



Proficiency requirements 2015

ANNUAL PROFICIENCY UPDATE



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The function served by the proficiency requirements

This document defines the knowledge, in the form of an annual proficiency update, which is required of SwedSec’s licence holders as a supplement to the licensing examination. Proficiency requirements shall serve as a support when designing syllabuses and as a basis when setting examination questions. They are designed to give an overview of what is expected of licence holders holding different positions. It is the task of each professional training provider to interpret the proficiency requirements and develop a relevant and instructive course based on such interpretation.

Target group adaptation

SwedSec has introduced a system of profession-adapted licensing examinations. It is contemplated that the Annual Proficiency Update (“APU”) might also be adapted to professional roles. APU 2015 covers in total 11 subjects. The licence holder must take at least six subjects relevant to his/her profession in order to pass APU 2015. This arrangement is aimed at making APU more relevant for each target group by providing greater flexibility.

The table below describes which subjects are normally most relevant for the various target groups.

Subject	Advisers ¹	Specialists ²	Management and control functions ³
Money laundering – Know Your Customer (KYC)	x	x	x
Monetary policy and inflation	x	x	x
Stock market information –sources and reliability	x	x	
Suitability assessment and documentation in conjunction with provision of advice	x		x
Saving for retirement	x		
Pension disbursement	x		
Handling of costs for analyses by funds and best order execution		x	x
Routines for production of structured products		x	
New rules for directors and managing directors of credit institutions and investment firms			x

Capital adequacy rules		X	X
Changed rules for insurance intermediaries	X		X

¹ Individuals whose work involves the provision of financial advice to consumers or investment advice to clients and/or individuals whose work involves insurance mediation and the provision of advice regarding life insurance with a savings element, e.g. private advisers, corporate advisers and Private Banking advisors.

² Individuals whose work involves various types of specialist functions in the securities area, e.g. fund and portfolio managers, analysts and stockbrokers.

³ Individuals whose work involves various management and control functions on the securities market, e.g. managing directors and other responsible managers, compliance officers, as well as certain positions within risk control and other control functions

Cognitive levels

The description of each subject states the cognitive level which the licence holder is expected to have attained after having undergone the proficiency update. The table below describes various cognitive levels.

Level	Explanation
Recall (R)	A candidate is required to recognise and remember concepts, definitions, and facts.
Comprehend (C)	A candidate is required to understand and be able to explain various connections and contexts.
Apply (A)	A candidate is required to be able to apply, for instance, formulae, rules, statutes, and methods

Subjects, APU 2015

Money laundering – Know Your Customer

When a financial undertaking enters into a commercial relationship with a client, the client must be assessed as regards the risk of any money laundering or financing of terrorist activities. This process is generally referred to as “know your customer” (KYC). The licence holder must understand what this requirement entails as regards different client categories, e.g. natural persons, corporate clients and clients at a distance. The licence holder must also understand the different relevant risk levels and what they essentially involve. Furthermore, the licence holder must understand which requirements apply in respect of identification and verification of “beneficial owner”. Finally, the licence holder must understand when assessment and classification of clients are to take place, both initially (when the commercial relationship is commenced) and on an ongoing basis, and which requirements apply as regards documentation of measures taken.

Read more in this link:

http://www.fi.se/upload/43_Utredningar/20_Rapporter/2013/penningtvatt2013ny2.pdf

Monetary policy and inflation

In recent times, the low rate of inflation in Sweden and, to a certain extent, also in the rest of the world has been discussed regularly in both the media and among financial analysts in general. The inflation target of 2% set by the Central Bank of Sweden (Riksbanken) has not been achieved for a long time, and the debate has focused on the reasons for this discrepancy between target and outcome, and how the low rate of inflation might affect Riksbanken’s repo rate decisions in the future.

In order to understand this debate, it is necessary to be familiar with the way in which changes in the repo rate can in fact affect inflation in Sweden, in the short and long terms. These so-called *transmission mechanisms* act primarily through three different channels: the interest rate channel, the credit channel and the exchange rate channel. The licence holder must understand and be able to explain how these three channels function, i.e. how changes in the repo rate are converted into inflation impulses through each channel. In connection with this,

the licence holder must also understand and be able to explain the lead times that exist between changes in the repo rate and changes in realised inflation.

A related issue involves the way in which changes in the repo rate (which is a short rate), can in fact influence the long market rates in the economy. The licence holder must be familiar with the assumptions that must be made in order to arrive at the conclusion that changes in the short repo rate will affect the long market rates.

