CISI UKFR

Free Practice Test — 30 Real Exam-Style Questions

with full answer key & explanations

Practice Questions

Try all 30 first, then check the answer key at the back.

1. Which arm of the Bank of England is tasked with overseeing the prudential soundness of banks and insurance companies?

A. Prudential Regulation Authority
B. Monetary Policy Committee
C. Financial Ombudsman Service
D. Competition and Markets Authority

2. Which regulatory body is responsible for overseeing the FSCS?

A. Financial Conduct Authority
B. Competition and Markets Authority
C. Bank of England
D. Pensions Regulator

3. Which category of firm comes under direct PRA supervision?

A. Large deposit-taking institutions
B. Independent financial advisers
C. Data protection consultancies
D. Retail mortgage brokers

4. What category of pension arrangement does the PPF provide protection for?

A. Salary-linked defined benefit schemes
B. Investment-based defined contribution schemes
C. Government-funded state pension entitlements
D. Individual personal pension plans

5. Which of the following payment services falls directly within the PSR's supervisory scope?

A. Bacs Direct Credit
B. Life insurance premiums
C. Corporate bond issuance
D. Defined contribution pensions

6. Which of the following reflects the financial duty pension trustees are required to fulfil?

A. Making certain the scheme's funds are prudently invested and protected
B. Authorising rates of corporate taxation
C. Creating and selling government debt securities
D. Running day-to-day consumer banking operations

7. Which global regulatory framework underpins the capital adequacy standards set by the PRA?

A. Basel III
B. Solvency II
C. GDPR
D. MiFID II

8. Under which statutory power can the FCA prohibit financial promotions it considers harmful or misleading?

A. Product intervention powers
B. Competition enforcement powers
C. Monetary policy directives
D. Prudential directives

9. What guiding principle must pension scheme trustees apply when making investment decisions?

A. The principle of acting as a prudent, careful investor
B. The principle of competitive market neutrality
C. The principle of equitable and fair taxation
D. The principle of solvency balance and neutrality

10. How would you best describe the governance function that pension scheme trustees perform?

A. Overseeing pension schemes to ensure they operate within legal and best-practice standards
B. Controlling and setting national interest rates
C. Administering and collecting value added tax
D. Monitoring the financial soundness of insurance companies

11. Which EU Directive sets the framework for collective investment schemes that may be marketed to retail investors across Member States?

A. The UCITS Directive
B. PSD2
C. GDPR
D. CRR

12. Which of the following correctly describes the FCA's statutory objectives?

A. Protecting consumers, preserving market integrity, and promoting competition
B. Ensuring capital adequacy, liquidity, and systemic resilience
C. Setting monetary policy and maintaining financial stability
D. Collecting taxes and managing fiscal policy

13. In the FCA Handbook, which category of provision establishes broad, high-level regulatory expectations?

A. Principles
B. Rules
C. Guidance
D. Supervisory statements

14. Which policy objective does HM Treasury establish for the Bank of England?

A. The target rate of inflation
B. Minimum capital adequacy thresholds
C. Levels of consumer compensation
D. Rules governing pension funding

15. Which regulator has authority to impose requirements on firms regarding their prudential risk management frameworks?

A. Financial Conduct Authority
B. Prudential Regulation Authority
C. Financial Ombudsman Service
D. Competition and Markets Authority

16. How does the FCA define the concept of conduct risk?

A. The risk that a firm's actions result in unfavourable outcomes for consumers
B. The risk arising from movements in currency exchange rates
C. The risk posed by shifts in government legislation or policy
D. The risk that natural events disrupt a firm's operations

17. Which organisation is responsible for investigating tax evasion and fraud in the UK?

A. HM Revenue & Customs
B. Financial Conduct Authority
C. Serious Fraud Office
D. Prudential Regulation Authority

18. When handling competition matters in financial services, which sector regulator does the CMA typically work alongside?

