

UNIT 1: THE INVESTMENT ENVIRONMENT V.14

TESTED FROM 1 DECEMBER 2016

Amended 14 to 15

Amended from 2016 to 2017

UNIT AIMS

By the end of this unit, learners should be able to demonstrate:

- An understanding of the UK financial services industry and international financial markets
- An understanding of and ability to critically evaluate the outcomes that distinguish between ethical and compliance driven behaviour and apply the CFA Code of Ethics and Standards of Professional Conduct to business behaviours of individuals
- An understanding of the Financial Conduct Authority's (FCA's) use of principles and outcomes based regulation to promote ethical and fair outcomes, and the ability to apply the regulatory advice framework in practice for the consumer
- An understanding of the FCA's responsibilities and approach to regulation and the role of the Prudential Regulation Authority (PRA) for dual regulated firms, and an understanding of and ability to apply the FCA principles and rules as set out in the regulatory framework and FCA Handbook
- An understanding of legal concepts relevant to financial advice
- An understanding of how the retail consumer is served by the financial services industry, the range of skills required when advising clients and an ability to apply the investment advice process
- An understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts
- An ability to analyse the taxation of investments as relevant to the needs and circumstances of individuals and trusts, and an ability to apply the knowledge of personal taxation to the provision of investment advice
- An ability to analyse the role and relevance of tax in the financial affairs of individuals and trusts

Question allocation across the syllabus is balanced on the guidance of psychometric and industry specialists. The following question allocation for Version 14 of the IMC is provided as a broad indication of the relative 'weighting' of different parts of the syllabus in IMC examinations from 1 December 2016.

CONTENT AREA	TOPIC	TOPIC NAME	QUESTION ALLOCATION
Financial markets and institutions	1	Financial Markets and Institutions	10-20
Ethics	2	Ethics and Investment Professionalism	5-15
Regulation and legal concepts	3	The Regulation of Financial Markets and Institutions	25-35
	4	Legal Concepts	
Clients	5	Client Advice	15-25
Taxation	6	Taxation in the UK	10-20

OTHER INFORMATION REGARDING THIS UNIT:

Exam format:	<ul style="list-style-type: none"> 85 questions Online testing using standard multiple choice, item sets and gap-fill style questions
Time allowed for exam:	1 hour and 40 minutes
Grades:	Pass or Fail
Study Materials:	<ul style="list-style-type: none"> Official Training Manual v.14 is available from the CFA UK website, including revision questions with fully worked calculations. Mock exam available in the Candidate Area of the CFA UK website
Recommended study hours:	80 hours
Availability of exam sessions:	Every working day through Pearson VUE testing centres.

TOPIC 1 FINANCIAL MARKETS AND INSTITUTIONS

By the end of this topic, learners should be able to:

- Demonstrate an understanding of the UK financial services industry, in its European and global context
- Demonstrate an understanding of UK and international financial markets

1.1 INTRODUCTION TO FINANCIAL MARKETS

- 1.1.1 Explain the functions of the financial services industry in allocating capital within the global economy
- 1.1.2 Explain the role and impact of the main financial institutions
- 1.1.3 Explain the role of government including economic and industrial policy, regulation, taxation and social welfare

1.2 THE ROLE OF SECURITIES MARKETS IN PROVIDING LIQUIDITY AND PRICE TRANSPARENCY

- 1.2.1 Differentiate between a financial security and a real asset
- 1.2.2 Identify the key features of: an ordinary share, a bond, a derivative contract, a unit in a pooled fund, and a foreign exchange transaction
- 1.2.3 Identify the functions of securities markets in providing price transparency and liquidity
- 1.2.4 Identify the reasons why liquidity and price transparency are thought to be important for the efficient allocation of capital **costs** when trading in securities markets
- 1.2.5 Calculate round trip transaction costs incorporating bid-ask spreads, dealing commission and transaction taxes, both in percentages and in absolute amounts
- 1.2.6 Identify the types of securities and the market conditions where price transparency, liquidity and depth are likely to be high/low
- 1.2.7 Define liquidity risk and identify why it is **important**

