Another year ends

2012 has been a busy year for the industry and 2013 already promises to be challenging. It scarcely seems possible that this is the final edition of Quarterly for 2012. Please remember that we are always keen to hear your views and happy to answer any questions you may have, either relating to the articles contained in this newsletter or anything else that TISA is working on. Please send your emails to jill.crowell@tisa.uk.com; alternatively, you can contact the TISA office at enquiries@tisa.uk.com or call: (01642) 666999.

TISA Annual Conference 2012

Tony Vine-Lott, Director General

TISA’s 2012 annual conference is nearly upon us. As ever, we have a truly impressive line-up of guest speakers addressing many of the issues that have been preoccupying us this year and ones that are likely to continue to test us in the year ahead.

Steve Webb MP, Minister for Pensions, will update us on auto-enrolment, small pots, pensions transfers and doubtless much more.

Lord Eatwell, Labour spokesman for the Treasury in the House of Lords, ex-economic adviser to the Labour Party and a renowned economist will provide us with his insights and perspective on the State of the Nation... as well as recommendations for the way forward.

Edward Harley, Head of Asset Management at the FSA, will inform us about the progress being made as we head towards the year end and the implementation of the Retail Distribution Review requirements, a new regulatory regime in the first half of 2013 and other topics high on the regulatory agenda.

Henk Potts, Director of Research and Investments at Barclays Wealth, will be taking us on a guided tour of the possible and probable ups and downs of the markets in the coming year.

Lawrence Gosling, Group Editorial Director of Incisive Media meanwhile, is going to shine a spotlight on the effectiveness of the financial services industry’s various trade bodies.

Following the enthusiastic response to the panel sessions in recent years, we shall repeat this part of the programme at this year’s conference. The central theme will focus on the use and experiences, positive and negative, of digital and social media in our industry.

Last, but never least, the Chairman of the day will be 7IM director, Justin Urquhart Stewart.

Once again, the TISA Annual Conference is an essential diary date. Make sure you come along to, listen to and quiz our speakers, say hello to our sponsors and exhibitors, and share a drink and conversation with friends and colleagues, old and new.

If your firm is entitled to a free place, do make sure it is not wasted. Contact us and come along. We shall look forward to seeing you.

LIVE…

Cash ISA transfers

After long months of intensive work carried out by BACS, Vocalink and many other firms who have generously committed both time and resource to the project, TISA is delighted to announce that the Cash ISA Transfers electronic messaging service is now LIVE! BACS Scheme members are mandated to implement the system by January 2013 with other firms able to join soon after. This system, when integrated into back office systems, has the potential to provide improved customer service, greater speed and accuracy, scalability and reduced costs. At the very least it removes the vagaries of the Royal Mail!

However, the work does not stop here. The next stage is to assess how best to integrate the system with that used for stocks and shares ISA transfers... which will become particularly relevant as the Junior ISA market takes off.

INSIDE

THIS ISSUE

02 The consultation period for responses to CP12/12 closed at the end of September, we look at the view from our Wrap & Platform Advisory Council.

03 With Automatic Enrolment into Pension Savings prominent in the media Malcolm Small shares his thoughts on some of the challenges it may present.

04 TISA appointed a number of new staff this quarter – see who they are and hear from our newest board member.
Client Assets and Client Money

There have been a lot of concerns expressed in the industry about compliance with the Client Assets (CASS) and Client Money regimes. TISA ran a number of seminars and workshops on the topic and the FSA tells us that it was a topic of great interest at the recent asset management conference. At our latest workshop on Best Practice in CASS, run in conjunction with Kinetic Partners and led by Kevin Huby, a number of themes clearly resonated with members. The FSA believes that compliance with CASS falls short of expectations. Over £50 million in fines have been imposed since January 2012, including nearly £10 million to one firm alone last month – and that was the reduced amount due to the company’s co-operation! Other leading firms, have also been subject to fines and the enforcement teams at the FSA have been increased to number over fifty.

