 5. Assess the factors that influence market behaviour relevant to investment advice.**
 - 5.1 Assess the factors that influence investment markets and the movement of individual securities.
- 6. Apply the relevant factors and considerations to decide and implement appropriate investment recommendations.**
 - 6.1 Analyse the full range of objective and subjective client information and the different investment options.
 - 6.2 Recommend appropriate investment options and/or asset allocations.

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.

Securities advice & dealing. London: CII. Study text J12.

Books (and ebooks)

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

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.

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

Understanding commercial property investment: a guide for financial advisers. Investment Property Forum, June 2015. Available online via www.ipf.org.uk.

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/

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

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.

Investor's chronicle. London: Financial Times Business. Weekly. Available at www.investorschronicle.co.uk.

Money management. London: FT Business. Monthly. Available online www.ftadviser.com/brand/money-management.

Further articles and technical bulletins are available at <https://www.cii.co.uk/knowledge-services/> (CII/PFS members only).

Reference materials

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

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

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).

SECTION A

1. Amita is explaining to a client how conventional gilts operate in the market regarding clean and dirty prices. In doing so she should make the client aware that
 - A. the clean price is always higher than the dirty price.
 - B. the difference between the clean price and dirty price may depend on the income tax status of the purchaser.
 - C. gilts are traded at the clean price and settled at the dirty price.
 - D. gilts are traded at the dirty price and settled at the clean price.

2. The zero dividend preference shares of a split-capital investment trust have an asset cover figure of 1.64. The income shares have a current gross dividend of 8p. If the trust has a planned wind-up date in eight years' time, it can be deduced that
 - A. there is 64% more capital at present than is required to repay the zeros at redemption.
 - B. the dividend is covered 1.64 times.
 - C. the hurdle rate is 8% per annum.
 - D. the current price of the zeros will have to rise by 64% to repay that share class at redemption.

3. An investor holds a zero coupon Japanese Government Bond. This indicates that the bond
 - A. has a maturity of one year or less.
 - B. has been classed as inflation-indexed.
 - C. was acquired in the secondary market.
 - D. was issued prior to 1990.

4. Giles, a discretionary investment manager, is considering whether to purchase some US Government Treasury notes or US Government Treasury bills. He should be aware that
 - A. both Treasury bills and Treasury notes are zero coupon bonds, but differ regarding periods between issue and maturity.
 - B. neither, once issued, can be traded on a secondary market.
 - C. Treasury bills, unlike Treasury notes, are issued at a discount to their redemption value.
 - D. Treasury notes, unlike Treasury bills, can only be purchased by US residents.

5. Corporate bonds X and Y are issued by the same company with the same redemption date. Corporate bond X is a conventional bond and corporate bond Y has the inclusion of a put option. What may be deduced from this?
 - A. The coupon of bond X is likely to be smaller than that of bond Y.
 - B. The yield of bond Y is likely to be higher than that of bond X.
 - C. The price of bond X is likely to be identical to that of bond Y.
 - D. The yield of bond Y is likely to be lower than that of bond X.

6. An investor holds two fixed-interest securities. Security X has a modified duration of 4 and security Y has a modified duration of 9. If interest rates were to rise by 1%, which of these securities, if either, is **likely** to see its price change by the larger amount?
- A. Both securities are likely to see their price rise by the same percentage.
 - B. As a percentage of its current price, security X's price is likely to fall more than security Y's price as a percentage of Y's current price.
 - C. As a percentage of its current price, security Y's price is likely to fall more than security X's price as a percentage of X's current price.
 - D. Both securities are likely to see their price fall by the same percentage.
7. A bond which redeems in exactly 3 years' time for £100 was bought for £98.60. If it has a coupon of 4.1%, what is its simplified gross redemption yield?
- A. 0.87%
 - B. 3.69%
 - C. 4.57%
 - D. 4.63%
8. An investment manager owns two index-linked gilts, one issued in July 2004 and the other in April 2006. The investment manager should be aware that the indexation lag on the inflation uplift for interest payments for these two gilts respectively is
- A. 3 months and 8 months.
 - B. 3 months and 6 months.
 - C. 8 months and 3 months.
 - D. 8 months and 12 months.
9. Some onshore and offshore assurance bonds were taken out by Russell and now form part of his portfolio. His financial adviser should advise him that, were the bonds to be surrendered
- A. both may give rise to an Income Tax liability.
 - B. both may give rise to a Capital Gains Tax liability.
 - C. only the onshore bond may give rise to an Income Tax liability.
 - D. only the onshore bond may benefit from top slicing relief.
10. Norman has acquired some global depositary receipts. He should be aware that
- A. the depositary bank is the beneficial owner of the underlying shares.
 - B. the depositary bank is the registered holder for only a nominal proportion of the receipts.
 - C. he is not entitled to take up any rights issues.
 - D. he will not benefit from any dividend declaration.

