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CF1

UK financial services, regulation and ethics

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

Unit 1 – UK financial services, regulation and ethics

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

Contents

Introduction to Examination Guide	3
CF1 Syllabus	7
Specimen Examination	12
Specimen Tax Tables	29
Specimen Examination Answers and Learning Outcomes Covered	34

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Unit 1 – UK financial services, regulation and ethics

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

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the CF1 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 an CF1 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 CF1 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/unit-uk-financial-services-regulation-ethics-cf1/**
- 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 CF1 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for CF1 begin with *understand*.

Understand - To answer questions based on understanding, the candidate 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.

Examination Information

The method of assessment for the CF1 examination is 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The CF1 syllabus provided in this examination guide 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, resident and ordinarily resident in the UK unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

CF1 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

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 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.

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, under 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.

UK financial services, regulation and ethics

Objective

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 regulators' powers and responsibilities to protect the market's integrity and the impact on individuals and firms of these regulators' 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.	7
3. Understand the main financial services product types and their functions.	6
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.	6
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.	3
9. Understand the main aims and activities of the financial services regime and its approach to ethical and inclusive conduct by firms and individuals.	6
10. Understand the financial regulators' approach to regulating firms and individuals.	6
11. Understand the effect of the FCA's rules on the control structures of firms and their relationship with the FCA.	7
12. Understand how the FCA'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 data protection rules 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 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. Understand the purpose and structure of the UK financial services industry.

- 1.1 Describe the function of the financial services industry in the economy.
- 1.2 Describe the main institutions and organisations of the UK financial services industry.
- 1.3 Describe the roles of the EU and UK government on the UK financial services industry.

2. Understand the main financial asset classes and their characteristics.

- 2.1 Describe the main financial asset classes and their principal characteristics.

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

- 3.1 Describe the main financial services product types and their functions.

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

- 4.1 Describe how the main areas of financial advice apply to customer needs.

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

- 5.1 Explain the process of giving financial advice, including the role of guidance and the importance of positive customer outcomes.
- 5.2 Explain the importance of regular reviews of the consumer's circumstances.

6. Understand the legal concepts relevant in financial advice.

- 6.1 Explain the main areas of legal identity for individuals and companies, including arrangements on death and incapacity.
- 6.2 Describe the basic principles of the laws of agency, contract and ownership of property.
- 6.3 Explain the relevant laws and processes of insolvency and bankruptcy.

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

- 7.1 Explain the main features of and applications of Income Tax.
- 7.2 Explain the main features of and applications of Capital Gains Tax.
- 7.3 Explain the main features of and applications of Inheritance Tax.
- 7.4 Explain the main features of Stamp Duty Reserve Tax and Stamp Duty Land Tax.
- 7.5 Explain the main features of National Insurance Contributions.
- 7.6 Explain the main State benefits.

8. Understand the impact of inflation, interest rate volatility and other relevant

socio-economic factors on personal financial plans.

- 8.1 Define inflation, disinflation, deflation.
- 8.2 Explain the impact of interest rates on personal financial plans.

9. Understand the main aims and activities of the financial services regime and its approach to ethical and inclusive conduct by firms and individuals.

- 9.1 Describe the Prudential Regulation Authority (PRA) and Financial Conduct Authority's (FCA's) main statutory objectives and the main principles and regulations used to achieve these objectives.
- 9.2 Describe the regulatory requirements for ethical conduct by firms and individuals.

10. Understand the financial regulators' approach to regulating firms and individuals.

- 10.1 Describe the financial regulators' approach to risk-based supervision, discipline and enforcement.
- 10.2 Describe the FCA's approach to regulating firms and individuals.

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

- 11.1 Describe control structures and operational requirements of authorised firms and their relationship with the FCA.

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

- 12.1 Describe how the FCA's Conduct of Business rules apply to the process of advising clients.

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

- 13.1 Explain how current anti-money laundering and proceeds of crime obligations apply.

14. Understand the rules for dealing with complaints and compensation.

- 14.1 Explain the rules on redress, complaints handling and compensation, and how they apply.

