

Findings from the Review of Level 4 Retail Investment Adviser Qualifications



May 2012

Ofqual/12/5167

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Executive summary

In 2011, we carried out a review of level 4 qualifications for retail investment advisers. The findings from our monitoring of compliance against the requirements in the [*General Conditions of Recognition* (Ofqual, 2011)] of these qualifications are detailed in this report.

In March 2010, the Financial Services Authority (FSA) published the *Retail Distribution Review*¹. The FSA website states:

The Retail Distribution Review (RDR) is a key part of our consumer protection strategy. It is establishing a resilient, effective and attractive retail investment market that consumers can have confidence in and trust at a time when they need more help and advice than ever with their retirement and investment planning.

The RDR states that all financial advisers will need to hold a Statement of Professional Standing (SPS) if they want to give professional advice before January 2013. Part of the SPS involves having an appropriate level 4 qualification for retail investment advice.

Five of the FSA approved qualifications are regulated by us. The awarding organisations that provide these qualifications are:

1. Chartered Financial Analyst UK (CFA UK)
2. Chartered Institute Insurance (CII)
3. Chartered Institute for Securities and Investment (CISI)
4. *ifs School of Finance*
5. Scottish Qualifications Authority (SQA).

Additionally, Edexcel has a level 4 qualification for financial advisers that we also regulate.

We conducted this review as a benchmarking exercise to judge the performance of awarding organisations against the *General Conditions of Recognition* (Ofqual, 2011). We particularly wanted to determine if the learning outcomes and FSA exam standards are assessed appropriately, and that the qualifications are fit for purpose.

¹ www.fsa.gov.uk/rdr

Our scrutiny showed that all of the qualifications we looked at cover the learning outcomes appropriately, and although assessment methods varied across the qualifications, all learning outcomes were covered in the live assessments that we reviewed.

We were concerned that the pass marks for some of the written application units were relatively low at between 50 to 60 per cent compared to other units in the qualification where the pass marks were 65 to 70 per cent. The awarding organisations have assured us that the qualifications, as a combination of all the units, sufficiently assess all of the required knowledge and application of skills required to be a competent adviser.

We are satisfied with the assurances that we received from awarding organisations that all learners who meet the minimum standards will have demonstrated sufficient knowledge and skill to work as a financial services adviser – therefore the qualifications are fit for purpose.

All of the awarding organisations worked with us to resolve any specific non-compliances or concerns that we highlighted. There are no outstanding actions.

Introduction

We are the independent regulator of qualifications, exams and assessments in England, and of vocational qualifications in Northern Ireland. Our work ensures that children, young people and adult learners get the results their work deserves, that standards are maintained and the qualifications that learners receive are correctly valued, both now and in the future.

Awarding organisations that offer vocational qualifications operate within a regulatory framework, which is set out in the *General Conditions of Recognition* (Ofqual, 2011) and in the *Regulatory Arrangements for the Qualifications and Credit Framework* (Ofqual, 2008).

We carry out a programme of monitoring activities to assess the performance of awarding organisations against these regulatory requirements.

Background

The FSA's publication of the *Retail Distribution Review*² (FSA, March 2010) requires that all retail investment advisers must have an approved 'level 4' qualification by the beginning of 2013 that contributes towards their entitlement to have a SPS allowing them to give financial advice.

Several awarding organisations raised concerns about the assessment methodologies and level of some of the qualifications being offered by other awarding organisations in the sector.

As a result of discussions with the FSA, we decided to carry out a review. The FSA later confirmed that it was satisfied that the levels of the qualifications were appropriate. The focus of the review changed to look at assessment methodologies and learning outcomes.

The learning outcomes are mapped directly to the FSA examination standards. These are:

- financial services
- regulation and ethics
- personal taxation
- investment principles and risk.

² www.fsa.gov.uk/rdr

Further technical modules are completed depending on the specific role of the adviser. These are:

- financial protection
- pensions and retirement planning
- securities
- derivatives
- application standards.

What we aimed to do

The review of the level 4 retail investment adviser qualifications aimed to:

- determine if the qualifications meet the FSA examination standards³
- judge if the qualifications can assess knowledge and skills appropriately.

The qualifications we reviewed

The FSA maintains the appropriate qualifications tables for various regulated activities, including those carried out by retail investment advisers. Our scrutiny reviewed the six level 4 qualifications that are on the appropriate qualifications tables for these activities:

1. CFA UK *Level 4 Certificate in Investment Management*
2. CII *Level 4 Diploma in Regulated Financial Planning*
3. CISI *Level 4 Diploma in Investment Advice*
4. Edexcel *Level 4 Certificate for Financial Advisers*
5. *ifs School of Finance Level 4 Diploma for Financial Advisers*
6. SQA *Level 4 Diploma in Professional Financial Advice.*

The Chartered Institute of Bankers in Scotland (CIOBS) offers a comparable qualification on the Scottish Credit and Qualifications Framework (SCQF). This is the *Level 9 Diploma in Investment Planning*. We do not regulate this awarding organisation or its qualifications. However, within the scope of the study, CIOBS

³ www.fsa.gov.uk/doing/regulated/tc/exam_stnds

agreed to give us information for comment. We have reported our observations directly to CIOBS.

