



Chartered
Insurance
Institute

J11

Diploma in Financial Planning

Unit J11 – Wrap and Platform Services

October 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2019 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the question is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

J11 – Wrap and Platform Services

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

Note the assumed knowledge

For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

There are books specifically produced to support your studies that provide coverage of all the syllabus areas; however you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the structure of the examination

Assessment is by means of a two-hour written paper in two sections. All questions are compulsory:

Section A consists of six compulsory short answer questions, worth a total of 50 marks.

Section B consists of two essay questions worth a total of 60 marks. These questions require you to carry out a variety of tasks, usually based on the information provided.

Each question part will clearly show the maximum marks which can be earned.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the three questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates' should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs*, since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

Overall candidates scored fairly well on this paper.

The range of marks attained was similar to that of the April 2018 J11 sitting, with candidates scoring comparable marks overall.

The question paper tested core syllabus areas, but also gave the opportunity for candidates to demonstrate their knowledge of new subject areas not previously tested (such as MIFID II regulations). This did seem to catch some candidates off-guard and it was apparent that some had only really revised model answers from previous question papers.

This is a trend that candidates do need to break away from when structuring their revision as this will prevent higher marks being achieved. Candidates need to read the question(s) more carefully and really try to understand the requirements of the question, rather than taking the philosophy that answers from previous examination guides will get them through.

Questions 2, 3 and 4 were not well answered but this was countered by candidates scoring well on Section B of the paper (questions 7 and 8).

Question 6 provided the most accurate and comprehensive answers from candidates overall.

For the most part, it was positive to see that the exam techniques used by candidates was in line with guidance provided (following previous sittings of this exam). However, some candidates still do not provide bullet point answers, and this does hinder their ability to achieve higher marks on certain questions. The reason being is the time it takes to write length sentences far outweighs short, succinct bullet points.

Question 1

Candidates scored averagely on this question, with the majority of candidates scoring around half of the available marks.

Many candidates focussed too much on how the platform provider would attract new clients (most referring to "high net worth" clients), rather than relating their answers to the requirements of the question.

Question 2

This question tested a part of the syllabus that has not been tested before and would have required some wider reading. Very few candidates performed well here, most scoring only two or three marks.

Candidates were not able to reference certain key criteria of MIFID II, with many stating general features of other regulations (such as General Data Protection Regulation).

Given the prominence of MIFID II, and the requirements bestowed on platform providers, it was disappointing not to see better scores in this area.

Question 3

Candidates seemed to find difficulties with this question. There seemed to be a lack of knowledge, which may have been because candidates had not fully revised the syllabus content.

Candidates were not able to differentiate between Platform Software Providers and Platform Delivery providers with most candidates providing very vague answers.

Where candidates did pick up points, this was mainly around the provision of administration services (Platform Delivery) and also that software services/technology infrastructure being supplied (Platform Software) Developer.

Question 4

It was pleasing to see that candidates generally performed very well on part (a) of this question. Clearly it was an area of the syllabus that has been revised with many scoring maximum marks on this question part.

However, part (b) was not answered as well. Out of the available marks, those who were able to interpret the requirements of the question, generally picked up two marks (referencing fraud and also poor reconciliation being the most common).

Question 5

Candidates performed very well on this question, with the majority gaining half of the available marks or more.

Variations of this part of the syllabus have been tested before, with this particular question focusing on benefits to both the adviser and the client.

It was pleasing to see that candidates had more than adequate knowledge in this core area of the syllabus.

Question 6

This was the most consistently well answered question on the paper, with the majority of candidates achieving at least half marks.

The requirements of the question has been tested in previous papers and candidates seemed to have a solid grasp on benefits/drawbacks of the use of a single platform in an IFA business.

There was a consistency of marks scored between the benefits and drawbacks.

Question 7

Whilst candidates scored adequately in part (a) there was a trend towards providing generic due diligence points (its apparent from this that some had simply memorised previous model answers from question papers). Also, where candidates did not score well was because they did not link due diligence to the specific client bank described in the case study.

Better prepared candidates achieved marks from across all of those available.

It was a common theme for candidates to achieve around half of the available ten marks to part (b) of this question set. The question specifically relates to the benefits a platform brings to “annual reviews” with clients. Most were able to link this to a spread of the ten marks available, with some missing out on marks by listing due diligence points (which would have gained them marks in the part a).

