



Chartered
Insurance
Institute

J11

Diploma in Financial Planning

Unit J11 – Wrap and Platform Services

April 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 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 obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

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:

Candidate performance was satisfactory and in line with expectations, when referenced against recent sittings. No individual question or question-part proved particularly troublesome to candidates, suggesting a good level of revision across the syllabus.

A small number of candidates did not align their answers with the requirements of the question. It should be noted that the question-parts in Section B are focused upon the content of the respective scenarios, so candidates need to ensure their answers are relevant to the given scenario as generic and unfocused answers may not be considered suitable and marks will not be awarded.

It was pleasing to see a more efficient examination technique from candidates, with the majority deploying a succinct answer style with bullet points aligned with the number of available marks per question part. In many instances, the candidates with higher overall performance contained less writing, resulting in very focused answers performing better than those using a narrative style containing expansive answers which were longer than necessary.

Question 1

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

Question 2

Candidates performed adequately on this question, with the majority gaining at least half of the available marks. Those candidates who did not perform well generally had a superficial knowledge of a custodian's administrative functions in general, rather than stating specific custody service functions.

Candidate performance on this area of the syllabus has improved since the last time it was tested.

Question 3

Candidates performed adequately on this question. Candidates who did not perform well generally demonstrated either a superficial or incorrect knowledge of the respective Financial Services Compensation Scheme (FSCS) compensation levels. Several candidates provided expansive regulatory definitions and rules that are not distinct to platforms.

Question 4

Candidates performed adequately on this question. This area of the syllabus has been given considerable market coverage due to several high-profile issues surrounding technology in re-platforming.

It was a little disappointing that candidates did not perform better given the awareness of this issue, although candidate performance has improved from the previous time this area was tested.

Question 5

Candidates performed poorly on this question, demonstrating both a superficial and incorrect knowledge of Lifetime ISAs, with many knowing that there is a government bonus but not its level or that there are criteria for penalty-free withdrawals but not what they are.

Question 6

Candidates performed well on this question. Awareness of auto-enrolment has increased significantly since this area of the syllabus was last tested, supported by this sitting occurring in the same month as a significant staging date in the product's life cycle.

Question 7

Candidates performed very well on this question. All three question parts were testing core content and have been tested regularly, so a good level of performance was expected. It was also pleasing to see candidates attempting to connect their answers to the scenario, rather than stating generic content, such as platform features that would not be relevant to meeting Nailah's needs.

In part (b), those candidates who did not perform well stated general investment principles and financial planning statements, including factors that would be categorised as soft-facts.

In part (c) most candidates demonstrated a detailed knowledge of the risks from using an income tool in particular, rather than the risks from using platform tools.

Question 8

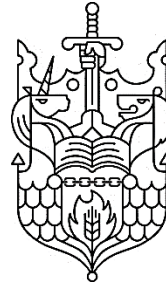
Overall candidates performed well on this question.

The areas that were covered in this question have not been tested as regularly as those in question seven, although they are all core areas.

The application style of part (a) has been tested previously and provides candidates with a broad opportunity to demonstrate a wide range of knowledge. So, it was disappointing to see a poor level of candidate knowledge around the tax treatment of investment bonds, especially at this stage of their learning progression, with too many candidates believing that the product can provide both an 'income' and one that is 'tax-free'.

In part (b) candidate knowledge was superficial, with many candidates duplicating points within the same question-part and repeating themselves.

In part (c), candidate performance was adequate, with most candidates knowing the difference between the two methods but not understanding how each method works in practice.



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Diploma in Financial Planning

Unit J11 – Wrap and platform services

April 2019 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. State **ten** benefits to an authorised advisory firm of incorporating a platform into its overall financial advice proposition. **(10)**

2. Describe briefly the custody services undertaken by a platform’s custodian. **(8)**

3. A retail client has £400,000 on a platform held in collective funds and direct equities. The assets are held within a stocks and shares ISA and a personal pension wrapper.

State the main legal and regulatory safeguards that would help protect the client’s assets. **(10)**

4. An authorised advisory firm is conducting due diligence on a potential new platform provider. The provider is going through a significant re-platforming project that involves changing to a new technology provider.

