



## CFA UK LEVEL 4 CERTIFICATE IN INVESTMENT MANAGEMENT (IMC)

### UNIT 1- INVESTMENT ENVIRONMENT

#### MOCK EXAM TWO

#### VERSION 17 – TESTED FROM 1 DECEMBER 2019

##### Key facts about the IMC Unit 1 exam

<b>Syllabus</b>	CFA UK Level 4 Certificate in Investment Management (IMC) Unit 1 Version 17 tested from 1 December 2019
<b>Tax tables for this syllabus</b>	Tax tables used for IMC Syllabus Version 17
<b>Number of questions</b>	85
<b>Time allowed</b>	1 hour 40 minutes
<b>Types of questions used</b>	<ul style="list-style-type: none"><li>• Standard multiple choice – Candidates select 1 option of 4.</li><li>• Item set – Candidates are given a short scenario with several questions associated with it. The material given in the case study does not change with the questions.</li><li>• Gap fill – Candidates must enter a value into the answer field. There are specific formatting requirements and these formatting requirements are always given in the question.</li></ul>

##### Important information regarding what happens on the day

<b>Calculator used</b>	<ul style="list-style-type: none"><li>• Candidates will be provided with a Casio fx-83GT PLUS scientific calculator at the test centre.</li><li>• From the 1<sup>st</sup> of January 2020, candidates must bring their own calculator to the test centre on the day of their exam. The <a href="#">IMC calculator policy</a> which provides a list of calculators permitted for use can be found on CFA UK's website</li></ul>
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## Question Allocation

Question allocation across the syllabus is balanced on the guidance of psychometric and industry specialists. The following question allocation for Version 17 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 2019.

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

**1. The US regulator with authority over security based swaps is:**

- (a) The Commodity Futures Trading Commission*
- (b) The European Securities and Markets Authority*
- (c) The Depository Trust & Clearing Corporation*
- (d) The Securities and Exchange Commission*

**2. Standard settlement for an equity transaction on the London Stock Exchange is:**

- (a) T+1*
- (b) T+2*
- (c) T+3*
- (d) T+4*

**3. To comply with the Conduct of Business rules for communications with a retail client it is NOT necessary for an authorised firm to give the client:**

- (a) Notification when any product offered places the client's capital at risk*
- (b) Information that the Financial Conduct Authority is the regulator*
- (c) The maximum return possible over the investment period whenever a yield figure is given*
- (d) A fair, clear and not misleading impression of the producer or manager of any underlying investments of any packaged products offered*

**4. In respect of a Lasting power of attorney (LPA) taken out in 2014, the LPA:**

- (a) Need not be registered*
- (b) Must be registered with the Office of Public Guardian*
- (c) Must be registered with the Financial Conduct Authority*
- (d) Must be registered with the Office of the Lord Chancellor*

**5. A professional client can be treated as a 'qualified investor' if they have:**

- (a) A security portfolio of €750,000 and have worked for seven months in a professional capacity in the financial sector requiring knowledge of security investment*
- (b) Carried out thirty-five security market transactions over €10,000 in the last year and a security portfolio of €1,200,000*
- (c) Carried out an average of fifteen security market transactions over €1,000 for the last four quarters and worked for thirteen months in a professional capacity in the financial sector requiring knowledge of security investment*
- (d) A security portfolio of €15,200,000*

**6. The financial state where a company is temporarily unable to pay its bills would be best described as:**

- (a) Insolvency*
- (b) Bankruptcy*
- (c) Dissolution*
- (d) Intestacy*

**7. Which of the following will require Part 4A authorisation if carrying out a regulated activity in the UK?**

- (a) An appointed representative of an authorised person*
- (b) A broker*
- (c) A member of Lloyds*
- (d) An accountant*

**8. Which of the following actions by the senior management of a company is least likely to promote ethical employee behaviour?**

- (a) Holding project teams and individual members of the team responsible for unethical behaviour.*
- (b) Providing clear Instructions on compliance procedures.*
- (c) Providing consistent procedures addressing areas of conflict of interest.*
- (d) Putting in place a system of high rewards for high level of performance irrespective of the associated risk.*