15. Understand how the Access to Medical Reports Act 1988 and data protection rules affect the provision of financial advice and the conduct of firms generally.

- 15.1 Explain the legislation on medical reports and data protection and its impact on firms and the provision of advice to clients.

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

- 16.1 Explain the relevance of ancillary legislation and regulations in the provision of financial advice.

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 texts

UK financial services regulation and ethics. London: CII. Study text CF1.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at www.ftadviser.com.

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

Reference materials

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

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

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

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

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. A life assurance company can transfer a proportion of its risk to
 - A. a bancassurer.
 - B. a custodian.
 - C. an investment house.
 - D. a reinsurer.

2. The Bank of England implements the monetary policy necessary to meet the Government's inflation target by
 - A. acting as a lender of last resort.
 - B. buying and selling the UK's gold reserves.
 - C. issuing gilts.
 - D. setting the level of short-term interest rates.

3. A listed investment company is owned by its
 - A. directors.
 - B. employees.
 - C. policyholders.
 - D. shareholders.

4. In respect of the regulation of financial services in the UK, the European Union is responsible
 - A. for creating all legislation.
 - B. for creating relevant directives.
 - C. for implementing all relevant directives within Member States.
 - D. for regulating cross Member State business.

5. The **principal** function of a UK insurer is to
 - A. offer reinsurance facilities to non-UK insurers.
 - B. provide insurance to policyholders.
 - C. provide stable dividend yields to institutional investors.
 - D. provide the main means for auto-enrolment.

6. A non-taxpayer holds £10,000 nominal 6% Treasury 2022 stock, which was bought at issue and is valued today at £11,000. What gross annual income will she receive from her investment?
 - A. £500
 - B. £600
 - C. £720
 - D. £1,100

7. Helen has a total of £18,000 invested in an ISA with National Savings & Investments. To which **main** financial asset class does this belong?
- A. Cash deposits.
 - B. Equities.
 - C. Fixed-interest securities.
 - D. Property.
8. The **principal** reason for investing in equities is to
- A. achieve long-term capital growth.
 - B. always outperform gilts over the short term.
 - C. always outperform cash over the long term.
 - D. secure a guaranteed dividend income.
9. The **main** method by which retail clients can buy and sell equities on a direct basis is by
- A. completing stock transfer forms.
 - B. trading on a recognised investment exchange.
 - C. using a single-tied restricted adviser.
 - D. using collective investment funds.
10. In respect of directly-held commercial property, illiquidity is **best** described as the
- A. lack of rental income arising from the loss of a tenant.
 - B. minimum notice period that must be given to an existing tenant.
 - C. risk of not being able to sell the property when required.
 - D. risk of the capital value falling below the level of any secured borrowing.
11. For an index-linked gilt, the index linking refers to the
- A. Bank of England base rate.
 - B. Consumer Prices Index.
 - C. FTSE-Allshare Index.
 - D. Retail Prices Index.
12. Equity-based collective funds are **likely** to have a lower level of investment risk than a direct holding of shares in a company because they
- A. are capital protected.
 - B. have a minimum capital value.
 - C. spread the risk of loss of capital.
 - D. are index-linked.

13. In what circumstances, if any, can a life assurance company take a person's gender into consideration when calculating the premiums for protection policies?
- A. In no circumstances.
 - B. For term assurance policies only.
 - C. For policies transacted on an execution-only basis only.
 - D. If the policyholder is not a UK resident.
14. Individual investors wishing to invest in commercial property will **usually** do so by investing in
- A. collective funds.
 - B. direct property purchase.
 - C. the HM Land Registry House Price Index.
 - D. property derivatives.
15. The strike price of a call option is the price
- A. at which the option to purchase can be exercised.
 - B. at which the option to sell can be exercised.
 - C. paid for the option at its inception.
 - D. paid for the option at its expiry.
16. A suitable mortgage for a homebuyer looking for a known level of payments for an initial period would be a
- A. discount mortgage.
 - B. fixed-rate mortgage.
 - C. offset mortgage.
 - D. tracker mortgage.
17. For what reason would a self-employed person **normally** consider starting a private medical insurance policy?
- A. The amount of Statutory Sick Pay he receives may not fully compensate him for loss of earnings.
 - B. Any State benefits to which he may be entitled would be means-tested.
 - C. He would be unable to claim Employment and Support Allowance.
 - D. Treatment would be provided more quickly, thereby minimising time spent unable to work.
18. When an individual with an impaired credit rating wishes to take out a mortgage, to which specialist area of the mortgage market will he **most likely** be directed?
- A. Adverse.
 - B. Equity release.
 - C. Offset.
 - D. Securitised.