A. Financial Conduct Authority
B. Pensions Regulator
C. Information Commissioner's Office
D. Prudential Regulation Authority

19. In what way does the PRA incorporate proportionality into its supervisory approach?

A. By calibrating requirements to the size and risk profile of each firm
B. By passing supervisory duties to industry trade bodies
C. By granting complete exemptions to smaller firms
D. By applying a uniform set of rules to every firm regardless of size

20. What is the name of the annual HM Treasury statement that outlines the government's fiscal plans?

A. The Budget
B. The Financial Stability Report
C. The Companies Act Report
D. The Prudential Supervision Statement

21. What is the primary aim of TPR's governance standards for pension schemes?

A. To ensure that trustees act in the best interests of scheme members
B. To determine the rates of corporate taxation
C. To assess and approve competition-related mergers
D. To provide oversight of insurance policies

22. Whose best interests does COBS 2.1 require investment firms to place at the forefront of their conduct?

A. Clients
B. Shareholders
C. Employees
D. Competitors

23. What does the Bank of England do in its capacity as the UK's resolution authority?

A. Overseeing the controlled wind-down of failing banks
B. Arranging compensation for consumers
C. Determining corporate tax rates
D. Supervising pension fund trustees

24. What is the primary significance of FCA Principle 8 for authorised firms?

A. It obliges firms to handle conflicts of interest in a fair manner
B. It ensures firms offer products at the lowest possible cost
C. It provides a guarantee that every client will earn a profit
D. It requires firms to charge all clients at the same rate

25. What options are available to a party wishing to challenge a Pension Ombudsman determination?

A. Appeal to the High Court on a point of law
B. Automatic referral to the FCA
C. Automatic referral to the PRA
D. Escalation to HM Treasury

26. Most complaints that the FOS deals with allege breaches of which regulator's rules?

A. Financial Conduct Authority
B. Prudential Regulation Authority
C. Competition and Markets Authority
D. Bank of England

27. Under FSCS rules, what occurs when an insurance provider becomes insolvent?

A. Policyholders could be entitled to compensation
B. Every policy is immediately handed to another insurer
C. Customers absorb the full financial loss themselves
D. HM Treasury returns all premiums paid

28. Following a market investigation, which of these remedies lies within the CMA's power to impose?

A. Ordering a firm to divest certain business units
B. Adjusting monetary policy
C. Mandating pension scheme contributions
D. Setting prudential capital requirements

29. Which category of provision within the FCA Handbook carries legally binding obligations for authorised firms?

A. Rules
B. Guidance
C. Recommendations
D. Best practice notes

30. For complaints about conduct occurring after April 2019, what is the maximum award the FOS can make?

A. £350,000
B. £50,000
C. £100,000
D. £250,000

Answer Key & Explanations

1. A — Prudential Regulation Authority
The Prudential Regulation Authority, housed within the Bank of England, supervises banks, insurers, and significant investment firms to ensure their safety and soundness. Why the other options are incorrect: • Monetary Policy Committee: The MPC's mandate is interest rate-setting, not the oversight of individual firms. • Financial Ombudsman Service: The Financial Ombudsman Service resolves disputes between consumers and financial firms and does not supervise firms. • Competition and Markets Authority: The CMA enforces competition rules across industries rather than conducting prudential supervision. • Pension Ombudsman: The Pension Ombudsman deals with pension-related grievances, not the supervision of banks.

2. A — Financial Conduct Authority
Although the FSCS operates as an independent body, it is subject to oversight by both the FCA and the PRA, which together set its operational rules and compensation limits. Why the other options are incorrect: • Competition and Markets Authority: The CMA enforces competition law and has no oversight role in relation to the FSCS. • Bank of England: The Bank of England focuses on monetary and financial stability; it does not oversee the FSCS. • Pensions Regulator: The Pensions Regulator's remit covers occupational pension schemes and does not extend to the FSCS. • HM Revenue & Customs: HMRC administers tax and customs duties, a function entirely separate from FSCS oversight.

3. A — Large deposit-taking institutions
The PRA supervises deposit-taking institutions such as banks and building societies because their potential failure carries systemic risks for the broader financial system. Why the other options are incorrect: • Independent financial advisers: Independent financial advisers are authorised and supervised by the FCA, not the PRA. • Data protection consultancies: Data protection consultancies fall within the jurisdiction of the Information Commissioner's Office, not the PRA. • Retail mortgage brokers: Mortgage brokers are conduct-regulated by the FCA, not prudentially supervised by the PRA. • Insurance claims management firms: Claims management companies are regulated by the FCA for conduct purposes, not by the PRA for prudential purposes.

