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ANNUAL REVIEW 2012

leading on investments and savings

CHAIRMAN'S REVIEW

In 2012, our industry faced continuing challenges; not least managing through macroeconomic difficulty and the introduction of significant regulatory change. In this difficult climate, I hope that you appreciate the increasing contribution made by TISA supporting our members' business, the industry as a whole and consumers in general set out in the pages that follow. 2013 promises a similar environment and our role has never been more important.

TISA must get three things right to build on the Association's considerable achievements in previous years. First, we must have a clear sense of purpose and mission that underpins and distinguishes what we do. Also, we must have a clear roadmap that underpins our goals and, third, our daily activity should add value to our members' business, consumer outcomes and the national interest.

Over the last few months we have taken the opportunity of my appointment to review this framework of our activity with many of our members – a project that remains a work in progress with the executive team and the board. However, I am pleased to report that the feedback confirms that the focus and direction of our activity is very much supported by those who have contributed to our study and has helped to clarify the unique role that TISA provides to in our industry. Particular feedback of note can be summarised as:

TISA: Adding value to our members' business activity

- **The breadth of membership enables TISA to deliver results others cannot**

  TISA is unique in that it engages with organisations across the various sectors of the financial services industry and our members work together in our Advisory Councils and Technical Committees tackling difficult issues, making policy and product recommendations in the best interests of the industry as a whole and aligned with good outcomes for savers and investors.

- **TISA delivers projects and other practical help to support the business activities of our members**

  During 2012 we have completed a number of important projects improving the re-registration of assets, and put in place the building blocks for the implementation of a platform re-registration solution for implementation in 2013. At the same time, TISA seminars and training programmes are directly relevant to industry and regulatory developments, also covering tax changes and other market evolutions – adding value to our members' commercial activity and priorities.

- **TISA is an effective spokesperson for the industry**

  The breadth of our membership and the positive work of the Advisory Councils gives TISA a strong voice in public policy development with Government, Regulators and with HMRC, the Treasury and other Departments of State such as the Department of Work and Pensions.

Moving ahead, your Board is determined to keep your Association closely aligned with the concerns and priorities of our members across the industry. Our goals are focused on three areas:

In this context, 2012 has been another successful year for the Association. We achieved a record number of members during the year and attendance at our 2012 conference was the highest ever. We continue to receive, and are most grateful for, the support of many industry-leading organisations that sponsor, host and exhibit at our many events throughout the year – thank you!

Our revenues to the financial year ended 30 June 2012 also exceeded £1 million for the first time and reserves (at 40% of our costs) are in line with the board's policy. This financial strength underpins our growing range of activities as well as the resources needed to support the various initiatives underway. Particularly noteworthy achievements in 2012 have been:

Policy and Product Development

We continue to engage with the Government and Whitehall promoting a number of key policy points developed by our Advisory Councils (the submission around the Autumn Statement can be found on the TISA website). In particular, we are keen to see the introduction of a joined-up framework for savings stretching from Junior ISAs to in-retirement products.

Operations and Infrastructure

We have completed a number of important projects during the year reducing the cost and risk associated with ISA transfers, and the launch of TeX in January 2013 to speed the movement of clients assets between platforms.

Technical Support

We have launched a number of Technical Committees focusing on standards and the clarification of important points of detail, whilst continuing to run valuable training courses for operational and product management.

As we extend the range of our activities underway, we continue to invest in the best resources available to support them. I am pleased to welcome Jennifer Donohue, Claire Cornell Johnson, Kim Holloway Peter Smith, Marita Margerum and Steven Coe to the team, all of whom in different ways are supporting our engagement with members in general and the activities of the Advisory Councils in particular.

At the same time I would like to thank Peter Thomson who stood down during the year after many years of service as a Director and Treasurer, and welcome Hugh Mullan of Fidelity to the TISA board. Your Directors, as well as members of the Advisory Councils, give of their time generously throughout the year to the broader benefit of our industry. I also offer my warmest thanks to the Director General, Tony Vine-Lott, his executive team and all the staff at TISA. With limited resources, but with boundless energy and enthusiasm, they achieve a great deal.

Given its unique position, TISA has an important opportunity to help our members, their clients and to advance the national interest in 2013. Key to our success in the coming year will be to:

- Clarify our purpose and mission, and develop a roadmap for the coming years;
- Improve our member communications and reporting of activity underway;
- Develop our capability in pensions and retirement policy and product - and start to deliver technical information and updates for members;
- Identify further areas where TISA can establish projects, workgroups and utilities to improve the efficiency of the industry, its service to clients and reduce cost and risk.

At TISA we remain absolutely committed to the success of our members, our industry and the investor community we serve.

TONY SOLWAY **Chairman**

DIRECTOR GENERAL'S REVIEW

2012 was yet another year of political and economic upheaval which resulted in equity markets continuing to slip and slide, although the Footsie ended healthily enough. This was in large part due to the completion of the US presidential election - and so far, this positive effect has been lasting, with the market maintaining the pace in 2013. Trials and tribulations may lie in store, nonetheless we should be optimistic. We are closer to the end of the recession than we were, and there is greater certainty than there was. The capacity for an upswing exists. All we need now is some concerted enthusiasm for it, followed by some determined action.

The economy and markets have not been our sole preoccupation this past year. The shifting role of the Bank of England, its new Governor, wholesale changes in personnel at the FSA and the imminent arrival of the FCA/PRA will have a noticeable impact on all of us - the industry and beyond. And let us not forget the RDR. After all the prognostication, we must now await the reality of the denouement.

TISA has been doing much to inform members and keep them up to date with changes as they arise. We have also been working hard to reflect your views on all the related consultations to ensure that regulators, government, their advisers and other commentators are fully aware of the issues and implications.

The articles contained in this report help to demonstrate the nature of our role behind the scenes. You will also see that throughout the year TISA's membership has grown. Our finances are sound and the breadth and depth of expertise and experience within the TISA team continues to expand. Attendance at TISA's events and training courses has been its highest ever. Also, importantly, our cross-industry initiatives have flourished, with TeX going live in January this year.

My first acknowledgement and sincere thanks must be extended to our membership. Not only have you provided us with the necessary financial support to enable TISA to function efficiently, but in many cases, it is your invaluable experience, time and input which have ensured that we have operated effectively. Thank you.

The TISA team has also done a tremendous job over the year and I would like to express my gratitude to them all. However, there is someone I must single out for thanks - John Brasington, who as Chairman for twelve years has helped steer PEPMA, as it was, towards what we all know today as TISA. His constant dedication to the Association, and the help and support which he has provided me personally, has been exceptional. We are all in his debt. Fortunately, he continues to support the Association. My thanks also go to Tony Solway who has taken on the role of Chairman. There is no doubt that he will do an excellent job; indeed, we are already benefiting from his experience in a number of areas.

2013 seems to have started on a positive footing. We, at TISA, are looking forward to the next twelve months with great enthusiasm. We have many plans and ideas which we will be bringing to you to ask for your input. I would like to thank you in advance for your support. We hope that this year, with its new regulatory environment, will treat you and your business well. We wish you every success.

TONY VINE-LOTT **Director General**

TREASURER'S REPORT

2012 continued the trend of recent years in providing many challenges to our industry. Firms have had to ensure that their operations are efficient and that costs provide maximum return. TISA is no different in this respect and we have carefully managed costs whilst expanding the scope of our support so that we can provide even greater value to our members.

Again we are happy to report that the Association has had a successful year financially. We have fulfilled our commitment to provide an increased number of smaller seminars which have been very well attended and our training courses continue to flourish with more attendees than ever before. Consequently training income was 20% up on the previous year which took the Association's total income to just over the million mark. Costs continue to be well managed which has allowed the Association to increase the services given to members. The Association has made a surplus of £93,711 for the full year ended 30th June 2012 and this has increased the Association's accumulated surplus to £407,495. Increasing reserves allows the Association to strengthen ongoing activities and to sustain the commitment to producing first class service to member firms.

The Association retains sufficient reserves in order to maintain long term financial stability and in more buoyant years we find that we are able to strengthen these reserves, whilst in more difficult years we have characteristically seen the reserves fall somewhat. The Association has had three continuous years of improving reserves which is most welcome after the specific challenges of the 2008/2009 period when we witnessed the reserves fall.

As previously reported the Association believes it is important that it maintains a sound financial platform to allow it to invest and thus develop its standing in the industry and with the various government bodies.

On behalf of the Board, I would like to conclude by thanking all the member firms for their continuing support. As set out above we have been working on a variety of projects and more are planned for the future. We believe it is very important for the direction and progression the Association is taking to receive feedback from members, particularly with respect to providing services to you , our members.

JULIAN KOREK
Treasurer (Non Executive)

SAVINGS SCHEMES REVIEW

ISA Subscription Limits

Annual inflation measured 5.2% according to the Consumer Prices Index (CPI) for September 2011, resulting in an increased overall ISA subscription limit for the 2012/13 tax year of £11,280 (£5,640 for Cash ISAs). The Junior ISA subscription limit for the year remained at £3,600, unchanged since the launch of the scheme a few months earlier.

