



CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

LEVEL 4

INVESTMENT ADVICE DIPLOMA

**UK REGULATION AND  
PROFESSIONAL INTEGRITY  
VERSION 14**

**TIME ALLOWED: 2 HOURS**

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

### How to use this sample paper

These 80 questions should be answered in two hours 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:

56-80	Pass
0-55	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** An investment firm provides client A with a periodic statement every 3 months and client B with a periodic statement every month. Why does client B receive statements more frequently than client A?

- A** The firm has provided client B with online access
- B** The firm provides client B with deal-by-deal confirmations
- C** Client B has a leveraged portfolio
- D** Client B is a more valuable client

**2** Four economic measurements for a particular country were recently obtained as shown below:

Measurement 1 - A 3% decrease in private investment in firms

Measurement 2 - A 2% decrease in imports

Measurement 3 - A 4% increase in government expenditure

Measurement 4 - A 1% reduction in consumer expenditure

Which of the following statements is TRUE?

- A** Measurements 1 and 2 will have a positive impact on gross national product
- B** Measurements 2 and 3 will have a positive impact on gross domestic product
- C** Measurements 1 and 4 will have a negative impact on the balance of payments
- D** Measurements 2 and 4 will have a negative impact on net national income

**3** Ivor wanted financial protection in case he was off work for a long period due to sickness but was prevented from effecting income protection insurance at the rate of 80% of his income.

The MOST likely reason for this would be due to:

- A** a limit within the HMRC benefit rules
- B** the existence of an accident and sickness insurance policy
- C** the existence of a critical illness insurance policy
- D** a lack of incentive to recover

- 4** Peter, an independent financial adviser, is arranging a pension for client Ian.

Adam, a bank employee, is arranging for the purchase of one of the bancassurer's investment bonds for client Hilary.

Sharon, a multi-tied agent, is arranging for the purchase of unit trusts for client Oliver.

Which of the following statements is TRUE?

- A** Peter and Adam are acting as agents for their respective clients
  - B** Adam's and Sharon's principals are their respective product providers
  - C** Ian and Oliver acquire the role of principal in relation to their respective advisers
  - D** Sharon is the only one acting as agent of the product provider
- 5** You have just joined a firm where you are responsible for the team authorising payments. The team works well together and has a clear understanding of how to run the process. Unfortunately much of the process is not documented.

What would be the appropriate course of action?

- A** Introduce an extra level of authorisation and ensure this is documented
- B** Have a report created showing all payments made the previous day for you to review
- C** Put extra controls in place to cover the risk due to the lack of documentation
- D** Set the team the task of documenting the process and ask internal audit to check the controls are effective

- 6** Isabel is in her probation period as a trainee investment adviser in her local stockbrokers and overhears her line manager advising a client to purchase smaller company shares for which the firm's corporate finance department is undertaking a fund raising.

What, from the choices below, is the MOST appropriate action?

- A** Make representations to her line manager, although he is not likely to backtrack
- B** Challenge this advice only after she passes her probation period
- C** Notify the FCA's Consumer Line of her concerns
- D** Consult with the firm's compliance officer

- 7** For a deal to be captured under insider dealing legislation it must:

- A** be committed by a company
- B** take place in a minimum quantity of shares
- C** take place on a regulated market
- D** always be done to make a profit

- 8** Noel plc has recently taken over Saver Ltd to form Noel Savings plc, a worldwide investment company. You have been reviewing a number of client files and believe that new business was generated by any means solely to enhance the value of Saver Ltd for sale.

Which of the following would be the MOST appropriate action to take?

- A** Ignore your concerns at this stage due to the lack of evidence but ensure that business processes are amended
- B** Consult with the local management of the ex-Saver Ltd business to get a better understanding of how business was undertaken
- C** Ignore your concerns given that any such issues would have been highlighted as part of the purchase due diligence process
- D** Consult with Noel Savings plc's CEO, despite the fact that he was responsible for the acquisition and business valuation

- 9** An overseas pensions investment manager with considerable experience and qualifications has been refused authorisation by the Financial Conduct Authority (FCA) to be a pensions investment manager in the UK.

To which of the following organisations could the individual refer this decision?

- A** The Financial Ombudsman Service
  - B** The Pensions Regulator
  - C** The Upper Tribunal (Tax and Chancery)
  - D** The Financial Skills Partnership
- 10** Sally is self-employed and has a unit-linked personal pension. Tom is in non-pensionable employment and has a stakeholder pension. Ruth is in a contributory money purchase occupational pension scheme.
- Which of the following statements is TRUE?
- A** Only Sally's and Tom's pensions are covered by the Pensions Ombudsman
  - B** Only Ruth's pension is covered by The Pensions Regulator
  - C** Only Sally's and Ruth's pensions are supervised by the Financial Conduct Authority
  - D** Only Tom's pension is supervised by the Prudential Regulation Authority
- 11** What is the purpose of the Regulatory Decisions Committee (RDC)?
- A** To maintain a degree of independence between the establishment of evidence and the decision making implemented by statutory notices
  - B** To maintain a degree of independence in respect of appeals, in the first instance, for decisions implemented by statutory notices
  - C** To provide an independent review of the Financial Conduct Authority's proposed regulatory requirements
  - D** To provide an independent review of whether the Financial Conduct Authority is meeting its statutory objectives

