



**SECURITIES & INVESTMENT INSTITUTE DIPLOMA**  
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**CHIEF EXAMINER'S REPORT-**  
**PRIVATE CLIENT INVESTMENT ADVICE AND MANAGEMENT**

**INTRODUCTION**

The overall standard was good; at least on a par with recent sittings. But there was generally a marked divide between pass and fail candidates. The former showed clear evidence of having thoroughly prepared for the examination. This was most apparent in Section A, which tested the range of subject knowledge and understanding. Many candidates scored high marks in this section. Section B was also generally well answered. However, answers in Section C were in many cases disappointing. Nevertheless, there were many good scripts and a few excellent ones.

In Section A the average mark was good. For five questions many candidates achieved close to full marks: Q1 (Money laundering), Q4 (Accrued interest), Q5 (Pound cost averaging), Q6 (Domicile), and Q10 (Investment terms). In contrast, in Q2 (UCITS), Q3 (Inheritance tax calculation) and Q8 (Compensation limits) many candidates did poorly.

In Section B the two most popular questions, Q11 (Emerging markets) and Q12 (Grand-parent gifting) were the better answered.

In Section C too few candidates addressed the questions asked. Often candidates wrote about investments in descriptive terms that lacked detail and made little reference to their appropriateness in the particular circumstances of the case. Key figures and calculations were often overlooked.

## Section A

**Q1** Candidates had an excellent awareness of the three phases of money laundering and, in most cases, the offences and the maximum penalties applicable. Good answers included much of the following:

- (a) There are three internationally recognised phases to money laundering: Placement, Layering and Integration.
- Placement occurs when the cash generated from crime is placed into the financial system or used to purchase goods. This is the point at which the proceeds of crime are most apparent and therefore most at risk of detection. In this phase dirty money is very often, though not always, in the form of cash but may also, for example, be in the form of negotiable instruments such as travellers cheques. Those seeking to place dirty money might therefore, target deposit-takers such as banks or building societies or cash businesses such as money service businesses or dealers in high value
  - Layering is where the dirty money passes through a series of transactions in order to obscure the origin of the proceeds. These transactions may involve different entities, such as companies and trusts, different financial assets such as shares or insurance products and/or multiple jurisdictions
  - Once the original source of the funds has been obscured the final stage of the process is for the dirty money to reappear as legitimate funds or assets, for example, through income from legitimate business. This is known as integration. The criminal is subsequently free to enjoy the proceeds of crime with much less fear that they will be identified as criminal funds.
- (b) Money laundering offences and the maximum penalties applicable under the Proceeds of Crime Act (2002) are:
- Assistance – this covers concealing, disguising, transferring, acquiring or using the proceeds of crime if the person knows or suspects that the proceeds came from serious criminal misconduct
  - Maximum penalty -14 years imprisonment and/or an unlimited fine, or both.
  
  - Failure To Report knowledge or suspicion of money laundering
  - Tipping Off money launderers that suspicions have been disclosed to the relevant authorities
  - Maximum penalties for both -5 years imprisonment and/or an unlimited fine, or both.
  
  - Failure to Observe the regulations, irrespective of whether or not any money laundering has taken place
  - Maximum penalty 2 years imprisonment and/or an unlimited fine, or both.

- Q2 (a)** Only a minority of candidates could correctly define the acronym UCITS - Undertakings for Collective Investment in Transferable Securities. The first UCITS Directive (“UCITS I”) was adopted in 1985 to implement a single regulatory regime across the European Union for open-ended funds. When a UCITS is authorised by a member state of the EU in which it is situated, such authorisation is valid for all member states and no further authorisation is required if the UCITS is marketed in other member states.
- (b) UCITS 3 was fully implemented in 2007. There was some awareness among candidates that it extended powers in relation to borrowing, going short and using derivatives. More specifically,
- It introduced the concept of a simplified prospectus, which provides information in a simplified format to assist the cross-border marketing of UCITSs throughout Europe
  - It permits funds to invest in a wider range of financial instruments. This extension includes money market instruments, bank deposits, units of UCITS and other collective investment undertakings (fund of funds)
  - It also permits funds to extensively use derivatives as part of their general investment policies and not only for hedging purposes (up to 100% of net asset value)
  - Funds can go short through derivatives (but not naked short selling nor writing uncovered call options)
  - Gearing is permitted (up to 200% of net asset value).

