

Unit 1: The investment environment

Version 9, tested from 1 December 2011

Topic 1: The UK Financial Services Industry – a European and Global context

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

Section 1.1: The Financial Services Industry and the role of Government

- 1.1.1 explain the functions of the financial services industry;
- 1.1.2 evaluate 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.

Section 1.2: The Impact of EU Directives on the Investment Industry

- 1.2.1 explain the legal status of EU Directives within the UK;
- 1.2.2 explain the purpose and scope of the Markets in Financial Instruments Directive (MiFID) with respect to:
 - passporting
 - roles of the home and host state
 - core and non-core investment services
 - financial instruments covered by the legislation;
- 1.2.3 explain the purpose and scope of the UCITS Directives.

Topic 2: Financial Markets

Demonstrate an understanding of UK and International financial markets

Section 2.1: UK equity and fixed interest markets

- 2.1.1 identify the main dealing systems and facilities offered in the UK equities market;
- 2.1.2 identify the nature of the stocks that would be traded on each of the above systems and facilities;
- 2.1.3 explain the structure and operation of the primary and secondary UK markets for gilts and corporate bonds;
- 2.1.4 explain the motivations for and implications of dual listing of a company.

Section 2.2: Types of markets

- 2.2.1 compare and contrast exchange trading and over-the-counter (OTC) markets
- 2.2.2 distinguish between the following alternative trading venues:

- Multilateral Trading Facilities
 - Systematic Internalisers
 - Dark Pools
- 2.2.3 distinguish between a quote-driven and order-driven market;
- 2.2.4 explain the roles of the various participants in the UK equity market.

Section 2.3: Settlement procedures in UK

- 2.3.1 explain the clearing and settlement procedures for UK exchange traded securities;

Section 2.4: Regulation of UK investment exchanges

- 2.4.1 explain the role of an investment exchange;
- 2.4.2 explain the need for investment exchanges to be authorised;
- 2.4.3 explain the relevance of investment exchanges being recognised by the FSA;
- 2.4.4 identify the recognised investment exchanges and clearing houses in the UK;
- 2.4.5 identify and distinguish the roles of
- the London Stock Exchange (LSE)
 - NYSE Liiffe
 - LCH.Clearnet

Section 2.5: The UK Listing Authority and prospectus requirements

- 2.5.1 explain the role of the FSA as the UK listing authority;
- 2.5.2 identify the source of the listing rules as FSMA 2000 and relevant EU directives;
- 2.5.3 explain the main conditions for listing on the Official List, AIM and PLUS markets;
- 2.5.4 explain the purpose of the requirement for prospectus or listing particulars;
- 2.5.5 identify the main exemptions from listing particulars.

Section 2.6: Information disclosure and corporate governance requirements for UK equity markets

- 2.6.1 explain the disclosures required under the FSA's disclosure and transparency rules relating to:
- directors' interests
 - major shareholdings;
- 2.6.2 explain the purpose of corporate governance regulation;
- 2.6.3 explain, in outline, the scope and content of corporate governance regulation in the UK (the Combined Code);
- 2.6.4 explain the LSE requirements for listed companies to disclose corporate governance compliance;
- 2.6.5 explain the continuing obligations of LSE listed companies regarding information disclosure and dissemination;
- 2.6.6 explain, in outline, the UK company law requirements regarding the calling of general meetings;
- 2.6.7 distinguish annual general meetings and other types of company meetings;

- 2.6.8 distinguish between the types of resolution that can be considered at company general meetings;
- 2.6.9 distinguish between the voting methods used at company meetings;
- 2.6.10 explain the role and powers of a proxy.

Section 2.7: Regulation of derivatives markets

- 2.7.1 identify the main features of the regulation of derivatives;
- 2.7.2 identify the main features of clearing and settlement on derivatives exchanges and for over-the counter derivatives trading;
- 2.7.3 explain the arrangements for market transparency and transaction reporting in the main derivative markets;
- 2.7.4 explain the impact of MiFID and International Accounting Standards on the regulation of derivative markets.

Section 2.8: International Markets

- 2.8.1 explain the mechanics of dealing in equities and fixed interest securities in each of the following specific countries:
 - US
 - Japan
 - France
 - Germany;
- 2.8.2 identify the participants in each of the above markets;
- 2.8.3 explain the structure and operation of the primary and secondary markets for Eurobonds;
- 2.8.4 explain the general principles of dealing in other markets including emerging markets and settlement issues in those markets.

