



Chartered  
Insurance  
Institute

# R01

## Diploma in Regulated Financial Planning

### Unit 1 – Financial services, regulation and ethics

Based on the 2019/2020 syllabus  
examined until 31 August 2020

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### Contents

Introduction to Examination Guide	3
R01 Syllabus	7
Specimen Examination	11
Specimen Tax Tables	32
Specimen Examination Answers and Learning Outcomes Covered	37

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## Unit 1 – Financial services, regulation and ethics

Based on the 2019/2020 syllabus examined until 31 August 2020

### Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the R01 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 R01 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 R01 reading list, which is located on the syllabus in this examination guide and on the CII website at [www.cii.co.uk](http://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-financial-services-regulation-ethics-r01/](http://www.cii.co.uk/learning/qualifications/unit-financial-services-regulation-ethics-r01/)
- 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 R01 syllabus is published on the CII website at [www.cii.co.uk](http://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 R01 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* and *evaluate* 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.

**Evaluation** - To answer questions requiring evaluation or critical evaluation, the candidate must be able to assess 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 evaluation.

## Examination Information

The method of assessment for the R01 examination is 100 multiple choice questions (MCQs): 87 standard format and 13 multiple response format. 2 hours are allowed for this examination.

The R01 syllabus provided in this examination guide will be examined from 1 September 2019 until 31 August 2020.

Candidates will be examined on the basis of English law and practice in the tax year 2019/2020 unless otherwise stated. It should be assumed that all individuals are domiciled, resident and ordinarily resident in the UK unless otherwise stated.

For areas of the syllabus that are focused on taxation, 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.

R01 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.

A standard format 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.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

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.

# Financial services, regulation and ethics

## Purpose

At the end of this unit, candidates will have investigated the:

- purpose and structure of the UK financial services industry;
- how the retail customer is served by the financial services industry;
- regulatory framework, powers and responsibilities to protect the consumer;
- legal concepts and considerations relevant to financial advice;
- Code of Ethics and its impact on the business behaviours of individuals.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the UK financial services industry in its European and global context.	6 standard format
2. Understand how the retail consumer is served by the financial services industry.	12 standard format
3. Understand the legal concepts and considerations relevant to financial advice.	9 standard format
4. Understand the regulation of financial services.	6 standard format
5. Understand the financial regulators' responsibilities and approach to regulation.	29 standard format
6. Apply the principles and rules as set out in the regulatory framework.	4 standard format/ 5 multiple response
7. Apply the regulatory advice framework in practice for the consumer.	5 standard format/8 multiple response
8. Understand the range of skills required when advising clients.	4 standard format
9. Understand the financial regulators' use of principles and outcomes based regulation to promote ethical and fair outcomes.	7 standard format
10. Apply the Code of Ethics and professional standards to business behaviours of individuals.	2 standard format
11. Critically evaluate the outcomes that distinguish between ethical and compliance driven behaviours.	3 standard format

\*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 questions: 87 standard format and 13 multiple response questions. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2019 to 31 August 2020.
- Candidates will be examined on the basis of English law and practice in the tax year 2019/2020 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/learning/qualifications/unit-financial-services-regulation-ethics-r01/](http://www.cii.co.uk/learning/qualifications/unit-financial-services-regulation-ethics-r01/)
  2. Select qualification update on the right hand side of the page.

- 1. Understand the UK financial services industry in its European and global context.**
  - 1.1 Describe the role, structure and context of the UK and international financial services markets.
  - 1.2 Explain the function and operation of financial services within the economy.
  - 1.3 Describe the role of government and the impact of the EU on UK regulation.
- 2. Understand how the retail consumer is served by the financial services industry.**
  - 2.1 Explain the obligations that the financial services industry has towards consumers.
  - 2.2 Explain consumers' main financial needs and how these may be prioritised and met.
- 3. Understand the legal concepts and considerations relevant to financial advice.**
  - 3.1 Explain the concepts of legal persons, powers of attorney, law of contract and agency, and ownership of property.
  - 3.2 Explain relevant laws governing insolvency and bankruptcy.
  - 3.3 Explain relevant laws governing wills, intestacy and trusts.
- 4. Understand the regulation of financial services.**
  - 4.1 Examine the roles of the PRA, FCA, HM Treasury and the Bank of England in regulating the market.
  - 4.2 Examine the role of other regulatory bodies and sources of additional oversight.
  - 4.3 Examine the statutory framework of regulation, including the role of EU regulation and key directives.
- 5. Understand the financial regulators' responsibilities and approach to regulation.**
  - 5.1 Explain the financial regulators' statutory objectives and how they are structured to achieve these objectives.
  - 5.2 Explain the main principles and rules of the PRA and FCA.
  - 5.3 Explain the approach to risk based supervision, discipline and enforcement, and sanctions to deal with criminal activities.
- 6. Apply the principles and rules as set out in the regulatory framework.**
  - 6.1 Apply the FCA's and PRA's regulatory principles and rules.
  - 6.2 Apply current anti-money laundering, proceeds of crime and data protection obligations.
  - 6.3 Apply the rules of relevant dispute resolution and compensation schemes.
- 7. Apply the regulatory advice framework in practice for the consumer.**
  - 7.1 Apply client relationships, regulated advice standards, and the adviser responsibilities in terms of these.
  - 7.2 Monitor and review client plans and circumstances.
- 8. Understand the range of skills required when advising clients.**
  - 8.1 Examine the range of skills required when advising clients.
- 9. Understand the financial regulators' use of principles and outcomes based regulation to promote ethical and fair outcomes.**
  - 9.1 Examine the Financial Conduct Authority's Principles for Businesses and the obligations these place on firms.
  - 9.2 Examine the impact of corporate culture and leadership.
  - 9.3 Examine the responsibilities of Approved Persons and those under the Senior Managers and Certification Regime (SM&CR) and the need for integrity, competence and fair outcomes for clients.
- 10. Apply the Code of Ethics and professional standards to business behaviours of individuals.**
  - 10.1 Apply the professional principles and values of ethical and sustainable advice.
  - 10.2 Identify ethical dilemmas and apply the steps involved in managing ethical dilemmas.
- 11. Critically evaluate the outcomes that distinguish between ethical and compliance driven behaviours.**
  - 11.1 Evaluate the indicators of ethical behaviour and of limiting behaviour to compliance within the rules.
  - 11.2 Critically evaluate the outcomes that distinguish between ethical and compliant behaviours.



