CeMAP 1

REVISION GUIDE

Paul Archer
Archer Training Ltd

CeMAP© 1

Revision Guide 2022/2023

Paul Archer

High House Publishing

The Revision Guide, as with all our supporting material, is complementary to the main Textbook and will never replace the detail contained therein. It was never written to reproduce the same text - that would serve no purpose. It does contain, however, bulleted summaries of the syllabus. These bullets are lighter in substance but retain the major points.

It is, essentially, a Revision Guide.

First published in Great Britain in 2012 by High House Publishing, Tivoli Studios, Cheltenham, GL50 2UG, United Kingdom.

Twentieth Edition

Printed and bound in Great Britain by Lulu.com

Edited by Lynnette Carter

Cover designed by Shelley White on Canva

ISBN 978-0-9571738-3-5(Paperback)

ISBN 978-0-9571738-2-8 (PDF)

For all your mortgage sales training needs, in house requirements contact Paul at

www.archertraining.com

www.archercourses.com

www.adviserCPD.com

paul@paularcher.com

++44 1242 236662

The Revision Guide's Contents

1 The Financial Services Industry 9
Introduction 9
The Bank of England 10
Proprietary and Mutual Organisations 12
Credit Unions 13
Retail and Wholesale Banking 14
The Role of European Union 15
Residence and Taxation 17
Domicile and Taxation 19
Income liable to tax 20
The UK income tax system 21
Categories of Income tax 22
Benefits in kind 23
Steps in calculating a tax bill 24
Payment of Income Tax 25
Capital Gains Tax (CGT) 27
Avoiding Capital Gains Tax - Legally 29
Inheritance tax (IHT) 31
LIBF Tax Table 2022/2023 32
Value Added Tax (VAT) 36
Insurance Premium Tax 37
Stamp Duty Land Tax (SDLT) 38
Corporation Tax 40
National Insurance 41
Economic and Monetary Policy 43
Inflation 44
Government Economic Policy 45
Welfare Benefits 47
2 Financial Products 50
Deposits 50
National Savings and Investments 51
Offshore Deposits 54
Money Market Instruments 55
Fixed Interest Securities 56
Government Gilts 57
Corporate Bonds 59
Local Authority Bonds 59
Permanent Interest Bearing Shares (PIBS) 60
Child Trust Fund 61
Government's Help to Save 62
Annuities 63
Shares 65
Derivatives 68
Sharesave and Share Option Schemes 69
Structured Products 71
Enterprise Investment Schemes 72
Venture Capital Trusts (VCTs) 72
Stock Markets 73
Real Estate 74
Real Estate Investment Trusts 75
Foreign Exchange 77
Unit Trusts 78
Non-Mainstream Pooled Investments 79
Investment Trusts 80
Open-ended Investment Companies (OEICs) 81
Exchange-Traded Funds – ETFs – Made Simple 83
Individual Savings Accounts ISAs 84

Endowment Assurance 88
Qualifying Policies 92
Investment Bonds 93
Term Life Assurance Policies 95
Trusts and Life Assurance 101 98
Relevant Life Assurance 100
Whole of Life Policies 101
Income Protection Insurance 103
Critical Illness Cover 105
Private Medical Insurance 106
General Insurance Protection 107
ASU 2 - IPI 3 108
Business Protection Insurance 109
Key Person Insurance 111
General Insurance 112
Types of General Insurance 114
Mortgages 116
Types of Mortgage 117
Mortgage Payment Vehicles 118
Mortgage Product Types 120
Releasing Equity for Elderly 127
Further Borrowing 128
Pension Products 129
3 The Financial Planning Process 135
Financial Life Cycle 135
Gathering Information 137
Contents of a Factfind 138
4 Financial Services Legal Concepts 139
Personal Representatives 139
Wills 140
Intestacy 140
Sole Traders, Partnerships and Charities 142
Contract law 144
Consumer Insurance Act 2012 145
Agency Law 146
Financial Scams 147
Ownership of Property 148
Lasting Power of Attorney 150
Insolvency and Bankruptcy 152
5 The Regulation of Financial Services 154
Current Regulation 154
The Current Role of the European Union 155
The EU and FS Regulation 156
Main UK Legislation 158
Regulatory Aims and Objectives 160
FCA Scope and Powers 162
FCA Principles for Businesses 163
Prudential Regulation 165
The Basel Accords Made Simple 167
Fair Treatment of Customers 169
FCA's New Consumer Duty 170
How Customers are Protected 172
The Senior Management and Certification Regime 174
Authorising Firms 177
The Appointed Representative – AR 178
Responsibilities of Regulated Firms 180
Adviser Status 181
Variety of Advice 182
Retail Distribution Review 183
Supervising Firms 184
FCA's Enforcement Powers 186
Mortgage Market Review 187