**9. Which of the following is NOT a way by which a contract can be ended?**

- (a) *Intention*
- (b) *Breach*
- (c) *Frustration*
- (d) *Agreement*

**10. A deposit taking bank in the UK will be regulated by:**

- (a) *Neither the Financial Conduct Authority nor the Prudential Regulation Authority*
- (b) *The Prudential Regulation Authority only*
- (c) *The Financial Conduct Authority only*
- (d) *Both the Financial Conduct Authority and the Prudential Regulation Authority*

**11. Which of the following is most accurate if a joint tenant wishes to dispose of their interest during their lifetime?**

- (a) *They are free to dispose of their share of the property at any time*
- (b) *They can dispose of their share of the property immediately after giving notice to the other joint tenant(s)*
- (c) *They can dispose of their share of the property after giving notice to the other joint tenant(s) and converting to a tenancy in common*
- (d) *They can only dispose of their share of the property when the other joint tenant(s) dispose of their share*

**12. Under the FCA's disclosure and transparency rules (DTR), a person discharging managerial responsibility (PDMR) undertaking a personal transaction in the relevant listed company must notify:**

- (a) *The market within two business days of the transaction*
- (b) *The market within four business days of the transaction*
- (c) *The listed company within two business days of the transaction*
- (d) *The listed company within four business days of the transaction*

**13. Tony is employed as a salesman by a company. The company has provided him with a car which Tony uses for business and for personal use. The class of National Insurance Contributions that the company has to pay is:**

- (a) *Class 1A contributions*
- (b) *Class 1B contributions*
- (c) *Class 2 contributions*
- (d) *Class 3 contributions*

**14. A UK listed company has only ordinary shares in issue. Who may demand a poll at a general meeting?**

- (a) *One member with 5% or more of the votes that may be cast at the meeting.*
- (b) *One member with 10% or more of the votes that may be cast at the meeting.*
- (c) *No fewer than three members, irrespective of the votes held.*
- (d) *The Chairman of the company only.*

**15. The stage of money laundering where funds originally gained from criminal activity are used for a legitimate activity in the economy after having been laundered is known as:**

- (a) *Placement*
- (b) *Layering*
- (c) *Conditioning*
- (d) *Integration*

**16. Which of these roles is most likely to be carried out by a government?**

- (a) *Payment and settlement services*
- (b) *Portfolio management*
- (c) *Regulating firms*
- (d) *Settlement services*

**17. Who must a firm's data controller notify if they wish to handle personal client information?**

- (a) *The Financial Conduct Authority*
- (b) *The Information Commissioner's Office*
- (c) *The Bank of England*
- (d) *The Public Records Office*

**18. Which decision made by an investment manager is considered to be the most important determinant of performance over the long term?**

- (a) *Asset allocation*
- (b) *Stock selection*
- (c) *Market timing*
- (d) *Liquidity*

**19. Simplified Due Diligence (SDD) may be applied to which of the following?**

- (a) *Business with beneficiaries of solicitor's accounts*
- (b) *Where business is conducted on a non face-to-face basis*
- (c) *Business with politically exposed persons*
- (d) *In respect of correspondent banking relationships*

**20. Which of the following is most accurate regarding Standard IB of the CFA Standards of Professional Conduct: Priority of Transactions?**

- (a) *Investment transactions where a member is the beneficial owner have priority over transactions for clients*
- (b) *Investment transactions for clients have priority over transactions where a member or employers are the beneficial owner*
- (c) *Investment transactions for clients and employers have priority over transactions where a member is the beneficial owner*
- (d) *Investment transactions for employers have priority over transactions where a member or their client is the beneficial owner*

**21. Which of the Principles for Business requires a firm to 'take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgements'?**

- (a) *Principle 1: Integrity*
- (b) *Principle 2: Skill, care and diligence*
- (c) *Principle 6: Customers' interests*
- (d) *Principle 9: Customers: relationships of trust*

**22. Which of the following acquisitions by an investor would require them to notify the company within two business days?**

- (a) *An investor acquiring 2% when they already hold 0.5%*
- (b) *An investor acquiring 0.3% when they already hold 5.8%*
- (c) *An investor acquiring 2.7% when they already hold 0.2%*
- (d) *An investor acquiring 0.5% when they already hold 7.2%*

The next 6 questions are associated with the following case study. The material given in the case study will not change.

