Chartered Insurance Institute

J12

Securities advice and dealing

Based on the 2021/2022 syllabus
examined until 31 August 2022

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Contents

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Introduction

This examination guide has been produced by the Qualifications and Assessment 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 **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 2021 until 31 August 2022.

Candidates will be examined on the basis of English law and practice in the tax year 2021/2022 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 2021 to 31 August 2022.
- Candidates will be examined on the basis of English law and practice in the tax year 2021/2022 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

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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 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. 3rd ed. Jonathan Herbst. London: Sweet and Maxwell, 2018.

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

The Financial Times guide to investing. 4th edition. Glen Arnold. FT Prentice Hall, 2020.

Understanding commercial property investment: a guide for financial advisers. Investment Property Forum, June 2015. Available online via *www.ipf.org.uk/publications/understanding-uk-commercial-property-investments.html*.

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.

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*.

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

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

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

Reference materials
International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2013.*

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.

SECTION A

1. A company's credit worthiness has just been upgraded after an improved profit forecast from City analysts. There is **likely** to be an increase in
A. both its loan stock's market value and liquidity.
B. both its loan stock's nominal value and liquidity.
C. its loan stock's market value only.
D. the value of the company's secured debt only.

2. Were some Treasury 3% 2028-2030 stock to be issued, it will be redeemed
A. in annual amounts between 2028 and 2030.
B. in biannual amounts between 2028 and 2030.
C. sometime between 2028 and 2030, at the Government's choice.
D. sometime between 2028 and 2030, at the holder's choice.

3. An investment manager paid £100,000 for Treasury 2.75% 2021 gilts when trading at a clean price of £105.25. What will be the annual interest received?
A. £2,612.83
B. £2,750.00
C. £2,894.36
D. £3,454.98

4. Where the gilts market operates on a normal yield curve basis, an investor should be aware that
A. investors are demanding higher yields for longer-term gilts.
B. long-term yields are lower than short-term yields.
C. market pessimism about future inflation will cause the yield curve to fall.
D. the yield curve is a falling negative curve.

5. Companies X and Y have corporate bonds in issue with modified durations of 7 and 9 respectively. If interest rates were to rise by 0.5%, what impact is this **most likely** to have on these two corporate bonds?
A. The running yield of bond X is likely to rise by more as a percentage of its price than the running yield of bond Y.
B. The running yield of bond Y is likely to fall by more as a percentage of its price than the running yield of bond X.
C. The price of bond X is likely to rise by more as a percentage of its price than that of the price of bond Y.
D. The price of bond Y is likely to fall by more as a percentage of its price than that of the price of bond X.

6. Companies X and Y are intending to raise capital by issuing corporate bonds. Company X is classified by Moody's as non-investment grade and company Y as investment grade. In comparing the prospective coupons and yields of these corporate bonds, it can be deduced that on commencement of trading

A. bond X is likely to have a higher running yield than bond Y.
B. bond X is likely to have the same gross redemption yield as bond Y.
C. bond Y is likely to have a higher gross redemption yield than bond X.
D. bond Y is likely to pay a higher six-monthly income based on the same nominal value as bond X.

7. A sovereign bond's Standard & Poor's credit rating was changed from BBB to BB. This indicates that the issuing country is considered to have the potential for

A. greater economic growth.
B. a reduction in its rate of inflation.
C. an increased risk of default.
D. reducing interest yield on its bonds.

8. When there is a 5:1 split of a company's shares, ignoring other factors, what should theoretically happen to its share price and market capitalisation?

A. Its share price will increase by one fifth of its current price and its market capitalisation will remain unchanged.
B. Its share price will increase by one fifth of its current price and its market capitalisation will increase.
C. Its share price will reduce to one fifth of its pre-split price and its market capitalisation will reduce.
D. Its share price will reduce to one fifth of its pre-split price and its market capitalisation will remain unchanged.

9. An investment manager holds 100,000 ordinary £1 shares issued partly paid at 75p. This means that a sum of £25,000

A. can be paid out in the form of tax-free dividends.
B. is payable to the company on demand.
C. represents the total amount of paid-up share capital.
D. will be shown as share reserves on the company's balance sheet.