**Q3** The Inheritance tax calculation proved challenging for most candidates. Frequent errors were omitting the annual exemptions and the deceased spouse’s unused tax-free limit. A correct answer was set out on the following basis:

		Liable to IHT
Value of estate on death	£900,000	
First gift	£50,000 but more than seven years before death; therefore exempted	
Second gift	£75,000 but reduced by £3,000 annual exemption for that year and £3,000 for the previous year =£69,000	
Total Liable	£969,000	
Tax free limit for Doris + unused tax-free limit for Harry	£312,00 +£312,00 = £624,000	£345,000
IHT liability	£345,000 x 40%	<b>£138,000</b>

**Q4** Most candidates earned the majority of the marks. The most common error was in miscalculating the accrued interest.

(a) Clean price = £20,000 x 1.2165 = £24,330.00

Accrued interest = £20,000 x 6.0% x 0.5 x 156/182 = £ 514.29

Total cost = **£24,844.29**

(b) Income yield = 6.0/121.65 % = **4.93%**

(c) The stock was tax-inefficient for a higher-rate taxpayer because of the relatively high taxable income yield and the capital loss for which there is no tax relief. This could have been validated by reference to the Gilts Daily Price List.

**Q5** Most candidates understood the principle of ‘pound cost averaging’, although some of the explanations were imprecise. The calculations were generally well done.

(a) Pound cost averaging is the strategy of investing the same sum of money each period, irrespective of price. The rationale is that the number of units purchased is inversely related to price; therefore the average price paid is always less than the average prevailing price.

(b (i) The average prevailing price is the average (arithmetic mean) of the four prices. i.e  
$$\frac{50p+40p+48+62p}{4} = \mathbf{50p}$$

(ii) The average price paid is the harmonic mean of the four prices  
Units purchased per month were 1000+1250+1041.67 +806.45  
Total = 4098.12  
Average price paid = £2000/4098.12 = **48.8p**

**Q6** The criteria for determining domicile were well understood. However, some of the candidates mistakenly believed that non-domiciled UK residents were still automatically taxed on overseas income and gains on a remittance basis.

(a) Domicile is determined by:

- *Origin*, acquired at birth (usually that of the father in the UK; of mother if unwed).
- *Choice* (this requires positive choice, eg. changing residence; making a will under the laws of the new country; obtaining citizenship of the new country; a high standard of proof is required. To change domicile by choice it is necessary to prove to the satisfaction of the Inland Revenue that an individual has permanently abandoned the UK).
- *Dependency* (A minor child of less than 16 years of age changes domicile if their father changes domicile; also applies to women who married before 1974, who acquired the domicile of their husband automatically; this is no longer automatically the case).

(b)

- Individuals who are resident, ordinarily resident, but not domiciled in the UK are liable to tax on all UK income and gains; the same as if UK domiciled
- They must also pay UK tax on all their worldwide income and gains when they arise (if more than £2,000); unless they pay £30,000 per year for the privilege of being assessed on overseas income and gains on a remittance basis if they are long term resident.

**Q7** Rights issues were reasonably understood, although some candidates seemed unaware of the illusory nature of the discount. The discount in itself was not an attraction to existing shareholders.

(a) A deep discounted rights issue may appeal to a company because it:

- (i) Will not require underwriting because the nil paid are virtually guaranteed to have a positive intrinsic value; might be concerned by possible large market fall.
- (ii) Will reduce the trading price to a more desirable level (quasi- share split; British tradition of not having heavily priced shares; although not so relevant in this case).

(b) From an existing shareholder perspective, a favourable factor of a rights issue might be that reducing gearing to a more reasonable level diminishes the risk of financial distress.

On the other hand, an unfavourable factor might be dilution of earnings and dividends; or a flood of rights sales depressing the share price in the short term.

(c) (i) Ex-rights price =  $\frac{4 \times £6.48 + 1 \times £1.00}{5}$   
= **£5.38**

(ii) Nil-paid = £5.38 - £1.00  
= **£4.38**

**Q8** The maximum compensation limits were generally not well understood, apart from that relating to UK bank and building society deposits.

- (i) UK bank and building society deposits are protected 100% of the first £50,000 per person (although state controlled banks may provide unlimited guarantees).
- (ii) Long-term insurance, including life assurance and personal pensions have protection of 100% of the first £2,000 plus 90% of the remainder of the claim.
- (iii) Defined benefit pension schemes are covered 100% for members who are in receipt of a pension; 90% of accrued benefits for others, subject to a cap (£28,742 at age 65).
- (iv) Other investments can be compensated up to £48,000, i.e. 100% of the first £30,000 and 90% of the next £20,000.

