



CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

Investment, Risk and Taxation

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Objective of the examination

The objective of the examination is to ensure that candidates demonstrate the ability to apply the knowledge, theory and practical techniques required in order to assess a client's current financial position and future requirements, make suitable investment recommendations, monitor performance and respond appropriately to changing needs and circumstances.

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

- The macro-economic context of investment advice and planning
- The main asset classes; characteristics and applications
- The main investment products; characteristics and applications
- Investment theories and their practical application
- Identification, measurement and assessment of investment risks and returns
- Taxation of investors and investments in the UK
- Portfolio planning, construction, review and maintenance
- Provision of investment advice including the ability to analyse clients' circumstances and apply suitable investment product recommendations to meet client-led objectives

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**, **be able to apply**, **be able to analyse**, **be able to assess** or **be able to interpret**. These words indicate the different levels of skill to be tested.

- **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
- **calculate** requires the candidate to be able to use formulae to perform calculations
- **apply** requires 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
- **analyse** requires the candidate to review the information content in detail and draw conclusions
- **assess** requires the candidate to review the information content and to make an informed judgement
- **interpret** require the candidate to review the information content and extract meaning from it

Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (cisi.org/candidateupdate) 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 two.

Examination specification		
80 multiple choice questions		
Element number	Element	Questions
1	Asset Classes	14
2	Macro-Economic Environment	6
3	Principles of Investment Risk and Return	9
4	Taxation of Investors and Investments	16
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Total		80

Assessment Structure

Assessment is a 2 hour examination of 80 multiple choice questions.

Candidates sitting the exam by Computer Based Testing may 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 Asset Classes

- 1.1 Cash and equivalents
- 1.2 Fixed income securities
- 1.3 Equities
- 1.4 Property
- 1.5 Other assets

Element 2 Macro-Economic Environment

- 2.1 Macro-economic trends and indicators
- 2.2 Fiscal and Monetary Policy
- 2.3 Influences on Asset Classes

Element 3 Principles of Investment Risk and Return

- 3.1 Time Value of Money
- 3.2 Investment Risk and Return
- 3.3 Models of Investment Theory

Element 4 Taxation of Investors and Investments

- 4.1 Income tax
- 4.2 Taxation of Investment Income
- 4.3 National Insurance Contributions
- 4.4 Capital Gains Tax (CGT)
- 4.5 Inheritance Tax (IHT)
- 4.6 Residence and Domicile
- 4.7 Stamp duty
- 4.8 Value Added Tax
- 4.9 Corporation Tax
- 4.10 Tax Compliance
- 4.11 Tax planning

Element 5 Investment Products

- 5.1 Collective Investments
- 5.2 Exchange-Traded Funds and Exchange-Traded Commodities
- 5.3 Closed Ended Funds and Investment Companies
- 5.4 Individual Savings Accounts
- 5.5 National Savings and Investments

- 5.6 Life Assurance Based Investments
- 5.7 Private Equity Funds
- 5.8 Venture Capital Trusts, Enterprise Investment Schemes and Seed Enterprise Investment Schemes
- 5.9 Distributor Influenced Funds (DIFs)
- 5.10 Derivatives
- 5.11 Hedge Funds
- 5.12 Absolute Return Funds (ARFs)
- 5.13 Structured Products
- 5.14 Pension Arrangements

Element 6 Portfolio Construction and Planning

- 6.1 Asset Allocation
- 6.2 Investment Selection

Element 7 The Process of Giving Investment Advice

- 7.1 Advising Clients
- 7.2 Client Fact Finding
- 7.3 Risk and Client Suitability
- 7.4 Planning and Recommendations

Element 8 Portfolio Performance and Review

- 8.1 Selection and use of Benchmarks
- 8.2 Portfolio Measurement
- 8.3 Portfolio Review

Element 1 Asset Classes

1.1 Cash and equivalents

On completion, the candidate should be able to:

1.1.1 *understand* the main types of deposit account:

- current
- instant access
- national savings and investment products
- notice
- fixed rate
- term
- money market