As a part of the Autumn Statement package in December, it was announced that, based on the CPI figure of 2.2% annual inflation for September 2012, ISA subscription limits for 2013/14 would be increased to £11,520 (£5,760 for Cash ISAs) and £3,720 for Junior ISAs.

As before, these annual limits have been rounded to the nearest multiple of 120, so that individuals who save monthly will be able to calculate their monthly savings more easily.

ISA Statistics

Figures published by HMRC at the end of September showed a very small reduction in amounts subscribed to ISAs during 2011/12 [1]. However these subscriptions were made to fewer accounts with a 14.5% decrease in the number of Stocks & Shares ISAs[2], and a 4.8% decrease in the number of Cash ISAs[3], to which subscriptions were made in the year. This resulted in the average subscription to a Stocks & Shares ISA increasing by 19.5% to £5,473[4] whilst the average subscription to a Cash ISA rose 3.7% to £3,340[5].

Statistics for Junior ISAs could not be broken down because of statistical disclosure arising from JISA provider market dominance. Consequently HMRC simply published the fact that 71,000 JISAs received subscriptions totalling £115m in the five months since the scheme launched in November 2011.

At the end of September HMRC published provisional market value statistics for ISAs as at 5 April 2012 and, in finalising figures for the previous year, made significant adjustments to the April 2011 values. The provisional April 2012 value of Stocks & Shares ISAs was £190.314 billion, an increase of 4% compared with the previous year[6]. The mix of qualifying investments held remains fairly static with a small decrease in the proportion held in collectives[7] (79%) as opposed to directly held investments[8] (18%) and uninvested cash (3%). The split by value between Stocks & Shares ISAs and Cash ISAs remained unchanged at 49:51 with the value of Cash ISAs at £200.607 billion, an increase of 5% on the previous year[9].

Cash ISA Transfers

TISA continues to work with our colleagues in the BBA and BSA to promote the industry guidelines for prompt and efficient Cash ISA transfers. Elsewhere in this Annual Review you can read about the latest developments in electronic methods of arranging the transfer of the ISA wrapper – not just the cash balance itself – and thereby potentially reducing the timescale still further.

In the meantime, more and more firms are making use of the contact database to resolve queries about ISA transfers. This secure database established in 2008 is hosted by TISA on behalf of the whole industry with access available to all ISA Managers (irrespective of whether they are TISA member firms). Further information can be obtained from isatransfers@tisa.uk.com

Junior ISAs

Following the smooth launch of JISAs in November last year, we have been running a number of workshops on 'JISA Key Facts' which highlight the differences between the Junior and 'Adult' versions of the ISA. As mentioned earlier, there are limited statistics from HMRC in respect of the first few months of the scheme.

Last year, TISA published a list of JISA providers on the public area of our website and this is updated as and when we receive information on new entrants to this scheme.

JISA Subscription limit

As mentioned earlier, the JISA subscription limit will now be index-linked going forward and, for 2013/14 is set at £3,720 per tax year.

Child Trust Funds

Although the CTF scheme has been closed to new-born children for a full two years now, it has taken most of that time for eligible children's vouchers or account allocation to be processed. However apart from a handful of exceptional cases, this process has now ceased and there are plans within HMRC to close down the associated support function and to discontinue and dismantle the 'fortnightly' electronic reporting mechanism. At the time of writing, CTF providers are awaiting guidance on what manual procedures (if any) may be put in place.

The CTF Regulations continue in place, of course, and anyone at all can contribute to a child's CTF account (as they can indeed to any child's Junior ISA) so long as contributions in the subscription year[10] do not exceed the annual limit. The Government policy is to keep the CTF and JISA subscription limits the same so that the current CTF limit of £3,600 will also increase on 6 April 2013 to £3,720.

I am often asked "When will CTFs and JISAs be combined?" Whilst there is a considerable degree of similarity between the schemes, there are also structural differences and one of the main concerns that would have to be carefully addressed is the fact that the majority of CTFs are stakeholder products which provide a degree of protection which is not built into the JISA scheme. There are many who would advocate merging the two schemes but there are equally many who would advise against it, at least for the time being.

The year ahead

TISA continues to support member firms with technical help, meetings and training. In the coming year we have a variety of training workshops and seminars planned (see 'Dates for your Diary' elsewhere in this publication). Please do use your membership by attending events, ringing the technical helpline on 01642 666999 or viewing the website at www.tisa.uk.com, where you will find technical bulletins, consolidated regulations and much more. Whichever way you make contact with us, we look forward to providing continuing support for you and your business.

PETER SHIPP
Technical Director (Savings Schemes)

1 £53.533 billion (2010/11: £53.656 billion)
2 2.896 million (2010/11: 3.387 million)
3 11.284 million (2010/11: 11.859 million)
4 2010/11: £4,581
5 2010/11: £3,221
6 2010/11: £183.427 billion
7 Unit trusts, OEICs, UCITS, Investment Trusts and Insurance.
8 Shares, Securities (Bonds) and Gilts.
9 2010/11: £191.424 billion
10 CTF subscription year runs from the child's birthday until the day before their next birthday. (JISA year is the tax year)

REPORT FROM THE DIRECTOR OF POLICY

2012 saw the final implementation of a couple of major policy and regulatory interventions in the shape of automatic enrolment into pension saving and, at the stroke of midnight on the 31st December, the Retail Distribution Review. These and many other policy initiatives have seen TISA take a lead working with Whitehall and Canary Wharf to address industry issues.

RETIREMENT

Pensions have continued to make the headlines throughout the year, with the commencement of automatic enrolment into pension saving being the undoubted "highlight" of the year. Only the very largest companies have so far taken up their new duties, with the next "tranche" of employers going in later this spring. 2014 looks like being something of a crunch year, with many thousands of smaller companies with up to 200 employees looking for suitable schemes to fulfil their obligations.

Elsewhere, and in support of automatic enrolment, DWP has sought to shape a policy of "pot follows member" whereby pension pots get accumulated by automatically transferring when employees change jobs. TISA has been heavily involved in helping the industry consider ways in which the pension transfer process can be shortened, streamlined and automated. This has involved working with trade bodies such as ABI, NAPF and AMPS in collaboration. New structures for dialogue such as the Policy Engagement Group have been established with TISA's support.

Just into 2013, we have seen the final publication of DWP's White Paper on the move to a flat-rate basic state pension. TISA has been heavily consulted on this and we very much welcome this move as one for which we have long argued. The devil, of course, will be in the execution.

Internally, Natanje Holt has taken over as chair of the Retirement Advisory Council following John Lawson's move to Aviva from Standard Life. Our thanks to John for his years as chair and we welcome the well-known commentator Robert Reid as deputy chair, and chair of the new Retirement Technical Committee.

WRAPS AND PLATFORMS

This market has continued to grow, with the majority of new client monies now being invested through a platform of some kind. However, TISA has been heavily involved with FSA as it wrestles with a potential ban on rebates from investment providers to platforms or unit holders. These proposals have been through several iterations, with the latest being to ban cash and AMC rebates, but allow competition on the basis of unit rebates. For various reasons, these also seem likely to either be banned or deemed operationally "too difficult", leaving competition based on AMC levels only. This is likely to drive the cost of investments down. The Wrap and Platform Advisory Council chaired by David Moffat, supported by Ed Dymott as deputy, has been engaged with these and many other matters.

DISTRIBUTION

The focus of the distribution community has been almost entirely on the Retail Distribution Review (RDR), with examinations being taken, and Statements of Professional Standing obtained. Providers and advisers have in some cases struggled to be ready for the new regime and there is a sense that some still are not fully there. TISA's focus has continued to be on the future post-RDR and seeing what new models of distribution might emerge. It seems probable that adviser numbers will decline towards the end of this year and into 2014, with commentators suggesting a hard year for the advisory business. The Distribution Advisory Council under David Hazelton has been very active in promoting a seminar programme which has proved attractive to members and guests. Our presence in the distribution market has been greatly increased by the appointment towards the end of the year of Peter Smith, formerly of Legal and General and deputy chair of the Council, to our staff in TISA. The Council has also sponsored the Adviser Protocols project which is mentioned later.

CENTRALISED INVESTMENT PROPOSITIONS

Newly established in 2012, this Advisory Council spun out of the merger of the Investment Funds Association into TISA. It represents a rapidly growing market for funds in which distribution firms have a stake, or where the value chain is being vertically integrated by "restricted" advisory firms. Guided architectures, model portfolios and standardised approaches to discretionary fund management all fall within its sphere of interest, which is also an area of increasing regulatory focus. In particular, the FSA is currently focussed on how "suitability" of investment recommendations in this market is demonstrated. Thematic work has thrown up many issues and a seminar on this topic will be hosted later this year.