Section 2.9: International Settlement and Clearing

- 2.9.1 explain the settlement and clearing procedures overseas including the role of international central securities depositories, an appreciation of different settlement cycles and issues in managing global assets.

Topic 3: Legal Concepts

Demonstrate an understanding of legal concepts relevant to financial advice

- 3.1.1 explain legal persons and power of attorney;
- 3.1.2 explain basic law of contract and agency;
- 3.1.3 explain the types of ownership of property;
- 3.1.4 explain insolvency and bankruptcy;
- 3.1.5 explain wills and intestacy;
- 3.1.6 identify the main types of trusts and their uses.

Topic 4: Regulation of Financial Services

Demonstrate an understanding of the regulation of financial services

- 4.1.1 distinguish between the regulatory roles of the Financial Services Authority (FSA), HM Treasury and the Bank of England;
- 4.1.2 explain the function of the following bodies/persons

- the Panel for Takeovers and Mergers
 - the Department for Business Innovation and Skills;
 - the Office of Fair Trading;
 - the Competition Commission;
 - The Information Commissioner;
- 4.1.3 explain the make up of the Panel on Takeovers and Mergers (the takeover panel) and how it is financed;
- 4.1.4 explain the regulatory status of the City Code on Takeovers and Mergers;
- 4.1.5 explain the main provisions of the City Code including the bid timetable;
- 4.1.6 explain the scope of the Financial Services and Markets Act 2000;
- 4.1.7 explain the scope of the Regulated Activities Order 2001 (as amended) in terms of:
- regulated activities
 - regulated investments;
- 4.1.8 explain the purpose and scope of the FSA's rules regarding Senior Management Arrangements, Systems and Controls (SYSC);
- 4.1.9 explain the purpose and scope of the Trustee Act 2000
- the rights and duties of the parties involved
 - the nature of the trust deed
 - investment powers of trustees;
- 4.1.10 explain the significance of the Pensions Act 2004
- scheme specific funding requirement
 - the Pensions Regulator
 - the Pension Protection Fund;
- 4.1.11 explain the purpose of a Statement of Investment Principles.

Topic 5: The Role of the Financial Services Authority (FSA)

Demonstrate an understanding of the FSA's responsibilities and approach to regulation

- 5.1.1 explain the role and statutory objectives of the FSA;
- 5.1.2 identify and distinguish among the blocks of the FSA handbook;
- 5.1.3 explain, in outline, the procedure for authorisation of firms, including knowledge of the threshold conditions;
- 5.1.4 explain the FSA's risk based approach to supervision and the enforcement and disciplinary powers of the FSA relating to:
- information gathering (EG 3)
 - variation and cancellation of Part IV permission (EG 8)
 - prohibition of individuals (EG 9)
 - restitution and redress (EG 11)
 - statutory notices (DEPP 1 & 2).

Topic 6: The Regulatory Framework

Demonstrate an ability to apply the principles and rules as set out in the regulatory framework

Section 6.1: Approved persons, controlled functions, professionalism of investment advisers, training and competence

- 6.1.1 define an approved person;
- 6.1.2 define a controlled function;
- 6.1.3 identify the types of controlled functions defined within the FSA handbook (SUP 10);
- 6.1.4 identify the main assessment criteria in the FSA's Fit and Proper Test for approved persons (FIT);
- 6.1.5 explain the application procedure for approved persons (SUP 10);
- 6.1.6 explain the procedure for an approved person moving within a group (SUP 10);
- 6.1.7 explain the requirements relating to training and competence
- 6.1.8 explain the professionalism requirements that have to met by retail investment advisers

Section 6.2: Record keeping and reporting information

- 6.2.1 apply the rules relating to record keeping;
- 6.2.2 apply the rules relating to occasional reporting to clients (COBS 16.2);
- 6.2.3 apply the rules relating to periodic reporting to clients (COBS 16.3).