10. The price of a warrant is 37p, the underlying share price is 148p and the exercise price is 162p. What is the warrant conversion premium?

A. 14.20%
B. 22.83%
C. 25.00%
D. 34.46%

11. A company's share capital together with the reserves are **normally** understood to represent the company's
A. capital employed.
B. liabilities.
C. shareholders' funds.
D. tangible and intangible assets.

12. A company has earnings per share of 20p, dividend per share of 5p and a share price of 300p. When considering the company's valuation measures, it can be deduced that the company has a
A. dividend cover of 4.
B. dividend yield of 1.5%.
C. payout ratio of 15%.
D. price earnings ratio of 20.

13. If an investment manager aims to limit the level of discount at which his investment trust is trading, he is **likely** to
A. implement a buy-back scheme.
B. implement a share consolidation.
C. implement a share split.
D. offer a rights issue.

14. A company has offered a rights issue to its investors for its listed shares. This is regarded as being a
A. mandatory corporate action.
B. mandatory corporate action with options.
C. voluntary corporate action.
D. voluntary corporate action with options.

15. A listed company has just announced a 1:4 bonus issue. Sarah currently owns 20,000 shares worth £40,000 in total. She should be aware that after the issue, ignoring market movements, she will
A. hold only 5,000 shares in the company worth £40,000 in total.
B. hold 25,000 shares in the company worth £40,000 in total.
C. hold 25,000 shares in the company worth £45,000 in total.
D. need to invest £5,000 to receive the bonus shares.

16. An outright forward foreign exchange transaction is one that is settled on a
A. T+1 basis.
B. T+2 basis.
C. pre-agreed date that is at least a minimum of two business days after the deal date.
D. pre-agreed date that is at least a minimum of three business days after the deal date.

17. Where an investment manager is considering including American Depositary Receipts (ADRs) in a portfolio, she should be aware that ADRs
A. are only traded on the New York Stock Exchange.
B. are those issued outside the US.
C. enable non-US companies to attract US investors when they want to raise funds.
D. enable US companies to attract non-US investors when they want to raise funds.

18. What is the buyer of a covered put warrant purchasing with his premium?
A. An obligation to buy an underlying asset at a specified price by a predetermined date.
B. An obligation to sell an underlying asset at a specified price by a predetermined date.
C. The right to buy an underlying asset at a specified price by a predetermined date.
D. The right to sell an underlying asset at a specified price by a predetermined date.

19. An investment manager holds some deposit-based structured products and some investment-based structured products within a client's portfolio. On maturity of these products, which tax liabilities would **usually** arise?
A. Capital Gains Tax with regard to both products.
B. Capital Gains Tax with regard to the deposit-based products, Income Tax with regard to the investment-based products.
C. Income Tax with regard to both products.
D. Income Tax with regard to the deposit-based products, Capital Gains Tax with regard to the investment-based products.

20. The price of a warrant is 140p and the associated share price is 160p. The exercise price is 110p. What is the warrant's gearing ratio?
A. 0.79
B. 0.88
C. 1.14
D. 1.27

21. A hedge fund manager has purchased put options, whilst an institutional investor has purchased a short contract for difference. With regard to these purchases
A. both the hedge fund manager and the institutional investor could be hedging their exposure to equities.
B. both the hedge fund manager and the institutional investor could be seeking to avoid leveraging.
C. only the hedge fund manager owns the underlying equity.
D. only the institutional investor owns the underlying equity.

22. An investment trust has a net asset value per share of £2.50 with a share price of £3.00. It is trading at a
A. discount of 16.66%.
B. discount of 20%.
C. premium of 16.66%.
D. premium of 20%.

23. With regard to HM Revenue & Customs, how does an investment manager account for the gains on the underlying investments, if at all, within an authorised UK equity open-ended investment company?
A. All gains are exempt from tax.
B. Realised gains are subject to Capital Gains Tax.
C. Realised gains are subject to Corporation Tax.
D. Unrealised gains are subject to Corporation Tax.

