



CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

LEVEL 3 INVESTMENT OPERATIONS CERTIFICATE

CLIENT MONEY AND ASSETS (VERSION 7)

TIME ALLOWED: 1 HOUR

**No copying of any part of this paper is permitted without the prior
written authority of the Chartered Institute for Securities & Investment**

© Chartered Institute for Securities & Investment

How to use this sample paper

These 50 questions should be answered in an hour in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet** at the back of this paper.

The exam is scored as follows:

46-50	Pass with Merit
35-45	Pass
0-34	Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

- 1** Where a firm increases the amount of prudent segregation in place, the associated record should include confirmation that this:

 - A** will affect both accumulation units and distribution units
 - B** will impact both the capital account and the current account
 - C** is in accordance with either existing policy or amended policy
 - D** is being carried out either before or on the relevant distribution date

- 2** What is the submission deadline for the Reasonable Assurance Engagement Report to the Financial Conduct Authority (FCA)?

 - A** Four months after the end of the Client Asset Sourcebook (CASS) audit period
 - B** The report is due four months after the end of the company's financial year
 - C** Six months after the end of the Client Asset Sourcebook (CASS) audit period
 - D** The report is due six months after the end of the company's financial year

- 3** A lien may be granted over client assets to cover any unpaid fees to a stock broking firm when:

 - A** the client agrees in writing each time the fees are payable
 - B** it is set out in the client agreement defining the firm's services
 - C** the Financial Conduct Authority has agreed to the firm's plan
 - D** client fees due to the firm are less than 1000 in total

- 4** Details of the highest and lowest client money levels held during the reporting period **MUST** be included in which section of the client money and assets report?
- A** Balances
 - B** Segregation of client money
 - C** Client money reconciliations
 - D** Record-keeping and breaches
- 5** Under the 'safe custody asset record checks and reconciliations' section of the CMAR, identification of unresolved items should be in thresholds of up to:
- A** 10, 20 and 30 days
 - B** 20, 40 and 60 days
 - C** 30, 60 and 90 days
 - D** 40, 80 and 120 days
- 6** The main reason why it is important to use a legal agreement in connection with a financial transaction is because it:
- A** prevents either party from subcontracting its duties
 - B** allows the arrangement to be formally registered with the relevant body
 - C** ensures that best execution is achieved
 - D** outlines the responsibilities and obligations of the parties involved

- 7** If the Financial Conduct Authority (FCA) adds a requirement to a firm's permission which relates to all client money held by the firm, this will result in a:
- A** change of custodian
 - B** change of trusteeship
 - C** primary pooling event
 - D** secondary pooling event
- 8** If a firm accidentally provides clients with its corporate bank account details then:
- A** any payments received would breach the normal approach to client money segregation
 - B** it must inform the FCA immediately
 - C** the firm has breached the normal approach to client money segregation
 - D** it must refund received payments within 5 business days
- 9** If an annual servicing charge is payable on 1st June under a client's account with a firm, on what day will this payment normally cease to be classed as client money?
- A** 31st May
 - B** 1st June
 - C** 1st June + two trading days
 - D** 1st June + three trading days

- 10** According to CASS 8, once a firm has destroyed the original record of the 'means' to instruct movement of a client's assets, it must:
- A** be able to demonstrate that the mandate had been subject to the correct controls
 - B** notify the FCA immediately that this particular mandate is no longer valid
 - C** contact the client in order to obtain a new mandate it can rely on
 - D** review all previous instructions to move that client's assets
- 11** Financial services firms must include which of the following in the list of mandates when the client's instructions to move their assets was received in a non-written form?
- A** The date on which the mandate was requested by the firm
 - B** The name of the third party firm that holds the client's assets
 - C** The date the previous mandate was destroyed
 - D** The method in which the mandate was obtained
- 12** Where a regulated firm handling client money wishes to outsource activities to a third party, the rules of the Senior Management Arrangement, Systems and Controls Sourcebook indicate that:
- A** a minimum 12 month contract must be established
 - B** a contingency plan must be registered with the regulator
 - C** the firm cannot appoint a newly established organisation
 - D** the firm cannot delegate its regulatory responsibility

- 13** A firm was prevented from using the 'delivery versus payment' exemption in relation to the client money rules.

