CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

UK FINANCIAL REGULATION

(VERSION 33)

TIME ALLOWED: 1 hour 30 minutes

SAMPLE PAPER

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How to use this sample paper

These 75 questions should be answered in one hour and 30 minutes 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:

68-75	Pass with Merit
52-67	Pass
0-51	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.

SAMPLE PAPER

1 The role of the Financial Conduct Authority (FCA) includes the:

A promotion of healthy competition amongst financial service providers

B regulation of major investment banks

C promotion of the safety and soundness of insurance companies

D regulation of building societies

2 Which of the following is exempt from the need for authorisation under the Financial Services and Markets Act (FSMA) 2000?

A A market maker for a bank trading as a principal in debentures

B Acting as a custodian for a client's shares

C Lending money to consumers

D A mining company selling futures to hedge their production

3 Which of the following pieces of information is a firm required to provide to a professional client?

A A suitability explanation

B When conducting MiFID business, the language of communication

C The internal profit margins on a trade

D Information on market risk

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4 Firms are required to ensure that financial promotions are fair, clear and not misleading. To achieve this the information should be:

A detailed and complex

B the same for both professional and retail clients

C appropriate and proportionate

D agreed in advance by the Financial Conduct Authority (FCA)

5 A Key Investor Information Document (KIID) must include a:

A forecast of the potential profit

B list of all holdings in the fund

C presentation of future performance

D risk and reward profile of the investment

6 The best execution rules require firms that have an agency obligation to their client to:

A guarantee execution

B execute orders on terms which are most favourable to their client

C consider price above all other criteria

D ignore venues with high charges

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7 Why would the systems and controls for detecting suspicious orders be different amongst market participants?

A Due to firms being regulated by either the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA)

B Some firms have greater resources for the detection of suspicious orders

C Because they must be proportionate to the scale and complexity of the business

D Some market participants don't experience suspicious orders

8 Which of the following items are classed as specified investments under the regulated activities order?

A National Savings & Investments premium bonds

B Greenhouse gas emission allowances

C Trade bills issued by government bodies

D Money paid as a security deposit

9 The role of the general trustee within a firm is to:

A respond appropriately to the risks of material misstatement

B take overall responsibility for the investment of funds

C ensure compliance throughout the firm

D comply with the applicable standards on quality control

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10 A UK investment firm has recently acquired a new client. The firm's order execution policy has been provided to the client and is posted on the firm's website. How can the client indicate their acceptance of the policy?

A Through a continued relationship with the firm

B In writing, prior to their first trade

C Via an online acceptance form

D In writing whilst completing their 'know your customer' information

11 A firm has identified that an execution venue is no longer able to guarantee the best possible result for the firm's clients. The firm must respond by:

A publishing updates on their website

B limiting their use of the particular venue

C ceasing trade in that particular financial instrument

D updating their order execution policy and notifying their clients

12 When considering best execution, which of the following is an execution factor?

A Level of commission

B Profit potential

C Investment type

D Likelihood of settlement

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13 How can a system assist a member firm in monitoring transactions for suspicious orders and transactions?

A By processing large numbers of transactions in real time

B Through the use of human analysis

C By preventing the modification and cancellation of orders

D Through the production of alerts indicating further analysis required

14 Misleading market participants through deception into believing a real market event is occurring, is which form of market manipulation?

A Dissemination

B Manipulating devices

C Manipulating transactions

D Benchmark manipulation

15 When appointing a whistleblowing champion, firms are expected to appoint:

A an individual of sufficient seniority

B the Chairman of the board

C a line manager

D the head of compliance

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16 Who is able to make a mass-detriment reference to the FCA?

A Financial Ombudsman Service

B Consumer bodies designated by the Treasury

C Prudential Regulation Authority

D Monetary Policy Committee

17 How does the FCA demonstrate that it has met its objectives?

A By submitting an annual report to the Treasury

B By a reduced amount of financial crime/market abuse cases

C By an increased amount of rules

D By receiving a low number of complaints

18 ABC is a Recognised Investment Exchange and XYZ a Recognised Clearing House.

Which would be required to provide documents to the FCA under its powers of investigation?

A Neither ABC nor XYZ

B ABC only

C XYZ only

D Both ABC and XYZ

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19 In which of the following circumstances do FCA rules allow cold calling for financial promotions of a generally marketable packaged product?

