



**SECURITIES & INVESTMENT INSTITUTE LEVEL 3**

**FSA Financial Regulation**

**(Formerly known as the Financial Regulation/FSA Regulatory Environment Paper)**

**for**

**UNIT 1 of CERTIFICATE IN INVESTMENTS**

**or**

**UNIT 2 of CERTIFICATE IN INVESTMENT ADMINISTRATION**

Effective from 1 November 2007 – 30 June 2008



## AIM OF THE EXAMINATION

To ensure candidates have a basic knowledge of the regulations and legislation underpinning the financial markets and the conduct of investment business.

## OBJECTIVES OF THE EXAMINATION

On completion of this examination candidates will:

1. Know the regulatory environment in which the UK securities industry operates
2. Know the relevance of the Financial Services and Markets Act 2000 and associated legislation and regulation to their activities
3. Understand FSA's Conduct of Business Rules
4. Know the complaints and redress procedures

## ASSESSMENT STRUCTURE

A one hour examination of 50 multiple choice questions.

*Candidates may have, in addition to the assessed questions, a small number of 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. For example a 50 question exam may actually have 53 questions in total, the test will last a few minutes longer, but 3 of these will be trial unscored questions.*

## SYLLABUS STRUCTURE

The syllabus 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 or be able to calculate**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

**Know** requires the candidate to recall information such as facts, rules and principles

**Understand** requires the candidate to demonstrate comprehension of an issue, fact, rule or principle

**Be able to calculate** requires the candidate to be able to use formulae or tax rates to perform calculations

## CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website on a regular basis for updates resulting from industry changes that may affect their examination. ([www.sii.org.uk](http://www.sii.org.uk))

**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 Handbook abbreviations follows:

APER	Statements of Principle and Code of Practice for Approved Persons
BIPRU	Prudential Sourcebook for Banks, Building Societies & Investment Firms
CASS	Client Assets Sourcebook
COBS	New Conduct of Business
COND	Threshold Conditions
COLL	New Collective Investment Schemes
COMP	Compensation
DEPP	Decision Procedure and Penalties Manual
DISP	Dispute resolution: Complaints
ECO	Electronic Commerce Directive
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
PR	Prospectus Rules
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>Element</b>	<b>Questions</b>
1	5
2	8
3	10
4	2
5	24
6	1
<b>TOTAL</b>	<b>50</b>

**UNIT SUMMARY**

**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
- 2.5 Miscellaneous offences under FSMA 2000

**ELEMENT 3 ASSOCIATED LEGISLATION AND REGULATION**

- 3.1 Insider dealing
- 3.2 Market abuse
- 3.3 Money laundering
- 3.4 Model Code for Directors
- 3.5 Data Protection Act 1998

**ELEMENT 4 EUROPEAN UNION DIRECTIVES**

- 4.1 Markets in Financial Instruments Directive (MiFID)
- 4.2 Capital Requirements Directive (CRD)
- 4.3 Electronic Commerce Directive (ECO)
- 4.4 Other EU directives

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

- 5.1 The application and general provisions of the FSA Conduct of Business Sourcebook
- 5.2 Accepting clients
- 5.3 Communicating to clients including the financial promotion rules
- 5.4 Advising and selling
- 5.5 Product disclosure and the client's right to cancel
- 5.6 Dealing and managing
- 5.7 Reporting to clients
- 5.8 Client Assets

**ELEMENT 6 COMPLAINTS AND REDRESS**

- 6.1 Customer complaints

## **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
- 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* 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 Securities and Investment Institute's Code of Conduct
- 1.1.7 *know* the senior management responsibilities: purpose [SYSC 1.2.1], apportionment of responsibilities [SYSC 2.1.1], recording the apportionment [SYSC 2.2.1], systems and controls [SYSC 3.1.1], compliance [SYSC 3.2.6, 3.2.7(1)]
- 1.1.8 *know* the rationale for FSA moving to more principles based regulation
- 1.1.9 *know* the sources of information on principles based regulation