Section 6.3: Market Conduct and Financial Crime

- 6.3.1 explain the various sources of money laundering and counter terrorism regulation and legislation
 - FSA rules
 - Money Laundering Regulations
 - Proceeds of Crime Act 2002;
- 6.3.2 explain the role of the Joint Money Laundering Steering Group (JMLSG);
- 6.3.3 explain the main features of the guidance provided by the JMLSG;
- 6.3.4 explain the three stages involved in the money laundering process;
- 6.3.5 explain the four offence categories under UK money laundering legislation;
- 6.3.6 explain the meaning of 'inside information' covered by CJA 1993;
- 6.3.7 explain the offence of insider dealing covered by the CJA;
- 6.3.8 identify the penalties for being found guilty of insider dealing;
- 6.3.9 explain the FSA's powers to prosecute insider dealing;
- 6.3.10 understand the nature of behaviours defined as market abuse (MAR 1.3,4,5,6,7,8. &9);
- 6.3.11 explain the enforcement powers of the FSA relating to market abuse (MAR 1.1.4,5 &6);
- 6.3.12 explain the main features of the Bribery Act, 2010.

Section 6.4: Complaints handling, the Financial Ombudsman Service and the Financial Services Compensation Scheme

- 6.4.1 explain the FSA rules relating to handling of complaints (DISP 1.3);
- 6.4.2 explain the role of the Financial Ombudsman Service (DISP Introduction and DISP 2);

- 6.4.3 distinguish compulsory from voluntary jurisdiction (DISP Introduction);
- 6.4.4 explain the procedure and time limits for the resolution of complaints (DISP 1.4, 1.5 and 1.6);
- 6.4.5 apply the rules relating to record keeping and reporting (DISP 1.9, 1.10);
- 6.4.6 apply the rules relating to determination by the Ombudsman (DISP 3);
- 6.4.7 explain the purpose of the Financial Services Compensation Scheme (FSCS) (COMP 1.1.7);
- 6.4.8 identify the circumstances under which the FSCS will pay compensation (COMP 1.3.3, 3.2.1 (1)&(2), 4.2.1 & 2 (1) to (6));
- 6.4.9 identify the limits on the compensation payable by the FSCS (COMP 10.2.1,2 &3).

Topic 7: The Regulatory Advice Framework

Demonstrate the ability to apply the regulatory advice framework in practice for the consumer

Section 7.1: Accepting customers for business

- 7.1.1 explain the purpose of client classification;
- 7.1.2 distinguish between a retail client, a professional client and an eligible counterparty (COBS 3.4, 3.5, 3.6);
- 7.1.3 apply the rules relating to treating a client as an elective professional client (COBS 3.5.3);
- 7.1.4 apply the rules relating to treating a client as an elective eligible counterparty (COBS 3.6.4);
- 7.1.5 apply the rules relating to providing retail clients with a higher level of protection (COBS 3.7);
- 7.1.6 apply the rules relating to client agreements (COBS 8.1);
- 7.1.7 explain the rules relating to communications with retail clients (COBS 4.5);

Section 7.2: Financial promotions and other communications with customers

- 7.2.1 explain the purpose and scope of the financial promotions rules and the exceptions to them (COBS 4.1);
- 7.2.2 explain the fair, clear and not misleading rule (COBS 4.2);
- 7.2.3 explain the rules relating to communications with retail clients (COBS 4.5);
- 7.2.4 explain the rules relating to past, simulated past and future performance (COBS 4.6);
- 7.2.5 explain the rules relating to direct offer promotions (COBS 4.7);
- 7.2.6 explain the rules relating to cold calls and other promotions that are not in writing (COBS 4.8);
- 7.2.7 explain the rules relating to systems and controls in relation to approving and communicating financial promotions (COBS 4.10);

- 7.2.8 explain the record keeping requirements relating to financial promotions (COBS 4.11);
- 7.2.9 explain the rules relating to distance marketing communications (COBS 5.1);
- 7.2.10 explain the rules relating to providing information about the firm and compensation information (COBS 6.1);
- 7.2.11 explain the rules on adviser charging and remuneration.