SAVINGS AND INVESTMENT POLICY

Also new in late 2012, this Advisory Council has a focus on the savings market in the round, and in particular, how we can get the UK saving more, throughout life. A policy positioning paper is in course of preparation and an initial seminar is expected in the summer.

CHILDREN'S SAVINGS

The launch of the Junior ISA (JISA) has seen encouraging take-up in some quarters but overall volumes have been well below those experienced with Child Trust Funds (CTFs). There have been calls in some quarters for CTFs to be merged into JISAs, but government appears to have concluded that there is no evidence of consumer detriment and opinions within our own membership are divided as to the best way forward. There is no doubt that the appetite to save for the future of children remains powerful, but the absence of a government financial incentive and tight economic times may be creating a head wind.

PROJECTS

TISA continues to run projects in consumer-facing areas of current, or potential, regulatory or political interest. During 2012, the following projects were on-going:

- ISA Transfers
- Structured Deposits
- Data Quality

New projects commenced in the areas around
- Adviser Protocols
- Pension Transfers & Small Pots
- FATCA.

ADVISER PROTOCOLS

Following high-profile litigation around what happens to advisers and clients when one distribution firm acquires another, a seminar was held to see if lessons might be learned by the industry. At the seminar, we heard of the experience in the USA, where standardised codes – Protocols – have been developed to regulate what happens in these circumstances. This has seen a sharp decline in legal actions and is believed to have benefited the industry. Accordingly, an Executive Committee, chaired by Keith Richards of Tenet, has been established and the project is under way. It has become clear that the US Protocols as they stand cannot be adopted for the UK; entirely fresh protocols will be needed here.

PENSION TRANSFERS AND SMALL POTS

This initiative started as a conventional TISA project but because it involved working with, and through, sector trade bodies it rapidly became clear that other structures were needed. This resulted in the construction of the Policy Engagement Group (PEG) with DWP. I chair a Technical Advisory Group of domain experts which feeds into PEG. These initiatives have gained us much credibility within DWP, although they have been very time consuming, with forward movements small and hard-won. However, in an environment where "pot follows member" we can expect pension transfer volumes to multiply at least 10 times the current level and unless pension transfers are as fast as re-registration between platforms now is, the costs to the industry will be massive. Radical change over the current process is needed here.

FATCA

This project was established following a seminar examining the implications of this US legislation as it was clear that many industry participants would welcome the opportunity to discuss and gain greater clarity on practical issues such as record keeping and reporting. It is apparent that as other countries consider the outcomes of such legislation the potential impact on our industry could be significant.

MALCOLM SMALL
Director OF Policy, TISA

REPORT FROM DIRECTOR OF ENGAGEMENT

The role of 'Director of Engagement' was created in mid September 2012 as a response from our members and the wider market place for TISA to create a more active platform for communication.

As a relative 'outsider' to TISA pre my joining, the difference in the perceived view of TISA's on going work versus it's actual positioning in the UK financial services market place appears considerable. For those organisations involved in everything that TISA do, you will be fully aware of the scope and coverage of our activities. However, there are many organisations in the UK – some of which are TISA members - who still perceive TISA as only focusing on the issues, challenges and direction of tax incentivised products. This is clearly not the case. Indeed, whilst we remain the undoubted industry experts on ISA's, our remit from our members is now much wider and covers all areas within the UK investment and savings world.

TISA is fortunate enough to have a very unique positioning as an industry funded body within financial services in as much as our 'view' is widely representative across all of our members who are from all different aspects of the investments and savings world . This ensures, we believe, a very solid and considered view of the Financial Services market place and one that can be trusted as 'doing the right thing' for the industry and for helping to address the current perceived issues of trust with the end consumer, regulators and government alike.

So, our role in engagement is simple:

'To engage with all firms directly and indirectly involved in the UK savings and investment market place, encouraging awareness and active participation in TISA's services. In particular to engage with existing TISA members to ensure that bi-directional communications are as effective and relevant as possible so as to continue to deliver beneficial services to our members.'

In our view, it is imperative that we engage more proactively with each of our members at various levels within and across your organisations in order to more fully appreciate and understand how we can assist further and what else we should be focusing on in order to achieve members aims.

In particular we have a very specific focus on improving certain areas of communication with our members, as follows:

Website

It is encouraging to see how many of our members are active users of some of the facilities of the TISA website. Interesting too how this could be expanded considerably. There is much information to be found on the site and, with the ever increasing usage of digital media as a means of communication, our aim is to more fully utilise a redesigned and updated website to give our members even more information services.

The newly presented website launch date is planned for early Q2 2013 – watch this space!

Social Media

The expansion in the use of social media has been and continues to be meteoric for us all. It has now advanced so much that for most of us, so the statisticians report, we trust the messages and communications which we receive via social websites (such as LinkedIn) more than those into our own personal email accounts. So, TISA has opened its arms to the use of social media as a means of member communication and are now active weekly 'bloggers' via LinkedIn for any newsworthy information from our policy and technical teams.

TISA Publications

Our publications are content rich and very useful material for our members. This will continue to be further enhanced during 2013 by adding additional information. The topics that we are considering for further regular information updates include such areas as relevant and topical research reports, EU regulatory updates and thought leadership visionary editorial. We will also be meeting with each of our members to ensure that we understand and fully support their views regarding topics for consideration for information dissemination via TISA publications.

So, in summary, the role of Director of Engagement is new and has been created solely to ensure that we deliver better communication with and to our members in meeting your needs at all levels, from technical workshops, to specific policy advisory councils and through to creating forward thinking council groups to consider the impact of some of the most significant challenges facing the UK financial services market place in the next few years.

I look forward to meeting with each of you personally over the coming 12 months.

KIM HOLLOWAY
Director of Engagement

REPORT FROM DIRECTOR OF MEMBER SERVICES

2012 – a year of many changes. During the year we took on a number of new staff, set up several new member forums and saw lots of activity on transfers.

Saving Schemes

Stocks & Shares ISAs. Possibly the most interesting potential change in this ever-popular scheme is the consultation on including AIM shares as eligible investments. This is an issue we have raised with HMT on many occasions over many years. It has always seemed rather incongruous that these investments are allowed in a SIPP but not in an ISA. When the tax rules changed then the discrepancy seemed even more curious. The other main argument has been that they tend to be riskier investments and thus put the image of the ISA at risk. We are now in the process of gathering views from our Savings & Investment Advisory Council.

Cash ISA Transfers. The electronic messaging system provided by BACS went live at the end of October after extensive work on the part of BACS, Vocalink and the many providers who participated in the working groups. A number of firms implemented the system in the first few weeks, with all BACS scheme members committed to participate before the end of January. Early signs are that this has made a substantial improvement to a large majority of transfers and we expect this to get even better as more firms join up. Any other firm is welcome to join the scheme from February – details can be found at http://www.bacs.co.uk/BACS/CASHISAPROVIDERS

Children's Savings. A year on, the stats seem to indicate that take-up of the JISA has not been overwhelming – perhaps not a surprise in these stringent times. And there is media pressure from some sources for allowing CTFs to transfer into JISAs. However, TISA's Children's Savings Advisory Council have debated this particular hot potato and the consensus is that there is a wide choice of saving and investment opportunities available for CTF account holders across the many different providers and there is currently no clear consumer detriment in keeping the two schemes separate. This may of course change over time so TISA's position on this will be kept under review.

Saving for retirement. There is still much activity in this particular arena and we welcome the recent announcement of a Flat Rate State Pension. However, there is still more to do to make saving in a personal pension more attractive – centrally important as more people come into the frame for auto-enrolment. We continue to engage with all the various government and regulatory bodies where one of the main focuses at the present time is the question of small pots and moving these to new employers where TISA, with the support of many others, is working with DWP to seek ways of reducing the time and cost involved in transfers.

TISA Exchange (TeX)

By the time this Annual Review is published, TeX, together with the secure contact register, will be live. 40 firms have already joined this club which provides the legal framework necessary to undertake transfers without sending on the client's authorisation to their old provider. The terms of membership also cover a standard messaging format, service level agreements and dispute resolution as well as providing a secure contact database similar to the one which has been so beneficial for ISA transfers. The current membership comprises most of the major platforms and the fund manager members provide over 62% of the total funds under management. If your firm is looking to move to improve the speed and efficiency of transfers, whether they be re-registrations or cash, or are considering introducing electronic messaging at some point in the future, membership now would offer many advantages. If you are not already a member, and would like more information on how this could greatly facilitate your operations, please contact either myself or my colleague Jeffrey Mushens

Data Quality.

This new project started in Feb 2012. The scope is to document the current position with regards regulation, legislation, data quality and to define a common industry set of procedures/best practice and targets in order to provide the optimum quality of customer data. Through this work, we will thereby reduce the number of dormant/unclaimed accounts, increase investor participation and reduce risk. TISA are in the process of collecting data on the current situation through a survey, the results of which will be available in April and will be fed back to the FSA. Following that, we will be initiating a workshop to produce a best practice document which we will also provide to the FSA. If your firm would like to participate in this workshop, please let me know.