Appendix 1 gives a summary of the qualifications and units reviewed.

Methodology

In this review, we examined different qualification specifications and their associated assessment instruments by collating and analysing the views of a number of subject specialists. We looked in detail at the following:

- specifications and coverage of learning outcomes
- assessment materials and methodologies, including question papers and marking criteria
- awarding organisations' statements detailing how their qualification meets the required industry standards.

We appointed reviewers who completed a detailed analysis of the specifications and assessment materials. The reviewers were independent sector specialists. Each reviewer looked at a minimum of four qualifications and independently evaluated the materials that had been submitted by the awarding organisations.

Findings

All of the awarding organisations that were reviewed have demonstrated that learners who meet the minimum standards will have shown sufficient knowledge and skill to work as a retail investment adviser – therefore the qualifications are fit for purpose.

Specifications and coverage of learning outcomes

Qualification level

Qualification levels were reviewed in the initial desk-based review of the units on the *Regulatory Arrangements for the Qualifications and Credit Framework* (Ofqual, 2008). All of the qualifications are confirmed as level 4 – five of the qualifications had 100 per cent of units at level 4 or above.

One qualification, *CII Level 4 Diploma in Regulated Financial Planning*, includes a unit (Financial protection) that is at level 3. This single unit is worth 14 per cent of the total credits required for the qualification and the qualification therefore meets Section 1.19 of the *Regulatory Arrangements for the Qualifications and Credit Framework* (Ofqual, 2008) requirements for level 4. This states that:

The level of a qualification must be determined by reviewing the rules of combination for the qualification and identifying the level at which there is the greatest number of credits required. More than 50 per cent of credits must be at the same level as the qualification or above.

Coverage of learning outcomes

We requested a grid from each awarding organisation that mapped their specifications to the FSA-defined industry standards. The FSA's standards have clearly defined attainment levels, learning outcomes and content for the following areas:

- financial services
- regulation and ethics
- financial protection
- personal taxation
- pensions and retirement planning
- investment principles and risk
- application standards.

For each specification, we reviewed the learning outcomes to ensure appropriate coverage. We saw that all of the specifications had full coverage of the learning outcomes.

Assessment materials and methodologies

The awarding organisations assess learners' knowledge, skills and understanding in a variety of ways:

- multiple-choice questions
- case study scenarios
- research assignments
- gap fill questions
- short item questions.

We saw that multiple-choice questions are mainly used to assess knowledge, whereas case studies and written assignments are used to assess knowledge and application.

Coverage of assessment criteria

Awarding organisations mapped the learning outcomes for each unit to the specification and assessment criteria of the qualification. We reviewed the materials supplied and judged that for CFA UK, CISI, *ifs School of Finance*, Edexcel and SQA, the learning outcomes were assessed in full.

We found that the CII *Level 4 Diploma in Regulated Financial Planning* did not cover a number of assessment criteria in the following units: RO1 Financial services, regulation and ethics; RO2 Investment principles and risk; RO4 Pensions and retirement planning; and RO5 Financial protection.

CII agreed that the specimen paper it had submitted did not assess all of the assessment criteria. CII has advised us that specimen assessment materials are updated annually, and it will be guided by our findings and comments at the next review.

CII has taken action to ensure that live exams cover all of the assessment criteria. This involves ensuring an appropriate balance of the coverage of syllabus items for each unit.

The Angoff⁴ process is then used to score the items when setting the pass mark for the unit. As these judgements are made by the quality assurance panel, this provides confidence that the live exams assess the skills, knowledge and/or understanding of all the learning outcomes against the stated assessment criteria.

Question papers

We noted that the specimen multiple-choice papers for the CII *Level 4 Diploma in Regulated Financial Planning* included a question that was unclear, because of a lack of plausible distracters. CII has reviewed the highlighted question and provided assurance to us that it has a process to review each live item's performance using statistical analysis panels, and make any necessary changes.

Similarly, for the *ifs School of Finance Level 4 Diploma for Financial Advisers – Unit 1 Financial services, regulation and ethics*, we found that several of the multiple-choice questions reviewed in Sample Paper A appeared to have a lack of plausible distracters. In response to our observation, *ifs School of Finance* has reviewed the specific questions and the associated item level data – this is available because it tests questions before they are used in sample papers. This data shows how learners have performed in these questions and that the distracters have worked appropriately. The *ifs School of Finance* will continue to review its item bank to ensure that questions perform.