4. A — Salary-linked defined benefit schemes
The PPF protects salary-linked defined benefit schemes, ensuring members receive most of their promised entitlements when a scheme is unable to meet its obligations. Why the other options are incorrect: • Investment-based defined contribution schemes: Defined contribution pensions, where the outcome depends on investment performance, are not covered by the PPF. • Government-funded state pension entitlements: State pensions are paid directly by the government and are outside the scope of the PPF. • Individual personal pension plans: Personal pension plans are individual arrangements and do not qualify for PPF protection. • Lifetime ISA savings products: Lifetime ISAs are government-backed savings products and fall entirely outside the PPF's remit.

5. A — Bacs Direct Credit
Bacs Direct Credit is one of the major UK payment systems and is directly regulated by the PSR. Why the

other options are incorrect: • Life insurance premiums: Life insurance premiums are subject to PRA and FCA regulation, not PSR supervision. • Corporate bond issuance: Corporate bond issuance is regulated under FCA conduct rules, not by the PSR. • Defined contribution pensions: Defined contribution pension schemes are overseen by The Pensions Regulator, not the PSR. • Capital requirements reporting: Capital requirements reporting is a PRA obligation and is unrelated to the PSR.

6. A — Making certain the scheme's funds are prudently invested and protected
Trustees must ensure pension scheme assets are invested carefully and protected so the scheme can meet its future obligations to members. Why the other options are incorrect: • Authorising rates of corporate taxation: Corporate tax rates are set by HM Treasury, not pension trustees. • Creating and selling government debt securities: Government debt securities are issued by the UK Debt Management Office, not trustees. • Running day-to-day consumer banking operations: Consumer banking operations fall outside the remit of pension scheme trustees. • Upholding and enforcing privacy and data protection legislation: Data protection legislation is enforced by the ICO under GDPR, not by trustees.

7. A — Basel III
Basel III provides the international benchmark that the PRA uses when establishing capital and liquidity rules for UK banks. Why the other options are incorrect: • Solvency II: Solvency II is an insurance-sector framework, not applicable to bank capital regulation. • GDPR: GDPR is a data privacy regulation with no bearing on capital adequacy rules. • MiFID II: MiFID II deals with market conduct and investment services, not prudential capital requirements. • UK Companies Act: The Companies Act governs corporate structure and governance, not the capital standards of banks.

8. A — Product intervention powers
The FCA may exercise its product intervention powers to restrict or ban financial promotions that it determines pose a risk of harm to consumers. Why the other options are incorrect: • Competition enforcement powers: Competition enforcement powers are held by the CMA, not the FCA, and are used to address market competition issues. • Monetary policy directives: Monetary policy directives are issued by the Bank of England's Monetary Policy Committee, not the FCA. • Prudential directives: Prudential directives are within the PRA's domain and relate to the financial soundness of firms, not consumer promotion rules. • Taxation authority: The power to raise taxes and duties lies with HMRC and HM Treasury, not the FCA.

9. A — The principle of acting as a prudent, careful investor
Trustees must adhere to the prudent person principle, meaning they invest with the care, skill, and caution expected of a prudent person managing pension assets on behalf of others. Why the other options are incorrect: • The principle of competitive market neutrality: Competitive neutrality principles relate to the CMA's work, not to trustee investment obligations. • The principle of equitable and fair taxation: Tax fairness concerns fall under HMRC's remit rather than guiding trustee investment decisions. • The principle of solvency balance and neutrality: Solvency rules are directed at insurers and are not the applicable standard for pension trustees. • The principle of maintaining monetary and price stability: Monetary and price stability is the responsibility of the Bank of England, not pension trustees.

10. A — Overseeing pension schemes to ensure they operate within legal and best-practice standards
Trustees are responsible for the governance of pension schemes, ensuring that the scheme operates in line with legislation, scheme rules, and good administrative practice. Why the other options are incorrect: • Controlling and setting national interest rates: National interest rates are set by the Bank of England, not pension trustees. • Administering and collecting value added tax: VAT is collected by HMRC; trustees play no

role in tax administration. • Monitoring the financial soundness of insurance companies: The financial soundness of insurers is monitored by the PRA, not trustees. • Authorising and reviewing business mergers and takeovers: Business mergers and takeovers are reviewed by the CMA and relevant authorities, not trustees.