19. David, an additional-rate taxpayer, wants an investment that has no shortfall risk and is tax free. The **most suitable** product would be
- A. a cash ISA.
 - B. an instant access deposit account.
 - C. an investment bond.
 - D. a stocks and shares ISA.
20. The **principal** purpose of the Money and Pensions Service is to
- A. direct consumers to restricted financial advisers.
 - B. enable auto-enrolment in workplace pensions.
 - C. provide information on the main areas of financial planning.
 - D. sell stakeholder products using simplified advice.
21. In respect of Inheritance Tax (IHT), a bequest to a registered charity is
- A. fully exempt.
 - B. potentially exempt.
 - C. subject to IHT at 20%.
 - D. subject to IHT at 40%.
22. Simon has just made a claim under his income protection insurance policy and has been told that he **must** wait several weeks before the payment of benefit will commence. This time period is known as the
- A. consideration period.
 - B. cooling-off period.
 - C. deferred period.
 - D. statutory period.
23. A financial adviser fully completed a fact-find nine months ago and transacted a savings policy. He is now advising the client about a further savings policy. What **minimum** standards of fact-finding are required, if any?
- A. No fact-finding is required.
 - B. The client is given the option to update the original fact-find.
 - C. The original fact-find must be updated with any changes in the client's circumstances.
 - D. The original fact-find must be ignored and a completely new fact-find undertaken.
24. A financial adviser would **normally** investigate a customer's attitude to investment risk before recommending which type of protection product?
- A. A family income benefit policy.
 - B. An income protection insurance policy.
 - C. A term assurance policy.
 - D. A unitised whole of life policy.

25. In respect of the content of a suitability report prepared for a retail client, the report should
- A. always reference the relevant sections of the Financial Conduct Authority Handbook.
 - B. only be used where an oral explanation of the recommendations is not possible.
 - C. set out both the advantages and the disadvantages of the recommendations.
 - D. use technical terms to reduce the risk of future complaints.
26. If a single-tied restricted adviser knows that another company offers the same product but at a lower premium, he **must** advise the client
- A. on the product offered by his company only.
 - B. that a cheaper product is available elsewhere.
 - C. to go directly to the company offering the cheaper product.
 - D. to go to an independent financial adviser to obtain the cheaper product.
27. Which long-term financial planning need should **normally** be given priority by a single self-employed individual with no dependants?
- A. Income protection insurance.
 - B. Life assurance.
 - C. Pension provision.
 - D. Private medical insurance.
28. A **key** objective of the annual review meeting with a retail client is to
- A. consider tax planning opportunities.
 - B. ensure all the client's disposable income is allocated to new products.
 - C. increase the client's level of investor protection.
 - D. reduce persistency levels.
29. A client dies intestate, leaving a widow and a son as his **only** surviving relatives. If his estate is valued at £200,000 and dealt with in accordance with the laws of intestacy, how will the money be distributed?
- A. It will all go to his son.
 - B. It will all go to his widow.
 - C. £125,000 will go to his son and £75,000 will go to his widow.
 - D. £100,000 will go to his son and £100,000 will go to his widow.
30. When a customer purchases both a stakeholder pension scheme and an investment bond through an independent financial adviser (IFA), the IFA acts as agent of
- A. the customer in both cases.
 - B. the product provider in both cases.
 - C. the customer for the stakeholder pension scheme and the product provider for the investment bond.
 - D. the product provider for the stakeholder pension scheme and the customer for the investment bond.

