

## **PRIVATE CLIENT INVESTMENT ADVICE & MANAGEMENT EXAMINABLE FROM SEPTEMBER 2009**

### **AIMS**

The aims of this paper are to:

1. Develop a broad understanding of the principles of private client investment within the context of the current regulatory environment
2. Identify the investment requirements of clients from the relevant information available
3. Select suitable products available to meet the clients' needs
4. Demonstrate the ability to communicate conclusions to a client in an appropriate manner
5. Ensure that students develop the skills to maintain their competence and knowledge

### **ASSESSMENT STRUCTURE**

A 3-hour paper divided into three sections:

**SECTION A:** Ten compulsory short answer questions. This section will carry 40% of the marks.

**SECTION B:** Three essays of which students will be expected to answer one. In this section, students are expected to show depth of knowledge on a particular topic and be able to discuss all aspects of the subject in question. This section will carry 20% of the marks.

**SECTION C:** One compulsory structured question comprising a number of parts, based on a case study in which the students' ability to give investment advice will be tested. This section will carry 40% of the marks.

Tax tables, RPI figures and Market Makers Gilts lists will be provided.

### **READING LIST**

At the end of this syllabus we have supplied a reading list. Candidates attempting this examination are strongly advised to relate their reading to practitioner experience. Candidates who read more widely and can draw on this broader context fare better in higher, post-graduate level examinations of this nature, where both breadth and depth are required.

## **PRIVATE CLIENT INVESTMENT ADVICE & MANAGEMENT EXAMINABLE FROM SEPTEMBER 2009**

### **SECTION ONE**

#### **FINANCIAL ADVICE WITHIN A REGULATED ENVIRONMENT**

##### **Learning Outcome:**

Candidates will be able to assess the implications of the UK legal and regulatory framework as they apply to the provision of private client investment advice.

##### **Assessment Criteria:**

Candidates can:

- Interpret the regulatory environment, supervision and rules governing private client advice and management in the UK
- Summarise the fiduciary responsibility towards customers and their legal right to recourse
- Assess the regulatory requirements of the main investment trading and settlement mechanisms within the UK and overseas
- Determine how the factors above govern and influence the business processes and practice of private client advice and management

##### **Learning Objectives:**

#### **1. The Legal and Regulatory Framework**

1. Understand the main provisions of the FSMA 2000 and associated Secondary Legislation and assess their implications for the business operations of the private client adviser
2. Understand the aims of the European Financial Services Action Plan, and evaluate the effects of MiFID and CRD on the business systems and controls of the private client adviser
3. Understand the role, regulatory objectives and functions of the Financial Services Authority (FSA) and how they affect the control structures of firms
4. Relate the FSA's Principles and Conduct of Business rules to the processes of advising clients, managing investments, and reporting to customers
5. Apply the rules on "treating customers fairly" and "client's best interest" to the process of advising clients
6. Know the extent of an investment adviser's duty to disclose material information about a recommended investment

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7. Identify 'conflicts of interest' and their potential impact on clients and business operations, and understand the compliance requirements that exist to prevent such occurrences
8. Understand the fiduciary responsibilities of intermediaries, the rights of aggrieved customers and the rules for handling complaints
9. Understand the principal measures to combat financial crime (Insider dealing, Market Abuse, Money Laundering) and evaluate their impact on the firm, the private client adviser and the process of advising and managing private client investments

### **SECTION TWO**

#### **INVESTMENT TAXATION**

##### **Learning Outcome:**

Candidates will be able to assess the impact of taxation on the evaluation of investments and the provision of investment advice.

##### **Assessment Criteria:**

Candidates can:

- Summarise the basic structure of the UK tax system
- Determine the impact of the main taxes (on income and capital) that may be charged to individuals
- Determine the impact of domicile and residence on an individual's liability to UK tax
- Assess the impact of taxation on the investment decision-making process, and the need to tailor an appropriate strategy according to the needs of the client and the range of strategies available

*NOTE: All references to taxation refer to taxes applicable in the United Kingdom; tax tables will be provided in the examination where necessary.*

##### **Learning Objectives:**

###### **A. Income Tax**

1. Understand the role of HMRC and the structure of the UK self-assessment tax system
2. Understand when and how income tax is applied to earnings, interest and dividends and, in some cases, capital gains
3. Be able to calculate simple tax computations

