



CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

SYLLABUS

LEVEL 3
REGULATORY PAPER FOR
CAPITAL MARKETS PROGRAMME
AND
CERTIFICATE IN INVESTMENT OPERATIONS

UK FINANCIAL REGULATION

EFFECTIVE FROM 21 NOVEMBER 2013

OBJECTIVE OF THE EXAMINATION

The objective of the examination is to ensure candidates have a basic knowledge of the regulations and legislation underpinning the financial markets and the conduct of investment business.

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

- The Regulatory Environment
- The Financial Services and Markets Act 2000
- Associated Legislation and Regulation
- The FCA Conduct of Business Sourcebook / Client Assets
- Complaints and Redress

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* or *understand*. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- *know* require the candidate to recall information such as facts, rules and principles
- *understand* require the candidate to demonstrate comprehension of an issue, fact, rule or principle

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.

UK Financial Regulation

Note: The syllabus has included for guidance, references from the FSMA 2000, the Criminal Justice Act 1993 [CJA] and the FCA and PRA Handbooks to assist candidates in locating source material. An explanation of the FCA and PRA Handbook Reference Codes and other abbreviations follows:

APER	Statements of Principle and Code of Practice for Approved Persons
BIPRU	Prudential Sourcebook for Banks, Building Societies & Investment Firms
CASS	Client Assets
COBS	Conduct of Business Sourcebook
COND	Threshold Conditions
COLL	Collective Investment Schemes
COMP	Compensation
DEPP	Decision Procedure and Penalties Manual
DISP	Dispute resolution: Complaints
EG	Enforcement Guide
FCA	Financial Conduct Authority
FIT	Fit and Proper Test for Approved Persons
GENPRU	General Prudential Sourcebook
MAR	Market conduct
ML	Money Laundering
PERG	Perimeter Guidance Manual
PRIN	Principles for Businesses
PR	Prospectus Rules
PRA	Prudential Regulation Authority
SUP	Supervision
SYSC	Senior Management Arrangements, Systems and Controls
TC	Training and Competence

EXAMINATION SPECIFICATION

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

Examination specification 75 multiple choice questions		
Element number	Element	Questions
1	The Regulatory Environment	7
2	The Financial Services and Markets Act 2000	10
3	Associated Legislation and Regulation	18
4	The FCA Conduct of Business Sourcebook / Client Assets	37
5	Complaints and Redress	3
Total		75

ASSESSMENT STRUCTURE

A 1 hour 30 minute examination of 75 multiple choice questions.

Candidates sitting the examination by Computer Based Testing may have 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 THE REGULATORY ENVIRONMENT

- 1.1 The role of the FCA and PRA
- 1.2 The Regulatory Infrastructure

ELEMENT 2 THE FINANCIAL SERVICES AND MARKETS ACT 2000

- 2.1 Regulated and Prohibited Activities
- 2.2 Performance of Regulated Activities
- 2.3 Information Gathering and Investigations
- 2.4 Regulated Activities
- 2.5 Miscellaneous offences under FSMA 2000

ELEMENT 3 ASSOCIATED LEGISLATION AND REGULATION

- 3.1 Insider dealing
- 3.2 Market abuse
- 3.3 Money laundering
- 3.4 Model Code
- 3.5 Disclosure and Transparency rules
- 3.6 Data Protection Act 1998
- 3.7 Relevant European Regulation
- 3.8 Prudential Standards

ELEMENT 4 THE FCA CONDUCT OF BUSINESS SOURCEBOOK / CLIENT ASSETS

- 4.1 The application and general provisions of the FCA Conduct of Business Sourcebook
- 4.2 Accepting clients
- 4.3 Communicating with clients, including financial promotions
- 4.4 Suitability
- 4.5 Product disclosure and the client's right to cancel
- 4.6 Dealing and managing
- 4.7 Reporting to clients
- 4.8 Client Assets

ELEMENT 5 COMPLAINTS AND REDRESS

- 5.1 Customer complaints

ELEMENT 1 THE REGULATORY ENVIRONMENT

1.1 The role of the FCA and PRA

On completion, the candidate should:

- 1.1.1 *know* FCA's and PRA's statutory objectives and rule making powers in respect of authorisation, supervision, enforcement, sanctions and disciplinary action [FSMA]
- 1.1.2 *understand* the Principles for Businesses [PRIN 1.1.2, 1.1.7, 2.1.1] and the requirement to act honestly, fairly and professionally and to treat customers fairly [COBS 2.1]
- 1.1.3 *know* the Statements of Principle 1 to 4 and Code of Practice for approved persons for all approved persons functions [APER 1.1.1, 1.2.3, 2.1.2, 3.1.1, 4.1, 4.2, 4.3.1, 4.4.1/3/4/9]
- 1.1.4 *know* the Statements of Principle 5 to 7 and Code of Practice for approved persons in respect of significant influence functions [APER 4.5.1/2/13/14 + 4.6.1/2/3/5/6/8 + 4.7.1/2/12/13]
- 1.1.5 *know* the Chartered Institute for Securities & Investment's Code of Conduct
- 1.1.6 *understand* the rules regarding Senior Management Arrangements, Systems and Controls for both common platform firms and Non-MiFID firms (SYSC 1.2.1, 3.1.1, 4.1.1/2 + 19A2)
- 1.1.7 *know* the FCA's and PRA's supervisory approach to regulation

1.2 The Regulatory Infrastructure

On completion, the candidate should:

Understand the wider structure of UK financial regulation including the responsibilities of the main regulating bodies and the relationship between them:

- 1.2.1 Market regulators: The Financial Conduct Authority and the Prudential Regulation Authority
- 1.2.2 Other regulators: The UK Competition Commission, The Information Commissioner and The Pensions Regulator
- 1.2.3 The relationships and coordination between the following:
 - The Financial Conduct Authority
 - The Prudential Regulation Authority
 - HMRC
 - Financial Ombudsman Scheme (FOS)
 - Financial Services Compensation Scheme (FSCS)
 - Financial Policy Committee
 - Upper Tribunal (Tax and Chancery)
 - The Bank of England
 - HM Treasury
- 1.2.4 *know* the six types of provisions used by the FCA and PRA in their Handbooks and the status of their approved industry guidance

ELEMENT 2 THE FINANCIAL SERVICES AND MARKETS ACT 2000

2.1 Regulated and Prohibited Activities

On completion, the candidate should:

2.1.1 *know* the regulated and prohibited activities [Part II/III of FSMA 2000, Regulated Activities Order 2001 and the under-noted guidance in the Perimeter Guidance Manual (PERG)]:

- authorised persons [PERG 2.2.3]
- exempt persons [PERG 2.10] and FSMA [Exemption Order 2001 (SI 2001/1201)]
- offences under the Act [PERG 2.2.1/2]
- enforceability of agreements entered into with an unauthorised business [PERG 2.2.2]
- defences available under the Act [PERG 2.2.1]

2.1.2 *understand* the FCA's actions in respect of prohibition orders and actions for damages and how private clients can sue for damages when a firm is declared in breach [FSMA 2000 s.56, 59, 71, 150]

2.2 Performance of Regulated Activities

On completion, the candidate should:

2.2.1 *know* the role of the FCA and PRA enforcement divisions, the power of the FCA and PRA to make decisions by executive procedures and the role, scope and consequences of the Regulatory Decisions Committee's responsibility for decision making [DEPP 3.1 – 3.4, 4.1]

2.2.2 *know* the outcomes of the FCA's and PRA's statutory notices (DEPP 1.2), the regulatory enforcement processes: warning, decision, supervisory and final notices (DEPP 2.2 + 2.3) and the firm's right to refer to the tribunal [DEPP 2.3.2/3]

2.2.3 *know* the FCA's powers of intervention (Products and financial promotions)

2.3 Information Gathering and Investigations

On completion, the candidate should:

2.3.1 *know* the FCA's power to require information and to appoint persons to carry out investigations [FSMA 2000 s.165/7/8]

2.4 Regulated Activities

On completion, the candidate should:

2.4.1 *know* the activities specified in Part II of the Regulated Activities Order