11. A — The UCITS Directive
The UCITS Directive establishes the rules for collective investment schemes that are eligible to be distributed to retail investors throughout the EU. Why the other options are incorrect: • PSD2: PSD2 regulates payment service providers and has no connection to investment funds. • GDPR: GDPR addresses data protection rather than collective investment schemes. • CRR: The CRR sets out capital requirements for credit institutions and is unrelated to collective investment funds. • BRRD: The BRRD deals with the recovery and resolution of failing banks, not investment funds.

12. A — Protecting consumers, preserving market integrity, and promoting competition
The FCA is legally required to pursue three objectives: protecting consumers, maintaining market integrity, and promoting effective competition. Why the other options are incorrect: • Ensuring capital adequacy, liquidity, and systemic resilience: Capital and liquidity requirements are supervised by the PRA, not the FCA. • Setting monetary policy and maintaining financial stability: Monetary policy is the responsibility of the Bank of England, not the FCA. • Collecting taxes and managing fiscal policy: Tax collection falls under HMRC's remit, not the FCA's. • Overseeing pension funds: Pension fund oversight is handled by The Pensions Regulator, not the FCA.

13. A — Principles
Principles are overarching, high-level standards—such as acting with integrity and treating customers fairly—that form the foundation of all FCA regulation. Why the other options are incorrect: • Rules: Rules are detailed and legally binding, but they operate at a more specific level than principles. • Guidance: Guidance explains how to interpret rules or principles rather than establishing high-level standards itself. • Supervisory statements: Supervisory statements are issued by the PRA, not the FCA. • Discussion papers: Discussion papers invite stakeholder views and are not binding regulatory standards.

14. A — The target rate of inflation
HM Treasury defines the inflation target that the Bank of England's Monetary Policy Committee is mandated to achieve through its interest rate decisions. Why the other options are incorrect: • Minimum capital adequacy thresholds: Capital adequacy thresholds are determined by the PRA, not HM Treasury. • Levels of consumer compensation: Consumer redress levels are determined through FOS decisions and FCA rules, not by HM Treasury. • Rules governing pension funding: Pension funding rules are administered by The Pensions Regulator, not HM Treasury. • Company tax rates: While HM Treasury drafts tax policy, corporate tax rates are formally set by Parliament through the Budget process.

15. B — Prudential Regulation Authority
The PRA mandates that firms put in place robust systems for managing prudential risks. Why the other options are incorrect: • Financial Conduct Authority: The FCA is concerned with how firms treat customers and market conduct, not prudential risk frameworks. • Financial Ombudsman Service: The FOS handles individual disputes and complaints and has no supervisory role over risk systems. • Competition and Markets Authority: The CMA enforces competition legislation and has no authority over firms' prudential risk arrangements. • Payment Systems Regulator: The PSR oversees payment system operators and does not set prudential requirements for firms.

16. A — The risk that a firm's actions result in unfavourable outcomes for consumers
Conduct risk refers to the possibility that a firm's actions, internal culture, or decision-making processes may harm consumers or damage the integrity of the market. Why the other options are incorrect: • The risk arising from movements in currency exchange rates: Fluctuations in currency rates represent a form of market risk; they are distinct from conduct risk, which concerns firm behaviour. • The risk posed by shifts in government legislation or policy: Changes in government policy give rise to political or regulatory risk; this is separate from conduct risk, which relates to how firms behave. • The risk that natural events disrupt a firm's operations: Events such as floods or earthquakes create operational risk; they do not constitute conduct risk, which arises from firm behaviour and culture. • The risk that upgrades to a firm's technology systems are unsuccessful: Problems with technology systems represent IT or operational risk; conduct risk is specifically about the way a firm acts and the outcomes this produces for consumers.