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4. Apply the main rules relating to allowable deductions, personal allowances and reliefs, marriage and civil partnerships and their breakdown, and the tax liabilities of minors
5. Understand the tax treatment of different kinds of investments and the taxation of income arising on overseas investments
6. Evaluate the tax efficiency of an investment asset within the wider context of suitability for an individual customer

**B. Capital Gains Tax**

7. Understand the principles of Capital Gains Tax, and when and how it arises
8. Understand the main CGT exemptions and reliefs available including main residence, exempt assets and exemption limits applicable for individuals, Trusts and estates
9. Understand the main disposal rules for CGT, including special rules that apply to disposals on death and between spouses/ civil partners
10. Know the calculations applicable to assets purchased prior to and post–March 31st 1982
11. Be able to calculate taxable gains on an individual's net gains for a fiscal year
12. Understand due dates for paying CGT and the use of CGT deferral

**C. Inheritance Tax**

13. Understand the liability to IHT, and the effects on IHT liability of chargeable lifetime transfers and transfers on death
14. Understand IHT exemptions and reliefs, excluded assets, Potentially Exempt Transfers, and gifts with reservation
15. Understand the rules governing the administration of estates, grant of probate and registration of probate
16. Be able to value assets for probate and life time transfers
17. Be able to calculate IHT liability based on a straightforward example
18. Understand the relationship between the valuation of assets for CGT purposes, and valuation of assets for IHT-related chargeable lifetime and estate transfers

**D. Offshore Tax**

19. Understand the tax treatment of on shore and off shore funds

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20. Evaluate the suitability of an offshore investment for a UK- domiciled individual

### **SECTION THREE**

#### **FINANCIAL MARKETS**

##### **Learning Outcome:**

Candidates will be able to evaluate the relevance of market-related factors that can influence investment decisions, processes and advice.

##### **Assessment Criteria:**

Candidates can:

- Differentiate between the key features of the main UK and overseas markets (including fixed income and equity) and specify the purpose and methods of trading, settlement, registration and holding of assets
- Assess and justify the political, economic and practical risks, costs and benefits of trading or investing in a particular market
- Assess the suitability and appropriateness of trading or investing in certain markets to help meet the investment objectives of a private customer
- Explain the purposes of and requirements issuing contract notes and the operation of nominee companies

##### **Learning Objectives:**

#### **A. World Financial Markets**

1. Understand the relative size of world equity markets and predominant asset sectors within each market
2. Know the key features of the global government and corporate bond markets
3. Understand the relative benefits, risks and costs of investing in developed and emerging markets
4. Understand and differentiate between exchange-traded, over-the-counter and alternative markets
5. Apply the principles of asset and liability matching when managing investments in different currencies
6. Understand how indices are constructed, and the purposes and limitations in using them

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### **2. UK Markets**

7. Understand the main organisations and processes for transacting, clearing, settling and safekeeping domestic financial securities
8. Know the methods by which domestic securities are issued and brought to market
9. Be aware of the purposes and requirements for issuing contract notes
10. Understand the applicability of VAT, Stamp Duty and Stamp Duty Reserve Tax to transactions in financial securities
11. Understand the purposes and operation of nominee companies

## **SECTION FOUR**

### **TRUSTS AND TRUSTEES**

#### **Learning Outcome:**

Candidates will be able to understand the principles and key features of Trusts and the law governing their creation and management.

#### **Assessment Criteria:**

- Compare the main types of Trusts available under UK law, their key features and taxation considerations
- Explain the benefits, limitations and requirements to achieve Charitable Status
- Evaluate the taxation implications of different scenarios involving Trusts
- Evaluate the merits of using a Trust as a means to achieve a specific client objective

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### **Learning Objectives:**

#### **A. TRUSTS AND TRUST LEGISLATION**

1. Know the key features of Trusts – arrangement, participants, types, documentation
2. Know the different types of Trust and what each is designed to achieve
3. Understand the key provisions of the Trustee Act 2000 and how these relate to the investment powers of Trustees and the Trust Deed.