6 FCA Rules for Firms ... 188
Financial Promotions ... 188
Advertising ... 189
Reporting and Record Keeping ... 190
The Myth of CAS – Explained ... 191
Training and Competence ... 192
7 FCA Conduct of Business Rules ... 195
Types of Client ... 195
Status Disclosure with clients ... 196
Client Money ... 198
Suitabilty Requirements ... 199
Best Execution v Execution Only ... 201
Cancellation ... 202
Product Disclosure ... 203
PRIIPS and KIDS ... 204
Stakeholder Products ... 205
Types of Advice ... 206
Regulated Mortgages in Two Minutes ... 207
Mortgage Disclosure ... 210
Mortgage Conduct of Business Rules MCOBs ... 212
Insurance – ICOB Rules ... 214
How the Banks are Monitored ... 215
8 Consumer Credit Regulation ... 217
FCA Regulation of Consumer Credit ... 217
Consumer Credit Sourcebook CONC ... 218
Consumer Credit Acts ... 219
Regulation of Debt Management Firms ... 221
Regulation of Funeral Plans ... 222
Consumer Rights Legislation ... 223
9 Complaints and Disputes ... 226
The Financial Ombudsman Service ... 227
Ombudsman's Rules ... 228
Financial Services Compensation Scheme ... 229
10 Anti-Money Laundering ... 230
4th EU Anti Money Laundering Directive ... 231
5th EU Anti Money Laundering Directive ... 232
Rules for Authorised Firms ... 234
Bribery Act 2010 ... 236
11 Data Protection ... 237
Data Protection Act 1998 ... 237
The General Data Protection Regulation - GDPR ... 238
12 Other Legislation ... 241
How Customers are Protected ... 241
The Pensions Act 2004 ... 243
European Union Directives ... 244
13 Specimen Exam ... 246

1 The Financial Services Industry

Introduction

- The Functions of the Industry:
  - Allows money to be a medium of exchange for goods and services.
  - Money acts as a measure of wealth, is portable, acceptable by all and acts as a store of value.

Intermediation

- A **financial intermediary** is a firm, such as a bank, which takes money from those who have it in surplus and lends it to those who need it.
- Like a middleman that benefits both parties by being able to attract depositors from all over the country, pulling together smaller sums to provide large enough borrowings for people, balancing their deposits so long-term borrowing can be granted.
- **Product Sale Intermediaries a**re brokers who bring customers to the banks, building societies and insurance companies.

