



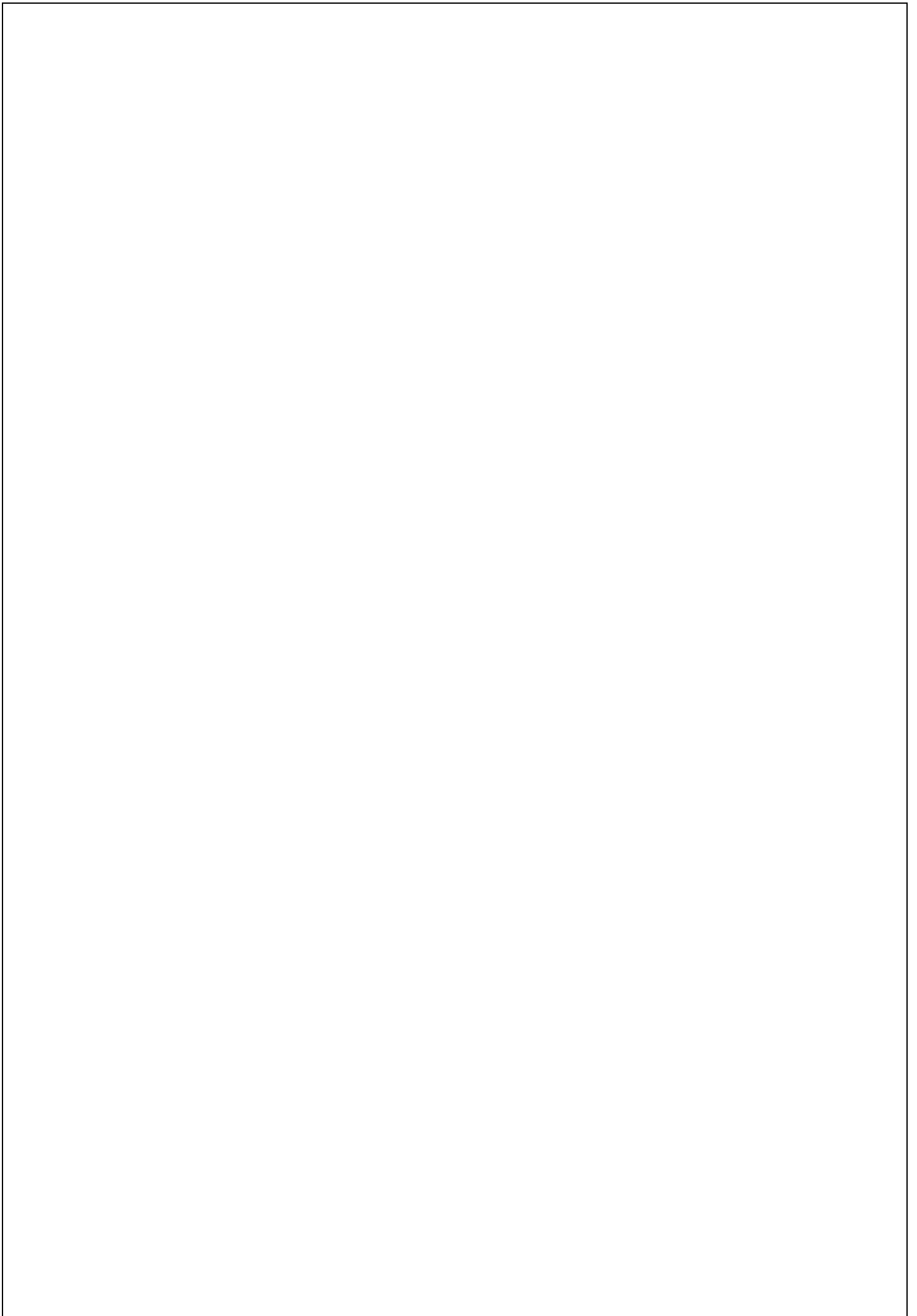
CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

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

LEVEL 3
CERTIFICATE IN INVESTMENT ADMINISTRATION

UNIT 12
PRIVATE CLIENT ADMINISTRATION

EFFECTIVE FROM 1 JUNE 2009



OBJECTIVE OF THE EXAMINATION

The objective of the examination is to ensure that candidates have an introduction to Private Client Administration as far as it relates to the needs of operations and administration staff.