## 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](mailto:knowledge@cii.co.uk).

### CII study texts

Financial services, regulation and ethics. London: CII. Study text R01.

### Books

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

Business ethics and values: individual, corporate and international perspectives. 4th ed. Colin Fisher and Alan Lovell. FT Prentice Hall, 2012.

Competition law and policy in the EU and UK. 5th ed. Barry Rodger, Angus MacCulloch. Routledge-Cavendish, 2015.\*

Ethics and finance: an introduction. John Hendry. Cambridge: Cambridge University Press, 2013.

The business ethics twin-track: combining controls and culture to minimise reputational risk. Steve Giles. Chichester: Wiley, 2015.\*

Winning client trust : the retail distribution review and the UK financial services industry's battle for their clients' hearts and minds. Chris Davies. London: Ecademy Press, 2011.\*

### Ebooks

The following ebooks are available through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only):

Business ethics. Michael Boylan. 2nd ed. Chichester: Wiley, 2014.

Business ethics in the social context: law, profits, and the evolving moral practice of business. Lisa Newton. Cham [Switzerland]: Springer, 2014.

International finance regulation: the quest for financial stability. Georges Ugeux. Wiley, 2014.

Promoting information in the marketplace for financial services: financial market regulation and international standards. Paul Latimer, Philipp Maume. Cham [Switzerland]: Springer, 2014.

The role of law and regulation in sustaining financial markets. Niels Philipsen, Guangdong Xu. Hoboken: Routledge, 2014.

### Online resources

The EU single market. The European Commission. Updated as necessary. Available online at [http://ec.europa.eu/internal\\_market](http://ec.europa.eu/internal_market)

Code of ethics explained. Duncan Minty. CII Faculty lecture, 2014. Available online at [www.cii.co.uk/30790](http://www.cii.co.uk/30790)

IIL financial services podcast lectures can be found on the CII website at [IIL Financial Services Lectures](http://www.cii.co.uk/knowledge/personal-finance) Additional articles and technical bulletins are available under the Personal Finance section of the CII knowledge website at [www.cii.co.uk/knowledge/personal-finance](http://www.cii.co.uk/knowledge/personal-finance).

### Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at [www.ftadviser.com](http://www.ftadviser.com).

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at [www.thepfs.org/financial-solutions-archive](http://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](http://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](http://www.prarulebook.co.uk)

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

### Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate ([www.revisionmate.com](http://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](http://www.cii.co.uk/iilrevision) (CII/PFS members only).

1. If the EU issues regulations in respect of the financial services industry, how would the UK be expected to respond?
  - A. It must implement them without any changes.
  - B. It may ignore them if existing national regulations already exist.
  - C. It will amend and then implement them through new UK legislation.
  - D. The regulations must be reviewed by the UK regulators who will decide on the methods of implementation.
  
2. A bank has its own portfolio management team. This would indicate that it
  - A. outsources its compliance responsibilities.
  - B. specialises in wills and executorship.
  - C. owns a life assurance company.
  - D. provides a discretionary management service.
  
3. How are UK gilts issued and traded?
  - A. New issues and subsequent trading are both carried out on the London Stock Exchange.
  - B. New issues and subsequent trading are both done through the Debt Management Office.
  - C. New gilts are issued on the London Stock Exchange and subsequent trading is done through the Debt Management Office.
  - D. New gilts are issued by the Debt Management Office and subsequent trading is done on the London Stock Exchange.
  
4. Public companies **usually** raise long-term capital by issuing
  - A. bonds only.
  - B. debentures only.
  - C. shares only.
  - D. bonds and shares.
  
5. What discretion, if any, does the Prudential Regulation Authority and the Financial Conduct Authority have over the decision to implement the requirements laid down by the EU in respect of financial services?
  - A. They have no discretion over any requirements.
  - B. They have discretion over Directives only.
  - C. They have discretion over Regulations only.
  - D. They have discretion over Directives and Regulations.
  
6. When determining the interaction between the UK and EU on the regulation of the financial services industry, the UK government **must always**
  - A. seek approval from the European Commission before implementing any new regulations.
  - B. implement new EU Directives by passing acts of Parliament.
  - C. accommodate all EU decisions in existing UK legislation.
  - D. provide copies of new regulations to the European Commission within a reasonable period of time for their approval.

7. Samuel met his financial adviser Charlotte to discuss his financial needs and concerns. Samuel refused to provide details of his income. How should Charlotte react?
- A. Only arrange stakeholder products.
  - B. Only provide advice on an execution-only basis.
  - C. Record that Samuel refused to provide this detail on the fact-find.
  - D. Refuse to give any advice at all.
8. Albert, a widower aged 66, is reviewing his financial needs and priorities with his financial adviser. If his attention is particularly being drawn to tax planning issues, this would **most likely** be because he has
- A. amended his will to include his grandchildren.
  - B. a current annual income of £30,000.
  - C. recently downsized his house to fund for long-term care.
  - D. total assets in excess of £1,100,000.
9. Matthew's financial adviser is considering recommending loan consolidation as a way of managing his debt situation and is satisfied with the affordability of the proposed arrangements. However, this **may NOT** help Matthew because he has
- A. demonstrated a consistent history of overspending and taking credit.
  - B. an existing buy-to-let property investment.
  - C. offered his holiday flat as security, rather than his main residence.
  - D. recently cancelled his bank overdraft facility.
10. A financial adviser is conducting an analysis of the **likely** impact of the receipt of State benefits on the amount of cover thought necessary for his client. This will be particularly useful before recommending
- A. an income protection insurance policy.
  - B. an increasing term assurance policy.
  - C. a joint life, last survivor, whole of life assurance policy.
  - D. a unit-linked maximum investment plan.
11. An insurance policy which includes accident and sickness cover would **most likely** be used in connection with which particular financial need?
- A. Estate planning.
  - B. House purchase.
  - C. Tax planning.
  - D. Retirement planning.

