



Chartered
Insurance
Institute

J11

Diploma in Financial Planning

Unit J11 – Wrap and Platform Services

October 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2018 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 or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

Note the assumed knowledge

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

Read widely

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

Make full use of the Examination Guide

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

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

Know the structure of the examination

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

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

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

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

Read the Assessment information and Exam policies for candidates

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

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

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

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

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

Tackling questions

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

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

Answer format

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

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

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

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

Overall, candidates performed adequately and using recent previous sittings as a benchmark, ahead of expectation.

The question paper provided candidates with the opportunity to demonstrate their knowledge of the subject by testing a diverse range of syllabus content. The comprehensive nature of the model answers in Section B questions offered good candidates the opportunity to score well. However, candidates did not perform well in question 7 and question 8, consequently not achieving many of the potential marks.

Three areas were tested for the first time – question 3, question 4 and question 8(a) – and candidates should be aware that the subject's testing is not static and takes into consideration developments in the platform market as well as topical, relevant issues affecting both platform providers and users.

Fewer candidates than in recent sittings had the tendency to reproduce model answers from previous Exams Guides, especially for the longer Section B questions, in the hope that they will automatically score a high number of available marks because the model answers rarely change. Candidates should pay specific attention to what is actually being asked for in each question, especially in the Section B questions, in terms of variation in the focus of the question and the distinct content in the model answer. Examples of these can be seen in the scope of question 4 and question 7(a). It is unlikely that repetition of previous Exam Guide content will result in a candidate achieving the pass standard.

It was pleasing to see that candidates' exam technique continues to respond to comments in the Exams Guides, with increased use of succinct, focused answers and the use of bullet/number points from candidates, where their answers are aligned with the requirements of the question and the available marks.

Question 1

Candidates performed well on this question.

Those candidates who did not perform well, generally were not aligned with the requirements of the question, e.g. their answers were the features/benefits of a platform to a firm. Those candidates who performed well scored from across the majority of the available marks.

Question 2

Candidates performed well on this question.

Those candidates who did not score well gave answers that missed too many marks, e.g. scoring the 'platform charge' mark but not the 'product charge' or 'adviser charge' marks. Only a very small number of candidates scored the levy marks.

Question 3

Candidates performed adequately on this question.

This question was tested for the first time. This area of the syllabus is very topical and a candidate performing reasonable revision including wider reading had a very good opportunity to score maximum marks.

Candidates demonstrated a superficial knowledge in this area, knowing factors relating to advised business models but having little knowledge of the position from D2C platform providers and their business model.

Question 4

Candidates performed adequately on this question, with the majority of candidates scoring in the bottom half of the available marks.

It was disappointing that candidates did not perform better on this question as – like question 3 – it is very topical with considerable trade press and media coverage. Those candidates who did not perform well often stated general points relating to due diligence that were not aligned with the requirements of the question.

Question 5

Most candidates did not perform well on this question.

Candidates did not answer the requirements of the question, with many stating business functions for part (a) and/or part (b) and not the regulatory definitions in part (a). Most candidates identified some of the controlled functions – either in part (a) or (b) – but the knowledge of the regulatory permissions requires improvement. Given that this is arguably the most fundamental piece of knowledge relating to platforms, it is surprising that candidates do not know the regulatory permissions and related controlled functions.

Question 6

Candidates performed adequately on this question.

Candidates who did not perform well generally did not follow the requirements of the question, e.g. including retirement planning features despite their exclusion in the stem.

The general level of candidate knowledge was superficial, with many expansive answers listing several types of individual flexible benefits when ‘flexible benefits’ could only score one mark.

Question 7

Candidates performed less well on this question.

Too many candidates' answers were still not aligned with the requirements of the question. Those candidates who scored poorly overall generally did not score well in part (a), stating general due diligence marks and not those relating to the content of the scenario. In part (b), too many candidates stated general features/benefits of a platform, again not aligned with the content of the scenario.

Candidates performed slightly better in part (c), although this question part in itself was not sufficient to raise their marks to the pass standard for the overall question.

Question 8

Candidates performed less well on this question.

Candidates performed poorly in part (a) and this may have been because this area of the syllabus was tested for the first time, although the syllabus area is given prominent coverage in the study text. As a result of not knowing the answers to part (a), candidates were unlikely to score well in part (b) as it represented the client-focused application of part (a). Candidates did score from across the available marks but not in high enough numbers.

Candidates performed well in part (c), which was encouraging as this question scored poorly when tested for the first time previously. In this sitting, candidates scored from across all the available marks.



THE CHARTERED INSURANCE INSTITUTE

J11

Diploma in Financial Planning

Unit J11 – Wrap and platform services

October 2017 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 2017/2018, 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 **eight** ways in which a platform could assist a financial adviser when preparing recommendations for an investment portfolio for a new retail client. (8)

2. A financial adviser is discussing a platform with a new retail client. The adviser is considering the use of a stocks and shares ISA and self-invested personal pension (SIPP) tax wrapper as part of the client's investment and retirement planning.

