

ApEx 2

Investment and Risk

Summary of Learning Outcomes

LEARNING OUTCOME H1

INTEGRATED LEARNING OUTCOME FOR THE APPROPRIATE EXAMINATIONS STANDARDS FOR RETAIL INVESTMENT ADVICE

It is a requirement that candidates are examined in their ability to COMBINE AND APPLY knowledge and understanding of the content of the four Standards to the circumstances of advising on investments which are packaged products. This will require an overarching assessment of the candidate's knowledge and understanding.

The Outcome is:

Candidates will be expected to:	Attainment Levels to be tested
H1 identify consumers' needs and demands and recommend suitable and affordable investment solutions, using their knowledge and understanding of <ul style="list-style-type: none">■ The UK finance industry, regulation and ethics■ Investment and Risk■ Protection■ Retirement Planning.	■ Analysis ■ Synthesis ■ Evaluation

There is no separate indicative content for this outcome, since the knowledge and understanding to be tested is that covered by Standards ApEx1 to ApEx 4 inclusive.

Awarding bodies are required to devise proposals for testing this outcome. The test or tests must provide evidence of candidates' capacity, when advising on investments which are packaged products, to demonstrate their ability to analyse, synthesise and evaluate information.

The scope of the test(s) should cover the areas of competence covered by the Performance Standards (otherwise known as national occupational standards) for Providing Retail Investment Advice:

1. Gather information needed to provide financial advice
2. Analyse information to provide financial advice
3. Advise on retail investment solutions
4. Review existing consumers' financial arrangements and requirements

It is for awarding bodies to determine whether this is best done through a single test (such as a case study) or a series of linked tests (such as vignettes which test different attainments). It is also for awarding bodies to determine the place of this test within their overall examination strategy. Whatever the arrangement, the test of this outcome must be clearly separated from tests for other outcomes in the examination regime.

ApEx2 Investment and Risk		
On completion of this module, candidates will be expected to:		
U	Demonstrate an understanding of:	
U1.	the macro-economic factors that affect investment returns	Comprehension
U2.	the basic principles of taxation applying to the investments of UK resident and domiciled individuals	Comprehension
U3.	different asset classes and their key features and suitability for different consumer circumstances	Comprehension
3.1.	Cash deposits	Comprehension
3.2.	Government securities and corporate bonds	Comprehension
3.3.	Equities	Comprehension
3.4.	Property - residential and commercial	Comprehension
U4.	different product types and their key features and suitability for different consumer circumstances	Comprehension
4.1.	OEICs and unit trusts	Comprehension
4.2.	Investment trusts	Comprehension
4.3.	Individual savings accounts (ISAs) and personal equity plans (PEPs)	Comprehension
4.4.	UK and offshore life assurance company products	Comprehension
4.5.	Offshore funds	Comprehension
U5.	the role of ethical investment and socially responsible investment in financial advice	Comprehension
U6.	how investment returns are related to investment risk and how that risk is measured	Comprehension
U7.	the risks faced by investors and how an investor's risk profile is determined	Comprehension
U8.	the importance of asset allocation in the investment process	Comprehension
U9.	how other issues affect investment planning	Comprehension
U10.	tax planning strategies and tax calculation rules and procedures	Comprehension
U11.	the importance of keeping up to date with trends and changes in the legal framework for providing advice	Comprehension
An	Demonstrate an ability to	
An1	analyse consumers' circumstances and suitable investment products, taking account of any existing arrangements	Analysis
A	Demonstrate an ability to	
A1	apply suitable investment product solutions to specific consumers' circumstances	Application