As a result of these clear concerns, TISA is establishing a Client Assets Committee to act as a centre of excellence and resource for members. This committee will be aimed at three categories of member, specifically:

- Wealth managers
- Companies undertaking brokerage activities such as client trading
- Fund managers

The seminar highlighted the unknown risks that firms may face in the area of client money, including:

- Lack of diversification of financial institutions used to hold client money and opacity over the criteria for their selection. Criteria could include rating (e.g. minimum AA or equivalent) and spread – such as a minimum number of institutions.
- Disclosure to clients of the institutions used and their selection criteria
- Liquidity issues over the use of fixed term arrangements in respect of client money, which may impact the financials around the use of client money
- Money market funds

The committee will work to develop procedural checklists in an attempt to identify and pre-empt the likelihood of error. Many of those attending the seminar found it very useful to share experiences and understand the implications of best practice.

An aspect that was of particular interest concerned the risks inherent in delegation. That liabilities in this area cannot be passed on was well understood, however, the impact on delegating firms of the lack of corporate understanding or memory of activities allocated to third parties had not been fully appreciated. If firms do not wholly understand what they have passed to others to undertake, how can they be sure that the third party is efficient and effective?

TISA will be seeking to work with the IMA and APCIMS to ensure that our members obtain sensible representation in this important area.

Consultation Paper 12/12 – The End of Platform Rebates?

These are not entirely at an end. The paper proposed a halt to cash and AMC rebates, but unit rebates will continue, on the premise that only the end-client can benefit from such rebates.

Most, but not all market participants regard unit rebates as complicated to administer, with the potential for some unexpected consequences. Already, a number of leading asset managers have announced their intention to operate “clean” share classes as their preferred solution to dealing with the now, seemingly inevitable rebate ban.

TISA has always argued that banning any rebates to platforms is to tackle a problem that is an illusion – that rebates will somehow be used by advisers to subsidise their fees to end consumers. These rebates have also been a way of reducing the effective cost of investment. These rebates have also been a way of subsidise their fees to end consumers. These rebates have also been a way of reducing the effective cost of investment.

However, the ban now seems certain, and the industry must live with it.

Our Wrap & Platform Operational sub-committee will be examining the operational implications, as the additional workload to cope with the changes required is likely to be substantial. In a development schedule already packed with RDR related work, the best outcome we might hope for is a delay in implementation.
Automatic Enrolments into Pension Saving

What has been hailed as “the biggest reform in pension saving in 100 years” is upon us. On the 1st October 2012 the very largest employers in the land took up their new duties to automatically enrol their eligible employees into a suitable pension arrangement. Many will be saving into a pension plan for the first time, and the hope is that most of those enrolled will carry on saving, as the percentage of “band earnings” they must pay increases over the coming years to 4%, with another 3% from their employer and 1% tax relief top-up from government. The degree of political consensus around the design of this policy and its implementation has been, in hindsight, quite remarkable. There is a distinct sense that the looming retirement income “crisis” is so great that we simply must do something to get people saving something for their retirement.

Certainly, the headline figures are grim, with two-thirds of private sector workers saving nothing at all into a pension arrangement. Recent ONS figures confirmed the continuing decrease in employers offering a workplace pension, a trend evident from the mid-1990s. This holds out the prospect of almost a whole generation which will be reliant largely upon the basic state pension and other retirement benefits, alone. And even that pitifully small pension cannot be guaranteed for ever.

From the social policy standpoint, TISA has supported automatic enrolment. However, there are challenges. The auto-enrolment process, and the categories of employees that need to be reviewed at each pay period to assess eligibility, are both very complex. Early evidence suggests that even large employers, with considerable resources struggle to understand what is required. Even for them, implementation of auto-enrolment looks like a nine month project.

Furthermore, we have seen additional delays in the parallel project to raise the basic state pension and abolish means-tested retirement income benefits. Without this reform, we cannot tell people that it is “safe to save” in a pension.

But the train has now left the station. We must all hope that it reaches its destination safely.

Foreign Account Tax Compliance Act (‘FATCA’)

TISA held a very successful seminar sponsored by KPMG on the subject of FATCA early in 2012. Many fund managers had become increasingly anxious that the importance of FATCA implementation and compliance issues were becoming a priority. They approached TISA with a request to seek an industry solution which led to a further seminar in September, this time organised in conjunction with PwC.

