

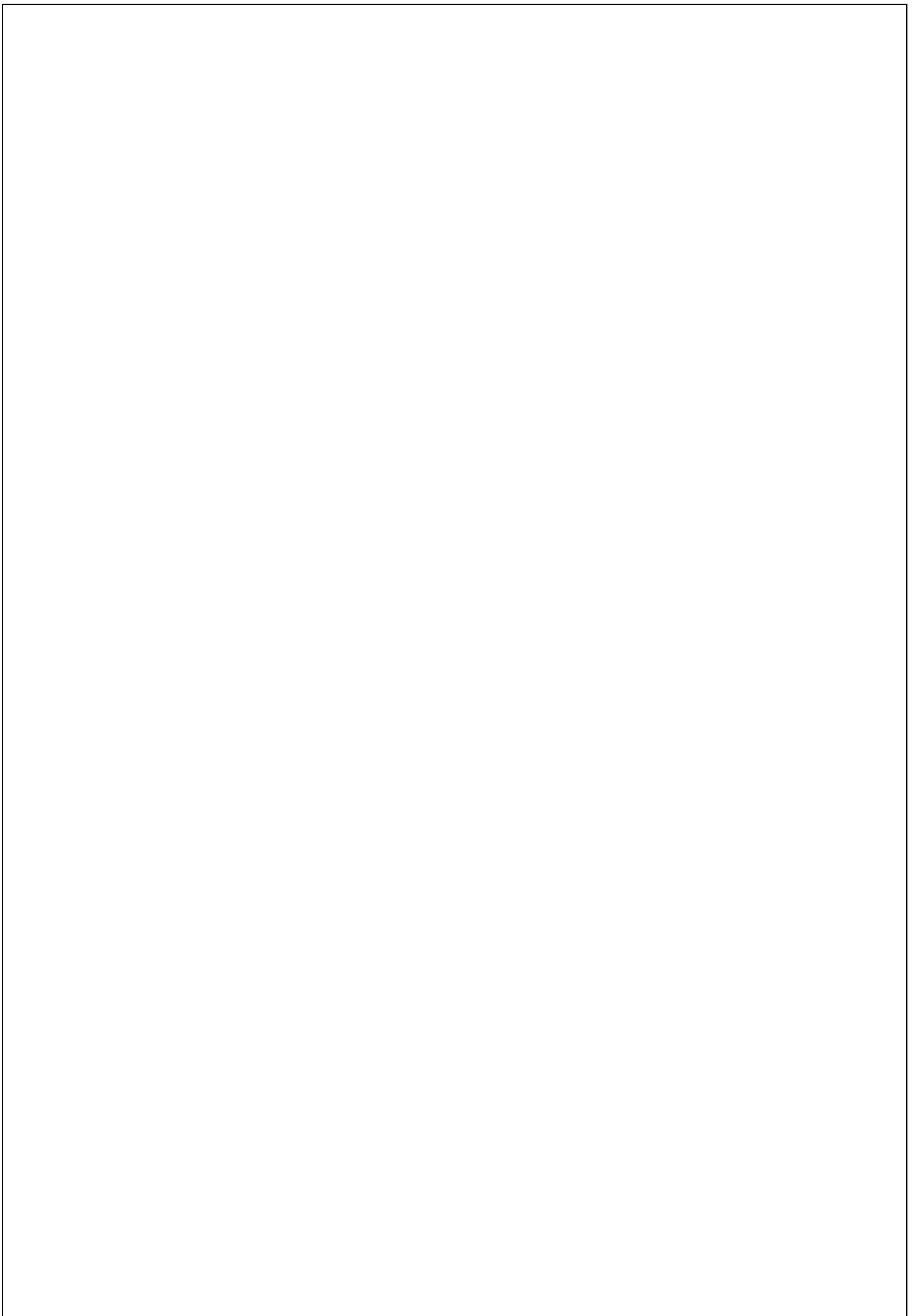


CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT  
(Formerly Securities & Investment Institute)

LEVEL 3  
UNIT 6 CERTIFICATE IN INVESTMENTS  
OR  
UNIT 7 CERTIFICATE IN INVESTMENT ADMINISTRATION

PRINCIPLES OF FINANCIAL REGULATION

EFFECTIVE FROM 1 NOVEMBER 2009



## OBJECTIVE OF THE EXAMINATION

The objective of the examination is to ensure candidates have a basic knowledge of the regulations and legislation underpinning the financial markets and the conduct of investment business.