**12** The Financial Ombudsman Service (FOS) can only deal with complaints brought by:

- A** an eligible counterparty
- B** a consumer
- C** an enterprise with 15 employees and a balance sheet of £1 million
- D** a business with 60 employees and a balance sheet of £6.5 million

**13** Four customers have made complaints against your firm.

Which ONE can be regarded as an eligible complainant in the eyes of the Financial Ombudsman Service?

- A** The Chief Investment Officer of Asia Growth Fund, personally worth £1.5 million and acting in her personal capacity after believing she overpaid for some Hong Kong shares
- B** Infratech PLC with Turnover of £1.5 million and five employees, whose sell order was lost and not executed
- C** Homeless, a UK based charity with income of £1.5 million who were sold long dated Gilts instead of short dated
- D** Mrs Biggelow, Trustee of the Jemima Biggelow Trust with a Net Asset Value of £1.5 million

**14** A firm receives a decision notice regarding a breach of the FCA rules.

What can it do if it disagrees with the notice?

- A** Refer the decision to the Upper Tribunal (Tax and Chancery Chamber)
- B** Refer the decision to the Ministry of Justice
- C** Seek a judicial review of the decision
- D** Appeal the decision with the FCA

- 15** When following JMLSG guidance, a firm would seek to identify the beneficial owner because:
- A** the customer is a politically exposed person
  - B** the customer has previously been the subject of enhanced due diligence
  - C** the customer is non-personal
  - D** they have not met face-to-face
- 16** Which of the following is normally TRUE of the FCA's powers to require information?
- A** Only specified documents can be requested
  - B** There is no limit to the FCA's powers to require information
  - C** The FCA may not specify the form in which information is provided
  - D** The FCA must give written notice of its requirements
- 17** Why are firms required to have clear procedures relating to when employees are assessed as competent?
- A** So that employees don't need to become fully qualified
  - B** To establish the point at which their bonus becomes due
  - C** So that supervision can be removed once they are deemed as competent
  - D** In order to demonstrate why a reduced level of supervision is appropriate

- 18** Which of the following can be classified as a Financial Ombudsman Service compulsory jurisdiction case?
- A** Miss Sayer, a professional client, who lost money when her broker "churned" her portfolio
  - B** Mr Whittle, a retail investor with a commodities account who believes he bought some copper forwards at the wrong price
  - C** Mrs Robinson, a retail client, who lives in Geneva
  - D** Mr Rowse, a retail customer who lost several thousand pounds after his portfolio fell in market value
- 19** What is the purpose of a Super Complaint?
- A** To generate what is known in the USA as a "class action"
  - B** To enable customers to seek higher than normal payouts
  - C** To enable consumer organisations to raise complaints with the Financial Conduct Authority
  - D** To take the complaint to the highest level of authority within a company
- 20** The Capital Requirements Directive (CRD IV) helps to ensure the stability of the financial system as it:
- A** minimises the risk of a firm collapsing by being unable to pay its debts
  - B** ensures UK businesses do not take on debts from banks that they cannot repay
  - C** lowers the capital requirements for banks so that their businesses can expand
  - D** maximises the options for UK businesses to obtain finance when required

- 21** A client's portfolio is managed on a discretionary basis and an investment is made that is inconsistent with the client's risk profile.

Which of the FCA's Principles for Businesses is most likely to have been breached?

- A** Clients' assets
- B** Financial prudence
- C** Customers: relationships of trust
- D** Communication with clients

- 22** Why does the FCA publish thematic reviews?

- A** to assess whether a new rule is delivering its intended aim
- B** when they have identified issues they wish the industry to take note of
- C** in order to provide an update on what the FCA has delivered
- D** to explain their future role and priorities

- 23** In granting authorisation to a firm under its threshold conditions, which of the following BEST describes how the FCA addresses a firm's application?

- A** It compares the firm's application against the specific threshold conditions
- B** It considers whether the firm satisfies and will continue to satisfy the threshold conditions
- C** It provides a statement of objectives under the threshold conditions, which the applicant firm is expected to meet
- D** It examines the application against its own threshold conditions regarding the suitability of the applicant firm

- 24** Sheila is a financial adviser for a multi-tied agent and is advising a retail client on investment bonds.

Edward is an equity dealer in the trading department of a large bank.

Richard is the fund manager for a life office's pensions managed fund.

Which of the following statements is TRUE?