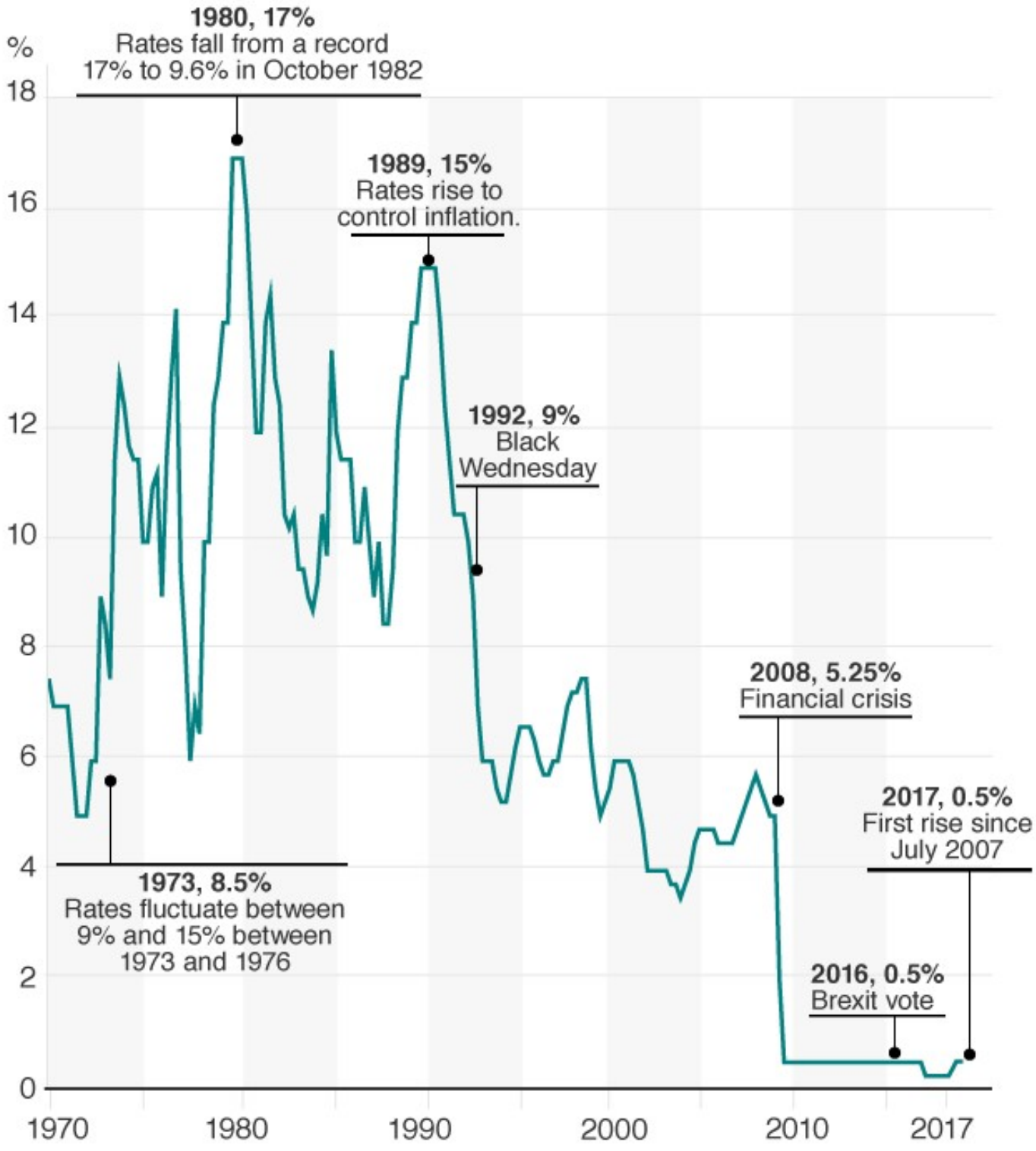
Disintermediation

- Is the opposite and where providers deal directly with the public without the need for a middleman.
- Many products which have been commoditised over the years are sold on this basis.
- Crowdfunding and Peer to Peer lending are good examples of disintermediation.

The Bank of England

- The Bank of England has several roles within the UK economy.
  - The issuer of banknotes.
  - Banker to the Government.
  - Banker to the Banks.
  - Adviser to the Government.
  - Lender of the Last Resort – e.g. Northern Rock in 2007.
- Controlling interest rates – the responsibility for setting interest rates rests with the Monetary Policy Committee (MPC).
- The MPC has to achieve a target of inflation set by the government, and it uses interest rates to meet this target.
- Foreign exchange market – manages the UK's reserves of gold and foreign currencies.
- Following the Financial Services Act 2012, the Bank of England established:
  - The Financial Conduct Authority (FCA)
  - The Financial Policy Committee (FPC) to monitor the financial sector
  - The Prudential Regulation Authority (PRA) as a subsidiary to regulate large players in the sector

The history of UK interest rates



Proprietary and Mutual Organisations

- Proprietary organisations are limited companies owned by shareholders. These form the bulk of the UK financial services market. Shareholders receive dividends according to profits and control the companies.
- Mutual organisations are owned by their members and do not have shareholders. Most building societies and friendly societies remain mutual, along with a few insurance companies.
- The trend in recent years has been for mutuals to convert to proprietary companies with the previous members becoming shareholders and receiving a windfall of shares. This process is known as demutualisation.