1.3 TYPES OF FINANCIAL MARKETS

- 1.3.1 Identify the main dealing systems and facilities offered in the UK equities market
- 1.3.2 Identify the nature of the securities that would be traded on each of the main dealing systems and facilities
- 1.3.3 Explain the structure and operation of the primary and secondary UK markets for gilts and corporate bonds
- 1.3.4 Explain the motivations for, and implications of, dual-listing for a company
- 1.3.5 Compare and contrast exchange traded and over-the-counter (OTC) markets
- 1.3.6 Distinguish between the following alternative trading venues: multilateral trading facilities, systematic **internalisers**, dark pools

Costs

Inserted LOS 1.2.7 1.2.7 Identify the most important differences in transaction costs between UK & non UK equities, fixed income securities, different categories of pooled funds derivatives, property and different categories of alternative investments

Inserted LOS 1.2.8 Identify, explain and calculate transaction costs associated with dealing in: UK equities, fixed income securities, derivatives and alternative investments

Amended to LOS 1.2.7 to 1.2.9

Inserted 'organised trading facilities, and'

- 1.3.7 Distinguish between a quote-driven and an order-driven market
- 1.3.8 Explain the roles of the various participants in the UK equity market
- 1.3.9 Explain high-frequency trading, its benefits and risks

Amended to 'Explain algorithmic and high-frequency trading, its benefits, risks and regulation'

1.4 SETTLEMENT PROCEDURES IN THE UK

- 1.4.1 Explain the clearing and settlement procedures for UK exchange traded securities

1.5 THE UK LISTING AUTHORITY AND PROSPECTUS REQUIREMENTS

- 1.5.1 Explain the role of the FCA as the UK listing authority
- 1.5.2 Identify the listing rules in Financial Services and Markets Act (FSMA) 2000 as amended, and relevant EU directives
- 1.5.3 Explain the main conditions for listing on the Official List, AIM and ISDX
- 1.5.4 Explain the purpose of the requirement for prospectus or listing particulars
- 1.5.5 Identify the main exemptions from listing particulars

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Amended ISDX to NEX

Inserted 'a'

1.6 INFORMATION DISCLOSURE AND CORPORATE GOVERNANCE REQUIREMENTS FOR UK EQUITY MARKETS

- 1.6.1 Explain the disclosures required under the disclosure and transparency rules relating to directors' interests and major shareholdings
- 1.6.2 Explain the purpose of corporate governance regulation and the role of the Financial Reporting Committee in promoting good corporate governance
- 1.6.3 Explain, in outline, the scope and content of corporate governance standards in the UK
- 1.6.4 Explain the London Stock Exchange requirements for listed companies to disclose corporate governance compliance
- 1.6.5 Explain the continuing obligations of London Stock Exchange listed companies regarding information disclosure and dissemination
- 1.6.6 Explain, in outline, the UK company law requirements regarding the calling of Annual General Meetings and other general meetings
- 1.6.7 Distinguish between annual general meetings and other types of company meetings
- 1.6.8 Distinguish between the types of resolution that can be considered at company general meetings
- 1.6.9 Distinguish between the voting methods used at company meetings
- 1.6.10 Explain the role and powers of a proxy

Amended to 'Council'

1.7 INTERNATIONAL MARKETS

- 1.7.1 Explain the structure, features, regulatory and trading environment of international markets, including developed markets and emerging markets
- 1.7.2 Explain the structure and operation of the primary and secondary markets for eurobonds
- 1.7.3 Explain the settlement and clearing procedures overseas, including the role of international central securities depositories, and the different settlement cycles and challenges in managing global assets

1.8 THE PRINCIPAL-AGENT PROBLEM: SEPARATION OF OWNERSHIP AND CONTROL

- 1.8.1 Explain how capital markets allow the beneficial ownership, and the control of capital, to be separated
- 1.8.2 Distinguish between beneficial owners (principals) and the various agents involved in the capital allocation process
- 1.8.3 Explain how conflict between the interests of agents and principals gives rise to the 'agency' or 'principal-agent' problem
- 1.8.4 Identify examples of agency costs such as: expropriation, perquisites, self-dealing and higher cost of capital, which arise when the agency problem is known to exist
- 1.8.5 Identify the main reasons why it is argued that reducing the agency problem benefits the investment profession and society as a whole

