



National Unit specification

General information

Unit title: Financial Services: The Regulatory Framework
(SCQF level 6)

Unit code: H97W 46

Superclass: AL

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Unit purpose

This Unit is a mandatory Unit of the Financial Services Award at SCQF level 6. It is suitable for learners who wish to pursue a career in Financial Services but it can be taken as a stand-alone Unit for learners who wish to gain an understanding and appreciation of the Financial Services sector.

This Unit is designed to give learners an appreciation of the importance of regulatory control within the Financial Services sector and the impact that this has on the roles and responsibilities of staff working in its institutions. Specific areas such as supervision, risk management, competition, consumer protection and market integrity will assist in underpinning the learners' understanding of regulatory principles. Additionally, learners will gain an appreciation of the importance of data protection and the prevention of financial crime in relation to the operation of Financial Services institutions and the markets in which they conduct their activities.

Outcomes

On successful completion of the Unit the learner will be able to:

- 1 Explain the roles of the main bodies responsible for regulating UK Financial Services.
- 2 Explain how risk management is applied in the Financial Services sector.
- 3 Describe how the Data Protection Act applies within the Financial Services sector.
- 4 Explain the purpose of Money Laundering Regulations in relation to the prevention of crime.

National Unit specification: General information (cont)

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Credit points and level

1 National Unit credit at SCQF level 6: (6 SCQF credit points at SCQF level 6)

Recommended entry to the Unit

While entry is at the discretion of the centre, learners would normally be expected to have attained the following or equivalent:

- ◆ National 5 English/Communication/Literacy
- ◆ National 5 Mathematics/Lifeskills Mathematics

Core Skills

Opportunities to develop aspects of Core Skills are highlighted in the Support Notes for this Unit specification.

There is no automatic certification of Core Skills or Core Skill components in this Unit.

Context for delivery

If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

The Assessment Support Pack (ASP) for this Unit provides assessment and marking guidelines that exemplify the national standard for achievement. It is a valid, reliable and practicable assessment. Centres wishing to develop their own assessments should refer to the ASP to ensure a comparable standard. A list of existing ASPs is available to download from SQA's website (<http://www.sqa.org.uk/sqa/46233.2769.html>).

Equality and inclusion

This Unit Specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods or considering alternative evidence.

Further advice can be found on our website www.sqa.org.uk/assessmentarrangements.

National Unit specification: Statement of standards

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Acceptable performance in this Unit will be the satisfactory achievement of the standards set out in this part of the Unit specification. All sections of the statement of standards are mandatory and cannot be altered without reference to SQA.

Outcome 1

Explain the roles of the main bodies responsible for regulating UK Financial Services.

Performance Criteria

- (a) Explain the importance of regulation within the Financial Services sector.
- (b) Identify the roles and explain the responsibilities of the main bodies working within the Financial Services regulatory framework.
- (c) Explain the principles and drivers of the Financial Conduct Authority's (FCA) 'Treating Customers Fairly' initiative.

Outcome 2

Explain how risk management is applied in the Financial Services sector.

Performance Criteria

- (a) Define 'risk management'.
- (b) Explain the different types of risks found in a Financial Services organisation.
- (c) Explain ways in which risk management is conducted within the Financial Services sector.

Outcome 3

Describe how the Data Protection Act applies within the Financial Services sector.

Performance Criteria

- (a) Outline the purpose of the Data Protection Act.
- (b) Identify the eight Data Protection Principles.
- (c) Describe the procedures used to ensure compliance with the Data Protection Act.

Outcome 4

Explain the purpose of Money Laundering Regulations in relation to the prevention of crime.

Performance Criteria

- (a) Define the term 'Money Laundering'.
- (b) Explain why the 'Money Laundering Regulations' were introduced in the UK.
- (c) Outline an organisation's responsibilities under the Money Laundering Regulations.

National Unit specification: Statement of standards (cont)

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Evidence Requirements for this Unit

Evidence is required to demonstrate that learners have achieved all Outcomes and Performance Criteria.