### **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 and relationship between FSMA 2000, the Treasury, the Office of Fair Trading, the Financial Services Skills Council and the Financial Services Authority and also the relationship between FSA and the RIEs, ROIEs, DIES, RCH, MTFs and DPBs
- 1.2.2 *know* the relationship between the Financial Services Authority, 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* HM Revenue and Custom's responsibility for issuing regulations for ISAs and PEPs
- 1.2.5 *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)], ICOB and MCOB

## **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 provisions of the FSA's 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, scope and consequences of the Regulatory Decisions Committee's responsibility for decision making and the introduction of FSA's enforcement division and the power of the FSA to make decisions by executive procedures [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 disciplinary 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 FSA's disciplinary measures
  - private warnings [EG 7.10/19]
  - variation of permission [EG 8]
  - withdrawal of approval [EG 9.25/28]
  - prohibition of individuals [EG 9.18/18]
  - public censure and statement of misconduct [EG 7.10/19]
  - financial penalties [EG 7.1/5]
- 2.2.7 *know* FSA's powers to seek redress for consumers [EG 11]
- 2.2.8 *understand* FSA's actions in respect of prohibition orders and actions for damages and how private clients can sue for damages when a firm is declared in breach (FSMA 2000 s.56, 59, 71, 150)

## 2.3 Information Gathering and Investigations

On completion, the candidate should:

- 2.3.1 *know* FSA's power to require information (s.165 of FSMA 2000)

## 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 and carrying out contracts of insurance
  - dealing in investments as principal or agent
  - arranging deals in investment and arranging regulated mortgages
  - 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) and stakeholder pension scheme
  - advising on investments and regulated mortgage contracts
  - Lloyd's
  - funeral plan contracts
  - entering into and administering a regulated mortgage contract
  - agreeing to carry on most regulated activities
- 2.4.2 *know* the main exclusions from the need for authorisation under the FSMA 2000:
  - 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
  - contracts of insurance
  - securities
  - instruments creating or acknowledging indebtedness
  - Government and public securities
  - instruments giving entitlements to investments
  - certificates representing securities
  - units in collective investment schemes
  - rights under a stakeholder pension scheme
  - options
  - futures
  - contracts for differences
  - Lloyd's syndicate capacity and membership
  - funeral plan contracts
  - regulated mortgage contracts
  - rights to or interests in investments
  - personal pensions
  - home finance
- 2.4.4 *know* the authorisation procedures for firms:
- the need for authorisation (PERG 2.3, Annex 1 & 2, 2.10.9 - 16)
  - the threshold conditions for authorisation [PERG 2.11, Annex 1 & 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 appointment [SUP 10.4.1 and the types of function 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]]
  - the requirements for Approved Persons [T.C 1.1.5-7]
  - the requirements for staff dealing with retail clients [T.C 2.1.4 (1)(c) (d)(e)(f)(i)(j), 2(a)(b)(c)(d), 2.2, 2.3.1/3, 2.4.1/2/3/4(1)/5/8 , 2.5.1(1)/2, 2.6.1, 2.7.1/2/5, 2.8] [TC 2 & Appendix 1]
- 2.4.9 *know* the legal and regulatory basis for whistle blowing [SYSC 18.1.2, 18.2.3]

## 2.5 Miscellaneous offences under FSMA 2000

On completion, the candidate should:

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

## 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 under insider dealing [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 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. table 1.10.5)]
- 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 2003, 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 SOCA) 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 2006 JMLSG Guidance 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 high level policy statement