1.1.2 *analyse* the main characteristics, risks and returns of cash deposits:

- liquidity
- rates of interest
- past returns
- real returns
- deposit takers
- statutory protection
- risks, inflation / deflation risk interest rate risk and institutional risk
- credit risk assessment of deposit taking institutions
- foreign currency deposits
- costs, charges and penalties
- requirement linked accounts
- FSCS limits

1.1.3 *analyse* the main characteristics, risks and returns of money market funds:

- cash assets only
- near cash assets
- pricing, liquidity and fair value
- costs, charges and penalties
- constant NAV
- low volatility NAV
- variable NAV

1.1.4 analyse the main characteristic, risks and returns of peer-to-peer lending

1.1.5 *analyse* the factors to take into account when selecting between different types of cash deposits, accounts and money market funds:

- entry requirements

1.2 Fixed income securities

On completion, the candidate should be able to:

1.2.1 *know* the main issuing institutions and purposes for issuing fixed income securities:

- sovereign states and governments
- public authority
- corporate
- credit institutions
- supranational

1.2.2 *analyse* the main sources of investment risk and return associated with fixed income securities:

- capital return
- interest or yield
- liquidity

- rates of interest
- real returns
- credit ratings
- credit enhancements
- duration

1.2.3 *analyse* the characteristics and differences between the main types of fixed income securities:

- fixed rate bonds
- floating rate notes
- zero coupon bonds
- inflation-linked bonds
- other index-linked and asset-linked bonds
- asset backed securities
- convertible bonds
- subordinated bonds
- perpetual bonds
- Eurobonds and foreign issuer bonds
- CoCos
- Sukuk
- Green bonds
- Blue bonds

1.2.4 *understand* how fixed income securities are traded and settled:

- primary and secondary markets
- decentralised market
- retail bond markets
- clearing, settlement and safe custody
- pricing, liquidity and fair value

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- coupon
- nominal value
- market price
- clean and dirty prices
- redemption date
- transaction costs and charges

1.2.5 *understand* the purpose and construction of the main bond indices, and the considerations needed for less liquid markets

1.2.6 *analyse* the factors to take into account when selecting bonds and bond funds:

- bond characteristics
- direct bond strategies
- indirect investment
- investing in bonds through funds
- advantages and disadvantages of investing in bonds and bond funds
- bond market conditions

1.3 Equities

On completion, the candidate should be able to:

1.3.1 *understand* the characteristics and differences between the main types of shareholder equity:

- ordinary
- redeemable
- non-voting
- preference
- convertible preference

1.3.2 *understand* the characteristics and differences between the main types of private equity share capital

1.3.3 *analyse* the main sources of investment risk and return associated with equities:

- capital return
- dividends
- liquidity
- credit ratings
- corporate actions
- company liquidation
- activist shareholder

1.3.4 *understand* the issues involved in dealing for clients in equity markets:

- regulated and designated investment exchanges
- multi-lateral trading platforms
- organised trading facilities
- OTC trading
- access to markets
- principal and agency trading
- quoted and unquoted securities
- admission to trading

1.3.5 *understand* how equity securities are traded and settled:

- liquidity, pricing and fair value
- nominal value
- market price
- cum and ex dividend
- transaction costs and charges

1.3.6 *understand* the purpose and construction of the main equity indices, and the considerations needed for less liquid markets

1.3.7 *analyse* equity securities and equity funds using the following valuation measures:

- price earnings ratio (PE)
- earnings per share
- dividend yield
- dividend cover
- gearing
- net asset value & enterprise value
- past performance
- price cash flows
- price to book

1.3.8 *analyse* the factors to take into account when selecting equities and equity funds:

- equity fund strategies – growth, income, market capitalisation, sector, region, customised
- growth / dividend prospects
- direct vs indirect investment
- advantages and disadvantages of investing in equities
- cost, turnover, liquidity and ease of trading
- equity market conditions

1.4 Property

On completion, the candidate should be able to:

1.4.1 *understand* the differences, characteristics, risk and returns of the main property markets and sectors:

- residential buy-to-let
- commercial – retail space, hotel, office, industrial/warehouse

1.4.2 *analyse* the main sources of investment risk and return associated with property investment, both direct and indirect:

- capital growth
- yield

- location and quality
- occupancy rate
- tenant creditworthiness, tenancy and rental agreement
- term and structure of lease
- asset liquidity
- market volatility and risk
- sector risk

1.4.3 *understand* how the direct residential and commercial property markets operate:

- ownership and lease structures
- conveyancing, buying and selling
- costs – transactional, management
- property valuation
- finance and gearing
- investment performance measurement & role of Investment Property Databank

1.4.4 *analyse* property and property funds using the following valuation measures:

- cash flow and average yield
- capitalisation rate
- rental value, review
- reversionary value
- comparative analysis - market indices

1.4.5 *analyse* the factors to take into account when selecting property and property funds:

- property shares, OEICs, REITs, bonds, trusts, funds, fund of funds, limited partnerships
- relative merits of investing through open ended and closed ended vehicles
- property fund strategies

- growth / dividend prospects
- direct vs indirect investment
- pricing, liquidity and fair value
- advantages and disadvantages of investing in property
- environmental social and governance (ESG) factors
- market trends and current conditions

1.5 Other assets

On completion, the candidate should be able to:

1.5.1 *understand* the purpose, characteristics, risks and returns of the main types of alternative investments:

- gold and other metals
- commodities
- art
- antiques
- land – agricultural and development
- cryptocurrencies

1.5.2 *analyse* the factors to take into account when investing in alternative investments:

- direct vs indirect investment
- investment time horizon
- features – quality, durability, provenance
- transaction, delivery and ongoing costs
- pricing, liquidity and fair value
- advantages and disadvantages of investing in alternatives

Element 2 Macro-Economic Environment

2.1 Macro-economic trends and indicators

On completion, the candidate should be able to:

2.1.1 *understand* the main long-term global trends and the effects of technological changes / advancements:

- ageing population
- rising living standards
- access to education
- growth of the service sector
- changing patterns of the economy
- productivity of capital and labour
- wealth and income distribution
- growth of developing economies
- natural resources
- global health issues
- social media, cyber security and e-commerce

2.1.2 *understand* the impact of the following on global trades and asset classes:

- international markets
- trade agreements
- tariffs
- protectionism
- globalisation of business and finance
- market failures

2.1.3 *understand* the main stages of economic, financial and stock market cycles, including:

- trade cycles
- business cycles

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- asset price bubbles
- economic shocks
- difficulty in forecasting national and international trends

2.1.4 *interpret* key economic and business indicators:

- gross domestic product
- inflation
- interest rates
- consumer price & inflation indices
- retail sales
- unemployment rate
- industrial production
- stock market indices
- money supply changes
- foreign exchange indices
- leading, lagging and coincident indicators
- procyclic, countercyclic and acyclic indicators

2.2 **Fiscal and Monetary Policy**

On completion, the candidate should be able to:

2.2.1 *understand* the role of government and central banks in fiscal and monetary policy:

- interest rate setting process
- quantitative easing
- unwinding of central bank balance sheets
- money market operations
- fiscal stance
- other interventions

2.2.2 *understand* how the money supply affects:

- inflation, deflation, disinflation
- interest rates
- exchange rates
- relationship between money supply, inflation and employment

2.2.3 *understand* the impact of budget surpluses and deficits on business and the economy

2.2.4 *understand* the composition of the balance of payments, and the factors behind and benefits of international trade and capital flows:

- current account
- imports
- exports

2.3 Influences on Asset Classes

On completion, the candidate should be able to:

2.3.1 *understand* the role of financial investment in the economy:

- primary markets as introducers of new capital to business and government
- secondary markets enabling investors to adjust investments to meet individual needs

2.3.2 *analyse* the impact of macro-economic influences on each of the following asset classes:

- fixed income
- commodities
- cash
- property
- equities

Element 3 Principles of Investment Risk and Return

3.1 Time Value of Money

On completion, the candidate should be able to:

3.1.1 *understand* the effects of compound interest and the time value of money

3.1.2 *calculate* the net present value of:

- lump sums
- regular payments

3.1.3 *calculate* the future value of:

- lump sums
- regular payments

3.1.4 *calculate* real and inflation adjusted returns:

- nominal returns
- real or inflation adjusted returns
- total returns

3.2 Investment Risk and Return

On completion, the candidate should:

3.2.1 *analyse* and explain the main types of risk and the implications for investors:

- systemic risk
- systematic risk
- market risk – asset price volatility, currency, interest rates, foreign exchange rates, commodity price volatility
- concentration and diversification
- liquidity, credit risk and default

- gearing
- country risk
- counterparty and institutional risk
- market timing
- ESG factor risk

3.2.2 *understand* the main risk and return measures, and how they are used within asset and portfolio evaluation, and their purposes:

- holding period return
- total return and its components
- standard deviation
- volatility
- correlation
- risk-adjusted returns
- benchmarking

3.2.3 *apply* the theory of investment risk and return to the measurement of portfolio performance:

- holding period return
- relative return
- standard deviation
- risk-adjusted returns

3.3 Models of Investment Theory

On completion, the candidate should be able to:

3.3.1 *understand* the main propositions and limitations of the Efficient Markets Hypothesis (EMH):

- strong form
- semi-strong form
- weak form

- assumptions and shortcomings

3.3.2 *understand* the main principles of Modern Portfolio Theory, the Capital Asset Pricing Model (CAPM), its application and limitations:

- risk free rate of return
- risk premium
- cost of capital and return on capital
- excess returns
- correlation measures
- risk and diversification
- efficient frontier, portfolio optimisation and leverage
- assumptions and shortcomings

3.3.3 *understand* the main principles behind Arbitrage Pricing Theory (APT), its application and limitations:

- factor structure and analysis
- macro-economic and market factors
- arbitrage theory and mechanics
- relationship with CAPM
- assumptions and shortcomings

3.3.4 *understand* the principles of behavioural finance:

- loss aversion
- price reaction and price trends
- barriers and biases – practical and psychological
- relationship with EMH
- assumptions and shortcomings

3.3.5 *understand* the types and uses of multi-factor models, their assumptions and limitations

3.3.6 *understand* how to reduce portfolio risk through diversification and hedging:

- significance of alpha and beta
- correlation and relative risk
- principles of asset allocation
- hedging and immunization
- active and passive strategies

Element 4 Taxation of Investors and Investments

4.1 Income tax

On completion, the candidate should:

4.1.1 *understand* how a private individual's income tax liability is determined using:

- tax rates
- tax rate bands
- personal allowances

4.1.2 *understand* how the income tax liability for a trust is determined based on:

- trust type
- tax rates
- tax rate bands

4.1.3 *understand* the application of income tax in respect of:

- individuals
- trusts
- charities

4.2 Taxation of Investment Income

On completion, the candidate should be able to:

4.2.1 *understand* the tax treatment of investment income:

- savings income
- dividend income
- rental income

4.3 National Insurance Contributions

On completion, the candidate should be able to:

4.3.1 *understand* the basis on which National Insurance Contributions (NICs) are levied:

- employers
- employees
- self-employed
- voluntary

4.4 Capital Gains Tax (CGT)

On completion, the candidate should be able to:

4.4.1 *understand* the application of Capital Gains Tax in respect of:

- individuals
- trusts
- charities

4.4.2 *understand* the application of Capital Gains Tax to the sale of assets, such as:

- shares
- government bonds
- corporate bonds
- real estate
- chattels

4.5 Inheritance Tax (IHT)

On completion, the candidate should be able to:

4.5.1 *understand* the application of inheritance tax:

- chargeable transfers
- potential exempt transfers
- transfers on death
- nil rate band
- exemptions and reliefs
- gifts with reservation
- valuation of assets
- deed of variation