This was because the firm:

- A** took two days to fulfil its delivery obligation after the client met his payment obligation
 - B** did not obtain the client's explicit consent to use this facility
 - C** categorised the client as a retail client
 - D** was holding client money in excess of £20,000
- 14** Why would a regulated firm be more likely to use the Rolling Stock Method of physical asset reconciliation as opposed to the Total Count Method?
- A** It is physically impossible to identify all assets in a single sitting
 - B** The firm is holding a very small number of physical assets
 - C** So that they have 12 months to perform the reconciliation
 - D** The firm has elected to only perform the reconciliation annually
- 15** What happens when a broker rehypothecates collateral they have received from a client?
- A** They pledge this same collateral from the client to a third party
 - B** They give it back to the original client after an agreed term
 - C** They give the client a discount on the remaining funds borrowed
 - D** They transfer it back to the original client when it is no longer required

16 Where a firm chooses to use the banking exemption, a key consequence is that the relevant funds:

- A** will not normally be protected by the client money rules
- B** will not be covered by the FSCS provisions
- C** must be subject to twice daily reconciliations
- D** must be subject to an underlying independent guarantee

17 A regulated firm is missing 50 client shares valued at £100.

If the firm buys the shares to cover the shortfall, how are they obligated to handle the situation until settlement date?

- A** A cash amount equivalent to the share trade must be set aside and remain fixed until the settlement date
- B** The firm is obligated to set aside a cash amount equivalent to the share value at the time of account preparation
- C** A cash amount equivalent to 50% of the share trade must be set aside until the settlement date
- D** The firm is not obligated to set aside any funds due to the shortfall being less than £1,000

- 18** An investor has granted a Client Assets Sourcebook (CASS) firm the right to use their asset as collateral for a deal.

How is this asset treated before the right-to-use clause is exercised?

- A** The firm's records show it as a normal client asset subject to full protection under CASS rules
- B** The counterparty to the deal immediately takes on legal ownership of the client's asset
- C** The firm's records are updated to reflect they now have legal ownership of the asset
- D** The legal ownership of the asset is transferred from the client's account to the custodian

- 19** A regulated firm is missing 500 client shares with a value of £1,000.

If the firm is covering the shortfall with cash, how are they obligated to handle this situation each day?

- A** The value required may be determined by the previous day's closing mark to market valuation
- B** The shortfall amount is based on the value of the shares at the time the accounts are prepared
- C** The value may be determined by the previous day's average market valuation of the client's shares
- D** The firm only needs to cover 50% of the shortfall due to the amount being less than £10,000

- 20** Firm X is considering depositing client money with Bank Y. How will the regulations relating to due diligence impact on this plan?
- A** Firm X must appoint an independent corporate advocate
 - B** Bank Y must appoint a nominated default bank
 - C** Firm X must assess Bank Y's creditworthiness
 - D** Bank Y must assess Firm X's customer profile base
- 21** Client money can be deposited into a money market account if the account is a:
- A** general client fund account
 - B** designated corporate fund account
 - C** general client bank account
 - D** designated corporate bank account
- 22** What is a legal document, using wording specified in the CASS rules, which evidences the nature and purpose of the trust being established over client money?
- A** Acknowledgement letter
 - B** Approved deed of trust
 - C** Custodial agreement
 - D** Segregation letter

- 23** In order to pay away allocated but unclaimed client money to a registered charity, the last movement on the client's account (ignoring interest, charges and similar items) must have occurred at least how many years ago?

A 3
B 4
C 6
D 10

- 24** A client pays £3,000 by cheque to an authorised firm, comprising £500 for fees due and £2,500 for further investment.

If the firm adopts the 'normal approach' to segregation, what initial action should be taken?