#### **B. TAXATION OF TRUSTS**

4. Understand the concept of a Chargeable Lifetime Transfer and be able to assess the IHT consequences of different scenarios relating to interest in possession
5. Know the requirements for Charitable status, how Charities are taxed, and the purpose and rules of Gift Aid

### **SECTION FIVE**

#### **FINANCIAL INSTRUMENTS AND PRODUCTS**

##### **Learning Outcome:**

Candidates will understand the different types of investment asset classes, financial instruments, products and schemes available in the UK.

##### **Assessment Criteria:**

Candidates can:

- Differentiate between the investment asset classes, financial instruments, products and schemes that are available in the UK in terms of key features, potential risk and reward, pricing & market availability, and any special taxation, redemption and penalty features that may apply.

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### **Learning Objectives:**

To be able to understand, analyse and evaluate:

#### **A. Bank & Building Society Savings Accounts**

1. The different types of bank and building society accounts
2. The advantages and disadvantages of cash investments
3. The Deposit Protection Scheme

#### **B. National Savings & Investments (“NS&I”)**

4. The characteristics of different NS & I investments
5. Their suitability for different tax status investors
6. The terms and penalties for early surrender

#### **C. Government Debt**

7. Types of securities issued by Central Government and Local Authorities
8. Features and redemption terms of fixed, floating rate & index-linked bonds
9. Strips and strippable bonds
10. Redemption dates & the use of sinking funds
11. Calculation of accrued interest
12. The tax efficiency of comparative stocks
13. Break-even inflation rates
14. The calculation and interpretation of flat yield and redemption yield
15. The features and determinates of the yield curve
16. Duration and its determinants
17. Modified duration, its determinants and usefulness as a measure to price volatility
18. Methods of trading Government Debt including relative merits and disadvantages
19. Reasons for investing in Government Debt

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**D. Corporate Debt**

20. Features and redemption terms of different types of corporate debt
21. Structure and relevance of credit ratings in the evaluation process
22. Convertible bonds, and the effect of conversions on a company and its securities
23. Capital and interest cover
24. Security and borrowing powers
25. Building Society PIBS & Perpetual Subordinated Bonds

**E. Corporate Equity**

26. Features of ordinary shares and types of dividend
27. Features of cumulative, non-cumulative, participating, convertible & redeemable preference shares
28. Shareholders' voting rights and their responsibilities
29. Capitalisation and rights issues, buy backs and their effects
30. Risks and rewards of equity
31. Beta values
32. Analytical measures of equity valuation, and their relative merits and uses
33. Measures of dividend yield, dividend cover, earnings yield, price-earnings ratio, and price:book ratio
34. Relevance of the reverse yield gap

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### **F. Financial Derivatives**

35. Features of UK traded options and covered warrants on individual securities and indices
36. Terms and timescales of different kinds of traded options and warrants
37. Valuation and quotation of traded options and warrants
38. The effect of and treatment of scrip issues, rights and dividends in the underlying security
39. Features of UK company warrants
40. Features of financial futures on equity indices
41. Relevance of cost of carry and fair value
42. Operation and relevance of margin in the clearing and settlement process
43. Features of contracts for difference ("CFDs")

### **G. Unit Trusts and OEICs**

44. Similarities and differences
45. Types of fund, pricing, charging structures, separation of management and ownership, dealing and settlement, tax treatment

### **H. Exchange Traded Funds**

46. Features, including types of fund, pricing, charging structures, dealing and settlement, tax treatment
47. Comparison with other types of fund

### **I. Investment Trusts**

48. Similarities with and differences from other types of fund
49. Differences between conventional and split-level investment trusts
50. Concepts of 'B/C' shares and warrants, zero and stepped preference
51. Real estate investment trusts (REITs)
52. Determinants and relevance of net asset value discounts and premiums

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### **J. ISAs**

- 53. Key features of ISAs
- 54. Differences between Cash and Stocks and Shares ISAs

### **K. Child Trust Funds**

- 55. Key features and types, including contribution limits

### **L. Private Equity Schemes**

- 56. Characteristics of Enterprise Investment Schemes, Venture Capital Trusts and AIM investments including contribution limits, tax relief and suitability considerations