When the product:

A is not a higher volatility fund

B is linked to a higher volatility fund

C is a warrant fund

D comprises readily realisable securities including warrants

20 A consumer purchases a designated investment and is advised of cancellation rights over the telephone, immediately after the purchase.

How may the firm have contravened the rules?

A Designated investments require notice of cancellation rights to be signed by the customer

B Cancellation rights must be given in a durable medium

C Consumers must be verbally informed of cancellation rights before a purchase is confirmed in all cases

D Consumers must receive cancellation rights in writing before identification checks are undertaken

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21 High Street Bank plc plans to market a product provided by First City Bank USA to its UK customers.

Which of the following statements is **true**?

A Marketing must be restricted to professional clients

B The marketing communication must state the extent to which UK Compensation schemes apply

C The rules for the protection of investors still apply because it is marketed by a UK firm

D High Street Bank plc has no responsibility for the way First City Bank USA treats the clients of High Street Bank

22 When do firms need to assess the fitness and propriety of employees under the Certification Regime?

A At the recruitment stage

B Annually

C At the recruitment stage and annually thereafter

D Whenever the firm requires it

23 In respect of exceptions to the Financial Promotion rules, excluded communications:

A originate outside the EU

B are exempted from the Transparency Directive

C are one-off promotions by means of cold-calling

D are exempt under the financial promotion order (FPO)

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24 Who has the statutory power to challenge a firm if an unfair clause or contractual term is identified in a consumer contract?

A The Consumer

B The FCA

C The Office of Fair Trading

D The Competition and Markets Authority

25 An employer missed eight months of pension contributions due to the late enrolment of an employee in a pension scheme. What **minimum** percentage of these missed contributions would The Pensions Regulator (TPR) expect to be paid and backdated?

A 50%

B 125%

C 0%

D 100%

26 To successfully apply for exemption from the qualification requirements prescribed by the training and competence regime, an employee must have relevant overseas experience covering what **minimum** period?

A One year

B Two years

C Three years

D Five years

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27 After a suitability assessment a firm recommended a particular product to a client as more suitable than an alternative. If the client insists on buying the less suitable product, the firm must:

A proceed with the transaction only after the client has acknowledged the advice

B request approval from the FCA to proceed with the transaction

C proceed with the transaction only after the client has obtained a second opinion

D decline to proceed with the transaction in all circumstances

28 If a complainant accepts an adjudication decision made by the Financial Ombudsman Service (FOS), to what extent, if any, is it binding?

A It is binding on the complainant only

B It is binding on the firm only

C It is binding on both parties

D It is not binding on either party

29 Where domestic transactions take place on systems run by the London Stock Exchange (LSE), transaction reports for settlement purposes are required via CREST by what **latest** time on each business day?

A 4.00pm

B 5.00pm

C 7.00pm

D 8.00pm

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30 In order to satisfy their terrorist financing prevention obligations, firms must retain customer due diligence records for a **minimum** of:

A three years

B five years

C seven years

D eight years

31 Where a firm provides a client with future performance figures for a particular investment these must:

A be calculated on a gross performance basis

B be updated within three months of issue

C not be projected beyond a period of five years

D not be based on simulated past performance

32 The general defence of 'not expecting any person to deal....' is only available against an allegation of insider dealing:

A in relation to the offence of disclosure

B in relation to the most serious aspects of this offence

C if the offence was committed within the previous three months

D if the offence related to debt securities or warrants

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33 Which of the following must be disclosed to a retail client when holding designated investments or client money subject to MiFID?

A The name or names of nominee companies used

B Details of any banks used to hold or transmit client money

C Details of any investor compensation scheme applicable

D Details of the national law applicable

34 Who is responsible for the completeness and accuracy of information and the appropriateness of recommendations when a MiFID firm relies on a third-party firm?

A Both the third-party firm and the MiFID firm

B The third-party firm only

C It depends on the terms of the third-party agreement

D The MiFID firm only

35 If a client is classified as a 'professional client' in respect of dealing in listed UK investments and a firm is engaged to manage investments on a discretionary basis for the client, which of the following is a firm entitled to assume?