**Q9** Real Estate Investment Trusts were reasonably well understood. REITS were introduced in the UK in 2007. Worldwide the majority of property companies were already REITS.

Among the distinguishing features candidates outlined were:

REITs are mainly rental (at least 75% of income) rather than development companies. Therefore they have relatively high income compared with property companies in general.

Most income (at least 90%) is distributed.

Dividends are paid net of 20% tax, but can be reclaimed by non-taxpayers, (unlike the normal 10% tax credit) including ISA and SIPP.

They are exempted from corporation tax.

They have lower risk than property companies in general because they must have diversification (at least three separate properties; maximum 40% in any one) and they have relatively low and controlled gearing (minimum interest cover 1.25).

Like other approved investment trusts, they must be fully listed.

They are eligible for ISAs and SIPPs.

**Q10** The four investment items of terminology were known to most candidates

- (a) 'Liquidity' means the ability to be turned into cash with immediacy and capital certainty; no capital nor income penalties. It also refers to the dealing spread; the most liquid shares have the narrowest dealing spreads.
- (b) 'Free float' represents the proportion of securities of a company available to outside investors. (FTSE indices remove government holdings in companies, such as banks, and restrictions on non-resident holdings in overseas securities. It also applies to inter-company 'holdings'). It is the 'free float' which is used in the weights of FTSE indices.
- (c) An option 'under water' is one with no immediate value; it has time value but no intrinsic value.
- (d) A sinking fund makes provision for repayment of the capital, either by gradually establishing a counterpart fund, or by using the annual provision to buy in through the market. This will reduce the risk of the bond.

## Section B

**Q11**

Emerging markets, in particular the BRICS (Brazil, Russia, India and China), were well understood by most candidates who attempted this question. Good answers often combined a theoretical context, in term of improving the risk/return 'efficient frontier', with sophisticated practical insights. The best answers also usually had insights into the specifics of individual markets and a knowledge of funds and fund managers.

Emerging markets are high risk/return; they may not be appropriate for an inexperienced investor unless a small element of the portfolio

The advantages of emerging markets generally are:

Expectation of above average economic growth (e.g. China largely avoiding the impact of the post credit crisis recession);

Provide access to specialist companies and industries.

Russia and Brazil are resource rich, particularly in oil.

India has a highly developed information technology industry.

Greater diversification of portfolio risk is achieved because of the low correlation of returns with those in UK.

This provides a better trade-off between risk and return.

But there are many disadvantages:

Political risks (change of leadership; political reform)

Economic risks (particularly in transition from command to free market economies; exchange controls)

Correlation coefficients can increase in times of crisis –all the eggs fall out of the basket! Good answers were aware of this increase in portfolio risk.

More generally, globalisation may mean a permanent increase in correlations and an end to 'de-coupling' from developed markets.

There is concentration in a few sectors (e.g.oil and gas in Russia, around 70% of the market);

'Information Gap` (time differences; language barriers);

Lack of regulatory controls (accountancy standards, although large Chinese companies adopting IFRS; corporate governance; insider dealing);

Agency theory suggests that overseas investors may be most vulnerable to abuse;

Settlement problems;

Counterpart risk;

Currency conversion costs for payments and receipts;

Custodial problems;

Brokerage is usually expensive;

Double taxation.

Emerging markets have been characterised by speculative bubbles in recent years, particularly the Chinese market; the mainland index increasing by five times in only two years at one stage. High domestic liquidity was a factor driving the market. There was also a rapid growth in individual trading accounts accompanied by momentum investing. High PE ratios (around 50) were indicative of speculation. Most mainland IPOs went to large premiums, but access was restricted.

It is difficult for UK investors to invest directly in emerging markets. There can be controls on non-resident shareholdings ('A' and 'B' shares in China; differential prices for resident and non-resident shareholdings respectively).

Chinese companies are quoted domestically in Shanghai and Shenzhen; also in Hong Kong, Singapore, London and New York.

Some are very large companies e.g Industrial and Commercial Bank of China was the world's largest bank by market capitalisation in recent times.

But the larger domestic companies can have an overhang of state holdings.

There may be dilution problems as new shares are issued to dampen demand.

Overseas shares can be traded through the International Order Book or the International Bulletin Board.

Of the BRICs, Chinese companies in particular are traded on AIM, a few have a full listing. Some were issued as Global Depositary Receipts.