31. Apart from the debtor himself, who can present a petition to a court to make the debtor bankrupt?
- A. Creditors who are owed at least £5,000.
 - B. Only creditors included in an interim order.
 - C. Only creditors with secured lending.
 - D. Only creditors with unsecured lending.
32. Anton is married and fears that his mental capacity may be declining. If he wants to appoint his wife to manage his financial affairs, he would complete a
- A. deed of variation.
 - B. discretionary management agreement.
 - C. lasting power of attorney.
 - D. ordinary power of attorney.
33. A life policy written under trust **legally** belongs to the
- A. beneficiary.
 - B. life assured.
 - C. settlor.
 - D. trustee.
34. The requirement for a new whole of life policyholder to be over 18 years old relates to which element of the contract?
- A. Acceptance.
 - B. Capacity to contract.
 - C. Consideration.
 - D. Underwriting.
35. When a single person dies without leaving a valid will, the legal status of the person distributing the proceeds of the estate is referred to as the
- A. administrator.
 - B. executor.
 - C. next of kin.
 - D. trustee.
36. Elena, a higher-rate taxpayer, receives total dividend income of £3,000 in the tax year 2020/2021. On what amount, if any, would she be liable to pay Income Tax?
- A. None.
 - B. £1,000
 - C. £2,000
 - D. £3,000

- 37.** On what proportion of her assessable profits would a self-employed woman, aged 30, pay Class 4 National Insurance contributions at 2%?
- A. All assessable profits.
 - B. All assessable profits above the lower profits limit per annum only.
 - C. All assessable profits between the lower profits limit per annum and the upper profits limit per annum only.
 - D. All assessable profits above the upper profits limit per annum only.
- 38.** David is a first-time buyer and about to purchase a property for £310,000. What band rate of Stamp Duty Land Tax, if any, is payable?
- A. Nil.
 - B. 1%
 - C. 2%
 - D. 5%
- 39.** A potentially exempt transfer relates to which type of tax?
- A. Capital Gains Tax.
 - B. Income Tax.
 - C. Inheritance Tax.
 - D. Stamp Duty Land Tax.
- 40.** Sole proprietors are assessed for Income Tax on their
- A. gross drawings from the business.
 - B. net drawings from the business.
 - C. gross profits as shown by their accounts.
 - D. net profits as shown by their accounts.
- 41.** A self-employed plumber broke his leg at work a month ago and is unable to work. To which State benefit may he be currently eligible?
- A. Carer's Allowance.
 - B. Employment and Support Allowance.
 - C. Jobseeker's Allowance.
 - D. Statutory Sick Pay.
- 42.** A higher-rate taxpayer receives total gross interest of £450 in the current tax year. If this is the only interest he receives, what is his Income Tax liability, if any, on the interest?
- A. Nil.
 - B. £45
 - C. £90
 - D. £180

43. James, a higher-rate taxpayer, has disposed of some shares in a FTSE 100 Index company. After allowing for his annual exemption, he has a capital gain of £10,000. How much Capital Gains Tax will he pay?
- A. £1,000
 - B. £2,000
 - C. £2,800
 - D. £4,000
44. Which State benefit is dependent on an individual's National Insurance contribution record?
- A. Carer's Allowance.
 - B. Child Benefit.
 - C. Attendance Allowance.
 - D. Statutory Maternity Pay.
45. A savings account with a fixed rate of interest would **generally** be **most suitable** when the rate of
- A. interest looks likely to decrease.
 - B. interest looks likely to increase.
 - C. long-term economic growth looks likely to decrease.
 - D. long-term economic growth looks likely to increase.
46. How would an annual change in the price of goods and services in the economy from 5% to 3% be described?
- A. Deflation.
 - B. Disinflation.
 - C. Inflation.
 - D. Stagflation.
47. The Basic State Pension increases annually in line with the highest of 2.5%, earnings increases and
- A. the Consumer Prices Index.
 - B. Gross Domestic Product.
 - C. Limited Price Indexation.
 - D. the Retail Prices Index.
48. If the Bank of England committed to a sustained period of raising interest rates, this would have a
- A. negative impact upon savers with index-linked products.
 - B. positive impact upon savers with variable-rate products.
 - C. negative impact upon borrowers with fixed-rate mortgage products.
 - D. positive impact upon borrowers with variable-rate mortgage products.