TOPIC 2 ETHICS AND INVESTMENT PROFESSIONALISM

By the end of this topic, learners should be able to:

- Demonstrate an ability to critically evaluate the outcomes that distinguish between ethical and compliance driven behaviour
- Demonstrate an ability to apply the CFA Code of Ethics and Standards of Professional Conduct to the business behaviours of individuals

2.1 ETHICAL AND COMPLIANCE DRIVEN BEHAVIOUR

- 2.1.1 Describe the need for ethics in the investment industry
- 2.1.2 Identify the ethical obligations to clients, prospective clients, employers and co-workers
- 2.1.3 Identify positive and negative behavioural indicators
- 2.1.4 Critically evaluate the outcomes which may result from behaving ethically – for the industry, individual advisers, and consumers
- 2.1.5 Critically evaluate the outcomes which may result from limiting behaviour to compliance within the rules – for the industry, individual advisers, and consumers

2.2 CFA CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

- 2.2.1 Identify the elements of the CFA Code of Ethics and Standards of Professional Conduct
- 2.2.2 Explain the professional principles and values on which the CFA Code of Ethics and Standards of Professional Conduct is based
- 2.2.3 Apply the CFA Code of Ethics and Standards of Professional Conduct to a range of ethical dilemmas

TOPIC 3 THE REGULATION OF FINANCIAL MARKETS AND INSTITUTIONS

By the end of this topic, learners should be able to:

- Demonstrate the ability to apply the regulatory advice framework in practice for the consumer
- Demonstrate an understanding of the UK financial services industry, in its European and global context
- Demonstrate an understanding of the Financial Conduct Authority's (FCA) responsibilities and approach to regulation
- Demonstrate an understanding of UK and International financial markets
- Demonstrate an ability to apply the FCA's principles and rules as set out in the regulatory framework and FCA Handbook
- Demonstrate an understanding of where the PRA may also be involved for dual-regulated firms

3.1 INTERNATIONAL AND EUROPEAN UNION DIRECTIVES, REGULATION AND GUIDANCE

- 3.1.1 Explain the legal status of EU directives and regulations within the UK
- 3.1.2 Explain the role and powers of the European Securities and Markets Authority
- 3.1.3 Explain the purpose and scope of the Markets in Financial Instruments Directives
- 3.1.4 Explain the purpose and scope of the Undertakings for Collective Investment in Transferable Securities (UCITS) Directives
- 3.1.5 Explain the purpose, scope and requirements of the Alternative Investment Fund Managers Directive (AIFMD)
- 3.1.6 Explain the purpose and scope of the European Market Infrastructure Regulation (EMIR)
- 3.1.7 Explain the purpose and scope of the Foreign Account Tax Compliance Act (FATCA)

Inserted 'ESMA'

Amended to 'Explain the purpose and scope of the Markets in Financial Instruments Directives (MiFID I and MiFID II) and the Markets in Financial Instruments Regulations (MiFIR)'

Amended to 'Explain the purpose and scope of the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS)'

3.2 UK REGULATION

- 3.2.1 Describe and distinguish between the roles of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA), Bank of England, Financial Policy Committee (FPC) and HM Treasury
- 3.2.2 Explain the different roles of the FCA and PRA for dual-regulated investment firms
- 3.2.3 Explain the scope of the Financial Services and Markets Act (FSMA) 2000 (as amended by the Financial Services Act 2012)
- 3.2.4 Explain the scope of the Regulated Activities Order 2001 (as amended) in terms of regulated activities and specified investments3.2.5 Explain the function of the following bodies/persons: the Payments System Regulator, the Competition and Markets Authority, the Department for Business, Energy & Industrial Strategy, the Panel on Takeovers and Mergers, and the Information Commissioner's Office (ICO)
- 3.2.6 Explain the make-up of the Panel on Takeovers and Mergers (the Takeover Panel) and how it is financed
- 3.2.7 Explain the regulatory status of the City Code on Takeovers and Mergers
- 3.2.8 Explain the main provisions of the City Code, including the bid timetable
- 3.2.9 Explain the purpose and scope of the Trustee Act 2000: the rights and duties of the

