

MOCK EXAM TWO UNIT 1 – THE INVESTMENT ENVIRONMENT

VERSION 12 – TESTED FROM 1 DECEMBER 2014

Question allocation across the syllabus is balanced on the guidance of psychometric and industry specialists. The following question allocation for Version 12 of the IMC is provided as a broad indication of the relative ‘weighting’ of different parts of the syllabus in IMC examinations from 1 December 2014.

CONTENT AREA	TOPIC	TOPIC NAME	QUESTION ALLOCATION
Financial markets and institutions	1	Financial Markets and Institutions	10–20
Ethics	2	Ethics and Investment Professionalism	5–15
Regulation and legal concepts	3	The Regulation of Financial Markets	25–35
	4	Legal Concepts	
Clients	5	Client Advice	15–25
Taxation	6	Taxation in the UK	10–20

OTHER INFORMATION REGARDING THIS UNIT:

Exam format:

- 85 questions
- Online testing using standard multiple choice, item sets and gap-fill style questions

Time allowed for exam: 1 hour and 40 minutes

Grades: Pass or fail

Study materials:

- Official Training Manual v.12 is available from the CFA UK website, including revision questions with fully worked calculations
- Mock exam available in the Candidate Area of the CFA UK website

Recommended study hours: 80 hours

Availability of exam sessions: Every working day through Pearson VUE testing centres

Although we do not rigidly fix the pass mark the pass mark seldom varies from between 65% and 75% of all scored questions. Candidates should aim for this in their mock exam.

There are no test ‘hurdles’ in the IMC. To pass the examination, candidates need to achieve an overall pass score regardless of where the marks were distributed throughout the examination.

It is not necessary to pass each topic area to pass overall.

UNIT 1: PRACTICE EXAM QUESTIONS

1. The US regulator with authority over security based swaps is:

- (a) *The Commodity Futures Trading Commission*
- (b) *The European Securities and Markets Authority*
- (c) *The Depository Trust & Clearing Corporation*
- (d) *The Securities and Exchange Commission*

2. Standard settlement for an equity transaction on the London Stock Exchange is:

- (a) *T+1*
- (b) *T+2*
- (c) *T+3*
- (d) *T+4*

3. To comply with the Conduct of Business rules for communications with a retail client it is *not necessary* for an authorised firm to give the client:

- (a) *Notification when any product offered places the client's capital at risk*
- (b) *Information that the Financial Conduct Authority is the regulator*
- (c) *The maximum return possible over the investment period whenever a yield figure is given*
- (d) *A fair, clear and not misleading impression of the producer or manager of any underlying investments of any packaged products offered*

4. Lasting power of attorney (LPA) taken out in 2014:

- (a) *Need not be registered*
- (b) *Must be registered with the Office of Public Guardian*
- (c) *Must be registered with the Financial Conduct Authority*
- (d) *Must be registered with the Office of the Lord Chancellor*

5. A professional client can be treated as a 'qualified investor' if they have:

- (a) A security portfolio of €750,000 and have worked for seven months in a professional capacity in the financial sector requiring knowledge of security investment*
- (b) Carried out thirty five security market transactions over €10,000 in the last year and a security portfolio of €1,200,000*
- (c) Carried out an average of fifteen security market transactions over €1,000 for the last four quarters and worked for thirteen months in a professional capacity in the financial sector requiring knowledge of security investment*
- (d) A security portfolio of €15,200,000*

6. The financial state where a company is temporarily unable to pay its bills would best be described as:

- (a) Insolvency*
- (b) Bankruptcy*
- (c) Dissolution*
- (d) Intestacy*

7. Which of the following will require Part 4A authorisation if carrying out a regulated activity in the UK?

- (a) An appointed representative of an authorised person*
- (b) A broker*
- (c) A member of Lloyds*
- (d) An accountant*

8. Standard IB of the CFA Standards of Professional Conduct, Independence and Objectivity *most accurately* requires that members and candidates must not:

- (a) Offer, solicit or accept any benefit other than their contracted salary and or bonus*
- (b) Offer, solicit or accept any gift*
- (c) Offer, solicit or accept any gift, benefit, compensation or consideration that reasonably could be expected to compromise their own or another's independence or objectivity*
- (d) Accept any gift or benefit from clients*

9. Which of the following is *not* a way by which a contract can be ended?

- (a) Intention*
- (b) Breach*
- (c) Frustration*
- (d) Agreement*

10. A deposit taking bank in the UK will be regulated by:

- (a) Neither the Financial Conduct Authority nor the Prudential Regulation Authority*
- (b) The Prudential Regulation Authority only*
- (c) The Financial Conduct Authority only*
- (d) Both the Financial Conduct Authority and the Prudential Regulation Authority*

11. Which of the following is *most accurate* if a joint tenant wishes to dispose of their interest during their lifetime?

