

Regulatory issues

TISA Wrap / Platform Seminar.

12th May 2009

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Introduction



- Our approach to the regulation of platforms.
- Paperless sale or transfer of units.
- Interaction with intermediaries.
- Consolidation.
- Capital adequacy.
- Disclosure – KFDs.
- EU developments.

Our approach to the regulation of platforms

- Outcomes focussed
- Combinations of principles and rules

Paperless sale or transfer of units



- Until recently, investors selling or transferring units had to provide written authority.
- Government rules and FSA rules now allow fund managers to accept the unit holder's authorisation by electronic means.
- UK authorised investment funds.
- FSA has confirmed industry guidance by IMA.

Interaction with intermediaries

- Communications are fair, clear and not misleading.
- Authorisation process.
- Final use of communications.
- Reliance on others.
- Tools.
- Training.
- Manage conflicts of interest.

Consolidation



- Recent findings on pension transfer advice
 - 16% of advice assessed as unsuitable.
 - Switch involved extra product costs without good reason (79% of unsuitable cases).
 - Funds recommended not suitable for the customers attitude to risk or personal circumstances (40%).

Consolidation



– The adviser failed to explain the need for, or put in place ongoing reviews where necessary (26%).

– Used 5 / 7 / 9% projections for cash funds.

N.B. Rates of return must be revised where the asset mix of a product makes it unlikely to achieve such returns.

Capital adequacy

Speech by Dan Waters, Future of Fund Management Conference on 24th March 2009.

- ICAAP (ICAS) – Pillar 2 requirements.
- Issues highlighted:
 - covering costs of winding – down or transferring regulated activities in an orderly manner.
 - operation risk analysis to quantify risk exposures at appropriate confidence level.
 - Calibration of stress and scenario tests appropriately severe and base capital forecasts not overly optimistic.

Disclosure - KFDs



- Supplementary annex to Good & Prior Practices in KFDs (Sept 07) – April 2009.
- “Too much information not only masks the key information. It also creates an immediate barrier to the document being read.”
- “ We encourage all firms to test the quality of their documents using techniques appropriate to their business and their market. Otherwise, they will not know if their documents are successful.”

Disclosure - KFDs

- Examples of poor practice

What is an investment bond?

“It’s a non – qualifying, single premium, whole of life insurance bond.”

Disclosure - KFDs



“Subject to COLL, the company may invest in unregulated collective investment schemes.”

EU developments



- Key Information Document for UCITS
- Packaged Retail Investment Products

EU - Key information Document



- Disclosure for UCITS
 - Document no more than 2 sides of A4
 - Risk – improvements in a narrative approach or a synthetic risk and reward indicator
 - Charges. TER replaced by “ongoing charges disclosure”.
 - CESR Consultation Paper setting out proposals on technical issues (risk & reward, past performance & charges) – closes 15 May.
 - Summer 2009 – consultation on full KID disclosures
 - October 2009 – CESR submits advice to the Commission.

EU - Packaged Retail Investment Products



- 30th April. Commission issues papers on Packaged Retail Investment Products (PRIPS) . Includes impact assessment.
- Follow on from previous work on substitute investment products.
- Includes UCITs, Life & Structured Products.
- Mandatory disclosures for PRIPS.
- Sales practices for PRIPS.