In part (c) candidates scored adequately, most achieving three marks.

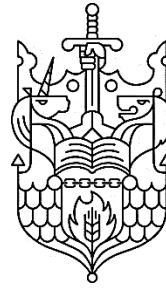
Question 8

Part (a) of this question targeted candidates ability to relate due diligence of the discretionary investment manager (DIM) and not due diligence on the platform itself. Too many candidates did not pick this requirement up and listed platform due diligence points.

Candidates scored fairly well here, but few achieved over half of the available twelve marks.

For part (b), candidate answers relating to the benefits of a DIM offering a rebalancing service were much better than the drawbacks listed.

In part (c) many candidates duplicated their answers from part (b) but most scored three or four marks.



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Unit J11 – Wrap and platform services

October 2018 examination

SPECIAL NOTICES

Candidates are expected to be aware of the FCA regulation and guidance regarding wraps and platforms.

All questions in this paper are based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise in the question, and should be answered accordingly.

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit J11 – Wrap and platform services

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of short answer questions and two essay questions carrying a total of 110 marks.
- Section A: 50 marks
- Section B: 60 marks
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- 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.
- Answer each question on a new page and leave six lines blank after each question part.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.

SECTION A

Attempt ALL questions

1. Describe the main challenges faced by a platform of launching a Direct-to-Consumer (D2C) proposition. (9)

2. Describe what actions a platform should take in order to facilitate compliance with the Markets in Financial Instruments Directive (MiFID II) regulations, when administering discretionary managed portfolios. (6)

3. (a) Describe briefly the role of a platform software developer. (5)
(b) Describe briefly the role of a platform delivery provider. (5)

4. (a) Describe the **five** key elements of client money processing activities that a platform must undertake. (5)
(b) State **four** potential risks to a client if the client money processing activities identified in **part (a)** above are not followed. (4)

5. State the benefits to a financial adviser and their clients of adviser charging being facilitated through a platform. (8)

6. State **four** benefits and **four** drawbacks to an authorised firm of independent financial advisers of using a single platform for all of its clients. (8)

Total marks available for this section: 50

SECTION B

Attempt ALL questions

7. An authorised advisory firm has recently purchased the client bank of a sole trader independent financial adviser who has retired. The client bank consists mainly of clients aged 55 and above, who are approaching and in retirement. These clients hold portfolios of collective funds held within various stocks and shares ISA and self-invested personal pension (SIPP) products, with an average portfolio value of £200,000.

The clients draw both natural and fixed levels of income on different frequencies, including capped and flexi-access drawdown from the SIPPs, based upon their individual needs. The retiring adviser did not use any platform and only reviewed the clients' portfolio on an occasional basis.

The authorised advisory firm already used two platforms for its existing clients but as a result of the purchase, the firm is looking to migrate the new client bank onto a new platform that specifically caters for the income needs of these clients. In addition, the firm wants to build an advice proposition around the needs of the client bank, focused upon annual reviews.

- (a) Identify the main areas of due diligence that the firm would perform on potential platforms, which are relevant to the needs of the client bank. **(15)**
- (b) State the main benefits to the firm of using a platform to conduct annual reviews for the newly-acquired client bank. **(10)**
- (c) Describe the taxation implications of one of the firm's clients taking a withdrawal from their platform SIPP, via uncrystallised fund pension lump sum (UFPLS). **(5)**

8. An independent financial adviser currently uses a platform to deliver the firm's investment proposition to its client base. The investment proposition is based around a number of model portfolios containing collective funds. The average client investment in the model portfolios is £120,000, split between growth and income strategies.

As part of its development, the firm wants to add a discretionary investment manager (DIM) service to its investment proposition, which would be managed by a third party investment manager. The firm intends to market this service to its higher net worth clients, to offer them greater investment choice. The service will likely be offered at a minimum level of £250,000.

The investment proposition will include a rebalancing service for the higher net worth clients and the firm is looking into the benefits and drawbacks of relying upon the DIM to provide this.