- (a) They are free to dispose of their share of the property at any time*
- (b) They can dispose of their share of the property immediately after giving notice to the other joint tenant(s)*
- (c) They can dispose of their share of the property after giving notice to the other joint tenant(s) and converting to a tenancy in common*
- (d) They can only dispose of their share of the property when the other joint tenant(s) dispose of their share*

12. Under the FCA's disclosure and transparency rules (DTR), a person discharging managerial responsibility (PDMR) undertaking a personal transaction in the relevant listed company must notify:

- (a) The market within two business days of the transaction*
- (b) The market within four business days of the transaction*
- (c) The listed company within two business days of the transaction*
- (d) The listed company four business days of the transaction*

13. On which of the following is the standard rate of VAT charged?

- (a) Nominee services*
- (b) Advisory services not invoiced separately*
- (c) Commissions*
- (d) Portfolio management*

14. Which of the following can be acquired with dealing commission?

- (a) Order and execution management systems*
- (b) Original research*
- (c) Computer hardware*
- (d) Publicly available information*

15. The stage of money laundering where funds originally gained from criminal activity are used for a legitimate activity in the economy after having been laundered is known as:

- (a) Placement*
- (b) Layering*
- (c) Conditioning*
- (d) Integration*

16. Which of these roles is *most likely* to be carried out by a government?

- (a) Payment and settlement services*
- (b) Portfolio management*
- (c) Regulating firms*
- (d) Settlement services*

17. Who must a firm's data controller notify if they wish to handle personal client information?

- (a) The Financial Conduct Authority*
- (b) The Information Commissioner's Office*
- (c) The Bank of England*
- (d) The Public Records Office*

18. Which decision made by an investment manager is considered to be the most important determinant of performance over the long term?

- (a) Asset allocation*
- (b) Stock selection*
- (c) Market timing*
- (d) Liquidity*

19. Simplified Due Diligence (SDD) may be applied to which of the following?

- (a) Business with beneficiaries of solicitor's accounts*
- (b) Where business is conducted on a non-face to face basis*
- (c) Business with politically exposed persons*
- (d) In respect of correspondent banking relationships*

20. Which of the following is *most accurate* regarding Standard IB of the CFA Standards of Professional Conduct: Priority of Transactions?

- (a) Investment transactions where a member is the beneficial owner have priority over transactions for clients*
- (b) Investment transactions for clients have priority over transactions where a member or employers are the beneficial owner*
- (c) Investment transactions for clients and employers have priority over transactions where a member is the beneficial owner*
- (d) Investment transactions for employers have priority over transactions where a member or their client is the beneficial owner*

21. Which of the Principles for Business requires a firm to 'take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgements'?

- (a) Principle 1: Integrity*
- (b) Principle 2: Skill, care and diligence*
- (c) Principle 6: Customers' interests*
- (d) Principle 9: Customers: relationships of trust*

22. Which of the following acquisitions by an investor would require them to notify the company within two business days?

- (a) An investor acquiring 2% when they already hold 0.5%*
- (b) An investor acquiring 0.3% when they already hold 5.8%*
- (c) An investor acquiring 2.7% when they already hold 0.2%*
- (d) An investor acquiring 0.5% when they already hold 7.2%*

The next 6 questions are associated with the following case study. The material given in the case study will not change.

Dr Jayne Wilson is a 57 year old UK resident. She works as a consultant cardiologist and earned a gross annual income of £125,000 in 2014/15. She is married to Tom who is a school teacher and earned a gross income of £37,500 in 2014/15.

