Response by TISA to FSA Guidance Consultation:
Proposed update to the distributor-influenced funds factsheets

January 2012
The Tax Incentivised Savings Association – TISA has a growing membership of over 120 organisations interested in the UK market for retail financial services products, from Child Trust Funds, through Individual Savings Accounts to Pensions. We have Advisory Councils in Retirement Saving, Wraps and Distribution, whose observations and thinking have contributed to this response. We are distinguished by the very wide scope of our membership, from Banks, though Investment Houses and Life and Pension providers, to Distribution organisations and IFAs. We are not, therefore, restricted to representing a sector approach, but rather the views of a very broad church indeed. We also, as an organisation, start from the principle that what is good for the consumer must, in the long term, be good for the business of our membership.

CONSULTATION RESPONSE

TISA is pleased to have the opportunity to respond to this Consultation. Whilst we would not propose to respond in detail to all the consultation questions, we would wish to make the following observations.

TISA is supportive of FSA’s resolve to set out the rules governing Distributor-influenced funds (DiF) and we welcome the Guidance Consultation which is helpful and informative.

1. We note the FSA’s description of Distributor-influenced funds. Having reviewed a number of current models under which DiFs operate we reiterate our view that a formal definition could compromise FSA’s flexibility in regulating certain future schemes as DIFs. Lack of a formal definition would provide flexibility such that FSA can react to new developments in the market and also to ensure that products across the savings and investments spectrum can be subject to the relevant regulatory requirements.

2. We feel that the term ‘distributor influenced fund’ is unhelpful as it implies an automatic bias. Similarly, the term ‘broker OEICs’ are a throwback to a previous market failure that is no longer relevant and unhelpful. The term ‘distributor funds’ is a more neutral term which conveys the nature of the product without negative connotations and we recommend its use.

3. We were surprised by the lack of reference to vertically integrated firms in the section in the proposed Factsheet on conflict of interest. We recommend that models offered by bancassurers, insurers and fund managers be subject to the same checks and balances as all other providers on the basis that these structures give rise to many of the same regulatory issues as those traditionally identified as distributor funds.

4. TISA agrees that in line with the principles of RDR, firms advising on distributor funds should not receive a share of the annual management charge (AMC) for their role in recommending such funds to clients. However, sponsoring such structures and participating in their governance, should entitle distributors to be recompensed, as there are legitimate costs involved in this activity.

5. TISA takes the view that it could not be appropriate for an adviser to recommend a distributor fund if the fund’s charges vary inappropriately or adversely compared to substitutable or competing products. However, many products with seemingly low headline charges have considerable underlying costs. In determining a product’s costs we recommend that all the charges born by clients are considered
relevant – and the headline AMC of distributor funds are not considered in isolation.

6. While we note your hesitation in accepting whether an independent firm could meet its obligations if it recommended a DiF, in some cases it can be demonstrated that this can be in the best interests of clients. We recommend that FSA retains an open mind on this issue and that firms that hold themselves out as independent are allowed to continue to sell their own distributor funds but subject to some further checks and balances.

7. TISA agrees with FSA’s concerns regarding fairness and the responsibilities of providers and others for the fair treatment of customers. We agree that in so far as a provider or distributor is aware of the circumstances of the end-customer, that party has a share in the responsibility to treat those customers fairly. However, we would recommend that such responsibility is seen as limited and such responsibility is generally delegated to the advising firm, which should, itself, be a regulated entity.

In conclusion, we draw your attention to section 6 of the Eversheds report which was supplied to you at the end of 2011. It gives greater detail to the points raised in this response.

Malcolm Small
Director of Policy