The examination will test candidates' knowledge and understanding of the following elements:

- The Regulatory Environment
- The Financial Services and Markets Act 2000
- Associated Legislation and Regulation
- European Union Directives
- The FSA Conduct of Business Sourcebook / Client Assets

## SYLLABUS STRUCTURE

The unit is divided into *elements*. These are broken down into a series of *learning objectives*.

Each learning objective begins with one of the following prefixes: *know* or *understand*. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- *know* require the candidate to recall information such as facts, rules and principles
- *understand* require the candidate to demonstrate comprehension of an issue, fact, rule or principle

## CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (cisi.org) on a regular basis for updates that could affect their examination as a result of industry change.

**Note:** The syllabus has included for guidance, references from the FSMA 2000, the Criminal Justice Act 1993 [CJA] and the FSA Handbook to assist candidates in locating source material. An explanation of the FSA Sourcebook Reference Codes follows:

APER	Statements of Principle and Code of Practice for Approved Persons
BIPRU	Prudential Sourcebook for Banks, Building Societies & Investment Firms
CASS	Client Assets
COBS	Conduct of Business Sourcebook
COND	Threshold Conditions
COLL	Collective Investment Schemes
DEPP	Decision Procedure and Penalties Manual
EG	Enforcement Guide
FIT	Fit and Proper Test for Approved Persons
GEN	General provisions
GENPRU	General Prudential Sourcebook
IPRU(INV)	Interim Prudential sourcebook: Investment Businesses
MAR	Market conduct
ML	Money Laundering
PERG	Perimeter Guidance Manual
PRIN	Principles for Businesses
SUP	Supervision
SYSC	Senior Management Arrangements, Systems and Controls
TC	Training and Competence

**EXAMINATION SPECIFICATION**

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

<b>Examination specification 50 multiple choice questions</b>		
<b>Element number</b>	<b>Element</b>	<b>Questions</b>
1	The Regulatory Environment	7
2	The Financial Services and Markets Act 2000	8
3	Associated Legislation and Regulation	14
4	European Union Directives	3
5	The FSA Conduct of Business Sourcebook / Client Assets	18
<b>Total</b>		<b>50</b>

**ASSESSMENT STRUCTURE**

A 1 hour examination of 50 multiple choice questions.

Candidates sitting the examination by Computer Based Testing may have up to 10% additional questions as trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

## **SUMMARY SYLLABUS**

### **ELEMENT 1 THE REGULATORY ENVIRONMENT**

- 1.1 The role of the Financial Services Authority (FSA)
- 1.2 The Regulatory Infrastructure

### **ELEMENT 2 THE FINANCIAL SERVICES AND MARKETS ACT 2000**

- 2.1 Regulated and Prohibited Activities
- 2.2 Performance of Regulated Activities
- 2.3 Information Gathering and Investigations
- 2.4 Regulated Activities

### **ELEMENT 3 ASSOCIATED LEGISLATION AND REGULATION**

- 3.1 Insider dealing
- 3.2 Market abuse
- 3.3 Money laundering
- 3.4 Miscellaneous offences under FSMA 2000
- 3.5 Model Code for Directors
- 3.6 Disclosure and Transparency rules
- 3.7 Data Protection Act 1998
- 3.8 Capital Adequacy

### **ELEMENT 4 EUROPEAN UNION DIRECTIVES**

- 4.1 Market in Financial Instruments Directive (MiFID)
- 4.2 Capital Requirements Directive (CRD)
- 4.3 Other EU directives

### **ELEMENT 5 THE FSA CONDUCT OF BUSINESS SOURCEBOOK / CLIENT ASSETS**

- 5.1 The application and general provisions of the FSA Conduct of Business Sourcebook
- 5.2 Rules applying to all firms conducting designated investment business
- 5.3 The requirements of the financial promotion rules
- 5.4 Accepting customers
- 5.5 Advising and selling
- 5.6 Dealing and managing
- 5.7 Reporting to clients
- 5.8 Client Assets

## ELEMENT 1 THE REGULATORY ENVIRONMENT

### 1.1 The role of the Financial Services Authority (FSA)

On completion, the candidate should:

- 1.1.1 *know* FSA's statutory objectives
- 1.1.2 *know* that FSA has the power to make rules in respect of authorisation, supervision, enforcement, sanctions and disciplinary action [FSMA]
- 1.1.3 *understand* the Principles for Businesses [PRIN 1.1.2 + 1.1.7 + 2.1.1] and the requirement to act honestly, fairly and professionally [COBS 2.1]
- 1.1.4 *understand* the FSA's requirement for firm's to treat customers fairly
- 1.1.5 *know* the Statements of Principle and Code of Practice for approved persons [APER 1.1.1 + 1.2.3 + 2.1.2 + 3.1.1/7 + 4.1 + 4.2 + 4.3.1/3 + 4.4.1/3/4/9 + 4.5.1/12/13/14 + 4.6.1/2/3/5/6/8 + 4.7.1/2/12/13]
- 1.1.6 *know* the Chartered Institute for Securities & Investment's (Formerly Securities & Investment Institute) Code of Conduct
- 1.1.7 *know* the purpose of the FSA's rules regarding Senior Management Arrangements, Systems and Controls for both common platform firms and Non-MiFID firms:
  - purpose [SYSC 1.2.1]
  - apportionment of responsibilities and recording of apportionment [SYSC 2.1.1, 2.2.1]
  - systems and controls [SYSC 3.1.1]
  - compliance [SYSC 6.1.1 – 5]
  - governance arrangements [SYSC 4.1.1 – 5, 5.1.13 – 14]
  - responsibility of senior personnel [SYSC 4.3.1 – 2]
  - employing personnel with requisite skills, knowledge and expertise [SYSC 5.1.1]
  - internal audit [SYSC 6.2.1]
  - financial crime and anti-money laundering [SYSC 6.3.1 & 6.3.8 - 9]
  - risk control [SYSC 7.1.2/3/5]
  - rules on record keeping [SYSC 9.1.1 – 3]

- 1.1.8 *know* the FSA's supervisory approach to more 'outcomes focused' regulation [DP 09/2 pp 183-196 and Turner report pp 86-104]
- 1.1.9 *know* the sources of information on the FSA's supervisory approach [DP 09/2 pp 183-196 and Turner report pp 86-104]

## **1.2 The Regulatory Infrastructure**

On completion, the candidate should:

- 1.2.1 *know* the regulatory infrastructure generated by the FSMA 2000 and the status of and relationship between the Treasury, the Office of Fair Trading, the Financial Services Skills Council and the FSA and also the relationship between FSA and the RIEs, ROIEs, DIEs, RCH, MTFs and DPBs
- 1.2.2 *know* the role and relationship between the FSA, Financial Ombudsman Service and the Financial Services Compensation Scheme
- 1.2.3 *know* the role of the Financial Services and Markets Tribunal
- 1.2.4 *know* the structure, layout and content of the FSA Handbook [Reader's Guide: Status of Provisions, paragraphs 18-32 and Contents of Handbook (follows paragraph 67)]

## **ELEMENT 2 THE FINANCIAL SERVICES AND MARKETS ACT 2000**

### **2.1 Regulated and Prohibited Activities**

On completion, the candidate should:

- 2.1.1 *know* the regulated and prohibited activities [Part II/III of FSMA 2000, Regulated Activities Order 2001 and the under-noted guidance in the Perimeter Guidance Manual (PERG)]:
- authorised persons [PERG 2.2.3]
  - exempt persons [PERG 2.10 and FSMA (Exemption Order 2001 (SI 2001/1201)]
  - offences under the Act [PERG 2.2.1/2]
  - enforceability of agreements entered into with an unauthorised business [PERG 2.2.2]
  - penalties for carrying out unauthorised investment business [PERG 2.2.1/2]
  - defences available under the Act [PERG 2.2.1]

## 2.2 Performance of Regulated Activities

On completion, the candidate should:

- 2.2.1 *know* the role of the FSA's enforcement division, the power of the FSA to make decisions by executive procedures and the role, scope and consequences of the Regulatory Decisions Committee's responsibility for decision making [DEPP 3.1 – 3.4, 4.1]
- 2.2.2 *know* the outcomes of FSA's statutory notices [DEPP 1.2]
- 2.2.3 *know* the regulatory enforcement processes open to FSA: warning, decision, supervisory and final notices [DEPP 2.2, 2.3]
- 2.2.4 *know* the circumstances in which each of these notices is issued [DEPP 2 Annex 1G & 2G]
- 2.2.5 *know* the firm's right to refer to the Tribunal [DEPP 5.1]
- 2.2.6 *know* the purpose of the FSA's regulatory enforcement measures:
  - private warnings [EG 7.10 – 7.19]
  - variation of permission [EG 8]
  - withdrawal of approval [EG 9.25 – 9.28]
  - prohibition of individuals [EG 9.3 – 9.18]
  - public censure and statement of misconduct [EG 7.10 – 7.19]
  - financial penalties [EG 7.1 – 7.5]
- 2.2.7 *know* FSA's powers to seek redress for consumers [EG 11]