- Jayne bought 15,000 shares in Drisco plc for £1.35 in 2009. They have a current market price of £1.54. In 2014/15 Jayne's Drisco plc shares paid out a total net dividend of £702.
- Jayne and Tom jointly own a modern art sculpture bought together in 2007 for £84,000.
- Jayne and Tom jointly own a holiday property which they purchased for £150,000 in 2004 and is now worth £320,000.
- Tom has a portfolio held in a NISA comprised of:
 - 16,000 shares in Oplon plc bought at £2.56 in 20011. Their current market price is £3.37.
 - £10,000 nominal Treasury 3% 2020 bought in 2012 for £11,000 they are now worth £13,000.
 - £10,000 nominal Treasury 5% 2025 bought in 2013 for £12,000 they are now worth £14,000.
- Tom has not realised any capital gains/losses since September 2010.
- Jayne sold a painting in 2009 and realised a capital loss of £5,000 which has been unused and carried forward since that time.

The annual CGT exemption for 2014/15 is £11,000.

The 2014/15 income tax rates are:

	2014/15
Starting rate for savings income: 10%	£0–£2,880
Basic rate: 20%	£0–£31,865
Higher rate 40%	£31,866–£150,000
Additional rate: 45%	Over £150,000

2014/15 personal allowance is £10,000.

2014/15 NISA allowance is £15,000.

2014/15 higher rate dividend income tax is 32.5%.

23. If Tom and Jayne sell the modern art sculpture and Tom realises no other gains or losses in 2014/15, what is the highest sale price (ignoring costs) that can be achieved before Tom will have to pay a capital gain charge?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00000 or 000000

24. If Jayne and Tom sell their holiday property, what would be the capital gains tax payable for Jayne in 2014/15 if she makes no other disposals this tax year?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00000.00

25. In 2014/15 Tom's Oplon plc shares paid out a total gross dividend of £560. How much tax must Tom pay on his dividend income?

- (a) £0*
- (b) £56*
- (c) £182*
- (d) £224*

26. How much income tax will Jayne pay in 2014/15?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00000.00

27. Jayne is thinking of investing some of her savings in an enterprise investment scheme (EIS) what would be the maximum income tax relief she can receive due to the EIS investment?

- (a) 10% on an investment of up to £100,000*
- (b) 30% on an investment of up to £100,000*
- (c) 10% on an investment of up to £1 million*
- (d) 30% on an investment of up to £1 million*

28. If Jayne sells her entire holding of Drisco plc shares at £1.54 in dematerialised form then how much stamp duty reserve tax will be due on the transaction?

- (a) £0*
- (b) £101.25*
- (c) £115.50*
- (d) £125.50*

29. Stamp duty reserve tax is *not paid* on purchases on the purchase of which of the following?

- (a) Shares in a UK company listed on AIM*
- (b) Shares in a UK company listed on the London Stock Exchange*
- (c) UK registered shares in a foreign company*
- (d) An option to buy a share in a UK company*

30. How many calendar days of notice must a public company give when they call a general meeting?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 0 or 00

31. Which of the following is *least correct* regarding eurobonds?

- (a) They may be settled via Euroclear*
- (b) ICMA rules specify T+3 settlement of eurobonds*
- (c) They may be settled via Clearstream*
- (d) They are bearer bonds*

32. The fund charges which are likely to have the greatest impact on an investor's returns over the long term are:

- (a) Initial charges*
- (b) Point of sale charges*
- (c) Exit charges*
- (d) Annual management charges*

33. Wilfred Hanson is an investment manager for a wealth management firm. He receives research from analysts at his firm recommending a 'sell' for shares in a company called Techy Tech Industries plc. He then sells his own personal holding of Techy Tech shares before disseminating the recommendation to his clients. In doing so he has:

- (a) Not violated any of the CFA Standards of Professional Conduct*
- (b) Violated Standard VIB: Priority of transactions*
- (c) Violated Standard VB: Communication with clients and prospective clients*
- (d) Violated Standard IIIC: Suitability*

34. The body of the Bank of England responsible for protecting and enhancing financial stability is the:

- (a) Financial Conduct Authority*
- (b) Financial Policy Committee*
- (c) Monetary Policy Committee*
- (d) Financial Services Compensation Scheme*

35. Which of these would be *most likely* to be considered by the FCA to be examples of *good practice* when carrying out a fact find?