- Detailed procedures implementing the firm's risk based approach (JMLSG 1.19, 1.25, 1.37 - 40, 4.16 - 17)
- 3.3.8 *understand* the Money Laundering aspects of know your customer (Joint Money Laundering Steering Groups' Guidance for the Financial Sector [Para 5.1.1 - 5.1.8])
- 3.3.9 *understand* the importance of 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)
- 3.3.10 *know* what activities are regarded as 'terrorism' in the UK (Terrorism Act 2000 Part 1)
- 3.3.11 *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 2006 paras 1.34 -1.36)
- 3.3.12 *know* the obligations laid on regulated firms under the Terrorism Act 2000 s.18 (money laundering of terrorist funds) s.19 (1)(2)(3)(4)(7) (duty to report) & the Anti-Terrorism Crime & Security Act 2001 Schedule 2 Part 3 (Disclosure of Information) and where to find the sanction list for terrorist activities
- 3.3.13 *understand* the interaction between the rules of FSA, the above legislation and the JMLSG Guidance regarding terrorism (JMLSG Guidance 2006 Preface 28, 29, 30)

### 3.4 Model Code for Directors

On completion, the candidate should:

- 3.4.1 *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

### 3.5 Data Protection Act 1998

On completion, the candidate should:

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

## ELEMENT 4 EUROPEAN UNION DIRECTIVES

### 4.1 Markets 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 firms
  - home vs. host state regulation
  - investment/ancillary investment services or activities
  - financial instruments covered by MiFID
  - exemptions

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

### 4.2 Capital Requirements Directive (CRD)

On completion, the candidate should:

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

### 4.3 Electronic Commerce Directive (ECO)

On completion, the candidate should:

- 4.3.1 *know* the purpose and scope of the Electronic Commerce Directive as it applies to:
- Domestic ECA providers (3.1.2, 3.1.3)
  - Incoming ECA providers (1.1.2)
  - Outgoing ECA providers (2.1.1, 2.1.2(4), 2.2.3)

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

### 4.4 Other EU directives

On completion, the candidate should:

- 4.4.1 *know* the purpose and scope of the UCITS Directives (Cross border investment services and permitted investments)
- 4.4.2 *understand* the impact of the Distance Marketing Directive on investment business conducted via non face-to-face methods [COBS 5.1]
- 4.4.3 *know* the purpose and scope of the Prospectus Directive (Cross border prospectuses)

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

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

### 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 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 & Appendix 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 and Part 3 (1 - 3)]

#### Appointed representatives COBS 1

- 5.1.4 *know* how the application of the FSA Conduct of Business Sourcebook applies to appointed representatives [COBS 1.1.1]

#### Electronic media

- 5.1.5 *know* the provisions of the FSA Conduct of Business Sourcebook regarding electronic media (Glossary definitions of 'Durable medium' and 'Website Conditions')

### 5.2 Accepting clients

On completion, the candidate should:

#### Client categorisation COBS 3

- 5.2.1 *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]
- 5.2.2 *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 and information provision COBS 2, 6, 7, 8 & 14**

- 5.2.3 *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 clients [COBS 8.1.1 – 8.1.3]
- 5.2.4 *know* the requirement to provide information to clients prior to providing services to clients including information relating to the nature and risk of the services and designated investments being offered [COBS 2.2, 6.1.1-16 & 14.3.1-10]
- 5.2.5 *know* the rules on the provision of information in connection with the service of managing investments [COBS 6.1.6]
- 5.2.6 *know* the rules on the provision of information concerning safeguarding of designated investments belonging to clients and client money [COBS 6.1.7]
- 5.2.7 *know* the rules on disclosure of costs and associated charges, timing of disclosure; medium of disclosure, changes to information provided to the client and compensation information [COBS 6.1.9-6.1.16]
- 5.2.8 *know* the rules on disclosure of information regarding packaged products [COBS 6.2.1/2/3/6/11, 6.3.1/2/3/7/8/10/12/14/17/18]

**Reliance on others COBS 2.4**

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

**5.3 Communicating with clients, including financial promotions**

On completion, the candidate should:

**Application of the rules on communication with clients, including financial promotions COBS 4.1**

- 5.3.1 *know* the application of the rules on communication to clients, including financial promotions and firm's responsibilities for appointed representatives [COBS 4.1]

