

# Basis of Illustration - Capacity for Loss

Last Modified on 13/02/2024 3:34 pm GMT

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

Complete the questionnaire:

**Review**

Select a wrapper to review the results, complete the capacity for loss statement and add commentary for compliance and reporting.

Mark as reviewed by selecting the checkbox for each item.

**PLATFORM** Platform The P1 Platform

**Individual Savings Accounts**

Product: P1 ISA  
RLV: 1.58%  
Final Value: £29,540.14

**Self Invested Personal Pension**

Product: The P1 SIPP  
RLV:  
Final Value:

**About**

This stochastic projection has been generated using the Moody's Wealth Scenario Generator to determine the probable outcome of the investment given the parameters provided.

**Synaptic MOODY'S ANALYTICS**

**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. In consideration of sequence risk, in the worst case scenario, my client can afford to lose **11.34%** 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 **£1,238.33** in the first year.

Yes No

7. As an adviser, I assess a minimum appropriate term for this investment scenario to be **10 to 14 yrs**

Supporting Notes to meet MiFID Compliance

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Enter supporting notes here

**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 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.

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

## Supporting Notes to meet MiFID Compliance

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