Identify **eight** main due diligence factors that the advisory firm would focus upon that relate to the technology provider only. **(8)**

5. A platform provider is adding a Lifetime ISA (LISA) to its range of tax wrappers.

State the main rules governing the contributions to and withdrawals from a LISA. **(9)**

6. A limited company employing 30 staff is about to start using a workplace platform to help comply with its workplace pension obligations.

Identify **five** main areas of the auto-enrolment process in which the platform could help the company meets its obligations. **(5)**

Total marks available for this section: 50

SECTION B**Attempt ALL questions**

7. Nailah has a portfolio of collective funds invested in different asset classes. The portfolio is currently valued at £160,000 and the funds are **not** currently held on a platform.

She has recently decided to reduce her working hours and wishes to start drawing an income stream of £6,000 per annum gross from her portfolio, to top her income up to its previous full-time level. She anticipates drawing the income for the long-term and will be reliant upon it to maintain her existing expenditure.

Nailah has met with a financial adviser who is considering the recommendation of a platform to help meet her needs. The adviser has also highlighted that the platform offers a tool designed to assist clients drawing a regular income.

- (a) Describe the main platform features that the adviser would consider when assessing suitability of a potential platform to meet Nailah's needs. **(15)**
- (b) List **seven** factors relevant to Nailah's needs that the adviser would consider when constructing an asset allocation to generate her required income. **(7)**
- (c) State **eight** main risks to the adviser and Nailah from the use of the platform's income tool. **(8)**

8. Lukas, a higher rate taxpayer, is about to invest £300,000 into a new investment portfolio using a platform. The portfolio will consist of equity and fixed interest collective funds, held within a stocks and shares ISA, a general investment account and an onshore investment bond.

The recommendations have been made by Lukas's new independent financial adviser (IFA) and are based upon the portfolio being used to generate a regular income.

Following the retirement of his previous financial adviser, Lukas has approached the new IFA, who has prepared the recommendation. Lukas's previous adviser was remunerated from legacy trail commission. As a result, Lukas is not familiar with explicit adviser charging.

- (a) Describe the various income and withdrawal options that would be available to Lukas from each of the three wrappers on the platform and their tax treatment based on Lukas's tax status. (15)
- (b) State **five** ongoing fund charges that could be paid within the investments held by Lukas. (5)
- (c) Explain the **two** main ways in which Lukas can pay his new IFA, including how each operates. (10)

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 ten of the following:

- Greater client understanding/loyalty/trust.
- Reduced admin/more time with client.
- Greater profitability/reduced cost.
- Facilitates adviser charge.
- Consistency/repetition of proposition.
- Tax planning/reporting.
- Reduced errors/greater accuracy.
- Help with suitability.
- Support advice proposition.
- Improved regulatory compliance (Markets in Financial Instruments Directive (MiFIDII)/General Data Protection Regulation (GDPR)).
- Assist with risk profiling/portfolio construction.
- Assist with reviews/rebalancing/reports.
- Access to tools.

Model answer for Question 2

- Holds assets.
- Responsible for safeguarding assets.
- Maintains records/record keeping.
- Collects income/re-claim tax.
- Deals/buys/sells assets.
- Dis/aggregates/nets off.
- Deals with corporate actions.
- Deals with any winding up/return of client assets.

Model answer for Question 3

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

- Financial Services Compensation Scheme (FSCS) investment limit.
- £85,000/£50,000 (either acceptable due to date of change).
- Per institution.
- FSCS pension limit.
- 100%.
- No upper limit/unlimited.
- Financial Conduct Authority (FCA) regulatory permissions/controlled functions (Conduct of Business sourcebook (COBS)).
- Client money rules/Client Assets sourcebook (CASS).
- Product Intervention and Product Governance sourcebook (PROD)/MiFIDII.
- Use of custodian/nominee.
- Legal/beneficial ownership.
- GDPR.

Model answer for Question 4

- Experience/track record with other platforms.
- Capacity.
- Ownership structure.
- Scope of technology/relationship with platform's own technology.
- Location of data storage/data security/business contribution plan (BCP).
- Ability to technology provider to absorb loss/financial strength.
- Downtime/disruption/Service Level Agreement (SLA).
- Versioning/futureproofing.