Dr Jayne Wilson is a 57 year old UK resident. She works as a consultant cardiologist and earned a gross annual income of £125,000 in 2019/20. She is married to Tom who is a school teacher and earned a gross income of £37,500 in 2019/20.

- Jayne bought 15,000 shares in Drisco plc for £1.35 in 2010. They have a current market price of £1.54. In 2019/20 Jayne’s Drisco plc shares paid out a total dividend of £850.
- Jayne and Tom jointly own a modern art sculpture bought together in 2008 for £84,000.
- Jayne and Tom jointly own a holiday property which they purchased for £150,000 in 2005 and is now worth £320,000.
- Tom has a portfolio held in an ISA comprised of:
  - 16,000 shares in Oplon plc bought at £2.56 per share in 2012. Their current market price is £3.37.
  - £10,000 nominal Treasury 3% 2022 bought in 2014 for £11,000. They are now worth £13,000.
  - £10,000 nominal Treasury 5% 2025 bought in 2014 for £12,000. They are now worth £14,000.
- Tom has not realised any capital gains/losses since September 2014.
- Jayne sold a painting in 2016 and realised a capital loss of £5,000 which has been unused and carried forward since that time.

The annual CGT exemption for 2019/20 is £12,000.

The 2019/20 income tax rates are:

	<b>2019/20</b>
Starting rate for savings income: 0%	£0–£5,000
Basic rate: 20%	£0–£37,500
Higher rate 40%	£37,501–£150,000
Additional rate: 45%	Over £150,000

2019/20 personal allowance is £12,500.

2019/20 ISA allowance is £20,000.

2019/20 higher rate dividend tax rate is 32.5%.

**23. If Tom and Jayne sell the modern art sculpture and Tom realises no other gains or losses in 2019/20, what is the highest sale price (ignoring costs) that can be achieved before Tom will have to pay a capital gain charge?**

Important! You should enter the answer *only* in numbers *strictly* using this format:  
**000000**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.



**24. If Jayne and Tom sell their holiday property, what would be the capital gains tax payable by Jayne in 2019/20 if she makes no other disposals this tax year?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **00000**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**25. In 2019/20 Tom's Oplon plc shares paid out a total gross dividend of £560. How much tax must Tom pay on his dividend income?**

- (a) £0
- (b) £56
- (c) £182
- (d) £224

**26. How much will be Jayne's total income tax liability for 2019/20?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **00000**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**27. Jayne is thinking of investing some of her savings in an enterprise investment scheme (EIS) what would be the maximum income tax relief she can receive due to the EIS investment?**

- (a) 10% on an investment of up to £100,000
- (b) 30% on an investment of up to £100,000
- (c) 10% on an investment of up to £1 million
- (d) 30% on an investment of up to £1 million

**28. If Jayne sells her entire holding of Drisco plc shares at £1.54 in dematerialised form then how much stamp duty reserve tax will be due on the transaction?**

- (a) £0
- (b) £101.25
- (c) £115.50
- (d) £125.50

**29. Stamp duty reserve tax is NOT paid on purchases of which of the following?**

- (a) Shares in a UK company listed on AIM
- (b) Shares in a UK company listed on the London Stock Exchange
- (c) UK registered shares in a foreign company
- (d) An option to buy a share in a UK company

**30. How many calendar days of notice must a public company give when they call a general meeting?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **00**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**31. Which of the following is least correct regarding Eurobonds?**

- (a) They may be settled via Euroclear
- (b) ICMA rules specify T+3 settlement of eurobonds
- (c) They may be settled via Clearstream
- (d) They are bearer bonds

**32. The fund charges which are likely to have the greatest impact on an investor's returns over the long term are:**

- (a) Initial charges
- (b) Point of sale charges
- (c) Exit charges
- (d) Annual management charges