Deleted (FPC)

Deleted 'by the Financial Services Act 2012'

Inserted '(the Takeover Panel)'

Amended to 'Explain the make-up of the Panel on Takeovers Takeover Panel and Mergers (the Takeover Panel) and how it is financed'

Inserted '(the City Code)'

- parties involved, the nature of the trust deed and the investment powers of trustees
- 3.2.10 Explain the significance of the Pensions Act 2004 (including scheme specific funding requirement, the Pensions Regulator, the Pension Protection Fund), the Pension Act 2008 (including automatic enrolment and the National Employment Savings Trust) (NEST)) and the reforms to pensions from April 2015 (including freedom of choice in how pension is taken)
- 3.2.11 Explain the purpose of a Statement of Investment Principles

3.3 THE FINANCIAL CONDUCT AUTHORITY: OBJECTIVES AND HIGH LEVEL STANDARDS

- 3.3.1 Explain the role and statutory objectives of the FCA
- 3.3.2 Identify and distinguish among the blocks of the FCA Handbook
- 3.3.3 Identify the FCA's Principles for Businesses (PRIN 2.1 & 4.1) and explain their application and purpose (PRIN 1.1.1 & 1.1.2)
- 3.3.4 Explain the consequences of breaching the FCA's Principles for Businesses (PRIN 1.1.7 to 1.1.9 and DEPP 6.2.14 & 6.2.15)
- 3.3.5 Explain the purpose and scope of the FCA's rules regarding Senior Management Arrangements, Systems and Controls (SYSC)
- 3.3.6 Explain, in outline, the procedures for authorisation of firms, including knowledge of the threshold conditions, and liaison with the PRA where relevant
- 3.3.7 Define an approved person, and explain the application and purpose of the Statements of Principle and Code of Practice for Approved Persons (APER)
- 3.3.8 Identify the main assessment criteria in the FCA's 'fit and proper test' for approved persons (FIT)
- 3.3.9 Explain the application procedure for an approved person (SUP 10A) and how the PRA may also be involved
- 3.3.10 Explain the procedure for an approved person moving within a group and how the PRA may also be involved (SUP 10A)
- 3.3.11 Define a controlled function and identify the types of controlled functions defined within the FCA Handbook (SUP 10A)
- 3.3.12 Explain the regulatory requirements on individual accountability under Banking Reform Act 2013: Senior Managers Regime, Certification Regime, Conduct Rules.
- 3.3.13 Explain the requirements relating to training and competence (TC 1-3)
- 3.3.14 Explain the professionalism requirements that have to be met by retail investment advisers and investment managers (TC 1-3, inc. appendices)

Inserted new LOS 3.3.6 Explain the purpose of the principles and rules on conflicts of interest, including: identifying, recording and disclosing conflicts of interest and managing them to ensure the fair treatment of clients (PRIN 2.1.1, Principle 8, & SYSC 10)

Amended to LOS 3.3.7

Amended to LOS 3.3.8

Amended to LOS 3.3.9

Amended to LOS 3.3.10

Amended to LOS 3.3.11

Amended to LOS 3.3.12

Amended to LOS 3.3.13

Inserted '(SUP 10C)'

Amended to LOS 3.3.14

Amended to LOS 3.3.15

3.4 REGULATION OF INVESTMENT EXCHANGES

- 3.4.1 Explain the role of an investment exchange
- 3.4.2 Explain the need for, and relevance of, investment exchanges needing to be recognised by the FCA
- 3.4.3 Explain how the Bank of England regulates clearing houses in the UK
- 3.4.4 Identify and distinguish the roles of London Stock Exchange (LSE), ICE Futures Europe and ICE Clear Europe
- 3.4.5 Identify the features of trading systems for derivatives
- 3.4.6 Identify the main features of the regulation of derivatives
- 3.4.7 Identify the main features of clearing and settlement for trading on derivatives exchanges, and when trading over-the-counter (OTC)
- 3.4.8 Explain the arrangements for market transparency and transaction reporting in the main derivative markets
- 3.4.9 Explain the impact of Markets in Financial Instruments Directives and International Accounting Standards on the regulation of derivative markets