In the debate, representatives of export-dependent companies (primarily within the raw materials sector) have voiced a degree of criticism against Riksbanken. The argument has been that Riksbanken's interest rate policy has negatively affected the earnings capability of companies. The licence holder must be able to explain in what way the export sector considers that the conducted interest rate policy has caused problems for the sector.

A final issue involves the relationship between the repo rate and mortgage rates. Riksbanken has argued that an excessively low repo rate may lead to problems with household indebtedness. The licence holder must understand and be able to explain how the repo rate affects the banks' borrowing costs and, in addition, be familiar with the conditions under which, and the manner in which, these are borrowing costs can, in turn, conceivably affect mortgage rates.

For further information see:

<http://www.riksbank.se/sv/Penningpolitik/Prognoser-och-rantebeslut/Hur-paverkar-penningpolitiken-inflationen/>

Stock market information – sources and reliability

Decisions to invest in the stock market are generally based on various types of external information. Most frequently, the listed company itself has disclosed the information, in which case the company is subject to extensive rules and controls aimed at protecting the investors. However, other parties, e.g. analyst firms, the media or private individuals, can disseminate information and, in such cases, the requirements regarding the information are less stringent. Developments within IT (not least the Internet and social media) have made it

easier to create and spread information. It has, therefore, become increasingly common for information to be disseminated by parties other than the listed companies themselves.

Information that can affect investment decisions can thus be available from various sources, be distributed by different parties for different purposes, and be subject to differing requirements and controls. It is important that a licence holder be familiar with this state of affairs and understand the risks that it may lead to.

The licence holder must, therefore, understand the most important characteristics of the publicly available information regarding listed companies and their securities (i.e. not general financial information) which may play a role in the investor's decision. The licence holder must understand the possible shortcomings of this information, and thereby risks for the investor that may be associated with the information, for example, in terms of incorrect sources and conflicts of interest. In this context, basic information means primarily the following: prospectuses/memorandums/teasers prior to IPOs and new issues; the price-sensitive information and the regular financial information which companies are obliged to make public; analyses prepared by securities institutions and by other independent analyst firms; as well as price data. The licence holder should also be familiar with the sources and the information with respect to which investors should exercise particular caution, primarily offerings and marketing over the phone, as well as postings on chat rooms and blogs.

Suitability assessment and documentation in conjunction with provision of advice

A key element in conjunction with financial advisory services is that the adviser is able to apply the suitability assessment and documentation rules. In its supervision, the Swedish Financial Supervisory Authority (FSA) has encountered shortcomings as regards the way in which securities institutions and insurance intermediaries carry out, among other things, compilation of information, needs analyses, and documentation as regards the advice given.

An analysis of the client's finances and objectives with the investment, as well as knowledge and experience, are normally fundamental for the provision of advice.

The licence holder must be able to analyse the client's day-to-day financial circumstances, which constitute the starting point as regards the client's ability to save and make investments, must be able to make an assets and liabilities analysis in order to arrive at the client's net worth, and must be able to assess an appropriate level of risk-taking.

The licence holder must be able to differentiate between the different investment horizons for savings objectives, for example savings to create a buffer for contingencies, saving towards a specific objective, and saving for retirement. The licence holder must understand how the investment horizon affects anticipated return and risk.

The ability to analyse the client's willingness to take risks (risk tolerance) is of fundamental importance, as is the ability to be able to relate the risk tolerance to the return that can be expected. A licence holder must also be able to analyse whether the client's risk tolerance is compatible with the client's financial situation, i.e. is the client able to bear the risk in question?

The licence holder must also ensure that the client understands the risk associated with the suggested investments resulting from the advice and that the client possesses sufficient knowledge and experience to invest in suggested products.

The licence holder must be able to document the content of the advice given in such a manner that an outside party is able to understand and follow the considerations made and the reasons for the investment advice provided, and why the specific advice is appropriate for the specific client.

The licence holder must be able to apply the rules governing the provision of advice in his or her day-to-day work.

For further information, see the presentation by Håkan Dahlberg, Swedish Financial Supervisory Authority, at SwedSec's seminar held on 19 September 2014:

<http://www.youtube.com/watch?v=C6JNpG6E9-o>

Saving for retirement

It is becoming increasingly common to save for one's retirement and for the pension capital to be invested in a suitable manner. Accordingly, the licence holder must understand and be able to explain the rules concerning saving and investments for retirement.

