



Chartered
Insurance
Institute

J11

Diploma in Financial Planning

Unit J11 – Wrap and Platform Services

October 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2020 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.

EXAMINER COMMENTS

Candidates' overall performance:

The question paper tested core syllabus areas but also gave the opportunity for candidates to demonstrate their knowledge of new subject areas. With this in mind, it was still apparent that some candidates had only revised model answers from previous question papers.

Candidates need to read the question(s) more carefully and try to understand the requirements of where the answers need to be focused, rather than taking the philosophy that answers from previous examination guides will be sufficient.

Questions 3, 7(a) and 8(c) were not well answered but this was countered by candidates performing well on the second half of the paper overall, particularly questions 7 and 8.

Question 1 provided some of the most accurate and comprehensive answers from candidates overall.

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

Question 1

Overall, candidates performed well on this question. However, many candidates focussed too much on providing a list of generic "due diligence" points which did not always answer the question being asked.

Question 2

This question tested a part of the syllabus that linked the risks of execution only business to both the client and the adviser. Candidates generally did well on both question parts.

Question 3

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

Candidates were not able to clearly articulate more than three or four of the system and controls that were required to obtain marks for this question. Where candidates did gain marks, was mainly around checking identity of clients, monitoring trading activity and appointing a money laundering officer.

Question 4

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

Part (b) was answered well overall, although some candidates were unaware of the change to protection limits for collective investments (i.e. an increase from £50,000 to £85,000).

Question 5

Candidates performed fairly well on this question. Part (a) was asking what the benefits were to the “employees” of having a workplace ISA. Some candidates listed the benefits of a workplace platform in general. Those that read the question properly achieved well but there were not many candidates that gained marks for noting that ISA contributions could be deducted from salary or that the process of investing into an ISA was a simplified process through a workplace scheme.

Part (b) was more straight forward and was answered well by candidates. This was partly expected given the prominence of platform technology migration in the market during the course of this year and the ensuing problems faced by those providers.

Question 6

Candidates performed well on this question, variations of this area have been tested before, with this particular question focusing on “transaction” charges. It was pleasing to see that candidates had more than adequate knowledge in this core area of the syllabus.

Question 7

Candidates did not perform well in part (a) as there was a trend towards providing very generic answers which were not particularly relevant, such as “not attracting high net worth clients”. Also, where candidates did not achieve well was because they did not link the risks to ways in which they could be mitigated. Better prepared candidates achieved from across all of the available marks.

In part (b) the question specifically relates to the tax treatment of available drawdown options. This was a well answered question.

Part (c) tasked candidates with identifying seven factors the firm should take into account when moving the pension clients, who are taking income, to the new platform. Candidates performed adequately.

Part (d) was not answered well and the main reason for that was that candidates confused the details contained in a “key features” document with what a platform terms and conditions document contains.

Question 8

Part (a) of this question was targeting candidates' ability to relate to due diligence of authorised advisory firm when choosing a new platform. It is a well explored type of question in previous J11 papers on due diligence.

In part (b), candidates' answers did not focus enough on the key word, "engagement". Improving communication was a common answer but not many noted that spending more time with clients, providing projections, providing 24/7 access or generally improving communication as their answers.

In part (c) many candidates duplicated their answers from part (a) but most performed well.



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Diploma in Financial Planning

Unit J11 – Wrap and platform services

October 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 2019/2020, 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** ways in which a platform can support a financial adviser in delivering a centralised investment proposition to their client bank. **(10)**

2. An advised platform offers functionality for clients to also transact on an execution only basis.
 Identify the risks of this to the:
 - (a) client; **(4)**
 - (b) financial adviser. **(4)**

3. Describe the systems and controls that a platform should have in place to prevent money laundering and financial crime. **(8)**

4. A platform uses a third-party provider for their pension and ISA wrappers.
 - (a) State **four disadvantages** of using a third-party wrapper for an IFA using the platform. **(4)**
 - (b) Outline the Financial Services Compensation Scheme limits for collective investments held in an ISA wrapper. **(3)**

5. A company is looking to make a workplace ISA available to their employees, via a platform. The platform being considered has recently migrated its technology to a new provider and has encountered significant difficulties over the past 12 months.
 - (a) Explain the benefits, to the employees, of having this investment option available to them compared to holding it direct with a single fund manager. **(6)**
 - (b) Explain briefly **five** main risks a platform would potentially face after dealing with issues migrating its technology. **(5)**

6. State **six** transaction charges that might be applicable on platforms. **(6)**

Total marks available for this section: 50

SECTION B

Attempt ALL questions

7. An authorised advisory firm has been providing services to its clients for over 30 years and have provided independent financial advice to broadly the same clients throughout their time in the industry.