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Amended to 'MiFID II/MiFIR

Inserted new LOS 3.4.10 Explain the rules relating to title transfer collateral arrangements

3.5 FCA BUSINESS STANDARDS

Accepting customers for business (client categorisation)

- 3.5.1 Explain the purpose of client categorisation
- 3.5.2 Distinguish between a retail client, a professional client and an eligible counterparty (COBS 3.4, 3.5 & 3.6)
- 3.5.3 Apply the rules relating to treating a client as an elective professional client (COBS 3.5.3)
- 3.5.4 Apply the rules relating to treating a client as an elective eligible counterparty (COBS 3.6.4 to 3.6.6)
- 3.5.5 Apply the rules relating to providing clients with a higher level of protection (COBS 3.7)
- 3.5.6 Apply the rules relating to client agreements (COBS 8.1)

Financial promotions and other communications with customers, including information about the firm

- 3.5.7 Explain the purpose and scope of the financial promotions rules and the exemptions from them (COBS 4.1)
- 3.5.8 Explain the fair, clear and not misleading rule (COBS 4.2)
- 3.5.9 Explain the rules relating to communications with retail clients (COBS 4.5)
- 3.5.10 Explain the rules relating to past, simulated past and future performance (COBS 4.6)
- 3.5.11 Explain the rules relating to direct offer promotions (COBS 4.7)
- 3.5.12 Explain the rules relating to cold calls and other promotions that are not in writing (COBS 4.8)
- 3.5.13 Explain the rules relating to systems and controls in relation to approving and communicating financial promotions (COBS 4.10)
- 3.5.14 Explain the record keeping requirements relating to financial promotions (COBS 4.11)
- 3.5.15 Explain the rules relating to distance marketing communications (COBS 5.1 & 5.2)
- 3.5.16 Explain the rules relating to providing information about the firm and compensation information (COBS 6.1)
- 3.5.17 Explain the rules on adviser charging and remuneration (COBS 6.3 & 6.4)
- 3.5.18 Explain the FCA's approach to temporary product intervention

Identifying client needs (suitability and appropriateness)

- 3.5.19 Explain the rules relating to assessing suitability (COBS 9.2)
- 3.5.20 Explain the rules relating to assessing appropriateness (COBS 10.2)
- 3.5.21 Explain the rules relating to warning a client (COBS 10.3)
- 3.5.22 Identify circumstances when assessing appropriateness is not required (COBS 10.4, 10.5 & 10.6)
- 3.5.23 Identify circumstances where own authority or expertise is limited and there is the need to refer to specialists
- 3.5.24 Distinguish between independent advice and restricted advice (COBS 6.2A)

Dealing and managing

- 3.5.25 Explain the rules relating to best execution (COBS 11.2)
- 3.5.26 Explain the rules relating to client order handling (COBS 11.3)
- 3.5.27 Explain the rules relating to the use of dealing commission (COBS 11.6)
- 3.5.28 Explain the rules on personal account dealing (COBS 11.7)
- 3.5.29 Explain the purpose of the principles and rules on conflicts of interest, including: identifying, recording and disclosing conflicts of interest and managing them to ensure the fair

Inserted new LOS 3.5.17 Explain the rules on inducements (COBS 2.3 and 2.3A)

Amended to LOS 3.5.18

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Amended to LOS 3.5.29

treatment of clients (PRIN 2.1.1, Principle 8, & SYSC 10)

LOS deleted

Investment research

- 3.5.30 Explain the rules relating to investment research produced by a firm and disseminated to clients (COBS 12.2)
- 3.5.31 Explain the rules relating to the publication and dissemination of non-independent research (COBS 12.3)
- 3.5.32 Explain the disclosure requirements relating to the production and dissemination of research recommendations (COBS 12.4)

Title amended to 'Product Governance and Disclosure Requirements'