24. A Real Estate Investment Trust has property rental income of £2,500,000. In order to gain fully from the tax benefits, what **minimum** amount **must** be distributed?
A. £1,250,000
B. £1,875,000
C. £2,250,000
D. £2,500,000

25. An investment manager wants to purchase an Exchange Traded Fund which tracks the FTSE 100 Index, with the lowest tracking error. The established tracking method that he is **most likely** to adopt is
A. full replication.
B. optimisation.
C. stratified sampling.
D. synthetic replication.

26. An investment company issuing corporate bonds is **likely** to be doing this **primarily** to obtain the potential benefits from
A. factoring.
B. gearing.
C. hedging.
D. pooling.

27. An investment manager is considering the purchase of an open-ended investment company (OEIC). With regard to the underlying structure, he should be aware that OEICs
A. are established under the Companies Act.
B. are required to have an authorised corporate director and a depositary from commencement.
C. have a fixed number of shares that cannot be increased.
D. will always be set up on a single fund basis.

28. The zero dividend preference shares of a split-capital investment trust have an asset cover figure of 1.42. The income shares have a current gross dividend of 7p. If the trust has a planned wind-up date in five years' time, it can be deduced that
A. the current price of the zeros will have to rise by 42% to repay the share class at redemption.
B. the dividend is covered six times.
C. the hurdle rate is 7% per annum.
D. there is 42% more capital at present than is required to repay the zeros at redemption.

29. A corporate bond will redeem in exactly 5 years' time for £100 nominal and has a current price of £98.50. If it has a coupon of 2.6%, what is its gross redemption yield using the simplified method?
A. 2.34%
B. 2.64%
C. 2.94%
D. 4.14%

30. Zak tends to invest in companies whose shares have already undergone significant price increases, whereas Anna tends towards companies that are out of favour. This shows that with regard to investment management styles
A. Anna's is growth at a reasonable price whereas Zak's is contrarian.
B. Anna's is value whereas Zak's is momentum.
C. Zak's is contrarian whereas Anna's is momentum.
D. Zak's is value whereas Anna's is growth at a reasonable price.

31. A portfolio investment manager is holding bonds to meet specific future liabilities that arise in 10 years' time. 50% of the bonds have a Macaulay duration of 5 years and 50% of 15 years. This suggests that the investment strategy being pursued is
A. balanced.
B. barbell.
C. cash matching.
D. duration-based immunisation.

32. An exchange traded fund using synthetic replication effectively outsources responsibility for rebalancing to
A. a counterparty.
B. a fund manager.
C. the investor.
D. a market maker.

33. When an investment is a combination of a zero coupon bond and derivatives, what type of investment is this **likely** to be?
A. FTSE 100 tracker investment trust.
B. Managed unit trust.
C. Retail structured product.
D. UK growth open-ended investment company.

34. Ernie holds investments which do **NOT** permit the take up of any rights issues on offer. The investments **must** therefore be
A. American Depositary Receipts or investment trusts.
B. Global Depositary Receipts or investment trusts.
C. American Depositary Receipts or Global Depositary Receipts.
D. investment trusts or preference shares.

35. An investment manager who owns both US Treasury notes and US Treasury bonds should be aware that
A. only Treasury bonds are inflation protected.
B. only Treasury bonds bear a coupon.
C. Treasury notes have higher coupons than Treasury bonds.
D. Treasury notes have shorter periods to maturity than Treasury bonds.

36. A company is being wound up in accordance with the Insolvency Act 1986. In terms of debt repayment who is paid first?
A. Ordinary shareholders.
B. Preference shareholders.
C. Preferential creditors.
D. Secured creditors.

37. When purchasing shares in an open-ended investment company, ignoring the initial charge, the price **usually** paid by the purchaser will be based upon the
A. bid price minus any transaction charges and dilution levy.
B. offer price minus any transaction charges and dilution levy.
C. single price determined by the proceeds that would be raised were the assets sold on that day.
D. single price using the mid market price of the underlying investments.

38. A company that has corporate bonds in issue has just had its credit rating upgraded. As a consequence the
A. company is likely to issue fewer corporate bonds in the short to medium term.
B. coupon of any new bonds it issues is likely to be lower than current issues.
C. price of the existing bonds is likely to fall so it is in line with any new issues.
D. running yield of the existing bonds is likely to rise.