- (a) State **twelve** considerations an independent financial adviser should take into account when selecting a third party DIM service for use on a platform. **(12)**
- (b) State **six** benefits and **six** drawbacks to the firm of the DIM offering a rebalancing service to the client group on a platform. **(12)**
- (c) State **six** benefits, to the independent financial adviser, of outsourcing this client group's investments to a DIM for use on a platform. **(6)**

Total marks available for this section: 60

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

Candidates would have gained full marks for any nine of the following:

- Cost of funding and launching a second proposition/cost of marketing platform/growing assets under management.
- Conflict of interest.
- Lack of clients understanding of common investment terminology.
- Distinction between guidance and advice.
- Regulatory requirements/rules.
- Responsibility to treat customer fairly.
- Providing sufficient information so that investments are suitable for clients/appropriate funds.
- and for clients to be able to make informed decisions.
- Competition from established players (such as Hargreaves Lansdown).
- Differentiation from other providers.
- Ease of use/client access.
- In house/external technology.
- Tools.
- Increased client queries.

Model answer for Question 2

Candidates would have gained full marks for any six of the following:

- Disclose aggregated cost and charges.
- in both monetary and percentage terms.
- Generate quarterly client statements.
- Inform clients when the value of the client's portfolio depreciates by 10% Discretionary?
- within 24 hours of that loss occurring.
- Identify complex and non-complex funds.
- Identify the Target Market of funds/suitable funds.
- Obtain Legal Entity Identifier (LEI) from IFA firms where required.

Model answer for Question 3

(a) Platform Software Developers:

- Provides software services;
- and technology infrastructure;
- to Platform Delivery Providers/platform service provider either in-house or third party.
- Provides tools to enable the platform to operate and deliver services.
- Does not provide services direct to advisers or clients.

(b) Platform Delivery Provider:

- Operates the technical infrastructure of the Platform/services in place.
- Can provide key administration services to Platform Service Providers.
- Can manage the administration of investments/tax wrappers on the Platform.
- Can provide some/all of the investment administration management functions/custody in dealing.
- Platform Delivery usually provided by a third party company.

Model answer for Question 4

- (a)**
- Identification of client money or assets.
 - Segregation from the firm's money/safeguarding.
 - Regular reconciliation.
 - Hold client money account in Trust.
 - Reporting to the regulator.

(b) *Candidates would have gained full marks for any two of the following:*

- Mixing of client and company money makes it difficult to track and attribute money to the relevant client.
- Poor reconciliation of client monies means mistakes go unnoticed and systemic faults can go unaddressed.
- Not holding money in trust makes fraud easier to carry out.
- Poor reporting makes regulatory oversight harder and places client money at risk.

Model answer for Question 5

Candidates would have gained full marks for any eight of the following:

- Reduces administration complexity;
- and the likelihood of errors.
- Advisers can track the fees they expect.
- Forecast the firms cash flow position.
- All fees/transactions recorded online/easier reporting;
- fulfilling regulatory requirements around disclosure of adviser fees.
- Regular adviser fees will continue automatically once setup/ability to auto charge
- and completely transparent to the client/easier to understand.
- Adviser charges can be taken from product wrappers on platform/rather than a direct payment needed to be made to the adviser.
- Fee payment more tax efficient.

Model answer for Question 6

Candidates would have gained full marks for any four of the following:

Benefits

- Cost/time saving/less admin.
- Consolidated point of access/all clients' data in one place/single operating system.
- Consistent execution terms/service level agreement.
- Easier to deal with switches/rebalancing.
- Potentially more negotiating power.
- Less errors/staff training.

Candidates would have gained full marks for any four of the following:

Drawbacks

- Greater risk from platform outage (operational risk)/failure (institutional risk)/greater business risk.
- Independence compromised/shoe-horning/may not suit all clients.
- Reliance upon platform's tools/functionality.
- Impact of admin errors/mistakes magnified.
- May not offer all funds/products.
- May lag behind in technology developments.

Model answer for Question 7

Candidates would have gained full marks for any fifteen of the following:

- (a)
- Cost/charges/cost of making uncrystallised fund pension lump sum (UFPLS)/flexi access drawdown (FAD) payment.
 - Availability of *in specie*.
 - Ability to complete transfer without errors/delay.
 - Ability to maintain existing client income profiles/flexibility/natural income.
 - Experience with this type of client bank/demographic/product.
 - Ability to maintain previous adviser charge.
 - Any potential interruption to existing income withdrawals.
 - Financial strength/commitment to market.
 - Ability to support capped UFPLS/FAD payments.
 - Minimum withdrawal level.
 - Minimum cash balance.
 - Basis of encashment to meet withdrawals/pay charges.
 - Ability to make ad-hoc withdrawals.
 - Pre-funding availability.
 - Switching/re-balancing facilities.
 - Availability of lifetime cashflow/decumulation tool/other tools.
 - Suitability for each client.
 - Is platform re-platforming/has it re-platformed?
 - Range of suitable tax wrappers/funds.
 - Regulatory history/complaints/compensation.