Inserted new LOS 3.5.33 Explain the MiFID II requirements on product governance

Amended to LOS 3.5.34

Amended to LOS 3.5.35

Amended to LOS 3.3.6

Amended to LOS 3.3.7

Deleted '(COBS 6.2A, COBS 6.3 & COBS 14.2.1)'

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Deleted '& CASS 7.14'

Amended to LOS 3.5.46

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Amended LOS 3.5.48

Amended LOS 3.5.48 (a) Explain the application and purpose of the rules relating to the treatment of client money (COBS 7.11)

LOS 3.5.48 (b) Explain the rules relating to the protection of client money and having adequate organisational arrangements (CASS 7.12)

Amended to LOS 3.5.49

Amended

LOS 3.5.49 (a) Explain the rules relating to the depositing of money with third parties (CASS 7.14)

LOS 3.5.49 (b) Explain the rules relating to the segregation of client money (CASS 7.13)

Amended to LOS 3.5.50

Amended to LOS 3.5.51

Product disclosure – packaged products

- 3.5.33 Explain the obligations relating to preparing product information (COBS 13.1 & COLL 4.7)
- 3.5.34 Explain the rules relating to the form and content of a key features document and a key investor information document (COBS 13.2, 13.3, 14.2 & COLL 4.7)
- 3.5.35 Explain the rules relating to cancellation rights (COBS 15)
- 3.5.36 Distinguish between packaged products and retail investment products (COBS 6.2A, COBS 6.3 & COBS 14.2.1)

Record keeping and reporting information

- 3.5.37 Apply the rules relating to record keeping for client orders and transactions (COBS 11.5)
- 3.5.38 Apply the rules relating to occasional reporting to clients (COBS 16.2)
- 3.5.39 Apply the rules relating to periodic reporting to clients (COBS 16.3)
- 3.5.40 Explain the rules relating to reporting on the progress of an authorised fund to unitholders (COLL 4.5)

Client assets and client money rules

- 3.5.41 Explain the concept of fiduciary duty
- 3.5.42 Explain the application and purpose of the rules relating to custody of client assets held in connection with MiFID business (CASS 6.1)
- 3.5.43 Explain the rules relating to the protection of clients' assets or money and having adequate organisational arrangements (CASS 6.2)
- 3.5.44 Explain the rules relating to depositing assets or money with third parties (CASS 6.3 & CASS 7.14)
- 3.5.45 Explain the purpose of the rules relating to the use of clients' assets (CASS 6.4)
- 3.5.46 Explain the rules relating to records, accounts and reconciliations of clients' assets (CASS 6.6)
- 3.5.47 Explain the application and general purpose of the client money rules (CASS 7.10)
- 3.5.48 Explain the rules relating to the segregation of client money (CASS 7.13)
- 3.5.49 Explain the rules relating to records, accounts and reconciliations of clients' money (CASS 7.15)
- 3.5.50 Explain the rules relating to mandate accounts (CASS 8)

3.6 FCA SUPERVISION AND REDRESS

- 3.6.1 Explain the FCA's risk based approach to supervision and the enforcement and disciplinary powers of the FCA

Complaints handling, the Financial Ombudsman Service and the Financial Services Compensation Scheme

- 3.6.2 Explain the FCA rules relating to handling of complaints (DISP 1.3)

- 3.6.3 Explain the role of the Financial Ombudsman Service (DISP Introduction and DISP 2)
- 3.6.4 Apply the rules relating to determination by the Financial Ombudsman Service (DISP 3.6)
- 3.6.5 Distinguish between compulsory and voluntary jurisdiction (DISP Introduction)
- 3.6.6 Explain the procedure and time limits for the resolution of complaints (DISP 1.4, 1.5 & 1.6)
- 3.6.7 Apply the rules relating to record keeping and reporting concerning complaints (DISP 1.9 & 1.10)
- 3.6.8 Explain the purpose of the Financial Services Compensation Scheme (FSCS) (COMP 1.1.7 & 1.1.10A)
- 3.6.9 Identify the circumstances under which the FSCS will pay compensation (COMP 1.3.3, 3.2.1, 4.2.1 & 4.2.2)
- 3.6.10 Identify the limits on the compensation payable by the FSCS (COMP 10.2.1, 10.2.2 & 10.2.3)