**The rule on fair, clear and not misleading communications and identifying financial promotions as such COBS 4.1, 4.2 & 4.3**

- 5.3.2 *know* the purpose and application of the financial promotion rules and the relationship with Principles for Businesses 6 and 7 [COBS 4.1]
- 5.3.3 *know* the rule on fair, clear and not misleading communications [COBS 4.2.1] and the guidance on fair, clear and not misleading financial promotions [COBS 4.2.2-4.2.5]
- 5.3.4 *know* the rule on identifying promotions as such [COBS 4.3]

**The main exceptions (Financial Promotions Order (“FPO”), COBS 4.1 & 4.8 and glossary definition of “Excluded Communications”)**

- 5.3.5 *know* the main exceptions to the financial promotion rules in COBS (COBS 4.1, 4.8), the limitations in connection to MiFID business and the existence of the FPO

**Types of communication COBS 4**

- 5.3.6 *know* the types and methods of communication addressed by COBS 4
- 5.3.7 *know* the rules on prospectus advertisements PR 3.3

**Communicating with retail clients COBS 4.5**

- 5.3.8 *know* the general rule in connection with communicating with retail clients [COBS 4.5]

**Past, simulated past and future performance COBS 4.6**

- 5.3.9 *know* the rules on past, simulated past and future performance [COBS 4.6 excluding 4.6.4 - 4.6.4B]

**Financial promotions containing offers or invitations COBS 4.7**

- 5.3.10 *know* the rule on financial promotions containing offers or invitations [COBS 4.7.1 - 4]

**Cold calls and other promotions that are not in writing COBS 4.8 & 4.9**

- 5.3.11 *know* the rules on unwritten promotions [COBS 4.8.3] and the restriction on cold calling [COBS 4.8.2]  
5.3.12 *know* the rule on financial promotions for overseas persons [COBS 4.9.3]

**Systems and controls and approving and communicating financial promotions COBS 4.10 and SYSC 3 & 4**

- 5.3.13 *know* the requirement for approving financial promotions and the circumstances of relying on an another firm's confirmation of compliance [COB 4.10, SYSC 3 & 4]

**5.4 Advising and selling**

On completion, the candidate should:

**Suitability (including basic advice) COBS 9.1**

- 5.4.1 *understand* the application of the rules on identifying client needs and advising [COBS 9.1.1- 9.1.4]

**Assessing Suitability COBS 9.2, 9.3 & 9.4**

- 5.4.2 *understand* the purpose of the suitability rules and the requirement for assessing suitability [COBS 9.2.1 - 3]  
5.4.3 *understand* the information which a firm must obtain from a client in order to make a suitability assessment [COBS 9.2.2-7]; and the guidance on assessing suitability [COBS 9.3.1]  
5.4.4 *know* the application of the assessing suitability rules for professional clients [COBS 9.2.8]  
5.4.5 *understand* the obligation to provide a retail client with a suitability report [COBS 9.4.1-3]  
5.4.6 *know* the timing and contents of a suitability report [COBS 9.4]

**Advising on packaged products COBS 6.2**

- 5.4.7 *know* the application and purpose of the rules on advising on packaged products, including the scope and range of advising [COBS 6.2.1 – 6, 6.2.8 - 11]

**Appropriateness (Non-advised services) COBS 10**

- 5.4.8 *understand* the application and purpose of the rules on non-advised sales [COBS 10.1]  
5.4.9 *understand* the obligations for assessing appropriateness [COBS 10.2]  
5.4.10 *know* the obligation of warning the client [COBS 10.3]  
5.4.11 *know* the circumstances in which it is not necessary to assess appropriateness [COBS 10.4-10.6]

**5.5 Product disclosure and the client's right to cancel**

On completion, the candidate should:

**Product disclosure COBS 13, 14 & 15**

- 5.5.1 *know* the purpose of the rule on the sale of packaged products to retail clients, the rule requiring the provision of key features to retail clients and the main features to be explained in the key features [COBS 13.1.1/3/4, 13.2.1/2/4, 13.3.1/2 (excluding Annex 1R) & 14.1.1, 14.3.1/2]  
5.5.2 *know* the purpose and requirements of the cancellation and withdrawal rights [COBS 15.1.1, 15.2.1, 15.2.3, 15.2.5, 15.3.1, 15.3.2]

## 5.6 Dealing and managing

On completion, the candidate should:

### Application of the rules on dealing and managing COBS 11.1

5.6.1 *know* the application of the rules on dealing and managing [COBS 11.1]

### Conflicts of interest COBS 12, SYSC 10 and PRIN 2.1

5.6.2 *understand* the application and purpose of the principles and rules on Conflict of Interest; the rules on identifying conflicts and types of conflicts; the rules on recording and managing conflicts; and the rule on disclosure of conflicts [PRIN 2, SYSC 10.1.1 - 10.1.9]

5.6.3 *know* the rule requiring a conflicts policy and the contents of the policy [SYSC 10.1.10 - 10.1.15]

5.6.4 *understand* the rules on Chinese walls [SYSC 10.2]

5.6.5 *know* 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)

### Inducements and Use of Dealing Commission COBS 2.3 & 12.6

5.6.6 *know* the application and purpose of the rule on prohibition of inducements [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]

### Best execution COBS 11

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, the requirements for consent and review (COB 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)

### Client order handling COBS 11.3

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]

### Aggregation and allocation COBS 11.3

5.6.12 *understand* the rules on aggregation and allocation of orders [COBS 11.3.7-8] and the rules on aggregation and allocation of transactions for own account [COBS 11.3.9-13]

### Client limit orders COBS 11.4

5.6.13 *know* the rules on client limit orders - the obligation to make unexecuted client limit orders public (COBS 11.4)

### Personal account dealing COBS 11.7

5.6.14 *understand* the application and purpose of the personal account dealing rule and the restrictions on personal account dealing [COBS 11.7.1–3]

5.6.15 *know* the arrangements required to comply with the personal account dealing rules including the notification requirements; and exceptions regarding personal account dealing [COBS 11.7.4–7]

### Churning and switching COBS 9.3

5.6.16 *understand* the guidance on churning and switching [COBS 9.3.2]

## 5.7 Reporting to clients

On completion, the candidate should:

### Confirmation of transactions and Periodic Statements COBS 16.1, 16.2, 16.3

5.7.1 *know* the requirement to report to your client including confirmation of transactions and periodic statements [COB 16.1– 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)
- 5.8.2 *know* the requirements for reconciling client assets and client money including the timing and identification of discrepancies (CASS 6.5.6-13, 7.6.9-16, 7.7.1)
- 5.8.3 *know* the exemptions from the requirements of the CASS rules (CASS 7.1.8, 7.1.14, 7.2.8, 7.2.15)

## ELEMENT 6 COMPLAINTS AND REDRESS

### 6.1 Customer complaints

On completion, the candidate should:

- 6.1.1 *know* the procedures a firm must implement and follow to handle customer complaints [DISP 1.2.1/3, 1.3.3, 1.4.1, 1.6.1/2/5, 1.9.1, 1.10.1]
- 6.1.2 *know* the role of the Financial Ombudsman Service (FOS) [DISP Complaints Sourcebook – Dispute Resolution: Complaints: Introduction] and the awards which can be awarded [DISP 3.9.1/2/5/6/10]
- 6.1.3 *know* the criteria for a complainant to be eligible to lodge a complaint [DISP 2.2]
- 6.1.4 *know* the circumstances in which the Financial Services Compensation Scheme will pay compensation [COMP 3.2.2, 4.2.1/2/3] and the compensation payable in respect of protected deposits and protected investment business [COMP 10.2.1/3]

## FURTHER REFERENCE

While a thorough understanding of the training materials ought to 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)

Complinet (note that information on this site is predominantly available on a subscription basis) at [www.complinet.com](http://www.complinet.com)

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)