12. Andrew, aged 27, is employed and Samantha, his wife, aged 26, is self-employed. They have just had their first child and are deciding who should stop work to look after the baby. They should be aware that
- A. Samantha may receive Maternity Allowance for a maximum of 52 weeks.
  - B. Andrew may qualify for Statutory Paternity Pay for up to 2 weeks.
  - C. Samantha cannot claim for Statutory Maternity Pay but may elect for the entitlement to be transferred to Andrew.
  - D. Andrew cannot claim Statutory Paternity Pay but can take up to 4 weeks leave from work and claim Statutory Sick Pay.
13. Paul, aged 38, wishes to save £1,500 per month to build up a lump sum towards a special holiday for his 40th birthday. He is considering investing in either a cash ISA or a stocks and shares ISA and seeks advice on the best option. He should be aware that
- A. the amount exceeds his annual ISA limit.
  - B. he may transfer funds between the two forms of an ISA if he wishes to do so.
  - C. the stocks and shares ISA is more suitable as pound cost averaging will protect the value of his investment.
  - D. the stocks and shares ISA will always produce higher returns albeit at greater risk.
14. Adam is married with three young children and following a financial review the need for additional life assurance was identified with the proceeds going to someone outside of his family. This was justified because he is
- A. self-employed.
  - B. the trustee of a deceased estate.
  - C. one of three business partners.
  - D. a discharged bankrupt.
15. The life cover protection need for Ivor, aged 28, is of a reducing nature, tailing off by age 40. However, a decreasing term assurance was not considered to be suitable. What other product is **likely to best** address this need?
- A. Convertible term assurance.
  - B. Family income benefit assurance.
  - C. Whole of life assurance.
  - D. Gift inter vivos term assurance.
16. Keith is considering using the conversion option under his convertible term assurance policy and can easily afford to increase his premiums. What factor is **most likely** to influence his choice of the two main options **typically** available under this facility?
- A. The amount of disability cover he already has in place.
  - B. The degree of risk he is prepared to accept.
  - C. The duration of cover required.
  - D. The state of health of his wife.

17. William required £100,000 of stand-alone level critical illness cover, but was quoted a prohibitively expensive first year premium. How was he able to immediately reduce the premium whilst maintaining the same cover?
- A. He increased the deferred period.
  - B. He increased the premium payment frequency.
  - C. He elected for a reviewable premium basis.
  - D. He acted on an execution-only basis.
18. James, aged 64, is planning to retire at age 65 and has a large retirement fund. Despite having considerable cash deposits the **most likely** reason for him to take his pension commencement lump sum is that
- A. it will reduce his potential Inheritance Tax liability.
  - B. it will allow him to apply for State Pension Credit.
  - C. he plans to exercise his open market option.
  - D. it is tax efficient to do so.
19. Damian and Collette have been business partners for over 20 years and are reviewing their finances with Jack, their financial adviser. They are keen to mitigate against the risk of being personally responsible for any debts of the business and therefore Jack has advised them to consider
- A. becoming a limited liability partnership.
  - B. becoming sole traders and employing each other.
  - C. taking out a reinsurance policy to ring-fence future profits.
  - D. taking out separate indemnity insurance policies and assigning them to the other partner.
20. Karen and Julia both have leases within the same building. They both wish to exercise the right to purchase the freehold of the building. Why can only Karen exercise this right?
- A. Julia has a commercial lease.
  - B. Karen has an original lease for 20 years and Julia has an original lease for 25 years.
  - C. Karen has lived there for 1 year and Julia has held her lease for 3 years.
  - D. Julia is not one of the original tenants.
21. Customer X is in liquidation and customer Y is in administration. This confirms that
- A. customer X and customer Y are both subject to Individual Voluntary Arrangements.
  - B. customer X and customer Y are both companies.
  - C. only customer Y has debts in excess of £100,000.
  - D. only customer Y has previously been declared bankrupt.
22. Alfred died intestate aged 88 leaving a spouse and one sister. If his estate is valued at £500,000, how will it be distributed?
- A. It will all go to his spouse.
  - B. His spouse and sister will each receive £250,000.
  - C. £325,000 will go to his spouse and £175,000 will go to his sister.
  - D. £475,000 will go to his spouse and £25,000 will go to his sister.

23. Peter applied to an insurer for a term assurance policy on his own life. The insurer was prepared to accept the risk subject to an increased premium as a result of the medical underwriting process. Peter agreed to the revised terms and submitted a direct debit from which premiums would be collected. Which statement regarding the requirements for establishing the contract is true?
- A. Offer was satisfied by Peter submitting the direct debit mandate.
  - B. Consideration was satisfied by the insurer completing the underwriting process.
  - C. Consideration was satisfied by Peter submitting the proposal form.
  - D. The revised terms offered by the insurer represent a counter offer.
24. Claire and Charles are the ordinary unsecured creditors of a debtor in bankruptcy. They are respectively owed £1,000 and £2,000. If after all else is settled, £2,400 remains for their total combined settlement, they will respectively receive
- A. £400 and £2,000.
  - B. £600 and £1,800.
  - C. £800 and £1,600.
  - D. £1,000 and £1,400.
25. Shirley and Grant are trustees of separate trusts, but Shirley's duties are much more straightforward than Grant's. This is **most likely** to be because
- A. Grant is also the settlor of his trust.
  - B. they are trustees of an absolute trust and a discretionary trust respectively.
  - C. Shirley is also a beneficiary under her trust.
  - D. they are trustees of a discretionary trust and flexible trust respectively.
26. Sam, aged 12, has accidentally entered into an online contract whilst using the family computer. What is the legal position regarding this contract?
- A. It is enforceable as Sam is over the age of 10.
  - B. It is enforceable as he was using a computer owned by his parents.
  - C. It is not enforceable as Sam does not have the capacity to contract.
  - D. It is not enforceable because it is against the rules of the Consumer Contracts Regulations 2013.
27. William and George are creating a trust. William is certain who his beneficiaries should be, but George is **NOT**. Which type of trust(s) should William and George each create?
- A. Both William and George should create absolute trusts.
  - B. Both William and George should create discretionary trusts.
  - C. William should create a discretionary trust and George should create an absolute trust.
  - D. William should create an absolute trust and George should create a discretionary trust.