4.5.2 *understand* how intestacy rules may apply in England and Wales, and the implications of these rules for estate planning

4.5.3 *understand* the application of IHT to:

- transfers into trusts
- assets held in trusts
- transfers out of trusts

4.6 Residence and Domicile

On completion, the candidate should be able to:

4.6.1 *understand* the impact of the rules on residency and domicile and the implications for income tax and CGT

4.6.2 *understand* the use of double taxation treaties

4.6.3 *understand* how withholding tax is applied based on:

- residency
- product
- tax regime (at source or reclaimable)
- beneficiary

- qualified intermediaries scheme

4.6.4 *understand* the impact of residency and domicile on the liability to IHT

4.7 Stamp duty

On completion, the candidate should be able to:

4.7.1 *understand* the application of Stamp Duty and Stamp Duty Reserve Tax to the purchase of securities, including:

- company shares
- share options
- unit trusts and open-ended investment companies (OEICs)
- government bonds
- corporate bonds
- exchange traded funds (ETFs)

4.7.2 *understand* the application of Stamp Duty Land Tax (SDLT), including the main reliefs and exemptions, to the purchase of property

4.8 Value Added Tax

On completion, the candidate should be able to:

4.8.1 *understand* how liability to Value Added Tax (VAT) arises and is charged

4.9 Corporation Tax

On completion, the candidate should be able to:

4.9.1 *understand* how liability to Corporation Tax (CT) arises and is charged:

- companies and organisations: trading, non-trading
- taxable profits and accounting periods
- rates, allowances and reliefs
- taxation of franked income

4.10 Tax Compliance

On completion, the candidate should be able to:

4.10.1 *understand* how tax is accounted for and an adviser's duties regarding tax compliance, avoidance and evasion

4.10.2 *understand* the need to meet international disclosure requirements under FATCA and CRS

4.11 Tax planning

On completion, the candidate should be able to:

4.11.1 *apply* the key principles of investment tax planning:

- use of personal allowances
- spouses' personal allowances
- children's tax position
- pension contributions
- use of tax wrappers
- use of capital gains tax exemptions
- tax deferral
- use of life assurance bonds

4.11.2 *analyse* the criteria for selecting a tax planning strategy

4.11.3 *apply* the key principles of IHT planning:

- lifetime gifts
- trusts
- transferability of nil rate band

4.11.4 *apply* common tax computations for:

- an individual's liability to income tax
- age allowance

- CGT liability on share disposals
- IHT liability on lifetime transfers and at death

4.11.5 *apply* the above principles to basic recommendations relating to the taxation of investments and pensions

Element 5 Investment Products

5.1 Collective investments

On completion, the candidate should be able to:

5.1.1 *understand* the main types, purposes, common investment characteristics and behaviours of funds, collectives and other products

5.1.2 *understand* the tax treatment within the fund and for UK investors of income arising from collective investments:

- open-ended investment companies (OEICs)
- investment companies with variable capital
- unit trusts

5.1.3 *understand* the main types, purposes, common investment characteristics and behaviours of:

- onshore collective investment funds
- offshore collective investment funds

5.1.4 *understand* the tax treatment of UK investors investing in offshore funds, including:

- differences between reporting funds and non-reporting funds
- taxation of offshore funds

5.1.5 *analyse* the charges and pricing of collective investments:

- initial, annual, exit and performance fee charging structures
- single pricing
- bid / offer pricing
- dilution levies

- forward pricing

5.1.6 *analyse* the relative merits and limitations of investing in a collective investment fund compared with other forms of direct and indirect investment, in terms of:

- risk
- return
- tax treatment
- turnover, liquidity and access
- expenses – transaction and ongoing
- management and administration

5.2 Exchange-Traded Funds and Exchange-Traded Commodities

On completion, the candidate should be able to:

5.2.1 *understand* the main types, purposes, underlying structure, common investment characteristics and behaviours of:

- exchange traded funds (ETFs)
- exchange traded commodities (ETCs)