- A** Only Sheila and Richard must be approved persons
  - B** Only Edward and Richard must satisfy the fit and proper test
  - C** All of them are performing activities in the role of principal
  - D** All of them are performing regulated activities
- 25** Paul is the compliance officer for an investment firm.  
Arnold is the head of settlements for a unit trust.  
Mark is one of the pension advisers for an IFA firm.
- Before they are permitted to carry out these duties:
- A** only Paul and Mark will need to have been assessed to ensure their credit history is satisfactory
  - B** only Arnold and Mark will need to have been assessed to ensure their track record on incurring complaints is satisfactory
  - C** all three of them must have had a satisfactory outcome in relation to any civil court settlements
  - D** all three of them must have received satisfactory results on legal-based external examinations

**26** Margaret is about to start work as a broker for a small brokerage firm.

Why is she required to satisfy the requirements under the Approved Persons regime?

- A** Her responsibilities include issuing statutory returns to the FCA
- B** Her responsibilities include supervising junior members of staff
- C** She is deemed to be undertaking a controlled function
- D** She is deemed to be undertaking confidential tasks

**27** When a firm appoints a representative to act on its behalf regarding financial promotions, what FCA rules, if any, apply?

- A** Any business by the representative is treated as being undertaken by the authorised person
- B** The representative is not an authorised person so cannot be subject to specific Conduct of Business promotion rules
- C** The representative is treated under the same regime as a client acting as an eligible counterparty
- D** The rules apply for third party prospectuses in respect of MiFID business only

**28** Following the UK's withdrawal from the EU, UK firms lost their ability to access the EU market on the basis of 'passporting'. How can UK firms seek to access the EU market now?

- A** By pre-approval from the FCA
- B** Using access regimes for third countries
- C** By direct application via the PRA
- D** H M Treasury provides an access channel to EU markets

**29** Four individuals have been accused of market abuse activities:

Eric carried out price support activities as part of a price stabilisation exercise.

George spread some false rumours without knowing whether they were true or not.

Jack provided some confidential information to a work colleague while working on a takeover bid.

Karen breached the rules on Chinese walls established within her firm.

Based solely on this information and considering the four individuals involved:

- A** Eric and George are the ones most likely to receive a fine
- B** George and Karen are the ones most likely to satisfy the special defence exemption requirements
- C** George and Jack are the ones most likely to receive a restitution order
- D** Eric is most likely to benefit from the safe harbour provisions

**30** Under the Proceeds of Crime Act:

Adam has been found guilty of concealing.

Brian has been found guilty of acquiring.

Colin has been found guilty of failing to disclose.

As a consequence:

- A** Colin will receive the longest prison sentence
- B** the maximum prison sentences that Adam and Brian could receive is the same
- C** all three individuals could be imprisoned for a maximum of 10 years
- D** all three individuals could be imprisoned for a maximum of 14 years

**31** Three people recently obtained inside information.

Person 1 fails to take advantage of this information but tells a friend, who takes advantage of this knowledge.

Person 2 takes advantage of this information but incurs a loss as a consequence of this action.

Person 3 suggests to his wife that she should take advantage of this information but she fails to do so.

Based solely on these details, which of the following statements is TRUE?

- A Only the actions of Persons 1 and 2 are likely to be classed as insider dealing
- B Only the actions of Persons 2 and 3 are likely to be breaches of the FSMA 2000
- C All three actions are likely to satisfy the general defence provisions of the insider dealing regulations
- D All three actions are likely to be breaches of the Criminal Justice Act 1993

**32** Four individuals have been accused of insider dealing for passing on information to a third party and claim the following defences:

Person 1 that the third party is not a regular user of the relevant market place.

Person 2 that he acted in good faith in the course of his business as a market maker.

Person 3 that the information related to private shares which are not freely tradable.

Person 4 that she only mentioned the information casually and did not expect the third party to act on it.

Which of the following statements is TRUE?

- A Person 1 is most likely to benefit from the special defence provisions
- B Only Persons 1 and 2 are likely to have committed a civil offence
- C Only Persons 3 and 4 are likely to have committed a criminal offence
- D Person 4 is most likely to benefit from the general defence provisions

**33** Four individuals are accused of insider dealing and claimed the following reasons:

Individual 1 that this occurred as part of her attempt to prevent excessive share price volatility following a new issue.

Individual 2 that this occurred as a consequence of a one-off internal investigation requested by the FCA.

Individual 3 that this was unavoidable in order to protect a client's position following an unexpected movement on the stock market.

Individual 4 that she was merely replicating procedures carried out regularly by her colleagues which she assumed was acceptable practice.

Which of the following statements is TRUE?

- A** Only Individual 1 is likely to benefit from the special defence provisions
- B** Only Individual 3 is likely to benefit from the general defence provisions
- C** Only Individuals 1 and 2 are likely to have breached the market abuse regulations
- D** Only Individuals 3 and 4 are likely to have committed a statutory offence

- 34** Four individuals knowingly acquired criminally-derived cash over recent times.

