16th November 2012

Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, comments on how important pensions are to the UK economy.
- Jeffrey Mushens, Technical Director at TISA, outlines how implementation of FATCA continues to be a cause for concern.
- Peter Smith, Head of Distribution Engagement at TISA, discusses how demonstrating suitability is top of the FSA's list of priorities.

PENSION FUND MANAGEMENT IN THE UK

The City UK is providing, through its research, an ever increasingly clear picture of the importance of financial services to the economy. We may need to "re-balance", but this will take decades, and in the meantime, financial and professional services are pretty much all we've got. Maybe this dawning realisation was behind the marked change of mood away from "banker bashing" in David Cameron's recent Mansion House speech.

Crossing my desk this week was the most recent report on Fund Management. Globally, there is a staggering $31.5 trillion of assets managed in pension funds, with 10% of that total managed in the UK, equivalent to a massive 123% of UK GDP and far more than the GDP of most European countries. Added to this are UK insurance companies, who hold around £2.8 trillion of investments, four-fifths in long-term business, which will include some pension assets.

These numbers are an indication of just how important pensions are to the UK economy.

Malcolm Small, Director of Policy

PREPARING FOR FATCA

It's been another FATCA week, with some CASS thrown in. On Thursday, breakfast was spent being briefed on US regulatory change; morning was spent speaking on the Future of Pension Transfers (hint: it looks good, but challenging); lunch was with HMRC alongside the trade associations discussing registration, self certification, timetables and penalties; the afternoon was spent participating in a panel session at the ISITC annual conference.

The session at the ISITC conference focused on some of the issues raised with HMRC. Each financial institution (FI) needs to appoint the equivalent of a CF10a for FATCA reporting, who have to accept personal liability for errors. Questions were asked as to who could possibly be induced to take such a role? Of course, if you look good in orange jumpsuits, like a Caribbean climate, and enjoy water sports, this could be the role for you.

Timing for implementation is January 2014, assuming Royal Assent to the Finance Bill in July 2013; the draft Bill should be available by 11th December. We're the first (and only, so far) country to sign

TISA, DAKOTA HOUSE, 25 FALCON COURT, PRESTON FARM BUSINESS PARK, STOCKTON-ON-TEES TS18 3TX
technical queries: 01642 666999 email: enquiries@tisa.uk.com web: www.tisa.uk.com administration: 01642 666982 fax: 01642 666990

an IGA. There are another 4 in principle (Germany, France, Italy and Spain). Switzerland has signed something different, and Japan is dithering.

There's a lot of anxiety about the registration process. The fear is that the registration process won't be completed before 1st January 2014 (the first IRS system wasn't fit for purpose) as there are now estimated to be around 600,000 institutions that need registering! HMRC said it would seek for the IRS to declare that US custodians should regard FIs in an IGA country to be deemed compliant, even if they're not on their register.

The IMA pledged to work with TISA on building a common approach to information gathering from fund manager clients, which we are pleased about.

Jeffrey Mushens, Technical Director

DISTRIBUTION TERMS OF ENGAGEMENT TO GET TOUGHER

As RDR approaches, it's clear the FSA is increasing its efforts in respect of supervision, with suitability at the top of the list. There is a groundswell of opinion amongst advisory businesses, especially the smaller independent operators with limited resources, that keeping up with compliance is the most common area of concern.

Recently Martin Wheatley at the FSA stressed "it is essential that wealth managers, discretionary managers and stockbrokers take into account clients preferences regarding risk taking…we want to see adequate systems and controls to deliver suitable customer outcomes and protect client assets and manage conflicts of interest."

The FSA is clearly unhappy with the results of its review in June 2011 which resulted in a recent Dear CEO letter outlining its key concerns of absence of basic know your customer information, and inadequate risk profiling. The suitability review showed over three quarters of reviews posed a high or medium to high risk of detriment to customers, 79% of files had a high risk of unsuitability (or suitability could not be determined) and 67% of files were not consistent with either the adviser firms house model, the clients documented attitude to risk or investment objectives.

The roadmap here for advisory firms post RDR is therefore clear and this strongly indicates the requirement for a clear audit trail and link of risk appetite recommendations utilising a systematic approach. Advisers need to be warned that the new version of the Arrow visits will take a more systematic approach to assessing whether a business model is sustainable and whether clients' wealth is managed end to end throughout the process predicated around the FSA's key areas of concern.

The compliance burden will clearly increase with the additional raft of other regulation, much led by Europe in addition to our very own RDR.

Peter Smith, Head of Distribution Engagement