28. Tom and Bobby both run their own businesses but only Tom is personally liable for the debt of his business. This is because
- A. Tom is self-employed and Bobby is a company director.
  - B. Bobby is self-employed and Tom is a company director.
  - C. Tom is in a limited liability partnership and Bobby is a company director.
  - D. Bobby is in a limited liability partnership and Tom is a company director.
29. The Competition and Markets Authority (CMA) has submitted a report to HM Treasury following an investigation into retail investment products. If the report requires remedial action to be taken, the **most likely** immediate outcome will be the
- A. CMA and HM Treasury will apply the recommendations jointly.
  - B. CMA will issue new regulations.
  - C. Financial Conduct Authority will apply the recommendations unilaterally.
  - D. HM Treasury will provide direction to the Prudential Regulation Authority and the Financial Conduct Authority.
30. A client has previously written to her former adviser opting out of any marketing activities from the firm or any third parties. However, she continues to receive direct investment offers from the firm. She should complain based on the firm **NOT** complying with which set of regulations?
- A. Conduct of Business Rules.
  - B. Consumer Contracts Regulations 2013.
  - C. Data protection legislation.
  - D. Fair treatment of customers.
31. The Financial Services and Markets Act 2000 regulates the provision of which type(s) of financial advice?
- A. Advice to vulnerable individuals only.
  - B. Advice to all individuals.
  - C. Advice to all individuals unless they are elective professional clients.
  - D. Advice to all individuals unless they are per se professional clients.
32. The directors of an authorised firm have formally appointed an external compliance support company. Why does the authorised firm retain responsibility for the compliance oversight function?
- A. The authorised firm is not allowed to delegate their regulatory responsibilities.
  - B. The appointment of the compliance support company was not made on the basis of a binding contract.
  - C. The compliance support company does not have suitable professional indemnity cover.
  - D. The compliance support company is not an authorised firm



33. The implementation of financial regulation across EU Member States is carried out under which overarching programme?
- A. Financial Services Action Plan.
  - B. Financial Services and Markets Act 2000.
  - C. Markets in Financial Investments Directive II (MiFID II).
  - D. Insurance Distribution Directive.
34. Which individual or organisation is directly responsible for overseeing the activities of the Financial Conduct Authority?
- A. The Governor of the Bank of England.
  - B. HM Treasury.
  - C. The Competition and Markets Authority.
  - D. The Monetary Policy Committee of the Bank of England.
35. Which body, set up by the Financial Services and Markets Act 2000, ensures that the investigation and recommendation functions of the Financial Conduct Authority are carried out separately from the determining of any action and issuing of statutory notices?
- A. Consumer panel.
  - B. Practitioner panel.
  - C. Regulatory Decisions Committee.
  - D. Upper Tribunal.
36. Gilbert, a financial adviser, has arranged a new investment bond for his client. According to the Conduct of Business Rules, what should Gilbert do on receipt of the policy document?
- A. Ask the product provider to retain the document for safekeeping.
  - B. Retain the document until the next annual review.
  - C. Retain the document indefinitely.
  - D. Send out the document to his client as soon as is practically possible.
37. A firm has successfully appealed to the Financial Conduct Authority's Upper Tribunal. A possible consequence of this would be
- A. additional regulated activity authorisation being granted.
  - B. guidance notes automatically being issued to the industry.
  - C. existing controlled functions being reduced.
  - D. senior management functions being outsourced.
38. Carl, an independent financial adviser, has committed a market abuse offence. He has been fined and as a consequence
- A. all of his clients must be notified.
  - B. all of his clients' investment contracts must be reviewed.
  - C. it may affect his future employment prospects.
  - D. he will automatically be prohibited from working in the financial services industry.

39. Jon and Carol are both employed by an authorised firm. The firm's record-keeping requirements for Jon's responsibilities are greater than for Carol's. This is because
- A. Jon is a senior manager and Carol is a customer adviser.
  - B. Jon is head of compliance and Carol is head of internal audit.
  - C. Jon undertakes a sales function and Carol undertakes a senior management function.
  - D. Jon was previously served with a prohibition order but Carol was not.
40. Keith is a financial adviser for firm X, which is an appointed representative of firm Y. Keith recently arranged a life policy for a client and the paperwork was checked by his supervisor, Mark. Who is deemed to be the principal in relation to this business?
- A. Mark.
  - B. Keith.
  - C. Firm X.
  - D. Firm Y.
41. An authorised firm of financial advisers holds a client money bank account. The directors of the firm should be aware that
- A. an annual client money audit and an annual report is required.
  - B. client money must be paid into the client money bank account on the day it is received.
  - C. interest earned on the account can always be retained by the firm.
  - D. reconciliation of the client money bank account must always be performed daily.
42. Ian and Paula were both financial advisers and were both subject to disciplinary sanctions. As a result, only Ian's offence warranted criminal prosecution because
- A. Ian breached a prohibition order whereas Paula failed to properly deal with a complaint.
  - B. Paula lost adviser records whereas Ian failed to properly control his sales force.
  - C. only Paula was a senior manager.
  - D. only Ian provided advice on defined benefit pension transfers.
43. Freddie is being prosecuted for market abuse. If he is found guilty of a criminal offence, what is the **maximum** penalty that can be imposed on him?
- A. A fine of £100,000 only.
  - B. An unlimited fine only.
  - C. A 7-year prison term only.
  - D. An unlimited fine or a 7-year prison term.

44. Following a recent assessment, the Financial Conduct Authority has advised an authorised firm of its concern over the firm's efforts to implement the principles for the fair treatment of customers. This was **most likely** to be because
- A. the firm was unable to demonstrate the fair treatment of customers across its entire range of activities.
  - B. only four of the fair treatment of customers outcomes were relevant to the firm's business.
  - C. management information was submitted as evidence for all the fair treatment of customers outcomes being achieved.
  - D. compliance checks were submitted as evidence of the fair treatment of customers outcomes being achieved within the advice process.
45. Sharon was arranging personal pension plans for her clients, leading them to believe they would be adequate for their retirement needs. A subsequent complaint has indicated that she has failed to meet the requirements of the principles of the fair treatment of customers because she
- A. created unrealistic client expectations.
  - B. failed to predict a stock market crash.
  - C. failed to take into account possible future changes in State benefits.
  - D. did not take into account the costs of long-term care.
46. Tom is currently an adviser in an authorised firm. He is about to be promoted to undertake a senior manager's role. This means that he
- A. must provide a personal guarantee to the firm.
  - B. will still be allowed to advise clients.
  - C. must become a director of the firm.
  - D. must accept ultimate responsibility for all of the firm's compliance issues.
47. An individual is acting in accordance with the Financial Services and Markets Act 2000, despite **NOT** being directly authorised by the Financial Conduct Authority. This is because they are
- A. providing advice on investment business only.
  - B. providing advice on pension business only.
  - C. the principal of an authorised firm.
  - D. an appointed representative.
48. Rachel works in the treasury department of a local authority. How is this activity viewed under the Financial Services and Markets Act 2000?
- A. She needs to be individually authorised by the Financial Conduct Authority.
  - B. She is exempt but the local authority must obtain authorisation.
  - C. Both Rachel and the local authority must be authorised.
  - D. Neither Rachel nor the local authority must be authorised.

