

**Section A**

**1 Outline the legislation applying to Pension Funds.**

Page 46 (½ mark each)

Pensions Act 1995

Reinforces trust law re running

Increase security of member's benefits

Pensions Act 2004

Further improves security of member's benefits and scheme admin

Both give trustees additional rights and duties

**2 Discuss the main changes made by the Combined Code 2003.**

Page 50 (1 mark each)

- Amends the restriction on Chairman being on remuneration committee but should not chair it
- Allows withholding on proxy appointments to allow shareholders to show unease but not to vote against
- Companies publish on their websites details of proxies lodged at general meetings where votes are subject to show of hands

**3 Outline the key characteristics of local authority bonds.**

Page 137 (½ mark each)

- Interest paid net of 20% tax
- Fully taxable in individuals hands
- As savings income
- Some may be traded on stock exchange
- Prior to redemption
- As qualifying corporate bonds gains are exempt from taxation

**4 Briefly set out the requirements regarding information on dividends in a company's accounts after 1<sup>st</sup> January 2005.**

Page 168 9 (½ mark each)

In notes

- Any amount set aside/ withdrawn from reserves
- Aggregate amount of dividends paid in financial year
- Other than those for which liability existed preceding the balance sheet date
- Aggregate amount of dividends liable to be paid at balance sheet date
- Aggregate amount of dividends proposed before date of approval of accs
- Not otherwise disclosed under Sch4 part 3 para 35A

**5 Briefly explain the particular areas of concern which exist about the promotion of with-profit bonds**

Page 102 ( $\frac{1}{2}$  mark each)

- Failure to make clear it is unsuitable as a short term investment
- Unclear what will affect the cash in value
- Not explain what is meant by market adjustment and not explaining likelihood/significance
- Using a rate to suggest it applies
- Quoting existing rates to suggest that is what you will get
- Comparing with Building Societies but not explaining the difference (extra point for explaining)

**6 Information technology is now a vital aid for pension product administrators. Explain the key functions that should be available to administrators when dealing with investor enquiries and updating associated investor records.**

Page 227 ( $\frac{1}{2}$  mark each)

- View members account info and history
- Request/print statements
- Request amendments and online maintenance
- Enrolments and change contribution rates
- Research performance of investments
- Info for tax returns and processing of requests

**7 Explain the responsibilities of managers and auditors as shown in the auditor's report.**

Page 186 ( $\frac{1}{2}$  mark each)

- Manager to prepare accounts as per law and accounting standards
- Auditors to audit as per legal and regulatory requirements
- Including Auditing Practice board and \COLL Sourcebook
- Auditor to give opinion if fair and true and prepared
- as per Rec Practice for AUTS, COLL and Trust Deed
- Auditor's to read rest of report and consider implications reporting inconsistencies

**8 The Sharpe and Treynor ratios are measures used to assess the relative return on assets. Outline the key characteristics of these two ratios.**

Page 126 Sharpe 1 mark Treynor 2 marks

Sharpe:

- PRP/SD  
Reward to variability ratio
- Higher the more attractive  
If PRP up or SD down both good news

Treyner:

- risk to volatility ratio
- PRP/Beta
- Explain beta
- Higher the better
- PRP higher
- Beta down so less volatile to market

**9 In order to publish an authorised collective investment scheme prospectus certain requirements must be adhered to. Outline what these requirements are.**

Page 78

- Prospectus in English
- Publish by AUT or Directors if OEIC
- AUT must ensure contains requirements of COLL
- Nothing prejudicial to unit/shareholders or to a class (1 mark)
- Nothing conflicts with sourcebook
- Is up to date and revisions made as appropriate

**10 What is the latest European directive concerning investment funds better known as and what are its key aims?**

Page 9

½ mark for each valid point

- UCITS 3
- (Undertakings for Collective Investments in Transferable Securities) (1½ mark for spelling out the acronym).
- Harmonise laws & regulations
- Approximate competitive conditions at European level
- to simplify cross border marketing
- Ensure effective and uniform protection

## **Section B**

### **11 Discuss how a Collective Investment Scheme (CIS) must calculate tax on its income.**

Page 144 (½ mark for each point listed below or any other valid answer)

- Taxable profit is income less chargeable expenses
- Treatment of income depends upon source
- Dividends paid by UK resident co to UK resident Co are exempt from income tax
- Because payer has paid tax
- Plus attributable tax credits are called Franked Inv Income
- Plus franked part of distribution from other CISs is tax free
- Other unfranked income if no relief/credit is subject to Corp tax
- CIS taxable profit is calculated by total unfranked received less allowable expenses
- e.g. AFMs Annual Management charge
- examples of unfranked are int on debt securities, bank deposit int, underwriting fees, foreign income
- CIS exempt from Cap gains on investments
- IF HMRC find them dealing/trading securities (not investment) then gains are taxed as income and thus CGT applies
- This is not a clear area HMRC decides
- Turnover can decide trading or investment
- The intention of the AFM is decisive
- If not dealing taxed as investment co.