Andrew previously deposited this cash in a bank account and it is now being transferred into an investment bond.

Ben used this money to fund an armed robbery and has accumulated extra funds as a consequence.

Charlie transferred this cash through various accounts and now holds what appears to be legitimate funds ready for use.

Derek deposited this money into an offshore bank account and intends leaving it there for some time.

Based solely on the above facts, which of the following statements is TRUE?

- A** Only Andrew is currently at the layering stage of the money laundering process
  - B** Only Charlie is currently at the placement stage of the money laundering process
  - C** Only Andrew and Charlie are likely to be in breach of the Proceeds of Crime Act
  - D** Only Ben and Derek are liable to be reported to the National Crime Agency
- 35** Which of the following individuals is MOST likely to have committed an 'arrangements' offence under the Proceeds of Crime Act 2002?
- A** Natalie works for a life office and was approached by a friend who has sold a number of stolen cars. She provided him with some advice on how to invest this money without raising suspicions
  - B** Ben works as a bank clerk and witnessed an across the counter transaction which appeared to be untypically large for the customer concerned. However, due to pressure of work he neglected to report it
  - C** Eric works in the compliance department of a large unit trust firm and discovered that a money laundering investigation is underway on a client who is also a close friend of his. He mentioned this fact to his friend
  - D** Joy works for a firm of financial advisers from whom she stole money to settle some urgent debts

**36** Staff in an investment firm recently dealt with two unusual transactions.

Incident 1 - An untypically large amount of money was invested by an existing customer of modest means who was evasive about the source of this money.

Incident 2 - A new customer approached the firm to invest a large amount of money and produced identification which looked suspicious.

Which of the following statements regarding these incidents is TRUE?

- A** In incident 2, the application to open a new account should be rejected
- B** Only incident 1 should be reported to the FCA
- C** The Money Laundering Reporting Officer should automatically refer both cases to the National Crime Agency
- D** Both cases should be reported to the Money Laundering Reporting Officer, who should investigate the matter

**37** How is national security addressed by the Data Protection Act 2018?

- A** The intelligence services are exempt from the Data Protection Act 2018
- B** The intelligence services are required to comply with internationally recognised data protection standards
- C** The intelligence services can suspend all or part of the Data Protection Act 2018 during a national emergency
- D** National security falls within the scope of EU Law

- 38** An authorised and regulated firm buys another business that provides services to private individuals and the records are in disarray.

Which particular area of the acquired business will the new owners need to ensure meets the record keeping requirements of the Conduct of Business Sourcebook?

- A** Payroll records of staff paid partly by commission share
  - B** Client agreements and suitability records
  - C** Personal tax records of the former owners that have now become employees
  - D** The responses to data protection subject access requests over the last two years
- 39** The FCA's COBS rules apply to which of the following?
- A** A French insurance company providing a policy for a London based client
  - B** A UK based re-insurance company writing a policy for a Paris based client
  - C** An American investment bank providing corporate finance advice to a FTSE 100 listed company
  - D** A UK investment management company managing a pension fund for a Berlin based company
- 40** A number of investment firms routinely record telephone conversations with their clients. In which of the following situations will the rules on the recording of such conversations apply?
- A** Company A is a stockbroker firm and one of their advisers uses his private phone to provide a client with details of a share purchase
  - B** Company B is a specialist corporate finance firm and has phoned a client to discuss delaying a proposed transaction
  - C** Company C is the operator of a collective investment scheme and is discussing fees with its depositary
  - D** Company D is a unit trust office and is discussing with a client how much of an existing investment is to be sold

- 41** When a firm communicates a financial promotion via an appointed representative, what Conduct of Business rules apply?
- A** Financial promotion rules prohibit appointed representatives communicating with clients regarding designated investment business
  - B** The only financial promotions permitted by appointed representatives is cold calling and other unwritten business so only rules relating to those apply
  - C** Firms must ensure the representative complies with the rules in the same way as the firm
  - D** All rules apply except appointed representatives cannot make direct offer financial promotions
- 42** A retail client opens a share trading account with a stockbroking firm. Based on the rules in the Conduct of Business Sourcebook, which of the following types of information must the firm provide to the client?
- A** Margin requirements
  - B** Trading strategies
  - C** Client newsletters
  - D** Charting software
- 43** ABC Ltd, a retail investment manager is about to carry out an advertisement campaign for its UK Equity Income fund. The fund was launched 18 month ago, it has an impressive track record in terms of performance.
- Which of the following is TRUE in respect of the requirements concerning 'Direct offer' promotions, including the fund's performance?
- A** Where the fund investment performance is referenced as being cited 'gross', that the effect of costs is disclosed
  - B** The firm does not have to disclose information about the firm and its services
  - C** Investment performance can only be disclosed, in a prominent place in the offer, where 5 years performance is available
  - D** The offer does not have to include details about the trust cost of purchasing the fund, rather an indicated cost

- 44** You are considering whether to alter your firm's pricing structure to make fees more competitive and thus reducing costs for clients but this will also reduce the firm's income.

