

Risk Illustrations - Report Content

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The **Report Content** tab allows you to amend the **Capacity for Loss Supporting Statement**, enter a **Recommendation Summary** and **Target Portfolio Summary**.

The screenshot displays the 'Report Content' tab in the Synaptic Pathways application. The interface includes a navigation menu at the top with options like 'Home', 'Paraplanner Access Centre', and 'Portfolio Builder'. The main content area is divided into several sections:

- Client Information:** Client Name (Susan West), Client Risk Category (Balanced (High End)), and Created Date (07/09/2023, 10:33).
- Investment Details:** Term of Investment (12 Years), Initial Amount (£200,000.00), Regular Contribution (£200.00 / pm), Growth Basis (Without inflation), Regular Withdrawal (£500.00 / pa), Total Solution Cost (1.23%), and Potential First Year Loss (16.82% or £33,659.85).
- Risk and Objective:** Investment Risk Category (Balanced (High End)), Objective Risk Category (Moderately Cautious (High End)), and Investment Scenario Pathway (BYI Multi-Asset Balanced).
- Outcome Summary:** Expected Outcome (Mean Gain) of £450,427.97 or 102.17%, Lowest Outcome (Min. Gain 5% Chance) of £222,662.00 or -0.06%, and Highest Outcome (Max. Gain 5% Chance) of £764,974.00 or 243.35%.
- Report Content Tab:** This tab is active and contains:
 - What is this for?:** A section for adding commentary to personalize the illustration.
 - About:** Information about the Moody's Wealth Scenario Generator used for the illustration.
 - Capacity for Loss Supporting Statement:** A text area with a rich text editor and a 'Salesforce Sans' font dropdown.
 - Recommendation Summary:** Another text area with a rich text editor and a 'Salesforce Sans' font dropdown.
 - Target Portfolio Summary:** A third text area with a rich text editor and a 'Salesforce Sans' font dropdown.

They will pull through to the **Report:**

Capacity for Loss Supporting Statement:

The screenshot shows the 'Capacity for Loss MIFID II Compliance Statement' report. It includes the following sections:

- Capacity for Loss Questionnaire:** A table with five questions and their answers.

1.	You will need to start spending the investment return at the following point in the future.	10 to 14 yrs
2.	You don't have any significant outstanding debts and don't expect to incur any during the period of my investment (e.g. mortgage or credit cards).	Agree
3.	Your spouse, partner or family member is likely to be able and willing to support you financially if circumstances require.	Strongly Agree
4.	It would be relatively easy for you to cut expenditure in retirement if circumstances require.	Agree
5.	You are flexible about your investment horizon. You could wait before using your investment.	Agree
- Additional Information:** A text box containing regulatory text: "In the regulatory risk governance model, 'the need to take risk' must be considered with a client's 'risk profile' or 'attitude to risk', and must not exceed a client's 'Capacity for Loss'. A client's capacity for loss increases with term. A client should understand the relationship between 'term', 'investment risk' and 'investment returns' as part of providing 'informed consent'."

Recommendation Summary

About the Synaptic Risk Explorer Illustration Report

The role of research and suitability

This research report is based on a client's specific circumstances and is part of a professional, goals-orientated, financial planning exercise. In order to establish the suitability of a recommendation, an accurate illustration of the investment outcome must be shared with the client so that 'informed consent' can be given.

The principle purpose of this report is to offer proof of suitability by using accurate data and sophisticated forecasts to show the role of risk in meeting the client's goals and quantifying possible losses.

Stochastic modelling using Moody's Analytics industry leading Economic Scenario Generator

The forecasts in this report are generated using the Moody's stochastic engine, the Economic Scenario Generator, ascribing probability to a full range of viable investment outcomes.

This approach demonstrates an accuracy proven over many market cycles over many years.

It is the same methodology that is relied on extensively by many institutions in the management of investment risk and the optimisation of portfolios.

Alignment of client's objectives to an appropriate investment risk category and asset allocation

This report details every aspect of risk relevant to a recommendation, including the client's risk profile (attitude to risk) and correct alignment to an investment strategy represented by a strategic asset allocation.

Risk categories are mapped to the scoring of the attitude to risk questionnaire.

Clients can therefore rely on the correct alignment of their investment objective to the recommended investment strategy.

The role of risk in compliance

The report is structured around the classic risk governance model demonstrating:

- The client's 'need to take risk'
- The client's 'risk profile' based on their attitude to risk revealed through use of the psychometric attitude to risk questionnaire
- Extent of losses expected on the investment journey, required to assess the client's 'capacity for loss'.

Quantifying the risk that a client is 'willing and able to take' is a regulatory requirement in MIPD II and FCA COBS.

Capacity for Loss

'Tailoring investment risk according to a client's 'need to take risk' and their 'risk profile' is dependent on their 'capacity for loss', an expert determination made by the adviser.

The analysis in this report shows expected returns and expected losses over relevant investment horizons.

Sequence risk is acknowledged in this methodology as expected losses in the 'worst year' of the term are quantified (on a 1 in 20 years basis).

Recorded as the 'min gain', this represents one of the main calculations provided by the stochastic forecast, a 'value at risk' measure (over 12 months), representing the extent of losses expected for given risk category.

Unlike more common volatility-based measures, 'value at risk' recognises the trend of the investment.

The basis of effective client engagement and ongoing advice

Providing a full, accurate and meaningful illustration of an investment outcome is the correct basis for building a financial plan and building trust with a client.

A client who understands the risks around their investment is more likely to commit to a strategy which they are comfortable with and remain invested for the duration of the term.

The successful attainment of a client's goals will depend on the initial recommendation, ongoing reviews performed by the adviser and the implementation of the firm's investment strategy, as evidenced in the following report.

Illustration Research Summary

Test recommendation summary