### **M. Life Assurance and Protection Products**

- 57. Purposes, key features and relative merits of life assurance products – term, whole-life, endowment; regular premium policies and single premium bonds; with/ without profits, unit-linked; guaranteed income and growth; annuities
- 58. Income, capital gains and inheritance tax implications of investing in life assurance products
- 59. Purposes, key features and relative merits of protection products: income protection insurance (IPI), critical illness cover (CIC) and private medical insurance (PMI)

### **N. Pension Provision and Eligibility**

- 60. State pension scheme including SERPS and S2P
- 61. Occupational pension schemes, including the relative merits and disadvantages of defined benefit and defined contribution schemes
- 62. Relevance of the Pensions Acts 1995 and 2004 in protecting members of occupational schemes including redress and compensation
- 63. Pension simplification, including annual and lifetime limits
- 64. Personal pension schemes, stakeholder pensions and eligible forms of retirement benefits
- 65. Pension solutions for higher earners – key features and operation of self-invested and self-directed schemes
- 66. Impact of employer, income and lifestyle changes on pension provision

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### **SECTION SIX**

#### **PRINCIPLES OF FINANCIAL ADVICE**

##### **Learning Outcome:**

Candidates will be able to recommend suitable investment products for individual customers.

##### **Assessment Criteria:**

Candidates can:

- Integrate fiduciary, ethical and regulatory responsibilities with technical proficiency when conducting customer fact finds
- Prepare a client profile in line with “Know your Customer” principles, showing a clear relationship between the information elicited and the formulation of appropriate customer-led objectives and constraints
- Identify, analyse and select suitable investments in order to construct a portfolio tailored to meet the agreed objectives of an individual customer
- Recommend investment suggestions in a non-misleading and balanced way, setting out both the potential merits and disadvantages of an investment and its net effect on a customer’s investment portfolio

##### **Learning Objectives:**

#### **A. Establish client objectives and constraints**

1. Understand risk and return objectives and how to construct a risk-return profile
2. Identify the major types of investment risk, and where and how they typically arise
3. Explain the impact of inflation, deflation, taxation and charges on investment returns
4. Understand the importance of timescale in relation to risk and the time value of money
5. Understand the essential features and purpose of a customer profile, particularly the customer’s personal details, income, assets, liabilities, expectations, risk tolerance and existing investment provision
6. Understand the regulatory requirements regarding the need for and content of Client Agreement documentation and related communication
7. Understand and be able to address customer concerns about confidentiality and security, Data Protection, fees, periodic reporting and customer communications

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### **B. Design an investment strategy**

8. Understand the key features and risk-reward profile of the main investment approaches including passive/active, buy/hold, momentum, core/satellite, value, growth, direct, indirect, ethical/SRI, lifestyle, hedge and structured fund approaches
9. Determine a suitable investment strategy with regard to preferred investment approach, time horizon, income, growth, balance, tax position, costs, market and sector diversification, and expected risk and return
10. Analyse the means to implementing that policy, including short-term liquidity, available investments, choice between UK and overseas markets, and direct and indirect routes
11. Specify or recommend appropriate portfolio components taking into account overall suitability, cost and ease of implementation and maintenance

## **SECTION SEVEN**

### **PORTFOLIO PERFORMANCE AND REVIEW**

#### **Learning Outcome:**

Candidates will be able to evaluate investment performance and review portfolio requirements in response to market movements and customer requirements.

#### **Assessment Criteria:**

Candidates can:

- Apply appropriate indices and benchmarks to the comparative analysis of investment performance.
- Evaluate and periodically review portfolio composition in order to continually maintain adherence to client objectives.

#### **Learning Objectives:**

##### **A. Portfolio Performance Measurement**

1. Understand the principles of time weighted and money weighted rates of return
2. Understand the principles of risk including volatility, standard deviation, Alpha and portfolio risk
3. Know the main stockmarket indices and how they operate
4. Understand the key features of indices published by FTSE and APCIMS

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5. Apply appropriate indices and benchmarks to the comparative analysis of investment performance
  
6. Evaluate and periodically review portfolio composition in order to continually maintain adherence to client objectives

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### **READING LIST**

Newspapers/Periodicals etc.

Financial Times and financial sections of other newspapers.

