TISAtalk

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INTO THE SUNSET

Most people enjoy the majesty of a sunset, however, there is a sunset approaching which people will need to take a cooler view on.

For platforms and the advisors and investors who use them, 6th April 2014 was a milestone date. Now, platforms can no longer be paid for new or distributed business via rebates on fund management charges. Instead, the end investor has to pay the platform an explicit fee. The approaching sunset is 6th April 2016 - the FCA has stipulated that all legacy platform business is also subject to the rebate on fund manager charges ban by that date.

This approaching deadline isn't just an issue for platforms. Most platforms have chosen to unbundle charges by moving to clean share classes. That in effect means adviser trail commission is effectively being switched off as well. Any adviser firm using a platform that wants to be remunerated on its pre-RDR commission paying business after April 2016 should have or will need to take action to remove that business onto its own adviser charging model. In view of the volume of pre-RDR platform business in the market this could be a huge undertaking.

The FCA has issued guidance (FG14/4) on how firms can manage the conversion to clean share classes. TISA have also produced a statement practice, which is available on our website.

Advisers and platforms must ensure that any bulk conversion is demonstrated to be in the individual client's best interest. The regulator has also recognised that the new AMC offers may comprise of share class combined with platform charge and other charges, which may result in an increase in charges to the customer. If this is the case, it is imperative that these customers are given sufficient notification and information of the proposed conversion in order for them to seek advice, should they so wish. The difficult decisions come where client detriment is identified and decisions are to be made as to whether a client cannot be serviced at all or if a lower-cost proposition, such as a self-directed service, can be offered. This client detriment and hopefully the solutions should be considered well before the April 2016 deadline and client agreements will certainly need to have been achieved.

In theory a switch is logical and straightforward, however depending on legacy systems and processes this be difficult. The advice process can be time consuming unless there is a clear process in place and a project plan to manage the move to adviser charging on an individual basis for each client. A simple but comprehensive analysis should be made of pre and post-switch costs and the current circumstances are likely to be -

1. The client is under an adviser-charged regime and the investment solution does not alter therefore a client visit and full sales process is not required;
2. The client is under an adviser-charged regime and the investment solution does alter, meaning a client visit and full sales process is required;
3. The client is not under an adviser charged regime and the state of investment solution is therefore not relevant, meaning a client visit and full sales process is required.

The rules are clear, but moving clients en masse to an adviser charging model is not easy. Individual client consent must be obtained and validated before a platform can administer charges on an adviser's behalf. It is vital therefore that adviser firms and platforms should by now already be in the process of discussions with clients to get affirmation for the adviser charging model and proposed share classes which will be applicable even if they aren't going to be converted to unbundled charging until closer to the April 2016 deadline. You have been warned!

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