The recent seminar was addressed by Robert Bridson, Partner at PwC; Campbell Fleming, Director and Head of Distribution at Threadneedle Asset Management; Richard Cumbley, Partner at Linklaters and Mark State, Associate Director at Fidelity.

The agenda covered:
- Communication with end clients and their distributors
- The responsibilities of fund managers and advisers, particularly in relation to requests for indicia about end investors
- Data protection issues and the interaction between FATCA, the recently signed Inter-Governmental Agreement (IGA) between the US and UK
- EU law – including the Payments Directive
- What happens (and who get blamed) if things go wrong?

Fortunately, the recent IGA, together with similar bilateral agreements between the US and Spain, Germany, Switzerland, France and Italy, have significantly reduced the threat of withholding to fund managers domiciled here. But this depends on the enactment (probably by way of the Finance Act 2013) of the IGA into UK law. Until then, compliance with the requirements of FATCA will breach Data Protection laws and withholding by an EU financial institution will breach the Payments Directive.

In addition, institutions with operations outside the current IGA signatories, such as Luxembourg, the Republic of Ireland and offshore jurisdictions such as the Channel Islands have the threat of significant withholding unless they can satisfy the requirements of the IRS.

It is not surprising that fund managers are concerned about the situation. The logistics of more than one hundred UK fund managers writing to their clients, directly or through advisers, present serious challenges to the fund manager and adviser community. Whilst the penalties for US persons, or people deemed to be so, has diminished, fund managers still have to report. TISA suspects that many in the adviser community have not yet started to focus on the implications either for their businesses or their clients.

For this reason fund managers have requested TISA, alongside the IMA and FSA, to draw up an industry solution that reduces the likely burden on clients and advisers, whilst meeting the legitimate needs of the fund manager community.

We are now making progress on this and working with member firms.
Hugh Mullan is a non-executive director of TISA. We asked him about his new role.

I feel there are different elements to it. I bring with me the experience of having worked in a number of UK financial services businesses. The challenges I deal with on a daily basis are closely related to the issues that TISA is looking to address, so I hope to make a useful contribution to policy, the Association’s working agenda and its efficient and effective operation.

How will you find the time to include TISA’s activities in your already busy schedule?

Clearly Fidelity keeps me very busy, but there are common themes on which both Fidelity and TISA need to focus. Engaging with TISA is beneficial in that it enables me to think about a subject more broadly and Fidelity has always encouraged involvement in the Association’s councils and working groups.

What are the areas that particularly interest you and which others do you think will be taking up more of your time in the future?

I have been a big supporter of the work on platform-to-platform re-registration and feel that TISA is doing something new and exciting here. Inevitably, the regulatory agenda is very full so TISA will be lobbying hard to ensure we can achieve better consumer outcomes. Also, it is hard not to focus on the retirement market. This is an important issue for me and I have a keen interest in improving the post-retirement market for consumers. TISA has already done a lot of good thinking in this area, but there is still much work to do.

Kim Holloway
Kim joins us as Director of Engagement at TISA. Her remit will be to boost awareness and understanding of TISA’s activities, to engage with senior executives across all sections of our industry in order to help develop our thought leadership position and review and update our technology and communications.

With extensive knowledge and experience of financial services in a number of sales, relationship and technology roles, Kim is well placed to work with us promoting and enhancing the services we provide to TISA members.

Claire Cornell Johnson
Claire, our newest Technical Adviser and Office Supervisor, has a wealth of ISA experience from her years with Brewin Dolphin, also with UKAR where she managed the TCF initiative. As part of the technical team, Claire will develop and deliver additional training courses covering regulatory matters relevant to the industry and will also take on the role of office supervisor, assuming responsibility for the Stockton office staff. Her expertise and experience will prove invaluable in enhancing the provision of services to the TISA membership.

Jennifer Donohoe
Jen joins Jill Crowell and Helen Coulson as an Executive, Member Services based in London. She has a strong background in administration derived from her time spent working at Aberdeen Asset Management and IFDS, also in marketing and PR through her most recent role at F&C. Jen will support some of our member forums, but her main focus will be on developing and providing content through social media channels.