- (a) Gathering contradictory information relating to a customer's attitude to risk*
- (b) Recommending customers to make use of a number of NISAs in the same tax year due to incomplete records*
- (c) A customer's tax position not being fully considered*
- (d) Updating Know Your Customer information on a bi-annual basis*

36. The Panel on Takeovers and Mergers levy *is payable* on a trade of over £10,000 of *which type of securities* (of a company incorporated in the UK and admitted for trading on a UK regulated market)?

- (a) Covered warrants*
- (b) Debentures*
- (c) American depositary receipts*
- (d) Preference shares*

37. An investor buys 3,400 ASDF shares when the bid–ask spread of the shares is 156.15p–156.35p. The commission paid is £6.50 per trade. The total transaction cost, including Panel on Takeovers and Mergers levy and stamp duty reserve tax, to the nearest pound is:

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 0000

38. Which of these *least* accurately represents a benefit for an investor in a venture capital trust (VCT)?

- (a) Tax free dividends over any holding period*
- (b) A tax reduction of 30% of the amount invested whatever the holding period*
- (c) Capital gains tax free gains on sale of shares over any holding period*
- (d) The VCT itself has tax exempt capital gains*

39. The benefits of ethical behaviour in the financial sector include:

- (i) Encouraging the public to use professional advisors
- (ii) Maximising a firm's profits
- (iii) Encouraging wider participation in capital markets

(a) (i) and (iii) only

(b) (ii) and (iii) only

(c) (i) and (ii) only

(d) (iii) only

40. Which of these facts collected during a client fact find would be *best described* as being a hard fact?

(a) Domicile status

(b) Attitude to risk

(c) Views on current portfolio

(d) Environmental concerns

41. An authorised person is prohibited by FSMA 2000 from marketing unregulated collective investment schemes (UCIS) to:

(a) A self-certified sophisticated investor

(b) A retail client with net investable assets of £200,000 and annual income of £90,000

(c) A high net worth individual

(d) An investment professional

42. A firm that approves a financial promotion regarding an occupational pension scheme must retain adequate records for how long?

(a) Three years

(b) Five years

(c) Six years

(d) Indefinitely

- 43. What name is given to the document which is produced for retail investors in collective investment schemes under the terms of UCITS IV?**
- (a) *Key facts document*
 - (b) *Key Investor Information Document*
 - (c) *Simplified prospectus*
 - (d) *Prospectus*
- 44. A systematic internaliser is an investment firm which executes customer orders in liquid shares on:**
- (a) *Either a regulated market or on a multilateral trading facility*
 - (b) *A regulated market but not on a multilateral trading facility*
 - (c) *A multilateral trading facility but not on a regulated market*
 - (d) *Neither a regulated market nor on a multilateral trading facility*
- 45. If John gives a yacht to his daughter but continues to use it as if it were his own, it would be known for inheritance tax purposes as a(n):**
- (a) *Potentially exempt transfer*
 - (b) *Chargeable lifetime transfer*
 - (c) *Gift with reservation*
 - (d) *Tax exempt transfer*
- 46. Which of the following is not a specified investment under the Regulated Activities Order 2001?**
- (a) *Electronic money*
 - (b) *A Lloyds investment*
 - (c) *A deposit*
 - (d) *A loan*
- 47. Which of the following is *least likely* to be a reason for a company to close its defined benefit pension scheme?**
- (a) *An increase in the pension fund deficit*
 - (b) *The requirement to disclose the funding position of the fund in the company accounts*
 - (c) *An increase in return on assets held by the scheme*
 - (d) *An increase in the longevity of the fund members*

48. Which of these securities is *most likely* to meet an investor's need to meet regular operating expenses plus unexpected liquidity requirements as they arise?

- (a) *Equities*
- (b) *Short term government bonds*
- (c) *Long term corporate bonds*
- (d) *Short term interest rate futures*

49. Which of these factors would lead to a company being treated as a *per se* professional client in relation to MiFID business?

- (a) *Own funds of €2.5 million and a balance sheet total of €21 million*
- (b) *Balance sheet total of €11 million and net turnover of €50 million*
- (c) *Net turnover of €45 million and own funds of €1 million*
- (d) *Net turnover of €25 million and a balance sheet total of €45 million*

50. Which of the following factors would *least likely* allow a company to be exempt from the need to publish a prospectus when issuing securities?