**33. Wilfred is an investment manager for a wealth management firm. He receives research from analysts at his firm recommending a 'sell' for shares in a company called Techy Tech Industries plc. He then sells his own personal holding of Techy Tech shares before disseminating the recommendation to his clients. In doing so he has:**

- (a) Not violated any of the CFA Standards of Professional Conduct
- (b) Violated Standard VIB: Priority of transactions
- (c) Violated Standard VB: Communication with clients and prospective clients
- (d) Violated Standard IIIC: Suitability

**34. The body of the Bank of England responsible for protecting and enhancing financial stability is the:**

- (a) *Financial Conduct Authority*
- (b) *Financial Policy Committee*
- (c) *Monetary Policy Committee*
- (d) *Financial Services Compensation Scheme*

**35. Which of these would be most likely to be considered by the FCA to be examples of good practice when carrying out a fact find?**

- (a) *Gathering contradictory information relating to a customer's attitude to risk*
- (b) *Recommending customers to make use of a number of ISAs in the same tax year due to incomplete records*
- (c) *A customer's tax position not being fully considered*
- (d) *Updating Know Your Customer information on a bi-annual basis*

**36. The Panel on Takeovers and Mergers levy is payable on a trade of over £10,000 of which type of securities (of a company incorporated in the UK and admitted for trading on a UK regulated market)?**

- (a) *Covered warrants*
- (b) *Debentures*
- (c) *American depositary receipts*
- (d) *Preference shares*

**37. Jane wishes to buy 2000 shares in a UK listed company. The current bid-ask quotes for the company's shares are 315.50p-315.60p. The commission per trade is £6 and the stamp duty reserve tax of 0.5% applies. If Jane decides to sell the shares immediately after purchase, the round trip transaction costs will be:**

Important! You should enter the answer *only* in numbers *strictly* using this format: **00.00**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**38. Which of these least accurately represents a benefit for an investor in a venture capital trust (VCT)?**

- (a) Tax free dividends over any holding period*
- (b) A tax reduction of 30% of the amount invested whatever the holding period*
- (c) Capital gains tax free gains on sale of shares over any holding period*
- (d) The VCT itself has tax exempt capital gains*

**39. A firm adopting an alternative approach for its treatment of client money is required to send in writing to the FCA confirmation:**

- (a) That the Board is satisfied the firm meets alternative approach requirements.*
- (b) That the Board is satisfied the normal approach would not be appropriate given the firm's business environment.*
- (c) From the firm's external auditors that it has in place the required systems and controls to operate an alternative approach.*
- (d) From the firm's compliance officer that it has in place the required systems and controls to operate an alternative approach.*

**40. Where a firm manages investments (excluding derivatives) on behalf of a retail client and the client elects to receive information on executed transactions as they occur, it must normally provide a periodic statement every:**

- (a) 1 month*
- (b) 3 months*
- (c) 6 months*
- (d) 12 months*

**41. An authorised person is prohibited by FSMA 2000 from marketing unregulated collective investment schemes (UCIS) to:**

- (a) A self-certified sophisticated investor*
- (b) A retail client with net investable assets of £200,000 and annual income of £90,000*
- (c) A high net worth individual*
- (d) An investment professional*

**42. A firm that approves a financial promotion regarding an occupational pension scheme must retain adequate records for how long?**

- (a) *Three years*
- (b) *Five years*
- (c) *Six years*
- (d) *Indefinitely*

**43. What name is given to the document which is produced for retail investors in collective investment schemes under the terms of UCITS IV?**

- (a) *Key facts document*
- (b) *Key Investor Information Document*
- (c) *Simplified prospectus*
- (d) *Prospectus*

**44. A systematic internaliser is an investment firm which executes customer orders in liquid shares on:**

- (a) *Either a regulated market or on a multilateral trading facility*
- (b) *A regulated market but not on a multilateral trading facility*
- (c) *A multilateral trading facility but not on a regulated market*
- (d) *Neither a regulated market nor on a multilateral trading facility*

**45. If John gives a yacht to his daughter but continues to use it as if it were his own, it would be known for inheritance tax purposes as a:**