The firm has built-up a substantial client base of decumulation pension clients, many of which are now taking income. These clients are aged 55 and above and are either in retirement or transitioning from working full time to part time.

The average pension portfolio holding stands at approximately £270,000.

The firm manages the majority of these clients on a single platform but has recently become concerned with the service provided by the platform provider. As a result, the firm are of the opinion that they should consider the option of adopting a new platform to move some, or possibly all, of their pension clients.

- (a) Identify **five** main business risks, within the authorised advisory firm, of adopting a new platform and for **each** risk explain briefly how it could be mitigated. (10)
- (b) State the pension withdrawal options and their associated tax treatment for these clients. (5)
- (c) Identify **seven** factors the firm should take into account when moving the pension clients, who are taking income, to the new platform. (7)
- (d) State **eight** of the main areas typically covered in a platform's terms and conditions. (8)

8. Largeco, an authorised advisory firm, is about to purchase OxBow, a sole trader independent financial advice business, as the adviser is retiring.

OxBow's client group comprises mainly of younger high net worth (HNW) retail clients with growth-focused investment portfolios. The average portfolio value is £250,000 and consists of collective funds. These HNW clients actively manage their portfolios and switch frequently. OxBow has not used a platform for any of its client group.

Largeco uses a platform for its client base which is predominantly older clients with income-focused investment portfolios. Having analysed the needs of the OxBow client group, Largeco has decided to offer a second platform to these clients.

Largeco wants to develop a relationship with the new client group and is keen to use a platform to enhance the firm's client proposition.

- (a) Identify the main areas that Largeco should consider when undertaking due diligence on the potential new platform provider. (12)
- (b) State **eight** ways in which a platform could help increase engagement with the new client group. (8)
- (c) Outline the main benefits to the OxBow client group of using a platform compared to directly held funds. (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:

- Consistency across all clients/model portfolio delivery.
- Access to a wide range of funds.
- Suite of adviser tools/risk profiling/portfolio construction/asset allocation.
- Range of wrappers/tax wrappers.
- Consolidated reporting/valuations/consolidated reporting.
- Auto rebalancing/rebalancing.
- Bulk switching.
- Dealing with corporate actions.
- Flexibility of the cash account.
- Pre-funded trades.
- Income flexibility/Automated Dividend Reinvestment.
- Fund analysis/portfolio X-Ray functionality.

Model answer for Question 2

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

- May not be covered by Financial Ombudsman Service (FOS).
- May breach Financial Services Compensation Scheme (FSCS) limits.
- May create potential tax issues (i.e. Capital Gains Tax).
- Could invest in funds outside agreed risk profile/unsuitable.
- Lack of understanding.
- Client error.

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

- Loss of adviser charge/justification of cost of financial advice.
- Loss of control.
- Loss of client contact/client.
- General compliance risk;
- evidencing it was execution only.

Model answer for Question 3

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

- Assess the risk of the business being used by criminals to launder money.
- Check the identity of customers/verifying source of funds.
- Check the identity of beneficial owners of corporate bodies and partnerships.
- Monitoring suspicious trading patterns/unusual activity.
- Ensuring the firm have necessary management control systems in place.
- Keeping all relevant documents relating to financial transactions, customer identity, risk assessment procedures and processes.
- Ensuring all employees are aware of the regulations;
- and have had training.
- Appointing a Money Laundering Officer.

Model answer for Question 4

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

- Extra layer of due diligence.
- Enhanced/additional disclosure.
- Increased admin time/adviser time cost/duplication of paperwork.
- Conflict of interest/cross over of T&Cs.
- Greater complexity with service proposition.

- (b)**
- £85,000.
 - Per individual.
 - Per fund manager.

Model answer for Question 5

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

- Due diligence on the ISA provider by employer.
- Deductions from pay/encourages savings culture.
- Cheaper costs/economies of scale.
- Hold different providers/fund managers.
- Provision of financial education/information of employees.
- Provision of financial planning tools to employees.
- Simplified process.

