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Retail Advice and Regulation

**Assignment 2 Notes**

*(Part 2 –Regulation and Professional Standards)*

*Recommended Time: 3 hours*

1. **Summarise each of statements of principle for approved persons in a single word and explain the concept of fitness and propriety).**

**10 marks**

There are 7 statements, each would earn a point. A suitable summary for each would be:

* 1. Integrity
  2. Skilful
  3. Propriety
  4. Cooperative
  5. Effective
  6. Diligent
  7. Reasonable

The remaining marks are available for explaining:

* + Honesty, integrity, and reputation
  + Competence and capability
  + Financial soundness

(The relevant section of the Study Manual is Part 2, Chapter 1.3)

**10 marks**

1. **Identify each of the six outcomes the Financial Conduct Authority (FCA) has associated with treating the customer fairly and include a brief example of how each one might be achieved.**

**15 marks**

Answer should cover the six outcomes associated with treating customers fairly:

• Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.

• Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

• Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

• Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.

• Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.

• Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint

A couple of marks approximately for each.

(The relevant section of the Study Manual is Part 2, Chapter 1.2.)

**15 marks**

1. **Outline the main parts of a fact-finding form in a format that could be used for training purposes in your firm. The form should include an outline of the different profiles that could be used to explain the typical classifications for Attitudes to Investment Risk.**

**35 marks**

Answer is required in a specific format and approximately 4 marks would be available for this format. As the purpose is training it is important that a clear explanation of each part and its purpose is included.

Although the format of these forms varies, most will share the following:

* + Client details
  + Objectives
  + Children/dependants
  + Employment status/income
  + Expenditure
  + Assets/liabilities
  + Pensions

A brief outline of each of these aspects is expected.

Attitude to investment risk

Under this aspect the question is seeking a brief explanation of the following profiles:

Very Cautious. You wish to take no risk to the nominal value of your capital. You understand returns may change but may be small and might not match inflation. Investments are likely to be cash and fully protected products.

Cautious. There is a small risk to your capital. The aim is to achieve longer term growth in excess of inflation through a small exposure to equities in mature markets or similar financial products. Income has the potential to be marginally higher than fixed term deposits but is variable. Investments are primarily cash, gilts, and fixed interest with a small exposure to equities. You can potentially suffer limited losses.

Balanced. This offers longer term growth to capital but with no guarantees, risk is controlled through a diversified portfolio (in the main mature equity markets and bonds/fixed interest with limited property and overseas exposure). There is potential for loss although exposure to bonds reduces this risk. Income can be variable.

Dynamic Risk to capital is approximately in line with the UK equity all share index but with diversification through a number of asset classes (equities, including overseas, plus small weighting in bonds/fixed interest and property). Values can rise and fall so an investor may not get back the full amount invested.

Adventurous. You are prepared to invest predominantly in equity-based investments (UK and overseas) and may invest in some specialist funds with potential for higher returns while accepting increased risk to your capital.

Speculative. In addition to a diversified UK and overseas equity portfolio, you are prepared to invest a significant part of your portfolio in a range of specialist asset classes with the aim of potentially much higher returns but with a potentially increased risk to some or all of your capital.

It is important to note that there are many approaches (and that outlined in the study manual is but one of several) to this issue and that it is the client’s approach to risk that is key. Any approaches that meet the training objective are potentially valid.

(The relevant section of the Study Manual is Part 2, Chapter 2.2.1 and 2.2.3)

**35 marks**

1. **Explain the cancellation rights a client might expect for pensions related products.**

**10 marks**

30 calendar days is required to cancel all of the following pension products.

• a life policy (including a pension annuity, a pension policy or within a wrapper)

• a contract to join a personal pension scheme or a stakeholder pension scheme

• a pension contract

• a contract for a pension transfer

• a contract to vary an existing personal pension scheme or stakeholder pension scheme by exercising, for the first time, an option to make income withdrawals.

The firm must disclose to the consumer:

• in good time before or, if that is not possible, immediately after the consumer is bound by a contract that attracts a right to cancel or withdraw; and

• in a durable medium, e.g., in writing

(The relevant section of the Study Manual is Part 2, Chapter 2.7.)

**10 marks**

1. **Explain the type, and evaluate the importance, of asking supplementary questions as part of a fact-finding exercise for a client seeking pensions related advice.**

**10 marks**

This question is seeking an evaluation of the importance of possible supplemental questions relevant to pensions advice. Answer would include those covering:

* + Name and address
  + Age, health, and lifestyle
  + Relationship/marital status
  + Children/dependence
  + Income and employment
  + Expenditure
  + Assets
  + Liabilities
  + Pension details

As only 10 marks are available the explanation of the importance of such questions must be brief. 1 mark for each and 1 mark for the evaluation.

(The relevant section of the Study Manual is Part 2, Chapter 2.2.3.)

**10 marks**

1. **Outline and briefly explain the main elements of professionalism introduced by the Retail Distribution Review (RDR).**

**10 marks**

Answer should include coverage of:

* + - Accredited bodies
    - Appropriate qualifications
    - Statements of Professional Standing
    - Continuing Professional Development.

As only 10 marks are available 2-3 marks for each is sufficient. Relevant examples would help support a full answer.

For example, with continuing professional development, The FCA requires advisers to complete a minimum of 35 hours of relevant CPD each year, with at least 21 hours of structured learning.

(The relevant section of the Study Manual is Part 2, Chapter 1.3. second half)

**10 marks**

1. **Outline the Financial Conduct Authority’s Code of Ethics and the interaction with the Statements of Principle and Code of Practice for Approved Persons.**

**10 marks**

Answer should include a description of the overarching code of ethics, a brief outline of each of the 7 principles and their relationship to the Code of Practice

The FCA has principles for approved persons, i.e., those carrying out controlled functions and, therefore, subject to individual registration. As with the Principles for Businesses, an approved person will not be subject to a Statement of Principle to the extent that it would be contrary to the UK’s obligations under an EU directive. The Statements of Principle, from the Statements of Principle and Code of Practice for Approved Persons (APER) section of the FCA Handbook, are:

Statement of Principle 1- An approved person must act with integrity in carrying out his accountable functions.

Statement of Principle 2- An approved person must act with due skill, care and diligence in carrying out his accountable functions.

Statement of Principle 3- An approved person must observe proper standards of market conduct in carrying out his accountable functions.

Statement of Principle 4- An approved person must deal with the FCA, the PRA and other regulators in an open and cooperative way and must disclose appropriately any information of which the FCA or the PRA would reasonably expect notice.

Statement of Principle 5 -An approved person performing an accountable significant-influence function must take reasonable steps to ensure that the business of the firm for which he is responsible in his accountable function is organised so that it can be controlled effectively.

Statement of Principle 6- An approved person performing an accountable significant-influence function must exercise due skill, care, and diligence in managing the business of the firm for which he is responsible in his accountable function.

Statement of Principle 7- An approved person performing an accountable significant-influence function must take reasonable steps to ensure that the business of the firm for which he is responsible in his accountable function complies with the relevant requirements and standards of the regulatory system.

As part of its requirements, the FCA has a code of ethics which advisers must follow.

Ethics are generally defined as a set of principles or values of right conduct

• open, honest, responsive, and accountable

• committed to acting competently, responsibly, and reliably

• relating to colleagues and customers fairly and with respect

(The relevant section of the Study Manual is Part 2, Chapter 1.3 and 1.4)

**10 marks**