Written and/or oral recorded evidence is required to demonstrate that the learner has met the requirements of all the Outcomes and Performance Criteria. The Outcomes for this Unit may be assessed individually.

All Outcomes may be assessed by extended response questions or by questions based on case study stimuli. Assessment should be carried out under open-book supervised conditions to ensure authenticity of learner's work.

Outcome 1:

Learners should:

- ◆ Explain why regulation is required within the Financial Services sector, making reference to the 2008 crisis.
- ◆ Identify the regulatory framework and the main bodies that supervise the regulation of the Financial Services sector, explaining the roles and responsibilities of each body.
- ◆ Explain the rationale behind the Treating Customers Fairly (TCF) initiative and identify the **six** TCF Outcomes.

Outcome 2:

Learners should:

- ◆ Define 'risk management' as it applies within the Financial Services sector.
- ◆ Explain the operational, people, capital and insurance risks found in the Financial Services sector.
- ◆ Explain the risk management life-cycle making reference to the terms 'risk appetite' and 'risk retention'.

Outcome 3:

Learners should:

- ◆ Outline the purpose of the Data Protection Act (DPA) making reference to personal data and sensitive data.
- ◆ Identify the **eight** Data Protection Principles.
- ◆ Describe the measures to be followed to ensure compliance with the DPA.

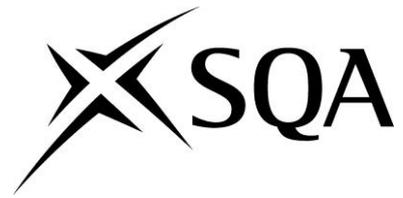
National Unit specification: Statement of standards (cont)

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Outcome 4

Learners should:

- ◆ Define the term 'Money Laundering'.
- ◆ Explain why the Money Laundering Regulations were introduced in the UK.
- ◆ Outline an organisation's responsibilities under the Money Laundering Regulations making reference to risk assessment, identification, reporting of suspicious activity, customer due diligence and enhanced due diligence.



National Unit Support Notes

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Unit Support Notes are offered as guidance and are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 40 hours.

Guidance on the content and context for this Unit

This Unit aims to provide an introduction to the regulatory framework that underpins the operations of organisations working within the Financial Services sector. The bodies that oversee the regulatory system are The Bank of England, The Prudential Regulatory Authority (PRA), The Financial Policy Committee (FPC) and The Financial Conduct Authority (FCA) and are independent in providing regulatory management of the sector.

It also provides an overview of risk management and its application in a Financial Services organisation. Learners will also be introduced to data protection and Money Laundering Regulations appropriate to the Financial Services sector.

In **Outcome 1** the focus will be on the four regulatory bodies that work within the regulatory framework — The Bank of England, The Prudential Regulatory Authority (PRA), The Financial Policy Committee (FPC) and The Financial Conduct Authority (FCA). By identifying the role and responsibilities of each of the organisations learners will gain an understanding of the framework of regulation which governs Financial Services in the UK.

Reporting to the Bank of England, the PRA are responsible for promoting the safety and soundness of PRA-authorized persons/organisations and specifically for insurers, they ensure both current and future policyholders have an appropriate degree of protection. Learners may be able to see a practical example of this in a Financial Services organisation. The FPC monitors the risks and weaknesses across the financial system. Ensuring a healthy financial system goes a long way to maintaining a successful economy. For example, in relation to banking, the FPC may ask banks to raise more money from shareholders as a buffer in case things go wrong. Learners should understand about stress-testing of major UK banks which was introduced in 2014. This was introduced to test the banks' resilience in the face of crisis such as a sharp change in the interest rates or a huge change in the housing market. This stress testing told the FPC that most of the major banks were not 'at risk' of failing and therefore their capital plans were appropriately applied.

The FCA is responsible for the conduct of all Financial Services, promoting effective competition whilst aiming to improve the protection of consumers and the integrity of the financial system. The FCA differs from the other organisations as it is a separate institution from the Bank of England.

