

Distribution and Advice in a Post-RDR World

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What I will cover

- **Aims of the RDR**
- **The proposals set out in CP09/18**
 - Independent/restricted advice
 - Modernising remuneration
 - Professional standards

- **The proposals aim to:**
 - address the potential for remuneration to distort consumer outcomes
 - improve the clarity with which firms describe their services to consumers
 - raise professional standards for all investment advisers
- **Consultative approach to policymaking**
- **Will apply to retail investment firms and retail investment products**

Independent and restricted advice

Two types of advice:

- **Independent advice:** unbiased, unrestricted, based on a comprehensive and fair analysis of the relevant market
- **Restricted advice:** advice that does not meet the requirements for independent advice - recommendations are made from a limited range of one or more product providers

Range of products an investment adviser needs to consider:

- currently independent adviser only needs to consider packaged products
- new requirements apply to wider range of products (e.g. structured investment products, all investment trusts)

Disclosure requirements

- New initial disclosure requirement
- Additional oral disclosure requirement for those providing restricted advice

Other advised and non-advised services



- **Simplified advice processes (advised guided sales)**
- **Basic Advice**
- **Non-advised services - not consulting on any changes to this service**

Modernising Remuneration - ‘Adviser Charging’

Adviser Charging



- **Adviser firms...**

- set their own charges for their services
- disclose those charges to consumers up front
- provide ongoing services in return for any ongoing charges

- **Product providers...**

- banned from offering amounts of commission to adviser firms
- allowed to offer to deduct charges from products
- cannot advance charges to adviser firms

Adviser Charging: key challenges



- **Overseeing Adviser Charging**
 - Price tariffs & clear information on charges
 - Product and provider-neutral charging
- **Tackling other forms of influence**
 - Inducement guidance
- **Regulating platforms and their charges**
 - Conducting a review of whether detailed requirements would now be appropriate for the platforms market
 - Implications for both independent and adviser charging work
 - Involves a thematic supervisory review

Adviser Charging: key challenges

- **Standards for vertically-integrated firms**
 - Includes advisers in banks and wealth managers operating their own CISs
 - Like other firms, will need to charge separate adviser charges and product charges
 - We will look further at internal remuneration
- **Impact on fund managers**
 - unlike insurers, cannot vary AMCs to include customised adviser charges
 - could offer multiple share classes or leave platforms to collect charges

European and wider implications

- **Packaged Retail Investment Products (PRIPs)**
 - EU Commission wants to harmonise regulation of selling processes for all PRIPS
- **Markets in Financial Instruments Directive (MiFID)**
 - MiFID prevents us from banning all payments from product providers to adviser firms - proposals allow adviser charges to be deducted from products
- **Wider implications for other sectors**
 - CP asks if we should apply any of the proposals to general insurance
 - Separate mortgage market review in progress

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Raising professional standards

- **What is our aim here?**

“Standards of professionalism that, in time, inspire consumer confidence and build trust so that financial advice is seen as a profession on a par with other professions”

- **More than just qualifications**
- **Professional standards board (PSB)**
- **CPD**
- **Ethics**

What are the proposals?

- **QCF level 4 for all practitioners**
- **Deadline of end-2012**
- **How will this be implemented?**
- **Role of the FSSC**
- **Core content plus specialisms**

Transitional arrangements and other detail



- No grandfathering
- New/existing adviser distinction
- No regrets position
- Alternative assessments – why we got to where we are

What does this mean for advisers?



- **Should review current qualifications against our future requirements**
- **Need to take advantage of the no-regrets provision**
- **New pre-qualified advisers still able to operate under appropriate supervision**
- **Supervisor exam requirements**

What does this mean for professional bodies?

- **Lead the way on the step change**
- **Help FSA with development of PSB**
- **Key future role under PSB umbrella:**
 - Responsibility for disciplinary action
 - Information sharing with the PSB
 - Interpretation of PSB standards for their sector
 - PSB scrutiny of professional bodies
- **Mandatory membership?**

Timeline

- 30 October 09 – response deadline for CP
- Q4 2009 – Consult on PSB
- Q1 2010 – final rules on charging and advice
- Q2 2010 – decision and next steps on PSB
- End-2012 – Deadline for implementation
- Other work includes:
 - **consulting on changes to reporting;**
 - **thematic work; and**
 - **capital changes**

Useful links:



CP09/18

http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_18.shtml

FAQs

http://www.fsa.gov.uk/smallfirms/your_firm_type/financial/library/rdr_faqs.shtml

FSSC consultation

http://fssc.org.uk/700_14.html?i=1

CP09/18 mailbox

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