A Return the cheque and ask for two separate cheques
B Deposit the payment in a client bank account
C Deposit the payment in a non-client bank account
D Repay £500 and ask for a separate cheque for this amount

- 25** If an authorised firm holds client money in a different currency from the actual currency in which the money arises, it must carry out a currency-matching reconciliation:

A twice a day
B daily
C every three working days
D once a week

- 26** If an authorised firm receives client money via telegraphic transfer and is unable to identify the relevant client, then the firm:
- A** must transfer it to a suspense account within 24 hours
 - B** must issue a non-identification notice to the remitting bank within 48 hours
 - C** is allowed to return the money to the remitting party
 - D** is allowed to deposit the money temporarily in its non-client bank account
- 27** Which of the following scenarios forms part of the definition of a mandate to access a client money bank account?
- A** An instruction by the FCA to make a payment out of a client money account to satisfy an unpaid FCA fee note
 - B** Instructions to a third party in relation to a particular client's money that is credited to an account maintained by that third party for the client
 - C** An instruction by an intermediary to a firm maintaining a client account to make regular payments to a third party
 - D** An order by HMRC to payback taxes out of a client money bank account
- 28** If an internal client money reconciliation identifies a genuine shortfall, what action **MUST** be taken on the day the reconciliation is performed?
- A** Pay money into the client bank account
 - B** Withdraw money from the client bank account
 - C** Notify all clients of the discrepancy
 - D** Notify the FCA of the discrepancy

- 29** Which of the following scenarios is an example of a secondary pooling event?
- A** The withdrawal of state support for deposits in the UK banking system
 - B** The failure of a bank where the firm has deposited a portion of client money to earn higher rates
 - C** A deficit of client money held compared to the client money requirement according to an internal reconciliation
 - D** An adverse audit opinion in respect of the firm's systems for control of clients' money
- 30** If a firm wants to appoint a third-party custodian to provide safe custody of client assets, then:
- A** it must first perform due diligence
 - B** a nominee company must first be established
 - C** the contract must be for a minimum of three years
 - D** prior approval must be obtained from the FCA
- 31** When a firm is conducting due diligence on a potential third-party custodian, in order to comply with CASS guidance it should:
- A** request a guarantee from the custodian's nominated bank
 - B** impose a service level agreement on the custodian
 - C** review the cost savings which will result from using a custodian
 - D** assess the breadth of the custodian's current activities

32 When there is a secondary pooling event, CASS 7A specifically requires the firm to keep a record of:

- A** The amounts by which each investor's balance has been written down
- B** The amounts that have been returned to clients
- C** The amounts of any recovered monies
- D** The amounts that have been repaid to any third party firm

33 A firm has held client money and custody assets for the last five years.

The contents of their CASS Resolution Pack **MUST** include which internal and external reconciliations relating to these assets?

- A** The most recent only
- B** Those for the current financial year only
- C** Those for the last three financial years only
- D** All of them since the inception of the custodianship

34 In order to hold client money, the specific permission notice a firm must obtain is classed as either 'able to hold client money' or 'able to hold and:

- A** invest client money'
- B** control client money'
- C** administer client money'
- D** manage client money'

- 35** Firm X only undertakes claims management activities and Firm Y only undertakes debt management services.

Which one of the following statements is TRUE?

- A** Only Firm X must obtain FCA authorisation
 - B** Only Firm Y must obtain FCA authorisation
 - C** Both Firm X and Firm Y are exempt from the client money regulations
 - D** Both Firm X and Firm Y are subject to the client money regulations
- 36** A bank was able to class a payment received from a customer as a deposit rather than as client money.

This enabled the bank to:

- A** apply charges retrospectively as necessary
 - B** vary the terms of the investment at its own discretion
 - C** operate to a lower compensation scale under the client asset rules
 - D** obtain an exemption from part of the client asset rules
- 37** What are the respective requirements for CASS small and CASS medium firms to complete a client money and assets report?
- A** No requirement for either CASS small or CASS medium firms
 - B** CASS small firms on an annual basis and CASS medium firms on a monthly basis
 - C** CASS medium firms on a monthly basis and no requirement for CASS small firms
 - D** Both CASS small firms and CASS medium firms on a monthly basis

38 An obligation related to the regulated activity "administration of assets" is:

- A** providing security for bearer shares
- B** handling corporate actions
- C** providing security for dematerialised assets
- D** handling customer orders