## 2.3 Information Gathering and Investigations

On completion, the candidate should:

- 2.3.1 *know* FSA's power to require information [FSMA 2000 s.165]
- 2.3.2 *know* FSA's power to appoint persons to carry out investigations [FSMA 2000 s. 167/8]

## 2.4 Regulated Activities

On completion, the candidate should:

### 2.4.1 *know* the activities specified in Part II of the Regulated Activities Order:

- accepting deposits
- issuing electronic money
- effecting or carrying out contracts of insurance as principal
- dealing in investments (as principal or agent)
- arranging deals in investments
- arranging regulated mortgage contracts
- arranging regulated home reversion plans
- arranging regulated home purchase plans
- operating a multilateral trading facility
- managing investments
- assisting in the administration and performance of a contract of insurance
- safeguarding and administering investments
- sending dematerialised instructions
- establishing a collective investment scheme (CIS)
- establishing a stakeholder pension scheme
- advising on investments
- advising on regulated mortgage contracts
- advising on regulated home reversion plans
- advising on regulated home purchase plans
- Lloyd's market activities
- entering funeral plan
- entering into and administering a regulated mortgage contract
- entering into and administering a home reversion plan
- entering into and administering a home purchase plan
- agreeing to carry on most regulated activities

2.4.2 *know* the main exclusions from the need for authorisation under the FSMA 2000 [Regulated Activities Order]

- dealing as principal [PERG 2.7, 2.8.4]
- advice in newspapers [PERG 2.8.12 & 7.1.2]
- trustees, nominees and personal representatives [PERG 2.9.3]
- employee share schemes [PERG 2.9.13]
- overseas persons [PERG 2.9.15]

2.4.3 *know* the investments specified in Part III of the Regulated Activities Order:

- deposits
- electronic money
- rights under a contract of insurance
- securities
- instruments creating or acknowledging indebtedness
- Government and public securities
- instruments giving entitlements to investments
- certificates representing securities
- units in a collective investment scheme
- rights under a stakeholder pension scheme
- options
- futures
- contracts for differences
- Lloyd's syndicate capacity and syndicate membership
- rights under funeral plan contracts
- rights under regulated mortgage contracts
- rights under a home reversion plan
- rights under a home purchase plan
- rights to or interests in anything that is a specified investment listed, excluding 'Rights under regulated mortgage contracts'

2.4.4 *know* the authorisation procedures for firms:

- the need for authorisation [FSMA s. 19. PERG 2.3, Annex 1 & 2, 2.10.9 – 2.10.16]
- the threshold conditions for authorisation [FSMA Sch 6. COND 2]

2.4.5 *know* the supervisory process:

- purpose of FSA's supervision arrangements [SUP 1.1.2-1.1.4]
- focus on a firm's senior management [SUP 1.1.4, SYSC 1.2.1(1)/4.2.1/4.3.1]
- FSA's risk based approach to regulation – ARROW II [SUP 1.3.1/2/3/4/5/8]
- FSA's supervisory tools [SUP 1.4.1/2/4]

2.4.6 *know* the approval processes for Approved Persons:

- the application process [SUP 10.12.1/2/3 + Annex 3G]
- the criteria for approval as an Approved Person [FIT 1.3 + 2.1 + 2.2 + 2.3]

2.4.7 *understand* FSA's controlled functions: the five functional areas, the main roles within each, the four areas of significant influence functions, the requirement for FSA approval prior to performing the function [FSMA s. 59. SUP 10.5.1, 10.6.1, 10.7.1, 10.8.1, 10.9.1/2, 10.10.1/3 and the type of functions listed under Table 10.4.5]

2.4.8 *know* the Training and Competence regime:

- the application of the systems and control responsibilities in relation to the competence of employees [SYSC 3.2.13/14/5.1.1]
- assessing and maintaining competence [TC 2.1.1(1), 2.1.2], the examination requirements before starting activities [TC 2.1.6/7(1)], firms must assess at the outset and at regular intervals the training needs of its employees [TC 2.1.11], maintaining competence [TC 2.1.12/13]
- activities to which the T&C rules apply [TC Appendix 1]