Indicative Content for each Learning Outcome

APEx2 INVESTMENT AND RISK

Attainment Level	Outcome	Indicative Content
U Demonstrate an understanding of:	U1. the macro-economic factors that affect investment returns	U1.1. Main long-term UK socio-economic trends – ageing population, rising living standards, growth of the service sector and other changing patterns of the UK economy, productivity of capital and labour, wealth and income distribution U1.2. The global context – international markets, globalisation of trade and finance, European economic and monetary union U1.3. The role of government and central banks – fiscal and monetary policy U1.4. Money, inflation, deflation, disinflation, interest rates, the link between money supply and inflation, measuring money supply U1.5. Balance of payments – capital and current account, exchange rates, the importance of the balance of payments U1.6. Economic and financial cycles – national income, global influences, the main stages of economic and stock market cycles, longer term growth trends U1.7. The role of financial investment in the economy – primary markets: how investment markets introduce new funds to business and the government, secondary markets: how markets enable investors to adjust their investments to suit their needs U1.8. Key economic indicators – gross domestic product (GDP), retail prices index (RPI) and the consumer prices index (CPI), public sector net cash requirement, volume of fixed investment, volume of consumer spending, balance of payments, money stock, foreign exchange rates, bank rate, gilt yields, stock market indices
	U2. the basic principles of taxation applying to the investments of UK resident and domiciled individuals	U2.1. Income tax – liability to income tax, allowances, reliefs, rates, grossing up interest and dividends, employed and self-employed income, priorities for taxing different classes of income U2.2. Capital gains tax – liability to CGT, disposals, death, deductions, losses, main exemptions, indexation relief, taper relief, basic calculation of chargeable gains U2.3. Stamp duty (including Stamp Duty Reserve Tax) on securities

APEx2 INVESTMENT AND RISK (CONT'D)

Attainment Level	Outcome	Indicative Content
U Demonstrate an understanding of:	U3. different asset classes and their key features	<p>U3.1. <i>Cash deposits</i></p> <p>3.1.1. Characteristics and past performance – liquidity, rates of interest, real returns, institutions, statutory protection, risk factors, foreign currency deposits</p> <p>3.1.2. Main types of deposit account – instant access, notice and fixed rate</p> <p>3.1.3. Taxation of deposit interest – savings income, tax deducted at source, offshore accounts</p> <p>3.1.4. ISAs and TOISAs</p> <p>3.1.5. National Savings and Investment deposit products</p> <p>U3.2. <i>Government securities and corporate bonds</i></p> <p>3.2.1. Main characteristics of fixed interest investments – nominal value and market price, coupon, redemption date</p> <p>3.2.2. Investment returns – running yields, yields to redemption, capital returns, volatility and risk, yield curves</p> <p>3.2.3. Gilts – government guarantee, short, medium and long dated gilts, past performance, gilt strips, risk</p> <p>3.2.4. Index-linked gilts – returns on income and capital, risk</p> <p>3.2.5. Corporate bonds – borrowers' risk ratings and effects on yields, past performance</p> <p>3.2.6. Other types of bonds – permanent interest bearing shares, zero coupon bonds, deep discounted bonds, local authority bonds, convertible loan stock</p> <p>3.2.7. National Savings and Investments – fixed interest investments</p> <p>3.2.8. Dealing costs of purchases and sales</p> <p>3.2.9. Taxation of government securities and corporate bonds – interest and capital gains/losses</p> <p>U3.3. <i>Equities</i></p> <p>3.3.1. Main types of shares – ordinary and preference</p> <p>3.3.2. Characteristics of equity-based investment – individual company performance and main factors that affect company profits and share values, size of company and market liquidity, sectors and markets</p> <p>3.3.3. Measuring performance – price earnings ratio (PE), dividend yield, dividend cover, borrowing, net assets</p> <p>3.3.4. Market behaviour – what makes markets fluctuate, fundamental analysis and market psychology</p> <p>3.3.5. Past performance – growth, dividends and volatility</p> <p>3.3.6. Stock market indices – main UK and overseas indices</p> <p>3.3.7. Dealing costs, stamp duty reserve tax</p> <p>3.3.8. Taxation of dividends</p> <p>3.3.9. Derivatives – futures and options, main features and uses</p> <p>3.3.10. Employee share schemes and incentives</p> <p>3.3.11. AIM shares, unlisted securities and enterprise investment schemes – tax characteristics, past performance in terms of risk and returns</p> <p>U3.4. <i>Property – residential and commercial</i></p> <p>3.4.1. Characteristics of commercial and residential property investment – returns from rent and capital growth, demand, risks, quality of tenants, occupancy levels, liquidity, depreciation and maintenance costs</p> <p>3.4.2. Past performance – differences between commercial and residential property (buy to let), key determinants of past investment returns, volatility, income and capital returns</p> <p>3.4.3. Borrowing – its effect on risk and returns</p> <p>3.4.4. Transaction costs – commissions, fees and stamp duty land tax</p> <p>3.4.5. Taxation issues – taxation of rental income, interest relief, capital gains tax</p> <p>3.4.6. Indirect property investment vehicles – unit trusts/OEICs, property shares, life assurance property bonds, offshore funds, Real Estate Investment Trusts (REITs)</p>

