

How to meet RDR qualification requirements with the IMC and CFA

The Financial Services Authority took on the administration of the Appropriate Qualifications List in 2010. The Appropriate List confirms which qualifications are formally approved for practitioners to demonstrate their competence for particular job roles in the industry. The Appropriate List forms part of the FSA rules on training and competence (T&C).

T&C is likely to become the responsibility of the new Consumer Protection and Markets Authority (CPMA in 2011).

Through a series of Consultation Papers in 2009 - 2011 the FSA has confirmed that certain qualifications (and combinations of examinations) are deemed to have met the requirements of the Retail Distribution Review for investment advisors. All advisors must have covered the content of the RDR 'Core' and 'Specialist' Examination Standards through assessment at level 4 or higher on the UK framework of qualifications and of a size of assessment equivalent to a 'Diploma' (requiring more than 370 study hours). This must have been achieved by the end of 2012. The summary of routes below refines previous statements about use of the IMC and CFA programmes to meet RDR requirements

Other Professional Bodies have created RDR qualification routes meeting the Examination Standards for 'Advising on Packaged Products' – of relevance to mainstream IFAs working with the investing public. CFA UK and the CFA Institute have set up routes meeting the Examination Standards for '**Advising on Securities and Derivatives**' – of relevance to private client wealth managers, analysts and discretionary portfolio managers who advise higher net-worth individuals.

'Appropriate' and approved RDR examination routes

The following routes are Appropriate Listed and meet the Core and Specialist Examination requirements of the RDR:

1.

IMC (level 4) Unit 1: The investment environment	+
IMC (level 4) Unit 2: Investment Practice	+
CFA Level I	

2.

IMC (level 4) Unit 1: The investment environment	+
IMC (level 4) Unit 2: Investment Practice	+
Other RDR-compliant 'Specialist' exams *(see below)	

3.

IMC (level 4) Unit 1: The investment environment	+
CFA	
(IMC Unit 2 is exempted for holders of CFA Level III)	

4.

IMC (level 3) Unit 1: UK Regulation and Markets	+
IMC (level 3) Unit 2: Investment Practice	+
CFA Level I	+
CPD gapfill (see below)	

5.

IMC (level 3) Unit 1: UK Regulations and Markets	+
CFA	+
CPD gapfill (see below)	

Combining 'Core' and 'Specialist' examinations

The building blocks of the RDR examination standards are 'Core' examinations (covering regulations and ethics, personal taxation, investment and risk) and 'Specialist' examinations (covering more technical detail on securities and derivatives). There is flexibility built into this approach that may be helpful to some practitioners who wish to mix examinations from different bodies to suit their career choices or study preferences.

The combination of IMC + CFA Level I is a good fit and an established route. However, practitioners who have covered the Core standards by passing the new (level 4) IMC are entitled to complete RDR requirements by passing exams from other bodies (for example **CISI**, the Chartered Institute for Securities & Investment) where these cover all the relevant RDR Specialist content:

IMC (level 4) Unit 1: The investment environment	+
IMC (level 4) Unit 2: Investment Practice	+
*RDR-compliant 'Specialist' exams in securities/derivatives	

Both the IMC and CISI Investment Advice Diploma can be achieved through this combination.

[Visit the CISI website.](#)

CPD 'gap-fill' arrangements: CFA + IMC (level 3)

Investment advisors who hold former (level 3) versions of the IMC in combination with passes in CFA examinations are largely but not wholly compliant with the RDR requirements. The FSA requires that they fill the gaps between their pre-RDR version of the IMC and the new RDR Examination Standards. The current (level 4) IMC was developed to meet the new requirements and so the 'gaps' are, in practice, the differences between IMC level 3 and level 4.

The gaps to fill for RDR purposes are listed below. These are the RDR Examination Standards not fully covered by either level 3 IMC or CFA Level I:

Regulation and ethics	
Learning Outcome	Detail
<i>Demonstrate an understanding of:</i> How the retail consumer is served by the financial services industry	<ul style="list-style-type: none"> • Obligations towards consumers and their perception of financial services
<i>Demonstrate an understanding of:</i> Legal concepts and considerations relevant to financial advice	<ul style="list-style-type: none"> • Legal persons and powers of attorney • Basic law of contract and agency • Ownership of property • Insolvency and bankruptcy • Wills and intestacy • Use of trusts: <ul style="list-style-type: none"> – The main types of trusts and their uses – How to create and administer trusts
<i>Demonstrate an understanding of:</i> The range of skills required when advising clients	<ul style="list-style-type: none"> • Communicating clearly, assessing and adapting to the differing capabilities of clients
Personal taxation	
Learning Outcome	Detail
<i>Demonstrate an understanding of:</i> The UK tax system as relevant to the needs and circumstances of individuals and trusts	<ul style="list-style-type: none"> • Income tax – sources of income, liability, allowances, reliefs, priorities for taxing income, income of trusts and beneficiaries • National Insurance Contributions (NICs) – liability for employers, employees, self-employed contribution levels, voluntary NICs • Residence and domicile – main rules, impact on liability to income tax, CGT and IHT • Outline of Value Added Tax (VAT) and Corporation Tax
<i>Demonstrate an ability to analyse:</i> The taxation of investments as relevant to the needs and circumstances of individuals and trusts	<ul style="list-style-type: none"> • Indirect investments: <ul style="list-style-type: none"> – Individual Savings Accounts (ISAs) and Child Trust Funds (CTFs) – onshore and offshore collectives and investment companies
<i>Demonstrate the ability to apply:</i> The knowledge of personal taxation to the	<ul style="list-style-type: none"> • To carry out computations on the most

