



Distributor Funds – Defining the Principles for Good Consumer Outcomes

Distributor influenced funds report *Summary and key recommendations*

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Scope of report

Scope	Action
1	Background to the DIF market in UK
2	Current DIF market in UK
3	What concerns have been raised?
4	What is a DIF?
5	What modifications could or should be made to DIFs to enable them to operate pre and post RDR?

Commissioned by
TISA to provide
independent
report



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Recommendations

Main recommendations

- Product design and cost/value
- Internal systems and controls
- Governance and systems and controls
- Distribution strategy
- Consideration of whether DIFs should be a defined term
- Consideration of impact of RDR

Background

What are the concerns?

- FSA's statements – "serious concerns"
 - risk of conflict/bias
 - value for money
 - communication with customers
 - governance
- That DIFs will not be feasible post retail distribution review





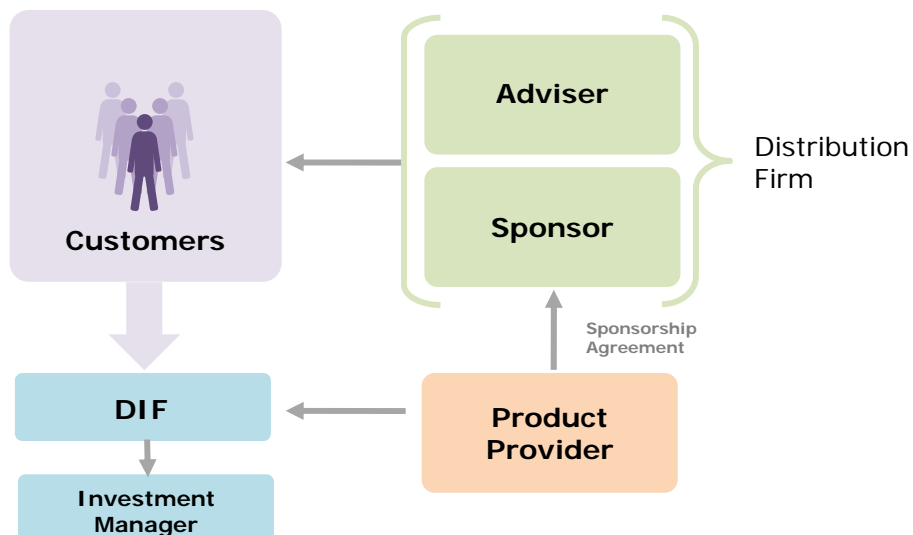
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What is a DIF?

Is there a definition?

- No FSA-defined term
- But FSA have referred to:
 - Involvement or influence of a distribution firm
 - Financial interests in the DIF
 - Outsourcing of investment management

What is a DIF?



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Recommendations

- Involve introduction of additional measures and therefore cost
- Recommendations stand regardless of RDR
- FSA likely to be very vigilant regarding DIFs following RDR
- There may be other ways of meeting the FSA's concerns



RECOMMENDED

Recommendations

Product design and cost

- Straightforward product design
- Branding
- Value for money
- Switching
- Justifiable profits
- Reporting to customers



RECOMMENDED

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Recommendations

Internal systems and controls

- Periodic review
- Increased monitoring
- Suitability and TCF
- Staff remuneration
- Training of advisers



RECOMMENDED

Recommendations

Governance

- Need for DIF to be “owned” by regulated entity?
- Qualifications and experience



RECOMMENDED

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Recommendations

Distribution Strategy

- Multiple distribution channels
- Volume of sales and default
- Commercial viability



RECOMMENDED

Can DFs work post RDR?

- Adviser charging rules
- FSA rules on labelling – independent v restricted



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Can DFs work post RDR?

Yes... BUT

- Only if can make use of the vertically integrated firm exemption: COBS 6.1A.9
- “if the firm or its associate is the retail investment product provider, the firm must ensure that the level of its adviser charges is at least reasonably representative of the services associated with making the personal recommendation (and related services)”
- The distribution firm has a substantive manufacturing role
 - Robust systems and controls are in place

Other Conclusions

- No formal definition of DIF to encourage flexibility
- Vertically integrated models should be caught by the regime
- The term “distributor influenced” fund should not be used
- FSA works with industry to develop appropriate criteria for DIFs



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Any questions

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