11. Four newly issued corporate bonds received credit ratings from Moody's at issue as follows

Bond	Rating
W	B
X	Ba
Y	Baa
Z	A

Based solely on this information, it is reasonable to deduce that

- A. bond W is likely to have the highest running yield.
 - B. bond X will have the highest modified duration.
 - C. bond Y will have the longest Macaulay duration.
 - D. bond Z will have the lowest purchase price.
12. What **normally** happens to Permanent Interest Bearing Shares as a result of the demutualisation of the issuer?
- A. The coupon decreases.
 - B. The coupon increases.
 - C. The shares are reclassified as medium term notes.
 - D. The shares are reclassified as perpetual subordinated bonds.
13. Companies X and Y have acid test ratios of 1.6 and 0.76 respectively. This means that company X is
- A. less likely to make a dividend distribution than company Y.
 - B. making more net profit from each unit of sale than company Y.
 - C. more highly geared than company Y.
 - D. more likely to cover its current liabilities than company Y.
14. A company makes a 1 for 5 rights issue when the share price is 220p. If the issue price is 184p, what will be the theoretical ex-rights price?
- A. 184p
 - B. 190p
 - C. 214p
 - D. 220p
15. A tranche of shares was traded several times without the issuer or its representatives being aware of this situation. This indicates that the shares are **likely** to be classed as
- A. B shares.
 - B. bearer shares.
 - C. deferred shares.
 - D. preference shares.

-
16. Robin exercised a conversion option under his convertible preference shares. What did he receive as a result?
- A. Callable bonds.
 - B. Further preference shares.
 - C. Ordinary shares.
 - D. Puttable bonds.
17. Two fund managers hold shares in the same UK company, but only one is permitted to vote. This is because
- A. the fund managers hold different classes of shares.
 - B. one holds warrants as well as shares within the company.
 - C. only one fund manager purchased the shares within the last 30 days.
 - D. only one fund manager runs a fund that is registered outside the UK.
18. On liquidation, how do ordinary shares, corporate bonds and preference shares compare in terms of ranking?
- A. Ordinary shares are ahead of corporate bonds, but behind preference shares.
 - B. Ordinary shares are behind corporate bonds, but ahead of preference shares.
 - C. Ordinary shares are ahead of both corporate bonds and preference shares.
 - D. Ordinary shares are behind both corporate bonds and preference shares.
19. Peter has inherited 1,000 deferred shares in a UK unlisted company. He should be aware that the shares
- A. are treated as preference shares and pay a dividend before other shares.
 - B. have no capital value.
 - C. may pay a dividend only after all other due dividends have been paid.
 - D. will never pay a dividend.
20. Companies X and Y are in the technology sector and have price earnings ratios of 54 and 26 respectively. When comparing the price earnings ratio of both companies, it can be deduced that
- A. company X's share price is a higher multiple of its earnings per share than company Y's.
 - B. company X's earnings per share is a higher percentage of its share price than company Y's.
 - C. company Y's shares are perceived to have better growth prospects than company X's.
 - D. company Y has a lower dividend cover than company X.
21. A FTSE 100 company has a current ordinary share price of 200p, with earnings per share of 10p and a dividend per share of 2p. These figures show that the company
- A. has dividend cover of 5.
 - B. has a price earnings ratio of 100.
 - C. has a payout ratio of 1%.
 - D. is under an obligation to repay some loans.