Model answer for Question 5

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

- Aged 18 and over.
- Under age 40 to open.
- Up to £4,000 per tax year.
- Within £20,000/overall Individual Savings Accounts (ISA) allowance.
- Maximum bonus 25%/£1,000.
- No contributions/bonus from age 50.
- Penalty-free withdrawal to buy first home;
- up to £450,000.
- Must wait 12 months before any withdrawal.
- 25% penalty on withdrawing otherwise.
- Penalty-free withdrawal from age 60/terminal illness.

Model answer for Question 6

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

- Planning/assessment.
- Enrolment/re-enrolment.
- Opt-in/opt-out.
- Document/information delivery.
- Calculate/collect contributions/contribution admin.
- Record keeping/audit/compliance.

Model answer for Question 7

(a) *Candidates would have gained full marks for any fifteen of the following:*

- *In specie* availability.
- Range of tax wrappers.
- Range of funds/assets.
- Availability of existing/income share classes.
- Frequency of income payments.
- Ability to pay natural income.
- Ability to pay ad-hoc/irregular income.
- Minimum withdrawal amount(s).
- Cash account minimum balance.
- Interest rate on cash account.
- Dealing terms.
- Pre-funding of switches.
- Pre-funding of income.
- Portfolio construction/risk tool.
- Rebalancing tool.
- Stochastic modelling/projection tool.
- Tax tool.
- Auto-disinvestment to meet income level.
- Position on clean/super clean share classes.
- Ability to pay adviser charge.
- Costs (platform/fund).
- SLA/compensation for client.

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

- Attitude to risk.
- Capacity for loss.
- Investment horizon.
- Tax status.
- Existing income.
- Any other assets.
- Target yield.
- Available yield from portfolio.
- Ethical/socially responsible investing (SRI)/Environmental, Social and Governance (ESG).

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

- Tool objective/not linked to client's circumstance.
- Lack of knowledge/understanding.
- Over-reliance upon output.
- Risk of mistakes/errors.
- Input/assumptions may not be realistic.
- Tool may cause portfolio drift.
- Income level may not be sustainable.
- Trigger tax liability.
- Tool focused/biased for income.
- Tool does not consider sequencing/volatility risk.

Model answer for Question 8

(a) *Candidates would have gained full marks for any fifteen of the following:*

Stocks and Shares ISA

- Income/capital.
- Paid gross.
- Tax-free/no Income Tax/Capital Gains Tax (CGT)/not subject to personal taxation.

Bond

- Withdrawals;
- up to 5% per annum.
- Tax deferred.
- Basic rate taxpayer tax paid/20% Income Tax on excess.
- Partial/full segment encashment.

General Investment Account (GIA)

- Income.
- Dividends taxed at 32.5%.
- After dividend allowance used.
- Distributions taxed at 40%.
- After personal savings allowance used.
- Capital.
- Unit sales/withdrawals to create income stream.
- Taxed at 20%.
- CGT annual exemption.

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

- Annual management charge (AMC).
- Performance fee.
- Transaction/dealing charge/Stamp Duty Reserve Tax (SDRT)/Panel of Takeovers and Mergers (PTM).
- Research.
- Regulatory/FSCS levy.
- Registration.
- Audit.
- Trustee/depositary.

- (c)
- Adviser charging explicitly/specifically agreed.
 - Adviser must justify service relating charging.

Direct

- Pay adviser directly/personally.
- Direct payment (cheque/bank transfer).
- Direct payment made from net income.
- Direct payment may be subject to VAT.

Platform

- Pay adviser indirectly/via platform.
- If balance in cash account too low/below minimum.
- May need to sell units to generate cash.
- Basis for encashment (spread/specified fund).

April 2019 Examination – J11 Wrap and Platform Services	
Question No	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. 4. Assess the appropriateness and operation of platforms in meeting client requirements.
3.	2. Explain the regulatory and legal context of platforms.
4.	1. Explain the use of platforms in providing financial planning services.
5.	1. Explain the use of platforms in providing financial planning services.
6.	5. Explain the workplace platform proposition for pensions and other financial products and services.
7.	4. Assess the appropriateness and operation of platforms in meeting client requirements.
8.	1. Explain the use of platforms in providing financial planning services. 3. Explain the charging structures and costs for using platforms.