2.4.9 *know* the legal and regulatory basis for whistle blowing [SYSC 18.1.2, 18.2.3]

### **ELEMENT 3 ASSOCIATED LEGISLATION AND REGULATION**

#### **3.1 Insider dealing**

On completion, the candidate should:

- 3.1.1 *understand* the meaning of 'inside information' and 'insider' [Criminal Justice Act 1993 (CJA) s.52/56/57/58]
- 3.1.2 *understand* the offences described in the legislation and the instruments covered by the Criminal Justice Act 1993 [CJA s. 52 + Schedule 2]
- 3.1.3 *know* the general defences available with regard to insider dealing [CJA s.53]
- 3.1.4 *know* the special defences: market makers acting in good faith, market information and price stabilisation [CJA s. 53 and Schedule 1 paras 1-5]
- 3.1.5 *know* the FSA's powers to prosecute insider dealing [FSMA s.402. EG 12.7-10]

#### **3.2 Market abuse**

On completion, the candidate should:

- 3.2.1 *understand* the statutory offence of market abuse [Financial Services and Markets Act 2000 s.118(1-8)]
- 3.2.2 *know* the status of the FSA's Code of Market Conduct [FSMA 2000 s.119(1) – (3)]; the territorial scope of the legislation and regulation [FSMA 2000 s.118]
- 3.2.3 *know* the offences outlined in the Code of Market Conduct [MAR 1.2.2/7, 1.3.1, 1.4.1, 1.5.1, 1.6.1, 1.7.1, 1.8.1, 1.9.1, 1.2.22]
- 3.2.4 *know* the concept of effect rather than intention [MAR 1.2.3]; the concept of a reasonable regular user [MAR 1.2.20/21]
- 3.2.5 *understand* the enforcement regime for market abuse [MAR 1.1.4/5/6]
- 3.2.6 *know* the statutory exceptions (safe harbours) to Market abuse [MAR 1.10.1-4 (excl. table1.10.5)]
- 3.2.7 *understand* the distinction between offences under market abuse, insider dealing (CJA) and under Financial Services and Markets Act 2000 s.397
- 3.2.8 *understand* the duty of firms to report suspicious transactions [SUP 15.10.2]

### 3.3 Money laundering

On completion, the candidate should:

- 3.3.1 *understand* the terms ‘money laundering’, ‘criminal conduct’ and ‘criminal property’ and the application of money laundering to all crimes [Proceeds of Crime Act 2002 s.340] and the power of the Secretary of State to determine what is ‘relevant criminal conduct’
- 3.3.2 *understand* that the UK legislation on money laundering is found in the Proceeds of Crime Act 2002 [POCA], as amended by the Serious Organised Crime and Police Act 2005 [SOCPA], the Money Laundering Regulations 2007, the FSA Senior Management Arrangements, Systems and Controls Sourcebook [SYSC] and that guidance to these provisions is found in the Joint Money Laundering Steering Group Guidance and understand the interaction between them
- 3.3.3 *understand* the main offence set out in the Money Laundering Regulations (internal controls), which includes obligations on firms for adequate training of individuals on money laundering
- 3.3.4 *understand* the three stages of money laundering
- 3.3.5 *understand* the main offences set out in POCA Part 7 Sections 327, 328, 329, 330, 333 [Assistance i.e. concealing, arrangements, acquisition use and possession; Failure to report; Tipping off] and the implications of Part 7 regarding the objective test in relation to reporting suspicious transactions; that appropriate disclosure [internal for staff and to SOCPA for the firm] is a defence
- 3.3.6 *understand* the new Principles based approach adopted by the FSA in August 2006 as covered by the Senior Management Arrangements, Systems and Controls Sourcebook [SYSC], in particular, the systems and controls that the FSA expects firms to have adopted, the role of the Money Laundering Reporting Officer, Nominated Officer and the Compliance function [SYSC 3.2.6, 3.2.6 (A)-(J), 3.2.7, 3.2.8]
- 3.3.7 *understand* the standards expected by the 2007 JMLSG Guidance notes particularly in relation to:
- Risk based approach
  - Requirements for directors and senior managers to be responsible for money laundering precautions
  - Need for risk assessment
  - Need for enhanced due diligence in relation to politically exposed persons [JMLSG 5.5.1 – 5.5.29]
  - Need for high level policy statement
  - Detailed procedures implementing the firm’s risk based approach [JMLSG 1.20, 1.27, 1.40 – 1.43, 4.17 – 4.18]
- 3.3.8 *understand* the importance of ongoing monitoring of business relationships and being able to recognise a suspicious transaction and the requirement for staff to report to the MLRO and for the firm to report to the Serious Organised Crime Agency [SOCA]