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

- Introduction
- Client Assets
- Data and Record Keeping
- Settlement
- Corporate Actions
- Collectives and Tax Incentivised Savings
- Taxation
- Other Types of Client Account
- Overseas Investment
- Closing Accounts

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*, *understand*, *be able to calculate* or *be able to apply*. 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
- *be able to calculate* require the candidate to be able to use formulae to perform calculations
- *be able to apply* require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, 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.

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.

| Examination specification 50 multiple choice questions | | |
|---|--|------------------|
| Element number | Element | Questions |
| 1 | Introduction | 4 |
| 2 | Client Assets | 5 |
| 3 | Data and Record Keeping | 2 |
| 4 | Settlement | 12 |
| 5 | Corporate Actions | 10 |
| 6 | Collectives and Tax Incentivised Savings | 6 |
| 7 | Taxation | 4 |
| 8 | Other Types of Client Account | 2 |
| 9 | Overseas Investment | 2 |
| 10 | Closing Accounts | 3 |
| Total | | 50 |

ASSESSMENT STRUCTURE

A 1 hour examination of 50 multiple choice questions.

Candidates sitting the exam by Computer Based Testing will have, in addition, 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 INTRODUCTION

- 1.1 Wealth Management Business
- 1.2 The Investment Advice Process and Portfolio Planning
- 1.3 Analysis of Assets

ELEMENT 2 CLIENT ASSETS

- 2.1 Money
- 2.2 Safe Custody and Lending

ELEMENT 3 DATA AND RECORD KEEPING

- 3.1 Record Keeping Requirements
- 3.2 Confirmation of transactions
- 3.3 Periodic Statements

ELEMENT 4 SETTLEMENT

- 4.1 The Meaning of Settlement
- 4.2 The Clearance and Settlement Process
- 4.3 Types of Settlement
- 4.4 Central Securities Depository
- 4.5 Central Counterparty
- 4.6 The Settlement of Certificated Securities
- 4.7 Stamp Duty and Stamp Duty Reserve Tax (SDRT)
- 4.8 Gilts
- 4.9 Nominee Companies/Safe Custody
- 4.10 Foreign Settlement and Custody

ELEMENT 5 CORPORATE ACTIONS

- 5.1 Cash Dividends
- 5.2 Scrip Dividends
- 5.3 Bonus Issues (Capitalisation/Scrip)
- 5.4 Subdivisions and Consolidations
- 5.5 Rights Issues and Placings
- 5.6 Company Demergers and Takeovers

ELEMENT 6 COLLECTIVES AND TAX INCENTIVISED SAVINGS

- 6.1 Unit Trusts
- 6.2 Open Ended Investment Companies (OEICs)
- 6.3 Investment Trusts
- 6.4 Exchange-Traded Funds
- 6.5 Comparison of Schemes
- 6.6 Individual Savings Accounts (ISAs)

ELEMENT 7 TAXATION

- 7.1 Income Tax
- 7.2 Capital Gains Tax (CGT)
- 7.3 Inheritance Tax (IHT)
- 7.4 Overseas Tax Issues

ELEMENT 8 OTHER TYPES OF CLIENT ACCOUNT

- 8.1 Other Types of Client Account

ELEMENT 9 OVERSEAS INVESTMENT

- 9.1 Overseas Investment
- 9.2 Methods of Investing Overseas
- 9.3 Major Overseas Markets

ELEMENT 10 CLOSING ACCOUNTS

- 10.1 Wills, Probate and Executors
- 10.2 Legacies and Distributions
- 10.3 Closing Accounts

ELEMENT 1 INTRODUCTION

1.1 Wealth Management Business

On completion, the candidate should:

1.1.1 *understand* the characteristics of, scope of and recent developments within the private client market