2.4.2 *know* the main exclusions from the need for authorisation under the FSMA 2000 [Regulated Activities Order]

- dealing as principal [PERG 2.8.4]
- advice in newspapers [PERG 2.8.12 & 7.1.2]
- trustees, nominees and personal representatives [PERG 2.9.3]
- employee share schemes [PERG 2.9.13]
- overseas persons [PERG 2.9.15]

2.4.3 *know* the investments specified in Part III of the Regulated Activities Order

2.4.4 *know* the authorisation procedures for firms:

- the need for authorisation [FSMA s.19. PERG 2.3, Annex 1 & 2, 2.10.9 - 16]
- the threshold conditions for authorisation [FSMA Sch 6. COND 2]

2.4.5 *know* the supervisory process:

- purpose of supervision arrangements [SUP 1.1.2/3]
- focus on a firm's senior management [SUP 1.1.4, SYSC 1.2.1(1)/4.2.1/4.3.1]
- tools for supervision [SUP 1.4.1/2/4/5]
- transaction reporting regime [SUP 17.1.4]

2.4.6 *know* the approval processes for Approved Persons:

- the application process [SUP 10.12.1/2/3]
- the criteria for approval as an Approved Person [FIT 1.3, 2.1, 2.2, 2.3]

2.4.7 *understand* FCA's and PRA's controlled functions: the five functional areas, the required functions, the four areas of significant influence functions, the requirement for FCA or PRA approval prior to performing the function [SUP 10.5.1, 10.6.1, 10.7.1, 10.8.1, 10.9.1/2, 10.10.1/3 and the types of functions listed under Table 10.4.5. FSMA s.59]

2.4.8 *know* the Training and Competence regime:

- the application of the systems and control responsibilities in relation to the competence of employees [SYSC 3.2.13/14/5.1.1]
- the application of T&C for retail activities [TC 1.1.1/3]
- assessing and maintaining competence [TC 2.1.1(1), 2.1.2], the examination requirements before starting activities [TC 2.1.6/7(1)], firms must assess at the outset and at regular intervals the training needs of its employees [TC 2.1.11], maintaining competence [TC 2.1.12/13] and the need for a Statement of Professional Standing
- activities to which the T&C rules apply [TC Appendix 1]

2.4.9 *know* the legal and regulatory basis for whistle blowing [SYSC 18.1.2, 18.2.3]

2.5 Miscellaneous offences under FSA 2012

On completion, the candidate should:

2.5.1 *know* the purpose, provisions, offences and defences of FSA 2012 s.89 –s. 92 – misleading statements and practices

ELEMENT 3 ASSOCIATED LEGISLATION AND REGULATION

3.1 Insider dealing

On completion, the candidate should:

3.1.1 *understand* the meaning of ‘inside information’ and ‘insider’; the offences and the instruments covered by the legislation [CJA 1993 s.52/56/57/58 + Schedule 2]

3.1.2 *know* the general defences available with regard to insider dealing [CJA 1993 s.53]

3.1.3 *know* the special defences: market makers acting in good faith, market information and price stabilisation [CJA 1993 s. 53 and Schedule 1 paras 1-5]

3.1.4 *know* the FCA’s powers to prosecute insider dealing [FSMA s.402, EG 12.7-10]

3.2 Market abuse

On completion, the candidate should:

- 3.2.1 *understand* the statutory offence of market abuse [FSMA 2000 s.118(1-8)]
- 3.2.2 *know* the status of the FCA's Code of Market Conduct [FSMA 2000 s.119(1) – (3)]; the territorial scope of the legislation and regulation [FSMA 2000 s.118]
- 3.2.3 *know* the offences outlined in the Code of Market Conduct [MAR 1.2.2/7, 1.3.1, 1.4.1, 1.5.1, 1.6.1, 1.7.1, 1.8.1, 1.9.1, 1.2.22]
- 3.2.4 *know* the concept of effect rather than intention [MAR 1.2.3]; the concept of a reasonable regular user [MAR 1.2.20/21] and accepted market practices (MAR 1 Annex 2)
- 3.2.5 *understand* the enforcement regime for market abuse [MAR 1.1.3] and a firm's duty to report suspicious transactions (SUP 15.10.2)
- 3.2.6 *know* the statutory exceptions (safe harbours) to Market abuse [MAR 1.10.1-4 (excl. table 1.10.5)]
- 3.2.7 *understand* the distinction between offences under market abuse, insider dealing [CJA] and under FSA 2012 s.89 –s.92 misleading statements