- 3.3.9 *know* what activities are regarded as ‘terrorism’ in the UK [Terrorism Act 2000 Part 1] ), the obligations laid on regulated firms under the Counter-Terrorism Act 2008 [money laundering of terrorist funds] [part 5, section 62, and s.7 part 1-7] and the Anti-Terrorism Crime & Security Act 2001 Schedule 2 Part 3 [Disclosure of Information] and where to find the sanction list for terrorist activities
- 3.3.10 *understand* the importance of preventative measures in respect of terrorist financing and the essential differences between laundering the proceeds of crime and the financing of terrorist acts [JMLSG Guidance Notes 2007 paras [1.38 – 1.39] Preface 9] and the interaction between the rules of FSA, the Terrorism Act 2000 and the JMLSG Guidance regarding terrorism [JMLSG Guidance 2007 Preface 27, 28, 29]

### **3.4 Miscellaneous offences under FSMA 2000**

On completion, the candidate should:

- 3.4.1 *know* the purpose, provisions, offences and defences of FSMA s.397 (1)(2)(3)(4)(5) – misleading statements and practices

### **3.5 Model Code for Directors**

On completion, the candidate should:

- 3.5.1 *know* the main purpose and provisions of the FSA’s Model Code in relation to Director’s dealings, including closed periods; chairman’s approval; no short-term dealing

### **3.6 Disclosure and Transparency rules**

On completion, the candidate should:

- 3.6.1 *know* the purpose of the Disclosure and Transparency rules and the control of information [DTR 2.1.3, 2.6.1]

### **3.7 Data Protection Act 1998**

On completion, the candidate should:

- 3.7.1 *know* the eight Data Protection Principles; the need for notification of data controllers with the Information Commissioner and the record-keeping requirements of FSA regulated firms [DPA Schedule 1, Part 1 & COBS Schedule 1 – record keeping requirements and SYSC 3 & 9]

### **3.8 Capital Adequacy**

On completion, the candidate should:

- 3.8.1 *know* the purpose and application to investment firms of the Interim Prudential Sourcebook: Investment Businesses [IPRU(INV)], General Prudential Sourcebook [GENPRU] and Prudential Sourcebook for Banks, Building Societies & Investment Firms [BIPRU]: satisfying the capital adequacy requirements laid down by FSA for certain types of firm [3-2], the action to be taken if a firm is about to breach its capital adequacy limit [3-5]

## **ELEMENT 4 EUROPEAN UNION DIRECTIVES**

*[Please note – candidates will not be examined on the member states of the EU/EEA]*

### **4.1 Market in Financial Instruments Directive (MiFID)**

On completion, the candidate should:

- 4.1.1 *know* the purpose and scope of MiFID:
- Passporting within the EEA
  - MiFID vs. non-MiFID business & firms
  - home vs. host state regulation
  - investment/ancillary investment services or activities
  - financial instruments covered by MiFID
  - exemptions

### **4.2 Capital Requirements Directive (CRD)**

On completion, the candidate should:

- 4.2.1 *know* the purpose of the Capital Requirements Directive [CRD] [GENPRU 1.2.12/13]

### **4.3 Other EU directives**

On completion, the candidate should:

- 4.3.1 *know* the purpose of the UCITS Directives [Cross border investment services and permitted investments]
- 4.3.2 *know* the purpose and scope of the Prospectus Directive [Cross border prospectuses]

## **ELEMENT 5 THE FSA CONDUCT OF BUSINESS SOURCEBOOK / CLIENT ASSETS**

### **5.1 The application and general provisions of the FSA Conduct of Business Sourcebook**

On completion, the candidate should:

#### **The firms subject to the Conduct of Business Sourcebook COBS 1**

- 5.1.1 *know* the firms subject to the FSA Conduct of Business Sourcebook [COBS 1.1.1-1.1.3, 1 Annex 1, Part 3 section 3]