- (a) *The company is offering securities to 100 persons*
- (b) *The shares represent 8% of the number of shares of a class already admitted for trading on the same exchange*
- (c) *The minimum consideration per investor is €70,000*
- (d) *The total consideration of the offering over a period of twelve months is €4 million*

51. Which of the following would be *likely* to be carried out at a client review?

- (i) Rebalancing the client portfolio in line with agreed asset allocation
 - (ii) Monitoring investment performance against a benchmark
 - (iii) Checking for changes to a client's circumstances
- (a) *(iii) only*
 - (b) *(i) and (iii) only*
 - (c) *(i) and (ii) only*
 - (d) *(i), (ii) and (iii)*

52. How often does the FCA require that a firm must conduct external reconciliations between its internal accounts and the accounts of a third party holding client money on behalf of the firm?

- (a) As often as is necessary*
- (b) Every six months*
- (c) Every month*
- (d) Every day*

53. Which of the following is *least likely* to be considered a solution to the ‘principal–agency problem’?

- (a) Shareholder activism*
- (b) Incentivising managers in the form of shares*
- (c) Monitoring of managers by the board of directors*
- (d) Firms operating with dual capacity*

54. All of the following are requirements for a company to be a High Growth Segment (HGS) company *except*:

- (a) a minimum free float of 10% at IPO*
- (b) being incorporated in the European Economic Area*
- (c) having historic revenue of 20% on a compound annual growth rate basis over three years*
- (d) being a non-commercial company, issuing only equity shares*

55. If a person dies without having written a will then their estate will be:

- (a) distributed according to the laws of probate*
- (b) sold and the proceeds revert to the treasury*
- (c) distributed according to the laws of intestacy*
- (d) distributed in line with a judge’s decision*

56. Which of the following is *least* correct regarding the Financial Ombudsman Scheme (FOS)?

- (a) *The maximum money award by the FOS is £100,000*
- (b) *If a complaint is unresolved by a firm within eight weeks, the complainant can refer the complaint to the FOS*
- (c) *Certain types of complaints are covered by compulsory jurisdiction of the FOS for regulated firms*
- (d) *The ombudsman may dismiss a complaint without considering its merit if it is satisfied the complainant has not suffered financial loss, material inconvenience or material distress*

57. The Data Protection Act 1998 is *least likely* to require that an individual's personal information held by a firm is:

- (a) *Accurate and up to date*
- (b) *Kept for as long as the firm might find it useful*
- (c) *Processed for limited purposes*
- (d) *Adequate, relevant and not excessive*

58. Which of the following is *most likely* to be described as operating as a sell side firm?

- (a) *A pension fund*
- (b) *A hedge fund*
- (c) *An insurance company*
- (d) *A broker*

59. When does Standard III E of the CFA Standards of Professional Conduct, Preservation of Confidentiality NOT require that information about clients be kept confidential?

- (i) When the client permits disclosure of the information
 - (ii) When disclosure is required by law
 - (iii) When the information concerns illegal activities on the part of the client
- (a) *(i) only*
 - (b) *(ii) and (iii) only*
 - (c) *(i) and (ii) only*
 - (d) *(i), (ii) and (iii)*

60. What is the maximum pay-out for a claim in relation to protected investment business made against an investment firm to the Financial Services Compensation Scheme (FSCS)?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00000 or 000000

61. Which form of trust is most suitable to allow a beneficiary to have the use of an asset until they die, at which point the asset is held for the benefit of the remainderman?

- (a) Bare trust*
- (b) Interest in possession trust*
- (c) Charitable trust*
- (d) Discretionary trust*

62. Which of the following is most likely to be classed as a high net worth investor?

- (a) An investor with annual income of £60,000 and net investable assets of £110,000*
- (b) An investor with annual income of £90,000 and net investable assets of £200,000*
- (c) An investor with annual income of £50,000 and net investable assets of £280,000*
- (d) An investor with annual income of £95,000 and net investable assets of £210,000*

63. How long must a firm keep records of a client agreement associated with a pension transfer?

- (a) Five years*
- (b) Six years*
- (c) The duration of the client relationship*
- (d) Indefinitely*

64. Clare Batley is a fund manager. She receives a text from a friend who works for Yardstone Pharmaceuticals saying that Yardstone is going to announce that they have had regulatory approval to release an important new drug turned down. Clare immediately sells all Yardstone shares held by the fund she manages. In doing so she has:

- (a) Not violated any of the CFA Standards of Professional Conduct*
- (b) Violated Standard IIA, Material non-public information*
- (c) Violated Standard IC, Misrepresentation*
- (d) Violated Standard IIIB, Fair dealing*

65. What stake would a predator company require in a target company for them to be able to force minority shareholders to sell their stake?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00

66. Which of the following categories of controlled function for an FCA authorised firm is not a Significant Influence Function?