49. When considering the principle for the fair treatment of customers, the responsibility for determining what is fair in each particular set of circumstances for an advised sale rests with the
- A. authorised firm.
 - B. consumer.
 - C. product provider.
 - D. regulator.
50. The requirement for an authorised firm to conduct its business with integrity is contained within the
- A. European Union Fourth Life Directive.
 - B. Markets in Financial Instruments Directive (MiFID).
 - C. Principles for Businesses.
 - D. Training and Competence Sourcebook.
51. Which body is responsible for the regulations governing the marketing and promotion of investment products by an authorised firm?
- A. The Bank of England.
 - B. The Department for Business, Energy and Industrial Strategy.
 - C. The Financial Conduct Authority.
 - D. The Financial Ombudsman Service.
52. Jake is starting a new role with an authorised firm where he will undertake a senior manager function. Which body **must** approve and register him for this role?
- A. The Financial Conduct Authority.
 - B. The Information Commissioner's Office.
 - C. The National Crime Agency.
 - D. The Prudential Regulation Authority.
53. Under the Financial Services and Markets Act 2000, in order to carry out a regulated activity in the UK a person **must** be either authorised or
- A. exempt from the Act's provisions.
 - B. in the process of applying for authorisation.
 - C. have been trading for more than five years.
 - D. hold a recognised accountancy or law qualification.
54. The Financial Conduct Authority expects a life assurance company to apply the principle of treating its customers fairly to which aspect of its products?
- A. The charging structure only.
 - B. The overall product lifecycle.
 - C. The promotional material only.
 - D. The sales process only.

55. The **main** areas of the Financial Conduct Authority's dealings with financial crime are
- A. client identification, market abuse and reporting.
 - B. fraud, market abuse and money laundering.
 - C. fraud, market timing and money laundering.
 - D. fraud, market timing and reporting.
56. Which of the Financial Conduct Authority's pillars of activity is based upon responding to issues that have recently happened?
- A. Categorisation of firms.
 - B. Event-driven.
 - C. Proactive firm.
 - D. Thematic approach.
57. An authorised firm discovers that it has made a significant regulatory breach. When **must** the breach be notified?
- A. Immediately.
 - B. Within 30 days of discovery of the breach.
 - C. Within 30 days of resolution of the breach.
 - D. At its next close and continuous meeting.
58. Company X is an appointed representative of company Y. Who is responsible for the advice given by company X?
- A. Company X's compliance officer only.
 - B. Company X's managing director only.
 - C. Company Y only.
 - D. Company X and company Y jointly.
59. Within an authorised firm, capital adequacy is described as the
- A. amount of money the firm should hold to meet its financial obligations.
 - B. level of average adviser remuneration across all of the firm's financial advisers.
 - C. minimum level of net profit the firm has stated to the regulator it intends to make.
 - D. minimum level of gross profit the firm has stated to the regulator it intends to make.
60. Jane works for a bank as a single-tied restricted adviser offering only basic advice. She is therefore able to advise upon
- A. all products offered by any business within the banking group.
 - B. cash ISAs only.
 - C. non-regulated banking products only.
 - D. stakeholder products only.