State **eight** charges and levies that could be paid by the client within the ISA and SIPP wrappers on the platform, **excluding** taxes. (8)

3. Identify **eight** main differences of non-advised platform business models compared to advised platform business models. (8)

4. An existing platform provider is planning a significant software upgrade that will include a change of technology provider.

State the **main** areas of due diligence that an authorised advisory firm would undertake in respect of platform technology factors only. (8)

5. In respect of a platform service provider:

(a) state the **four** regulatory permissions; (4)

(b) identify **one** controlled function for **each** regulatory permission given in your answer in **part (a)** above. (4)

6. A medium-sized business is considering offering a workplace platform to its staff for the first time.

Outline the main employee features that the platform could provide, **excluding** retirement planning. (10)

Total marks available for this section: 50

SECTION B

Attempt ALL questions

7. A firm of independent financial advisers currently uses a platform for the majority of its clients. The firm wants to develop its client proposition to include a discretionary fund management (DFM) service for its higher net worth client group. The firm intends to market this service via a second platform provider.

The higher net worth (HNW) client group has an average portfolio value of £450,000, which mainly consists of collective funds and is focused upon income generation. This client group does not trade frequently and the majority of these clients are deemed to have a low to medium attitude to risk.

- (a) Identify **ten** main areas of due diligence, relevant to the needs of the HNW client group only, that the IFA firm would perform on the potential second platform provider. (10)
- (b) List **ten** main benefits to the HNW client group of holding their portfolios on a platform. (10)
- (c) Outline the main risks to the HNW client group of using a DFM service via a platform. (10)

- 8.** Having undertaken due diligence upon a shortlist of potential platforms, an authorised advisory firm has chosen XYZ Wrap as the main platform to support the delivery of the firm's advice proposition.

The average client investment portfolio is valued at £180,000 and consists of a range of equity, fixed interest and commercial property collective funds. These funds are referenced against a variety of benchmarks that were set at the establishment of each client's portfolio but have not been reviewed subsequently. Some clients are invested for growth and others for income.

Overall, the clients trade with varying frequencies and the firm is keen to use the new platform to help engage more with clients on regular rebalancing as part of its annual review process.

The firm has communicated its intentions to the client group and some clients have asked for more information on how they can buy and sell funds when on the new platform.

- (a)** Outline **six** objectives of the rebalancing process. **(6)**
- (b)** Explain the main factors that the firm should consider when rebalancing the clients' investment portfolios on XYZ Wrap. **(14)**
- (c)** Explain briefly the main stages of the transactional services process when buying and selling funds on XYZ Wrap. **(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 eight of the following:

- Justify/set out adviser charge.
- Record keeping/meeting notes.
- Help with reports (suitability/compliance).
- Define attitude to risk/capacity for loss/tool.
- Research investments/analysis/x-ray.
- Prepare illustrations/Key Features Illustration (KFI).
- Construct portfolio /tool/stochastic modelling/asset allocation.
- Complete applications.
- Lifetime cashflow.

Model answer for Question 2

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

- Platform charge.
- Fund/product charge/Discretionary Fund Management (DFM) charge.
- Adviser charge.
- Switching/Dealing Charge.
- Panel of Takeovers and Mergers (PTM) levy.
- Property purchase fee.
- Flexible benefits charge (drawdown, flexi-access, Uncrystallised funds pension lump sum (UFPLS) etc).
- Unauthorised scheme charge.
- Corporate action/Dividend charge.
- Custody/Custodian charge.

Model answer for Question 3

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

- Use of guided architecture/robo-advice/'simplified advice'.
- Non-advised caters for advice gap/consumers without adviser.
- Non-advised can target customer loyalty/retention.
- Non-advised likely to be smaller size/higher volume.
- Charging structure/pricing models.
- Ownership of client/data capture/cross-selling.
- Lower cost/may be more profitable/higher margins.
- Controlled distribution/market specific funds.
- Simpler funds/features/products/UCIS/high risk.
- Reduce liability/Adviser liability.

Model answer for Question 4

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

- Is software proven/track record.
- Performance/penetration testing.
- Capacity/ability of new software to meet existing/future needs.
- Upgrade timescale/schedule/risk of delays.
- Impact on any existing functionality/disruption.
- Front end/Back office compatibility.
- Software ownership/licensing costs to advising firm.
- Data security/business continuity plan (BCP).
- Basis/location of data storage.
- Versioning/future-proofing.
- Cost of upgrade.
- Conflict of interest.

Model answer for Question 5

- (a)
 - Dealing in investments as agent.
 - Arranging deals in investments.
 - Safeguarding and administering assets.
 - Sending dematerialised instructions.
- (b)
 - CF10a/CASS operational oversight.
 - CF11/money laundering reporting.
 - CF28/systems and controls.
 - CF30/customer.

