Core Unit 2 – Regulation of Retirement Provision

Assignment 1 Notes

*(Part 1 – The Taxation and Regulation of Retirement Provision)*

*Recommended Time: 1 Hour*

1. **List 5 of the Pensions Regulator’s key priorities for pension scheme governance.**

**5 marks**

Answer should list any 5 of the following:

* trustees’ ‘knowledge and understanding’ (of the relevant law, of investment and, for defined benefit

schemes, of funding);

* identifying and managing conflicts of interest;
* for defined benefit schemes, monitoring of the ‘employer covenant’ (i.e., the financial ability of the

employer to meet its obligations to the scheme);

* the appointment and review of advisers;
* administration processes;
* choosing investments;
* governance during wind-up;
* risk management and internal controls; and
* providing value for members.

(Relevant section of the manual is Part 1 Chapter 3.2.2)

1. **Briefly explain the role and responsibilities of HM Treasury and the changes introduced by the Finance Act 2012 relating to the regulation of financial services firms.**

**10 marks**

Answer should cover:

* UK Government department responsible for the regulation of the financial services industry;
* Operates under the authority of the Chancellor of the Exchequer;
* HM Treasury is responsible for:
* public spending;
* financial services policy;
* strategic oversight of the UK tax system;
* the delivery of infrastructure projects;
* ensuring the UK economy is growing sustainably;
* FSA 2012 came into force 1 April 2013;
* Changes include:
	+ Bank of England given responsibility for oversight of the UK financial system as a whole through new Financial Policy Committee established within the Bank);
	+ Prudential Regulation Authority (PRA) set up as new regulator of safety and soundness in the financial services sector;
	+ PRA operates under the Bank of England, to supervise all firms that manage significant risks as part of their business;
	+ Financial Conduct Authority established as the new business regulator for financial services – to protect consumers and supervise all firms
	+ clarifying the Government’s responsibilities in a financial crisis by giving the Chancellor of the Exchequer powers to direct the Bank of England where public funds are at risk and there is a serious threat to financial stability.

(Relevant section of the manual is Part 1 Chapter 4.2.1)

1. **List the main principles the Financial Conduct Authority (FCA) must consider under the Financial Services and Markets Act 2000.**

**5 marks**

Answer should include 5 of the following:

* Efficiency and economy - the FCA must use its resources efficiently and economically;
* Proportionality - any burden or restriction that imposed on a person or activity must be proportionate to the expected benefits, taking into account the costs to firms and consumers;
* Consumer responsibility - consumers should take responsibility for their decisions;
* Senior management responsibility - a regulated firm’s senior management is deemed responsible for that firm’s activities and is held responsible for the risk management and controls within the firm.
* Openness and disclosure - FCA should ensure that relevant market information about regulated persons is published, in order to reinforce market discipline and improve consumers’ knowledge about their financial matters;
* Transparency - the FCA should exercise its functions as transparently as possible.

(Relevant section of the manual is Part 1 Chapter 3.5.5)

1. **In what circumstances would the money purchase annual allowance be triggered?**

**5 marks**

Answer should include 5 of the following:

Triggered where an individual:

* draws down funds from a flexi-access drawdown fund;
* receives an uncrystallised funds pension lump sum;
* converts a pre-April 2015 drawdown fund to a flexi-access fund and then takes drawdown;
* takes more than the permitted maximum for capped drawdown;
* receives a ‘stand-alone lump sum’ from a money purchase arrangement where the individual was

entitled to primary protection but not to enhanced protection;

* has received a pre-6 April 2015 payment from a flexible drawdown fund;
* has become entitled to a payment under a flexible annuity contract

(Relevant section of the manual is Part 1 Chapter 1.4)

1. **Briefly outline the two main types of transitional arrangements implemented to protect the benefits of individuals who had bult up pension rights before 6 April 2006 which exceeded the new Lifetime Allowance.**

**5 marks**

Answer should cover:

* Primary Protection:
	+ Only available if value of pension rights exceeded the Standard Lifetime Allowance at A-day;
	+ Standard Lifetime Allowance replaced with Personal Lifetime Allowance calculated by applying Lifetime Allowance Enhancement Factor;
	+ When BCE occurs, Personal Lifetime Allowance used;
* Enhanced Protection;
	+ Available regardless of the value of pension rights at A-day;
	+ Benefits can grow without attracting tax charges;
	+ Further relevant benefit accrual not permitted otherwise Enhance Protection is lost.

(Relevant section of the manual is Part 1 Chapter 2.2)

1. **Outline the role of the Financial Services Compensation Scheme (FSCS) and the types of financial losses it offers protection against.**

**10 marks**

Answer should cover:

* independent body, set up under the Financial Services and Markets Act 2000 (FSMA);
* UK’s statutory fund of last resort for customers of financial services firms;
* Can pay compensation to consumers;
* FSCS must first declare that the provider or adviser is in default. i.e., firm is unable, or likely to be unable, to pay claims against it, generally because the firm has stopped trading and has insufficient assets to meet claims, or is in insolvency;
* FSCS will conduct an investigation to establish default;
* Protects consumers who have incurred financial loss when regulated firms unable to pay claims against them:;
* Claims must relate to:
	+ deposits
	+ life and general insurance policies
	+ investment business (on or after 28 August 1988)
	+ advice and arranging of mortgage business (on or after 31 October 2004);
	+ insurance intermediation (general insurance and pure protection contracts, for business conducted on or after 14 January 2005

(Relevant section of the manual is Part 1 Chapter 3.6)

1. **Describe what is meant by a “Qualifying Recognised Overseas Pension Scheme” (QROPS) and outline its key features.**

**10 marks**

Answer should cover:

* QROPS introduced by Finance Act 2004 with effect from 6 April 2006;
* Purpose is to prevent tax privileges being abused where a member transfers benefits out of a registered pension scheme;
* Act laid down rules that restrict where the transfer could be paid to;
* If the destination was overseas transfer has to go to a QROPS in order to be an authorised transfer;
* Scheme manager must give HMRC undertaking to inform them when the scheme made a payment out in respect of the member so HRMC could ensure the payment was taxed accordingly.
* Broadly speaking, where payments were made out of
* Where funds originated from a UK registered scheme then the recipient would be taxed in the same way as if they had been paid direct from the UK scheme, irrespective of whether the recipient was resident or ordinarily resident in the UK at the time;
* Main exception is where member was resident in a country that had a double taxation agreement with the UK and where the pension was taxed in the host country;
* HMRC publishes list of schemes accepted as a QROPS;
* Administrator of a UK registered scheme could check the status of the receiving arrangement when a member had requested a transfer and avoid the possibility of a scheme sanction charge arising on account of the scheme making an unauthorised transfer.

(Relevant section of the manual is Part 1 Chapter 1.6.2)