61. Under the Financial Conduct Authority's (FCA) risk-based approach to regulation, the level of supervision afforded to an authorised firm is determined by
- A. an objective pre-determined formula.
 - B. the number of employees of the firm.
 - C. the number of customers of the firm.
 - D. the risk the firm poses to the FCA's operational objectives.
62. An authorised firm can only provide independent financial advice if it recommends products
- A. based upon a comprehensive and fair analysis of the market.
 - B. on the cheapest possible terms to its clients.
 - C. selected from a limited range of providers.
 - D. that have been pre-approved by the regulator.
63. Financial advisers are required to keep records relating to a stakeholder pension sale for what **minimum** period?
- A. Three years.
 - B. Five years.
 - C. Six years.
 - D. Indefinitely.
64. Under the certification regime, the responsibility for certifying a new financial adviser within an authorised firm lies with the
- A. adviser only.
 - B. firm only.
 - C. adviser and firm jointly.
 - D. Financial Conduct Authority.
65. For how long **must** an authorised firm keep records of every pension opt-out it arranges?
- A. Until the policyholder's normal retirement age.
 - B. One year only.
 - C. Six years only.
 - D. Indefinitely.
66. Financial promotions relating to which product(s), if any, **must** adhere to the fair, clear and not misleading requirements?
- A. None.
 - B. All regulated products.
 - C. Investment products only.
 - D. Pure protection products only.

67. An authorised firm advises on ISA products only. For what **minimum** period, if any, **must** the firm's training and competence records be retained?
- A. For the duration of the firm's authorisation.
 - B. 3 years.
 - C. 5 years.
 - D. They do not have to be retained.
68. Within what **maximum** period of joining an authorised firm **must** a new financial adviser attain the appropriate examination requirements?
- A. 12 months.
 - B. 24 months.
 - C. 30 months.
 - D. 48 months.
69. An authorised firm is advising a retail client on a critical illness insurance policy. Responsibility for providing the key features illustration lies with the
- A. Association of British Insurers.
 - B. authorised firm.
 - C. Financial Conduct Authority.
 - D. product provider.
70. What is the **latest** stage at which a financial adviser **must** specify to his customer the scope of his advice?
- A. In good time before the recommendation.
 - B. Prior to the meeting.
 - C. On issue of a suitability report.
 - D. At the beginning of the cancellation period.
71. An authorised firm advises a client to invest in a collective fund. How **must** the firm disclose its remuneration?
- A. In writing only
 - B. Orally only.
 - C. Both orally and in writing.
 - D. It is at the firm's discretion.
72. The **minimum** cancellation period for a purchased life annuity is
- A. 7 days.
 - B. 14 days.
 - C. 30 days.
 - D. 90 days.

73. Alan is a single-tied restricted adviser of a life assurance company. If a client requires a product **NOT** offered by his company, he **must**
- A. advise the client he does not have a suitable product.
 - B. recommend another company's product on an execution-only basis.
 - C. recommend the best available product offered by the company he works for.
 - D. source a suitable product from another company.
74. The process of collecting relevant financial information from a potential client is known as
- A. client categorisation.
 - B. know your customer.
 - C. suitability reporting.
 - D. personal recommendation.
75. Which organisation regulates the provision of mortgage advice?
- A. The Bank of England.
 - B. The Council of Mortgage Lenders.
 - C. The Financial Conduct Authority.
 - D. UK Finance.
76. When **must** a key features document be first made available to a retail client in the sales process?
- A. Before the adviser is paid commission or receives remuneration for the sale.
 - B. Before the application form is completed.
 - C. Within 14 days of the application being accepted.
 - D. Once the contract has concluded.
77. In respect of an execution-only transaction, a financial adviser
- A. does not need to retain the suitability report.
 - B. is not required to disclose his remuneration.
 - C. must ensure alternative products have been discussed.
 - D. should ensure that the transaction is completed as instructed.
78. For how long **must** an authorised firm keep the records of a financial promotion relating to a unit trust?
- A. Three years.
 - B. Six years.
 - C. Seven years.
 - D. Indefinitely.
79. The **principal** purpose of a suitability report is to
- A. explain what products the adviser is able to advise on.
 - B. explain why the transaction was recommended to the customer.
 - C. give details of the remuneration the adviser will receive on the transaction.
 - D. give details of the cancellation rights which apply to the transaction.