17. A — HM Revenue & Customs
HMRC is tasked with detecting and investigating tax evasion, avoidance schemes, and related fraud to safeguard public finances. Why the other options are incorrect: • Financial Conduct Authority: The FCA oversees financial market conduct, not tax fraud specifically. • Serious Fraud Office: While the SFO handles major corporate fraud cases, tax crime falls primarily under HMRC's remit. • Prudential Regulation Authority: The PRA focuses on prudential risks in financial institutions, not tax crime. • Competition and Markets Authority: The CMA is concerned with competition law, not tax enforcement.

18. A — Financial Conduct Authority
In areas where competition concerns intersect with financial services conduct, such as the retail banking sector, the CMA and FCA work in conjunction. Why the other options are incorrect: • Pensions Regulator: The Pensions Regulator's focus is the governance and funding of occupational pension schemes, not competition. • Information Commissioner's Office: The ICO is responsible for upholding data protection law, which is distinct from competition regulation. • Prudential Regulation Authority: The PRA's role centres on ensuring the financial soundness of firms, not on competition between them. • Financial Ombudsman Service: The Financial Ombudsman Service exists to resolve individual consumer complaints, not to address competition issues.

19. A — By calibrating requirements to the size and risk profile of each firm
The PRA practises proportionality by adjusting the intensity of its supervisory scrutiny to reflect the size, complexity, and risk posed by each individual firm. Why the other options are incorrect: • By passing supervisory duties to industry trade bodies: The PRA retains direct supervisory responsibility and does not hand oversight to trade or industry bodies. • By granting complete exemptions to smaller firms: Smaller firms still face prudential requirements; proportionality scales those requirements appropriately but does not remove them entirely. • By applying a uniform set of rules to every firm regardless of size: Applying identical rules to all firms regardless of their risk profile would contradict the principle of proportionality. • By subcontracting prudential oversight to the FCA: The PRA does not outsource prudential supervision to the FCA; the two bodies have distinct mandates and operate independently.

20. A — The Budget
Each year the Chancellor of the Exchequer presents the Budget, which sets out HM Treasury's fiscal priorities and public spending proposals. Why the other options are incorrect: • The Financial Stability Report: The Financial Stability Report is a Bank of England publication, not an HM Treasury document. • The Companies Act Report: Companies Act reporting relates to corporate law obligations, not fiscal strategy. • The Prudential

Supervision Statement: Prudential supervision statements are issued by the PRA, not HM Treasury. • The Monetary Policy Update: Monetary policy updates come from the Bank of England, not HM Treasury.

21. A — To ensure that trustees act in the best interests of scheme members
TPR's governance standards oblige trustees to act prudently, honestly, and with the sole aim of protecting the interests of pension scheme members. Why the other options are incorrect: • To determine the rates of corporate taxation: Corporate tax rates are determined by HM Treasury, not TPR. • To assess and approve competition-related mergers: The CMA, not TPR, is responsible for assessing competition and mergers. • To provide oversight of insurance policies: Insurance policy supervision sits with the PRA and FCA. • To handle complaints raised by pension consumers: Complaints from pension members are handled by the Pensions Ombudsman, not TPR.

22. A — Clients
COBS 2.1 requires firms to act honestly, fairly, and professionally, with the best interests of their clients as the primary consideration. Why the other options are incorrect: • Shareholders: Shareholder interests are a commercial matter but are not the focus of COBS 2.1, which is directed at protecting clients. • Employees: Employee welfare, while important, is not what COBS 2.1 is designed to protect; the rule centres on client best interests. • Competitors: Competitors have no standing under COBS 2.1; the duty runs solely to clients. • Regulators: COBS 2.1 is not directed at serving regulatory interests; its focus is firmly on acting in the best interests of clients.

23. A — Overseeing the controlled wind-down of failing banks
As the UK's resolution authority, the Bank of England manages the failure of banks in an orderly manner to preserve financial stability and limit the cost to taxpayers. Why the other options are incorrect: • Arranging compensation for consumers: Compensation for consumers is provided through the Financial Services Compensation Scheme, not the Bank. • Determining corporate tax rates: Corporate tax rates are set by HM Treasury, not the Bank of England. • Supervising pension fund trustees: Supervision of pension trustees is handled by The Pensions Regulator, not the Bank. • Administering competition law appeals: Competition law appeals are the remit of the Competition Appeal Tribunal, not the Bank.