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

- Damage to reputation.
- Reduction in turnover/new business.
- Compensation/unexpected costs.
- Decreasing profitability.
- Data protection/security.
- System compatibility issues.
- Insufficient resources/lack of system capacity.
- System downtime/unavailability.
- Complaints.
- Regulatory issues.

Model answer for Question 6

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

- Dealing charges for the purchase/sale of certain asset classes.
- Fund switching.
- Charges for regular investment by direct debit.
- Transfer-in charges (including from a direct holding to a platform nominee service) /transfer-out charges/exit charge.
- Charges for handling corporate actions.
- Service-related charges (such as providing paper-based statements).
- Stockbroker charges.

Model answer for Question 7

- (a) *Candidates would have gained full marks for any ten of the following:*
- **Bad customer outcomes/unsuitable** for all clients:
 - Full market research/due diligence.
 - **Lack of competence and understanding:**
 - Staff training.
 - **Systems and Processes not fit for purpose:**
 - Review/ define systems and processes.
 - **Financial Impact/extra time/costs:**
 - Organise backup resources (staff & financial).
 - **Business Continuity:**
 - Platform financial strength/market commitment.
 - **Reputational risk (Disruption of income):**
 - Upfront and open communication with clients.
- (b)
- Tax free cash only (25%);
 - withdrawal of taxable income only;
 - taxed at the clients' marginal rate.
 - UFPLS;
 - combination of tax-free cash & taxable income (phased drawdown).
- (c) *Candidates would have gained full marks for any seven of the following:*
- Disruption of income.
 - Replication/continuation of existing adviser charge on new platform.
 - Flexibility of withdrawals (payment dates).
 - Wrapper availability e.g. cap drawdown/phased drawdown available.
 - Charges.
 - Disinvesting process.
 - Minimum values.
 - Death benefits.
 - Is the new platform suitable for all clients?
- (d) *Candidates would have gained full marks for any eight of the following:*
- Jurisdiction.
 - Data protection.
 - Establishing the various entities/parties involved in the platform services.
 - Dealing protocols for investments/switching/best execution.
 - Fees and charges/minimum values.
 - Circumstances where the platform services may be withdrawn or cease.
 - Communication.
 - Marketing consents.
 - Compensation/complaints.
 - Cancellation rights.

Model answer for Question 8

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

- Availability of all existing funds (in response to CP19/12).
- New platform costs.
- Basis of charging structure (first in, last out/auto disinvest).
- Financial strength/commitment to market/reputation.
- Ownership structure/Initial Public Offering (IPO) plans.
- Choice of technology provider.
- Position on re-platforming? (currently undergoing/has undergone).
- Number of complaints.
- Capacity of platform to accept new business (not on platform so not *in specie* transfer).
- SLA/compensation (not FSCS).
- Best execution/dealing terms.
- Cash account minimum balance/interest rate.
- Back office compatibility.
- Alignment with firm's existing advice proposition.
- Ability to maintain/support adviser charge.
- Availability of tax wrappers.
- Prefunding.
- Range of tools.
- Regulatory history.
- Business Continuity Planning.

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

- Spend more time with client/greater productivity.
- Improved/greater level of communication.
- Provide 24/7 access.
- Access to transaction/trading history.
- Provide projections.
- Provide lifetime cashflow/stochastic modelling.
- Help with portfolio construction.
- Help with review/rebalancing process.
- Platform assists with communication to/from client.
- Availability of tools.
- Research assistance.
- Client information/details in one place.
- Tax planning/auto-ISA.

(c)

- Consolidated valuations/statements.
- Single point of access/all in one place.
- Reduced admin/less paperwork.
- Lower fund charges/discounts.
- Access to institutional/clean share classes.
- Access to funds not available to direct/retail clients.
- Capital Gains Tax planning/tax certificate.
- Pre-funded switching/easier switching.
- Ability to pay adviser from platform/do not have to pay direct.
- Auto ISA.

October 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.	1. Explain the use of platforms in providing financial planning services.
3.	2. Explain the regulatory and legal context of platforms.
4.	2. Explain the regulatory and legal context of platforms.
5.	1. Explain the use of platforms in providing financial planning services. 5. Explain the workplace platform proposition for pensions and other financial products and services.
6.	3. Explain the charging structures and costs for using platforms.
7.	1. Explain the use of platforms in providing financial planning services. 4. Assess the appropriateness and operation of platforms in meeting client requirements.
8.	4. Assess the appropriateness and operation of platforms in meeting client requirements.