APEx2 INVESTMENT AND RISK (CONT'D)

Attainment Level	Outcome	Indicative Content
U Demonstrate an understanding of:	U4. different product types and their key features	<p>U4.1. <i>OEICs and unit trusts</i></p> <p>4.1.1. Structure of OEICs (investment companies with variable capital – ICVCs) and unit trusts – the common characteristics of funds and the main differences, relative merits of direct investment and investment in funds</p> <p>4.1.2. Range of funds – different UK fund classifications, hedge funds, limited issue funds, tracker funds</p> <p>4.1.3. Charges and pricing – initial and annual charging structures, single and bid/offer pricing, dilution levies</p> <p>4.1.4. Dealing in funds</p> <p>4.1.5. Taxation basics - UK and offshore, taxation within the funds, taxation of UK individual and trustee investors</p> <p>4.1.6. Offshore funds – tax structure of both the fund and the UK investor, recognition by the FSA</p> <p>4.1.7. Structured investment funds – equity index-based and equity-based growth and income funds</p> <p>U4.2. <i>Investment trusts</i></p> <p>4.2.1. Basic structure and characteristics – closed ended structure, differences between closed and other funds, range of investment trusts</p> <p>4.2.2. Main different classes of shares – ordinary shares, income shares, zero dividend shares, capital shares</p> <p>4.2.3. Dealing, pricing, premiums and discounts</p> <p>4.2.4. Gearing – advantages and drawbacks in terms of risk and flexibility</p> <p>4.2.5. Past performance of investment trusts – risk and returns</p> <p>4.2.6. Taxation - dividends and capital gains of investment trusts and for the investors who own them</p> <p>4.2.7. Venture capital trusts – structure, tax characteristics, past performance in terms of risk and returns</p> <p>U4.3. <i>Individual savings accounts (ISAs) and personal equity plans (PEPs)</i></p> <p>4.3.1. Structure – components: stocks and shares, cash, life assurance maxi-ISAs, mini-ISAs and TESSA-only ISAs (TOISAs) annual investment limits</p> <p>4.3.2. Charging – initial and annual charges for direct investments and collectives, CAT standards</p> <p>4.3.3. Tax treatment – interest, dividends, mixed bond funds, capital gains, time limit for tax regime</p> <p>4.3.4. Eligibility – age, residence</p> <p>4.3.5. Transfers – restrictions</p> <p>4.3.6. Key aspects of PEPs</p> <p>4.3.7. Effect of the death of the investor</p> <p>U4.4. <i>UK and offshore life assurance company products</i></p> <p>4.4.1. Structure and characteristics of life assurance bonds – linked funds, with profit bonds, guaranteed income and growth bonds</p> <p>4.4.2. Qualifying policies – maximum investment plans and other endowments</p> <p>4.4.3. Traded endowments</p> <p>4.4.4. Charges – initial and annual</p> <p>4.4.5. Taxation – UK and offshore, within the fund and for the investor</p> <p>4.4.6. The choice between life assurance bonds and OEICs/unit trusts</p> <p>4.4.7. Purchased life annuities</p>

APEX2 INVESTMENT AND RISK (CONT'D)