24. A — It obliges firms to handle conflicts of interest in a fair manner
Principle 8 places a duty on firms to identify and manage conflicts of interest fairly, both between themselves and their clients. Why the other options are incorrect: • It ensures firms offer products at the lowest possible cost: Providing low-cost products is not an obligation under Principle 8; the requirement is to manage conflicts of interest fairly. • It provides a guarantee that every client will earn a profit: No regulatory principle can guarantee client profits; Principle 8 is about the fair management of conflicts of interest. • It requires firms to charge all clients at the same rate: Uniform charging is not what Principle 8 requires; its focus is on handling conflicts of interest fairly. • It restricts firms to operating solely within the UK: Principle 8 does not confine firms to UK operations; it concerns the fair management of conflicts of interest.

25. A — Appeal to the High Court on a point of law
A dissatisfied party may appeal a PO decision to the High Court, but only on a question of law — not on factual grounds. Why the other options are incorrect: • Automatic referral to the FCA: The FCA does not serve as an appeals body for PO rulings. • Automatic referral to the PRA: The PRA deals with prudential oversight, not appeals against pension rulings. • Escalation to HM Treasury: HM Treasury does not hear appeals from PO determinations. • Filing a complaint with HMRC: HMRC manages taxation and is not an avenue for appealing PO decisions.

26. A — Financial Conduct Authority
The majority of FOS complaints involve alleged breaches of FCA conduct rules, covering consumer-facing issues such as mis-selling and inadequate disclosure of information. Why the other options are incorrect: • Prudential Regulation Authority: The PRA sets prudential standards for firm safety and soundness, not consumer-facing conduct rules. • Competition and Markets Authority: The CMA addresses competition issues in markets and does not handle individual consumer disputes. • Bank of England: The Bank of England is focused on financial stability and monetary policy, not on handling complaints. • Pensions Regulator: The Pensions Regulator oversees occupational pension schemes and does not deal with general consumer financial complaints.

27. A — Policyholders could be entitled to compensation
When an insurer becomes insolvent, the FSCS may compensate policyholders — typically 90% or 100% of the claim depending on the policy type. Why the other options are incorrect: • Every policy is immediately handed to another insurer: Policy transfer is not guaranteed; the FSCS intervenes where needed. • Customers absorb the full financial loss themselves: The FSCS protects consumers from absorbing the full loss themselves. • HM Treasury returns all premiums paid: Premium refunds come from the FSCS, not HM Treasury directly. • The PRA assumes responsibility for settling claims: While the PRA monitors solvency, it does not take over claim payments.

28. A — Ordering a firm to divest certain business units
Where a merger or market structure undermines competition, the CMA has the power to order divestment of assets or business lines to restore competitive conditions. Why the other options are incorrect: • Adjusting monetary policy: Adjusting monetary policy is the exclusive domain of the Bank of England's Monetary Policy Committee. • Mandating pension scheme contributions: Pension scheme funding requirements are set and monitored by The Pensions Regulator, not the CMA. • Setting prudential capital requirements: Prudential capital requirements are established by the PRA, which operates independently of the CMA. • Awarding consumer compensation: Consumer redress and compensation schemes fall under the remit of the FOS or FSCS, not the CMA.

29. A — Rules
Rules within the FCA Handbook are legally binding on authorised firms. Failure to comply with a rule may result in regulatory enforcement action being taken. Why the other options are incorrect: • Guidance: Guidance assists firms in interpreting rules but does not itself carry legal force. • Recommendations: Recommendations do not constitute a formal category within the FCA's regulatory framework. • Best practice notes: Best practice notes may assist with compliance but carry no binding legal obligation. • Discussion papers: Discussion papers are used to invite views and explore policy; they impose no obligations on firms.

30. A — £350,000
From April 2019 onwards, the FOS can award a maximum of £350,000 for upheld complaints that concern acts or omissions occurring on or after that date. Why the other options are incorrect: • £50,000: £50,000 was the compensation cap that applied under earlier rules before it was raised. • £100,000: £100,000 does not represent the current maximum that the FOS is authorised to award. • £250,000: £250,000 served as a temporary interim cap that has since been superseded by the higher limit. • £1,000,000: Awards of £1,000,000 are entirely outside the FOS's current authority.

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