But often there is poor liquidity.

Seymour Pierce operates a Chinese Aim index.

Some UK companies have large exposure to overseas markets (e.g.HSBC, Standard and Chartered).

Funds provide indirect access, particularly closed-ended investment trusts, which are particularly suitable for illiquid markets.

Funds can be global, regional but very few single-country funds.

They are mainly off-shore.

Charges can be high.

It is generally cheaper to use Exchange Traded Funds (e.g. Barclays ishares include FTSE BRIC 50; FTSE Xinhua China 25; MSCI Far East excluding Japan; MSCI Brazil; MSCI Eastern Europe; and MSCI Emerging Markets).

They are free of stamp duty and can be held in ISAs and Child Trust Funds.

**Q12** The opportunities for a grand-parent wishing to gift money were well understood and some candidates achieved very high marks.

The most widely used investments specifically for children are NSI Children's Bonus Bonds and Child Trust Funds. Most candidates were aware of them and could provide some of their main distinguishing features, as in the following tabular form:

NSI Children's Bonus Bonds

<b>Issuer</b>	National Savings & Investments
<b>Product</b>	Fixed interest (Issue 34 2.50%, compound fixed rat for five years (1.85% compound if repaid before fifth year) ; and final bonus at 21 )
<b>Maximum age</b>	21
<b>Subsidy</b>	None
<b>Contribution limits</b>	£25-£3,000 per issue

Child Trust Funds provide a greater range of investments, with a subsidy and also tax-free

<b>Issuer</b>	Wide range of financial institutions
<b>Product</b>	Three types of account-stakeholder and non-stakeholder stock market; and deposit account
<b>Maximum age</b>	18 (cannot be accessed before then)
<b>Subsidy</b>	Initial £250 (double for low income families + additional payment at age seven) for children born after September 2002
<b>Contribution limits</b>	£0-£1200 per year

On the basis of life style investing a case could be made for equity investments, perhaps using a low cost tracker fund.

The choice of family trusts would be either bare trust or discretionary.

New accumulation and maintenance trusts were effectively redundant following rule changes from 22/03/06. Bare trusts, however, were unaffected by the rule changes.

With a bare trust the assets would be held on behalf of the grand-children until they reached the age of 18, when they would be absolutely entitled to the capital.

The transfer to the trust would be a Potentially Exempt Transfer; becoming completely exempt after seven years.

The transfer from the trust to the beneficiaries is free from IHT.

Income accumulated or distributed would be taxed at the beneficiary's marginal rate.

This makes use of the child's personal and CGT allowance.

Bare trusts are cheap to administer because there is no separate trust document.

Discretionary trusts have greater flexibility over when income and capital are distributed; not limited to 18 as with a bare trust.

With discretionary trusts there is a 20% life-time rate on transfers into the trust in excess of the threshold, and a 6% ten year charge and a proportionate exit charge on assets also in excess of the threshold.

CGT hold-over relief is available for gifts into discretionary trusts.

Discretionary trusts are taxed at 40% on non-dividend income and 32.5% on dividend income.

There are also a variety of schemes marketed specifically marketed at children by banks, building societies, friendly societies and even stakeholder pensions (up to £3,600 per year). But they offer few special advantages. However, they are not subject to the contribution limits of Children's Bonus Bonds and Children's Trust Funds.

Another possibility would be for the grand-parent to pay school fees in advance, although this reduces future education flexibility.

**Q13** On the whole, answers to this question were disappointing. The emphasis was usually on the calculations. There was generally little discussion of the determinants of price-earnings ratios, and even less concerning their relevance to equity selection.

The price-earnings ratio is the market price of an equity divided by the earnings per share. It is therefore the reciprocal of the earnings yield.

Its value is largely determined by GROWTH and RISK.

Financial modelling can be used to demonstrate that PE ratios are positively related to payout ratios and growth rate, but negatively related to interest rates and risk premium, all other things being equal. The higher the expected growth in earnings and dividends per share, the higher the PE ratio. The riskier the share (or, more generally, the higher the required rate of return), the lower the PE ratio.

EPS is a figure affected by accounting conventions, in particular exceptional items and amortisation of goodwill. The FT uses an 'adjusted' figure, and many companies include their own versions of 'normalised' EPS alongside the official version. Companies are also required to show a 'fully diluted' EPS; this can be significantly different where there are sizeable share options. If the PE ratio is to be used to assess the price of a share, relative to its past and to other companies, some measure of normalised earnings would appear desirable.