3.7 FINANCIAL CRIME

- 3.7.1 Explain the various sources of money laundering and counter-terrorism regulation and legislation (FCA rules, SYSC 6.3, Money Laundering Regulations, Proceeds of Crime Act 2002)
- 3.7.2 Explain the role of the Joint Money Laundering Steering Group (JMLSG)
- 3.7.3 Explain the main features of the guidance provided by the JMLSG

- 3.7.4 Explain the three stages involved in the money laundering process
- 3.7.5 Explain the four offence categories under UK money laundering legislation
- 3.7.6 Explain the meaning of 'inside information' covered by the Criminal Justice Act (CJA) 1993
- 3.7.7 Explain the offence of insider dealing covered by the CJA 1993
- 3.7.8 Identify the penalties for being found guilty of insider dealing
- 3.7.9 Explain the FCA's powers to prosecute insider dealing (EG 12.7)
- 3.7.10 Describe the behaviours defined as market abuse (MAR 1.3–1.9)
- 3.7.11 Explain the enforcement powers of the FCA relating to market abuse (DEPP 6.3)
- 3.7.12 Explain the main features of the Bribery Act 2010

Amended to 'Explain the FCA's powers to prosecute market abuse (EG 12)'

Inserted '(MAR 1.3–1.9 and the Market Abuse Regulation)

Amended to '(DEPP 6.5)'

TOPIC 4 LEGAL CONCEPTS

By the end of this topic, learners should be able to:

- Demonstrate an understanding of legal concepts relevant to financial advice

- 4.1.1 Explain legal persons and power of attorney
- 4.1.2 Explain basic law of contract and agency
- 4.1.3 Explain the types of ownership of property
- 4.1.4 Explain insolvency and bankruptcy
- 4.1.5 Explain wills and intestacy
- 4.1.6 Describe the main types of trusts and their uses

TOPIC 5 CLIENT ADVICE

By the end of this topic, learners should be able to:

- Demonstrate an ability to apply the financial planning process
- Demonstrate an understanding of how the retail consumer is served by the financial services industry
- Demonstrate an understanding of the range of skills required when advising clients

5.1 TYPES AND CHARACTERISTICS OF INVESTORS

- 5.1.1 Describe and compare different types of investors
- 5.1.2 Explain the obligations of a firm towards retail clients
- 5.1.3 Explain the main needs of retail clients and how they are prioritised

5.2 THE CLIENT'S FINANCIAL OBJECTIVES

- 5.2.1 Explain the importance of establishing and quantifying a client's objectives
- 5.2.2 Explain the need to prioritise objectives to accommodate a client's affordability

5.3 THE CLIENT'S CURRENT CIRCUMSTANCES

- 5.3.1 Explain the importance of the fact find process in establishing a client's current financial circumstances and requirements
- 5.3.2 Identify the factors shaping a client's circumstances

5.4 THE CLIENT'S RISK PROFILE

- 5.4.1 Analyse the main types of investment risk as they affect investors
- 5.4.2 Explain the role of diversification in mitigating risk
- 5.4.3 Analyse the factors affecting a client's risk profile
- 5.4.4 Explain the key methods of determining a client's risk profile

5.5 ADVICE AND RECOMMENDATIONS

- 5.5.1 Explain why asset allocation always comes before investment or product selection
- 5.5.2 Explain the key roles of charges and the financial stability of the provider as criteria within the fund selection process, and the use of past performance
- 5.5.3 Explain the importance of stability, independence and standing of trustees, fund custodians and auditors in the fund selection process
- 5.5.4 Identify benchmarks and other performance measures
- 5.5.5 Explain the importance of reviews within the financial planning process

5.6 SKILLS REQUIRED WHEN ADVISING CLIENTS

- 5.6.1 Describe the need for advisers to communicate clearly, assessing and adapting to the differing levels of knowledge and understanding of their clients.
- 5.6.2 Identify and apply suitable investment solutions to suit different needs of retail clients