22. A company has trade receivables totalling £86,000 within six months. In which section of the balance sheet will this **normally** appear?
- A. Current assets.
 - B. Current liabilities.
 - C. Non-current assets.
 - D. Non-current liabilities.
23. A US foreign exchange dealer uses dollars to buy sterling based on a GBP:USD spot price of 1.6164/1.6169. He closes the position by selling back the sterling to convert to dollars based on a GBP:USD spot price of 1.6246/1.6252. How much profit or loss is therefore made on this trade?
- A. A loss of 77 pips.
 - B. A loss of 88 pips.
 - C. A profit of 77 pips.
 - D. A profit of 88 pips.
24. When comparing warrants with call options, warrants are **normally**
- A. issued for longer periods.
 - B. less dilutive for the underlying company.
 - C. less tax efficient.
 - D. more tax efficient.
25. The price of a warrant is 14p, the underlying share price is 112p and the exercise price is 146p. What is the warrant conversion premium?
- A. 13.70%
 - B. 17.86%
 - C. 32.88%
 - D. 42.86%
26. Two deposit accounts both advertise their nominal interest rates as 2.40% per annum. However, account X credits interest annually whereas account Y credits interest half yearly. How much extra interest will a fund manager receive after a year if she invests £1,000,000 with account Y instead of account X?
- A. £14.40
 - B. £120.00
 - C. £144.00
 - D. £240.00
27. With regard to certain fixed future date or dates, a warrant provides an investor with
- A. an obligation to buy ordinary shares at a set price.
 - B. an obligation to sell ordinary shares at a set price.
 - C. the right to sell ordinary shares at a set price.
 - D. the right to buy ordinary shares at a set price.

28. The price of a warrant is 60p and the associated share price is 170p. The exercise price is 130p. What is the warrant's gearing ratio?
- A. 0.76
 - B. 1.31
 - C. 2.17
 - D. 2.83
29. A trader made a £10,000 deposit in a contract for difference, trading at a 10% initial margin, to gain exposure to shares in a particular company. He made the deposit when the shares were £8 and closed out the trade when they were £10. Ignoring trading costs and charges, what was the profit on this transaction?
- A. £10,000
 - B. £20,000
 - C. £25,000
 - D. £35,000
30. How do the pricing structures of unit trusts and open-ended investment companies (OEICs) compare?
- A. Both must have dual pricing.
 - B. Both must have single pricing.
 - C. OEICs usually have dual pricing and unit trusts may have either single or dual pricing.
 - D. OEICs usually have single pricing and unit trusts may have either single or dual pricing.
31. An investment trust has a net asset value per share of £3.25 with a share price of £3.75. It is trading at a
- A. discount of 13.34%.
 - B. discount of 15.38%.
 - C. premium of 13.34%.
 - D. premium of 15.38%.
32. Sovereign bonds differ from corporate bonds in that, regarding sovereign bonds
- A. they are issued in a conventional format only.
 - B. their gross redemption yields will always be greater than those of corporate bonds.
 - C. there is no possibility of default.
 - D. they may be issued by a government in a foreign currency.
33. An investor holds loan stock, debentures and preference shares in a UK company that has gone into liquidation. How do these assets compare in terms of priority of payout?
- A. Debentures rank behind both loan stock and preference shares.
 - B. Loan stock ranks ahead of both debentures and preference shares.
 - C. Loan stock ranks behind preference shares but ahead of debentures.
 - D. Preference shares rank behind both loan stock and debentures.