39. An investment manager holds some American-style and European-style options. Both have an expiry date of 10 September 2022. When may they be exercised?
A. The American-style options may be exercised at any time including 10 September 2022 whereas the European-style options may be exercised on 10 September 2022 only.
B. The European-style options may be exercised only on certain specified dates each month, including 10 September 2022, whereas the American-style options may be exercised on any date, excluding 10 September 2022.
C. They may both be exercised on 10 September 2022 only.
D. They may both be exercised at any time up to and including 10 September 2022.

40. A fund manager stipulated that he wanted at least 200p per share for his complete holding of 1,000,000 shares in company Z. Although there were offers of 220p per share, no shares were sold. This was because his order was
A. an execute and eliminate order.
B. a fill or kill order.
C. an iceberg order.
D. a stop-loss order.

41. What should investment managers of gilt funds be aware of regarding gilt auctions through the Debt Management Office (DMO)?
A. Direct competitive bids may be made by Gilt-Edged Market Makers only.
B. Direct non-competitive bids may be made by Gilt-Edged Market Makers only.
C. Direct competitive bids and non-competitive bids may be made by the DMO's Approved Group members.
D. Direct non-competitive bids may be made by any firm authorised by the Financial Conduct Authority.

42. A firm trades in a market classed as a dark pool. This indicates that transactions will
A. be small-value trades at high-trading volume.
B. incur a hidden layer of regulation.
C. lack any pre-trade transparency.
D. operate as an alternative to iceberg orders.

43. In respect of the relationship between primary and secondary equity markets, investors should be aware that
A. without the primary market, investors would be reluctant to subscribe to new issues in the secondary market.
B. without the secondary market, investors would be reluctant to subscribe to new issues in the primary market.
C. regardless of the primary market, the secondary market would still be able to issue a stream of quality new stock.
D. regardless of the secondary market, the primary market would still be able to issue a stream of quality new stock.

44. How do the Dow Jones Index and the Standard & Poor's (S&P) 500 Index compare with regard to weighting?
A. Only the Dow Jones Index is market capitalisation weighted.
B. Only the S&P 500 Index is price weighted.
C. The S&P 500 Index is market capitalisation weighted and the Dow Jones Index is price weighted.
D. The S&P 500 Index is price weighted and the Dow Jones Index is market capitalisation weighted.

45. A company has completed trades on an exchange on both open-outcry and electronic bases. This exchange was the
A. Japan Securities Depository Centre.
B. NASDAQ.
C. New York Stock Exchange.
D. Tokyo Stock Exchange.

46. A company listed on the Standard & Poor's 500 Index and the FTSE 100 Index under a dual listing will
A. have a single share price for all its shares denominated in the local currency.
B. operate as a single operating business, but retain separate legal identities and stock exchange listings where its prices will always reflect the underlying assets in the host country.
C. operate as a single operating business, but retain separate legal identities and stock exchange listings where its prices will be determined solely by the individual markets.
D. operate as one legal entity with its own individual board of directors and shareholders under the same corporate name only.

47. In accordance with the UK Corporate Governance Code, with what **minimum** frequency **must** directors of FTSE 350 companies be re-elected?
A. Every year.
B. Every two years.
C. Every three years.
D. Every five years.

48. New shares are **most commonly** issued as a result of a listing under which type of initial public offering?
A. Introductions.
B. Offer for sale.
C. Offer for subscription.
D. Placings.

49. With regard to audited historical information, how do premium stock market listings differ from standard stock market listings, if at all?
A. Both premium and standard listings must have the information for at least three years.
B. Only premium listings must have the information for at least three years.
C. Only standard listings must have the information for at least three years.
D. Standard listings must have the information for at least three years and premium listings for at least five years.