Events

Through 2012 we have run a series of seminars looking at the many issues affecting the industry. We also introduced half-day sessions on regulatory matters which have not only proved popular but some also spawned new member forums.

We had our regular seminars on distribution and the platform market together with two sessions on retirement issues. The regulatory sessions on Client Assets resulted in the establishment of a new technical forum and the one on FATCA generated a project focusing on providing guidance on compliance and producing a common industry set of procedures.

All these ran alongside the regular discussion forums and training courses, giving a very full programme of events throughout the year helping our members stay fully informed and at the front of changes in the industry.

We once again beat our previous record for attendance at our Annual Conference in November where we had an impressive line-up of speakers. Steve Webb MP, Minister of State for Pensions was the keynote speaker, joined by other influential figures from the spheres of politics, regulators, media and industry.

We had a programme of lunches for Senior Executives where through the year attendees enjoyed presentations from Jonathan Isaby (The Taxpayers Alliance); Andrew Tyrie MP (Chairman of the Treasury Select Committee); Mark Littlewood (Director General of the Institute of Economic Affairs); and Matthew Hancock, MP (Minister for Skills) . In addition, invited guests enjoyed the opportunity to meet Chris Grayling, MP (Minister for Employment) in April when he was the guest speaker at a drinks reception on The Terrace at the House of Commons.

Coming up in 2013

Training. We have just introduced a new training course on Power of Attorney. This is a half day session run by one of our new members of staff – Claire Cornell Johnson. Already proving popular with the first London session quickly sold out, other sessions are currently being arranged. Watch out for other new courses as we move into 2013.

Events. We have a range of other events lined up for 2013 including a Discussion Forum on 6th March; a UK Retail Distribution seminar on 21stMarch, Wrap/Platform seminar on May 9th, a session on Demonstrating Suitability in Investment Advice on 23 May and many others as we move through the year including of course our Annual Conference (13th Nov).

Membership. We have very recently created a new team within TISA, headed up by Kim Holloway, who will focus on developing relationships with our member firms as well as looking at ways we can improve our communication. The areas of interest we now cover are so much broader than only a short time ago, so we hope that by establishing a more structured framework of communication we will be able to ensure all members have the optimum opportunity to participate in what is happening. One of the new initiatives has been the development of our groups in LinkedIn where weekly blogs are posted with the latest news and updates. If you are not already part of the LinkedIn community, click on the link on the TISA homepage www.tisa.uk.com to take you through the joining process.

In conclusion

2012 was a very busy year and there is much to do in 2013 as the landscape constantly changes. If you feel there are issues which need addressing or processes which could be improved and TISA can help, please let us know.

CAROL KNIGHT
Director of Member Services, TISA

REPORT FROM THE TECHNICAL DIRECTOR

One of the many things that continues to strike me at TISA is the sheer range of activities that TISA engages in. The interests and activities of members, and TISA's engagement with Government and Regulators, stretch right across the financial services industry.

TISA is not only involved in ISAs, as some people still seem to think – though to be intimately associated with such a positive brand does the organization no harm – but every facet of savings and investment.

In addition for example TISA is also engaged in platforms, structured products, data cleansing, central investment propositions (CIPs) and retirement products to name but some of its activities.

TISA of course has led the work on the re-registration of funds. This resulted in the establishment of TeX, involving firms across the market, and which has gone live in January 2013, in time to deliver the FSA's requirements for transfers.

At the start of 2012, TeX had 14 members, and was finalizing the legal and operational documentation. Big issues to be tackled were around ensuring that members could talk to each other using different suppliers but utilizing common open standards, and agreeing the practical implementation of agreed Service Level Agreements.

By the start of 2013, inter-operability had been tackled. There was active competition between suppliers and testing had shown inter-operability to be a reality. The industry is now on the way to STP.

At the time of writing, TeX has 40 group members. In terms of industry coverage, the asset managers funds[1] represent over 62% of industry funds and the platforms are administrating over 80% of platform assets[2]. It's now live, with a Register and contact database hosted securely by SWIFT, and, as foreshadowed last year, with interest from Luxemburg and Dublin managers.

TeX is not just for fund managers and platforms, but also for wealth managers more generally, as well as Transfer Agencies and any firm that looks after customers' financial assets. SIPPs providers have approached TeX with a view to seeing whether their needs could be accommodated within the scope of TeX. This has now been extended to look at the whole area of pensions transfers. In answer to the response from Luxemburg fund managers, and from UK providers with offshore funds in client portfolios, we've launched a working group to identify how they might be included within the scope of TeX.

The next milestone will be the implementation of the timings required by the SLA from 1st July. Compliance with the SLA, mandatory for TeX members, will see a maximum re-registration time-line of 6 days, excluding redemptions, for transfer of portfolios between members, delivering real, measurable benefits for members and clients, and delivering on the FSA's stated objectives in PS11/9.

Considerable work has also been done in other areas as well including:

Structured Deposits - After a year of hard slog, the ExCo will deliver a recommendation on industry standards, meeting the objectives set at the start of the project, and satisfying FSA requirements.

Impact of PS11/9 on Platforms and intermediaries - the FSA fortunately, agreed to delay implementation of the damaging requirements relating to investor reports under PS11/9. This gives platforms a short breathing space while we identify a better solution.

Cash ISA transfers - Working in conjunction with BBA and BSA, TISA supported BACS with the development of an electronic messaging solution for Cash ISA transfers which went live at the end of October 2012, All the major banks have now implemented this system with other firms joining the initiative in the coming months. This has already shown a marked drop in the time taken for these transfers and will go a long way to redress the consumer detriment highlighted in the media in previous years.

To assist in supporting these types of activities we have launched four new Technical Committees - Wraps & Platforms, Retirement, Savings & Investments and Client Assests. These will look at technical and regulatory issues, and their development reflects the increasing demands on the members, and the way in which members believe that TISA can help them manage those demands.

As an example of a practical solution to a real problem, the Wraps & Platforms Technical Committee set up a working group to agree an industry best practice to the problems thrown up by the planned banning of cash rebates. The industry is busy launching new share classes at lower fees, but this brings issues relating to conversion, and protocols concerning the fairest way to carry out share class conversions. The output from the working group was a statement of practice, agreed as best practice by the industry, tackling the practical issues for the industry, and dealing with the new tax and regulatory issues. We agreed the statement of practice with the FSA and HMRC, and we think this is an excellent model for future working groups.

The Client Assets Technical Committee brings together practitioners from across the financial services industry, to develop best practice, share concerns and act as a voice with regulators and government in this area.

Members have become increasingly concerned at the impact of FATCA on their businesses, and in particular in finding solutions to the interrelationships between fund managers, banks, custodians and distributors, including clients. We ran a seminar with PwC in the autumn, which led to a project being started. One objective will be to look at an industry utility, to reduce duplication. We've launched two working groups to define roles and responsibilities for the different legal entities, and to start contingency planning for January 2014.

Hopefully this helps set out the breadth and depth of TISA activity. 2013 has already started off with TeX going live, the implementation of FATCA, and increasing demands placed on members by FSA/FCA and the government. I hope to be able to continue to help members in my role as Technical Director. That means supporting the policy development in our Advisory Councils with technical knowledge and expertise. If members have issues around the practical implications of proposals, or support in discussions with regulators or the government, we can help.

TISA is a trusted partner of regulators and government, which means that they will listen to us if we have sensible concerns. I, as Technical Director can help channel members concerns and help develop solutions to issues. Do get in touch if you think we can help.

We can only achieve our goals with the commitment of members, and their willingness to deploy senior people to support our work. The calibre of people on our Councils, Committees and ExCos, and the commitment in time they give, is astonishing. We're very grateful.

I'd also like to thank my colleagues for their support, and our staff in Stockton, whom Winston Churchill surely, presciently, had in mind, when he spoke of so much done by so few.

I've enjoyed 2012. I expect 2013 to be even better.

JEFFERY MUSHENS
Technical Director, TISA

1 As measured by the IMA, as at 31st December 2012

2 As measured by Fundscape, as at end quarter 3, 2012

DISTRIBUTION END OF YEAR SUMMARY

The past year has seen frenetic activity in the world of distribution, accelerated by a number of changes to the existing legislative framework for all, resulting in some additional hasty last-minute adjustments to business models.

In effect, 2012 has been a year of restructure and preparation, with the new regulatory regime of the FCA due to take over in April and the launch of the RDR on 1 January 2013. Many financial advisory businesses have had to re-engineer their business models, advice process and engagement with clients dramatically over the last 12 months. Many would agree that the RDR has posed the biggest impact on advice businesses for many years. The outcome being firms are now required to explicitly disclose and separately charge clients for their services, and they have to adhere to a strict professional standard including a code of ethics.