Peter Smith
Peter joined TISA on 1st November 2012 after retiring from L&G after many years. He will focus on developing our support of and engagement with distributors, providers and platforms. Peter’s experience and contacts within these communities will provide a great opportunity to further expand and develop work in this area. He will also support the work on extending and expanding our communication with these firms. Peter will replace Malcolm Small in managing the Distribution, Wrap & Platform and Centralised Investment Propositions Advisory Councils.

CV or vacancy to share?

Did you know that the TISA website has a dedicated area, which is free, for recruitment, allowing you to share your vacancies with visitors to the TISA website or to post your CV for interested parties to read? The vacancy section is available in the public area of the website so you do not need to be a TISA member to use it! For more information, or to post a CV or vacancy, contact the TISA office by clicking on this link.
TeX and FSA

Re-registration is firmly in the FSA’s sights and we have been working hard to ensure they are aware of TeX and all it offers. In the early stages of the development of TeX there were two particularly relevant statements in their documentation:

The FSA’s Retail Distribution Review, Consultation Paper 10/29 stated in paragraph 4.11 that: “In line with our proposals in DP10/2, we intend to introduce a rule to make it compulsory for platforms to allow assets to be re-registered off their platform no later than the implementation of the RDR on 31 December 2012.”

FSA Policy Paper “PS11/9 Platforms” August 2011 paragraph 4.7: “Given the TISA initiative, which we support, we do not think it is appropriate for us to set prescriptive rules regarding timescales for re-registration at this stage.

We will use the results of our post-implementation review work to assess the industry’s progress and to determine whether prescriptive rules are needed.”

More recently Jeffrey Mushens, Technical Director at TISA, has been working hard to keep them up to date on progress and it has been confirmed that TeX will form part of the discussions with firms on their RDR readiness. In addition we have drafted a Statement of Practise for TeX which has been submitted to the FSA for endorsement and once complete will be published on www.tisaexchange.co.uk

What is TISA Exchange Limited?

TISA Exchange Limited (TeX) is the ‘contract club’ established by TISA to help facilitate the electronic transfer of assets and wrappers. It has been made possible by a pan-industry initiative focused on establishing common standards covering liability issues and service level agreements, together with a dispute resolution process and contact database. This represents a rare achievement for the industry and has the support of the FSA as you will see later in this report.

One of the many benefits of TeX is that it will significantly reduce industry costs and risks by removing the need for each platform, nominee, third party administrator and fund company to have individually agreed contract terms covering transfers. The depository will hold one common set of terms that is maintained by TeX.

Another key benefit of TeX membership is the TeX Register – the provision of a secure database providing contact details for both day-to-day queries and escalation points for every member firm. This will work on a similar basis to the ISA Transfer database currently maintained by TISA and which has proved to be an invaluable aid to improving the speed and efficiency of ISA transfers.

Importantly, TeX will also provide certainty for customers that re-registration is being completed to an agreed industry standard. This is achieved through the provision of a depository for the non-commercial contract terms for transfers and cross industry support and agreement to use standard messages to transfer assets and wrappers between platforms of all types.

The TeX Special Advisory Council (chaired by Stephen Mohan from Cofunds and made up of representatives from the TeX founder member firms) meets regularly and has made several key decisions in respect of matters such as membership fees and categories, legal requirements and insurance.

The TeX SLA Advisory Council, chaired by Matt Dickson from AXA Wealth, was formed in May 2012 and has worked on clarifying a number of points including the process for bulk transfers. One of its aims is for continuous improvement leading to an even better timescale for transfers in the future.

An Advisory Operational Council made up of representatives from TeX members – platform service providers, asset managers and service providers is planned and its role will be to provide expert oversight of the operational and technical processes conducted under the TeX cover. This will provide input into the UK Funds Market Practice Group (UKFMPG) which manages the ISO 20022 message set. A working group focussing on the legal issues will also be required.

In order to be a part of these councils and working groups firms will need to be members of TeX.