80. A client has told his financial adviser that he wishes to reduce his level of investor protection because of his knowledge and understanding of investments. The adviser will therefore categorise the client as
- A. an elective retail client.
 - B. an elective professional client.
 - C. a per se professional client.
 - D. an execution-only client.
81. A retail client **must** be informed of his right to cancel a contract
- A. within five working days of the date of the contract.
 - B. in good time before being bound by the contract.
 - C. in good time before receiving the cancellation notice for the contract.
 - D. no later than the point he receives the key features illustration.
82. An authorised firm is permitted to hold client money. In order to comply with client money rules, the firm **must**
- A. act as counter-signatory to the account with the client.
 - B. hold client money in a separate bank account to that of the firm.
 - C. reconcile the client money balance at least every 30 days.
 - D. pay an interest rate at least equivalent to the Bank of England base rate.
83. Under the current Money Laundering Regulations, tipping-off occurs when a
- A. person who is suspected of money laundering is informed of this suspicion.
 - B. report of a money laundering suspicion is made to an authorised firm's Money Laundering Reporting Officer.
 - C. authorised firm's Money Laundering Reporting Officer reports a money laundering suspicion to the police.
 - D. authorised firm's Money Laundering Reporting Officer reports a money laundering suspicion to the Joint Money Laundering Steering Group.
84. To comply with the Financial Conduct Authority's requirements, an employee has recently undergone a training session on money laundering. In what circumstances, if any, **must** details of this training be recorded by the employee's firm?
- A. If the training session lasted for more than an hour only.
 - B. If the employee is a material risk taker only.
 - C. If the employee is not yet deemed competent only.
 - D. In all circumstances.
85. When is a Council Tax bill acceptable as a valid proof of address?
- A. If it is accompanied by proof of payment.
 - B. If it is signed and dated by a current council officer.
 - C. If it is valid for the current tax year.
 - D. It is always acceptable.

86. Under the current Money Laundering Regulations, records relating to client identification in connection with investment business **must** be kept for a **minimum** period of
- A. four years.
 - B. five years.
 - C. six years.
 - D. seven years.
87. Which organisation is responsible for dealing with enforcement action of any breaches of the current Money Laundering Regulations by an authorised firm?
- A. The Financial Conduct Authority.
 - B. The Information Commissioner's Office.
 - C. The Joint Money Laundering Steering Group.
 - D. The National Crime Agency.
88. In respect of money laundering, the introduction of large sums of illicit cash into the financial system is known as
- A. filtering.
 - B. integration.
 - C. layering.
 - D. placement.
89. The Financial Ombudsman Service has upheld a complaint against a financial adviser employed by an authorised firm. On whom is this decision binding?
- A. The adviser only.
 - B. The client only.
 - C. The firm only.
 - D. The firm and the client.
90. A client wishes to make a complaint regarding the actions of an employed financial adviser. The complaint should **normally** be directed in the first instance to the
- A. adviser's employer.
 - B. Financial Conduct Authority.
 - C. Financial Ombudsman Service.
 - D. Financial Services Compensation Scheme.
91. A retail client has £100,000 in a bank account. If a valid claim is made under the Financial Services Compensation Scheme, what is the **maximum** standard compensation payable?
- A. £50,000
 - B. £75,000
 - C. £85,000
 - D. £100,000

92. Data protection legislation covers data held in respect of
- A. Government agencies.
 - B. individuals.
 - C. private limited companies.
 - D. public limited companies.
93. Peter and John are civil partners and have applied for a joint life assurance policy. Under the Access to Medical Reports Act 1988, what right of access exists with regard to their medical reports?
- A. Peter and John can access their own medical reports.
 - B. The life company can access both medical reports without consent.
 - C. Peter's general practitioner can access John's medical report and vice versa.
 - D. John can access Peter's medical report and vice versa.
94. A statement explaining an individual's rights under the Access to Medical Reports Act 1988 **must** be given in the
- A. financial adviser's client agreement.
 - B. financial adviser's suitability report.
 - C. provider's application form.
 - D. provider's policy document.
95. Under data protection legislation, what is the **maximum** period that a life company has to respond to a data subject access request from a policyholder?
- A. 21 days.
 - B. 1 month.
 - C. 40 days.
 - D. 2 months.
96. Under data protection legislation, information relating to a person's medical history is defined as what type of personal data?
- A. Confidential.
 - B. Restricted.
 - C. Special.
 - D. Specific.
97. Which body has the authority to appoint a replacement pension scheme trustee if the previous trustee was removed due to a serious breach of duties?
- A. The Pensions Ombudsman.
 - B. The Pension Protection Fund.
 - C. The Pensions Regulator.
 - D. The Pension Service.

