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PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

LA9QHJV8

CF1 - UK financial services, regulation and ethics

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) `LA9QHJV8`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `LA9QHJV8`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 SINGLE CHOICE

Which UK regulatory body is specifically responsible for the prudential supervision of banks, building societies, credit unions and insurers?

A The Financial Conduct Authority (FCA)

B The Prudential Regulation Authority (PRA)

C The Financial Services Compensation Scheme (FSCS)

D The Bank of England

ANSWER **B**

WHY The PRA, part of the Bank of England group, is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The FCA focuses on conduct regulation, while the FSCS provides compensation to eligible claimants if a firm fails.

QUESTION 2 SINGLE CHOICE

Under the Financial Services and Markets Act 2000 (FSMA), which of the following is a primary operational objective of the Financial Conduct Authority (FCA)?

A Promoting competition in the financial services industry

B Securing an appropriate degree of protection for consumers

C Controlling inflation through monetary policy

D Compensating victims of authorised firm failures

ANSWER **B**

WHY The FCA has three operational objectives under FSMA: securing consumer protection, protecting and enhancing the integrity of the UK financial system, and promoting effective competition. Compensating victims is the role of the FSCS, and inflation control is the Bank of England's monetary policy role.

QUESTION 3 SINGLE CHOICE

What is the primary function of the Financial Ombudsman Service (FOS) in the UK?

A To regulate the conduct of financial advisers

B **To settle disputes between eligible complainants and financial businesses**

C To pay compensation when an authorised firm is unable to meet its liabilities

D To set the rules that authorised firms must follow

ANSWER **B**

WHY The Financial Ombudsman Service is an independent statutory body that resolves disputes between individual complainants (and certain small businesses) and financial services firms that the ombudsman considers eligible to consider. It is separate from the FCA (which sets rules) and the FSCS (which pays compensation on firm failure).

QUESTION 4 SINGLE CHOICE

Under FSMA, a person who carries out a regulated activity in the UK without being authorised or exempt is committing:

A A civil wrong only

B **A criminal offence under Section 19 of FSMA**

C A breach of contract only

D An offence under the Consumer Rights Act 2015

ANSWER **B**

WHY Section 19 of FSMA makes it a criminal offence for a person to carry on a regulated activity in the UK unless they are authorised or exempt. This is the cornerstone of the 'general prohibition' that defines the regulatory perimeter.

QUESTION 5 SINGLE CHOICE

An investment firm advertises a savings product as 'risk-free' when in fact capital is not guaranteed. Which FCA principle for businesses is most directly breached?

A Principle 1 – Integrity

B Principle 6 – Customers' interests

C **Principle 7 – Communications with clients**

D Principle 11 – Relations with regulators

ANSWER **C**

WHY Principle 7 requires a firm to pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading. Misrepresenting an investment as 'risk-free' when capital is at risk is a classic breach of Principle 7.

QUESTION 6 SINGLE CHOICE

Which of the following best describes the intended scope of the FCA's Treating Customers Fairly (TCF) initiative?

A It applies only at the point of sale for retail customers

B It applies only to complaints handling after a contract is sold

C **It applies throughout the product life cycle, from design and promotion through to after-sales service**

D It applies only to products sold to wealthy clients

ANSWER **C**

WHY TCF is a cross-cutting FCA initiative that requires firms to deliver fair treatment to customers throughout the entire product life cycle – from product design, marketing and sales to servicing, complaints handling and beyond. It is not restricted to one stage or to one client category.

QUESTION 7 SINGLE CHOICE

Under the CII Code of Ethics, members are required to act with the highest standards of integrity. Which of the following statements about the Code is correct?

A The Code is a voluntary guideline that members may ignore without consequence

B A breach of the Code may result in disciplinary action by the CII, up to and including expulsion

C The Code only applies to members when they are acting in a regulated activity

D The Code applies only to members employed by CII-registered firms

ANSWER B

WHY The CII Code of Ethics binds all members regardless of their specific role or employer, and a breach may lead to disciplinary action including reprimand, suspension or expulsion from membership. It is not optional and is not restricted to members carrying out regulated activities.

QUESTION 8 SINGLE CHOICE

Under the FCA's Senior Managers and Certification Regime (SMCR), a Senior Manager must:

A Take reasonable steps to ensure that the business of the firm for which they are responsible complies with FCA rules and regulatory requirements

B Personally underwrite every insurance policy issued by the firm

C Approve every transaction executed by the firm

D Hold a minimum of 10% of the firm's share capital

ANSWER A

WHY Under the SMCR, Senior Managers are personally accountable and must take reasonable steps to ensure that the area of the firm's business for which they are responsible complies with regulatory requirements. They do not need to approve every transaction or hold a specific shareholding.

QUESTION 9 SINGLE CHOICE

Under the Financial Services and Markets Act 2000 (FSMA), which of the following is one of the FCA's operational objectives?

- **A** **Promoting effective competition in the financial services market**
- **B** Maintaining the financial stability of the UK
- **C** Providing deposit insurance to eligible depositors
- **D** Setting monetary policy for the United Kingdom

ANSWER **A**

WHY The FCA has three operational objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers. Financial stability is a PRA objective, deposit insurance is delivered by the FSCS, and monetary policy is the responsibility of the Bank of England / Monetary Policy Committee.