

Basis of Illustration - Capacity for Loss - CIP

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The **Capacity for Loss** tab will need to be completed for each investment on the Illustration.

Complete the questionnaire:

The screenshot displays the Synaptic Pathways software interface. At the top, there is a navigation menu with options like 'Synaptic Pathways', 'Home', 'Paraplanner Access Centre', 'Contacts', 'Research', 'Portfolio Builder', 'Investment Pathways', 'Generic Funds', 'Configuration', 'Fund Lists', 'Knowledge Base', 'My Apps & Settings', and 'Valuations'. A search bar is located in the top right corner. The main content area is titled 'Susanna Comparison w/Ex-ante CIP' and includes a 'Convert to Holding' button. Below this, there is a 'Review' section with a 'Mark as reviewed by selecting the checkbox for each item.' instruction. The 'Capacity for Loss' questionnaire is the central focus, containing seven questions with various response options. The 'Additional Information' section on the right provides context for the 'min gain' value and the 'Capacity for Loss' metric. The 'Supporting Notes' section at the bottom allows for additional input, and the 'Back' and 'Continue to Check-in' buttons are at the bottom right.

You will not be able to proceed to the Check-in without the Capacity for Loss statement completed.

Results Stochastic Forecast Deterministic Forecast **Capacity for Loss** Suitability Ex-ante Statement Compliance Details Report Content

Capacity For Loss

Use the Capacity for Loss Questionnaire to audit the discussion around whether committing to an extended term is appropriate for your client.

It will not be appropriate to commit the client to long term savings if they cannot commit to leaving the funds invested long term.

1. My Client will need to start spending the investment return at the following point in the future.

< 5 yrs	5 to 9 yrs	10 to 14 yrs	15 to 19 yrs	> 20 yrs
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2. My Client doesn't have any significant outstanding debts and doesn't expect to incur any during the period of the investment (eg. mortgage or credit cards).

Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree
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3. My Client's spouse, partner or family member is likely to be able and willing to support them financially if circumstances require.

Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree
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4. It would be relatively easy for my Client to cut expenditure in retirement if circumstances require.

Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree
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5. My Client is flexible about their investment horizon. They could wait before using their investment.

Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree
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6. In consideration of sequence risk, in the worst case scenario, my client can afford to lose **14.62%** or more, in any one year, defined as the worst year of returns in the forecast, assuming a 20 year term. This equates to the 5% (or 1 in 20) worst outcomes from the Moody's mathematical simulation. This may equate to **£31,100.40** in the first year.

Yes	No
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7. As an adviser, I assess a minimum appropriate term for this investment scenario to be **10 to 14 yrs**

Additional Information

A Client should not be exposed to risks they do not understand, nor are 'willing and able to take'.

The Moody's researchInvestmentItem calculates a 'min gain' value for the investment scenario which are displayed in question 6.

The 'min gain' is a stochastic value from the Moody's Analytics researchInvestmentItem and indicates the extent of losses expected in a 'bad year', defined as the worst performing year in a 20 year term or a 5% probability.

Advisers should use the 'min gain' to quantify possible losses in the short term and make a judgement as to whether losses are affordable to the client. A Client who is unprepared for loss is likely to sell up and crystallise losses, forgoing the opportunity to recover.

The longer money can be invested, the better the returns are likely to be. Capacity for Loss increases with term, so extending and recording a client's commitment to their investment horizon is an essential part of investment planning, risk management and proof of suitability.

You have the opportunity to add any **Supporting Notes to meet MiFID Compliance** :

Supporting Notes to meet MiFID Compliance

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Enter supporting notes here

Before moving onto the Check-in, review the remaining tabs in the Basis of Illustration.

Note - All Investments will need to be reviewed before moving onto the Check-In.

Next tab is Suitability:

Results Stochastic Forecast Deterministic Forecast Capacity for Loss **Suitability** Ex-ante Statement Compliance Details Report Content