National Unit Support Notes (cont)

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The Treating Customers Fairly (TCF) initiative is regulated as part of the FCA's routine assessment process. The six Outcomes relate to consumer confidence, correct products, clear information, etc. There is now a responsibility, which lies with the senior management of the organisation, to demonstrate the delivery of a consistently fair Outcome for consumers.

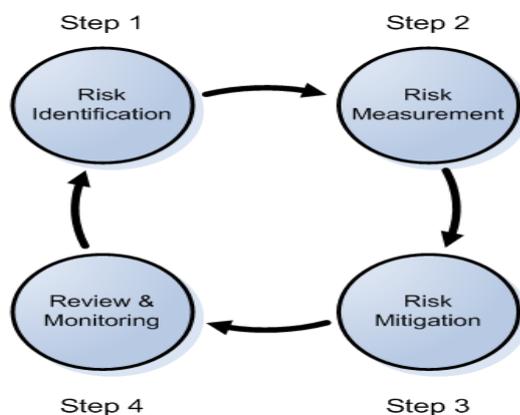
In **Outcome 2** learners will be introduced to risk management in Financial Services, including the various categories of risk:

- ◆ Operational risk — the Basle Committee definition is 'The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.' This covers a wide range of activities, eg transactions, premises, products, payments, date management, etc.
- ◆ People risk — this is when an organisation does not manage its risks as an employer. This would include lack of appropriate recruitment, poor training, non-compliance with employee related legislation.
- ◆ Capital risk — can also be known as prudential risk and is when a bank has insufficient capital resources to meet regulation requirements.
- ◆ Insurance risk — this is the risk of loss due to the timing, frequency and severity of insured events.

The risk management life cycle should be covered including the elements involved when establishing risk:

- ◆ Risk identification — capturing what the risks are.
- ◆ Risk assessment — are the risks likely to occur and what the effects would be.
- ◆ Risk mitigation — how best to mitigate the risk to an acceptable level.
- ◆ Risk monitoring and reporting — shows the status of the risk and any actions required.

Example of Risk Management Life Cycle



A crucial element of the Financial Services sector lies within the appropriate application of risk management and learners will be introduced to the areas of the risk management cycle and elements of establishing levels of risk.

National Unit Support Notes (cont)

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Outcome 4 provides learners with an overview of Money Laundering Regulations and the reasons for their introduction.

Money laundering is the cleansing of 'dirty money' gained or obtained through criminal activities, which is then cleansed/filtered through the financial system. The first Money Laundering directive was introduced in 1991 and was incorporated into the Money Laundering Regulations in 1993. All regulation is regularly updated to consistently combat criminal activity.

The regulations were introduced to prevent criminals from disguising the origin of funds often over long periods of time.

Learners should be aware that Money Laundering Regulations apply to a number of different business sectors — financial services and credit business, estate agents and accountants.

Learners should be aware of the controls that may be put in place to prevent money laundering. These may include:

- ◆ assess the risk that the organisation may be used to launder money
- ◆ check the identity of customers
- ◆ check the identity of 'beneficial owners' of corporate bodies and partnerships
- ◆ monitor customers' business activities and report any suspicious activity to the National Crime Agency
- ◆ ensure the necessary management control systems are in place
- ◆ keep documents relating to financial transactions, the identity of customers, risk assessment and management procedures and processes
- ◆ ensure all employees are aware of the regulations and properly trained

The management control systems will depend on the size and nature of the business, including the number of customers and number and type of products the organisation has. The control systems will include 'customer due diligence' and 'enhanced due diligence'. Learners should be aware of the steps required to identify customers and when to apply customer due diligence measures. They should also recognise situations where enhanced due diligence should be carried out.

Learners should understand the areas of special importance in terms of recognising potential problems these include identity of new customers, lump sum investments and suspicious transactions. Examples of suspicious transactions include customers depositing large sums of money in cash which is unusual to the normal transactions on the account.

Where learners undertake work placements they should become familiar with the organisation's procedures relating to Money Laundering Regulations.

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Guidance on approaches to delivery of this Unit

It is recommended that the Outcomes be delivered in order. It is recommended that learners are given the opportunity to benefit from the involvement of the Sector by enhancing the teaching and learning that takes place within a classroom setting — this may take the form of guest speakers and visits to the financial institutions themselves.