In terms of ethical considerations and given that saving clients money will do them more good than the firm's owners, to what ethical theory could this be related?

- A** Categorical Imperative
  - B** Nichomachena Ethics
  - C** Utilitarianism
  - D** Moral Analysis
- 45** Which of the following actions would assist a UK investment bank to ensure that they maintain high ethical behaviour when conducting a promotion for a new regulated collective investment scheme?
- A** The bank should use the MiFID client categorisation to tailor communication and equally emphasise the risks and benefits of the product
  - B** Communication material should be the same for all clients and the bank should not conduct any unwritten promotion of the product
  - C** The bank should provide a personal quote or illustration to potential clients and list a balanced view of the risks and benefits
  - D** The FCA should be listed as the regulator on all product documentation and direct offer promotions should not be allowed
- 46** Why is a decreasing term assurance policy an appropriate investment when combined with a repayment mortgage?
- A** The assurance policy fixes the rate of interest on the mortgage
  - B** The sum assured moves in line with the outstanding loan
  - C** It covers the mortgage payments if the borrower becomes ill
  - D** It covers any damage to the property during the life of the mortgage

- 47** A financial adviser is currently dealing with four clients.

Harry, aged 32 and married, has just had his first child and wants to update his financial planning accordingly.

Joe, aged 44 and single, has just become self-employed and wishes to invest his significant redundancy payment.

Richard, aged 55 and single, is concerned that he is heading for a shortfall in relation to his retirement income needs.

Nancy, aged 63 and widowed with two children, has an adequate pension but wants to discuss her recent significant lottery win.

Based solely on this information, it is reasonable to conclude that:

- A** Harry is the client most likely to require trust-based advice
  - B** Joe is the client most likely to require pension-based advice
  - C** Richard is the client most likely to require protection planning advice
  - D** Nancy is the client most likely to require inheritance tax planning advice
- 48** Tim, Sarah and Mark are friends who, respectively, own 60%, 30% and 10% of a property on a tenancy in common basis.
- Tim subsequently dies intestate and, one year later, Sarah sells half her share at that time to Mark. This means that, at the end of this process, Sarah will be left with how much stake in the property?
- A** 15.0%
  - B** 22.5%
  - C** 30.0%
  - D** 45.0%

- 49** Dean is entitled to receive, at the age of 18, the entire assets of a trust set up by his grandmother.

Mel is entitled to the income from a trust set up by her husband and, on her death, the remaining assets will be paid to her son.

Janet is entitled, under a trust, to live in her house for the rest of her life, after which ownership of the property will go to her daughter.

David has received payments from his grandfather's trust as a result of the trustees exercising their powers of discretion.

Which of the following statements is TRUE?

- A** Only the trust in relation to Dean is a bare trust
  - B** Only the trust in relation to Mel is an interest in possession trust
  - C** The trust in relation to both Dean and Janet are accumulation and maintenance trusts
  - D** The trusts in relation to both Mel and David are discretionary trusts
- 50** How has increasingly sophisticated technology changed the way that many financial services companies do business?
- A** Companies can now choose to outsource many key tasks
  - B** Companies can quickly identify and close unprofitable business
  - C** It has enabled fund managers to redomicile in tax havens
  - D** It has enabled companies to reduce staff in low skilled areas

- 51** Which of the following criteria does the FCA use to determine if a candidate for approved person status meets the criteria for the fit and proper test?
- A** Obtain a financial position statement from the candidate and perform a credit check to determine whether they have ever filed for bankruptcy
  - B** Ensure they have no previous convictions or dismissals from employment and have never had their assets sequestrated or made arrangements with creditors
  - C** Check if they have a criminal record and determine if they have satisfied the relevant requirements in the FCA's Training and Competence Sourcebook
  - D** Ensure they have passed the FCA Handbook examination and check if they have been subject to disciplinary proceedings by the FCA or other regulatory authority

- 52** Peter, a purchasing manager, asked a supplier for a bribe but was turned down.

Lennie, a sales director, offered a bribe to a chief buyer but this was declined.

Neil, an international operations director, paid a bribe to a government official in a foreign country in order to speed up the issue of a trading licence.