### **12 The Manager of an Authorised Unit Trust must satisfy the FSM Act (2000). Exactly what does this mean?**

Page 52 (1 mark each up to a maximum of 10 marks))

- Be authorised with permission to act as a manager
- Be a corporate body
- Have its affairs admin in country of registration
- Have a place of business in the UK
- Be independent of the trustee
- All from S243
- Directors must be fit and proper persons
- Approved by FSA under Section 59 (1 mark only)
- Manager must be named in Trust deed from which he gets his authority
- Operate the funds in accordance with the Instrument of Constitution eg Trust deed.

- Operate the Fund in accordance with the COLL sourcebook.
- Operate in accordance with guidelines in published prospectus.

**13 Give a brief overview of the various constituents which are used to complete a fund valuation (excluding derivatives).**

(½ mark each except where indicated)

- Up to date list of stocks/shares held with Book Cost
- Relevant pricing basis
- Current prices of stocks/shares held
- Single or dual pricing
- Notional Broking Charges
- Outstanding Settlements
- Creations/Cancellations
- Cash
- Exchange Rates
- Dividend or interest income
- Interest on cash
- Initial Charge
- No of units in issue
- Chargeable Expenses (0.5 mark)
  - Fees : AFM; Depository; Safe custody; FSA; Auditor's; Registration, Possibly Interest Expenses ; Interest Distribution (0.5 mark each, max 3.0 marks)
- Non-chargeable Expenses (0.5 mark)
  - Stockbrokers' fees; overdraft interest; foreign exchange losses (0.5 mark each, max 1.0 mark)
- Tax (0.5 mark)
  - Income Tax; Withholding Tax; Stamp Duty; SDRT; VAT (0.5 mark each, max 2.0 marks)

**Section C**

**14 It is essential to meet the need for competent staff. In order for an authorised firm to continue to meet the threshold conditions for authorisation by the FSA:**

- Explain the first step essential in any recruitment process. (5 marks)**
- Outline the FOUR alternative recruitment methods available, listing their relative merits. (4 marks)**
- Explain the various selection methods a company can use in the selection of appropriate staff. (4 marks)**
- Once a selection has been made, what must the company do to complete the selection process. (3 marks)**
- Identify FOUR different initial training methods which you might choose to employ. (2 marks)**

- f) Identify the four key elements you would want to see in the content of any initial training programme.** (2 marks)

Page 244-255

- a) Identify needs  
Skills required  
Personal characteristics  
Behaviour  
Identification methods to be used  
    Experience/qualifications  
Test  
References  
Create job profile
- b) ½ mark for identification of method and ½ mark maximum for each method's relative merit.
- Adverts in press
  - Recruitment agency
  - Headhunting
  - Referrals
- c) 1 mark for each of the following:
- Interview by recruiter/firm
  - Screening
  - Assessment centre
  - Skills test/Role play
- d) Offer Letter to 1<sup>st</sup> choice  
Subject to verification  
Criteria for hiring  
If controlled function-FSA approval  
FSA can take 3 months  
85% within 7 days
- e) Induction process (½ mark available for each valid point up to a maximum of 2 marks)
- Talk/chalk
  - Mentoring
  - Coaching
  - Delegating
  - Reading
  - IT leaning
- f) ½ mark for each valid point up to a maximum of 4 marks.
- IT systems
  - General business / organisational knowledge
  - Mandatory – eg regulatory requirements
  - Job specific – procedural / contacts

- Assessment / evaluation of induction process / training programme.

**15 There are a number of rules which are specific to particular forms of investment.**

- a) **What are the COLL rules specific to the Trust Deeds of AUTs.** (6 marks)
- b) **Explain the rules that apply specifically to the Instruments of Incorporation of OEICs.** (3 marks)
- c) **What are the additional requirements of the OEIC Regulations 2001.** (5 marks)
- d) **Discuss the specific requirements for Umbrella OEICs.** (3 marks)
- e) **Discuss other matters that may be included in the instrument of incorporation.** (3 marks)