50. The Stock Exchange Electronic Trading System (SETS) displayed the bid price of a company's shares, with a volume of 200,000 shares at a price of 551p and a volume of 100,000 shares at a price of 549p. An execute and eliminate order was to sell 300,000 shares at 550p. What trade took place?
A. 200,000 shares were sold, the remaining portion of the order being held in the system for a pre-determined period.
B. 200,000 shares were sold, the remaining portion of the order being cancelled.
C. All the shares were immediately sold, average price being above 550p.
D. The whole order was cancelled without any sale.

51. Claude is front running with regard to the shares in a particular listed company. This means that he has
A. advised his clients to purchase shares in that company ahead of information being made public that is likely to increase the share price.
B. personally purchased shares in that company and subsequently encouraged his clients to purchase shares in the same company, enabling him to sell his shares at a profit.
C. purchased shares in that company on behalf of clients prior to receiving the clients' authority.
D. sold his clients' shares in that company before information has been released to the public that will cause the share price to fall.

52. When comparing the New York Stock Exchange (NYSE) and the Tokyo Stock Exchange (TSE), an investment manager should be aware that
A. only the NYSE uses a continuous auction system of trading.
B. both the NYSE and TSE use a continuous auction system of trading.
C. only the TSE still uses market makers for trading.
D. both the NYSE and TSE still use market makers for trading.

53. Ben conducts his share dealing through a stockbroking firm which uses a nominee company to hold his shares. What is the position regarding ownership of the shares?
A. Ben is the beneficial owner and the nominee company is the legal owner only.
B. Ben is the beneficial owner and the nominee company and stockbroking firm are joint legal owners.
C. The nominee company is both the beneficial owner and the legal owner.
D. The stockbroking firm and Ben are joint legal owners and the nominee company and Ben are joint beneficial owners.

54. An investment manager purchased US equities and UK corporate bonds on the London Stock Exchange on Wednesday. If standard procedures apply and it is a normal working week, settlements will take place on
A. Thursday for both the US equities and the UK corporate bonds.
B. Friday for both the US equities and the UK corporate bonds.
C. Thursday for the US equities and Friday for the UK corporate bonds.
D. Thursday for the UK corporate bonds and Friday for the US equities.

55. An investment manager has just purchased £100,000 of ordinary shares in an investment trust company listed on the London Stock Exchange and bought £50,000 of AIM listed shares. He has also sold £150,000 of ordinary shares in a FTSE 100 company. These are all paperless transactions. How much Stamp Duty Reserve Tax was he liable to pay?
A. Nil.
B. £250
C. £500
D. £750

56. When a firm has lent shares to a borrower, both parties should be aware that during the period of the loan

A. legal title remains with the lender and the lender continues to have voting rights.

B. legal title is with the borrower, but the agreement may permit the lender to recall the voting rights.

C. it is not permissible for collateral to be provided by the borrower to the lender as safeguard.

D. it is not possible for the lender to protect a right to receive any dividends during that period.

57. The latest sector research on pharmaceuticals companies shows the average price earnings ratio to be 100, whereas that of utilities companies is 20. What can be reasonably inferred?

A. Although the percentage dividend paid by utilities is higher than pharmaceuticals, the dividend cover of utilities is lower than pharmaceuticals.

B. Company growth prospects are perceived by the market to be greater in pharmaceuticals than in utilities.

C. Company dividends, as a percentage of share price, are perceived by the market to be increasing more rapidly with utilities than pharmaceuticals.

D. Current dividends being paid are five times higher from pharmaceuticals compared with utilities.

58. Katherine is studying share performance statistics and charts for a particular company whilst Max is studying the management skills and competitive position in the marketplace for another company. What investment approaches are they **most likely** using?

A. Fundamental analysis for Katherine and technical analysis for Max.

B. Fundamental analysis for Katherine and top-down for Max.

C. Technical analysis for both Katherine and Max.

D. Technical analysis for Katherine and fundamental analysis for Max.

59. An investment manager's fund has shares in a company that has just declared a rights issue. He should be aware that he will

A. be unable to sell those rights in the market, given that the shares are within an investment fund.

B. be unable to sell his existing shares in that company until he has taken up the rights or allowed them to lapse.

C. have the right to buy additional shares in that company at the same price as his original purchase.

D. have the right to buy additional shares in that company, the number of additional shares being determined by the number he currently holds.