As a consequence of these actions:

- A** only Peter is likely to have committed a civil offence
- B** only Lennie is likely to have committed a civil offence
- C** only Neil is likely to have committed a criminal offence
- D** all three are likely to have committed a criminal offence

- 53** Which of the following actions taken by the FCA is MOST likely to be designed to reduce financial crime by supporting good corporate governance?
- A** Conducting more random checks on financial promotions issued in relation to medium risk products
  - B** Intensifying the assessment process when looking at behaviour and culture in firms
  - C** Enhancing the capital adequacy requirements in relation to selected firms deemed high risk
  - D** Increasing the amount of product disclosure when providing advice to brand new retail clients
- 54** How must the rules listed in the FCA's Handbook be used by authorised firms?
- A** The rules are legally binding and if a firm contravenes them they may be disciplined or fined
  - B** Firms must use them in conjunction with FCA-confirmed industry guidance and both are legally binding
  - C** The rules are not legally binding for a firm but if they contravene a rule they may be fined by the FCA
  - D** Firms may choose to follow either the 'implicit recognition' method of industry guidance or the FCA's Handbook
- 55** Some firms experience greater frequency and intensity of supervision from the PRA because they:
- A** undertake higher levels of business
  - B** employ many more staff than other firms
  - C** charge higher rates of commission
  - D** pose a greater risk to the PRA

- 56** Your department is severely understaffed but, due to the economic situation, there is a company wide recruitment ban. One of your senior clerks informs you that she has been offered a job by a competitor.

She is prepared to stay if you promise her promotion in the place of a soon to retire supervisor. She would not be your first choice but you cannot afford to lose her at this time.

What do you do?

- A** Wish her good luck in her new position
- B** Promise her the promotion
- C** Promise her the promotion but intend to promote a worthier candidate when the time comes
- D** Tell her that she would be considered but that you can make no promise

- 57** You discover that your firm has failed to take into account agreed commission rebates for all of its clients.

It is a mistake that will be costly, time-consuming and embarrassing to rectify as it spans several financial years.

What should you do in the first instance?

- A** Notify the affected clients and come to an individual arrangement with each of them with regard to compensation
- B** Manually adjust the current commission rate to compensate for the overcharging in the previous financial years
- C** Notify the firm's management and clients immediately and arrange for a full refund to be paid
- D** Immediately correct the commission rate and arrange for a one-off payment to be made to the clients' accounts

- 58** Why is it difficult to achieve good corporate governance for an FCA-regulated firm?
- A** All risk can never be removed from the system and active participation is not always received from staff at all levels
  - B** Firms manage the approval process for key supervisory roles themselves and self-report to the FCA any risk factors
  - C** Firms can only manage systematic risk through insurance and the cost of premium limits the depth of cover
  - D** The FCA has adopted an outcomes-based approach to regulation and only non-systemic risks can be removed
- 59** How can a financial adviser BEST communicate effectively with a diverse customer base?
- A** Ensure all clients receive the same information and avoid rushing through new concepts
  - B** Limit the use of objectivity and incorporate the client's language into the discussion
  - C** Ensure personal assumptions are minimised and all clients receive the same level of attention
  - D** Avoid industry jargon and align the use of language and pace of speech with the client
- 60** A compliance manager is preparing anti-bribery procedures for a UK-based investment bank.
- In order to comply with the specific requirements of Principle 3 regarding risk assessment, the procedures should:
- A** be proportionate to the nature, scale and complexity of activities
  - B** be periodic, informed and documented
  - C** be a stand-alone procedure and receive top-level commitment
  - D** take a risk-based approach and be carefully monitored

**61** Company A is a constituent of the FTSE250 Index.

Company B is a private company owned by a small family.

Company C is a mutual life assurance company.

Company D is quoted on the Alternative Investment market.

Which of the following statements is TRUE?

- A** Only companies A and C are affected by Companies House regulations
- B** Only companies A and D are affected by UK Listing Authority regulations
- C** Only companies B and C are affected by the operations of the Financial Ombudsman Service
- D** Only companies B and D are affected by the operations of the Financial Services Compensation Scheme

**62** Firm X is involved in issuing e-money.

Firm Y is dealing as principal in the sale of warrants.

Firm Z is arranging Sharia'a-compliant house purchase plans.

In relation to these activities, which of the following statements is TRUE?

- A** Only the activities of Firm X and Firm Y are covered by the COBS rules
- B** Only the activities of Firm Y and Firm Z are deemed to cover specified investments as defined under the RAO
- C** Only the activities of Firms X and Firm Y are subject to the FSMA 2000
- D** All three firms are deemed to be conducting regulated activities

- 63** Person A is a pension transfer adviser.  
Person B is a member of parliament.  
Person C is a member of Lloyd's.  
Person D is a qualified actuary.

With reference to the FSMA 2000, and in relation to their stated jobs, which of the following statements is TRUE when undertaking regulated activities?

- A** Only Persons A and B can hold appointed representative status
- B** Only Persons A and C will automatically be deemed members of a designated professional body
- C** Only Persons B and C will be subject to COBS rules
- D** Only Persons C and D can obtain an exemption from the need for authorisation

- 64** Four people threatened to commit acts of violence or damage to property.

Person 1 threatened to shoot himself but did not pose a threat to anyone else.

Person 2 threatened to disable the entire computer processing system of a bank.

Person 3 threatened to assault a public official who visited his house.

Person 4 threatened to blow up an unoccupied building.

In relation to these activities, and in accordance with the provisions of the Terrorism Act 2000, which of the following statements is TRUE?