34. A company's share price is falling significantly due to continuing poor financial results. The company's shares are **likely** to be purchased by a unit trust manager who uses which investment style?
- A. Contrarian.
 - B. Merger arbitrage.
 - C. Momentum.
 - D. Passive.
35. An investment manager is investing in collective investments that adopt a Growth At A Reasonable Price investment style. He should be aware that this style
- A. aims to capitalise on the continuance of existing trends in the market.
 - B. aims to identify businesses whose value is greater than the price placed on them by the market.
 - C. is found most often in hedge fund management.
 - D. is used mainly by active growth managers.
36. If the US Government increased the volume of US Treasury bills on offer and simultaneously decreased the level of US Treasury bonds on offer, this is **likely** to indicate a
- A. longer-term approach to its fiscal policy.
 - B. longer-term approach to monetary policy.
 - C. shorter-term approach to its borrowing requirements.
 - D. shorter-term approach to its exchange rate policy.
37. Matthew owns two securities, X and Y. Security X is a call option with an exercise price of 190p and the underlying share price is currently 175p. Security Y is a put option with an exercise price of 140p and the underlying share price is currently 155p. Matthew is therefore hoping for a
- A. fall in the underlying price of both securities.
 - B. fall in the underlying price of X and a rise in Y.
 - C. rise in the underlying price of both securities.
 - D. rise in the underlying price of X and a fall in that of Y.
38. Which type of derivative product is **normally** used to achieve synthetic replication under an Exchange Traded Fund?
- A. Forwards.
 - B. Futures.
 - C. Options.
 - D. Swaps.
39. For which type of product is an optimisation modelling technique **likely** to be used?
- A. Emerging markets open-ended investment company.
 - B. Ethical unit trust.
 - C. Exchange Traded Fund.
 - D. Real Estate Investment Trust.

40. A corporate bond's Standard & Poor's credit rating was changed from BBB to BB. This suggests that the bond is **likely** to have
- A. become an investment grade security.
 - B. a decreased risk of default.
 - C. a higher running yield than the yield before the rating change.
 - D. lowered its coupon.
41. An execute and eliminate sale order has been placed in the equities market. If the price stated in the order is 220p and the best price in the market is 218p, what trading action, if any, will be carried out?
- A. A full sale will be undertaken on an 'at best' basis.
 - B. No sale will be undertaken.
 - C. A pro-rata sale will be undertaken and the balance of the order cancelled.
 - D. A pro-rata sale will be undertaken and the balance of the order deferred.
42. It is 3.30pm on a business day and a market participant intends to trade on the Stock Exchange Electronic Trading System (SETS). How much time is **usually** left on that day for the trade to take place?
- A. 30 minutes.
 - B. 60 minutes.
 - C. 90 minutes.
 - D. 120 minutes.
43. When considering which trading venue to use, an investment manager should be aware that
- A. dark pools can be used for anonymous trading between institutional investors.
 - B. the London Stock Exchange is regarded as a multilateral trading facility.
 - C. systematic internalisers are not permitted to compete directly with stock exchanges.
 - D. under a multilateral trading facility, non-matched orders will always proceed to execution.
44. What type of trading **typically** occurs under a multilateral trading facility?
- A. Large individual values, high volume.
 - B. Large individual values, low volume.
 - C. Small individual values, high volume.
 - D. Small individual values, low volume.

45. A Debt Management Office gilt auction was held for £5,000,000,000 of £100 nominal stock. Bids were received from three Gilt-Edged Market Makers (GEMM)

GEMM X offered to buy £3,500,000,000 nominal and was willing to pay £101.75.
GEMM Y offered to buy £5,000,000,000 nominal and was willing to pay £101.25.
GEMM Z offered to buy £3,500,000,000 nominal and was willing to pay £101.50.