A The client will not be able to make any form of complaint against the firm in respect of such recommendations

B The client has the necessary level of experience and knowledge in respect of such dealings

C The firm has no need to perform any form of anti-money laundering enquiries

D The usual rules on market abuse are disapplied

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36 A client wants to cancel her investment in an authorised UK unit trust.

What is the maximum number of days after her original purchase that she can cancel without incurring possible charges?

A 7 days

B 14 days

C 28 days

D 30 days

37 Financial firms which prepare research recommendations have to comply with detailed standards in relation to presentation and disclosure in order to ensure that:

A conflicts of interests cannot arise

B disclosures of interests are appropriately managed

C past performance figures are not distorted

D such recommendations are fairly presented

38 A firm has received an instruction from a third-party IFA.

When must the firm report the transaction to the client following receipt?

A By the end of the following day

B In the monthly transaction summary

C In the quarterly reviews

D Never; it only reports to the IFA

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39 An exemption from the FCA's CASS rules is granted in connection with:

A ICVCs

B Corporate bonds

C Private company shares

D ISAs

40 In which of the following circumstances is a client agreement required when non-MiFID designated investment business is supplied?

A To a Retail Client

B To a Professional Client

C To an Eligible Counterparty

D To all customers

41 Under the FCA's COBS Financial Promotion rules, a firm must take reasonable steps to ensure that an individual who makes a non-written financial promotion on its behalf:

A discloses the name of the firm's regulator at the start of the call

B always keeps a tape recording of conversations in case of disputes

C carries it out only in working hours

D always identifies themselves and the firm that they represent

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42 A firm wishes to approve a financial promotion for an overseas bank that is well known to the firm and is considered highly reputable.

What must the communication to its UK retail clients contain?

A Full details of how to complain to the overseas bank in case of any dissatisfaction by the UK client

B The extent to which UK compensation scheme arrangements will be available, or if it is not, a statement to that effect

C The name and contact details of the auditors of the overseas bank

D A specific warning that beneficial tax treatments (if they exist) available to overseas residents may not be available to UK clients

43 A firm was unable to provide a retail client with information on costs and charges at the time the investment service was provided. The firm should:

A avoid future transactions for this client until they are in a position to provide the information

B remove the charges from this transaction

C provide a total for all charges as soon as possible

D provide the basis on which the charges will be calculated

44 The role of the Financial Ombudsman Service (FOS) is to:

A provide guidance to firms on handling complaints from consumers

B settle complaints between consumers and financial services firms

C mediate between firms and the FCA

D mediate between complainants and firms

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45 One of the aspects of the purpose of the Disclosure Rules is to:

A set out specific circumstances in which an issuer can delay the public disclosure of inside information

B ensure firms disclose potential conflicts of interest

C ensure firms disclose all necessary information to clients prior to dealing

D set out the format in which information must be disclosed

46 Which of the following is a special defence that is only available to market makers against the accusation of insider dealing?

A They were acting in good faith

B They did not expect to generate a profit

C They believed the information to be widely disclosed

D They would have dealt regardless of the information

47 The purpose of the Capital Adequacy Requirement is to:

A ensure firms can continue to make markets in volatile conditions

B ensure firms are able to fund appropriate systems for detecting market abuse

C ensure firms can meet their liabilities as they fall due

D ensure the amount of gearing available to firms is restricted

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48 Where a firm's fees for a retail client are to be levied in a foreign currency, the firm must provide the client with:

A a statutory health warning regarding fluctuations

B any regulatory forex requirements from the currency's country of origin

C an FCA guide to foreign currency transactions

D the applicable conversion rates and costs

49 Where a trade is executed on the LSE's stock exchange electronic trading service, who, if anyone, is the party tasked with reporting the trade?

A The buyer and seller

B The buyer

C The seller

D The trade is reported automatically

50 As a trader you are asked by a client to purchase an oil future, however you are aware of a large buy the firm will trade later in the day. You should:

A refuse the order as you have price sensitive information

B execute the trade as normal regardless of having sensitive information

C carry out the purchase but advise the client of the inside information

D advise the firm they are now unable to proceed with their order

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51 A retail client exercised their right to cancel their pension policy. What is the minimum period records must be retained by the firm that issued the policy?

A One year

B Three years

C Five years

D Seven years

52 Joe suspects that the senior partner of his company is siphoning off client money into his own bank account for personal use and decides to inform the FCA of his practice. Under which legislation would Joe be protected for making a disclosure?