Credit Unions

- These are not-for-profit financial co-operatives that are licensed to take deposits and grant loans.
- They are mutual societies owned and controlled by their members, who must share a common bond.
- For example, members could be linked because they live or work in a particular area, work for the same employer or follow the same occupation.
- Due to changes to the Credit Union Act 1979, which came into force on January 2012, Credit Unions can now allow membership on wider criteria. This is known as "field of membership" test
- Credit unions are run by elected volunteers and, because they are member-owned, almost all profits are distributed to members in the form of a savings dividend.
- Some credit unions pay interest rates of up to 8% to savers, but most pay 2-3%. Savers also benefit from free life insurance.
- Credit unions also grant loans to members at reasonable interest rates.
- British credit unions are regulated by the FCA and covered by the Financial Services Compensation Scheme, which also protects all banks and building societies.
- Also, credit unions are members of the Financial Ombudsman Scheme.

Retail and Wholesale Banking

- Retail banks focus on private and corporate customers and provide a branch network to service their needs.
- Internet banking is becoming their new branch network.
- They collect deposits and pay interest and lend this money out in the form of loans for which interest is charged.
- Wholesale banks traditionally borrow large sums from the wholesale money markets and lend these out to other financial institutions or customers.
- Specialist finance houses operate in this way as they do not have a branch network.
- Retail banks use a combination of retail and wholesale methods to obtain deposits.
- Building societies also operate on the wholesale market but can't raise more than 50% of their liabilities this way.

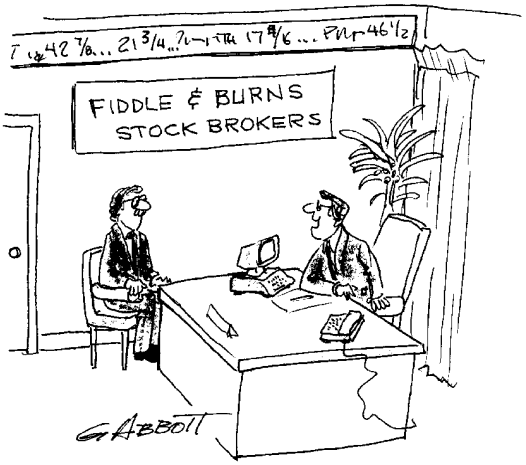
The Role of European Union

The Current Role of the EU – Post Brexit

- Since Brexit, students of CeMAP have constantly been asking why the EU is referenced in the textbook? The answer is clear. The UK system is totally entwined with EU law, and it'll take a massive effort to release us completely.
- In the TV series "Star Trek", the arch enemy is known as the Borg. These baddies take over a human host and integrate computers and robotics within the human frame. The upshot is the Borg – half woman and half robot – a cyborg.
- Years of EU membership adhering to every Directive and Regulation has created a UK system entwined with European Law.
- This entanglement was made law in December 2021 under the European Union (Withdrawal) Act of 2018, which enshrined every piece of EU law into UK law. So all those Directives, Decisions and Regulations are now UK law and still apply in your CeMAP exams.
- New EU laws do not apply to us anymore. However, we cooperate vigorously with the EU because much of our business is still done on the continent. We don't have an equivalence rule yet for services. We do for trade, that was hammered out just before Brexit. They didn't include services, and the negotiations are ongoing. Let me update you.

Latest EU Updates

- Passporting came to an end after 2021. That means UK financial services firms cannot trade abroad based on their UK regulation status. The only way is to set up a subsidiary on the continent.
- A Memo of Understanding between the UK and EU is being discussed to allow passporting to return. Still, nothing has changed, as there are a couple of hurdles to cross.
- The FCA are totally in control of all things UK supervision, as you would expect.
- We are no longer members of the European Supervisory Authorities. Still, our FCA continues to engage with them for its new rules.