60. A chart pattern showed a significant increase in volume for a share on a given date. However, this was viewed as a less relevant move than other similar recent increases in volume because the

A. company had recently declared a dividend.

B. market sector had entered a period of transition.

C. prices of competitor shares were regarded as having peaked.

D. price movement was much smaller on this occasion.

Section B begins on the next page

SECTION B

Amos has two separate discretionary share portfolios. Portfolio L is managed by Lucinda. Portfolio M is managed by Melissa. The managers provide him with various portfolio measures as follows

	Portfolio L	**Portfolio M**
Average annualized return	8%	6%
Annual risk-free rate	2%	2%
Alpha	-2.0	2.0
Beta	1.0	0.25
Sharpe ratio	2.0	6.0

The portfolios operate in the same market. Amos is concerned to learn how the portfolios are operating so that he has some idea of what risks he is now taking; hence he is wondering what the various measures indicate. The managers have been explaining.

61. Taking into account the portfolios' alphas, what, if anything, may be inferred regarding how the returns achieved so far by the two portfolios compare with the average market return for the period?
A. Both portfolios have outperformed the market.
B. Neither portfolio has outperformed the market.
C. Only portfolio L has outperformed the market.
D. Nothing can be properly inferred regarding the returns.

62. Considering solely M's beta and M's portfolio in relation to L's, if M's beta results continue unchanged, what is it reasonable for Amos to expect regarding future returns of his portfolios?
A. If the market rises by 8%, portfolio M is likely to rise by 10%.
B. If the market falls by 8%, portfolio M is likely to fall by 2%.
C. Portfolio L is likely to outperform portfolio M.
D. Portfolio L is likely to underperform portfolio M in volatile markets.

63. Amos is wondering what he can deduce about the approach and skills of his two portfolio managers. It is reasonable for him to infer that
A. Lucinda is holding fewer shares in portfolio L than Melissa is holding in her portfolio M.
B. Lucinda is trading more often than Melissa.
C. Melissa is probably adopting a more defensive approach than Lucinda.
D. Melissa is investing mainly in gilts.

64. Both managers have explained to Amos how the Sharpe ratio works. From their explanations, Amos should now be able to see that
A. portfolio L has a lower standard deviation than portfolio M.
B. portfolio L has achieved its returns with less volatility than portfolio M.
C. portfolio M has achieved its returns with less volatility than portfolio L.
D. portfolio M has been more volatile than portfolio L.

65. With regard to the standard deviations of the two portfolios, it can be inferred that, if both portfolios' future returns were 10% per annum, then within one standard deviation the

A. maximum return for portfolio L would have been 16%.

B. maximum return for portfolio M would have been 16%.

C. difference between the minimum returns of the portfolios would have been 233 basis points.

D. difference between the maximum returns of the portfolios would have been 400 basis points

Duke, a discretionary manager, recently bought the following two shares, X and Y, for his client, Ellie. The data is as below. Dealing costs and Stamp Duty may be ignored.

	X	Y
Type	Investment trust	Technology
Holdings	5,000 shares	4,000 shares
Purchase price	420p	695p
Current price	400p	727p
Current net asset value (NAV)	476p	Not known
Earnings per share	36p	50p
Dividend per share	12p	40p

Ellie is uncertain about the data provided, so Duke is offering some explanations.

66. When considering the dividend yield and dividend cover of Ellie's shares, Duke should point out that
A. Y's dividend cover is 1.25 compared with X's dividend cover of 3.
B. as Y's dividend yield is 5.5%, it is less sustainable than X's of 2.52%.
C. as X is an investment trust, a lower yield than Y is to be expected.
D. as X's NAV is higher than its share price, its yield is lower than it otherwise would be.

67. Ellie is confused by talk of a NAV that differs from a share price with regard to X. Duke could sensibly point out that
A. the NAV being higher than the share price accounts for how much greater the earnings per share are compared with the dividend per share.
B. the NAV shows the underlying value of X per share and it has increased by 5.00% since purchase.
C. X is trading at a 15.97% discount, so the share price is less than the price of the underlying assets as currently showing.
D. X is trading at a 19% discount showing that the market is undervaluing it.