A Criminal Justice Act 1993

B Financial Services and Markets Act 2000

C Proceeds of Crime Act 2002

D Public Interest Disclosure Act 1998

53 A direct offer promotion received by a retail client must contain:

A information about relevant costs and charges

B a prediction of the amount of profit likely

C the price of the instrument

D a copy of the prospectus

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54 Which of the following would be considered an excluded communication?

A a cold call

B a communication by an authorised person in the UK

C any UK MiFID business

D a financial promotion that is subject to the Takeover Code

55 An acceptable minor non-monetary benefit would be:

A disclosed only after the provision of the relevant service

B unlikely to alter the quality of the service provided to the client

C hospitality of a reasonable de minimis value

D applicable only to eligible counterparties (ECP)

56 How often must a firm send periodic statements to a client who has a leveraged portfolio?

A weekly

B monthly

C quarterly

D annually

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57 In order to receive compensation from the Financial Services Compensation Scheme (FSCS) the person making the claim must be:

A an authorised firm

B a person holding less than 5% of the defaulting firm's capital

C an eligible claimant with a protected claim

D a person whose claim arises under the Third Parties Act 1930

58 To be deemed inside information, the information must be:

A of a precise nature

B published on a website which can only be accessed for a fee

C restricted to financial analysts

D available on the company's website

59 Which of the following is exposed to the offence of insider dealing under the Criminal Justice Act 1993?

A A director of the company concerned acting as a broker in the shares of that company

B An employee of the company concerned who buys the company's shares after learning of a purchase by the Chairman

C The audit partner who sells the company's shares after reviewing the audit file prior to signing the annual accounts

D A shareholder acting on information contained in the company's regular letter to shareholders

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60 What is the status of the Joint Money Laundering Steering Group guidance?

A It must be followed by regulated firms

B Failure to comply with it is punishable by an unlimited fine and/or 6 months in jail

C It provides an indication of how firms should apply the law

D It defines the process that must be implemented in an investment firm

61 Which of the following imposes the anti-money laundering requirements of criminal law on a stockbroker?

A Systems and Control Sourcebook

B Joint Money Laundering Steering Group guidance

C Proceeds of Crime Act 2002

D Financial Services and Markets Act 2000

62 Which of the following is **true** for a regulated firm under Money Laundering rules and regulations?

A Staff must be trained to recognise and deal with suspicious transactions

B Penalties will not be levied if procedures to produce an audit trail are in place

C Records must be kept for a minimum of 3 years from the end of the client's relationship

D Offences are subject to adjudication by the Financial Conduct Authority

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63 Which of the following is **true** of the FCA's principles-based approach to money laundering?

A Senior management can outsource the responsibility for the controls that will apply to the firm

B A firm is not required to undertake identification of its customers prior to the provision of designated investments

C Senior management is not liable for any risks associated with the firm's regulatory requirements

D The firm has to have appropriate and adequate systems and controls based on the firm's business activities

64 Which of the following statements about suspected money laundering transactions is **true**?

A Employees of regulated firms must always report suspicions to the firm's Compliance Officer

B Failure to report suspicious transactions is itself a criminal offence

C All employees have a duty to notify the National Crime Agency of any suspicious transactions as soon as practicable

D Employees may act on the client's instructions once they have reported their suspicions

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65 In accordance with the rules on client classification for a MiFID firm, which of the following is in the Quantitative test in respect of elective professional clients?

A The client has made a significant trade in the past year

B The client has traded 10 times in the last year

C The client's portfolio exceeds Euro 500,000

D The client's total net worth exceeds Euro 500,000

66 Which of the following is **true** in relation to a portfolio manager's duty to act in a client's best interest when transmitting client orders?

A The application of best execution does not apply to a fund manager transmitting orders to a broker

B It must review its execution policy on a quarterly basis

C The portfolio manager must provide appropriate information to the client in respect of its execution policy

D There is no requirement for a portfolio manager to review the prices obtained from the broker

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67 A client wishes to purchase a significant holding of a 'complex' instrument but does not wish to enter into an advisory or discretionary business relationship.

The application of which rules are MOST relevant?