- (a) *Potentially exempt transfer*
- (b) *Chargeable lifetime transfer*
- (c) *Gift with reservation*
- (d) *Tax exempt transfer*

**46. Which regulatory body is responsible for overseeing the systemic infrastructure of central counterparties, securities settlement systems, and recognised payment systems?**

- (a) *Financial Conduct Authority*
- (b) *Prudential Regulation Authority*
- (c) *Bank of England*
- (d) *HM Treasury*

**47. Which of the following is least likely to be a reason for a company to close its defined benefit pension scheme?**

- (a) *An increase in the pension fund deficit*
- (b) *The requirement to disclose the funding position of the fund in the company accounts*
- (c) *An increase in return on assets held by the scheme*
- (d) *An increase in the longevity of the fund members*

**48. Which of these securities is most likely to meet an investor's need to meet regular operating expenses plus unexpected liquidity requirements as they arise?**

- (a) *Equities*
- (b) *Short term government bonds*
- (c) *Long term corporate bonds*
- (d) *Short term interest rate futures*

**49. Which of these factors would allow a company to be treated as a per se professional client in relation to MiFID business?**

- (a) *Own funds of €2.5 million and a balance sheet total of €21 million*
- (b) *Balance sheet total of €11 million and net turnover of €50 million*
- (c) *Net turnover of €45 million and own funds of €1 million*
- (d) *Net turnover of €25 million and a balance sheet total of €45 million*

**50. Which of the following factors would least likely allow a company to be exempt from the need to publish a prospectus when issuing securities?**

- (a) *The company is offering securities to 100 persons*
- (b) *The shares represent 8% of the number of shares of a class already admitted for trading on the same exchange*
- (c) *The minimum consideration per investor is €70,000*
- (d) *The total consideration of the offering over a period of twelve months is €4 million*

**51. Under the Financial Conduct Authority's approach, retail intermediaries (C4 firms) will require an assessment every:**

- (a) *Year*
- (b) *Two years*
- (c) *Four years*
- (d) *Five years*

**52. How often does the FCA require that a firm must conduct external reconciliations between its internal accounts and the accounts of a third party holding client money on behalf of the firm?**

- (a) As often as is necessary*
- (b) Every six months*
- (c) Every month*
- (d) Every day*

**53. Which of the following is least likely to be considered a solution to the 'principal–agency' problem'?**

- (a) Shareholder activism*
- (b) Incentivising managers in the form of shares*
- (c) Monitoring of managers by the board of directors*
- (d) Firms operating with dual capacity*

**54. All of the following are requirements for a company to be a High Growth Segment (HGS) company except:**

- (a) a minimum free float of 10% at IPO*
- (b) being incorporated in the European Economic Area*
- (c) having historic revenue of 20% on a compound annual growth rate basis over three years*
- (d) being a non-commercial company, issuing only equity shares*

**55. If a person dies without having written a will then their estate will be:**

- (a) distributed according to the laws of probate*
- (b) sold and the proceeds revert to the treasury*
- (c) distributed according to the laws of intestacy*
- (d) distributed in line with a judge's decision*

**56. Which of the following is least correct regarding the Financial Ombudsman Service (FOS)?**

- (a) The maximum money award by the FOS is £100,000*
- (b) If a complaint is unresolved by a firm within eight weeks, the complainant can refer the complaint to the FOS*
- (c) Certain types of complaints are covered by compulsory jurisdiction of the FOS for regulated firms*
- (d) The ombudsman may dismiss a complaint without considering its merit if it is satisfied the complainant has not suffered financial loss, material inconvenience or material distress*

**57. The General Data Protection Regulation is least likely to require that an individual's personal information held by a firm is:**

- (a) Accurate and up to date*
- (b) Kept for as long as the firm might find it useful*
- (c) Processed lawfully, fairly and in a transparent manner*
- (d) Adequate, relevant and not excessive*

**58. Which of the following is most likely to be described as operating as a sell side firm?**

- (a) A pension fund*
- (b) A hedge fund*
- (c) An insurance company*
- (d) A broker*

**59. When does Standard III E of the CFA Standards of Professional Conduct, Preservation of Confidentiality NOT require that information about clients be kept confidential?**