49. In what circumstances, if any, **must** the Financial Conduct Authority notify an adviser of a change in the scope of an ongoing investigation into his conduct?
- A. There is no requirement to notify of a change of scope.
  - B. If absence of notification may prejudice the adviser.
  - C. If the change is more than six months after the commencement of the investigation.
  - D. If the investigation is likely to lead to criminal charges.
50. Caroline and Anne are both financial advisers but **only** Caroline is a senior manager. In accordance with the regulations, this means that
- A. the requirement for Caroline to exercise due skill, care and diligence is broader.
  - B. the requirement for Caroline to observe proper market conduct standards lasts for a longer period of time.
  - C. only Anne can be personally fined for an offence.
  - D. only Anne can be imprisoned for an offence.
51. The Financial Conduct Authority (FCA) is able to take action against an individual who is a manager performing a senior management role but is **NOT** authorised to give investment advice because of
- A. his contract of employment with the employer.
  - B. the fact that he is regulated by the FCA and must adhere to their rules.
  - C. the provisions within the Senior Management Arrangements, Systems and Controls Sourcebook.
  - D. the wider overarching powers contained within the fair treatment of customers outcomes.
52. An authorised firm is moving offices and during the move discovers a file relating to a pension transfer made in 2014 for a former client. What **must** the firm do with this record?
- A. Destroy it under data protection legislation as it relates to a former client.
  - B. Return it to the client.
  - C. Retain it for a further two years where after it may be destroyed.
  - D. Retain it indefinitely.
53. Stuart, an employee of an investment management company, is subject to an ongoing Fit and Proper test specifically because he
- A. is an administration manager.
  - B. is a senior manager.
  - C. is the human resources manager.
  - D. does not require individual registration.

54. The UK Government seeks to meet its responsibilities under the National Financial Capability Strategy by
- A. bringing together organisations and interested parties to improve the nation's knowledge and understanding of personal finance.
  - B. establishing the National Employment Savings Trust (NEST) to promote workplace savings.
  - C. appointing the Financial Skills Partnership to set appropriate and relevant qualifications.
  - D. establishing a module in the national curriculum to deliver financial education in UK schools and colleges.
55. When, if at all, can an alternative status disclosure statement be used by an authorised firm?
- A. Never, as all firms can only state they are authorised and regulated by the Financial Conduct Authority.
  - B. Only if awaiting regulatory approval, when they must state they are provisionally authorised and regulated by the Financial Conduct Authority.
  - C. Only if they are a law firm carrying out investment business, when they must state that they are authorised and regulated by the Law Society.
  - D. Only if they are a firm from another EU member state using a passporting of authorised permissions, when they must state that they are authorised by their respective regulator.
56. As a result of a recent investigation, the practitioner panel has made a recommendation to the Financial Conduct Authority (FCA). Therefore, the FCA **must**
- A. amend the appropriate FCA rules within six months.
  - B. consider the recommendation without any obligation to amend its rules.
  - C. issue a guidance note immediately.
  - D. refer the recommendation to HM Treasury.
57. An authorised firm's senior management controls **must**
- A. be approved annually by the Financial Conduct Authority.
  - B. form part of the firm's disclosure documentation.
  - C. be reviewed regularly by the firm.
  - D. conform to accepted industry practice standards.
58. The Financial Capability Strategy for the UK is using a programme in schools which is designed to
- A. embed a basic understanding of financial matters in young people.
  - B. reduce the cost of financial advice for parents with children.
  - C. increase the number of children who progress to careers in financial services.
  - D. shift responsibility for financial education in schools to the Money and Pensions Service.

59. Alan and Colin both work for a life office. Alan is a senior discretionary investment manager and Colin is a junior member of the compliance department. A **key** regulatory difference between them is that
- A. only Alan will require prescribed supervision.
  - B. only Alan is carrying out a senior manager role.
  - C. only Colin will be subject to a fit and proper test.
  - D. only Colin will need to be individually registered with the Financial Conduct Authority.
60. Firm A has been fined £100,000 by the Prudential Regulation Authority for insider dealing. Firm B has been fined £1,000,000 for market abuse. This indicates that
- A. both firms have received the maximum fine.
  - B. only firm A has received the maximum fine.
  - C. neither firm have received the maximum fine.
  - D. only firm B has received the maximum fine.
61. An authorised firm disagrees with the enforcement action taken by the Financial Conduct Authority. To which body would it appeal?
- A. The Upper Tribunal.
  - B. The Practitioner Panel.
  - C. The Regulatory Decisions Committee.
  - D. The Treasury Select Committee.
62. An authorised firm has discovered that they have breached one of the Financial Conduct Authority's (FCA's) Principles for Businesses. What action **must** the firm take?
- A. The firm has a maximum period of six months to notify the FCA and take remedial action.
  - B. The firm's compliance officer must notify the FCA immediately and implement remedial actions as soon as possible.
  - C. The firm's compliance officer must include details of the breach and remedy on the firm's next six-monthly return.
  - D. The breach must be remedied within seven days and the regulator need not be informed.
63. When Lionel and Yvonne's bank was declared insolvent in May 2019, Lionel had £60,000 on deposit and Yvonne had investments worth £60,000 with the bank. How much in total would they be entitled to receive under the Financial Services Compensation Scheme?
- A. £100,000
  - B. £108,000
  - C. £110,000
  - D. £120,000

64.

March							April							May						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
	1	2	3	4	5	6					1	2	3							1
7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8
14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15
21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22
28	29	30	31				25	26	27	28	29	30		23	24	25	26	27	28	29
														30	31					

David sent a letter of complaint to an authorised firm of independent financial advisers on 2 March, which was received on 4 March. The firm acknowledged receipt of the complaint on 7 March. On 1 April a holding response was sent to David to update him on progress of the complaint. What is the latest date on which the firm **must** provide David with its final decision and right to refer the complaint to the Financial Ombudsman Service?