Section 7.3: Identifying client needs, information about the firm and investment research

- 7.3.1 explain the rules relating to assessing suitability (COBS 9.2);
- 7.3.2 explain the rules relating to assessing appropriateness (COBS 10.2);
- 7.3.3 explain the rules relating to warning a client (COBS 10.3);
- 7.3.4 identify circumstances when assessing appropriateness is not required (COBS 10.4, 10.5 and 10.6);
- 7.3.5 identify circumstances where own authority or expertise is limited and the need to refer to specialists;
- 7.3.6 distinguish between independent advice and restricted advice;
- 7.3.7 explain the rules relating to investment research produced by a firm and disseminated to clients (COBS 12.2);
- 7.3.8 explain the rules relating to the publication and dissemination of non-independent research (COBS 12.3);
- 7.3.9 explain the disclosure requirements relating to the production and dissemination of research recommendations (COBS 12.4);

Section 7.4: Product disclosure – packaged products

- 7.4.1 explain the obligations relating to preparing product information (COBS 13.1);
- 7.4.2 explain the rules relating to the form and content of a key features document (COBS 13.2 and 13.3);
- 7.4.3 explain the rules relating to cancellation rights (COBS 15);
- 7.4.4 distinguish between packaged products and retail investment products.

Section 7.5: Client assets and Client Money Rules

- 7.5.1 explain the concept of fiduciary duty;
- 7.5.2 explain the application and purpose of the rules relating to custody of client assets held in connection with MIFID business (CASS 6.1);
- 7.5.3 explain the rules relating to the protection of clients' assets and having adequate organisation arrangements (CASS 6.2);
- 7.5.4 explain the rules relating to depositing assets with third parties (CASS 6.3);
- 7.5.5 explain the purpose of the rules relating to the use of clients' assets (CASS 6.4);
- 7.5.6 explain the rules relating to records, accounts and reconciliations of clients' assets (CASS 6.5);
- 7.5.7 explain the application and general purpose of the client money rules (CASS 7.2);

- 7.5.8 explain the rules relating to the segregation of client money (CASS 7.4);
- 7.5.9 explain the rules relating to records, accounts and reconciliations of client money (CASS 7.6).

Section 7.6: Dealing and Managing

- 7.6.1 explain the rules relating to best execution (COBS 11.2);
- 7.6.2 explain the rules relating to client order handling (COBS 11.3);
- 7.6.3 explain the rules relating to the use of dealing commission (COBS 11.6);
- 7.6.4 explain the rules on personal account dealing (COBS 11.7).

Topic 8: The FSA's use of principles and outcomes based regulation

Demonstrate an understanding of the FSA's use of principles and outcomes based regulation to promote ethical and fair outcomes

- 8.1.1 explain the application and purpose of the FSA's Principles for Businesses (PRIN 1.1.1 & 2);
- 8.1.2 explain the consequences of breaching the FSA's Principles for Businesses (PRIN 1.1.7 to 9 and DEPP 6.2.14 & 15);
- 8.1.3 identify the FSA's Principles for Businesses (PRIN 2.1.1 and PRIN 4);
- 8.1.4 explain the importance of corporate culture and leadership;
- 8.1.5 explain the application and purpose of the Statements of Principle and Code of Practice for approved persons (APER).

Topic 9: Code of Ethics and Professional Standards

Demonstrate an ability to apply the Code of ethics and professional standards to business behaviours of individuals

- 9.1.1 Identify the elements of the CFA Code of ethics;
- 9.1.2 explain the professional principles and values on which the Code is based;
- 9.1.3 apply the Code to a range of ethical dilemmas.

Topic 10: Ethical and Compliance Driven Behaviour

Demonstrate an ability to critically evaluate the outcomes that distinguish between ethical and compliance driven behaviour

- 10.1.1 identify typical behavioural indicators;
- 10.1.2 critically evaluate the outcomes which may result from behaving ethically – for the industry, individual advisers and consumers;
- 10.1.3 critically evaluate the outcomes which may result from limiting behaviour to compliance with the rules – for the industry, firm, individual advisers and consumers.

Topic 11: Retail Clients

Demonstrate an understanding of how the retail customer is served by the financial services industry

- 11.1.1 explain the obligations of a firm towards consumers and their perceptions of financial services;
- 11.1.2 explain the main needs of consumers and how they are prioritised;
- 11.1.3 identify suitable investment solutions to suit different needs of consumers.

Topic 12: Client Objectives and the Investment Advice Process

Demonstrate an ability to apply the investment advice process

Section 12.1: The client's financial objectives

- 12.1.1 explain the importance of establishing and quantifying a client's objectives;
- 12.1.2 explain the need to prioritise objectives to accommodate a client's affordability.

Section 12.2: The client's current circumstances

- 12.2.1 explain the importance of the fact find process in establishing a client's current financial circumstances;
- 12.2.2 identify the factors shaping a clients' circumstances.