5.2.2 *analyse* the relative merits and limitations of investing in Exchange Traded Funds (ETFs) or Exchange Traded Commodities (ETCs) compared with other forms of direct and indirect investment, in terms of:

- risk
- return
- physical vs synthetic
- tax treatment
- turnover, liquidity and access
- expenses – transaction and ongoing
- management and administration

5.3 Closed Ended Funds and Investment Companies

On completion, the candidate should be able to:

5.3.1 *understand* the main types, purposes, common investment characteristics and behaviours of:

- onshore closed ended funds and investment companies; investment trusts; real estate investment trusts
- offshore closed ended funds and investment companies

5.3.2 *understand* when and why borrowing / gearing is used by closed ended funds, and the benefits and risks associated with it

5.3.3 *analyse* the relative merits and limitations of investing in closed ended funds and investment companies compared with other forms of direct and indirect investment, in terms of:

- risk
- return
- tax treatment
- premiums and discounts
- turnover, liquidity and access
- expenses – transaction and administration
- management and administration

5.4 Individual Savings Accounts

On completion, the candidate should be able to:

5.4.1 *analyse* the key features, restrictions and tax treatment of ISAs, Junior ISAs and Child Trust Funds (CTFs):

- eligibility
- eligible investments
- subscriptions & additional subscriptions
- transfers
- withdrawals
- use in investment and tax planning

5.5 National Savings and Investments

On completion, the candidate should be able to:

5.5.1 *analyse* the key features, restrictions and tax treatment of National Savings and investments, premium bonds and investments:

- use in investment and tax planning

5.6 Life Assurance Based Investments

On completion, the candidate should be able to:

5.6.1 *analyse* the key features, relative merits and limitations of investing in onshore and offshore life assurance based investments compared with other forms of direct and indirect investment:

- risk
- return
- tax treatment (offshore, onshore)
- turnover, liquidity and access
- expenses – transaction and ongoing
- management and administration

5.7 Private Equity Funds

On completion, the candidate should be able to:

5.7.1 *understand* the main types, purposes, structures, tax treatment and investment characteristics of private equity funds

5.8 Venture Capital Trusts, Enterprise Investment Schemes and Seed Enterprise Investment Schemes

On completion, the candidate should be able to:

5.8.1 *analyse* the key features, relative merits and limitations of investing in Venture Capital trusts (VCTs), Enterprise Investment Schemes (EIS) and Seed Enterprise Investment Schemes (SEIS) compared with other forms of direct and indirect investment:

- partners/ investors
- investment management
- tax characteristics
- past performance in terms of risk and returns
- discounts
- premiums
- secondary market liquidity

5.9 Distributor Influenced Funds (DIFs)

On completion, the candidate should be able to:

5.9.1 *analyse* the key features, relative merits and limitations of investing in a distributor influenced fund compared with other forms of direct and indirect investment:

- roles and responsibilities of underlying parties
- fee structure
- expenses and commissions
- tax characteristics
- investment performance and risk
- other risks - distributor power and expertise, conflicts of interest, suitability
- secondary market liquidity
- requirements on avoiding conflicts of interest

5.10 Derivatives

On completion, the candidate should be able to:

5.10.1 *understand* the purposes, structure and risk / reward characteristics of the main types of financial derivatives pertaining to each main asset class:

- futures

- forward contracts
- options
- warrants
- contracts for differences

5.10.2 *understand* the effects of implementing simple derivatives strategies for the purposes of hedging or speculation in terms of:

- risk transfer and risk / reward payoff
- transaction costs and margin
- ease of implementation and unwinding

5.11 Hedge Funds

On completion, the candidate should be able to:

5.11.1 *analyse* the key features, relative merits and limitations of investing in hedge funds compared with other forms of direct and indirect investment:

- main types of hedge fund
- regulatory environment
- investment risk
- use of short and long positions
- custody and safe keeping practices
- limitations in respect of voting capital
- funds of hedge funds (FOH)

5.12 Absolute Return Funds (ARFs)

On completion, the candidate should be able to:

5.12.1 *analyse* the key features, relative merits and limitations of investing in absolute return funds compared with other forms of direct and indirect investment:

- structure

- income and capital growth
- investment risk and return
- expenses
- capital protection
- monitoring performance vs benchmark

5.13 Structured Products

On completion, the candidate should be able to:

5.13.1 *analyse* the key features, relative merits and limitations of investing in structured products and investment notes compared with other forms of direct and indirect investment:

- structure (structured deposits and products)
- income and capital growth
- investment risk and return
- expenses
- capital protection
- American and European soft protection
- counterparty risk
- differences between retail and private placement products

5.14 Pension Arrangements

On completion, the candidate should be able to:

5.14.1 *analyse* the main types, purpose, structure and operation, tax treatment and investment characteristics of pension arrangements:

- defined benefit
- defined contribution
- personal pensions
- self-invested personal pensions (SIPPs)

- small self-administered schemes (SSASs)

5.14.2 *analyse* the key features of pension arrangements:

- contributions – sources, level and limits
- investment selection and performance
- how benefits are provided
- annual and lifetime allowances
- fees

Element 6 Portfolio Construction and Planning

6.1 Asset Allocation

On completion, the candidate should be able to:

6.1.1 *understand* the purpose and principles of asset allocation:

- relationship with investment theory
- trade-off between risk and return
- stochastic modelling
- active and passive management
- strategic asset allocation (SAA)
- tactical asset allocation (TAA)

6.1.2 *understand* how investment theory is applied to the process of portfolio construction

6.1.3 *understand* the basic ways to diversify a portfolio:

- asset class
- geographical area
- sector
- currency

- maturity

6.1.4 *analyse* combinations of asset classes based on:

- historical returns
- index and benchmark comparisons
- correlation of performance between asset classes
- advantages and limitations of relying on historical data

6.2 Investment Selection

On completion, the candidate should be able to:

6.2.1 *understand* the aims and characteristics of the main fund management strategies and styles:

- indexing or passive management
- active or market timing
- passive-active combinations
- cash and bond fund strategies
- liability driven (LDI)
- long, short and geared
- sector-specific
- contrarian
- quantitative, trend and trading strategies

6.2.2 *analyse* and compare charges and costs on the basis of impact, reduction in yield, total expense ratios / ongoing charges, annual management charge, synthetic risk, Sharpe ratio, R squared and reward indicators

6.2.3 *know* the research and reports available to financial advisers:

- fundamental analysis
- technical analysis
- fund analysis

- fund rating agencies and screening software
- broker and distributor reports
- sector-specific reports

6.2.4 *analyse* the factors to consider when selecting investment product providers

6.2.5 *understand* the characteristics, uses, benefits, risks and charges associated with wrap and other platforms

Element 7 The Process of Giving Investment Advice

7.1 Advising Clients

On completion, the candidate should be able to:

7.1.1 *apply* a framework for providing financial advice, paying particular attention to:

- the nature of the client relationship, confidentiality, trust and client protection
- the information required from clients and methods of obtaining it
- monitoring and review of clients' circumstances
- the information clients must be given under the current regulatory requirements
- additional requirements needed when advising on unregulated retail products

7.1.2 *understand* how financial advice can be paid for:

- advisor charging
- commission
- nature and frequency of service to be provided

7.1.3 *apply* the FCA's Fair Treatment of Customers and the six consumer outcomes that firms should aim to achieve in supporting the requirements of Principle 6

7.1.4 *understand* the purpose, merits and limitations of using questionnaires and interviews to elicit customer information

7.1.5 *understand* the purpose, merits and limitations of using a robo-advisor

7.2 Client Fact Finding

On completion, candidates should be able to:

7.2.1 *analyse* the main factors, resources and limitations shaping a client's current and desired financial circumstances:

- gather appropriate, relevant information about current and projected income, expenditure, debt and savings
- consider time horizons and the relative balance of growth versus income
- agree clear, feasible, prioritised investment objectives

7.2.2 *analyse* the merits and disadvantages of paying off mortgage or debt compared with investing surplus funds