- (i) When the client permits disclosure of the information*
  - (ii) When disclosure is required by law*
  - (iii) When the information concerns illegal activities on the part of the client*
- 
- (a) (i) only*
  - (b) (ii) and (iii) only*
  - (c) (i) and (ii) only*
  - (d) (i), (ii) and (iii)*



**60. What is the maximum pay-out for a claim in relation to protected investment business made against an insolvent investment firm, that failed after April 2019, to the Financial Services Compensation Scheme (FSCS)?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **00000**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**61. Which form of trust is most commonly used for a beneficiary who is incapable of dealing with money due to disability?**

- (a) *Bare trust*
- (b) *Interest in possession trust*
- (c) *Charitable trust*
- (d) *Discretionary trust*

**62. Which of the following is most likely to be classed as a high net worth investor?**

- (a) *An investor with annual income of £60,000 and net investable assets of £110,000*
- (b) *An investor with annual income of £90,000 and net investable assets of £200,000*
- (c) *An investor with annual income of £50,000 and net investable assets of £280,000*
- (d) *An investor with annual income of £95,000 and net investable assets of £210,000*

**63. How long must a firm keep records of a client agreement associated with a pension transfer?**

- (a) *Five years*
- (b) *Six years*
- (c) *The duration of the client relationship*
- (d) *Indefinitely*

**64. Clare Batley is a fund manager. She receives a text from a friend who works for Yardstone Pharmaceuticals saying that Yardstone is going to announce that they have had regulatory approval to release an important new drug turned down. Clare immediately sells all Yardstone shares held by the fund she manages. In doing so she has:**

- (a) *Not violated any of the CFA Standards of Professional Conduct*
- (b) *Violated Standard IIA, Material non-public information*
- (c) *Violated Standard IC, Misrepresentation*
- (d) *Violated Standard III B, Fair dealing*

**65. What percentage stake would a predator company require in a target company for them to be able to force minority shareholders to sell their stake?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **00**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**66. The role played by the financial services industry in reducing the cost of capital for businesses and consumers is best described as facilitating the:**

- (a) *Pooling of capital and the management of risk.*
- (b) *Pooling of capital risk with capital returns.*
- (c) *Separation of capital providers from capital consumers.*
- (d) *Separation of capital risk from capital returns.*

**67. Janet is employed by an insurance company and since starting employment has regularly paid her National Insurance Contributions. What is the minimum number of years that she needs to pay her NICs in order to qualify for the maximum new state pension introduced from 6 April 2016?**

Important! You should enter the answer *only* in numbers *strictly* using the format: 00.

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**68. Which of these questions would be most likely to be answered with a soft fact?**

- (a) *What is your basic salary?*
- (b) *How much do you earn annually?*
- (c) *How do you feel about your current investments?*
- (d) *What is your date of birth?*

**69. Which of the following is an ancillary service under MiFID?**

- (a) *Services relating to underwriting*
- (b) *Execution of orders for clients*
- (c) *Managing portfolios of investments in financial instruments*
- (d) *Operating a multilateral trading facility*

**70. Which act of parliament establishes the framework that protects employees in a case of whistleblowing?**

- (a) *The Financial Services and Markets Act*
- (b) *The Criminal Justice Act*
- (c) *Market Abuse Act*
- (d) *The Public Interest Disclosure Act*

**71. Which European regulation requires persons entering into a derivatives contract to report and risk manage their derivatives position?**

- (a) *Markets in Financial Instruments Directive*
- (b) *European Market Infrastructure Regulation*
- (c) *Undertakings for Collective Investment in Transferable Securities*
- (d) *Market Abuse Directive*

**72. Which of the following is NOT one of the six Treating Customers Fairly (TCF) outcomes for retail clients?**

- (a) *A firm must conduct its business with integrity when dealing with consumers*
- (b) *Where consumers receive advice, the advice is suitable and takes account of consumer circumstances*
- (c) *Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale*
- (d) *Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint*

**73. In relation to an occupational pension fund, which of the following will be subject to taxation?**

- (a) *Contributions made into the fund*
- (b) *Capital gains in the fund*
- (c) *Pension payments received from the fund*
- (d) *Accumulated interest in the fund*