*NOTE: Candidates should pay particular attention to weekend editions in which savings and investment are frequently given specialist coverage.*

### **Also:**

Securities & Investment Review

Bloomberg Money

Financial Analysts Journal

Investors' Chronicle

Money Management

Planned Savings

Private LIFFE

What Investment?

### **Introductory Reading**

*How to Understand the Financial Pages: a Guide to Money and the Jargon*

Davidson, (Times/Kogan Page, 2008)

*The Financial Times Guide to Using the Financial Pages*

Vaitilingam R; (FT Prentice-Hall, 5th ed, 2005)

### **Taxation**

*Wealth Management Planning: the UK Tax Principles*

Finney, M J; (J Wiley, 2008)

*Tolleys Tax Guide*

Homer A, Burrows R, and Goodall A; (LexisNexis Tolley, annually)

*The Financial Times Guide to Personal Tax*

Williams S & Lowe J; (FT Prentice Hall, annually)

### **General**

*Professional and Impartial Investment Advice*

(incorporating the *Directory of Private Client Stockbrokers*)

APCIMS

*The Financial Times Guide to Investing* (FT Prentice Hall, 2004)

Arnold, G

*Triumph of the Optimists: 101 Years of Global Investment Returns*

Dimson, E, Marsh, P & Staunton, M; (Princeton University Press, 2002)

*Bond Markets, Analysis and Strategies*

Fabozzi, F J; (Pearson Education, 7<sup>th</sup> ed, 2009)

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*Implementing Financial Regulation: Theory and Practice*  
Gray, J and Hamilton, J; (J Wiley, 2006)

*Equity and Trusts*  
Haley, M and McMurty, L; (Sweet & Maxwell, 2<sup>nd</sup> ed, 2009)

*Personal Financial Planning: Theory and Practice*  
Harrison, D; (FT Prentice-Hall 2005)

*Interpreting Company Reports and Accounts*  
Holmes, G, Sugden, A, and Gee, P; (FT Prentice Hall, 10<sup>th</sup> ed, 2008)

*The Law of Finance*  
Hudson, A; (Sweet & Maxwell, 2009)

*Investments*  
Levy, H and Post, T; (FT Prentice Hall, 2004)

*Investment Management – How to Select Stocks and Markets*  
Lofthouse, S; (J Wiley, 2001)

*Bentley Jennison Personal Financial Planning Manual*  
McLaughlin, M (ed) (Tottel Publishing, annually)

*Introducing Investment – a Personal Finance Approach,*  
Redhead, K, (FT Prentice Hall, 2003)

*Global Investments*  
Solnik, B and McLeavey, D; (Pearson Education, 6<sup>th</sup> ed, 2008)

*Zurich Investment and Savings Handbook*  
Wright, P; (Pearson Education, annually)

*Dictionary of Financial & Securities Terms*  
Securities Institute, 2002

Students should regularly check investment web sites, such as:

[www.bankofengland.co.uk](http://www.bankofengland.co.uk)  
[www.berkshirehathaway.com](http://www.berkshirehathaway.com)  
[www.bloomberg.co.uk](http://www.bloomberg.co.uk)  
[www.digitallook.com](http://www.digitallook.com)  
[www.dmo.gov.uk](http://www.dmo.gov.uk)  
[www.euronext.com](http://www.euronext.com)  
[www.fool.co.uk](http://www.fool.co.uk)  
[www.fsa.gov.uk](http://www.fsa.gov.uk)  
[www.ft.com](http://www.ft.com)  
[www.ftse.com](http://www.ftse.com)  
[www.londonstockexchange.com](http://www.londonstockexchange.com)  
[www.nationalsavings.co.uk](http://www.nationalsavings.co.uk)

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[www.pensions.gov.uk](http://www.pensions.gov.uk)

[www.trustnet.com](http://www.trustnet.com)

**Taxation**

*Tolley's Tax Guide*

Homer A & Burrows R, LexisNexis Tolley (annually)

*Allied Dunbar Expatriate Tax Investment Handbook*

Well A (ed); Eastway N; Gamblett P;

FT Prentice Hall 7th Edition 2000

*Lloyds TSB Bank Tax Guide*

Williams S & Lowe J, Vitesse Media (annually)

*Zurich Tax Handbook* Foreman, A, and Mowles, G,

Pearson Education (annually)