

# Basis of Illustration - Capacity for Loss

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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, Contacts, Research, Portfolio Builder, Investment Pathways, Configuration, Fund Lists, Knowledge Base, My Apps & Settings, and Valuations. A search bar is also present. The main content area is titled 'Research Test Illustration Apr22' and includes a 'Convert to Holding' button. Below this, there are tabs for 'Research', 'Review', 'Client Check-in', and 'Report'. The 'Review' tab is active, and the 'Capacity for Loss' section is highlighted. This section contains a questionnaire with seven questions, each with radio button options for 'Strongly Disagree', 'Disagree', 'No Opinion', 'Agree', and 'Strongly Agree'. Question 1 asks about the client's spending point, with options from '< 5 yrs' to '> 20 yrs'. Question 2 asks about significant outstanding debts. Question 3 asks about the client's spouse or family member's ability to support them. Question 4 asks about the client's willingness to cut expenditure in retirement. Question 5 asks about the client's flexibility with their investment horizon. Question 6 asks about the client's ability to afford a 26.67% loss in the worst case scenario. Question 7 asks for an assessment of the minimum appropriate term for the investment scenario. To the right of the questionnaire is an 'Additional Information' section with a yellow background, providing context on the 'min gain' calculation and the importance of the investment horizon. At the bottom of the interface, there are 'Back' and 'Continue to Check-In' buttons.

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

You must complete the capacity for loss statement before this item can be marked as reviewed. ✕

Results
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

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

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

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

5. My Client is flexible about their investment horizon. They could wait before using their investment.

Strongly Disagree
Disagree
No Opinion
Agree
Strongly Agree

6. My Client can afford to lose **26.74%** in any one year, as a worst case scenario this could equate to **£13,888.49** loss in the final year of the **10 year** term proposed.

Yes
No

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