- A** Only the acts of Persons 1, 2 and 3 would be considered indictable offences
- B** Only the acts of Persons 2, 3 and 4 would satisfy the definition of terrorism
- C** Only Persons 1 and 3 would need to carry out their threat in order to constitute a terrorism offence
- D** Only Persons 2 and 4 could receive a term of imprisonment

**65** The following four changes were undertaken in the economy.

Action 1 - A 2% increase in the government defence expenditure.

Action 2 - A 1% increase in money supply.

Action 3 - A 3% increase in the annual capital gains tax exemption allowance.

Action 4 - A 0.25% increase in the Bank of England base rate.

Which of the following statements is TRUE?

- A** Actions 1 and 3 are examples of fiscal policy
- B** Actions 2 and 3 are examples of monetary policy
- C** Actions 1 and 4 are examples of contractionary measures
- D** Actions 2 and 4 are examples of expansionary measures

**66** Your brother-in-law, who works in the corporate advisory department of an International Bank, tells you, in passing, that XYZ plc may be worth an investment.

You research the company and on that basis, invest. Shortly afterwards, the company is the target of a takeover bid and your brother-in-law's firm is the principle adviser to the bidder.

What do you do?

- A** Ignore the problem. You have done nothing wrong
- B** Discuss the position with your Compliance Director
- C** Sell the shares and donate the profit to charity
- D** Contact the Market Surveillance Department at the FCA

- 67** You are aware that your supervisor enjoys a regular mild bet on the horses.

As he is in charge of the payments out section, he has the opportunity to divert funds and you wonder if the recent loss of a couple of payments was not caused by post thieves.

What do you do?

- A** Speak to the supervisor about the controls in the payments section
- B** Suggest to the line manager that he calls in the police and launch an investigation
- C** Speak to HR about your suspicions
- D** Speak to your and the supervisor's line manager about your suspicions

- 68** A client, resident in Dubai agrees to your personal recommendation to purchase a stake in a regulated collective investment scheme.

The proposal form was signed by the client in the transit lounge of London Heathrow Airport while on route to New York.

What is the firm's position regarding a suitability report regarding this type of non-MiFID business?

- A** A suitability report must be provided as soon as possible after the transaction is effected
- B** A suitability report must be provided within 14 days after the transaction is effected
- C** Suitability reports are not required for collective investment schemes
- D** No suitability report is needed as the client resides outside the UK

- 69** ABC County Council has money and investments held in a client's account at XYZ Stockbrokers, which is in default.

How much compensation can ABC County Council claim from the Financial Services Compensation Scheme?

- A** 100% of the claim
- B** £85,000
- C** 100% of the first £50,000. 90% of the balance
- D** None at all

- 70** You are employed as a private wealth adviser, authorised and fully qualified.

A client, asks you to assist with the sale of a mine they own in South America.

A good commission is offered on completion. There are no money laundering issues with this client.

What do you do?

- A** You say that you cannot help the client as you have no expertise in foreign physical assets
- B** You direct your client to another professional, outside the organisation if necessary, with experience in the purchase and sale of mining assets
- C** Physical assets such as mines are not regulated, so you can accept the business and deal directly with an external professional outside your organisation
- D** Physical assets such as mines are not regulated, so you can accept the business and handle it yourself

**71** Your client has been declared bankrupt and his assets are in the hands of the receiver.

During a meeting outside the office, he confides to you that he owns an offshore company and bank account with assets unknown to the receiver.

He asks you to open an account with this company and to sell some shares for him.

What course of action should you take?

- A** Notify your compliance officer immediately, do not inform your client and await further instructions
- B** Notify the receiver immediately, do not inform the client you have done this
- C** The offshore company is not subject to bankruptcy. Acting for the offshore company will not be a problem in itself
- D** Inform your client that the request could lead to criminal proceedings if caught and decline the request

**72** The Prudential Regulation Authority (PRA) is planning to introduce a new regulatory procedure. As part of its introduction, the PRA aims to achieve three objectives.

Objective 1 - Introduce it as economically as possible

Objective 2 - Introduce it as transparently as possible

Objective 3 - Introduce it as simply as possible

Which of these objectives are directly driven by the FSA 2012, 8 Regulatory Principles?

- A** Objective 1 only
- B** Objective 2 only
- C** Objectives 1 and 2
- D** Objectives 2 and 3

**73** A corporate client wishes to be categorised as a Professional Client for MiFID business.

Which of the following information will achieve their objective?

- A** A balance sheet total of £10 million and own funds of £2 million
- B** Net turnover of £40 million and own funds of £2 million
- C** Net turnover of £20 million and own funds of £2 million
- D** Net turnover of £20 million and a balance sheet total of £10 million

**74** In advance of a face to face meeting with a client, a financial adviser should:

- A** have an agreed and explicit agenda which should fit within a reasonable time limit
- B** prepare a discussion over the broadest range of subjects possible
- C** prepare nothing, finding out everything necessary at the meeting itself
- D** send a letter to the client with likely recommendations in advance of meeting the client

**75** The PRA and the FCA have issued a set of key responsibilities to be allocated among senior managers under the Senior Managers & Certification Regime.