68. Duke is explaining to Ellie the price earnings ratio (PE). He should point out that
A. the PE ratio difference between X and Y shows that market sentiment favours X over Y with regard to likely growth in share price.
B. the PE ratio difference between X and Y derives from the differences regarding dividend yield.
C. X's PE ratio is 13.22 and that relates its share price to its income stream.
D. Y's PE ratio is 14.54 and whether that should be deemed high or low depends on the PE ratios for that sector.

69. Company X is offering a dividend reinvestment plan (DRIP) and company Y is offering scrip dividends. Ellie does **NOT** need to take the income, but wonders what the difference is and the consequences. What should Duke point out, assuming current figures are used?
A. Regarding company X's DRIP, instead of receiving £600 cash, the £600 would be used to buy 150 newly-issued shares by the company.
B. Regarding company Y's scrip issue, instead of receiving £1,600, the £1,600 would be used to buy 220 additional shares from the market.
C. The DRIP offered by company X, if used, has no taxation benefit over accepting scrip dividends instead.
D. The scrip issue offered by company Y, if used, means that no Income Tax liability can arise.

70. Company Y has just announced a 1:4 rights issue at 492p. This means that theoretically, if all are taken up, the
A. ex-rights price will be 680p and, if Duke takes up the issue, the holding will increase to 5,000.
B. ex-rights price will be 680p and, if Duke takes up the issue, the holding will decrease to 3,000.
C. portfolio's holding will decrease in value, with each share having an ex-rights price of 492p.
D. portfolio's holding will not change in its current value but will consist of 20,000 shares at 170p per share.

Janet and John are a married couple in their fifties with two grown-up children. Janet, recently retired, has a secure indexed pension of £80,000 per annum and she also does some freelance work which averages £20,000 per annum. John will receive a pension in 10 years' time. He currently has no earnings and his total income by way of interest and dividends outside of his ISAs amounts to £2,000 per annum maximum. For income, he is content to rely on Janet. Their income readily exceeds their expenditures. Janet also owns, separately, an inherited portfolio, interest and dividends which fully use up her annual personal savings allowance and her dividend allowance. In summary

	Janet	John
Attitude to risk	Adventurous	Cautious, adverse to capital loss
Capital Gains Tax	Exemptions not used	Exemptions not used
Income Tax Status	Higher-rate taxpayer	Non-taxpayer

They already have mixed investments and cash

	Janet	John
Cash ISA's	£20,000	£20,000
Stocks and shares ISA's (all in mixed unit trusts)	£200,000	£100,000
Direct FTSE 100 shareholdings	£150,000 (10 different shares)	£80,000 (15 different shares)
Available cash to invest	£100,000	£100,000

The stocks and shares ISAs are managed on an advisory basis by a firm of financial advisers. Janet and John **usually** make full use of ISA allowances each year.

71. A **key** advantage in holding investments in stocks and shares ISAs rather than outside is that
A. for Janet, holding any equity unit trusts within her ISA saves her from an effective 32.5% tax charge on the dividends.
B. for John, holding any gilt unit trusts within his ISA secures an Income Tax saving which would otherwise be unavailable to him.
C. Janet would otherwise be liable to a 10% Capital Gains Tax charge, on any increase in the investments value, if held outside of her stocks and shares ISAs.
D. Janet and John may gift investments held within their ISAs to their children without any possibility of an Inheritance Tax liability arising.

72. With regard to Janet's and John's attitudes to risk
A. Janet's FTSE 100 shareholdings are better diversified than John's.
B. John's direct shareholdings shows that he is well diversified.
C. were Janet to spread her direct shareholdings to AIM companies, her risk would be reduced.
D. were John to change his direct shareholdings to gilts bought below par, that would be more in line with his cautious attitude to risk.

73. If Janet and John believe share prices will increase in the future, the available cash could sensibly be invested into

A. investment trusts for Janet rather than unit trusts because of their greater scope for gearing.
B. open-ended investment companies rather than unit trusts for both Janet and John because of their greater scope for gearing.
C. new issues of Venture Capital Trusts for John because of their being in accord with his risk profile.
D. Venture Capital Trusts already with stock market listing for Janet for the tax relief advantage when investing.