The major concern for advisory businesses is the focus on profitability and the delivery of advice going forward particularly around adviser charging. It is clear that many firms fear some clients will not want to pay a fee for advice. Firms say continuing to service such clients will not be profitable now commission is banned, thus creating an increase in the advice gap. In 2013 one of the areas that TISA will explore is Alternate Routes to Market, for it is clear the RDR is forcing the evolution of alternate business models and routes to market for existing advisory firms. In recent months, some early adapters have already launched alternate models into the market. We have the emergence of execution only propositions, execution only investment platforms and non-advised propositions. This trend will only accelerate in 2013 and beyond.

In addition qualification requirements for advisers have changed . This has led to pressure within larger firms to ensure all advisers are appropriately qualified. A true picture of the resulting numbers is unlikely to emerge for a number of months yet. The regulator has given advisory firms up to 29 January to provide data on individual advisers. Estimates suggest somewhere between 15 to 20% have missed this deadline.

Whilst 2012 has clarified and set down the rules for advisory firms trading methods, the regulator has yet to issue the final RDR platform rules, causing a knock-on effect of delaying the deadline to introducing its new platform pricing rules now due at the end of 2013. A consultation published in June proposed to ban cash rebates, including execution only platforms, and to ban payments between fund groups and platforms. There will not be a final policy statement until 2013.

The final run-up to RDR has had a profound effect on transaction activity within the advisor space. The traditional valuation approach for merger and acquisition activity has normally been reliant on trail fees. It is somewhat obvious that buyers post-RDR will want to see a track record of transparent adviser charges being paid by clients. Until this track record is available, price expectations are likely to be very much reduced. The market is already seeing a reduction in valuations from 2.5 to 3.0 times recurring revenue moving as low as 0.8 to 1.5 times recurring revenue. In 2012 therefore takeover and merger activity has slowed considerably

TISA's activity in the distribution space continues apace with advisory councils looking at developing a solution to Adviser Protocols, exploring the full implications of "Suitability" from a regulatory perspective and "Alternate Routes to Market" to help resolve the prospect of consumers disenfranchised from advice because of RDR. 2013 will be a challenging but exciting year.

PETER SMITH
Head of Distribution Engagement

TISA CONFERENCE 14 NOVEMBER 2012 CONFERENCE REPORT

Introduction

250 delegates registered for the TISA 2012 Annual Conference, the flagship event in the Association's calendar. As has become expected, the conference impressed its audience with a range of presentations and debate on savings and investment policy combining this with insightful discussion about the practical and technical issues of the day.

Chaired in his inimitable style by Justin Urquhart Stewart the co-founder of Seven Investment Management, the conference programme featured speakers from parliament, the FSA, the investment media and the industry.

TONY SOLWAY

Unsurprisingly, TISA uses the conference platform to provide members with an update on the latest developments at the Association. Tony Solway, addressing the conference for the first time as TISA chairman since he took over the role from John Brasington in July 2012, outlined some of the results of a recent membership survey. Findings confirmed that members value the independence of TISA, the critical business support it delivers and its effectiveness as a mediator on the issues that matter both to the industry and the consumer.

Involvement in TISA committees is also considered a significant benefit of membership. Tony Solway thanked members for their commitment and willingness openly to address issues at committee and project meetings. This work has led to a number of notable successes on behalf of the industry, a specific example being the TeX (TISA Exchange Limited) solution to platform re-registration. Looking ahead, the chairman explained how the recent changes to the Advisory Council structure will enable the focus on policy matters and technical issues to be clearly divided and addressed by separate committees. Agreeing policy and articulating this to government and regulators in particular, is going to be a key priority for the Association.

Tony Solway concluded with the important point that TISA will continue to respond to the concerns and priorities of members, also, to provide them with practical help and support on matters relating to tax incentivised products.


TONY SOLWAY

LORD EATWELL

Lord Eatwell, the Opposition spokesman on Treasury and Economic Affairs, presented a perceptive view on the future for financial regulation. He opened by suggesting that it is sheer myth that financial regulation is in a position to measure risk.

He outlined that a G7 Leaders' statement had highlighted their amazement that the financial crisis had erupted in the best and well-regulated firms and he then drew attention to Alan Greenspan's comment in the aftermath of the crisis, that he had thought that he had understood risk management, but that in past weeks the whole intellectual edifice had collapsed. The point, said Lord Eatwell, is that the approach used to analyse risk has led to eye-watering complexity and that it is this which is the real enemy of stability and an effective financial regulatory system.

Lord Eatwell went on to say that financial modelling is not getting to grips with the complexity of regulation and as a result the adage that banking institutions are too big to fail is evidently no longer correct. Instead, a more accurate representation would be that firms are too complex to manage.

As evidence of this complexity, he cited that in 1988 the Basel I Accord had been 30 pages long. By 2004 (and before the financial crisis) Basel II comprised 347 pages. In reaction to the crisis the Basel III Accord ran to 616 pages. Lord Eatwell said that to translate this into UK legislation had required 13 pages for Basel I, however, 1000 pages of legislation have so far been needed for Basel III and the number is rising. In the US, the Dodd-Frank regulations are estimated to comprise 30,000 pages.

In 1980, Lord Eatwell went on to explain, the UK had had one regulator for every 11,000 people employed in financial services. Today there is one regulator for every 300 people employed. Costs have inevitably therefore also risen dramatically.

A simpler form of regulation does however require regulators to exercise their judgement. For many, the financial crisis was their first and so Lord Eatwell questioned whether they had at their disposal sufficient experience to handle it effectively. Rather tongue-in-cheek, he mooted that economic historians arguably might be better placed to be the regulators!

Returning to his theme of complexity as the enemy of stability, Lord Eatwell summarised three key action points:

1. International regulation must become simpler and harmonised
2. Banking regulation has to be simpler
3. The development of simpler products should be encouraged. Credit Default Swaps traded with a central counterparty are a good example of simplicity in practice today.


LORD EATWELL

LAWRENCE GOSLING

A perspective from the media was given by Incisive Media's editorial director, Lawrence Gosling in a provocatively entitled presentation: 'Trade bodies – what are they good for?'

Highlighting examples of what he saw as good and bad practice, he started off by pointing out the positive role that trade bodies can fulfil in helping to educate members and opinion formers about best practice, current issues and the workings of various aspects of the sector they represent. However Lawrence Gosling warned that there can be a very fine line between education and propaganda and trade bodies need to be careful not to overstep the mark.

Where he saw significant scope for dangerous practice was in the growing trend in the US where 'faux' trade bodies had become established as part of the landscape. These organisations imitated a trade body, in particular by trying to present themselves as an independent organisation offering impartial education on a particular subject. They were in fact just vehicles to promote a commercial or political message.

He also drew attention to the internet and the use of social media. Used responsibly these media allow trade bodies to communicate key messages quickly and to a wide audience. In the wrong hands however, the medium can be used to skew the debate – something we all need to be aware of.

TISA has gained an impressive reputation for the work that it does in bringing all the interested parties together – member and non-member firms, other associations, consumer groups and regulators – to address key issues that have an impact on the industry as a whole as well as the market audiences they serve. It is essential for trade bodies to take on an effective and respected leadership role if they are to improve the issues that count for so much in the industry they represent, Lawrence Gosling said while some trade bodies see lobbying as their main role, bringing the industry together to achieve a consensus solution that benefits everyone, as TISA sets out to do, is far more effective and is respected by the media.


LAWRENCE GOSLING

ED HARLEY

How the FCA will operate as a new conduct regulator from 2013, and ensure that financial markets work well so that consumers can secure a fair deal was outlined by Ed Harley the head of asset management at the FSA.

The move from the FSA to the FCA is an opportunity for a fresh start and Ed Harley was keen to obtain input from the industry on the new objectives, powers and approach. The three central pillars of the FCA will be to:

1. Protect consumers

2. Promote competition

3. Enhance market integrity.

He expects the new regulator to be more assertive than the FSA, using its powers to intervene directly if necessary, on products that are deemed to pose unacceptable risks to consumers - including an outright ban. He cited high risk collective investment products as a potential example. The message, he said, is that providers need to think and plan properly during the product design process to ensure that it is only sold to those for whom it is intended.

Reiterating a point from the earlier panel discussion on social media he said that action would be taken against firms that fall foul of the rules on financial promotions. He used Twitter as an example where people often fail to realise that their Tweet constitutes a financial inducement and so do not include the appropriate risk warnings. The compliance rules on financial promotions apply whatever the media used, he warned.

Consumers should be at the heart of everything that the industry does he said, and this means moving away from a culture of sales targets. There should also be more engagement with the consumer to help drive a more competitive market. The FCA will also focus on market integrity and he noted that poor wholesale conduct can impact the retail markets, as in the case of the issues surrounding LIBOR.