SQA provided sample questions for the *Level 4 Diploma in Professional Financial Advice*. We judged that some of the sample questions were ambiguous and also found some typographical errors. SQA has confirmed to us that it has reviewed and checked the questions in its live item bank to ensure that they are clear and do not contain errors.

Mark schemes

For the Private client advice unit of the CISI *Level 4 Diploma in Investment Advice*, a mock paper and model answer were provided. We judged that the lack of a detailed mark scheme could mean that marks are not allocated consistently. CISI assured us that for the June 2012 exam series and onwards a full mark scheme will be developed.

⁴ The Angoff process is used in the development of tests to identify an appropriate pass mark. Initially, a group of subject experts work together to define a borderline pass. From this definition, the subject experts then consider each question and predict how many of these learners will answer the question correctly. An average of the ratings given across items and across subject experts is used to work out the pass mark for the exam.

Meeting industry requirements

All of the awarding organisations provided us with evidence of the quality assurance processes that they have in place to ensure that qualifications are rigorous and meet the industry requirements for retail investment advisers.

Minimum pass marks

Several awarding organisations have one unit that is designed to assess the application of the knowledge covered in the other units of the qualification. These are:

- CII Financial planning practice
- CISI Private client advice
- *ifs School of Finance* Advanced financial advice.

These units have a pass mark ranging from 50 per cent and 55 per cent, which appears relatively low compared with the awarding organisation's other units where the minimum pass mark ranges between 65 per cent and 70 per cent.

Awarding organisations hold moderation meetings to ensure that learners meet all of the learning outcomes for the written unit and therefore ensure they meet the FSA examination standards.

All of the awarding organisations have assured us that rigorous processes are in place to ensure that standards are set appropriately and that learners who pass the qualification achieve all of the required learning outcomes.

Clarity of purpose

The specification for the Edexcel *Level 4 Certificate for Financial Advisers* stated:

This qualification is for people working as financial advisers aged 16 and above, who are capable of meeting the required standards.

With the requirements of the *Retail Distribution Review* (FSA, March 2010) we judged that this could be misleading for learners who study the *Edexcel Level 4 Certificate for Financial Advisers* expecting to be awarded a licence to practice a qualification approved by the FSA. In response, Pearson has updated the specification⁵ to include the statement that:

⁵ N031011 – Specification – Edexcel Level 4 Certificate for Financial Advisers (QCF) – Issue 2 – January 2012

The qualification does not appear on the FSA's appropriate qualifications tables.

Conclusions

We found that the assessment methodologies vary across all of the qualifications and validly measure the skills, knowledge and understanding of all the learning outcomes against the stated assessment criteria. We are satisfied that all of the learning outcomes and assessment criteria are covered appropriately, ensuring that qualifications are fit for purpose.

It should be noted that the *Edexcel Level 4 Certificate for Financial Advisers* is not intended to be used to satisfy the requirements of the *Retail Distribution Review* (FSA, March 2010).

Also, it should be noted that the CFA UK qualification is studied in combination with the international CFA investment adviser programme.

Appendix 1: Summary of qualification and units

CFA UK Certificate in Investment Management

Qualification Number 501/1490/6

J/602/4751 Investment management and advice in the UK context – level 4

Unit Credit value - 8

Guided Learning hours - 21

85 questions to be completed in 100 minutes. Assessment is a combination of item set questions; a case study which is used to generate 6 questions; numerical gap fill – which shows application and calculation.

R/602/4896 The practice of investment management – level 4

Unit credit value - 12

Guided learning hours - 31

105 questions to be completed in 140 minutes. Assessment is a combination of item set questions; a case study which is used to generate 6 questions; numerical gap fill – which shows application and calculation.

CII Level 4 Diploma in Regulated Financial Planning

Qualification number - 501/0024/5

<p>Y/601/4211 Financial services, regulation and ethics – level 4 Guided learning hours - 36 Unit credit value - 6 87 standard multiple-choice questions and 13 multiple response questions to be completed in a 2 hour exam.</p>
<p>T/601/4233 Investment principles and risk – level 4 Guided learning hours – 36 Unit credit value - 6 66 standard multiple-choice questions and 34 multiple response questions to be completed in a 2 hour exam.</p>
<p>A/601/4234 Personal taxation – level 4 Guided learning hours - 30 Unit credit value – 5 35 standard multiple-choice questions and 15 multiple response questions to be completed in a 1 hour exam.</p>
<p>F/601/4235 Pensions and retirement planning – level 4 Guided learning hours - 30 Unit credit value – 5 535 standard multiple-choice questions and 15 multiple response questions to be completed in a 1 hour exam.</p>
<p>R/601/4238 Financial protection – level 3 Guided learning hours - 30 Unit credit value - 5 50 standard multiple-choice questions to be completed in 1 hour</p>
<p>Y/601/4239 Financial planning practice – level 4 Guided learning hours - 60 Unit credit value - 10 3 hour synoptic exam which applies the learning content from other units – two case studies with short answer questions</p>