5.7 THE OBJECTIVES OF PENSION FUNDS, LIFE ASSURANCE AND GENERAL INSURANCE COMPANIES AND THE FACTORS THAT IMPACT UPON THEIR INVESTMENT DECISIONS

- 5.7.1 Explain the features and objectives of the following funds in the UK: pension funds (defined benefit (DB) and defined contribution (DC)), life assurance, general insurance
- 5.7.2 Distinguish among the typical asset allocations for DB and DC pension funds, life assurance and general insurance funds
- 5.7.3 Explain the return objectives of the major fund types
- 5.7.4 Classify funds by their income/capital growth requirements
- 5.7.5 Explain the effect of each of the following on a fund's asset allocation: time horizons, liability structure, liquidity requirements
- 5.7.6 Explain the taxation of the various types of funds in the UK
- 5.7.7 Explain the effect that taxation legislation may have on the stock selection and asset allocation of a fund
- 5.7.8 Identify other types of legal requirements that affect pension funds, insurance funds and retail clients

Inserted new LOS 5.7.2 Identify and contrast the risks of defined benefit versus defined contribution pension schemes for the sponsor and beneficiary

Amended to LOS 5.7.3

Amended to LOS 5.7.4

Amended to LOS 5.7.5

Amended to LOS 5.7.6

Amended to LOS 5.7.7

Amended to LOS 5.7.8

Amended to LOS 5.7.9

TOPIC 6 TAXATION IN THE UK

By the end of this topic, learners should be able to:

- Demonstrate an understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts
- Demonstrate an ability to analyse the taxation of investments as relevant to the needs and circumstances of individuals and trusts
- Demonstrate an ability to analyse the role and relevance of tax in the financial affairs of individuals and trusts
- Demonstrate an ability to apply the knowledge of personal taxation to the provision of investment advice

6.1 THE UK TAX SYSTEM AND THE TAXATION OF INVESTMENTS

- 6.1.1 Describe the principles of income tax applicable to earnings, savings and investment income in the UK
- 6.1.2 Describe, in relation to income tax, the system of allowances, reliefs and priorities for taxing income
- 6.1.3 Explain the taxation of the income of trusts and beneficiaries
- 6.1.4 Describe the system of National Insurance Contributions (NICs)
- 6.1.5 Describe the principles of capital gains tax (CGT) in the UK
- 6.1.6 Describe the principles of inheritance tax (IHT) in the UK
- 6.1.7 Explain the limitations of lifetime gifts and transfers at death in mitigating IHT
- 6.1.8 Explain the implications of residence and domicile in relation to liability to income tax, CGT and IHT
- 6.1.9 Describe the system of UK tax compliance including self-assessment, pay as you earn (PAYE), tax returns, tax payments, tax evasion and avoidance issues
- 6.1.10 Describe the principles of stamp duty land tax (SDLT) as applied to property transactions (buying, selling and leasing)
- 6.1.11 Describe the principles of stamp duty reserve tax (SDRT)

- 6.1.12 Explain how companies are taxed in the UK
- 6.1.13 Describe, in outline, the principles of value added tax (VAT)
- 6.1.14 Analyse the taxation of direct investments including cash and cash equivalents, fixed interest securities, equities and property
- 6.1.15 Analyse the key features and taxation of indirect investments including pension arrangements, different types of individual savings accounts (ISAs), and child trust funds, onshore and offshore life assurance policies, real estate investment trusts (REITs), venture capital trusts (VCTs) and enterprise investment schemes (EISs)

6.2 INVESTMENT ADVICE AND TAX PLANNING

- 6.2.1 Evaluate the tax considerations shaping clients' needs and circumstances
- 6.2.2 Analyse the key principles of income tax planning
- 6.2.3 Analyse how the use of annual CGT exemptions, the realisation of losses, the timing of disposals, and sale and repurchase of similar assets can mitigate CGT
- 6.2.4 Calculate the most common elements of income tax, NICs, CGT and IHT, including the impact of lifetime transfers and transfers at death
- 6.2.5 Select elementary tax planning recommendations in the context of investments and pensions advice