The intention is that the FCA will be more open, accountable and clear. Ed Harley said that the FCA wants to engage with the industry more, but without the need for long consultative paper processes. In the past, the regulator had not been good at communicating with either the industry or consumers. It intends to do better!

ED HARLEY

HENK POTTS

Henk Potts, director responsible for global research & investments at Barclays Wealth was asked to provide an outlook for the global economy. His theme was, 'Making sense of an uncertain world.'

He opined that uncertainty had now become the norm for the financial world. However, despite this there had been a strong equity return in 2012, although investors were still wary of putting money into what they thought could easily be a losing hand.

Looking ahead, Henk Potts was hoping that Europe's sovereign markets might make some progress, but he expressed his concern that short term political fixes would not necessarily make the best long term economic sense. In his opinion, the key question to be answered was how to generate jobs and stimulate growth within the Eurozone. A lasting solution may take ten years to achieve, he said, but that it was achievable whether Greece remained within the single currency or not.

In the US the economic recovery had been steady and unspectacular, much as had been predicted; some $2.3 trillion had been pumped into the economy since the start of the financial crisis and interest rates, close to zero for four years, were likely to remain so until 2015, Hank Potts said. Consumer confidence is good and the housing market is also showing positive signs, but he warned that the fiscal cliff had the potential to throw the US economy back into recession.

Growth of around 2% was anticipated in the US, whilst in Europe the countries with the worst economic problems were effectively putting a brake on the Eurozone as a whole. When coupled with the harsh austerity measures being implemented, Henk Potts felt that the growth prospects were 'anaemic'. In Emerging Markets the underlying conditions were good, he said, with inflation levels falling and infrastructure projects being fast tracked. Many economies were more mature today and as a result, he foresaw growth being likely to be smoother over the next five years.

On equity, he felt that the corporate picture still looked good. Since 2010 corporate profitability levels had increased, there was more cash on US balance sheets than ever, with dividend growth becoming more attractive and valuations under the ten year average.

HENK POTTS

STEVE WEBB

Steve Webb MP, the Minister of State for Pensions, entitled his presentation 'Beyond Automatic Enrolment – the pensions revolution'. He began by stating his belief that when their pension pot is below £10,000, people moving between firms should merit the default option - that the 'pot' automatically follows the individual - providing that is, the new employer runs an auto enrolment scheme. This is the so-called 'pot follows member' solution.

Recognising that automatic enrolment is only the start, the Minister outlined his hope that people and employers would acknowledge the benefits of the scheme and therefore contribute more than the minimum level. This will be essential, he said, if people are to have sufficient funds for an enhanced retirement. He admitted however, that there is still much work to do before the message about the benefits of saving in a pension hits home.

In response to concerns expressed about the quality of schemes, Steve Webb highlighted NEST as an example of best practice. He said however, that he wants to have a conversation with the industry about what 'good quality' looks like. Although still in the very early stages, he pointed to anecdotal evidence of a very positive response to auto-enrolment. There will be half a million additional pension savers by Christmas and he felt that initial estimates of the opt-out rate were too high.

Steve Webb highlighted the Defined Ambition concept and said that a 'Reinvigorating workplace pension strategy' document was due to be published shortly after the conference and that he would be keen to obtain industry feedback. On the State Pension he said that the commitment was towards a single, decent, flat-rate pension. The aim is to design a pension scheme for the real world with quality outcomes backed by an efficient system.

The Minister expressed the view that far too many people buy the wrong annuity, on which basis, setting the Open Market Option as the default, would be a sensible step to take. But he also reflected that a new approach to annuities should be considered, calling perhaps even for a new product.

Turning to the potential costs associated with transferring a small pot, he said that this has to be minimal, especially if the transfer is between auto-enrolment schemes. In summing up, Steve Webb said that auto-enrolment offered the pensions industry an ideal opportunity to rebuild its image.

STEVE WEBB MP

PANEL SESSION

Digital and social media within financial organisations was the topic for the conference's panel session. Chaired by Ray Nulty of Navigant, the panellists were Phil Bowkley, Barclays; Amanda Brown, Alterra Business Consultants; Andy Hamilton, IFDS and Carlton Hood from Old Mutual.

In a lively discussion the panellists debated the power of social media to influence business practice, citing a recent example where this had led to a change in pricing structures. There were nonetheless many factors that companies needed to address when engaging with social media, not least how to stay within the regulatory and financial promotion compliance boundaries – a point reiterated by the FSA's Ed Harley in his presentation when he pointed out that many firms fall foul of the rules when using social media. He used Twitter as an example where people often fail to realise that their Tweet constitutes a financial inducement.

Carlton Hood questioned why financial services fail to embrace social media. For him there is no other option and firms must learn how to use the media. He pointed to the role social media is increasingly playing in advertising and, whether firms like it or not, how it is transforming customer service expectations. This is creating opportunities and he outlined what he saw as the three key components of a social media approach: building a community, creating a conversation and having character (integrated with marketing campaigns).

LinkedIn is under-used as a networking platform according to Amanda Brown. Too many people use the site to connect with others but then fail to exploit it to communicate. As a result, they are missing out. Organisations must establish a social media strategy if they are to maximise and control the use of social media by their representatives she said. This should form part of a marketing/communications strategy and should have a clearly defined end goal. The ability to run e-marketing campaigns within a community that you have created creates significant opportunities, however organisations should not underestimate the resource needed to implement a social media strategy, she warned.

The importance of putting a strategy in place was reiterated by Phil Bowkley. People in organisations are starting to use social media, but it is essential for a plan to be developed to ensure that sufficient budget and resources are available, the technology is ready and that results can be measured, appropriate action taken and compliance challenges met.

Andy Hamilton outlined the way social media is revolutionising the recruitment process. From an employer's perspective it facilitates a more targeted and proactive approach to finding new employees through CV database mining on relevant websites and watchdog alerts to identify potential candidates. Having a presence on sites that are not necessarily job-related but which may engender enquiries can have the added benefit of raising the profile of an organisation. For a candidate, it also allows them to assess a firm as a potential employer using the media they want to. He pointed to a recent survey in which 75% of respondents had said that they had, or would be willing to apply for a job via their mobile telephone.

CENTRALISED INVESTMENT PROPOSITIONS (CIPS) ADVISORY COUNCIL

The Centralised Investment Propositions (CIPs) Advisory Council enjoyed a busy and demanding 2012. It was a year that saw a rebranding of Distributor Influenced Funds (DIFs)to Distributor Funds (DFs) and eventually to the more general and inclusive CIPs.

The council met 6 times and along with our seminar in September, attendance increased throughout the year. This reflects the increased awareness and interest in these client solutions from all parts of our industry as we move into 2013.

Towards the end of 2011, an Eversheds report (sponsored by TISA) provided a number of recommendations for DFs, mainly around the governance and monitoring of these arrangements. A DF Best Practice guide was produced and this was shared with the FSA. The report also offered opinion on business models and structures that would be both within the rules and the spirit of the RDR.

"The Independence" question continued into 2012. Could an IFA recommend a CIP and be truly independent? It is perfectly possible for an IFA to recommend a CIP but careful client segmentation and offering a range of CIPs may be necessary to demonstrate true independence. In a series of speeches and Fact Sheets it became clear that the FSA found it difficult to see how an IFA could recommend a CIP.

The Retail Conduct Risk Outlook (RCRO) 2012 highlighted platforms and CIPs as emerging risks. It noted that investment advisory firms were in the process of transitioning their business models in preparation for the RDR. In many cases this has resulted in firms adopting CIPS, such as in-sourcing or out-sourcing to discretionary portfolio managers, or using DIFs.

The report also agreed that there can be many benefits to adopting a centralised investment proposition, both for clients and firms. In many cases, clients can benefit from more structured and better researched investments, while for firms there can be benefits through efficiencies and the management of risk. However, there were two main concerns:

- Are advisers adequately considering the suitability of the centralised investment proposition for each individual client, or are clients being 'shoe-horned' into a 'one-size-fits-all' solution?
- Where firms have adopted adviser-charging style remuneration, are these being disclosed clearly and fairly to clients?

FSA is applying a very simple test, asking the question: "Is it in the best interest of the client AND can you demonstrate this is the case?"

It is clear and logical that for a particular firm, CIPs cannot be suitable for every client. Assessing individual suitability is key to de-risking.

As we moved towards the end of 2012 we ran a successful seminar looking at and analysing if CIPs could be the future for a growing market. Six excellent speakers offered their views on the legal, governance, asset management, market and distribution landscape of 2013 which promises to be very different under the RDR rules. Attendance at the seminar was high and feedback very positive.

So what next? Is there still a place for a CIP Advisory Council?

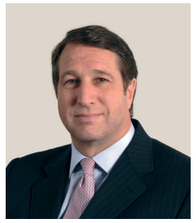
As we move though 2013 we will undoubtedly see many changes to business models. There may well be much more sharing of the value chain and moves towards partial and full Vertical Integration. Many will want to offer CIPs as a solution to some of their clients. There are recognised benefits to firms and clients by offering a well thought-out CIP.

