

Risk profiling tool checklist based on FCA COBS 9.2 and the FSA Guidance Consultation Paper on Assessing Suitability: Establishing the risk a customer is willing and able to take and making a suitable investment selection

Does the tool...	FCA/FSA references	Yes/no
<ul style="list-style-type: none"> quantify the probability of meeting the client's investment objectives? 	FCA COBS 9.2	
<ul style="list-style-type: none"> quantify the client's tolerance for risk (i.e. establish how the client is likely to react to a range of differing levels of fall in the value of the investment)? 	FCA COBS 9.2	
<ul style="list-style-type: none"> effectively establish the level of the client's investment knowledge and experience? 	FCA COBS 9.2	
<ul style="list-style-type: none"> effectively establish the client's capacity for loss? 	FCA COBS 9.2, FSA GC 3.14	
<ul style="list-style-type: none"> consider and score each aspect of suitability separately (i.e. does not bundle information on different suitability factors into one overall score)? 	FSA GC 3.20, 3.21, 3.22, 3.23	
<ul style="list-style-type: none"> recognise and filter-out clients who are best suited to an investment in cash deposits? 	FSA GC 3.14	
<ul style="list-style-type: none"> ask questions that meet the FSA's question quality criteria (avoiding vagueness, complexity, assumption of client knowledge or inviting inconsistent answers)? 	FSA GC 3.16 to 3.17	
<ul style="list-style-type: none"> avoid the use of potentially non-committal middle-answers (e.g. does not ask questions where clients can answer 'neither agree or disagree' or 'neither yes or no')? 	FSA GC 3.19	
<ul style="list-style-type: none"> check for consistency of client answers to questions, and highlight any inconsistencies? 	FSA GC 3.19	
<ul style="list-style-type: none"> identify and raise broader advice considerations (e.g. the scope for paying off debt, scope for flexibility in the investment term, size of the 'emergency fund')? 	FSA GC 1.14	
<ul style="list-style-type: none"> adopt clearly defined risk categories in accordance with the FSA example of good practice? 	FSA GC 1.12, 3.16, 3.27, 3.28, 3.29	
<ul style="list-style-type: none"> avoid overly wide risk categories and/or gaps in risk categories (e.g. big differences in equity content between adjacent risk categories)? 	FSA GC 3.30	
<ul style="list-style-type: none"> have a clear alignment of investment selection to risk category (e.g. overtly allowing for the fact that one person's 'high risk' may be another person's 'low risk')? 	FSA GC 1.13, 4.18, 4.8, 5.6	
<ul style="list-style-type: none"> allow for adviser discretion in assessing attitude to risk and other aspects of suitability (i.e. are advisers able to change tool conclusions and record reasons)? 	FSA GC 3.31	
<ul style="list-style-type: none"> identify and quantify any need/scope for clients to potentially accept a higher risk in order to meet the investment objectives (known as the 'risk need')? 	FSA GC 4.9 to 4.13	
<ul style="list-style-type: none"> provide a clear guide for the customer? 	FSA GC 3.31	
<ul style="list-style-type: none"> provide a clear guide for the adviser, covering the scope outlined in the FSA example of good practice? 	FSA GC 5.5, 5.6, 5.8	
Could you demonstrate to the FCA that you fully understand...		
<ul style="list-style-type: none"> the basis upon which the tool scores client attitude to risk, client education/experience and the client's capacity for loss? 	FSA GC 1.17, 3.11, 5.4, 5.6	
<ul style="list-style-type: none"> the exact methods used by the tool to align the investment selection to the client's attitude to risk, and the strengths/weakness of the methods used? 	FSA GC 1.17, 3.11, 5.4, 5.6	

Note – FSA GC = FSA Guidance Consultation Paper on Assessing Suitability: Establishing the risk a customer is willing and able to take and making a suitable investment selection