- A. 4 April.
  - B. 27 April.
  - C. 29 April.
  - D. 2 May.
65. A client referred his complaint about the investment advice received from his adviser to the Financial Ombudsman Service (FOS) in January 2019. The FOS has ruled that the advice was unsuitable and has recommended an award of £125,000 plus £2,500 costs. How much is the **maximum** amount of compensation that the adviser firm will be obliged to pay?
- A. £100,000
  - B. £102,500
  - C. £125,000
  - D. £127,500
66. Jonas is an independent mortgage and financial adviser. He has **NOT** passed long-term care or equity release examinations to enable him to transact business in those areas. Which of the following transactions will Jonas be able to undertake?

i)	A new term assurance with critical illness cover
ii)	A remortgage for a 40-year-old applicant
iii)	An immediate needs annuity
iv)	A home reversion plan
v)	A compulsory purchase annuity for a 65-year-old applicant

- A. i and ii only.
- B. i, ii and v only.
- C. ii, iii and iv only.
- D. iii and iv only.

67. Diane and Martin have two children, aged 16 and 18. The entire family intend to open their first ISA accounts and invest the **maximum** available amounts. They only wish to consider stocks and shares ISAs and **NOT** any other form of ISAs. What is the total amount they would be allowed to invest in the tax year 2019/2020?
- A. £40,000
  - B. £45,720
  - C. £60,000
  - D. £80,000

68.

i)	A government of an EU member state.
ii)	A credit institution in an EU member state.
iii)	A central bank in an EU member state.
iv)	A UK pension fund.

From the table, which of these organisations are per se eligible counterparties?

- A. i only.
  - B. i, and ii only.
  - C. i, ii and iii only.
  - D. i, ii, iii and iv.
69. Various parties to a discretionary trust are set out in the table below.

David	Trustee
Simon	Sole-named beneficiary
Amanda	Beneficiary's spouse

A fiduciary duty exists between

- A. David and Amanda only.
- B. David and Simon only.
- C. Simon and Amanda only.
- D. David, Simon and Amanda.



70. In which of the following situations is a referral to another adviser appropriate?

i)	A restricted adviser who does not have a suitable product in his company's range refers to a restricted adviser within another firm.
ii)	A restricted adviser who does not have a suitable product in his company's range refers to an independent financial adviser.
iii)	A restricted adviser who knows a similar product can be obtained cheaper from another provider refers to an adviser of that firm.
iv)	An independent financial adviser is not deemed competent to provide pension transfer advice refers to another independent financial adviser who is suitably qualified and holds the appropriate Financial Conduct Authority permissions.

- A. i only.
- B. ii and iv only.
- C. ii, iii and iv only.
- D. iv only.

71. An authorised firm has arranged the following products on 1 June. All products were based on recommendations made to retail clients on a face to face basis. For all products arranged the clients received cancellation notices on the same date.

i)	A cash ISA
ii)	A level term assurance
iii)	An Enterprise Investment Scheme
iv)	A stakeholder pension plan
v)	A child trust fund

Which of the products is still within its cancellation period on 25 June?

- A. i and iii only.
- B. ii and iv only.
- C. iii and iv only.
- D. i, ii and v only.

72. During the course of the fact-finding process, a financial adviser decided to ask a number of open-ended questions. The **primary** purpose of this approach was to

- A. instill a sense of commitment from the client.
- B. obtain the client's views and opinions.
- C. quantify the client's assets and liabilities.
- D. secure the client's trust.

73. Susan and Nicola both have lump sums to invest and both intend to use life office managed funds. Why are the opportunities for Susan to benefit from diversification more limited than Nicola's?

- A. Susan has decided to adopt a socially responsible approach.
- B. Nicola has less to invest than Susan.
- C. Susan is significantly younger than Nicola.
- D. Nicola is in significantly better health than Susan.

74. Following the completion of a fact-find, a financial adviser has recommended a unit trust and an investment bond to a retail client. In addition, the client has requested a personal pension be arranged on an execution-only basis. The disadvantages of which product(s) **must** be included within the suitability report?
- A. Personal pension only.
  - B. Unit trust and investment bond only.
  - C. Personal pension and unit trust only.
  - D. Personal pension, unit trust and investment bond.
75. In considering a number of pension products, Jenny's adviser has pointed out that the reduction in yield figures are important in helping her understand the
- A. financial strength of the providers.
  - B. impact of charges.
  - C. impact of inflation on the fund.
  - D. volatility of investment performance.
76. Julian, a financial adviser, has been praised for the quality of his recent professional conduct. This would **most likely** indicate that he has
- A. achieved his annual sales target.
  - B. acted with appropriate integrity.
  - C. been influenced by colleagues.
  - D. maintained up-to-date continuing professional development records.
77. How should an authorised firm react in the event of a conflict of interest arising from a couple's divorce where both parties are clients of the firm?
- A. By recommending an independent arbitrator.
  - B. By referring the couple to another authorised firm.
  - C. By seeking to maintain strict neutrality.
  - D. By supporting the client who provides most business.
78. An investment provider has announced new charges for switching between its funds. If these charges are **likely** to be deemed excessive, this would
- A. be regarded as a breach of the financial regulators' Principles for Businesses.
  - B. lead to an investigation by the Competition and Markets Authority.
  - C. require the investment provider to reapply to the Financial Conduct Authority for relevant permissions.
  - D. trigger the immediate imposition of a Prudential Regulation Authority approved default charging structure.