This council will continue to monitor and give guidance on CIP best practice but will now look to add that old chestnut, suitability.

After 25 to 30 years this industry is still discussing and being criticised for not being able to assess suitability. Indeed, FSA have again raised the question of suitability in a guidance consultation in April 2012. This was a result of thematic reviews which produced some pretty disturbing results.

The executive summary was clear: all firms providing investment advice should ensure that they have robust processes and controls, especially when recommending CIPs and replacement business.

This council aims to build best practice for suitability and engage with firms and the regulator to ensure alignment.



RICHARD FREEMAN
Chair, CIP Council

DISTRIBUTION COUNCIL REVIEW

It's an understatement to say that the RDR dominated the Council's discussions throughout 2012, but there were some other significant issues the Council addressed during the year the most notable of which was the FSAs consultation on Centralised Investment Propositions (CIPs). As a result of these discussions the TISA CIP Advisory Council was formed.

The year began with continued uncertainty over the RDR and further consultation to feed-back on including adviser charging rules on legacy assets. We also discussed simplified advice and noted our view that the COBS rules will need to be relaxed for this to succeed. Council members' feedback was that regulatory and legislative issues were hindering market innovation.

The January meeting also discussed issues around the acquisition of client bases, Treasury consultation on tax transparent funds and plans for the Spring Seminar. It was resolved to form a separate Council to cover CIPs.

The Spring Distribution seminar 'UK Retail Distribution – Where We Are Now, and Where We Are Going' received presentations from a variety of distributors with interesting and innovative business models alongside a review of the impact of regulatory issues.

With the RDR looming the May meeting focused on some of the practical issues that members were struggling with; share class issues, Wraps and Platforms customer information, client agreements for advisers, the low percentage of advisers with relevant qualifications and independence/restricted issues for vertically integrated firms. TISA was able to exert its influence in these areas, in particular share classes and Wraps and Platform information.

Most members felt that the key issue was 'staying legal' on implementation of the RDR as many firms were still not ready. It was agreed that the TISA Exchange initiative (TEX) would help when share class conversions inevitably start to take place.

Other significant issues in May were the effectiveness of Money Advice Service, FSCS levy, the 'True and Fair campaign' and issues arising from the transfer of client bases; TISA ran a seminar on the latter subject in May.

By September it was clear that implementation of the RDR was a very real issue and its impact was magnified by the difficult economic conditions. The volume of new share class requests was substantial, whilst the uncertainty surrounding share class conversions tax treatment was vexing. TISA agreed to produce a guide in relation to this subject.

There was a realisation from the FSA that there might be some 'rough edges' in January 2013, but they had no intention of extending the implementation date of the RDR. Members confirmed that maximum resources were dedicated to ensuring readiness, but that there were still issues around client agreements and Statements of Professional Standing.

The closure of the Honister network and TISAs establishment of an Executive Committee to consider the implementation of an adviser protocol in the UK (with the first meeting on the 20th September) were discussed and agreed that had an adviser protocol been in place the complications that arose from Honister could have been avoided.

The Autumn Distribution Seminar 'Routes to Market after 2013' focussed on finding new approaches to retail financial services, particularly in the mass market, which it is feared will not be well served post RDR. It was clear that existing and potential new distributors were developing models that can succeed in the post RDR world.

Policy lines for 2013 were discussed at the November meeting and some clear areas emerged; support for the successful implementation of the RDR, but continue to identify areas of concern, particularly advice for the mass market; support for the FCA, but concern over too much regulatory intervention; how to bring new blood into the advisory world; support for financial education. Final policy lines will be agreed at the February Council meeting.

CP12/12 was discussed and TISA was meeting with the FSA to debate some of the issues in December. Otherwise, RDR implementation was still a risk, but most firms expected to be able to meet the minimum requirements by the deadline. Concerns were again voiced on SPS, client agreements and the advice gap, with predictions of over 5 million advice orphans. Members confirmed that there was anecdotal evidence that more clients were contacting their product provider direct. It was the Council's view that we should expect to see an increase in self direction.

Ongoing issues of CIPs, the Adviser Protocol and suitability were also discussed and the content for the Spring Distribution seminar was planned.

As Peter Smith had stepped down from the Council, nominations were invited for his replacement as Deputy Chair and Martin McHarg was appointed as Deputy. I would like to thank both Peter for his contribution and continued support in his new role at TISA, and Martin for taking on the new role.

DAVID HAZELTON
Chair, Distribution Council

RETIREMENT COUNCIL REVIEW

Last year was another very busy year for the retirement industry with a raft of legislation changes being proposed and coming into force including preparation for RDR. 2012 was also landmark year for retirement with auto-enrolment being launched. Auto-enrolment signifies one of the largest pension changes in the UK in decades and will play a major part influencing and shaping the retirement and dare I say the financial services industry for the foreseeable future.

I have listed the Retirement Council's three policy lines as these form the underlying focus of the group:

- Increasing the State Pension Age to at least 70 years as soon as possible
- Introduce a Flat Rate State Pension to ensure that it pays to save and that there is clarity for consumers about the amount they will receive from the State in retirement.
- Review the current pension architecture with a view to create new sustainable framework better suited to current and future consumers.

The aim for this year will be to move forward on all three areas while also building on the success from 2012.

The Retirement Council had a busy year last year and had a number of successes. One remarkable achievement that stands out was the launch of a cross industry working group to consult with the DWP on small pots. It was encouraging and exciting to see the industry and industry bodies coming together and working toward a common solution. The DWP welcomed this and TISA's Malcolm Small and Helen Coulson in particular have played a fundamental part in setting this up and hopefully this is a sign of things to come for the industry.

During the year, a technical committee was established to support the Retirement Council and TISA members on technical issues in retirement. This group will be looking at a number of industry issues including permissible SIPP assets, some technical issues around auto-enrolment and some of the implications of recent legislative changes.

RDR's effect on the whole industry including the retirement sector will no doubt be interesting as the impact on providers, policy uptake, D2C propositions and the distribution world starts to unveil itself later this year. Fallouts and issues will no doubt form a larger part of the agenda points over the next few months.

It is anticipated that auto-enrolment will continue to provide a number of challenges and there is also a concern that the industry may struggle to handle the support required for employers when the SME's starts to enrol from 2014 onwards. It is important that we work together as an industry to make auto-enrolment a success and therefore a level of industry collaboration and anticipation is required.

Finally it leaves me to thank John Lawson, who stepped down as chair during 2012, for all his hard work and efforts over the years. I would also like to welcome and thank Robert Reid stepping into the vice chair for the Retirement Council and the chair for the Technical committee.

NATANJE HOLT
Chair, Retirment Council

CHILDREN'S SAVINGS COUNCIL REVIEW

Following the launch of the Junior ISA (JISA) in November 2011 it was inevitable that a good deal of the Council's focus would be on the first year of its operation, with a particularly close eye being kept on take up rates and more importantly, trying to ascertain an understanding of the demographic make-up of the families who are using JISAs to save.

Readers will remember our concern that low income families would not embrace the JISA. Sadly, it looks as if our fears are being realised. Whilst it's true that contributions to JISAs are, on average, greater than contributions to Child Trust Funds (CTFs) it appears (although statistics are proving troublesome to collate) that take-up rates are low. This is disappointing when we consider that the eligibility rules for the JISA effectively introduced something like another six million potential customers into the scope of the market.

But the most worrying element is what looks like the eschewing of the product by the families of our lower income children. This is a real concern as it is unlikely that these youngsters will have access to other means of financial support at a time when they will most need it – that is the financially demanding period that defines the start of young adult life. We are pioneering the collation of meaningful statistics and we will continue to use our very open and constructive discussions with government to see what, if anything, can be done.

It is a shame the children from low income families appear to be missing out in this way especially as the Government is to be congratulated for introducing a system of providing and seeding accounts for looked after children who by definition, would otherwise have nothing. One of our members, The Share Centre, led by CEO Gavin Oldham is to be congratulated for helping Government to make this happen. I'm sure Government would acknowledge that without Gavin's leadership, enthusiasm and energy this innovation would not have got off the ground.

Interestingly, providers are reporting that contributions to CTFs are increasing. It seems reasonable and unsurprising to conclude that families will respond to their children's savings needs if the right mechanism is in place.

A good deal of energy has gone into the debate, largely caused by one national newspaper, as to whether JISAs and CTFs should be 'harmonised'. It is fair to say that our membership is spilt on this issue and as representatives of all of our members we have openly reported this split to the Treasury. However, in our most recent Council meeting where a full debate on the matter took place it is clear that the status quo, in support of the Government's stated position, still has the most support.

There is, of course, a world related to children's financial well-being that is not just about JISAs and CTFs. There is a strong argument that preparing our young people financially is indeed about saving and creating the asset but it is also about helping youngsters to understand how money works. Council members have shown a keen interest in trying to support initiatives to increase teaching about money to school age children and we will continue to develop that theme during 2013.