**74. Jack and Wendy had been married for thirty years when Jack died leaving a gift of £75,000 to his children. At the time of Jack's death the nil rate band is £300,000.**

**If Wendy subsequently dies in 2018 when the nil rate band is £325,000, what is the total nil rate band available on her estate (ignore the residence nil rate band)?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **000000**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**75. The main benefit for gilt edged market makers of using the services of an Inter-Dealer Broker is:**

- (a) *Anonymity*
- (b) *Lower cost*
- (c) *Reduced regulatory requirements*
- (d) *Lower taxation*

**76. Which of the following is correct in relation to a life office's with-profits based investments and payment of bonuses?**

- (a) *It always withholds bonuses in a period when the actual return of the underlying investments is lower than the rate of bonus.*
- (b) *It is able to continue to pay bonuses in excess of the returns of the underlying investments in the long run.*
- (c) *It normally draws on reserves to pay bonuses in a period when the rate of bonus is above the actual return of the underlying investments.*
- (d) *The bonuses it pays its investors in each period are directly related to the actual performance of the underlying investments.*

**77. The Competition and Markets Authority (CMA) has a duty to investigate which of the following mergers?**

- (a) *One where the target company has a UK turnover of £63 million and the merging companies together supply 20% of goods in their market in the UK*
- (b) *One where the company mounting the takeover has UK turnover of £77 million and the merging companies together supply 24% of goods in their market in the UK*
- (c) *One where the company mounting the takeover has UK turnover of £73 million and the merging companies together supply 28% of goods in their market in the UK*
- (d) *One where the target company has a UK turnover of £69 million and the merging companies together supply 24% of goods in their market in the UK*

**The next 5 questions are associated with the following case study. The material given in the case study will not change.**

Lillian is 34 and works as a research scientist for a petrochemical company.

She earns £47,000 per year. She currently has no pension arrangement. She has a two bedroomed flat in Sheffield which has a mortgage of £165,000 on it. She has recently inherited £55,000 from a deceased aunt.

She approaches Yasmin who is an independent financial advisor to review her financial position. Lillian's investment portfolio contains:

- £35,000 nominal of 1.125% 2037 index linked gilts currently worth £48,650.
- A single premium life assurance bond purchased for £20,000 two years ago.

Lillian wishes to withdraw cash from the bond but is unsure of the tax implications.

Lillian would like to know more about the tax advantages of investing in a pension and asks Yasmin to tell her how much she could withdraw tax free at retirement.

Yasmin undertakes a fact find to learn more about Lillian's attitudes to risk and investment objectives.

Yasmin makes a number of investment recommendations to Lillian including recommending that she begin to pay into a stakeholder pension scheme.

**78. Yasmin wishes to fully understand the mortgage on Lillian's flat. To obtain the relevant information from the mortgage lender, Yasmin would be most likely to use which of the following?**

- (a) A court order*
- (b) A statement of investment principles*
- (c) A letter of authority*
- (d) A mortgage review form*

**79. What is the maximum tax deferred allowance that Lillian can withdraw from a single premium insurance bond each year?**

- (a) Up to 5% of its current market value only*
- (b) Up to 5% of its original premium only*
- (c) Up to 5% of its current market value plus any unused allowance from previous years*
- (d) Up to 5% of its original premium plus any unused allowance from previous years*

**80. Yasmin learns from the fact find that Lillian has a high return objective and a long time horizon for investment. Which of the following is the most likely risk tolerance resulting from each of these two facts (taken separately)?**

	<u>High return objective</u>	<u>Long time horizon</u>
(a)	Low risk tolerance	Low risk tolerance
(b)	Low risk tolerance	High risk tolerance
(c)	High risk tolerance	Low risk tolerance
(d)	High risk tolerance	High risk tolerance

**81. During the fact find Yasmin says she is always concerned about the risk that any investments might be worth less at a future date than when she purchased them. This risk is best described as:**

- (a) Capital risk
- (b) Shortfall risk
- (c) Operational risk
- (d) Interest rate risk