1.1.2 *know* the characteristics of the main categories of service offered by private client firms:

- discretionary management
- advisory (dealing with advice and advisory portfolio management)
- execution only

1.2 The Investment Advice Process and Portfolio Planning

On completion, the candidate should:

1.2.1 *understand* the importance of knowing the customer's requirements and the factors to be taken into account:

- investment objectives
- liquidity needs
- risk tolerance
- time horizon
- tax status
- FSA's suitability and appropriateness requirements

1.2.2 *know* the importance, principles and characteristics of matching investment objectives with financial investments, and risk and reward

1.2.3 *know* the four stages of portfolio management:

- determining investment objectives
- formulating a policy
- stock selection
- performance measurement

1.2.4 *know* the characteristics of an efficient portfolio and the different considerations to be taken into account

1.3 Analysis of Assets

On completion, the candidate should:

1.3.1 *know* the definition and uses of fundamental analysis and the importance to investors:

- earning per share (EPS)
- price earnings ratio (P/E ratio) (multiple)
- dividend yield
- dividend cover

1.3.2 *be able to calculate* P/E ratio

1.3.3 *be able to calculate* a dividend yield

1.3.4 *know* the definition, uses and calculation of unweighted and weighted indices

1.3.5 *know* the characteristics of FTSE indices, the basis of the calculation of UK indices and the characteristics of FTSE Euro indices

1.3.6 *know* the characteristics and basis of calculation of the Dow Jones Averages and the Standard & Poor's 500 Index and the advantages of the latter

ELEMENT 2 CLIENT ASSETS

2.1 Money

On completion, the candidate should:

2.1.1 *know* the definition of and relevant exceptions to client money

2.1.2 *be able to apply* the principles underlying the client money rules and their application to regulated business

2.1.3 *be able to apply* the key features and requirements associated with depositing client money:

2.1.4 *know* the definition and processes of bank reconciliation

2.1.5 *be able to apply* the requirement to perform reconciliation and the treatment of differences

2.2 Safe Custody and Lending

On completion, the candidate should:

- 2.2.1 *know* the definition, applications and exceptions to safe custody investment and the principles underlying the rules
- 2.2.2 *know* the requirements for the custody of documents including registration
- 2.2.3 *know* the definition of an custodian and their responsibilities
- 2.2.4 *know* the prohibition on stock lending and exceptions to this
- 2.2.5 *understand* the obligations and special requirements of safe custody service providers and exceptions:
 - notifications and explanations of pooling
 - waiver of written agreements
- 2.2.6 *know* the rules governing the process of reconciliation
- 2.2.7 *know* the requirement for the provision of statements to clients
- 2.2.8 *know* the purpose of the rules governing lending to customers, prohibitions to lending and exceptions to this

ELEMENT 3 DATA AND RECORD KEEPING

3.1 Record Keeping Requirements

On completion, the candidate should:

- 3.1.1 *know* the requirements relating to information and record keeping including compliance with the regulatory system relating to financial promotion, customers, customers' instructions and the execution of transactions

3.2 Confirmation of transactions

On completion, the candidate should:

- 3.2.1 *know* the requirements for confirmation of transactions for securities and for derivatives
- 3.2.2 *know* the required content of confirmations
- 3.2.3 *understand* firms' flexibility in averaging prices and their related obligations

3.3 Periodic Statements

On completion, the candidate should:

3.3.1 *know* the definition of and information and timing (frequency and exceptions) requirements for:

- discretionary managed portfolio
- contingent liability investments

ELEMENT 4 SETTLEMENT

4.1 The Meaning of Settlement

On completion, the candidate should:

4.1.1 *know* the definition and characteristics of settlement and their timing requirements

4.2 The Clearance and Settlement Process

On completion, the candidate should:

4.2.1 *know* the characteristics of the following clearing and settlement processes :

- confirmation and trade comparison
- positioning
- settlement

4.2.2 *understand* the reasons why a trade may fail

4.2.3 *understand* the meaning of buying in and selling out

4.3 Types of Settlement

On completion, the candidate should:

4.3.1 *understand* the requirements, processes and significance of:

- real time gross settlement
- fixed settlement
- rolling settlement
- free of payment

4.3.2 *know* the concept of book entry transfer and know the definitions and implications of:

- immobilised securities
- dematerialised securities

4.4 CENTRAL SECURITIES DEPOSITARY

On completion, the candidate should:

4.4.1 *understand* the key concepts and basis of ownership and how, as a recognised clearing house, 'Euroclear UK & Ireland' (CREST) provides data to third parties

4.4.2 *know* the changes that the Single Settlement Engine (SSE) introduced by Euroclear will bring to the CREST system

4.4.3 *know* the overall CREST structure, the Membership structure, the communication mechanisms, and the role of the various participants:

- users
- members
- sponsored members
- personal members
- registrars
- payment banks

4.4.4 *know* the definition and functions of assured payments

4.4.5 *understand* the reasons for inputting settlement instructions, the alledgement and matching process and what happens once an instruction is matched

4.5 Central Counterparty

On completion, the candidate should:

4.5.1 *know* the functions, processes and advantages of a central counterparty

4.5.2 *understand* the use of collecting initial and variation margin as a means of managing risk

4.5.3 *know* the definition and uses of the default fund

4.6 The Settlement of Certificated Securities

On completion, the candidate should:

- 4.6.1 *understand* CREST's systems capability for settling certificated securities by transfer forms and the related timing
- 4.6.2 *be able to apply* the procedure for the settlement of certificated sales and certificated purchases (stock withdrawals)
- 4.6.3 *know* the definition of a residual security, the process for settling it through CREST and the method of accounting for stamp duty

4.7 Stamp Duty and Stamp Duty Reserve Tax (SDRT)

On completion, the candidate should:

- 4.7.1 *understand* the difference between Stamp Duty and Stamp Duty Reserve Tax
- 4.7.2 *know* what instruments are subject to SDRT
- 4.7.3 *understand* how gifts, distributions on inheritance and other transfers of ownership are treated, the exemptions available and the differences between the transfer of certificated and uncertificated holdings

4.8 Gilts

On completion, the candidate should:

- 4.8.1 *know* the method and timing for settlement (including dematerialisation of retail gilts)
- 4.8.2 *understand* the significance of clean and dirty prices
- 4.8.3 *be able to calculate* accrued interest from a specified number of days including:
 - actual/actual convention
 - cum interest
 - ex interest

4.9 Nominee Companies/Safe Custody

On completion, the candidate should:

- 4.9.1 *know* the requirements for nominee companies
- 4.9.2 *understand* the advantages of nominee companies/safe custody for the shareholder

- 4.9.3 *know* the relationship between regulated firms, nominee companies and CREST
- 4.9.4 *understand* the differences between dematerialised and certificated nominee holdings
- 4.9.5 *know* the regulatory reconciliation requirements for assets held in the nominee company

4.10 Foreign Settlement and Custody

On completion, the candidate should:

- 4.10.1 *understand* the key differences between domestic and foreign settlement
- 4.10.2 *understand* the concept of foreign custody
- 4.10.3 *understand* the reasons for using a Global Custodian
- 4.10.4 *know* the activities and scope of the major overseas Central Securities Depositories:
 - USA
 - Japan
 - ICSDs (Euroclear and Clearstream)

ELEMENT 5 CORPORATE ACTIONS

5.1 Cash Dividends

On completion, the candidate should:

- 5.1.1 *know* how realised and unrealised profits relate to dividend payments
- 5.1.2 *know* the circumstances in which an uncovered dividend can be paid
- 5.1.3 *know* the frequency of dividends, the payment timetable and processes (ex-dividend and record dates)
- 5.1.4 *know* the meaning and significance of the distribution from a bearer security
- 5.1.5 *know* the meaning and significance of good marking names
- 5.1.6 *be able to calculate* distributions of income due to clients
- 5.1.7 *understand* how UK dividends can be distributed electronically using the CREST system

5.2 Scrip Dividends

On completion, the candidate should:

- 5.2.1 *know* the definition and advantages of scrip dividends
- 5.2.2 *know* the distinctions between scrip dividends and dividend re-investment schemes
- 5.2.3 *understand* the tax treatment of a scrip dividend
- 5.2.4 *be able to calculate* a scrip dividend
- 5.2.5 *understand* how CREST can be used for scrip elections for UK company dividends

5.3 Bonus Issues (Capitalisation/Scrip)

On completion, the candidate should:

- 5.3.1 *know* the definition and characteristics of bonus issues
- 5.3.2 *understand* the effect on share prices and why companies may want to reduce the share price
- 5.3.3 *be able to calculate* a post bonus share price and the impact on book cost

5.4 Subdivisions and Consolidations

On completion, the candidate should:

- 5.4.1 *understand* the differences between subdivisions and consolidations
- 5.4.2 *understand* the difference between a bonus issue and a subdivision and its effect on the nominal value

5.5 Rights Issues and Placings

On completion, the candidate should:

- 5.5.1 *understand* the features, uses and significance of shareholder rights and related issues:
 - pre-emptive rights
 - provisional allotment
 - sale of rights nil paid
- 5.5.2 *be able to calculate* the ex-rights price, the nil paid price and the impact on book costs

5.5.3 *understand* shareholders' alternative options under a rights issue and the CREST requirements relating to each option:

- certificated shares
- sale or split of rights
- no action

5.5.4 *know* the definition and process for placing

5.6 Company Demergers and Takeovers

On completion, the candidate should:

5.6.1 *know* what is meant by the terms:

- Merger
- Demerger
- Takeover

5.6.2 *know* the reasons for a company to undertake a merger, demerger or takeover

5.6.3 *know* how a demerger affects the capital structure of a company/companies

5.6.4 *be able to calculate* the effect on book value of mergers, demergers and takeovers

5.6.5 *understand* the treatment of shares held in CREST during a takeover

ELEMENT 6 COLLECTIVES AND TAX INCENTIVISED SAVINGS

6.1 Unit Trusts

On completion, the candidate should:

6.1.1 *know* the definitions and types of unit trusts

6.1.2 *understand* the roles and responsibilities of managers and trustees

6.1.3 *understand* the structure and management of unit trusts

6.1.4 *understand* the treatment of pricing, dealing charges and taxation of unit trusts

6.2 Open Ended Investment Companies (OEICs)

On completion, the candidate should:

- 6.2.1 *know* the definition and types of OEICs
- 6.2.2 *understand* the structure and management of OEICs
- 6.2.3 *understand* the treatment of pricing, dealing charges and taxation

6.3 Investment Trusts

On completion, the candidate should:

- 6.3.1 *know* the definition of investment trusts and their regulation through the Companies Act 2006
- 6.3.2 *know* the types of instruments that Investment Trusts can commonly issue
- 6.3.3 *understand* how Investment Trusts are priced, dealt and the tax treatment of the company and investor

6.4 Exchange-Traded Funds

On completion, the candidate should:

- 6.4.1 *know* the main characteristics of Exchange-Traded Funds
- 6.4.2 *know* how Exchange-Traded Funds are traded

6.5 Comparison of Schemes

On completion, the candidate should:

- 6.5.1 *understand* the differences between collective investment schemes (Unit Trusts, OEICs, Investment Trusts and ETFs)

6.6 Individual Savings Accounts (ISAs)

On completion, the candidate should:

- 6.6.1 *know* the types of tax incentivised savings accounts:
 - ISAs
 - CTFs

6.6.2 *know* the tax treatment of ISAs

6.6.3 *know* the circumstances in which plans need to be “voided” and when “repairs” can be made

ELEMENT 7 TAXATION

[Please note specific tax rates/bands will not be examined. Where calculations of tax rates, bands or allowances are required, the necessary information will be provided in the questions]

7.1 Income Tax

On completion, the candidate should:

7.1.1 *understand* the tax liability and treatment of income received from:

- interest payments of gilts
- equities
- bank and building society accounts
- National Savings products
- the Accrued Income Scheme
- gilts strips
- corporate bonds
- Venture Capital Trusts
- rental income

7.1.2 *know* the components of a single person’s tax liability:

- tax rates
- band of taxable income
- personal allowances
- taxable and exempt income
- available deductions

7.1.3 *understand* the significance and application of equalisation payments from Unit Trusts and OEICs

7.2 Capital Gains Tax (CGT)

On completion, the candidate should:

- 7.2.1 *know* who is liable for CGT for which assets and the rules applicable to shares and other securities
- 7.2.2 *understand* the importance of the identification of assets including special rules and the application and calculation of matching rules

7.3 Inheritance Tax (IHT)

On completion, the candidate should:

- 7.3.1 *know* when IHT liability might arise and the effect on:
- life time transfers
 - death
 - potentially exempt transfers (PETS)
- 7.3.2 *know* the main exemptions – during life and on death
- small gifts
 - annual life time gifts
 - wedding gifts
 - legally married spouses and civil partners
 - deceased spouses carry over
 - charitable gifts
 - political parties
 - national institutions
 - business and agricultural
- 7.3.3 *be able to apply* the rules for valuing assets for IHT
- shares
 - unit trusts

7.3.4 *understand* how lifetime gifts are treated for IHT

- the application of the 7 year rule
- the application of the nil rate band

7.3.5 *be able to apply* the IHT rules to a simple estate

7.4 Overseas Tax Issues

On completion, the candidate should:

7.4.1 *know* the significance of “residence” and “domicile” and the difference between them

7.4.2 *understand* investors’ liability for taxation in relation to overseas investments

7.4.3 *understand* the entitlement to double taxation relief and liability for withholding tax

7.4.4 *understand* the main features of the European Savings Directive and the Qualified Intermediaries Scheme, what reporting needs to take place and the clients captured by the rules

ELEMENT 8 OTHER TYPES OF CLIENT ACCOUNT

8.1 Other Types of Client Account

On completion, the candidate should:

8.1.1 *know* the main features of trusts

8.1.2 *know* the main features of accounts for minors

8.1.3 *know* the main features of charities

8.1.4 *understand* the basic tax treatment of trusts, accounts for minors and charities

ELEMENT 9 OVERSEAS INVESTMENT

9.1 Overseas Investment

On completion, the candidate should:

9.1.1 *understand* the benefits, risks and possible disadvantages of investing overseas

9.1.2 *know* when tax planning may be possible in respect of overseas investment and the means by which this may be done

9.2 Methods of Investing Overseas

On completion, the candidate should:

9.2.1 *know* the requirements for:

- direct investment in overseas equities
- using collective investment vehicles including offshore funds (UCITS fund, funds based in designated territories, funds individually approved by the FSA)

9.3 Major Overseas Markets

On completion, the candidate should:

9.3.1 *understand* the key features (indices, dealing systems, settlement periods and settlement agents) of the following major overseas markets and the characteristics and requirements of their relevant stock exchanges and settlement processes:

- USA
- Japan
- Germany
- France

ELEMENT 10 CLOSING ACCOUNTS

10.1 Wills, Probate and Executors

On completion, the candidate should:

10.1.1 *understand* the roles and powers of Executors and Administrators

10.1.2 *know* the differences between grants of Representation, Grants of Probate and Letters of Administration

10.1.3 *know* the Small Estate Rules

10.2 Legacies and Distributions

On completion, the candidate should:

10.2.1 *know* the main intestacy rules

10.2.2 *know* the rights under and implications of the Inheritance (Provision for Family and Dependents) Act 1975 and the scope of the court's powers

10.3 Closing Accounts

On completion, the candidate should:

10.3.1 *be able to apply* the administrative processes and their implications following the death of an investor or closure of an account including those relevant to securities for:

- probate valuations
- transfer of assets on authority of the personal representatives
- treatment of assets held in joint names

10.3.2 *understand* the Executor's responsibilities for Inheritance Tax, Income Tax and Capital Gains Tax