#### **Activities subject to the Conduct of Business Sourcebook COBS 1**

- 5.1.2 *know* the activities which are subject to the FSA Conduct of Business Sourcebook including Eligible Counterparty Business and transactions between regulated market participants [COBS 1.1.1-1.1.3, Annex 1, Part 1(1) & (4)]

#### **Impact of location COBS 1**

- 5.1.3 *know* the impact of location on firms/activities of the application of the FSA Conduct of Business Sourcebook: permanent place of business in UK [COBS 1.1.1-1.1.3 & Annex 1, Part 2 & Part 3 (1–3)]

#### **Electronic media**

- 5.1.4 *know* the provisions of the FSA Conduct of Business Sourcebook regarding electronic media [Glossary definitions of 'Durable medium' and 'Website Conditions']

#### **Telephone & Electronic communications COBS 11.8**

- 5.1.5 *know* the recording of voice conversations and electronic communications [COBS 11.8]

### **5.2 Rules applying to all firms conducting designated investment business**

On completion, the candidate should:

#### **Communication to clients COBS 4.1 & 4.2**

- 5.2.1 *know* the application of the rules on communication to clients [COBS 4.1]
- 5.2.2 *know* the rule on fair, clear and not misleading communications [COBS 4.2.1 – 4]

#### **Inducements and Use of Dealing Commission COBS 2.3 & 11.6**

- 5.2.3 *know* the application of the inducements rules [COBS 2.3.1/2, 2.3.10-16] and the use of dealing commission, including what benefits can be supplied/obtained under such agreements [COBS 11.6]

**Reliance on others COBS 2.4**

5.2.4 *know* the rules, guidance and evidential provisions regarding reliance on others [COBS 2.4.4/6/7]

**5.3 The requirements of the financial promotion rules**

On completion, the candidate should:

**Purpose of the financial promotion rules COBS 4.1**

5.3.1 *know* the purpose and application of the financial promotion rules and the relationship with Principles 6 and 7 [COBS 4.1]

**Application of the financial promotion rules COBS 3.2 & 4.1**

5.3.2 *know* the application of the financial promotion rules and firms' responsibilities for appointed representatives [COBS 3.2.1(4), 4.1]

**Types of communication COBS 4**

5.3.3 *know* the types of communication addressed by COB 4 including the methods of communication

**Fair, clear and not misleading financial promotions COBS 4.2**

5.3.4 *know* the guidance on fair, clear and not misleading financial promotions [COBS 4.2.2-4.2.5]

**The main exemptions (Financial Promotions Order "FPO" and glossary definition of "Excluded Communications")**

5.3.5 *know* the main exemptions to the financial promotion rules and the existence of the Financial Promotions Order [COBS 4.8]

**Confirmation of compliance COBS 4.10 and SYSC 3 & 4**

5.3.6 *know* the rules on approving and communicating financial promotions and compliance with the financial promotions rules [COBS 4.10 + SYSC 3 & 4]

## 5.4 Accepting customers

On completion, the candidate should:

### Client categorisation COBS 3

5.4.1 *understand* client status [PRIN 1.2.1/2/3 + Glossary + COBS 3]:

- the application of the rules on client categorisation [COBS 3.1]
- definition of client [COBS 3.2]
- retail client [COBS 3.4] professional client [COBS 3.5] and eligible counterparty [COBS 3.6]

5.4.2 *understand* client status [PRIN 1.2.1/2/3 + Glossary + COBS 3]:

- when a person is acting as agent for another person [COBS 2.4.1 –3]
- the rule on classifying elective professional clients [COBS 3.5.3 – 9]
- the rule on elective eligible counterparties [COBS 3.6.4 – 6]
- providing clients with a higher level of protection [COBS 3.7]
- the requirement to provide notifications of client categorisation [COBS 3.3]

### Client agreements with customers COBS 8.1

5.4.3 *know* the requirement for firms to provide client agreements; when a client agreement is required to be signed and when it is acceptable to be provided to the client [COBS 8.1.1 – 8.1.3]

## 5.5 Advising and selling

On completion, the candidate should:

5.5.1 *understand* the purpose and application of the 'suitability' rules [COBS 9.2.1 – 9.2.8] and the rule on identifying client needs and advising [COBS 9.1.1-9.1.4]

5.5.2 *know* the rule on disclosure of costs and associated charges and other income [COBS 6.1.9-6.1.10]

### Appropriateness (non-advised services) COBS 10

5.5.3 *understand* the application and purpose of the rules on non-advised sales [COBS 10.1]