79. In order to adhere to the Financial Prudence principle of the Financial Conduct Authority's Principles for Businesses, an authorised firm should
- A. ensure that its customers do not take on more debt than they can afford.
  - B. aim to increase its customers' understanding of day-to-day money management.
  - C. have adequate financial resources to meet its obligations.
  - D. not market financial products with excessive investment risk.
80. To what degree, if any, **must** an authorised firm adhere to the Financial Conduct Authority's Principles for Businesses?
- A. They must adhere to them but they have discretion as to how they comply with their obligations.
  - B. They can ignore them provided they follow the rules within the relevant sourcebooks
  - C. They can elect to become exempt from them subject to holding prescribed levels of capital resources.
  - D. They can elect to be exempt from them provided they are a member of a recognised trade association.
81. The compliance officer of an authorised firm has discovered that one of the firm's senior managers has been declared bankrupt. What action **must** the authorised firm take?
- A. Terminate the managers employment.
  - B. Ensure that all the manager's future recommendations are checked by his supervisor.
  - C. Notify the Financial Conduct Authority in the firm's next 6-monthly return.
  - D. Notify the Financial Conduct Authority immediately.
82. An individual has applied to an authorised firm for the role of compliance manager. In accordance with the Financial Conduct Authority's (FCA's) fit and proper requirements, how will she be treated as a result of a previous conviction for driving under the influence of alcohol seven years ago?
- A. The individual will not be deemed fit and proper.
  - B. The FCA will only consider the issue if it relates to the ability to carry out her role.
  - C. The FCA will require a further period of three years to elapse before approving the application.
  - D. The individual will not be allowed to perform a senior management role.
83. William, an independent financial adviser, is advising Emily, a self-employed designer. Emily has an income protection insurance policy which has a **maximum** benefit level of £30,000 per annum, but her earnings have recently fallen to £25,000 per annum. Considering **only** the Financial Conduct Authority's Statements of Principle and Code of Practice for Approved Persons (APER), what should William do, if anything?
- A. Nothing as Emily's earnings may improve in the future.
  - B. Inform Emily that she may be paying for cover on which she cannot claim.
  - C. Advise cancellation of the product and replace it with a cheaper one with a lower maximum benefit.
  - D. Refer Emily to the product provider for guidance.

84. Considering only the Financial Conduct Authority's Statements of Principle and Code of Practice for Approved Persons (APER), the issue of financial loss or financial detriment in the advice process applies to
- A. clients only.
  - B. product providers only.
  - C. product providers and retail clients only.
  - D. all clients and product providers.
85. In reviewing its management information, an authorised firm has identified a high number of pure protection policies being cancelled immediately after the end of the commission earnings period. What kind of behaviour is this **likely** to indicate?
- A. Unethical behaviour by advisers through churning of policies.
  - B. Unethical behaviour by advisers through over-committing customers' budgets.
  - C. Non-compliant behaviour by sales staff made on a direct offer basis.
  - D. Non-compliant behaviour by sales staff made using the simplified advice process.
86. According to the Financial Conduct Authority's High Level Standards, an individual holding a senior managers role in an authorised firm **must**
- A. be qualified to at least the same level as the advisers he supervises.
  - B. provide the same level of client service offering to all clients.
  - C. review all client files at least annually.
  - D. uphold the highest personal and professional standards at all times.
87. How may an authorised firm demonstrate that they have **successfully** considered ethical outcomes?
- A. High persistency levels.
  - B. An increase in execution-only business levels.
  - C. Low persistency levels.
  - D. Reduced client referrals.

For Questions 88-100 more than 1 option is correct. You must select all the correct options to gain the mark.

88. Barry and Caroline are restricted advisers and Paul is an independent financial adviser. In respect of their current authorisations, they should each be aware that
- A. Barry can only advise on a single product.
  - B. Caroline can be tied to different providers for different products.
  - C. Barry and Caroline can both introduce clients to Paul.
  - D. only Caroline can receive commission from more than one provider.
89. Which roles within authorised firms would **automatically** be senior management functions?
- A. Compliance manager.
  - B. Financial adviser.
  - C. IT manager.
  - D. Money Laundering Reporting Officer.
90. Simon has experience of dealing with retail clients and is now training to be able to give advice on pension transfers. As a consequence, Simon should be aware that
- A. he must have at least 3 years' experience as an adviser before his training can commence.
  - B. his firm is allowed to impose a time limit on completion of the qualification.
  - C. once qualified, CPD requirements are waived for 12 months.
  - D. all records of his training and CPD must be maintained indefinitely.
91. Which of the following constitute 'close links' for the purposes of Threshold Conditions (COND), where party X is seeking authorisation and Y is the other party?
- A. Y is a parent undertaking of X.
  - B. X has a director in common with Y.
  - C. Y shares premises with X.
  - D. Y owns or controls 20% or more of the voting rights or capital of X.
92. Several clients held long-term deposits and investment contracts with a UK bank that became insolvent and ceased trading due to insolvency in June 2019. Under the terms of the Financial Services Compensation Scheme (FSCS), which clients will be fully reimbursed by the FSCS to cover their losses?
- A. James, who has £100,000 on deposit.
  - B. Moira, who has a stocks and shares ISA investment of £80,000.
  - C. Paolo and Kyla, who jointly hold £150,000 in their savings account.
  - D. Lola, who has an onshore investment bond with a surrender value of £60,000.

93. When considering the preparation of client suitability reports in accordance with the Financial Conduct Authority's rules, a financial adviser should be aware that
- A. suitability should be the consequence of proper adherence to the know your customer rule.
  - B. when arranging a regulated mortgage contract, a suitability report is not required.
  - C. suitability reports are always required for both pension transfers and friendly society policies.
  - D. suitability reports are required for increases to regular premium life assurance contracts, but not for single premium contract top-ups.
94. Firms X and Y are both authorised firms providing financial advice. Firm X is paid by commission only, firm Y is paid by fee only. When comparing their disclosure obligations to retail customers, the firms should be aware that
- A. both firms must disclose details of what they can expect to receive.
  - B. both firms must confirm their regulatory status.
  - C. only firm X must give full disclosure of its regulatory status.
  - D. only firm Y must give full disclosure of loans and ownership.
95. Fiona, a financial adviser, is reviewing her client's circumstances. When looking into the client's current assets, Fiona should be aware that
- A. it is always acceptable to cancel and replace a life policy.
  - B. the amount of accessible funds held on deposit will impact on investment decisions.
  - C. opting out of an occupational pension scheme must never be recommended.
  - D. the consequences of any recommendation to surrender a long-term contract must be explained.
96. An authorised firm transacts business with a new professional client on 1 February. In respect of the firm's client agreement between the two parties
- A. the firm must provide the agreement by 31 January.
  - B. risk warnings need only be included where the client has elective professional status.
  - C. the agreement must include details of the firm's complaints procedures.
  - D. the agreement must be retained indefinitely where pensions transfer business is conducted.
97. When considering cancellation rights in respect of regulated products
- A. notice can be served other than by post, so long as the provider has stated the alternative method is acceptable.
  - B. sending a notice one day before the deadline is acceptable even if it is not received until after the deadline.
  - C. investment shortfall deduction only applies to unit trusts and open-ended investment companies.
  - D. investment shortfall deduction only applies to regular premium contracts.
  - E. the duration for which cancellation records must be retained varies according to the product involved.