Consequently, the gilts were awarded in full or in part to

- A. GEMM X only.
 - B. GEMM Y only.
 - C. GEMMs Y and Z only.
 - D. GEMMs X and Z only.
46. Companies X and Y are seeking premium and standard stock market listings respectively. When considering the differences between the requirements for each company
- A. only company X must provide a 25% free float.
 - B. only company X must provide 10 years' audited financial information.
 - C. only company Y is permitted to show evidence of control over its assets for up to 6 months rather than 3 years.
 - D. only company Y may provide fewer than 3 years' audited historical financial information.
47. A financial instrument has been traded over-the-counter rather than through an exchange. This benefited the parties concerned because
- A. both pre and post-trade information was fully transparent.
 - B. the instrument should now be easily tradable in the secondary market.
 - C. the instrument had high liquidity and could be traded readily with other buyers.
 - D. bespoke contract terms could be negotiated by the counterparties concerned.
48. A company is applying for admission to AIM. To satisfy AIM's rules, the company appointed an organisation to guide them on the preparation of the prospectus. In this role the organisation will be acting as the
- A. appointed registrar.
 - B. nominated adviser.
 - C. nominated broker.
 - D. secondary registrar.
49. A financial services firm reinforced its Chinese Walls procedures as part of an overhaul of its internal activities. One of the **main** reasons for taking this action was to
- A. dampen the potential volatility of its investment holdings.
 - B. improve its capital solvency position.
 - C. minimise the risk of any front running.
 - D. speed up its trade execution capabilities.

50. An investment manager has received a limit order from a client to sell a security that **CANNOT** be executed immediately. He should be aware that
- A. if no time limit is placed on the order, it will expire on the last working day of the week that it is entered.
 - B. a limit order does not have to be executed immediately and can remain displayed on the Stock Exchange Electronic Trading System (SETS) for up to 90 calendar days.
 - C. limit orders that cannot be filled are cancelled after 60 minutes.
 - D. limit orders unfulfilled at the end of the trading day are automatically converted to 'at best' orders.
51. An investment manager is seeking to gain exposure to shares in US companies. When comparing the composition of the **main** US stock market indices, he should be aware that the
- A. S&P 500 Index is price-weighted and Dow Jones Index is market capitalisation weighted.
 - B. S&P 500 Index is market capitalisation weighted and Dow Jones Index is price-weighted.
 - C. Only the Dow Jones Index is market capitalisation weighted.
 - D. Only the S&P 500 Index is price-weighted.
52. Shares were transferred via the CREST system. At what stage in the settlement process will legal title to the shares change?
- A. Cash settlement.
 - B. Register update.
 - C. Stock settlement.
 - D. Trade matching.
53. How much Stamp Duty Reserve Tax would be levied on three paperless transactions of £42,600 FTSE 250 ordinary equities, £10,000 AIM shares and £20,000 corporate bonds?
- A. £106.50
 - B. £213.00
 - C. £263.00
 - D. £363.00
54. Under the Disclosure and Transparency Rules (DTR), an investment manager should be aware that
- A. the 3% rule applies, in aggregate, to both shares held by an individual and his spouse.
 - B. the 3% rule applies only to shares held by that individual.
 - C. only holdings accrued as a result of purchases on the London Stock Exchange need to be notified.
 - D. where total holdings exceed £10,000, all holdings must be notified.
55. A **principal** reason why a pension fund manager may engage in regular stock lending of shares with a third party would be to
- A. allow it to diversify its investments.
 - B. increase its income through the receipt of payment from the borrower.
 - C. prevent delivery of an open derivatives position that is out of the money.
 - D. reduce its equity market exposure by substituting the stock lent for the collateral received.