Section 12.3: The client's attitude to risk

- 12.3.1 analyse the main types of investment risk as they affect investors;
- 12.3.2 explain the role of diversification in mitigating risk;
- 12.3.3 analyse the impact of timescale on a client's attitude to risk;
- 12.3.4 explain the key methods of determining a client's attitude to risk.

Section 12.4: Advice and recommendations

- 12.4.1 explain why asset allocation always comes before investment or product selection;
- 12.4.2 explain the key roles of past performance, charges and the financial stability of the provider as criteria within the fund selection process;
- 12.4.3 explain the importance of stability, independence and standing of trustees, fund custodians and auditors in the fund selection process;
- 12.4.4 identify benchmarks and other performance measures;
- 12.4.5 explain the importance of reviews within the financial planning process.

Section 12.5: The objectives of pension funds, life assurance and general insurance companies and the factors that impact upon their investment decisions

- 12.5.1 explain the features and objectives of the following funds in the UK:
 - pension funds (defined benefit and defined contribution)

- life assurance funds
- general insurance funds
- 12.5.2 distinguish among the typical asset allocations for the above funds;
- 12.5.3 explain the return objectives of the major fund types;
- 12.5.4 classify funds by their income/capital growth requirements;
- 12.5.5 explain the effect of each of the following on a fund's asset allocation:
 - time horizons
 - liability structure
 - liquidity requirements.
- 12.5.6 explain the taxation of the various types of funds in the UK;
- 12.5.7 explain the effect that tax legislation may have on the stock selection and asset allocation of a fund;
- 12.5.8 identify the other types of legal requirements that affect pension, insurance funds and private clients.

Topic 13: Skills required when advising clients

Demonstrate an understanding of the range of skills required when advising clients

- 13.1.1 communicate clearly, assessing and adapting to the differing capabilities of clients;
- 13.1.2 evaluate the factors shaping a clients' needs and circumstances;
- 13.1.3 apply suitable investment solutions to suit different types of circumstances;

Topic14: The UK tax system

Demonstrate an understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts

- 14.1.1 explain the principles of income tax applicable to earnings, savings and investment income in the UK;
- 14.1.2 explain in relation to income tax the system of allowances, reliefs and priorities for taxing income;
- 14.1.3 explain the taxation of the income of trusts and beneficiaries;
- 14.1.4 explain the system of national insurance contributions;
- 14.1.5 explain the principles of capital gains tax in the UK;
- 14.1.6 explain the principles of inheritance tax;
- 14.1.7 explain the implications of residence and domicile in relation to liability to income, capital gains and inheritance tax;
- 14.1.8 explain the system of UK tax compliance including self assessment, Pay As You Earn (PAYE), tax returns, tax payments, tax evasion and avoidance issues;
- 14.1.9 explain the principles of stamp duty land tax (SDLT) as applied to property transactions – buying/selling and leasing;
- 14.1.10 explain the principles of stamp duty reserve tax (SDRT);
- 14.1.11 explain how companies are taxed in the UK;
- 14.1.12 explain in outline the principles of Value Added Tax (VAT)

Topic 15: The taxation of investments

Demonstrate an ability to analyse the taxation of investments as relevant to the needs and circumstances of individuals and trusts

- 15.1.1 analyse the taxation of direct investments including cash and cash equivalents, fixed interest securities, equities and property;
- 15.1.2 analyse the taxation of indirect investments including pension arrangements, individual savings accounts (ISAs), onshore and offshore collective investment schemes and investment companies, onshore and offshore life assurance policies, real estate investment trusts and Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs).

Topic 16: Tax planning

Demonstrate an ability to analyse the role and relevance of tax in the financial affairs of individuals and trusts

- 16.1.1 explain the limitations of lifetime gifts and transfers at death in mitigating IHT;
- 16.1.2 analyse the key principles of income tax planning – spouse, civil partners, children, pension contributions, ISA allowances and other tax advantaged schemes (EIS and VCT's etc.);
- 16.1.3 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.

Topic 17: Application of personal tax planning to investment advice

Demonstrate an ability to apply the knowledge of personal taxation to the provision of investment advice

- 17.1.1 To carry out computations on the most common elements of income tax and NICs; CGT; IHT including the impact of lifetime transfers and transfers at death;
- 17.1.2 To make elementary tax planning recommendations in the context of investments and pensions advice.