The licence holder must understand and be able to explain tax deduction rules applicable to private individuals and sole traders. In addition, the licence holder must understand and be able to explain which tax rules apply to different tax environments and types of insurance schemes (Pension insurance policies, Individual Pension Saving, Endowment insurance policies, Individual Savings Accounts, and direct saving, *Kapitalpension* –not newly opened). The licence holder must understand and be able to explain the rules regarding each type of saving scheme and, for example, the way in which the saved capital is tied up. The licence holder must also understand and be able to explain the rules governing repayment cover and survivors' cover, beneficiaries and inheritance.

The licence holder must also understand and be able to explain the rules as to the pensions that different individuals have and the rules governing each type of pension, for example the state pension and the most commonly occurring contractual pensions/occupational pensions (agreements between the parties on the labour market).

The licence holder must know, for example, that consolidated information concerning large parts of the future pension is available on minpension.se.

Pension disbursement

The decision as to how and when pension is to be paid out can be of great importance. Thus, the licence holder must understand and be able to explain the rules concerning how disbursement of pension takes place, the consequences of early disbursement or a changed disbursement payment, and the consequences of different pension disbursement periods. The licence holder must understand and be able to explain which remaining capital accrues to the decedent's estate, and/or the identity of the beneficiaries.

Handling of costs for analyses in funds and best order execution

When a fund manager trades in financial instruments on behalf of a fund, special requirements apply as to how transaction costs and e.g. analysis costs are to be handled, reported and allocated between the fund and the manager, and also how the manager is to evaluate the quality of the conducted transactions (“best order execution”). When a manager wishes to carry out transactions through one particular institution but receives an analysis from another institution, special problems arise of both a commercial law and tax law nature. In such cases, an agreement regarding allocation of the costs (“Commission Sharing Agreement”, or “CSA”) is often entered into between the manager and the institution which executed the transactions.

The licence holder must be familiar with the overriding requirements that apply as regards the handling of costs and best order execution in the situation described above. The licence holder must also be familiar with the most important constituent elements of Commission Sharing Agreements and the overarching principles which should be applied with respect to such agreements.

For further information, see the FSA’s report, “Handling of costs for analyses in funds and best possible result in conjunction with portfolio transactions” (FSA Journal no. 14-6664):

http://www.fi.se/upload/43_Utredningar/40_Skrivelser/2014/analystkostnad_fonder.pdf

Routines for production of structured products

The FSA has, in its supervision, concluded that parties which develop structured products have a responsibility, when designing the structured product, to provide the basis for sound client protection. Express rules regarding the product process are set forth in MiFID II. However, ESMA has already issued guidelines as to what a well-functioning product process should contain:

- a documented and clear process with clear rules regarding the involvement of the decision-making and control functions (e.g. risk and compliance);
- use of models and tests;
- a contemplated target group as a starting point, and an assessment as to the suitability of the product for such target group;

- a careful selection of distributors, etc.

The licence holder must be familiar with the basic elements that a process for the production of structured products should contain.

For further information, see ESMA's Opinion, Structured retail products – Good practices for product governance arrangements ESMA/2014/332:

<http://www.esma.europa.eu/content/Structured-Retail-Products-Good-practices-product-governance-arrangements>

New rules for directors and managing directors of credit institutions and investment firms

According to amended rules for credit institutions and investment firms, a series of new demands are imposed on the directors and managing directors of such institutions.

- For some time the position has been that any person who is a director, managing director or deputy for any of the aforementioned must possess the insight and experience sufficient for the appointment and must also otherwise be suitable. According to the new rules, the board of directors in its entirety must also possess sufficient knowledge and experience in order to direct the affairs of the company.
- A director or managing director of a credit institution or an investment firm must allocate sufficient time to be able to perform his or her duties. In purely general terms, this means that one should not hold more appointments than might be deemed appropriate. In addition, the following rules apply to a director or managing director of a company of a significant size:
 - A managing director may not hold more than two other directorships.
 - A director who is not a managing director may not hold in total more than four directorships.

The licence holder must be familiar with the new rules regarding directors and managing directors.

Additional information regarding the new rules is set forth in Govt. Bill. 2013/14:228:

http://www.regeringen.se/download/db913590.pdf?major=1&minor=240171&cn=attachment_PublDuplicator_0_attachment

Capital adequacy rules

The recent financial crisis resulted in new rules regarding bank capital, particularly the so-called Basel III Accord. The Basel III Accord contained a large number of measures aimed at rectifying weaknesses in the global financial regulatory system. The measures were focused on financing and liquidity risks and the banks' excessively weak capitalisation. The EU has implemented the Basel III Accord as binding rules.