74. In view of their different attitudes to risk, regarding the £100,000 capital available by each for investment, considerations could sensibly be given by

A. Janet, to investing in new issues of Venture Capital Trusts.
B. John, to investing in gilts currently on sale above par.
C. Janet, to investing in fixed-interest gilts.
D. John, to investing in structured investment products with American barriers.

75. In view of their different taxation circumstances, it would be sensible for a financial adviser to point out that

A. Janet could transfer in specie some of her directly-held shareholdings directly to her ISA within the annual allowances.
B. John would currently secure an Income Tax benefit by holding any investment trusts within a ISA.
C. by realising any gains on her corporate bond unit trusts within the ISA, Janet avoids a possible 20% Capital Gains Tax liability that could arise if realising the gains outside the ISA.
D. John is currently liable to 10% Capital Gains Tax on all gains realised on disposal of unit trusts outside of his ISA.

INCOME TAX

RATES OF TAX	2021/2022
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 £37,700
Higher rate of 40%	£37,701 to £150,000
Additional rate of 45%	£150,001 and over

**For other income less than £17,570 only. The starting rate for savings is a maximum of £5,000.*

Dividend Allowance	£2,000
Dividend tax rates	
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%
Trusts	
Standard rate band	£1,000
Rate applicable to trusts	
- Dividends	38.1%
- other income	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) §	£12,570
Marriage Allowance	£1,260
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	£184
Upper Earnings Limit (UEL)	£967

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£184	£170**
NICs rate charged up to (per week)	£967	No limit
2% NIC charged on earnings over	£967	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 £184 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 £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 and £50,270. 2% on profits above £50,270.

CAPITAL GAINS TAX

TAX RATES	2021/2022
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

	2021/2022
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	2021/2022
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

	2021/2022
Standard rate	19%

VALUE ADDED TAX

	2021/2022
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 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.**
- **For purchases from 1 October 2021, 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

		2021/2022
Child Benefit	First child	£21.15
	Subsequent children	£14.00
	Guardian's allowance	£18.00
Basic State Pension	Single	£137.60
	Married	£275.20
the new State Pension	Single	£179.60
Pension Credit	Single person standard minimum guarantee	£177.10
	Married couple standard minimum guarantee	£270.30
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

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	A	1.1	40	B	2.1	61	B	6.1
2	C	1.1	41	A	2.1	62	B	6.1
3	A	1.1	42	C	2.1	63	C	6.1
4	A	1.1	43	B	2.2	64	C	6.1
5	D	1.1	44	C	2.1	65	C	6.1
6	A	1.1	45	C	2.1	66	A	6.1
7	C	1.1	46	C	2.2	67	C	6.1
8	D	1.2	47	A	2.2	68	D	6.1
9	B	1.2	48	B	2.2	69	C	6.1
10	D	1.3	49	B	2.2	70	A	6.1
11	C	1.2	10 Questions			71	A	6.1
12	A	1.2				72	D	6.1
13	A	1.3	Learning Outcome 3			73	A	6.1
14	B	1.2	50	B	3.1	74	A	6.1
15	B	1.2	51	B	3.1	75	C	6.1
16	D	1.3	52	B	3.1	15 Questions		
17	C	1.2	3 Questions					
18	D	1.3						
19	D	1.3	Learning Outcome 4					
20	C	1.3	53	A	4.1			
21	A	1.3	54	B	4.1			
22	D	1.3	55	C	4.1			
23	A	1.3	56	B	4.1			
24	C	1.3	4 Questions					
25	A	1.3						
26	B	1.3	Learning Outcome 5					
27	B	1.3	57	B	5.1			
28	D	1.3	58	D	5.1			
29	C	1.1	59	D	5.1			
30	B	1.3	60	D	5.1			
31	B	1.3	4 Questions					
32	A	1.3						
33	C	1.3						
34	C	1.2						
35	D	1.1						
36	D	1.1						
37	D	1.3						
38	B	1.1						
39	A	1.3						
39 Questions								