5.5.4 *understand* the obligations for assessing appropriateness [COBS 10.2]

5.5.5 *know* the obligation to warn the client [COBS 10.3]

5.5.6 *know* the circumstances in which it is not necessary to assess appropriateness [COBS 10.4–10.6]

## 5.6 Dealing and managing

On completion, the candidate should:

- 5.6.1 *know* the application of the rules on dealing and managing [COBS 11.1]
- 5.6.2 *understand* the application and purpose of the principles and rules on Conflict of Interest; the rules in identifying conflicts and types of conflicts; the rules on recording and managing conflicts; and the rule on disclosure of conflicts [PRIN 2.1.1 Principle 8. SYSC 10.1.1 – 9]
- 5.6.3 *know* the rule requiring a conflicts policy and the contents of the policy [SYSC 10.1.10 –15]
- 5.6.4 *understand* the rules on Chinese walls [SYSC 10.2]
- 5.6.5 *understand* the rules on managing conflict in connection with investment research and research recommendations [COBS 12.1.2, 12.2.1/3/5/10, 12.3.1 – 4, 12.4.1/4/5/6/7/9/10/15/16/17]
- 5.6.6 *understand* the guidance on churning and switching [COBS 9.3.2]
- 5.6.7 *understand* the requirements of providing best execution [COBS 11.2.1-13]
- 5.6.8 *understand* the requirements for an order execution policy, its disclosure and the requirements for consent and review [COBS 11.2.14-18, 11.2.22-26, 11.2.28]
- 5.6.9 *understand* the rules on following specific instructions from a client [COBS 11.2.19 – 21]
- 5.6.10 *understand* the rules on monitoring the effectiveness of execution arrangements and policy; demonstrating compliance with the execution policy; and the duties of Portfolio Managers and Receivers and Transmitters to act in a clients' best interest [COBS 11.2.27, 11.2.29 – 34]
- 5.6.11 *understand* the rule on client order handling [COBS 11.3.1] and the conditions to be satisfied when carrying out client orders [COBS 11.3.2 – 6]
- 5.6.12 *understand* the rules on aggregation and allocation of orders [COBS 11.3.7 – 8]; rules on aggregation and allocation of transactions for own account [COBS 11.3.9 - 13]
- 5.6.13 *know* the rules on client limit orders – the obligation to make unexecuted client limit orders public [COBS 11.4]
- 5.6.14 *understand* the purpose and application of the personal account dealing rule and the restrictions on personal account dealing [COBS 11.7.1-3]

## 5.7 Reporting to clients

On completion, the candidate should:

- 5.7.1 *know* the general client reporting and occasional reporting requirements [COBS 16.1 – 16.2]
- 5.7.2 *know* the rules on periodic reporting; the additional requirements as regards contingent liability transactions; the exceptions to the requirement of periodic reporting; and record keeping requirements [COBS 16.3]

**5.8 Client Assets**

On completion, the candidate should:

- 5.8.1 *understand* the purpose of the client money and custody rules in CASS including the requirement for segregation and that it is held in trust [CASS 6.2.1-3, 7.3.1-2, 7.4.11, 7.7.1-2]
- 5.8.2 *know* the requirements for reconciling client assets and client money including the timing and identification of discrepancies [CASS 6.5.4-13, 7.6.9-16, 7.7.1]
- 5.8.3 *know* the exemptions from the requirements of the CASS rules [CASS 1.2.3-4, 6.1.1-6, 7.1.1-12]

## **FURTHER REFERENCE**

While a thorough understanding of the training materials will be sufficient to pass the examination, candidates may wish to read beyond these materials to gain a better grasp of the industry in which they have chosen to work. Candidates might find the following websites of interest for this purpose.

**Financial Services Authority** at [www.fsa.gov.uk](http://www.fsa.gov.uk)

**Financial Ombudsman Service** at [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

**Financial Services Compensation Scheme** at [www.fscs.org.uk](http://www.fscs.org.uk)

**The Office of Public Sector Information** (source legislation is available on this site) at [www.opsi.gov.uk](http://www.opsi.gov.uk)

**Her Majesty's Treasury** at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

**Serious Organised Crime Agency** at [www.soca.gov.uk](http://www.soca.gov.uk)

**Joint Money Laundering Steering Group guidance** at [www.jmlsg.org.uk](http://www.jmlsg.org.uk)