PE ratios are usually based on the most recent historical EPS.

With fast growing companies, and companies with no current earnings, the prospective PE ratio is sometimes calculated for one or more years ahead.

The PE ratio is NOT the number of years it takes for an investor to recoup their outlay (except under highly restrictive conditions).

There has been a long-running debate as to whether it is better to hold shares with high or low PE ratios. These screening systems are generally referred to as 'growth' and 'value' (or the hare and the tortoise!). Over the long run, value has tended to out-perform growth (perhaps because pessimists have more pleasant surprises than optimists!). PE ratios are also used on a macro basis to aid market timing. There seems to be some evidence that, for example, PE ratios below average for say a ten year period are more likely to be followed by a period of above average returns than the converse.

The PE ratio is the main valuation yardstick used for equities, generally given greater importance than the dividend yield and the price/book value ratio.

It is more commonly used to compare companies in the same industry- whether differentials in PE ratios correctly reflect differences in growth and risk.

A time series of the PE ratio for a particular company (available on many websites such as FT.com) can indicate how far the PE has changed in line with performance expectations.

## Section C

**Q14**

In general, the answers to the case study were disappointing. It covered a range of products, but principally involved analysing the choice between direct equities and packaged products. The pension aspect should have been straightforward and principally involved simple arithmetic calculations. Part (d) was the best answered; and part (b) the worst.

- (a) The overall wealth portfolio was very conservative. The realisable wealth was predominantly debt-free owner-occupied property (£300,000) and cash (£40,000) Cash ISAs.
- Few mentioned that the portfolio was even cautious if a valuation was included for Martin Bowles' index-linked pension. Capitalising the pension would make it the dominant element in the portfolio.
- The total value of Martin's pension benefits was given as 35% of £1.65m. Very few candidates calculated this to be £577,500. However many candidates correctly calculated the pension and the minimum lump sum.
- The pension was  $36/80 \times £56,000 = £25,200$ .
- The lump sum is  $£25,200 \times 3 = £75,600$ .
- Therefore, better answers could have reckoned that the capitalised value of pension is  $= £577,500 - £75,600 = £501,900$ .
- Therefore the implied yield of the pension  $= £25,200 / £501,900 = 5.0\%$ .
- This was the joint-life index-linked annuity rate provided by the fund.
- Martin Bowles' total net wealth was therefore  $£577,500 + £40,000 + £300,000 - £10,000 = £907,500$ .
- This excluded the capitalised value of Cynthia Bowles' pension.
- (An estimate of that might be  $£577,500 \times 10/36 = £160,417$ )
- This implies a total wealth portfolio for the husband and wife in excess of £1m but the vast majority of it was non-marketable.
- Martin's free capital was  $£75,600 + £40,000 = £115,600$ .
- Many candidates correctly calculated that Martin required an additional income of  $£30,000 - £25,200 = £4,800$ .
- This therefore required a yield of  $£4,800 / £115,600 = 4.2\%$ .
- Some candidates suggested encashment of the Cash ISAs because of interest rates below the required yield. But a better suggestion was to switch them into a Stocks and Shares ISA.
- (b) Very few candidates seemed to realise how expensive it would be to realise the additional lump sum.
- At first sight the possibility of the additional lump sum may have seemed attractive because of the limited liquidity (assuming ISAs are not encashed) and marketability in the existing wealth portfolio.
- The additional lump sum of £60,000 would have enabled Cynthia Bowles to discharge credit card debts of £10,000 and fund the £30,000 conservatory (some candidates considered the cost excessive and a major concern!).
- The surplus could be used to pay £20,000 contributions into a SIPP for Cynthia. This would attract tax relief at a marginal rate of 20%.
- The SIPP would be tax-free and she could take a tax-free lump sum of 25% of the value of the fund.
- She would be eligible to draw the pension and lump sum immediately.
- But what few candidates seemed to realise was that the sacrifice of Martin Bowles' pension would be at a highly penal rate.

The implied yield would  $1/12 = 8.33\%$ .

This was higher than the implied yield in part (a).

Also probably approximately three times the commercial rate for a joint-life index-linked annuity for persons of their age!

- (c) Discussion of the packaged products was generally cursory and often not related to the specifics of the client's requirements.

With-profit bonds are often recommended for persons approaching retirement because of the possibility of the possibility of high-rate tax deferral.