CISI Level 4 Diploma in Investment Advice

Qualification Number - 501/0746/X

<p>A/602/1300 FSA regulation and professional integrity Guided learning hours - 35 Unit credit value - 14</p> <p>80 multiple-choice questions to be completed in a 2 hour exam</p>
<p>L/602/1303 Investment, risk and taxation Guided learning hours - 35 Unit credit value - 14</p> <p>80 comprehension multiple-choice questions to be completed in a 2hr exam</p>
<p>L/602/1270 Securities Guided learning hours - 35 Unit credit value - 14</p> <p>80 multiple-choice questions to be completed in a 2 hour exam</p>
<p>L/602/4718 Derivatives Guided learning hours - 35 Unit credit value - 14</p> <p>80 multiple-choice questions to be completed in a 2 hour exam</p>
<p>R/602/4722 Private client advice Guided learning hours - 40 Unit credit value - 18 3hr written exam which is divided into three sections:</p> <ul style="list-style-type: none">■ Section A (20 marks) multiple-choice and short single topic questions■ Section B (40 marks) six single topic questions■ Section C (40 marks) two case studies.

Edexcel Level 4 Certificate for Financial Advisers

Qualification Number – 600/0102/1

<p>A/502/6101 Engaging the client for financial advice and/or planning – level 4 Guided learning hours - 25 Unit credit value - 3</p> <p>Work-based evidence</p>
<p>A/502/6499 Implementing financial solutions following financial advice and/or planning – level 4 Guided learning hours - 28 Unit credit value - 4</p> <p>Work-based evidence</p>
<p>D/502/6110 Gathering and validating financial information for financial advice and/or planning – level 4 Guided learning hours - 35 Unit credit value - 4</p> <p>Work-based evidence</p>
<p>H/502/6495 Research and selecting appropriate solutions to inform recommendations for financial advice and/or planning – level 4 Guided learning hours - 30 Unit credit value - 4</p> <p>Work-based evidence</p>
<p>K/502/6501 Reviewing and responding to the client's changing financial needs and circumstances for financial advice and/or planning – level 4 Guided learning hours - 35 Unit credit value - 4</p> <p>Work-based evidence</p>
<p>L/502/6460 Analysing the client's financial circumstances for financial advice and/or planning – level 4 Guided learning hours - 35 Unit credit value - 4</p> <p>Work-based evidence</p>

M/502/6497 Advising on appropriate financial solutions and agreeing the next steps for financial advice and/or planning – level 4

Guided learning hours - 35

Unit credit value - 4

Worked-based evidence

T/502/6503 Maintaining professional development and financial services industry awareness for financial advice and/or planning – level 4

Guided learning hours - 30

Unit credit value - 4

Work-based evidence

**ifs School of Finance Level 4 Diploma for Financial Advisers
Qualification Number - 501/0114/6**

Y/601/2801 Financial services, regulation and ethics – level 4

Guided learning hours -100

Unit credit value - 18

100 multiple-choice questions consisting of 90 stand-alone questions and two case studies with five multiple-choice questions for each.

F/601/2808 Advanced financial advice – level 4

Guided learning hours - 270

Unit credit value - 29

- Part A – coursework consists of a 4000-word assignment as main task – learner needs to research and present conclusions.
- Part B – involves three short answer questions that assess technical competence.

Additionally, there is a 3hr exam that has a pre-released client fact find – learners are set a single question and must write a report with justified recommendations. This simulates the research that a financial adviser would do prior to meeting a client

SQA Level 4 Diploma in Professional Financial Advice

Qualification Number – 501/1247/8

<p>K/602/3981 Financial services, regulation and ethics – level 4 Guided learning hours - 60 Unit credit value – 6</p> <p>Multiple-choice questions</p>
<p>F/602/3985 Personal taxation – level 4 Guided learning hours – 60 Unit credit value – 6</p> <p>Multiple-choice questions</p>
<p>J/602/3986 Investment principles and risk – level 4 Guided learning hours – 60 Unit credit value – 6</p> <p>Multiple-choice questions</p>
<p>R/602/3988 Pensions and retirement planning – level 4 Guided learning hours – 60 Unit credit value – 6</p> <p>Multiple-choice questions</p>
<p>Y/602/2989 Financial protection – level 4 Guided learning hours – 50 Unit credit value – 5</p> <p>Multiple-choice questions</p>
<p>L/602/3990 Application of professional financial advice – level 4 Guided learning hours - 100 Unit credit value - 10</p> <p>Written questions</p>

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First published by the Office of Qualifications and Examinations Regulation in 2012

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