- (a) Governing functions*
- (b) Customer functions*
- (c) Systems and Control functions*
- (d) Required functions*

67. Which of the following best describes a company which has listed its shares on a foreign stock exchange in addition to listing on its domestic exchange?

- (a) Cross-listed*
- (b) Dual-listed*
- (c) Joint-listed*
- (d) Twin-listed*

68. Which of these questions would be *most likely* to be answered with a soft fact?

- (a) What is your income?*
- (b) How much do you earn annually?*
- (c) How do you feel about your current investments?*
- (d) What is your date of birth?*

69. Which of the following is an ancillary service under MiFID?

- (a) Services relating to underwriting*
- (b) Execution of orders for clients*
- (c) Managing portfolios of investments in financial instruments*
- (d) Operating a multilateral trading facility*

70. Which act of parliament establishes the framework that protects employees in a case of whistleblowing?

- (a) The Financial Services and Markets Act*
- (b) The Criminal Justice Act*
- (c) Market Abuse Act*
- (d) The Public Interest Disclosure Act*

71. Which European regulation requires persons entering into a derivatives contract to report and risk manage their derivatives position?

- (a) Markets in Financial Instruments Directive*
- (b) European Market Infrastructure Regulation*
- (c) Undertakings for Collective Investment in Transferable Securities*
- (d) Market Abuse Directive*

72. Which of the following is *not* one of the six improved Treating Customers Fairly outcomes for retail clients?

- (a) A firm must conduct its business with integrity when dealing with consumers*
- (b) Where consumers receive advice, the advice is suitable and takes account of consumer circumstances*
- (c) Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale*
- (d) Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint*

73. In relation to an occupational pension fund, which of the following will be subject to taxation?

- (a) Contributions made into the fund*
- (b) Capital gains in the fund*
- (c) Pension payments received from the fund*
- (d) Accumulated interest in the fund*

74. Jack and Wendy had been married for thirty years when Jack died leaving a chargeable estate of £75,000. At the time of Jack's death the nil rate band is £300,000.

If Wendy subsequently dies when the nil rate band is £325,000, what is the total nil rate band available on her estate?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00000 or 000000

75. The main benefit for gilt edged market makers of using the services of an Inter-Dealer Broker is:

- (a) Anonymity*
- (b) Lower cost*
- (c) Reduced regulatory requirements*
- (d) Lower taxation*

76. Which of the following is not one of the FCA's operational objectives?

- (a) Securing an appropriate degree of protection for consumers*
- (b) Protect and enhancing the integrity of the UK financial system*
- (c) Promoting effective competition in the interests of consumers*
- (d) Ensuring profit growth in the financial services industry*

77. The Competition and Markets Authority (CMA) has a duty to investigate which of the following mergers?

- (a) One where the target company has a UK turnover of £63 million and the merging companies together supply 20% of goods in their market in the UK*
- (b) One where the company mounting the takeover has UK turnover of £77 million and the merging companies together supply 24% of goods in their market in the UK*
- (c) One where the company mounting the takeover has UK turnover of £73 million and the merging companies together supply 28% of goods in their market in the UK*
- (d) One where the target company has a UK turnover of £69 million and the merging companies together supply 24% of goods in their market in the UK*

The next 6 questions are associated with the following case study. The material given in the case study will not change.

Lilian Harper is 34 and works as a research scientist for a petrochemical company.

She earns £47,000 per year. She currently has no pension arrangement. She has a two bedroomed flat in Sheffield which has a mortgage of £165,000 on it. She has recently inherited £55,000 from a deceased aunt.

She approaches Yasmin Gerhart who is an independent financial advisor to review her financial position. Lilian's investment portfolio contains:

- £35,000 nominal of 1.125% 2037 index linked gilts currently worth £48,650.
- A single premium life assurance bond purchased for £20,000 two years ago.