98. A financial adviser is working in collaboration with a client's accountant and solicitor in respect of the client's divorce. In relation to the financial advice provided, the financial adviser should be aware that
- A. the financial adviser cannot give generic information on matrimonial law.
  - B. the financial adviser can give generic information in relation to taxation issues.
  - C. all three parties share equal responsibility for the financial advice given.
  - D. the financial adviser is solely responsible for the financial advice given.
  - E. if the financial adviser instigated the referral to the solicitor, he may share the client's details without their prior consent.
99. A financial adviser in an authorised firm is discussing areas of advice with a client for which he is authorised but does **NOT** feel confident and lacks experience in this area. What should he do?
- A. Suggest a joint meeting with another adviser within the firm who has greater experience.
  - B. Cease dealing with the client immediately and transfer him to another adviser within the firm.
  - C. Persuade the client that they do not need to consider the areas on which he is not experienced.
  - D. Rearrange the meeting to such time that he has researched the areas to gain greater knowledge.
100. When considering client categorisation according to the rules stated in the Conduct of Business Sourcebook, a financial adviser should be aware that
- A. a professional client can choose to become an elective eligible counterparty.
  - B. a financial institution authorised in the US is an eligible counterparty.
  - C. all clients who are neither professional clients nor eligible counterparties are categorised as retail clients.
  - D. a local authority is classed as an eligible counterparty.

# INCOME TAX

## RATES OF TAX 2019/2020

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

*\*Not available if taxable non-savings income exceeds the starting rate band 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) §	£12,500
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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£166	£166**
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 £118 per week. This £118 to £166 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.*

<b>Class 2 (self-employed)</b>	Flat rate per week £3.00 where profits exceed £6,365 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £15.00.
<b>Class 4 (self-employed)</b>	9% on profits between £8,632 - £50,000. 2% on profits above £50,000.

## CAPITAL GAINS TAX

TAX RATES	2019/2020
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%
Entrepreneurs' Relief* – Gains taxed at:	10%
Lifetime limit	£10,000,000

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

### EXEMPTIONS

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

## PENSIONS

2019/2020

Lifetime Allowance	£1,055,000
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£4,000

\* Tapered by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 if 'threshold income' is also over £110,000.

## INHERITANCE TAX

### RATES OF TAX ON TRANSFERS

2019/2020

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*	£150,000
- 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

2019/2020

Standard rate 19%

## VALUE ADDED TAX

2019/2020

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%

- *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

2019/2020

Child Benefit	First child	£20.70
	Subsequent children	£13.70
	Guardian's allowance	£17.60
Basic State Pension	Single	£129.20
	Married	£206.65
Single Tier State Pension	Single	£168.60
Pension Credit	Single person standard minimum guarantee	£167.25
	Married couple standard minimum guarantee	£255.25
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

\* Only applicable where spouse or civil partner died on or after 6 April 2007.

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## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
<b>Standard Format</b>									<b>Multiple Response Format</b>		
<b>Learning Outcome 1</b>			<b>Learning Outcome 5</b>			<b>Learning Outcome 8</b>			<b>Learning Outcome 6 &amp; 7</b>		
1	A	1.3	35	C	5.1	72	B	8.1	88	B, C	6.1
2	D	1.2	36	D	5.2	73	A	8.1	89	A, D	6.1
3	D	1.1	37	A	5.3	74	B	8.1	90	B, D	6.1
4	D	1.2	38	C	5.3	75	B	8.1	91	A, D	6.1
5	A	1.3	39	A	5.2	<b>4 Questions</b>			92	B, C, D	6.3
6	A	1.3	40	D	5.2				93	A, B	7.1
<b>6 Questions</b>			41	A	5.2				94	A, B	7.1
			42	A	5.3	<b>Learning Outcome 9</b>			95	B, D	7.2
<b>Learning Outcome 2</b>			43	D	5.3	76	B	9.2	96	C, D	7.1
7	C	2.1	44	A	5.2	77	C	9.3	97	A, B, E	7.1
8	D	2.2	45	A	5.2	78	A	9.1	98	B, D	7.1
9	A	2.2	46	B	5.2	79	C	9.1	99	A, D	7.1
10	A	2.2	47	D	5.2	80	A	9.1	100	A, C	7.1
11	B	2.2	48	D	5.2	81	D	9.3	<b>13 Questions</b>		
12	B	2.2	49	B	5.3	82	B	9.1			
13	B	2.2	50	A	5.2	<b>7 Questions</b>					
14	C	2.2	51	B	5.2						
15	B	2.2	52	D	5.2	<b>Learning Outcome 10</b>					
16	C	2.2	53	B	5.2	83	B	10.2			
17	C	2.2	54	A	5.1	84	D	10.1			
18	D	2.2	55	D	5.2	<b>2 Questions</b>					
<b>12 Questions</b>			56	B	5.1						
			57	C	5.2	<b>Learning Outcome 11</b>					
<b>Learning Outcome 3</b>			58	A	5.1	85	A	11.2			
19	A	3.1	59	B	5.2	86	D	11.1			
20	A	3.1	60	C	5.3	87	A	11.2			
21	B	3.2	61	A	5.3	<b>3 Questions</b>					
22	A	3.3	62	B	5.2						
23	D	3.1	<b>28 Questions</b>								
24	C	3.2									
25	B	3.3	<b>Learning Outcome 6</b>								
26	C	3.1	63	D	6.3						
27	D	3.3	64	C	6.2						
28	A	3.1	65	D	6.3						
<b>10 Questions</b>			66	B	6.1						
			<b>4 Questions</b>								
<b>Learning Outcome 4</b>											
29	D	4.2	<b>Learning Outcome 7</b>								
30	C	4.2	67	C	7.2						
31	B	4.3	68	D	7.1						
32	A	4.2	69	B	7.1						
33	A	4.3	70	B	7.1						
34	B	4.1	71	B	7.1						
<b>6 Questions</b>			<b>5 Questions</b>								