Page 76-77

- a) Must be governed by law of England & Wales, Wales, Scotland, N Ireland (1 mark)  
 Trust deed is binding and authoritative (1 ½ mark)  
 Scheme property held by trustee (2 marks)  
 Trustee to be paid (1 mark)  
 Identify register (½ mark)
- b) Statement on proportion of larger denomination shares for each class (1 mark)  
 Power of ordinary shareholders to remove director  
 By ordinary resolution  
 ACD holding shares  
 Charges and expenses of OEIC can come from scheme property
- c) Some reflected in COLL sourcebook  
 But also Schedule 2 additions  
 Statement that it is OEIC  
 HO in UK or NI  
 Procedure for appointment/retirement/removal of director (1 mark)  
 Scheme property entrusted to depositary  
 Max/Min sizes of cos capital  
 i.e. value of property less liabilities (as per COLL) 1 mark
- d) Any objectives applicable to each part pooled sep (1 mark)  
 Indication of each class of shares for each pooled part (1 mark)  
 Explain umbrella (1 mark)
- e) OEIC has right to invest in other managed funds by the ACD (1 mark)  
 How ACD's remuneration is determined  
 ACD able to operate a box for OEICs shares  
 i.e. act as market maker holding shares  
 How unclaimed income will be treated

## **Section D**

**16 An investment manager wishes to introduce a number of changes to a fund, particularly relating to its investment objectives and fee structure. You have been appointed as the project manager and have been asked to produce a detailed briefing note for the board outlining the implications of these changes.**

Documentation

Notifying unit holders

Agreeing new objectives

Implications for investor servicing / dealing with enquiries

Impact on performance statistics – eg category of fund within IMA might change

FSA approval and changes in compliance.

Voting

Marketing

**17 Your firm is considering outsourcing certain of its key administrative activities to a third party administrator. You have been asked to prepare a discussion paper for the Board which will look at the issue, explaining the advantages and disadvantages, as well as any risks faced and their mitigation measures in order that final decision can be made.**

Business case for outsourcing (1 mark each, max 4 marks)

- In essence, firms are looking for an outsourcing relationship to provide economies and/or efficiencies which will benefit them and/or their customers.
- These may include some or all of:
  - The ability for the firm to focus on its “core competencies” (e.g. asset allocation, distribution)
  - The ability to capitalise on the outsourcee’s specialist areas of expertise, and the economies of scale it should have built up in focusing on these areas
  - A reduction in your firm’s overheads in terms of human, technical and physical resource –
  - OR the ability to re-deploy those resources in other, more productive areas instead
  - A greater likelihood that the outsourced services will be handled in a “cutting-edge” environment, since it is the outsourcee’s core activity
  - The ability to specify services and service levels in a detailed contract, providing a measure of certainty and enforceability which may be preferable than employing people to carry out the services in-house.

Risks and potential disadvantages (1 mark each, max 8 marks)

Any of the following factors could imperil the success of an outsourcing arrangement:

- A poor “cultural fit” between the client (your firm) and the provider (the outsourcee)
- Loss of flexibility, for example because the contractual terms of the outsourcing is “set in stone” and does not allow the client to develop its products or servicing arrangements in the way the market demands
- Risks in terms of confidentiality, for example where the outsourcee is privy to details of its client’s processes, know-how etc and there are later disputes over the ownership of these details
- Conflicts of interests, where the outsourcee also services competitor businesses
- Failure to manage and therefore to match expectations – e.g. where the client company:
  - Expects higher delivery standards than it might of its own internal departments;
  - Has a different understanding from the outsourcee of what is included in the service fee, or
  - Fails to appreciate that it is likely to be only one of several clients of the outsourcee, and therefore may be competing for its attention and resource
- Cost savings may be (and frequently are) over-estimated – especially when control failings creep in and their resolution absorbs valuable management and staff time;
- Or, where the resource required to properly monitor the arrangement in accordance with regulatory and in-house risk management requirements is under-estimated
- The client (your firm) will remain primarily responsible to its customers for any acts and omissions of the outsourcee. If there are losses to be made good, then even if it can claim redress from the outsourcee this can itself take time and money – and depending on the contracts terms, it may be unsuccessful.

Proposals to mitigate these risks (1 mark each, max 5 marks)

- Careful assessment of prospective outsourcees for good cultural fit – shared values and style, etc
- Clear articulation of the activities being outsourced so that both parties understand where their responsibilities start and end
- Where possible, outsourcing an entire business process (not parts thereof) to minimise the incidence of overlaps and duplication
- Detailed discussions the outsourcee’s capabilities, and the client (your firm’s) requirements – both at outset and ongoing, covering everything from the need for staff training to the frequency and methodology of data recovery and systems backup
- The documentation of these agreed service levels in a detailed Service Level Agreement, so as to avoid later confusion and dispute
- The establishment and maintenance of clear lines of communication and accountability between the firms, at various levels (from operations to senior management)
- An agreed mechanism for dispute resolution

3 marks available for structure, logic and cohesion of the answer, awarded at the markers discretion.