39 What is the primary source of data used for populating the Client Money and Assets Return (CMAR)?

- A** Internal reconciliation material completed on the first business day of each month
- B** External reconciliation material completed on the first business day of each month
- C** Internal reconciliation material completed on the last business day of each month
- D** External reconciliation material completed on the last business day of each month

40 What type of regulated firm is required to submit a Client Money and Assets Return (CMAR)?

- A** Large and medium firms
- B** Small and medium firms
- C** Large firms only
- D** Small, medium and large firms

- 41** Who is responsible for submitting a Reasonable Assurance Report to the Financial Conduct Authority (FCA) for a company?
- A** An independent CASS auditor
 - B** A member of Board of Directors
 - C** The company's accounting firm
 - D** An employee with the CF10a role
- 42** Legal entity separation is important primarily because it helps to ensure that:
- A** clients obtain the right level of professional advice
 - B** clients are protected from the impact of insolvency
 - C** firms benefit from the full protection of the regulator
 - D** firms customise their strategy according to client needs
- 43** In what circumstances are firms required to diversify client money?
- A** When they deal with both retail and professional clients
 - B** When undertaking title transfer collateral arrangements
 - C** When the firm is using a third party external to the group
 - D** When the firm is using a bank within the same corporate group

- 44** If a client agreement fails to make any reference to interest payments on client money balances, what default position must be adopted?
- A** No interest will be paid to clients
 - B** Clients will be paid interest at a pre-specified rate
 - C** Interest will be paid to clients at the firm's discretion
 - D** Any interest received must be passed on to clients
- 45** A client assets report can only be produced in the form of a limited assurance engagement report if:
- A** the firm holds CASS small firm status
 - B** none of the firm's employees hold direct FCA authorisation
 - C** no client assets are held during the relevant period
 - D** the client assets are deemed to carry a low level of risk]
- 46** The key difference between holding client money and deposit taking relates specifically to whether:
- A** an independent custodian is being used
 - B** a return is being paid on the principal
 - C** funds are being held for more than 30 days
 - D** investment business is being undertaken

- 47** The contents of a limited assurance engagement report are governed by standards defined by which body?
- A** Prudential Regulation Authority
 - B** HM Revenue and Customs
 - C** Financial Reporting Council
 - D** Chartered Institute of Internal Auditors
- 48** The margin transaction requirement is calculated using:
- A** opening prices on the previous business day
 - B** closing prices on the previous business day
 - C** opening prices on the current business day
 - D** closing prices on the current business day
- 49** In which circumstances is the net negative add-back (NNAB) method the only method available to a firm?
- A** If the firm is a loan based crowdfunder
 - B** If the firm is an overseas company selling into the UK
 - C** If the firm is a UK company selling into the EU
 - D** If the firm is a peer to peer lender

50 Internal client money reconciliation must be conducted every:

- A** day
- B** week
- C** month
- D** quarter

SAMPLE PAPER

Client Money and Assets (Version 7)

Question Number	Answer	Syllabus Reference
1	C	2.5.2
2	A	5.4.3
3	B	4.4.4
4	A	5.2.2
5	C	5.2.2
6	D	7.4.1
7	C	6.2.2
8	A	2.1.1
9	B	2.2.5
10	A	7.2.1
11	D	7.2.1
12	D	1.3.1
13	B	4.2.5
14	A	4.6.1
15	A	4.4.1
16	A	1.4.1
17	A	4.6.2
18	A	4.4.1
19	A	4.6.2
20	C	3.1.1
21	C	2.2.1
22	A	2.2.3
23	C	2.2.6
24	B	2.2.6
25	B	2.2.7
26	C	2.5.1
27	B	7.2.1
28	A	3.4.3
29	B	6.2.1
30	A	4.2.2
31	D	4.2.2
32	A	6.2.3
33	A	6.3.2
34	B	1.4.1
35	D	1.4.1
36	D	1.4.1
37	C	5.2.2
38	B	4.2.1
39	A	5.2.2
40	A	5.2.2
41	A	5.4.1
42	B	6.2.1

43	D	3.1.2
44	D	7.4.1
45	C	5.4.2
46	D	1.4.1
47	C	5.4.4
48	B	3.4.4
49	A	3.4.1
50	A	3.3.1

SAMPLE PAPER