7.3 Risk and Client Suitability

On completion, candidates should be able to:

7.3.1 *interpret* a profile of a client's risk exposure and appetite for risk, based on the following objective and subjective factors:

- level of wealth
- timescale
- commitments
- life cycle
- life goals
- investment objectives
- attitudes and beliefs
- experiences
- knowledge
- capacity for loss

7.3.2 *apply* a client risk profile to the investment selection process

- 7.3.3 assess the following factors when selecting suitable product solutions:
- impact of new solutions on existing arrangements
 - range of solutions available to suit different circumstances
 - range of criteria for matching solutions to client needs and demands
 - discounting alternatives
- 7.3.4 assess affordability and suitability based on a range of factors including product provider quality, performance, risk, charges and client service
- 7.3.5 *understand* environmental and social governance, and socially responsible investment strategies, their purpose and the circumstances in which it may be appropriate to discuss them
- 7.3.6 *understand* the main considerations for investing in accordance with faith values including Shariah Law
- 7.3.7 *understand* the main considerations that should be taken into account when investing for charities
- 7.3.8 *understand* the main considerations that should be taken into account when investing for trusts

7.4 Planning and Recommendations

On completion, the candidate should be able to:

- 7.4.1 *apply* a strategy and rationale that will meet the client's objectives:
- highlight the pertinent issues and priorities
 - formulate a plan to deal with them
 - offer proposals to achieve these objectives
 - explain clearly the relative merits and drawbacks of each proposal and combination thereof
 - agree a strategy that the client understands and accepts
- 7.4.2 *apply* an appropriate investment allocation strategy that best meets the following criteria:
- client's financial objectives and priorities

Investment Risk and Taxation

- client's risk tolerance
- appropriate fees and charges
- portfolio turnover ratio (PTR)
- client suitability requirements
- adequate diversification and correlation benefits
- additional risk, timing and liquidity factors where asset accumulation and decumulation are relevant features

7.4.3 *understand* the factors which influence the way in which recommendations are presented

7.4.4 *understand* how to check clients' understanding of recommendations

7.4.5 *apply* consumer rights and the regulatory requirements to the provision of investment advice

7.4.6 *assess* the factors influencing the choice of benchmark and the basis for review:

- portfolio's asset allocation
- risk/return profile
- alternative investments
- taxation
- peer groups
- maintenance of capital value

7.4.7 *understand* the process of periodic review to meet key criteria:

- regulatory requirements
- appropriate frequency, taking into account client requirements and the chosen investment strategy

Element 8 Portfolio Performance and Review

8.1 Selection and use of Benchmarks

On completion, the candidate should be able to:

8.1.1 *understand* the purpose and limitations of portfolio evaluation

8.1.2 *understand* the concept and purpose of benchmarking:

- global investment performance standards (GIPS)
- PIMFA wealth management benchmarks
- peer group average (WM and CAPS)

8.1.3 *know* the construction and weighting methods of the following indices:

- FTSE 100
- FTSE All-share Index
- FTSE Actuaries Government Securities Indices
- MSCI World Index
- Dow Jones Industrial Average Index
- S&P 500 Index
- Nikkei 225

8.1.4 *apply* suitable benchmarks when measuring and evaluating investment performance

8.2 Portfolio Measurement

On completion, the candidate should be able to:

8.2.1 *analyse* portfolio performance in terms of:

- absolute and relative return
- absolute and relative risk
- risk-reward ratios
- contributions to return arising from asset allocation, currency movements, stock selection and timing
- impact of new money and timing factors

8.3 Portfolio Review

On completion, the candidate should be able to:

8.3.1 *understand* the importance of regularly reviewing the client's portfolio

8.3.2 *apply* measures to address the factors that require attention as part of the portfolio review and administration process:

- changes in client circumstances
- changes in the financial environment
- new products and services available
- administrative changes or difficulties
- investment-related changes (e.g. credit rating, corporate actions)
- portfolio rebalancing
- benchmark review