(b) *Candidates would have gained full marks for any ten of the following:*

- Review capped drawdown withdrawals against maximum/limit.
- Rebalancing/switching.
- Lifetime cashflow/income projections.
- Justify adviser charge/proposition.
- Review attitude to risk/capacity for loss/risk profiling.
- Facilitation of a wide range of income options.
- Tools.
- Use unused product allowances/top up ISA/self-invested personal pension plan/Bed and pension.
- Help with review meeting/communication/reports/meeting notes/reduced admin.
- Demonstrate on-going suitability/compliance.
- Investment performance analysis.

(c) *Candidates would have gained full marks for any five of the following:*

UFPLS:

- Only 25% of the payment will be tax free.
- Must take 75% of the withdrawal as taxable pension income.
- Most likely emergency tax will apply to the first payment.
- Withdrawal will trigger Money Purchase Annual Allowance (MPAA).
- UFPLS can only be taken if the client has available Lifetime Allowance.

Model answer for Question 8

Candidates would have gained full marks for any twelve of the following:

- (a)
- DIM conflict of interest with platform.
 - Availability of DIM on chosen platform.
 - Past investment performance/track record.
 - Financial Conduct Authority (FCA) permissions of DIM.
 - History of complaints/sanctions by the regulator against the DIM/reputation/financial strength.
 - DIM's charges.
 - Quality of reporting and information provided by the DIM.
 - Can DIM proposition be supported on or off platform as well.
 - Range of solutions/portfolios/high risk funds.
 - Access of DIM to client details.
 - DIM investment mandate/process/philosophy/rebalancing frequency.
 - Suitable fund investments availability on chosen platform.
 - Basis of agreement/relationship.
 - Who is responsible for giving advice.
 - Tax consequences of using DIM.
 - Ensuring client suitability is satisfied.

(b) *Candidates would have gained full marks for any six of the following:*

Benefits

- Maintains portfolio with original/recommended asset allocation.
- De risks IFA firm.
- Maintains client attitude to risk/capacity for loss.
- Less administration/time/cost.
- Move profits to cash/maintain cash to fund short-term income requirement.
- Responsibility for portfolio changes incorporates DIM/no client agreement needed.
- Can add Alpha through tactical allocation changes.

Candidates would have gained full marks for any six of the following:

Drawbacks

- Loss of control.
- Timing of rebalancing/market timing.
- Basis of rebalancing (selling best fund/which wrapper to rebalance?)
- Rebalancing out of sync with client review dates.
- No potential to review suitability/re-issue suitability report/out of align client risk profile.
- Over-reliance on rebalancing.
- Potential Capital Gains Tax (CGT) liability/unnecessary CGT.

(c) *Candidates would have gained full marks for any six of the following:*

- Reduced cost.
- More time to spend with clients/reduced administration.
- Specialist management of client's portfolios.
- Detailed investment reporting.
- No need for a direct relationship between DIM and client.
- Helps an IFA to remain independent.
- Access to institutional share classes/wider choice.

October 2018 Examination – J11 Wrap and Platform Services	
Syllabus learning outcomes being examined	
1.	1. Explain the use of platforms in providing financial planning services.
2.	2. Explain the regulatory and legal context of platforms.
3.	4. Assess the appropriateness and operation of platforms in meeting client requirements.
4.	3. Explain the charging structures and costs for using platforms.
5.	2. Explain the regulatory and legal context of platforms.
6.	5. Explain the workplace platform proposition for pensions and other financial products and services.
7.	1. Explain the use of platforms in providing financial planning services. 4. Assess the appropriateness and operation of platforms in meeting client requirements.
8.	1. Explain the use of platforms in providing financial planning services. 4. Assess the appropriateness and operation of platforms in meeting client requirements.