provision of investment advice	<p>common elements of income tax and NICs; CGT; IHT including the impact of lifetime transfers and transfers at death</p> <ul style="list-style-type: none"> • To make elementary tax planning recommendations in the context of investment advice
Securities and derivatives	
Learning Outcome	Detail
<i>Demonstrate an ability to apply:</i> The relevant factors and considerations to decide and implement investment recommendations	<i>These standards include the requirement to COMBINE and APPLY the learning content from all units of the Appropriate Exam</i>

Filling the gaps

The key gap is the last of those listed above, requiring candidates to combine and apply content from across the Examination Standards in order to implement appropriate investment recommendations. This is most appropriately addressed through analysis of case studies where delegates can balance ethical, regulatory, tax and risk considerations to more complex advice scenarios.

CFA UK approved CPD has following format to fill the content gaps and ensure knowledge is applied.

1. Content study: pre-sessional reading

Delegates will be required to obtain and read sections of the new level 4 IMC workbook that relate to the gaps listed above. This material is available from CFA UK in a self-contained CPD study booklet. The (level 4) IMC syllabus references for this are as follows (new required content in red font):

Demonstrate an understanding of legal concepts relevant to financial advice

- 3.1.1 explain legal persons and power of attorney;
- 3.1.2 explain basic law of contract and agency;
- 3.1.3 explain the types of ownership of property;
- 3.1.4 explain insolvency and bankruptcy;
- 3.1.5 explain wills and intestacy;
- 3.1.6 identify the main types of trusts and their uses.

Demonstrate an understanding of how the retail customer is served by the financial services industry

- 11.1.1 explain the obligations of a firm towards consumers and their perceptions of financial services;
- 11.1.3 identify suitable investment solutions to suit different needs of consumers.

Demonstrate an understanding of the range of skills required when advising clients

- 13.1.1 communicate clearly, assessing and adapting to the differing capabilities of clients;

Demonstrate an understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts

- 14.1.2 explain in relation to income tax the system of allowances, reliefs and priorities for taxing income;
- 14.1.3 explain the taxation of the income of trusts and beneficiaries;
- 14.1.4 explain the system of national insurance contributions;
- 14.1.7 explain the implications of residence and domicile in relation to liability to income, capital gains and inheritance tax;
- 14.1.12 explain in outline the principles of Value Added Tax (VAT)

Demonstrate an ability to analyse the taxation of investments as relevant to the needs and circumstances of individuals and trusts

- 15.1.2 analyse the taxation of indirect investments including pension arrangements, individual savings accounts (ISAs), child trust funds (CTFs), onshore and offshore collective investment schemes and investment companies, onshore and offshore life assurance policies, real estate investment trusts and Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs).

Demonstrate an ability to apply the knowledge of personal taxation to the provision of investment advice

- 17.1.1 To carry out computations on the most common elements of income tax and **NICs**; CGT; IHT including the impact of lifetime transfers and transfers at death;
- 17.1.2 To make elementary tax planning recommendations in the context of investments and **pensions advice**.

Training providers for the IMC qualification (such as 7City Learning, BPP, Kaplan Financial and Quartic Training) may choose to offer this CPD too using their own training materials. Delegates will be required to have studied the pre-session reading fully in advance of the CPD structured learning session.

2. CPD structured learning session

CPD delegates will be required to attend a CFA UK-approved CPD day-session. This is facilitated by a suitably qualified trainer/facilitator.

During the CPD session, delegates review the pre-session reading content. They analyse investment advice case studies and private client portfolios. In session they consider the regulatory, ethical, taxation, risk and yield implications of a varied set of private client scenarios.

The sessions will be held at regular intervals (initially monthly) throughout 2011. See the [CFA UK events page](#) to register for a session.

3. Assessment

CPD is an alternative to formal examination and is accepted by the Regulator on the basis that delegates have already passed several professional examinations. Assessment of the CPD will therefore be based on the trainer's confirmation of successful completion of the structured learning session. Delegates who do not attend the full event, who have under-prepared the pre-session study or who do not engage fully during the session will not be certified.

4. Certification

CFA UK will administer its own CPD and will endorse the CPD offered by established training providers that meets the same standards. Delegates will receive a certificate of successful completion provided they meet the basic requirements outlined above.

5. Registration

Delegates can register for the CFA UK CPD session via the [CFA UK website](#). Sessions will be held throughout 2011.