3.3 Money laundering

On completion, the candidate should:

- 3.3.1 *understand* the terms 'money laundering', 'criminal conduct' and 'criminal property' and the application of money laundering to all crimes [Proceeds of Crime Act 2002 s.340] and the power of the Secretary of State to determine what is 'relevant criminal conduct'
- 3.3.2 *understand* that the UK legislation on money laundering is found in the Proceeds of Crime Act 2002 [POCA], as amended by the Serious Organised Crime and Police Act 2005 [SOCPA], the Money Laundering Regulations 2007, the Senior Management Arrangements, Systems and Controls Sourcebook [SYSC] and that guidance to these provisions is found in the Joint Money Laundering Steering Group Guidance and understand the interaction between them
- 3.3.3 *understand* the main offence set out in the Money Laundering Regulations (internal controls), which includes obligations on firms for adequate training of individuals on money laundering
- 3.3.4 *understand* the three stages of money laundering
- 3.3.5 *understand* the main offences set out in POCA Part 7 Sections 327, 328, 329, 330, 333A, 342 [Assistance i.e. concealing, arrangements, acquisition use and possession; failure to disclose; tipping off in the regulated sector] and the implications of Part 7 regarding the objective test in relation to reporting suspicious transactions; that appropriate disclosure [internal for staff and to the National Crime Agency for the firm] is a defence

- 3.3.6 *understand* the approach covered by the Senior Management Arrangements, Systems and Controls Sourcebook [SYSC], in particular, the systems and controls that the FCA and PRA expect firms to have adopted, the role of the Money Laundering Reporting Officer, Nominated Officer and the Compliance function [SYSC 3.2.6, 3.2.6 (A)-(J), 3.2.7, 3.2.8, SYSC 6.3]
- 3.3.7 *understand* the standards expected by the JMLSG Guidance particularly in relation to:
- Risk based approach
 - Requirements for directors and senior managers to be responsible for money laundering precautions
 - Need for risk assessment
 - Need for enhanced due diligence in relation to politically exposed persons [JMLSG 5.5.1 – 5.5.29]
 - Need for high level policy statement
 - Detailed procedures implementing the firm's risk based approach [JMLSG 1.20, 1.27, 1.40 – 1.43, 4.17 – 4.18]
 - Financial Sanctions regime [JMLSG Part III 4.1 – 4.10]
- 3.3.8 *understand* the Money Laundering aspects of know your customer (Joint Money Laundering Steering Groups' Guidance for the Financial Sector [Para 5.1.1 - 5.1.14]
- 3.3.9 *understand* the importance of ongoing monitoring of business relationships and being able to recognise a suspicious transaction and the requirement for staff to report to the MLRO and for the firm to report to the National Crime Agency
- 3.3.10 *know* what activities are regarded as 'terrorism' in the UK [Terrorism Act 2000 Part 1], the obligations on regulated firms under the Counter-Terrorism Act 2008 [money laundering of terrorist funds] [part 5 section 62 and s.7 part 1-7] and the Anti-Terrorism Crime & Security Act 2001 Schedule 2 Part 3 [Disclosure of Information] and where to find the sanction list for terrorist activities
- 3.3.11 *understand* the importance of preventative measures in respect of terrorist financing and the essential differences between laundering the proceeds of crime and the financing of terrorist acts [JMLSG Guidance 2007 paras 1.38 – 1.39, Preface 9 as amended December 2011] and the interaction between the rules of the FCA, the PRA, the Terrorism Act 2000 and the JMLSG Guidance regarding terrorism [JMLSG Guidance 2007 Preface 27, 28, 29 as amended December 2011]
- 3.3.12 *know* the main purpose of the Bribery Act 2012 and the categories of offences covered in s.1 - 7 Bribery Act 2010