How does this affect members of the board within the banking sector?

- A** The Senior Management Function (SMF) extends to all board members not previously caught by the PRA's regime
- B** It compels all boards to have in place at least 3 Independent Non executive Directors who report directly to the CFO
- C** The role of MLRO is now an activity outside of the direct oversight and remit of both the CEO and CFO except for suspected internal transgression
- D** The regime applies to UK-incorporated Banks as well as those outside of UK territory where the PRA elects for the board to have fiduciary accountability to HMRC

**76** A consumer can refer a claim to the Financial Services Compensation Scheme in the event of:

- A** losses not covered by the Financial Ombudsman Service
- B** where an authorised firm has rejected its complaint
- C** where an authorised firm has been declared insolvent
- D** where the Financial Ombudsman Service recommends an award in excess of £150,000

**77** John and Dave are partners in a firm of Independent Financial Advisers. Dave is keen to improve profitability.

Debbie manages client files and notices that Dave's clients are advised to purchase products that involve a higher fee income for the firm. Debbie is unsure whether the advice is appropriate but is aware of the Financial Conduct Authority's rules on the fair treatment of customers and approaches John to discuss her concerns.

John informs her that there is nothing to worry about.

Debbie is concerned that, should the firm's clients discover this practice, the firm's professional integrity may be questioned, and she may lose her job.

What should Debbie do?

- A** Advise John formally
- B** Nothing, accept John's explanation
- C** Contact the Compliance Officer
- D** Seek the views of another Independent Financial Adviser

- 78** The Perimeter Guidance Manual's primary emphasis is on outlining what particular aspect of Financial Conduct Authority (FCA) regulation?
- A** The circumstances surrounding authorisation and guidance on activities regulated by the Financial Services and Markets Act
  - B** FCA procedures for taking disciplinary actions in the various formats available to it
  - C** Compensation procedures for those with successful complaints against firms found guilty of contravening FCA regulations
  - D** Ensuring independent criteria for the Regulations Decision Committee
- 79** When an adviser offers restricted advice on retail investment products to retail clients, how does this impact the service they offer? The adviser:
- A** is restricted to advising on the top 5% of each provider's products
  - B** can only be remunerated by certain product providers
  - C** must disclose the restriction to the client after all of the business has been completed
  - D** can only recommend certain products and providers
- 80** Why would a client grant a firm a mandate?
- A** In order to benefit from cheaper commission rates
  - B** To benefit from the client money rules (CASS 7)
  - C** To facilitate faster share execution
  - D** To allow the firm to control their assets and liabilities

UK Regulation & Professional Integrity (Version 14)

Question Number	Answer	Syllabus Reference
1	C	10.6.2
2	B	1.1.5
3	D	2.2.1
4	B	3.1.1
5	D	4.1.3
6	D	4.1.3
7	C	8.3.2
8	D	4.1.4
9	C	5.1.2
10	B	5.1.2
11	A	6.3.1
12	B	8.2.1
13	B	9.2.2
14	A	6.3.3
15	C	8.6.5
16	D	6.3.4
17	D	7.6.1
18	A	9.2.3
19	C	9.1.2
20	A	5.5.1
21	C	5.2.3
22	A	6.2.1
23	B	7.1.3
24	D	7.2.1
25	C	7.5.2
26	C	7.5.2
27	A	7.5.2
28	B	5.5.1
29	D	8.2.5
30	B	8.6.3
31	D	8.2.2
32	D	8.3.3
33	A	8.3.4
34	A	8.6.2
35	A	8.6.3
36	D	8.6.8
37	B	8.9.1
38	B	7.4.1
39	D	10.1.1
40	D	10.2.1
41	C	10.4.2
42	A	10.7.1
43	A	10.4.6
44	C	4.1.1
45	A	10.5.1
46	B	2.2.1

47	D	2.1.3
48	A	3.1.3
49	A	3.2.1
50	A	1.1.6
51	C	7.1.5
52	D	8.8.1
53	B	8.1.2
54	A	6.4.1
55	D	5.2.2
56	D	4.1.5
57	C	4.4.4
58	A	6.6.1
59	D	10.11.1
60	B	8.8.2
61	B	5.3.1
62	D	7.2.1
63	D	7.3.2
64	B	8.7.1
65	A	1.1.1
66	B	4.3.3
67	D	4.4.1
68	A	10.8.1
69	D	9.4.3
70	B	10.11.3
71	A	10.11.5
72	C	5.2.3
73	B	10.5.3
74	A	10.11.1
75	A	7.1.4
76	C	9.4.2
77	C	2.3.1
78	A	7.3.1
79	D	10.8.2
80	D	10.10.8