Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, outlines why the government's surprise U-turn on permitting investment in AIM-listed companies for ISA customers signals an intent to support smaller, entrepreneurial businesses.
- Jeffrey Mushens, Technical Director at TISA, provides his view on why FATCA is an ineffective pull on time and resource and working with the industry on the development of a CASS rules best practice document.
- Peter Smith, Head of Distribution Engagement at TISA, discusses the impact of the FCA's intention to widen its scrutiny of sales incentives and marketing packages.

AIM STOCKS IN ISAs?

Last December's Autumn Statement contained a surprise for the ISA cognoscenti. HM Treasury announced its intention to look at ways of permitting investment in AIM-listed companies. This came as a surprise, because TISA had been exploring how best to open up this avenue on behalf of our members for years. Our advances were rebuffed on two fronts: first, AIM stocks already enjoyed tax breaks - such as the exemption from Inheritance Tax; and second, market illiquidity and higher investment volatility could damage the cherished ISA brand.

The knock-on effect of this new move could mean that investment would also be possible on <u>any</u> recognised European exchange of which, at the last count, there were some 18.

Looking at the AIM market, there are some pretty big and liquid stocks – The Wine Warehouse, for example. Of course, there are "tiddlers" too, with market values of circa £30 million, sometimes less. The belief is that opening up the market to ISAs will diversify the market's investor base and increase the flow of funds. It will also ensure greater investment choice for consumers. Whilst it's hard to argue against the merit of these objectives, it's fair to say that the FSA is increasingly taking the view that "exotic" investments are inherently "unsuitable" for retail consumers.

On the face of it, it seems that the value of this proposal (which is likely to become a consultation document) is really around signalling intent about Government recognition of the need to support smaller, entrepreneurial businesses and their employees rather than radically increasing fund flows to AIM. On Wednesday, Tony Vine-Lott and I met with representatives of the LSE to discuss the implications of this proposal and next week we will be discussing the issue with HMT. This is certainly an important item for the agenda for the TISA Savings and Investment Policy Advisory Council on 14th February. Can I please encourage you to ensure that we have your input on this subject as soon as possible?

Malcolm Small, Director of Policy

FATCA AND CLIENT ASSETS

FATCA and Client Assets. Oh joy. Two big issues for the industry. Looking at FATCA first, did they ever do a cost benefit analysis? In the end, the US IRS will collect an additional $800m a year in tax and hire thousands more staff to process all the extra work. In the meantime, pretty well every financial institution in the UK has to comply just in case the 0.1% of retail holders of funds or life policies in the UK with US indicia might owe the US some tax. This is not an effective use of time or resource.

We've started looking at contingency planning in the event that the IRS systems for registration aren't ready from 15th July 2013 and giving some consideration to whether existing TPA (outsourcing) agreements cover the responsibilities.

I've more sympathy with the Client Assets rules in principle. After all, it's not our money, it's our clients. Even the biggest firms can go bankrupt (see Lehman's for more details). We've started to look at some pressing issues around intra day settlement, interest on client money accounts, diversification, and developing best practice. Normally, our Committees and Councils meet quarterly - we're struggling to keep this to only monthly.

If you're interested in joining either of these projects, please get in touch.

Jeffrey Mushens, Technical Director at TISA

SPOTLIGHT ON INCENTIVES

The regulator is currently clearly increasing their focus on the scrutiny of incentives. The FSA has refused to rule out new regulations governing incentives despite implementing a review last year. This review was enacted to determine if target schemes could lead to mis-selling and consumer detriment.

Now under Martin Wheatley, the FCA will widen its scrutiny of sales incentives and marketing packages to ensure firms will now act on the guidance.

This indicates that advisory firms will need a clear interpretation of how this guidance will now work, how it applies to them and more importantly what they should do differently.

The regulator seems to remain open-minded about whether new rules are required to ensure customers get a fair deal. It is clear that the ultimate answer to this will come from the industry's response to this work. The main issue around the FSA's document, issued two weeks ago, focuses on the expectation of firms to consider if its incentive schemes increase the risk of mis-selling, review whether governance and controls are adequate and take actions to address any inadequacies; if so, changes will be required to their existing reward schemes.

For advisory firms, it is clear that some fail to understand their own incentive schemes because of their complexity, and therefore makes them difficult to control. Some schemes rely too much on routine monitoring of staff rather than taking account of the specific features of the incentive schemes. There are sales managers with clear conflicts of interest, typically those with responsibility to manage the conduct of sales staff whilst earning a bonus if their team makes more sales! It appears certain that firms are not doing enough to control the risk of mis-selling in face-to-face situations. We can expect similar focus and controls on the practice of marketing packages between some providers, platforms and fund groups, and advisory firms. I'm sure more on this will evolve in the first half of 2013 - you have been warned!

Peter Smith, Head of Distribution Engagement at TISA