3.4 Model Code

On completion, the candidate should:

3.4.1 *know* the main purpose and provisions of the Model Code on share dealing by directors and other persons discharging managerial responsibilities , *including*:

- close periods
- undisclosed inside information
- chairman's approval
- dealings by the chairman
- short-term dealing
- exceptional circumstances
- application and record keeping

3.5 Disclosure and Transparency rules

On completion, the candidate should:

3.5.1 *know* the purpose of the Disclosure and Transparency rules and the control of information [DTR 2.1.3, 2.6.1]

3.6 Data Protection Act 1998

On completion, the candidate should:

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

3.7 Relevant European Regulation

On completion, the candidate should:

3.7.1 *know* the relevant European Union Directives and the impact on the UK financial services industry in respect of:

- Passporting within the EEA (MiFID)
- Home v's host state regulation (MiFID)
- Selling cross border collective investment schemes (UCITS)
- Selling securities cross border (Prospectus Directive)
- Alternative Fund Managers Directive (AIFMD)

3.8 Prudential Standards

On completion, the candidate should:

- 3.8.1 *know* the purpose of the Capital Adequacy Requirements [GENPRU 1.2.12/13]
- 3.8.2 *know* the purpose, scope and application of the liquidity framework requirements and how they apply to regulated firms (BIPRU 12.1.1, 12.2.1/2/4/5/7 + 12.3.4/5)

ELEMENT 4 THE FCA CONDUCT OF BUSINESS SOURCEBOOK / CLIENT ASSETS

4.1 The application and general provisions of the FCA Conduct of Business Sourcebook

On completion, the candidate should:

The firms subject to the Conduct of Business Sourcebook COBS 1

- 4.1.1 *know* the firms subject to the FCA Conduct of Business Sourcebook [COBS 1.1.1-1.1.3, COBS 1 Annex 1 Part 3, section 3]

Activities subject to the Conduct of Business Sourcebook COBS 1

- 4.1.2 *know* the activities which are subject to the FCA Conduct of Business Sourcebook including Eligible Counterparty Business and transactions between regulated market participants [COBS 1.1.1-1.1.3, Annex 1, Part 1(1) & (4)]

Impact of location COBS 1

- 4.1.3 *know* the impact of location on firms/activities of the application of the FCA Conduct of Business Sourcebook: permanent place of business in UK [COBS 1.1.1-1.1.3 & Annex 1, Part 2 & Part 3 (1 - 3)]

Appointed representatives COBS 1

- 4.1.4 *know* how the application of the FCA Conduct of Business Sourcebook applies to appointed representatives [COBS 1.1.1] including financial promotions and firm's responsibilities for appointed representatives [COBS 4.1]

Electronic media

- 4.1.5 *know* the provisions of the FCA Conduct of Business Sourcebook regarding electronic media [Glossary definitions of 'Durable medium' and 'Website Conditions']

Telephone & Electronic communications COBS 11.8

- 4.1.6 *know* the recording of voice conversations and electronic communications requirements [COBS 11.8]

4.2 Accepting clients

On completion, the candidate should:

Client categorisation COBS 3

4.2.1 *understand* [PRIN 1.2.1/2/3, Glossary, COBS 3]:

- definition of client [COBS 3.2]
- the application of the rules on client categorisation [COBS 3.1]
- retail client [COBS 3.4]; professional client [COBS 3.5] and eligible counterparty [COBS 3.6]

4.2.2 *understand* client status [PRIN 1.2.1/2/3, Glossary, COBS 3]:

- when a person is acting as agent for another person [COBS 2.4.1– 3]
- the rule on categorising elective professional clients [COBS 3.5.3 – 9]
- the rule on elective eligible counterparties [COBS 3.6.4 – 6]
- providing clients with a higher level of protection [COBS 3.7]
- the requirement to provide notifications of client categorisation [COBS 3.3]

Client agreements and information provision COBS 2, 6, 7, 8 & 14

4.2.3 *know* the requirement for firms to provide client agreements, when a client agreement is required to be signed and when it is acceptable to be provided to clients [COBS 8.1.1 – 8.1.3]