56. A fund manager has acquired some price sensitive information on a company takeover from a trader. If the fund manager trades on the basis of that information, he will
- A. be guilty of insider dealing if the information is widely available in the market.
 - B. be guilty of insider dealing if the information is not widely available in the market.
 - C. not be guilty of insider dealing but the trader could be.
 - D. not be guilty of insider dealing if the company is not quoted on the London Stock Exchange.
57. When considering off order book share trade reporting of non-Stock Exchange Electronic Trading Systems (SETS) transactions, an investment manager should be aware that
- A. different timescales apply for the reporting of gilt-edged securities when compared with equity securities.
 - B. if the two parties to a trade are of the same seniority, the buyer should report the trade.
 - C. off order book trades must be reported at the latest within 24 hours by the member firm to the relevant exchange.
 - D. where a trade is made between 7.15am and 8.00am on the London Stock Exchange, the latest time that it needs to be reported is 8.03am.
58. Three out of four investors are obliged to disclose the change in their percentage holdings in respect of a listed company's shares which grant voting rights. Which investor is the exception?
- A. Adam, whose stake of 3.6% fell to 2.9%.
 - B. Brian, whose stake of 3.8% rose to 4.1%.
 - C. Colin, whose stake of 4.2% rose to 4.9%.
 - D. David, whose stake of 4.9% rose to 5.1%.
59. Daphne is studying information on the management of a particular company and the prospects for its sectors, while Pedro is studying just share performance statistics for the same company. What investment approaches are they **most likely** to be using?
- A. Daphne will be using fundamental analysis and Pedro will be using technical analysis.
 - B. Daphne will be using technical analysis and Pedro will be using fundamental analysis.
 - C. Both Daphne and Pedro will be using fundamental analysis.
 - D. Both Daphne and Pedro will be using technical analysis.
60. When comparing quote-driven and order-driven markets, an investment manager should be aware that in an order-driven market
- A. the aim is to match buyers and sellers automatically.
 - B. buyers and sellers have to be manually matched.
 - C. settlement takes longer.
 - D. the spread between bid and offer prices is wider.

Section B begins on the next page

SECTION B

Stuart, a retail client, invested £400,000 into a portfolio 13 months ago and the first annual review meeting has just been undertaken with Louise, his investment adviser. The portfolio consists of 40 quoted UK equities and a gilt, and those 41 holdings are held on an equally-weighted basis, and are managed under a discretionary investment management mandate.

Stuart's objective is to generate capital growth over the medium to long term and he has a balanced to adventurous attitude to risk. Stuart is considering adding another £50,000 to the portfolio and is interested in commodity shares, Exchange Traded Products and AIM shares.

61. Stuart's portfolio is now worth £451,000 and shares X, Y and Z in his portfolio are currently valued at £9,000, £12,000 and £11,000 respectively. In rebalancing his 41 holdings to an equally-weighted basis, Louise should make Stuart aware that
- A. share X should have its weighting reduced by 10%.
 - B. share Y should have its weighting increased by 10%.
 - C. share Z does not need to have its weighting changed.
 - D. the combined value of shares X, Y and Z will not require any further funds to rebalance.
62. Louise has purchased physical gold Exchange Traded Funds for Stuart, rather than making a purchase of gold mining shares. This is **most likely** because she believes
- A. global banks are increasing lending to mining companies.
 - B. global interest rates have fallen significantly.
 - C. industrial unrest in producer nations has recently been resolved.
 - D. power supply disruption in producer nations is very likely.
63. When considering the dealing costs within Stuart's portfolio, Louise should be aware that
- A. any new gilts purchased using the CREST system will be subject to Stamp Duty Reserve Tax at 0.5%.
 - B. the purchase of any Exchange Traded Funds will not be subject to Stamp Duty Reserve Tax.
 - C. market makers levy an additional liquidity charge of 1.85% on all transactions on the AIM.
 - D. if the proposed £50,000 is invested into six AIM stocks on an equally-weighted basis, the total Panel on Takeovers and Mergers levy would be £6.00.
64. When considering taxation issues relating to the portfolio, Stuart should be aware that
- A. any disposal proceeds that are re-invested into AIM shares will qualify for holdover relief for Capital Gains Tax purposes.
 - B. realised capital losses can be carried forward for a maximum of three tax years.
 - C. if Stuart invests in certain shares quoted on AIM, he could benefit from business relief after two years.
 - D. the Value Added Tax component of the discretionary managed service costs can be offset against any Capital Gains Tax liability.