**82. What must Yasmin provide for Lillian when making the recommendation that she invest in a stakeholder pension scheme?**

- (a) Fact find feedback report
- (b) Investment objective report
- (c) Suitability report
- (d) Investment assessment report

**83. A higher rate taxpayer receives a dividend payment of £13,859 in the 2019/20 tax year. To the nearest pound, how much tax is the investor liable for on this dividend income stream?**

- (a) £0
- (b) £2,372
- (c) £3,854
- (d) £4,747

**84. An individual found guilty of insider dealing in a crown court may face a maximum prison term of how many years?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **0**

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

**85. Which of the following is most correct when comparing the investment horizon and liquidity needs of general insurance companies with those of life assurance companies?**

- (a) *General insurance companies have longer investment horizons than life assurance companies and greater liquidity needs*
- (b) *General insurance companies have shorter investment horizons than life assurance companies and greater liquidity needs*
- (c) *General insurance companies have longer investment horizons than life assurance companies and lower liquidity needs*
- (d) *General insurance companies have shorter investment horizons than life assurance companies and lower liquidity needs*

## ANSWERS

1	d	2	b	3	c	4	b	5	c
6	a	7	b	8	d	9	a	10	d
11	c	12	d	13	a	14	b	15	d
16	c	17	b	18	a	19	a	20	c
21	d	22	b	23	108000	24	19040	25	a
26	42500	27	d	28	a	29	a	30	14
31	b	32	d	33	b	34	b	35	d
36	c	37	45.56	38	b	39	c	40	d
41	b	42	c	43	b	44	d	45	c
46	c	47	c	48	b	49	a	50	c
51	c	52	a	53	d	54	d	55	c
56	a	57	b	58	d	59	d	60	85000
61	a	62	c	63	d	64	b	65	90
66	a	67	35	68	c	69	a	70	d
71	b	72	a	73	c	74	568750	75	a
76	c	77	c	78	c	79	d	80	d
81	a	82	c	83	c	84	7	85	b

\*Further breakdown of calculation questions below.



## Mock exam 2 – worked calculations

**23.** Modern Art Sculpture was bought for £84,000. Maximum price that it can sold before Tom pays CGT = £84,000 + 2\* £12,000 (as both Tom and Jayne have exempt amounts) = £108,000

**24.** Holiday home property bought for £150,000 now worth £320,000. If sold this would generate a capital gain = £170,000. This would be split equally between Tom and Jayne i.e. £85,000  
Jayne's capital gain after exempt amount and unused capital loss of £5000 = £85,000 – 12,000 - £5,000 = £68,000

Tax rate = 28% as Jayne is a higher rate taxpayer and this is a disposal of a residential property that is not the buyer's main home.

Tax paid = £68,000 \* 0.28 = £19,040

**25.** There is no tax payable on dividends for shares held within an ISA.

**26.** Jaynes gross income =£125,000

As her gross income is £125,000 she will have no personal allowance to offset against her income.

Therefore, tax paid = 0.2 \* £37,500 + 0.4 \* (£125,000 - £37,500) = £7,500 + £35,000 = £42,500

**28.** £0 as SDRT is only payable on purchases of shares.

**37.** Jane will pay 2,000 \* 315.6p = £6,312 on the purchase of the shares + SDRT = £6,312 \* 0.005 = £31.56 + commission = £6

Total cost of purchase = £6,312 + £31.56 + £6 = £6,349.56

Receipt from immediate sale = 2000 \* 315.5p = £6,310.00 – commission of £6 = £6,304.00

Round-trip transaction costs = £6,349.56 - £6,304 = £45.56

**74.** Jack passes on 75% of his nil rate band to his wife Wendy ((300,000-75,000)/300,000) \* 100

The total nil rate band on the estate = Wendy's nil rate band (£325,000) + Jack's nil rate band (75% of £325,000 = £243,750) = £568,750

**83.** Gross dividend received = £13,859

Dividend allowance = £2,000, therefore taxable amount = £11,859

Tax rate = 32.5% for a higher rate taxpayer

Therefore, tax paid = £11,859 \* 0.325 = £3854.18 (= £3854 to the nearest £)