Model answer for Question 6

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

- Provision of educational/guidance tools.
- Tax planning/calculator/salary sacrifice.
- 24/7/remote access.
- View benefits in one place/consolidated.
- Projection/cash flow tools.
- Risk tools.
- Ability to communicate direct with administrator/provider.
- Access ISA/non-pension products/sharesave/transfer in ISA.
- Total benefits/flexible benefits statements/overview.
- Document library/storage.
- Self-serve/manage contributions/switching/construct portfolio.
- Access to third party services, e.g. well-being/medical.

Model answer for Question 7

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

- (a)
 - Best execution/dealing terms.
 - Cash account requirement/minimum balance.
 - Cash account rate of interest.
 - In specie re-registration.
 - Ability to continue clients' income uninterrupted.
 - Availability of all existing funds/assets.
 - Ability of platform to hold/administer discretionary fund management (DFM).
 - Prefunding of income/switches.
 - Any conflict of interest with existing platform.
 - Any conflict of interest between new platform and DFM/remuneration between platform and DFM.
 - New platform charging structure/pricing deals for larger funds.
 - Financial strength/commitment to market.

- (b)
 - Ability to pay natural income.
 - Ability to receive fixed/flexible income.
 - Consolidated valuations/statements.
 - Help with tax planning/Capital Gains Tax tool.
 - Auto ISA.
 - Reduced administration/less paperwork.
 - Access to discretionary fund management (DFM) model/risk-adjusted portfolios.
 - Tools.
 - Institutional/high minimum share classes.
 - Potential lower charges/discounts.

- (c)
 - Discretionary Fund Management (DFM) service not suitable.
 - Financial Services Compensation Scheme (FSCS) limits exceeded/lack of (FSCS) protection.
 - DFM chases yield to maintain income.
 - DFM uses unsuitable assets.
 - DFM uses illiquid assets.
 - Overlap with non-DFM portfolio/assets.
 - Client paying higher/extraneous costs.
 - DFM acting outside of its mandate/fails to perform its duties.
 - Client exposed to assets outside attitude to risk/capacity for loss.
 - DFM service not available on platform tools.
 - Deviation from bench mark.
 - Incurring unnecessary tax liabilities/CGT.
 - IFA fails to monitor performance/relies on DFM.
 - DFM overtrading.
 - Conflict of interest.

Model answer for Question 8

- (a) • Realign portfolio to the original recommended/target asset allocation.
• and weighting.
• Ensuring that the portfolio continues to meet the client's attitude to risk/capacity for loss.
• Take profits/top-up portfolio/invest cash.
• Adaptation of the portfolios to deal with a change in client circumstances.
• Correct any portfolio/style drift.
- (b) *Candidates would have gained full marks for any ten of the following:*
• Trading costs.
• Whether the platform provides pre-funding of trades.
• Whether to retain the existing client portfolio benchmarks.
• Potential CGT liabilities.
• Whether the advisory firm holds relevant permissions.
• Automatic/manual.
• The frequency of the rebalancing process.
• Whether rebalancing will affect income.
• Ability to rebalance commercial property funds.
• Timing of rebalancing/market timing for equities funds.
• On-going suitability of existing funds/asset allocation/change of client risk profile.
• Process/procedure;
• and liability if the rebalance does not work as expected.
• Availability/functionality of rebalancing tool on XYZ platform.
• Existing rebalancing within existing advice process/proposition.
• Which wrappers/fund(s) to rebalance.
- (c) *Candidates would have gained full marks for any ten of the following:*
• Input/placed.
• Validation/routing.
• Check client has sufficient funds.
• Check trade is permissible.
• Aggregation/Disaggregation;
• netted off.
• execution.
• Clearing/settlement.
• Transfer of ownership;
• in exchange for money.
• Contract note issued.
• Reconciliation.

October 2017 Examination – J11 Wrap and Platform Services		
Syllabus learning outcomes being examined		
1.	1.	Explain the use of platforms in providing financial planning services.
2.	4.	Assess the appropriateness and operation of platforms in meeting client requirements.
3.	3.	Explain the charging structures and costs for using platforms.
4.	2. 4.	Explain the regulatory and legal context of platforms. Assess the appropriateness and operation of platforms in meeting client requirements.
5.	4.	Assess the appropriateness and operation of platforms in meeting client requirements.
6.	5.	Explain the workplace platform proposition for pensions and other financial products and services.
7.	1. 4.	Explain the use of platforms in providing financial planning services. Assess the appropriateness and operation of platforms in meeting client requirements.
8.	2. 4.	Explain the use of platforms in providing financial planning services. Explain the regulatory and legal context of platforms. Assess the appropriateness and operation of platforms in meeting client requirements.