



The Financial Adviser Exam

Practice Questions

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Preface

The practice questions provided in this guidance document are intended to provide you with a guide to the types of questions you will have to answer in the Financial Adviser Exam, but **do not** necessarily reflect the full range of questions or their difficulty.

They are designed to provide guidance on what you can expect, in terms of question types, structure and the answer formats.

It is important to understand that success in answering the practice questions does not guarantee or imply success in the actual exam.

FASEA intends to continue to add practice questions periodically and to have an online version of these practice questions by the end of 2019.

Practice Questions

The exam questions will typically follow the following format:

1. Client scenario/case study – defines a practical client scenario or case study
2. One or more responses required – response will be either a selection of multiple choice answers, true/false answer or a written response

Answers to the questions are provided for your reference in Appendix A.

Client scenario

Dorothy, 86, owns her home, valued at \$540,000. She has \$70,000 in a bank account and receives a full pension. Dorothy also has a small \$20,000 total portfolio of shares in two blue-chip companies. She received both parcels of shares when the companies demutualised in the 1990s and has kept them because she likes the companies and they pay high dividends.

Due to failing health, she is preparing to move into an aged-care facility. She wants to keep her home as an inheritance for her five children, as specified in her current Will. Dorothy has appointed her eldest daughter, Glenda, as both the executor of the estate and enduring power of attorney (covering legal and financial decisions only).

Glenda knows Raoul, a financial adviser with Soary Financial Planning, through the local golf club of which they are both members. Glenda has arranged an appointment for her mother to meet with Raoul to discuss the financial planning implications of moving into an aged-care facility.

Glenda explains to Raoul that she will be happy to sign off on any advice even if Dorothy is unable to understand the recommendations.

Q1.

Standard 1 of the FASEA Code of Ethics requires that financial advisers 'act in accordance with all applicable laws, including this Code, and not try to avoid or circumvent their intent'.

Following the initial appointment, Raoul evaluates potential strategies for Dorothy. Raoul realises that he requires additional information about Dorothy's Centrelink entitlements.

Raoul can obtain this information while complying with Standard 1 of the Code by

- A. asking Glenda to access the details from Centrelink and forward the information to him as soon as possible.
- B. calling Centrelink directly and using the personal details in Dorothy's file notes to access the information he needs.
- C. obtaining access to operate Dorothy's Centrelink account by asking Glenda to add him as one of the authorised people.
- D. calling Centrelink directly, explaining that he is Dorothy's financial adviser and requires the information to evaluate the best strategy for his client.

Q2.

Dorothy stated in the interview that even if she moves into an aged-care facility, she wants to retain her home as an inheritance for her children.

Raoul is currently writing the Statement of Advice.

a. What are two statements that Raoul should include in the document to explain to Dorothy the **ADVANTAGES** of retaining the home as part of the advice recommendations?

b. What are two statements that Raoul should include in the document to explain to Dorothy the **DISADVANTAGES** of retaining the home as part of the advice recommendations?

Q3.

Glenda tells Raoul that she doesn't want Dorothy to move into an aged-care facility and wants to discuss the option of Dorothy moving in with her.

Consider the following statements regarding Raoul providing advice to Dorothy on Glenda's proposal.

Select True or False for each statement.

To comply with the best interests duty when providing advice to Dorothy, Raoul would need to	True	False
investigate the potential effects of the arrangement on Dorothy's Centrelink entitlements.		
assess the impact of the arrangement on the tax treatment of Glenda's main residence.		
compare the overall financial and personal outcomes of this arrangement compared to Dorothy entering an aged-care facility.		

Q4.

During the initial appointment, Raoul notices that even when he directly asks Dorothy a question, Glenda does all the talking.

What is the main reason this behaviour should concern Raoul?

- A. Answering for Dorothy could indicate that Glenda is exerting undue influence over her mother.
- B. Dorothy is responsible for providing all the relevant information and as such needs to answer the questions directed at her.
- C. Glenda is unlikely to be aware of all the relevant information that Raoul needs in order to provide advice to Dorothy, especially concerning her lifestyle preferences.
- D. If Glenda answers all the questions, it is unlikely that Raoul can demonstrate he has met the safe harbour provisions under the Corporations Act.

Q5.

Standard 2 of the FASEA Code of Ethics states that advisers ‘must act with integrity and in the best interests of each of’ their clients.

Select True or False for each statement.