98. A financial adviser wishing to offer debt restructuring will need to obtain a consumer credit licence from which organisation?
- A. The Bank of England.
 - B. The Council of Mortgage Lenders.
 - C. The Department for Business, Energy and Industrial Strategy.
 - D. The Financial Conduct Authority.
99. A **key** characteristic of stakeholder products is a cap on their
- A. charges.
 - B. performance.
 - C. maturity ages.
 - D. range of funds.
100. Under the Equality Act 2010, it is illegal to discriminate against an individual on the basis of their
- A. age.
 - B. level of earnings.
 - C. postcode.
 - D. state of health.

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:	10%
Lifetime limit	£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
Learning Outcome 1			Learning Outcome 7			Learning Outcome 12		
1	D	1.1	36	B	7.1	69	B	12.1
2	D	1.3	37	D	7.5	70	A	12.1
3	D	1.2	38	D	7.4	71	A	12.1
4	B	1.3	39	C	7.3	72	C	12.1
5	B	1.1	40	D	7.1	73	A	12.1
5 Questions			41	B	7.6	74	B	12.1
			42	A	7.1	75	C	12.1
Learning Outcome 2			43	B	7.2	76	B	12.1
6	B	2.1	44	D	7.6	77	D	12.1
7	A	2.1	9 Questions			78	A	12.1
8	A	2.1				79	B	12.1
9	B	2.1	Learning Outcome 8			80	B	12.1
10	C	2.1	45	A	8.2	81	B	12.1
11	D	2.1	46	B	8.1	82	B	12.1
6 Questions			47	A	8.1	14 Questions		
			48	B	8.2			
Learning Outcome 3			4 Questions			Learning Outcome 13		
12	C	3.1				83	A	13.1
13	A	3.1	Learning Outcome 9			84	D	13.1
14	A	3.1	49	A	9.2	85	C	13.1
15	A	3.1	50	C	9.2	86	B	13.1
16	B	3.1	51	C	9.1	87	A	13.1
5 Questions			52	A	9.2	88	D	13.1
			53	A	9.1	6 Questions		
Learning Outcome 4			54	B	9.2			
17	D	4.1	55	B	9.2	Learning Outcome 14		
18	A	4.1	7 Questions			89	C	14.1
19	A	4.1				90	A	14.1
20	C	4.1	Learning Outcome 10			91	C	14.1
21	A	4.1	56	B	10.1	3 Questions		
22	C	4.1	57	A	10.1			
6 Questions			58	C	10.2	Learning Outcome 15		
			59	A	10.1	92	B	15.1
Learning Outcome 5			60	D	10.2	93	A	15.1
23	C	5.1	61	D	10.1	94	C	15.1
24	D	5.1	6 Questions			95	B	15.1
25	C	5.1				96	C	15.1
26	A	5.1	Learning Outcome 11			5 Questions		
27	A	5.1	62	A	11.1			
28	A	5.2	63	B	11.1	Learning Outcome 16		
6 Questions			64	B	11.1	97	C	16.1
			65	D	11.1	98	D	16.1
Learning Outcome 6			66	B	11.1	99	A	16.1
29	B	6.1	67	B	11.1	100	A	16.1
30	A	6.2	68	D	11.1	4 Questions		
31	A	6.3	7 Questions					
32	C	6.2						
33	D	6.2						
34	B	6.2						
35	A	6.1						
7 Questions								