The overarching purpose of the new capital adequacy rules is to strengthen the ability of institutions to withstand losses and to reduce the likelihood of new financial crises. Thus, new requirements have been introduced that institutions maintain more capital of a higher quality. New demands have also been imposed on institutions to maintain extra capital buffers which can function as shock absorbers in poor times and reduce the risk of problems in the financial sector spreading to the rest of the economy. New requirements for stronger liquidity will also be introduced.

As previously, the capital adequacy rules are based on three pillars. The licence holder must be familiar with the basic requirements that apply to companies as regards debt/equity ratio, liquidity and risk management. The licence holder must be familiar with the rules that require companies to carry out an internal capital adequacy assessment process (ICAAP/Pillar 2). The licence holder must also be familiar with the statutory minimum rules for capital requirements (Pillar 1), and be familiar with which rules govern the publication of information concerning capital requirements, own funds, risk management, etc. (Pillar 3) regarding capital adequacy and large exposures.

The licence holder must be familiar with the FSA's regulation (FFFS 2012:6) regarding requirements for a liquidity coverage ratio and reporting of liquid assets and cash flows. Finally, the licence holder must be familiar with the purpose of the capital buffers that exist and the basic requirements in respect of them.

For further information, see Memorandum regarding Capital Adequacy Rules:

<http://www.swedsec.se/press/nyheter/kapitalaekningsregler-pm-infoer-licensieringstest>

Changed rules for insurance intermediaries

On 1 March 2015, a number of changes will enter into force to the rules governing insurance intermediaries. The description below is based on the assumption that proposals contained in in Ds 2014:22 Strengthened Consumer Protection in conjunction with Insurance Mediation, will be implemented. However, modifications may take place during the autumn/winter, and thus training companies are expected to take note of the substantive changes which may occur.

Prohibition on commission

An insurance intermediary may not receive compensation from any party other than the client, where doing so might prejudice the client's interests. The FSA may regulate which compensation is intended, Ds 2014:22, pp. 52 *et seq.* and 82-84. The licence holder must be familiar with the prohibition on commission.

Additional information regarding the new rules is available in Ds 2014:22 (and the Government Bill when it is presented):

http://www.regeringen.se/download/b0d35dd0.pdf?major=1&minor=242567&cn=attachment_PublDuplicator_0_attachment

Requirements regarding suitability of intermediaries/senior executives

In addition to the formal requirements that an insurance intermediary (or, where a legal entity is concerned, senior executives of the legal entity) must not be a minor or a bankrupt and must possess sufficient knowledge, etc., a requirement will be introduced into Chapter 2, section 5 of the Insurance Mediation Act that the intermediary must otherwise be suitable. (Note that the requirement does not apply to natural persons who are employed at a legal entity which is an intermediary; the current requirements apply to them). The FSA may prescribe what is required in order to satisfy the requirement of suitability.

The purpose of this new requirement is that previous mismanagement by an intermediary or a senior executive at an intermediary might disqualify such person from obtaining a new

licence; see Ds 2014:22, p. 26 *et seq.* and pp. 80-81. The licence holder must understand what the suitability requirements entail.

Insurance intermediaries may not evade sanctions by voluntarily waiving the licence before the issue of sanctions has been determined

As the law has been formulated until now, an insurance intermediary against whom the FSA has opened a supervisory matter has been able to voluntarily waive the licence, whereupon the supervisory matter has been discontinued. The proposed changes entail that if a supervisory matter is pending and the intermediary thereupon declares that he or she is waiving the licence, the FSA may consolidate these matters and determine the issue of intervention prior to the issue of voluntary waiver of the licence. The licence holder must be aware that this possibility is available to the FSA.

Restrictions on what an insurance intermediary may market

Delineation problems have occurred in cases where, at least *prima facie*, insurance intermediaries have engaged in activities for which they have lacked authorisation but, when the FSA has attempted to intervene, the intermediaries have objected that mere marketing was involved for which no special licence is required. However, according to the legislative proposal, insurance intermediaries will not be entitled to market insurance and products such as structured products, other than those for which the intermediary holds a licence; see Ds 2014:22, p. 48 *et seq.* and p. 81. The licence holder must be familiar with the restrictions on what an insurance intermediary is entitled to market.