In order to comply with Standard 2, Raoul must	True	False
acknowledge that he owes a duty of care to both Dorothy as his client and Glenda as her executor and power of attorney.		
consider how the advice given to Dorothy affects Glenda as executor and power of attorney.		
ensure that his personal association with Glenda does not influence the advice he provides to Dorothy.		

Q6.

a. Standard 2 of the FASEA Code of Ethics states that advisers ‘must act with integrity and in the best interests of each of’ their clients.

What are TWO steps Raoul can take to ensure he does not breach Standard 2 as a result of the relationship with Glenda?

b. Standard 4 of the FASEA Code of Ethics states: ‘You may act for a client only with the client’s free, prior and informed consent.’

What are TWO steps that Raoul should take to ensure he complies with Standard 4 when advising Dorothy?

Q7.

Which of the following statements is correct regarding Glenda's authority to sign off on the advice provided by Raoul to Dorothy?

- A. Glenda cannot sign off on the advice because the legal advice relationship is between Raoul and Dorothy.
- B. As power of attorney, Glenda can sign off on the advice regardless of whether Dorothy understands the advice.
- C. As power of attorney, Glenda can sign off on the advice but only if Dorothy understands the advice and provides consent to proceed.
- D. As executor of Dorothy's estate, Glenda can sign off on the advice regardless of whether Dorothy understands the advice.

Q8.

Standard 4 of the FASEA Code of Ethics states that financial advisers ‘may act for a client only with the client’s free, prior and informed consent’.

Which of the following aspects of Dorothy’s personal situation is most relevant to Raoul complying with Standard 4 of the Code?

- A. Dorothy may feel pressured by Glenda to proceed with the advice.
- B. There could be a conflict between Glenda’s best interests and Dorothy’s best interests.
- C. Dorothy is unlikely to have the cognitive ability to understand the advice being provided.
- D. Glenda has initiated the advice process and obtaining her agreement to any advice is essential to proceed.

Q9.

Dorothy calls Raoul because she has heard that the share price of one of the companies she owns shares in has dropped sharply over the past week due to the resignation of the Managing Director. She is worried and wonders whether she should sell her shares before she loses all her money.

Which of the following statements is most likely to reassure Dorothy about her shareholdings?

- A. Past performance is no indication of future performance.
- B. Selling shares after the price has dropped turns a paper loss into a real loss.
- C. The dividends more than offset any change in the share price so it's important to keep owning them for the income.
- D. Share prices can drop when there is bad news about a company, but it's important to look at the big picture instead of panicking and selling.

Q10.

Glenda thinks that Dorothy should sell her shares because they are far too risky. She thinks that Dorothy would be better off putting the money into a term deposit.

Which of the following statements would be most appropriate for Raoul to use in this situation?

- A. Every type of investment has some level of risk, even term deposits.
- B. The shares are in blue-chip companies that have far less risk than most investments.
- C. There is a high risk that Dorothy will outlive her capital if she puts all her money in the bank.
- D. Putting money in a term deposit means that Dorothy will lose access to her savings and this creates access risk.

Q11.

According to the FASEA Code of Ethics, a financial adviser must ‘act with integrity and in the best interests’ of each of their clients (Standard 2) and ensure that ‘records of clients, including former clients, are kept in a form that is complete and accurate’ (Standard 8).

Following the initial interview, Raoul receives a phone call from Dorothy. She tells Raoul that she has just gifted \$15,000 from the sale of her shares to her youngest son to help him buy a new car. Dorothy does not want Glenda to know about the gift and asks Raoul the best way she can hide the transaction.

Consider the following statements regarding the implications of this phone call for Raoul and his compliance with the Standards in the Code of Ethics.

Select True or False for each statement.

Statement	True	False
Raoul has a duty to notify Glenda of the transaction.		
Raoul should record all details of the phone conversation in Dorothy’s file notes.		
Raoul should explain to Dorothy that the \$15,000 exceeds the annual gifting limit allowed by Centrelink and as a result her pension entitlements will be lower.		

Q12.

Raoul receives a phone call from one of Dorothy's other daughters, Hilda, who explains that she is also an executor of her mother's estate. She states that she has just ended a phone call with Dorothy and is concerned about the sale of her shares. Hilda expresses her belief that Glenda is experiencing financial difficulty and asks about who authorised the sale of Dorothy's shares and how the proceeds from the sale were used.

Which of the following actions should Raoul initially take to manage this situation while complying with the best interests duty and privacy laws?

