Response by TISA to

CP12/12

TISA WRAP AND PLATFORM ADVISORY COUNCIL RESPONSE

September 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 this consultation document. This response will be at high level and will not answer the consultation questions directly; we anticipate that comments on these will come from individual member firms. Our Wrap and Platform Operations Committee will be commenting separately on more detailed, but none the less important, matters. It has to be said that there is no unanimity of view on a number of points, but where this is the case, it is reflected in the comments made.

- We think this paper continues to address the rebate issue in a way that assumes the current market is not working well for consumers, or holds out the prospect of defeating the objectives of RDR. We continue to disagree with the proposal to ban cash rebates, for reasons we have discussed with you in the past, but given the direction of travel now seems set, have commented accordingly.
- This paper, on the credit side, displays a much better appreciation of the way the market works than previous efforts. However, significant questions remain and we think operating costs for market participants could rise quite sharply through the operation of multiple share classes for pre- and post-ban business. The potential for errors will also rise.
- We support the extension of the ban on AMC and cash rebates to the Execution Only (EO) market in principle, but we think FSA will need to guide the industry on what happens to the commission which might previously have been paid on EO business. There is a danger here we could end up seeing 125bps share classes being created.
- We would also welcome guidance on when, exactly, unit rebates become "client money". This has become a very sensitive area and many members are nervous of inadvertently breaching rules. We have noted elsewhere that sometimes the rules and settled case law elsewhere appear to be in conflict. We have had member demand to set up a Committee just to focus on this area, so great is that nervousness!
- We note that some market participants are preparing to offer unit rebates. We also note the emergence of "clean" share classes from a number of fund houses and suspect that a number of platforms will choose to operate with these rather than unit rebates. It is not inconceivable that some participants may choose to offer both options. Converting to "clean" share classes for all

business, including legacy, may be operationally attractive to some platforms, but this would have some undesirable market effects.

- We suspect there may be complications or unintended consequences around offshore clients whose business is transacted outside the UK, but who use a UK-domiciled platform. Can they still receive AMC and cash rebates? Overall, we think there may be at least a theoretical risk of regulatory arbitrage here, and this may be an area to keep an eye on. Platforms based offshore, transacting business with UK clients who are ex-patriates would still be able to offer cash and AMC rebates, we presume.
- On the one hand, we recognise the theoretical elegance of a rebate ban extending to life and pensions business, but members' views are split on this. We see particular issues in the SIPP market, where we suspect the use of rebates might become widespread, and where rebates are already common. Many platform assets are held in a SIPP wrapper.
- On legacy business written before the end of 2013 (assuming no further delay, see below), we see the probability of at least two, and possibly three share classes being required, giving rise to tracking and labelling issues, as well as a high probability of error. In these circumstances, platforms may be faced with no choice but to go for "clean" share classes, for ALL business, including legacy, as referred to earlier.
- We also see the potential for other means to be found by the market to, effectively, transmit money from providers to platforms, such as "marketing allowances". Again, there are different views amongst our membership on the legitimacy of this, and the various guises it might take. Further guidance will be required here, we believe, if a disorderly market is to be avoided.
- Perhaps our biggest concern is the capacity of the industry to deliver this in, effectively, a year's time. With PRIPs, MiFiD 2, FATCA, RDR and other material all required in the development schedules for 2013, we would argue for the ban, if enacted, to commence in 2015. However, this is not a universal view, with some market participants suggesting it could be done in time. Operational prudence and avoidance of execution risk do, however, suggest this might be wise and, given the helpful delay to enable re-registration to bed in, would not be without precedent.

We hope these comments are helpful and look forward to discussing them with you.

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TISA