Finally I would like to take this opportunity to thank the members of the Council and the TISA secretariat for making this Council work. It remains the place where most providers that are interested in the children's market are represented – if our children's futures are to be influenced by them it makes their work very important indeed.

DAVID WHITE
Chair, Children's Savings Council

WRAP AND PLATFORM COUNCIL REVIEW

2012 saw investment platforms continue to increase their dominance as the central connection between the long-term savings and advice industries and the asset management community. Despite continuing economic uncertainty, total investments held through UK platforms increased from £168bn to £205bn in the year to end-September 2012. Against this background the TISA Wrap and Platform Council continues to act as the central discussion forum for platforms, fund managers, consultants and the FSA.

The main Wrap and Platform Council meets on a quarterly basis while the newly established Technical Sub-Committee meets as required to examine issues in greater detail than is possible in full Council. In addition to our regular meetings, we will also organise a Wrap and Platform Seminar in May / June each year.

As in previous years, much of the Council's focus through the year was spent in digesting and responding to various FSA consultation papers and their impact on platforms. In particular Consultation Paper 12/12 'Payment to platform service providers and rebates from providers to consumers' in June 2012 triggered considerable debate around fund rebate models, resulting share class structures, treatment of small rebates, implications for various platform business models etc. As before in these regulatory consultations, TISA has endeavoured to represent the broad interests of all users of platform services – investors, their advisers and fund managers – as well as that of the platforms themselves. In doing so we sought to brief the FSA on the likely consequences (intentional and otherwise) that might arise from any particular regulatory policy change.

An area of considerable progress this year has been the establishment of a standing Technical Committee, chaired by Ed Dymott (Fidelity), replacing the previous model of creating ad hoc working groups to address individual issues. This Technical Committee has already engaged with a number of detailed topics:

Share Class Conversions

One of the consequences of RDR and proposed FSA move to ban cash rebates being retained by platforms is that we are seeing a broader mixture of fund share classes held across the industry and in some cases on individual platforms. This has led to a significant increase in the number of requests to fund managers and their transfer agents to convert holdings between share classes, often as part of a client moving between platforms and reregistering their holdings. While no underlying assets are being bought and sold and no CGT event occurs, doing so does have potential implications around fund tax and equalisation.

The Technical Committee looked in detail at the tax implications of share class conversions, standardising industry practice on transfers and conversions, the implications of conversions on equalisation and the potential impact on other remaining holders, and made broad recommendations on industry practice in dealing with conversion requests.

Investor Reporting

In Policy Statement 11/9 the FSA made a number of proposals around investor communication and rights, with which TISA was fully supportive, in particular those that extended the same voting rights to investors acting through platforms as if they had invested directly on the main fund register. These proposals however went further and would potentially have required platforms to print and distribute semi-annual and annual fund reports to a significant proportion of their investor base. The resulting costs associated with the generation of largely unwanted paperwork would have been significant and burdensome.

TISA prepared a number of examples and estimates of costs which were presented to and discussed with the FSA. Following this, the FSA decided to defer the implementation of this element of PS 11/9 and to reconsider this element of required investor communication.

Looking forward to 2013 it seems inevitable the agenda of the Platform Council will be dominated by yet further regulatory change. Aside from analysing the much anticipated FSA response to their latest consultation paper 12/12, we are also faced with multiple pieces of European regulation including the Packaged Retail Investment Products Directive, MiFID II and possible amendments to the EU Savings Directive as well as emerging details of US FATCA requirements, all of which have the potential to significantly impact UK investment platforms.

DAVID MOFFAT
Chair, Wrap & Platform Council

The Savings and Investment Policy Advisory Council has been established, and is chaired by Tony Stenning, Managing Director of UK Retail at BlackRock. It met for the first time at the end of 2012 and is now debating the way forward for holistic savings policy in this country, working on draft policy lines and preparing a positioning paper for publication.

2012 DIARY OF EVENTS

For more details or to book on a course,
please visit our website: **www.tisa.uk.com**

Thurs 14th March	ISA Key Facts Workshop	London
Tues 19th March	TeX Forum	London
Wed 20th March	ISA Key Facts Workshop	Edinburgh
Thurs 21st March	Distribution Models in 2014	London
Tues 26th March	ISA Transfers Workshop	London
Tues 16th April	ISA Repairs & Voids Workshop	Edinburgh
Thurs 18th April	Powers of Attorney Key Facts	London
Tues 23rd April	ISA Qualifying Investments Workshop	Edinburgh
Wed 1st May	Powers of Attorney key Facts	Edinburgh
Thurs 9th May	Wrap & Platform Seminar	London
Tues 14th May	ISA Applications Workshop	London
Tues 21st May	ISA Qualifying Investments Workshop	London
Thurs 23rd May	Suitability – Will you be ready?	London
Tues 4th June	ISA Key Facts Workshop	London
Thurs 6th June	Powers of Attorney Key Facts	London
Wed 12th June	Discussion Forum	London
Thurs 13th June	ISA Key Facts Workshop	Edinburgh
Tues 25th June	ISA Repairs & Voids Workshop	London
Thurs 19th September	Autumn Distribution Seminar	London
Thurs 8th October	Wrap & platform Seminar	London
Wed 16th October	AGM & Discussion Forum	London
Wed 13th November	Annual Conference	London

TISA MEMBERS

3d Investments
A J Bell Securities Ltd
Aberdeen Asset Managers Ltd
Actuare
Alliance Trust Savings Ltd
Altus Ltd
Anthony Harding Partners
Ascentric
Aviva
AXA Portfolio Services
Baillie Gifford Savings Management Ltd
Bank of Cyprus
Barclays Wealth
Barclays (Wealth Solutions)
Barratt & Cooke
Beacon Strategic
Best Invest (Brokers) Ltd
BlackRock
Blankstone Sington Ltd
Bluefin
BNP Paribas Fund Services UK Ltd
BNY Mellon
Bravura Solutions
Brewin Dolphin Ltd
Brooks Macdonald Asset Management)
Brown Shipley & Co Ltd
Capita
Castle Trust
Charles Stanley & Co Ltd
Cheviot Asset Management Ltd
Cimetric
Close Asset Management
Clydesdale Bank
Cofunds Ltd
Co-operative Investments
Coutts & Co/NatWest Bank
Credit Suisse (UK)
CWC Research
Danske Bank
Deloittes
Deutsche Bank Private Wealth
Dunstan Thomas Holdings Ltd
EC Squared
EFG Harris Allday
Engage Partnership
European Pensions Management
Equiniti Limited
F&C Asset Management
Family Investments Ltd
Fidelity
Friends Life
FusionExperience
GBST Wealth Management
GLG Partners Investment Funds Ltd
Hargreave Hale Ltd
Hearthstone Investments
Henderson New Star
Hoares Bank Nominees Ltd
HSBC Investments (UK) Ltd
HSBC Trust Company (UK) Ltd
Ignis Asset Management
Interactive Investor Trading
International Financial Data Services
Intrinsic Financial Services
INVESCO Perpetual
Investec Asset Management Ltd
Investec Wealth & Management
JHC LLP
J M Finn & Co Ltd
JPMorgan Asset Management
Jupiter Unit Trust Managers Ltd
Kames Capital
Killik & Co LLP
Kinetic Partners LLP
KPMG
L&G plc
Lloyds Banking Group
Lynne Hill Consulting
M&G
Magnus Walker
Marks & Spencer Financial Services
McInroy Woods
Merrill Lynch International Bank
N W Brown Investment Management
Nationwide Building Society
Navigant
Northern Trust
Nucleus
Openwork Limited
Orbis Investments
Parmenion Capital Partners
Pershing
Pinsent Masons
Praemium (UK) Ltd
PricewaterhouseCoopers
Prudential Group
Quilter
Rathbone Bros Plc
Raymond James Investment Services
Redmayne Bentley
Reyker Securities plc
Rightful Owners
Royal Bank of Scotland
Royal London
Santander ISA Managers
Santander Sharedealing
Saxo Bank London
Schroder Unit Trusts Ltd
Scottish Friendly
SEI Investments (Europe) Ltd
Selftrade
Seven Investment Management
SimplyBiz plc
SIT Savings Limited
Skandia
Smith & Williamson
Speirs & Jeffrey Ltd
Spence Johnson Ltd
Standard Life
Stanley Kirk
State Street
Steve Dyson Associates
Succession Consulting
T D Direct Investing
Target Servicing Ltd
Technical Fund Marketing
Tesco Bank
The Children's ISA
The Children's Mutual
The Share Centre
The Tax Payers' Alliance
Threadneedle
Towry
Triodos Bank
Unizone
Vanguard
VESTRA WEALTH
Walbrook Partners Limited
Walker Crips Stockbrokers
Wealthtime
Wesleyan Assurance Society
XCap Securities
Zurich Financial Services