Attainment Level	Outcome	Indicative Content
U Demonstrate an understanding of:	U5. the role of ethical investment and socially responsible investment in financial advice	U5.1. Socially responsible investment – portfolios with social, ethical, environmental and financial goals, including ethical investment. U5.2. Ethical investment – portfolios based on ethical, social or environmental values where companies have been specifically excluded or selected as a result of their activities or behaviour, eliminating investments that meet negative criteria, while including those that meet positive criteria U5.3. Possible implications for investment performance
	U6. how investment returns are related to investment risk and how that risk is measured	U6.1. Inflation and investment returns – the difference between nominal and real returns U6.2. The effects of compound interest U6.3. The time value of money U6.4. Varying investment returns from the main different asset classes – ‘risk-free’ rates of return & the risk premium U6.5. Measuring risk – volatility, the significance of standard deviation as a measure of volatility, the importance and limitations of past performance data U6.6. Measuring total return and the significance of beta and alpha U6.7. Investment portfolio planning and reducing risk through diversification - systemic and non-systemic risk, diversification across shares, sectors, markets and asset classes
	U7. the risks faced by investors and how an investor’s risk profile is determined	U7.1. the importance of affordability and suitability in making financial planning decisions U7.2. Main types of risk for investors – equity capital risk, currency risk, interest rate risk, institutional risk, regulatory risk, income risk, inflation risk, shortfall risk U7.3. Objective factors – timescale, age, commitments, wealth, life cycle U7.4. Subjective factors – attitudes and experiences U7.5. Methods of assessment
	U8. the importance of asset allocation in the investment process	U8.1. The importance of asset allocation – achieving objectives, reducing risk, need for review U8.2. Analysing the underlying composition of funds – managed funds, with profits funds, fund of funds and other collective investments U8.3. Sample asset allocations – different types of investors
	U9. how other issues affect investment planning	U9.1. Comparing charges, their impact and relevance, reduction in yield U9.2. Active as against passive investment management U9.3. Paying off the mortgage as against other investments, what should be the relationship between investing and borrowing? U9.4. Alternative investments (e.g. gold, art, antiques) – past performance, advantages and drawbacks

APEx2 INVESTMENT AND RISK (CONT'D)

Attainment Level	Outcome	Indicative Content
U Demonstrate an understanding of:	U10. tax planning strategies	U10.1. Basic investment tax planning – use of personal allowances, spouses' personal allowances, children's tax position, pension contributions, use of ISAs, use of capital gains tax exemptions, tax deferral, use of life assurance bonds U10.2. Factors to account for in making personal tax calculations: basic income tax and capital gains tax computations – personal allowances, non-savings income, savings income, dividends, life assurance bond profits, chargeable gains U10.3. Criteria for selecting a tax planning strategy U10.4. Rules and procedures relating to personal tax calculations U10.5. How to make correct tax calculations U10.6. Legal requirements applying to confidentiality and disclosure of personal tax information
	U11 the importance of keeping up to date with trends and changes in the legal framework for providing advice	U11.1. Forthcoming changes in regulation affecting investment advice and the investment market U11.2. Impending legislation affecting investment advice, the investment market and financial services U11.3. Trends in case law affecting investment advice
An Demonstrate an ability to:	An1 analyse consumers' circumstances and suitable investment products, taking account of any existing arrangements	An1.1. Factors shaping consumers' circumstances An1.2. How to identify and analyse risk aversion and exposure An1.3. How to assess affordability and suitability An1.4. Methods of identifying and reviewing suitable product solutions An1.5. How to assess the impact of new solutions on existing arrangements
A Demonstrate an ability to:	A1 apply suitable investment product solutions to specific consumers' circumstances	A1.1. The range of solutions available to suit different types of circumstance A1.2. The criteria for matching solutions to consumer needs and demands A1.3. Factors influencing the way in which recommendations are presented A1.4. How to check consumers' understanding of recommendations A1.5. Consumer rights and the regulatory requirements that apply to the provision of investment advice