"I'LL TELL YOU HOW SMART YOUR PORTFOLIO IS, RIGHT NOW IT'S VACATIONING IN SOUTHERN FRANCE."

- The Queen's Speech in 2022 confirms that we may eventually throw off the EU laws enshrined in our law. Dismantle the cyborg, maybe, remove the robotics and reveal the person underneath.
- The politicians want the UK to be the global leader in financial services, which is a noble aim. Furthermore, our reliance on the EU is fundamental and may force our hand.
- Now you know and won't be surprised with the constant reference to the EU in your study text.

Residence and Taxation

- Income Tax is normally chargeable on all income arising in the UK, whether or not the person is resident in the UK.
- People who are defined as resident in the UK are normally liable to tax on their income, including that which arises outside the UK.

Resident

- If you spend 183 days in any tax year, you are automatically UK resident for tax purposes.
- However, the new UK statutory residence test ("SRT") provides a comprehensive and complex set of tests to determine residence for tax purposes.
- The legislation applies from 5 April 2013, and where an individual has previously been treated as non-resident in the UK or resident under the old rules in the UK, there is a possibility that their residence status may have changed.

Overseas income

- A UK resident working abroad could be liable to income tax in that country and the UK.
- UK income tax on the overseas earnings of a UK resident is due whether or not that income is remitted to the UK (unless he is also not ordinarily resident, in which case it is only taxed if remitted to the UK).

Offshore Accounts

- From 2016 British Crown Dependencies and overseas territories exchanged information with HMRC under legislation to support the implementation of the US "Foreign Account Tax Compliance Act."
- They must provide details of accounts including names and other information.

Double taxation agreements

- Double taxation agreements exist with most developed countries, under which normally the tax:
  - On earned income is collected in that country, but not in the UK.
  - On unearned income is waived in that country, but collected in the UK.

"WELL NOW, THAT'S A GOOD ONE. KNOW ANY MORE JOKES?"

Domicile and Taxation

- Domicile affects liability to Inheritance Tax (IHT).
- If a person is domiciled (or deemed domiciled) in the UK at death, the estate on which IHT is charged includes all assets wherever they are situated. If not, IHT is charged only on assets situated in the UK.
- Domicile can be described as the country in which someone treats as their permanent home base, to which they would plan to return after every spell abroad.
- For most people, their domicile (called domicile of origin) is determined at birth as the domicile of their father, or their mother if parents are unmarried.
- It is possible to change to a different domicile (domicile of choice) by going to live in a different country with the intention of settling there permanently and severing all connections with the domicile of origin.
- Deemed domicile in the UK relates to people who, though not the UK domiciled, have lived in the UK for at least 15 of the last 20 years.

Who are Non-Doms?

- To mortgage advisers, not a lot; unless you're dealing with Russian Oligarchs or the mega-rich, it won't affect you.
- Non-Doms have hit the press once again with Rishi Sunak, our beloved Chancellor of the Exchequer. His political stock has taken a battering because he didn't think his wife's non-dom status would ever be spotted by the press.
- Non-Doms are totally legal and legitimate. Intended initially to shield rich folk during the Napoleonic Wars in the early nineteenth century. These rich folks had earnings and assets from abroad and didn't want them to be taxed here in the UK, so Non-Dom or non-domiciled status was created.
- Anyone who lives permanently in the UK, and Akshata Murty lives at Number 11 Downing Street with her husband, can opt for non-dom status and safeguard foreign income and assets. However, they, or their father, must have been born abroad. They must also assert that they will return to their mother country one day.

Some Notable Non-Doms

- Antonio Osorio from Lloyds Bank fame
- Mark Wilson from Aviva stock
- Mark Carney, our ex-Bank of England chief and
- Roman Abramovich, but he's in enough trouble now with his Russian connections.