65. As part of any rebalancing consideration carried out in the review meeting, Stuart should be aware that
- A. Louise will not require Stuart's permission before she makes any rebalancing changes.
 - B. the portfolio will only have been rebalanced if Louise had adopted a strategic asset allocation approach from inception.
 - C. rebalancing should only take place for disposals up to the value of his annual exemption for Capital Gains Tax.
 - D. the rebalancing will have automatically made provision for the introduction of £50,000 of new money into the portfolio.

Horatio, aged 67 and an additional-rate taxpayer, has no other investments apart from emergency funds of £50,000 and a portfolio as set out below.

The following information represents a portfolio of assets purchased by Horatio one year ago

	Corporate Bond W	Gilt X	Share Y	Share Z
Initial investment	£10,000	£10,000	£10,000	£10,000
Expected return	n/a	n/a	6%	9%
Beta	n/a	n/a	1	1.75
Standard deviation	n/a	n/a	3.1%	5.1%
Price at purchase	£90	£100	250p	200p
Nominal price	£100	£100	n/a	n/a
Current price	£105	£102	420p	190p
Coupon	9%	4%	n/a	n/a
Period of redemption	3 years	2 years	n/a	n/a

66. If Horatio were to sell both of his holdings in shares Y and Z now, ignoring transaction costs, how much Capital Gains Tax (CGT) would he pay, assuming his CGT annual exemption has already been used?
- A. £1,134
 B. £1,260
 C. £2,520
 D. £2,835
67. Assuming a normal distribution and on the basis of expected returns, it can be reasonably inferred that
- A. at one standard deviation, both shares will have positive returns in a falling market.
 B. at two standard deviations, the returns for share Z cover a maximum range of 10.2%.
 C. share Y will outperform share Z.
 D. share Z will be less volatile than share Y in normal circumstances.
68. If the Bank of England announces further quantitative easing, what would be the **most likely** affect on Horatio's portfolio, if any, assuming all other factors remain unchanged?
- A. The beta value for the shares is likely to increase.
 B. The corporate bond would fall in value.
 C. The gilt would increase in value.
 D. The portfolio's value would be unaffected.

69. If Horatio were to hold the gilt until redemption, what would be his total income over the period of ownership before taxation?
- A. £800
 - B. £1,176
 - C. £1,200
 - D. £1,400
70. When using the Capital Asset Pricing Model (CAPM) to compare the shares Y and Z, and assuming that the risk free return is 2%. It can be deduced that
- A. share Y has an expected return lower than the expected market return.
 - B. the growth in Z's share price will always outperform that of Y's by 3% per annum.
 - C. whatever the market return, share Y's beta will always be 3 points lower than share Z's beta.
 - D. the expected returns of shares Y and Z suggest the expected market return is 6%.

Andre, aged 47, earns £60,000 per annum and has fully used his dividend allowance for the current tax year through income from other investments outside his portfolio. He has a portfolio of investments as follows

Company	Asset Type	Quantity	Purchase Price	Current Price
X	Ordinary shares	20,000	7p	84p
Y	Preference shares	1,000	50p	51p
Z	Convertible bonds	£500 nominal	£500	£105

Andre is considering his investments and is consulting with his financial adviser, Richard.

71. Company X has earnings per share of 10.5p and a dividend per share of 3.5p. These figures currently show that the company has
- dividend cover of 0.33.
 - a payout ratio of 12.5.
 - a price earnings ratio of 8.
 - a price earnings to growth ratio (PEG) of 36.75.
72. If Andre were to sell his ordinary shares in company X at the current price, assuming that he has **NOT** utilised any of his Capital Gains Tax (CGT) annual exemption in the tax year 2020/2021, how much CGT would he pay?
- £310.00
 - £620.00
 - £1,007.50
 - £1,240.00
73. In respect of his shares in company Y, Andre should be aware that
- any gains made are chargeable to Income Tax rather than Capital Gains Tax.
 - he will be liable to 38.1% tax on the dividends from these shares.
 - in the event of company liquidation, this share class is always repaid before any settlement of debt.
 - this share class may carry voting rights if specified in the company's articles of association.
74. Company Y has declared a dividend of 18p per share. How much is Andre's total Income Tax liability for this dividend payment?
- £58.50
 - £68.58
 - £72.00
 - £81.00

75. In respect of his holdings in company Z, Andre should be aware that
- A. the bonds will never carry the right to any interest payments.
 - B. he may not sell the bonds prior to conversion without the permission of the company's registrar.
 - C. if he does not exercise the right to convert, then they become conventional bonds.
 - D. only the bond issuer can determine whether the conversion is to take place.