- A. Inform Glenda of Hilda's concerns and ask whether the allegations of financial difficulty are true.
- B. Ask Hilda to provide written evidence that she is the executor prior to revealing details about Dorothy's financial situation.
- C. Take notes of Hilda's concerns and seek advice from the business compliance team about how to progress the matter.
- D. Assure Hilda that the share sale proceeds were not misappropriated by Glenda but were instead used to purchase a vehicle for Dorothy's youngest son.

Appendix A – Practice Question Answers

Q1. Option A - asking Glenda to access the details from Centrelink and forward the information to him as soon as possible.

Q2. a. Sample response: 2 marks

Dorothy, you have mentioned that you would like to continue to own your home as an inheritance for your children in your Will, even if you move into an aged-care facility. This would allow you to:

- retain control over the property
- distribute the property to beneficiaries in the Will after your death, in accordance with your wishes
- generate an income return if you decide to make the property available for rent
- benefit from any positive increase in the capital value of the property.

If you decide to keep the property, you may be eligible for your home to be exempt from the social security assets test for up to two years, although it's important to seek clarification from Centrelink about your individual situation.

Sample response: 1 mark

Dorothy, you have mentioned that you would like to continue to own your home as an inheritance for your children in your Will, even if you move into an aged-care facility. If you decided to do this, you could rent out your property to create an income source.

Sample response: 0 marks

Dorothy, you have mentioned that you would like to continue to own your home as an inheritance for your children in your Will, even if you move into an aged-care facility.

b. Sample response: 2 marks

Dorothy, you have mentioned that you would like to continue to own your home as an inheritance for your children in your Will, even if you move into an aged-care facility.

There are some disadvantages of this approach that you should keep in mind, including:

- You will be responsible for its maintenance and upkeep, which could be expensive.
- If you decide to rent out the property, you may not be able to find tenants, and if you do have tenants the property will need to be managed.
- Income from the property may be assessed for Centrelink purposes.
- The property may be assessed as an asset for Centrelink purposes (now or in the future), which could affect your Age Pension entitlements.
- Your home is likely to be treated as an asset for your aged-care cost calculations.
- Capital tied up in property is not available to fund living expenses and payments to the aged-care facility.

Sample response: 1 mark

Dorothy, you have mentioned that you would like to continue to own your home as an inheritance for your children in your Will, even if you move into an aged-care facility. If you decided to do this, you could end up with a lower Age Pension, because the home is included in the means tests.

Sample response: 0 marks

Dorothy, you shouldn't keep your house if you move into an aged-care facility.

Q3. True; False; True

Q4. Option A - Answering for Dorothy could indicate that Glenda is exerting undue influence over her mother.

Q5. False; False; True

Q6. a. Sample response: 2 marks

To comply with Standard 2, Raoul could manage the potential conflict arising from his relationship with Glenda by:

- requesting advice from his licensee/compliance team about the best way to manage the relationship
- removing the conflict by referring Dorothy to another financial adviser.

Sample response: 1 mark

To ensure he complies with Standard 2, Raoul could request advice from his licensee/compliance team about the best way to manage the relationship.

Sample response: 0 marks

Raoul must resign his membership with the golf club before advising Dorothy.

b. Sample response: 2 marks

To comply with Standard 4, Raoul could:

- explain to Dorothy the financial advice process, each step that is involved, and give her plenty of opportunity to ask questions about what is happening. He could use a range of tools such as the Financial Services Guide, or a visual representation of the process. He could use open questions to ensure that she understands the process, and record file notes about the steps he has taken
- ensure that Dorothy is seeking the advice, and that it isn't just something Glenda wants to undertake. He should check that Dorothy is comfortable with the process and what it means, and is able to make decisions independently regardless of Glenda's personal preferences.

Sample response: 1 mark

To comply with Standard 4, Raoul could check whether his licensee has any policies or procedures for dealing with older clients, as well as any relevant resources, and use these to inform his practice. There may be a checklist he could follow, such as sighting documentation like the power of attorney document.

Sample response: 0 marks

To comply with Standard 4, Raoul should have Glenda sign the authority to proceed.

- Q7. Option B** - As power of attorney, Glenda can sign off on the advice regardless of whether Dorothy understands the advice.
- Q8. Option A** - Dorothy may feel pressured by Glenda to proceed with the advice.
- Q9. Option D** - Share prices can drop when there is bad news about a company, but it's important to look at the big picture instead of panicking and selling.
- Q10. Option A** - Every type of investment has some level of risk, even term deposits.
- Q11. False; True; False**
- Q12. Option C** - Take notes of Hilda's concerns and seek advice from the business compliance team about how to progress the matter.