Income liable to tax

- Income assessable for tax includes:
  - Salary/wages from employment.
  - Profits from a trade or profession.
  - Certain benefits in kind.
  - Certain pension/retirement benefits.
  - Gratuities.
  - Bank/building society interest.
  - Dividends.
  - Income from gilts.
  - Land/property rents.
- Some income is not assessable for tax, including:
  - The first £30,000 of redundancy payments.
  - Interest on National Savings Certificates.
  - Income from ISA's and JISA's
  - Proceeds of a qualifying life policy.
  - Gambling winnings.
  - War widows' pensions.
  - Certain welfare benefits.

The UK income tax system

- The tax year or "fiscal" year in the UK runs from April 6th to April 5th of the following calendar year.
- Income Tax is based on the income received over the whole year.

Employed

- Employed persons are taxed on the amount of income in the current tax year (current year basis).
- Their tax is collected by their employer under PAYE.
- Each year they receive a P60 which details the total amount of income, tax deducted and NI contributions.
- When they leave employment, they have their P45, which gives the same year-to-date information.

Self-employed

- Income tax is on a "current year" basis, i.e., their tax is based on the profits for their business year that ended in the current tax year.
- It is payable in two instalments -- January 31st in the current tax year, and July 31st in the following tax year.
- Class 4 National Insurance is taken at the same time.
- "Self-employed" includes sole traders and partnerships.

Categories of Income tax

- Income Tax Part One
  - Employment income
  - Pensions income
  - Taxable social security benefits
- Income Tax Part Two
  - Self-employed profits
- Income Tax Part Three
  - Property income
- Income Tax Part Four
  - Savings and investment income, including interest and share dividends

Benefits in kind

- Employers must submit a form P11D to the Inland Revenue detailing the nature and value of the benefits received in respect of these employees.
- Most directors are also included in this category.
- The main taxable benefits are:
  - Company cars and fuel.
  - Private health care (e.g. BUPA): taxed on the amount of the employer's contributions.
  - Living accommodation, unless it is required for the employee's duties (e.g. caretaker).
  - Interest-free loans: taxed on the amount of interest waived.
  - Child Care Vouchers.

Steps in calculating a tax bill

Add all your income

- Earned and unearned.
- Include gratuities, bonuses, benefits in kind, commission.
- Include all investment income and rental income.

Deductions and allowances

- Personal allowance of £12,700; income limit £100,000, where income above this slowly erodes the personal allowance.
- Blind person's allowance
- Marriage Allowance. This allowance lets you transfer 10% of your Personal Allowance to your husband, wife or civil partner -
- Married couple's allowance. If you are married or in a civil partnership and one of you was born before 6 April 1935, you may be entitled to married couple's allowance.
- Resulting figure known as taxable income.
- Deductions are payments you make on such things as Stakeholder Pensions or professional subscriptions.

Apply Tax

- Apply the current tax rates and bands.
- First £37,700 of taxable income – 20% (base rate).
- Between £37,700 and £150,000 – 40% (higher rate).
- All above £150,000 – 45% (additional rate).

Payment of Income Tax

Personal Savings Allowance

- A basic rate taxpayer will be able to earn up to £1,000 in savings income tax-free. Higher rate taxpayers will be able to earn up to £500.
- This is called the Personal Savings Allowance. This means that most people will no longer pay tax on savings interest banks and building societies.
- You do not have to claim this allowance.
- Savings income includes account interest from:
  - Bank, building society accounts, accounts with providers like credit unions or National Savings and Investments
  - Interest distributions (but not dividend distributions) from authorised unit trusts, OEICs and investment trusts
  - Income from government or company bonds
  - Most types of purchased life annuity payments

Taxation of Dividends

- The Dividend Allowance means that you will not pay tax on the first £2,000 of dividend income, no matter what non-dividend income you have. This allowance is available to anyone who has dividend income.
- You will pay tax on any dividends you receive over £2,000 at the following rates:
  - 8.75% on dividend within basic rate band
  - 33.75% on dividend within higher rate band
  - 39.35% on dividend within additional rate band

Order of Taxing Income

- The first slice of a person's income comprises earnings, pensions, taxable social security payments trading profits and income from property.
- The next slice is savings income, and dividend income is the top slice.