INCOME TAX

RATES OF TAX 2020/2021

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

**For other income less than £17,500 only. The starting rate for savings is a maximum of £5,000. Every £1 of other income above the Personal Allowance reduces the starting rate for savings by £1.*

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)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£183	£169**
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 £120 per week. This £120 to £183 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 £3.05 where profits exceed £6,475 per annum.
Class 3 (voluntary)	Flat rate per week £15.30.
Class 4 (self-employed)	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

CAPITAL GAINS TAX

TAX RATES	2020/2021
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%
Business Asset Disposal Relief* – Gains taxed at:	
Lifetime limit	10% £1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least two years.*

EXEMPTIONS	
Individuals, estates etc	£12,300
Trusts generally	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

2020/2021

Lifetime Allowance	£1,073,100
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£4,000

* Tapered by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

2020/2021

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*	£175,000
- 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

2020/2021

Standard rate 19%

VALUE ADDED TAX

2020/2021

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%

Important Note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- For purchases between 8 July 2020 and 30 June 2021, SDLT does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal.
- For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000. For purchases above £250,000, the band rates above apply as normal.

Additional SDLT rules still apply as below.

- 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

2020/2021

Child Benefit	First child	£21.05
	Subsequent children	£13.95
	Guardian's allowance	£17.90
Basic State Pension	Single	£134.25
	Married	£268.50
Single Tier State Pension	Single	£175.20
Pension Credit	Single person standard minimum guarantee	£173.75
	Married couple standard minimum guarantee	£265.20
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

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Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome																																																															
STANDARD FORMAT						SCENARIO FORMAT																																																																	
Learning Outcome 1			Learning Outcome 2			Learning Outcome 6																																																																	
1	C	1.1	41	B	2.1	61	C	6.1																																																															
2	A	1.3	42	B	2.1	62	D	6.2																																																															
3	A	1.1	43	A	2.1	63	B	6.2																																																															
4	C	1.1	44	C	2.1	64	C	6.2																																																															
5	D	1.1	45	D	2.1	65	A	6.2																																																															
6	C	1.1	46	D	2.2	66	B	6.1																																																															
7	D	1.1	47	D	2.2	67	A	6.1																																																															
8	C	1.1	48	B	2.2	68	C	6.1																																																															
9	A	1.3	8 Questions			69	A	6.2																																																															
10	C	1.2				70	D	6.1																																																															
11	A	1.1				71	C	6.1																																																															
12	D	1.1	Learning Outcome 3			72	B	6.1																																																															
13	D	1.2	49	C	3.1	73	D	6.1																																																															
14	C	1.2	50	B	3.1	74	A	6.1																																																															
15	B	1.2	51	B	3.1	75	C	6.1																																																															
16	C	1.2	3 Questions			15 Questions																																																																	
17	A	1.2																																																																					
18	D	1.2							Learning Outcome 4																																																														
19	C	1.2	52	B	4.1																																																																		
20	A	1.2	53	B	4.1																																																																		
21	A	1.2	54	A	4.1																																																																		
22	A	1.2	55	B	4.1																																																																		
23	C	1.3	4 Questions																																																																				
24	A	1.3																																																																					
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26	C	1.3	56	B	5.1																																																																		
27	D	1.3	57	D	5.1																																																																		
28	D	1.3	58	C	5.1																																																																		
29	C	1.3	59	A	5.1																																																																		
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