4.2.4 *know* the requirement to provide information to clients prior to providing services to clients including information relating to the nature and risk of the services and designated investments being offered [COBS 2.2, 6.1.1-4 & 14.3.1-10]

4.2.5 *know* the rules on the provision of information in connection with the service of managing investments [COBS 6.1.6]

4.2.6 *know* the rules on the provision of information concerning safeguarding of designated investments belonging to clients and client money [COBS 6.1.7]

4.2.7 *know* the rules on disclosure of costs and associated charges, timing of disclosure; medium of disclosure, changes to information provided to the client and compensation information [COBS 6.1.9-6.1.16]

4.2.8 *know* the requirements for an adviser to a retail client to be remunerated only by adviser charges in relation to any personal recommendation or related service

Reliance on others COBS 2.4

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

4.3 Communicating with clients, including financial promotions

On completion, the candidate should:

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

4.3.1 *know* the application of the rules on communication to clients and on fair, clear and not misleading communications and financial promotions [COBS 4.1, 4.2.1 - 4]

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

4.3.2 *know* the purpose and application of the financial promotion rules and the relationship with Principles for Businesses 6 and 7 [COBS 4.1]

4.3.3 *know* the rule on identifying promotions as such [COBS 4.3]

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

4.3.4 *know* the main exceptions to the financial promotion rules in COBS [COBS 4.1, 4.8], the limitations in connection to MiFID business and the existence of the FPO

Types of communication COBS 4

4.3.5 *know* the types and methods of communication addressed by COBS 4

4.3.6 *know* the rules on prospectus advertisements [PR 3.3]

Communicating with retail clients COBS 4.5

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

Past, simulated past and future performance COBS 4.6

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

Financial promotions containing offers or invitations COBS 4.7

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

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

4.3.10 *know* the rules on unwritten promotions [COBS 4.8.3] and the restriction on cold calling [COBS 4.8.2]

4.3.11 *know* the rule on financial promotions for overseas persons [COBS 4.9.3]

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

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

4.4 Suitability

On completion, the candidate should:

Suitability (including basic advice) COBS 9.1

- 4.4.1 *understand* the application of the rules on identifying client needs and advising [COBS 9.1.1-9.1.4] and the rules on churning and switching [COBS 9.3.2]

Assessing Suitability COBS 9.2, 9.3 & 9.4

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

Appropriateness (Non-advised services) COBS 10

- 4.4.7 *understand* the application and purpose of the rules on non-advised sales [COBS 10.1]
- 4.4.8 *understand* the obligations for assessing appropriateness [COBS 10.2]
- 4.4.9 *know* the circumstances in which it is not necessary to assess appropriateness [COBS 10.4-10.6]

4.5 Product disclosure and the client's right to cancel

On completion, the candidate should:

Product disclosure COBS 13, 14 & 15

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

- 4.5.3 *know* the requirements for a firm making a personal recommendation to be independent or restricted

4.6 Dealing and managing

On completion, the candidate should:

Application of the rules on dealing and managing COBS 11.1

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

Conflicts of interest COBS 12, SYSC 10 and PRIN 2.1

- 4.6.2 *understand* the application and purpose of the principles and rules on Conflict of Interest; the rules on identifying conflicts and types of conflicts; the rules on recording and disclosure of conflicts [PRIN 2.1.1 Principle 8, SYSC 10.1.1 - 6 + 10.1.8/9]
- 4.6.3 *know* the rule requiring a conflicts policy and the contents of the policy [SYSC 10.1.10 - 10.1.15]
- 4.6.4 *understand* the rule on managing conflicts of interest (SYSC 10.1.7) and how to manage conflicts of interest to ensure the fair treatment of clients (SYSC 10.2) including; information barriers such as 'Chinese walls'; reporting lines; remuneration structures; segregation of duties; policy of independence
- 4.6.5 *know* the rules on managing conflict in connection with investment research and research recommendations [COBS 12.2.1/3/5/10, 12.3.2/3/4, 12.4.1/4/5/6/7/9/10/15/16/17]