A The client must sign up to a discretionary or managed service

B The rules on 'appropriateness' for 'non-advised' sales must be considered

C Counterparty risk rules must be used to assess the product provider before the position of the client is considered

D Anti-money laundering procedures must be complete before the matter is taken any further

68 What is the overriding principle to be applied in determining the categorisation status of a client?

A Clients are categorised as retail or professional according to their declared personal wealth or balance sheet size if a corporate entity

B Any client is a retail client unless they meet the criteria of a professional investor or eligible counterparty

C Clients are first categorised as - US/Non-US; then EU/Non-EU and finally UK/Non-UK

D All clients are categorised as retail or professional according to how many years' experience they have of using investment products

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69 When assessing suitability how can firms assess whether any equivalent financial instruments could meet the client's needs?

A By reference to a third-party rating agency

B Through the use of policies and procedures

C By reference to the client's knowledge and experience

D Through the use of a questionnaire for the client to complete

70 Who can authorise a business to provide regulated activity in the UK?

A The Financial Conduct Authority and the Prudential Regulation Authority

B The Financial Conduct Authority only

C HM Treasury

D The Prudential Regulation Authority only

71 Why might a firm make use of the market sounding provisions?

A To assess investor appetite for a new issue

B To investigate the authenticity of a suspicious transaction

C To satisfy fitness and propriety obligations

D To assist with client categorisation procedures

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72 Under the money laundering regulations, enhanced due diligence was required when Eric tried to carry out a transaction. This was specifically because he was:

A not physically present during the identification process

B investing a lump sum of £80,000

C aged 71 at the relevant date

D investing in a growth equity fund

73 How would a trading venue typically become aware of a suspicious transaction?

A In its regular audit

B When arranging or executing a transaction

C Where it has received a tip-off from an insider in connection with the transaction

D Where a client encashes their portfolio in full without giving a reason for doing so

74 A client's portfolio is managed on a discretionary basis.

A key risk to the client in these circumstances is that:

A the FCA's Conduct of Business Rules will only apply on a limited basis

B churning may take place

C an assessment of suitability on the client's portfolio will not be required because the client will be a professional client

D switching will always result in the payment of additional fees

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75 How does the Chartered Institute for Securities Investment (CISI) impose its own Code of Conduct on the financial services industry?

A It is contained within the regulatory rule books

B All authorised firms and persons are obliged to comply with the code

C CISI members are required to comply

D The Head of Compliance of each regulated firm is responsible for wide code awareness

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UK Financial Regulation (Version 33)

Question Number	Answer	Syllabus Reference
1	A	1.1.1
2	D	1.7.1
3	B	2.4.2
4	C	2.6.1
5	D	2.12.1
6	B	2.16.1
7	C	3.1.3
8	B	1.7.2
9	B	1.5.4
10	A	2.17.2
11	D	2.17.2
12	D	2.17.1
13	D	3.1.3
14	B	3.3.1
15	A	4.4.1
16	A	4.2.3
17	A	1.1.1
18	D	1.6.1
19	A	2.9.1
20	B	4.1.2
21	B	2.9.1
22	C	1.3.1
23	D	2.6.2
24	B	4.1.1
25	D	1.5.2
26	C	1.8.1
27	A	2.10.5
28	C	4.2.3
29	D	2.20.1
30	B	3.6.1
31	D	2.8.1
32	A	3.2.5
33	C	2.4.3
34	B	2.5.1
35	B	2.10.3
36	B	2.12.1
37	D	2.13.2
38	A	3.8.1
39	A	2.22.1
40	A	2.4.1

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41	D	2.9.1
42	B	2.9.1
43	D	2.4.3
44	B	4.2.3
45	A	3.8.1
46	A	3.2.6
47	C	1.4.1
48	D	2.4.3
49	D	2.20.3
50	B	3.2.6
51	C	4.1.2
52	D	4.4.1
53	A	2.8.1
54	D	2.6.2
55	C	2.14.1
56	B	2.21.1
57	C	4.2.4
58	A	3.2.1
59	C	3.2.5
60	C	3.4.4
61	C	3.4.3
62	A	3.4.3
63	D	3.4.5
64	B	3.4.9
65	C	2.3.2
66	C	2.17.4
67	B	2.11.1
68	B	2.3.1
69	B	2.10.1
70	A	1.2.1
71	A	3.2.3
72	A	3.4.4
73	B	3.1.3
74	B	2.10.4
75	C	1.5.4

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