Lilian wishes to withdraw cash from the bond but is unsure of the tax implications.

Lilian would like to know more about the tax advantages of investing in a pension and asks Yasmin to tell her how much she could withdraw tax free at retirement.

Yasmin undertakes a fact find to learn more about Lilian's attitudes to risk and investment objectives.

Yasmin makes a number of investment recommendations to Lilian including recommending that she begin to pay into a stakeholder pension scheme.

78. Yasmin Gerhart wishes to fully understand the mortgage on Lilian's flat. To get the relevant information from the mortgage lender, Yasmin would be most likely to use which of the following?

- (a) A court order*
- (b) A statement of investment principles*
- (c) A letter of authority*
- (d) A mortgage review form*

79. What is the maximum tax free allowance that Lilian can withdraw from a single premium insurance bond each year?

- (a) Up to 5% of its current market value only*
- (b) Up to 5% of its original premium only*
- (c) Up to 5% of its current market value plus any unused allowance from previous years*
- (d) Up to 5% of its original premium plus any unused allowance from previous years*

80. What percentage of a person's pension fund can be withdrawn as a tax free lump sum at retirement?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 00

81. Yasmin learns from the fact find that Lilian has a high return objective and a long time horizon for investment. Which of the following is the *most likely* risk tolerance resulting from each of these two facts (taken separately)?

	<u>High return objective</u>	<u>Long time horizon</u>
(a)	<i>Low risk tolerance</i>	<i>Low risk tolerance</i>
(b)	<i>Low risk tolerance</i>	<i>High risk tolerance</i>
(c)	<i>High risk tolerance</i>	<i>Low risk tolerance</i>
(d)	<i>High risk tolerance</i>	<i>High risk tolerance</i>

82. During the fact find Yasmin says she is always concerned about the risk that any investments might be worth less at a future date than when she purchased them. This risk is best described as:

- (a) *Capital risk*
- (b) *Shortfall risk*
- (c) *Inflation risk*
- (d) *Interest rate risk*

83. What must Yasmin provide for Lilian when making the recommendation that she invest in a stakeholder pension scheme?

- (a) *Fact find feedback report*
- (b) *Investment objective report*
- (c) *Suitability report*
- (d) *Investment assessment report*

84. An individual found guilty of insider dealing in a crown court may face a maximum prison term of how many years?

Important! You should enter only the answer in numbers (without spaces, letters or symbols) strictly using the following format: 0 or 00

85. Which of the following is most correct when comparing the investment horizon and liquidity needs of general insurance companies with those of life assurance companies?

- (a) General insurance companies have longer investment horizons than life assurance companies and greater liquidity needs*
- (b) General insurance companies have shorter investment horizons than life assurance companies and greater liquidity needs*
- (c) General insurance companies have longer investment horizons than life assurance companies and lower liquidity needs*
- (d) General insurance companies have shorter investment horizons than life assurance companies and lower liquidity needs*

ANSWERS

1. (d)	2. (b)	3. (c)	4. (b)	5. (c)
6. (a)	7. (b)	8. (c)	9. (a)	10. (d)
11. (c)	12. (d)	13. (a)	14. (b)	15. (d)
16. (c)	17. (b)	18. (a)	19. (a)	20. (c)
21. (d)	22. (b)	23. 106000	24. 19320.00	25. (a)
26. 37429.50	27. (d)	28. (a)	29. (a)	30. 14
31. (b)	32. (d)	33. (b)	34. (b)	35. (d)
36. (c)	37. 5349	38. (b)	39. (a)	40. (a)
41. (b)	42. (c)	43. (b)	44. (d)	45. (c)
46. (d)	47. (c)	48. (b)	49. (a)	50. (c)
51. (d)	52. (a)	53. (d)	54. (d)	55. (c)
56. (a)	57. (b)	58. (d)	59. (d)	60. 50000
61. (b)	62. (c)	63. (d)	64. (b)	65. 90%
66. (b)	67. (a)	68. (c)	69. (a)	70. (d)
71. (b)	72. (a)	73. (c)	74. 568750	75. (a)
76. (d)	77. (c)	78. (c)	79. (d)	80. 25%
81. (d)	82. (a)	83. (c)	84. 7	85. (b)