Firms that have joined TeX as at 31st October 2012

- A J Bell
- Alliance Trust
- Allianz Global Investors
- Ascentric
- AXA
- Barclays Wealth
- Blackrock
- BNY Mellon
- Close Brothers Ltd
- Cofunds
- FIL Holdings Limited
- Hubwise
- IFDS
- Invesco Perpetual
- Legal & General
- M&G Securities
- Northern Trust
- Nucleus
- Schroder
- SEI
- Skandia Life
- Transact

Many other firms have confirmed their intention to join very soon and are finalising their review of the legal documentation. We look forward to adding new names to the list of members in the coming weeks as RDR implementation draws ever closer.
Information about TeX

TeX is a not-for-profit organisation, working with the industry to ensure that all members can use it to full advantage. It is financially independent from TISA but has the advantage of being linked to the TISA brand, the expertise provided by two corporate entity directorships and TISAs administrative support:

• TeX is backed by TISA, a successful, independent, low-cost, pan-industry body acknowledged by the FSA, other regulators and government for its success
• TeX has been established so that it is not vulnerable to commercial influence and risk of a small group dominating its direction is kept to a minimum
• TeX already has critical mass in terms of infrastructure and breadth of internal expertise and experience
• The TISA team has significant experience of running a not for profit, low-cost membership body and understands how to run a cross-industry database (The ISA Transfers database is used extensively by all ISA providers, not just TISA members)
• TeX has kept set-up costs low by removing the need for individual contract terms for each firm

Cost of membership

There are two stages to becoming a member of TeX. First you must complete a Joining Fee Form and pay the joining fee, currently £12,000 (£2,000 for Associate Members). Completion of this first stage gives you some of the benefits of membership such as being able to join our Advisory Councils and Working Groups but does not entitle you to access the TeX Register which holds all the contact information for TeX member.

In order to access the TeX Register you must complete a Registration Form and sign up to the terms of the Membership Agreement. The annual membership fee varies by membership category as follows:

• Service Provider £3,000 per annum
• Asset Manager £2,000 per annum
• Multi-Role Member £5,000 per annum
• Associate Member £1,000 per annum

Initially, we had felt that all ISA managers needed to join in the Service Provider category which attracted a £3k annual charge. However, it seems more appropriate for those Fund Managers who offer an ISA wrapper containing only their own funds to be treated just as an Asset Manager rather than a platform. Therefore in this specific circumstance, firms in this position join in the Asset Manager category (with a £2k annual fee) but all ISA managers who offer funds from more than one product provider will still need to join as a Service Provider.

Not ready for electronic transfers?

If your firm is not in a position to undertake electronic transfers you can, and should, still join TeX as to do so shows your commitment to comply with the requirements of the RDR. Membership is a statement of intent to your clients, staff, industry colleagues and not least the FSA that you are keen to engage with the industry to reach the common goal of RDR readiness.

Which type of member will you be?

There are 4 categories of membership which are defined as follows:

• **Service Provider** is a party that is a product provider (other than an operator of a regulated collective investment scheme or an investment trust savings scheme as described in paragraph (iii) of the FSA Handbook’s definition of product provider) or an ISA manager (providing funds of more than one fund manager) or a platform service provider (as each of these terms is defined in the FSA Handbook from time to time)
• **Asset Manager** is a party who is ultimately responsible for the maintenance of a fund’s register of holders of Units and for the repurchasing of Units that are to be redeemed or provides an ISA containing only their funds
• **Multi-Role Member** is a member of the company who is both a Service Provider and an Asset Manager
• **Associate Member** which may be suitable for other types of associated firm eg. solution providers

If you are unsure which category of membership is most appropriate please contact TeX on 01642 666999.

Members only area

The member’s only area of the dedicated TeX website – www.tisaexchange.co.uk – will hold information only available to TeX members such as minutes of the meetings of the Advisory Councils and Working Groups. Once you have joined TeX please let us know the names of the people within your firm that will need access to the TeX Register and the members only area of the website. There is no limit to the number of people that can have access.

If you would like to become a member of TeX or require additional information please contact Carol Knight on 01642 666989.