Stability is provided by reversionary bonuses, but bonus rates have been poor in recent years as life companies have tried to enhance solvency.

Bonuses can also be eroded by 'market value reducers'.

They would be tax-inefficient for Martin, as a basic-rate tax-payer, compared with many other packaged products.

They cannot be held in an ISA.

They do not provide income, but there is a withdrawal facility. Most candidates referred to the 5% tax-free limit, but this is only of relevance to higher-rate taxpayers.

A further disadvantage are the generally high and opaque charges.

Stock market guaranteed products are designed to provide upside participation in the equity markets with downside protection.

Unless insurance based, they can be held in an ISA.

But they do not meet the need for income; an important omission in this case.

Income is sacrificed to fund the options used to provide the protection.

Protection and charges can be expensive.

The protection is probably unnecessary given the couple's life expectancy and the conservative nature of the overall wealth portfolio.

Some candidates confused them with high yield bonds where the capital is at risk.

Corporate bond funds vary in risk characteristics.

All involve credit risk as well as market risk.

Given the client's attitude to risk, it would be advised to choose funds investing only in investment grade bonds.

They could meet the yield requirement of 4.2%. and could be held in an ISA.

- (d) Good answers recognised that the selected portfolio appeared eccentric!

Technically it was low risk in a number of respects:

A beta less than 1 means that the share was less volatile than the market as a whole.

The overall systematic risk was low.

The dividend yield of at least 5% more than met the income requirement.

The dividend cover of at least 1.5 meant that the last reported earnings covered the last dividend by at least 50%.

The debt/equity ratio of no more than 50% implied capital gearing was modest.

The acid test (quick) ratio of at least 1 meant that current assets less inventories exceeded current liabilities, giving an indication of adequate liquidity.

But the negatives more than outweighed the positives.

The portfolio had only nine companies; giving little diversification, and, as many candidates noted, less than the minimum recommended by modern portfolio theory.

The low betas may have been a reflection of the high specific risk of small companies and thin trading.

Some of the market capitalisations were very small indeed; and may have reflected poor share price performance.

There was a high risk of financial distress despite the comfortable gearing and liquidity ratios.

There was no indication of the cash flow position of these companies.

AIM companies cannot be held in a Stocks and Shares ISA; although they would be eligible for IHT exemption.

## **CONCLUSIONS & GENERAL OBSERVATIONS**

1. Scripts were generally well presented, with many candidates using double-spacing, numbering, underlining, and sensible use of paragraphs, and occasional highlighting. The best scripts demonstrate a succinctness and clarity in summarizing the essentials of the answer, usually without the need of additional pages. However, there was a small minority of scripts that had appalling handwriting; at worst when it was small and cramped. Problems are compounded if answers are in a haphazard order, with answers split among different pages. Candidates should leave a space if they intend to return to a question.
2. In Section A, most candidates demonstrated a good breadth of knowledge. As usual, candidates tended to score better with the more descriptive questions.
3. Candidates demonstrated a reasonable understanding of the material contained in tax tables and in the Gilts Daily Price List. The tax tables were helpful to answer Q3.
4. Many candidates display evidence of essay plans and 'mind maps' in Section B. Candidates are expected to be able to marshal information in a sophisticated manner to support or refute any particular assertion in an essay question. It is possible to earn full marks for a well structured answer that addresses the relevant issues.
5. The case study was generally not well answered. A frequent failing as in previous exams was writing in a descriptive and unstructured manner; not addressing the specific requirements of the client; and omitting important numerical analysis. Weaker answers often analyse their own alternative portfolios rather than that in the question!
6. **Candidates should realise that the paper reflects the syllabus, not simply their own work experience. Candidates for this paper work in a wide range of specialisms. Many years ago it was decided that the syllabus should not be restricted to the core asset classes of bonds and equities (i.e. old fashioned private client work), but extended to include a wider range of topics, including packaged products, pensions and derivatives. This means that candidates need to study and prepare themselves for questions outside of their work experience and in areas where they may not be regulated and therefore not allowed to advise.**  
**To use an analogy with medicine, this is a GP exam, not that for consultants. It is necessary to have a basic knowledge of a wide range of topics. It is difficult to provide suitable advice if the adviser is not aware of alternatives available to clients in the industry as a whole. Some candidates seemed surprised by this diversity,**

**indicating perhaps that they had not adequately studied the syllabus nor past papers.**

**This is one of the major reasons why candidates succeed or fail. Moreover, the indicative answers sometimes contain material relevant to future questions.**