Inducements and Use of Dealing Commission COBS 2.3 & 12.6

- 4.6.6 *know* the application of the inducements rules [COBS 2.3.1-2 & 2.3.10-16] and the use of dealing commission, including what benefits can be supplied/obtained under such agreements [COBS 11.6]

Best execution COBS 11

- 4.6.7 *understand* the requirements of providing best execution [COBS 11.2.1-13]
- 4.6.8 *understand* the requirements for an order execution policy, its disclosure, the requirements for consent and review [COBS 11.2.14–18, 11.2.22-26 & 11.2.28]
- 4.6.9 *understand* the rules on following specific instructions from a client [COBS 11.2.19-21]
- 4.6.10 *understand* the rules on monitoring the effectiveness of execution arrangements and policy; demonstrating compliance with the execution policy; and the duties of portfolio managers and receivers and transmitters to act in a clients' best interest [COBS 11.2.27, 11.2.29 – 34]

Client order handling COBS 11.3

- 4.6.11 *understand* the rule on client order handling [COBS 11.3.1] and the conditions to be satisfied when carrying out client orders [COBS 11.3.2–6]

Aggregation and allocation COBS 11.3

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

Client limit orders COBS 11.4

- 4.6.13 *know* the rules on client limit orders - the obligation to make unexecuted client limit orders public [COBS 11.4]

Personal account dealing COBS 11.7

- 4.6.14 *understand* the purpose and application of the personal account dealing rule and the restrictions on personal account dealing [COBS 11.7.1–3]
- 4.6.15 *know* the arrangements required to comply with the personal account dealing rules including the notification requirements; and exceptions regarding personal account dealing [COBS 11.7.4–7]

4.7 Reporting to clients

On completion, the candidate should:

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

- 4.7.1 *know* the general client reporting and occasional reporting requirements [COBS 16.1 – 16.2]
- 4.7.2 *know* the rules on periodic reporting to retail and professional clients, the exceptions to the requirements and the record keeping requirements (COBS 16.3)

4.8 Client Assets

On completion, the candidate should:

- 4.8.1 *understand* the purpose of the client money and custody rules in CASS including the requirement for segregation and that it is held in trust [CASS 6.2.1-3, 7.3.1-2, 7.4.11, 7.7.1-2]
- 4.8.2 *know* the requirements for reconciling client assets and client money including the timing and identification of discrepancies [CASS 6.5.4-13, 7.6.9-16, 7.7.1]
- 4.8.3 *know* the exemptions from the requirements of the CASS rules [CASS 1.2.3-4, 6.1.1-6, 7.1.1-12]

ELEMENT 5 COMPLAINTS AND REDRESS

5.1 Customer complaints

On completion, the candidate should:

- 5.1.1 *know* the procedures a firm must implement and follow to handle customer complaints [DISP 1.2.1/3, 1.3.3, 1.4.1, 1.6.1/2/5, 1.9.1, 1.10.1]
- 5.1.2 *know* the role of the Financial Ombudsman Service (FOS) [DISP Complaints Sourcebook – Dispute Resolution: Complaints: Introduction] and the awards which can be made [DISP 3.7.2/4]
- 5.1.3 *know* the criteria for a complainant to be eligible to lodge a complaint [DISP 2.2]
- 5.1.4 *know* the circumstances in which the Financial Services Compensation Scheme will pay compensation [COMP 3.2, 4.2.1/2/3] and the compensation payable in respect of protected deposits and protected investment business [COMP 10.2.1/3]
- 5.1.5 *know* the framework under which the FCA can be alerted to Super Complaints and Mass Detriment References

FURTHER REFERENCE

While a thorough understanding of the training materials will be sufficient to pass the examination, candidates may wish to read beyond these materials to gain a better grasp of the industry in which they have chosen to work. Candidates might find the following websites of interest for this purpose.

Financial Ombudsman Service at *www.financial-ombudsman.org.uk*

Financial Services Compensation Scheme at *www.fscs.org.uk*

The Office of Public Sector Information (source legislation is available on this site) at *www.opsi.gov.uk*

Her Majesty's Treasury at *www.hm-treasury.gov.uk*

Joint Money Laundering Steering Group guidance at *www.jmlsg.org.uk*