Outcome 1 covers the regulatory bodies in financial services. Current information about the main bodies is available from the Bank of England and the FCA websites. Centres could initiate role play Treating Customers Fairly (TCF) scenarios — rapport with customers, customer relationships, clear product information, no use of jargon, etc.

Outcomes 2, 3 and 4 could each be introduced by a formal class lesson, followed by class discussion. Learners could also be set research tasks around these topics. Where learners have a work placement they could access the organisation's policies on Risk Management, Data Protection and Money Laundering Regulations. Possible breaches of Data Protection and Money Laundering Regulations could be discussed along with sanctions.

Guidance on approaches to assessment of this Unit

Evidence can be generated using different types of instruments of assessment. The following are suggestions only. There may be other methods that would be more suitable to learners.

Centres are reminded that prior verification of centre devised assessments would help to ensure that the national standard is being met. Where learners experience a range of assessment methods, this helps them to develop different skills that should be transferable to work or further and higher education.

All Outcomes may be assessed by extended response questions or by questions based on case study stimuli. Assessment should be carried out under open-book supervised conditions.

It is the responsibility of the centre delivering this Unit to ensure the authenticity of learners' work.

Opportunities for e-assessment

E-assessment may be appropriate for some assessments in this Unit. By e-assessment we mean assessment which is supported by Information and Communication Technology (ICT), such as e-testing or the use of e-portfolios or social software. Centres which wish to use e-assessment must ensure that the national standard is applied to all learner evidence and that conditions of assessment as specified in the Evidence Requirements are met, regardless of the mode of gathering evidence. The most up-to-date guidance on the use of e-assessment to support SQA's qualifications is available at www.sqa.org.uk/e-assessment.

National Unit Support Notes (cont)

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Opportunities for developing Core and other essential skills

Core Skills

Learners will be producing written and/or oral communication evidence as part of the assessment and will be carrying out research. This offers opportunities to develop aspects of the Core Skill of *Communication*.

Through using the internet for research purposes, learners will have the opportunity to develop the Core Skill of *Information and Communication Technology (ICT)*.

Aspects of the Core Skill of *Problem Solving* may be developed where learners are given research tasks or where assessment takes the form of case study stimuli.

Learners will also have the opportunity to develop aspects of the Core Skill *Working with Others* during class discussions. Where learners have work placements this will further enhance the development of this Core Skill.

Other Essential Skills

Learners may be given opportunities to develop key employability skills, as well as develop an awareness and understanding of citizenship and sustainability. These include the skills of:

Communication	Research and investigation
Interpersonal	Positive attitude to work
Flexibility/ability to adapt to different situations	Analysing and Evaluating
ICT	Planning and organising
Team work/group work	Time management
Using initiative/being proactive	Adopting professional working standards and practices
Problem Solving	Knowledge of chosen job or career path
Paying attention to detail	

History of changes to Unit

Version	Description of change	Date

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General information for learners

Unit title: Financial Services: The Regulatory Framework (SCQF level 6)

This section will help you decide whether this is the Unit for you by explaining what the Unit is about, what you should know or be able to do before you start, what you will need to do during the Unit and opportunities for further learning and employment.

This Unit will give you an understanding of the regulatory framework in which Financial Services organisations work.

Outcome 1 looks at the main bodies currently regulating the UK Financial Services sector and the roles and responsibilities of each of these bodies.

In Outcome 2 you will learn about risk management, including the different types of risk, and how it applies within Financial Services.

Outcome 3 covers the application of the Data Protection Act (DPA) within the Financial Services sector. You will learn about the principles of the DPA and how breaches can be avoided.

In Outcome 4 you will learn about Money Laundering Regulations and why they were introduced in the UK.

This Unit may be assessed by extended response questions and case studies.

You will be given the opportunity to develop the Core Skills of *Communication*, *Problem Solving* and *Working with Others* in this Unit. In addition, you may develop other employability skills such as time management and paying attention to detail.

Progression from this Unit is on to further/higher education courses, training or employment.