

# Guiding the Profession on RDR



## FSA Policy Statement 11/1 Distribution of retail investments: Delivering the RDR – Professionalism

An Overview of the Key Proposals – this sets out the FSA’s rules for the introduction of professional standards as part of the RDR

January 2011

### Summary

In June 2010 the FSA published a Consultation Paper setting out the FSA’s final policy proposals for improving professional standards in the retail investment market. Its proposals built on the two previous consultations which had sought views on higher qualifications and improved standards of ethical behavior and Continuing Professional Development.

The Policy Statement, published on 20 January, sets out the rules going forward:

- The FSA will carry out supervision and enforcement of the new professional standards
- All practising advisers must have a Statement of Professional Standing (SPS) for 2013
- Bodies wanting to issue SPSs will have to meet certain criteria to be recognised as an Accredited Body
- Advisers will be required to undertake 35 hours of CPD a year – 21 of which will have to be structured
- Qualification gap filling will be necessary to fill gaps between an adviser’s qualification and the 2010 examination standard

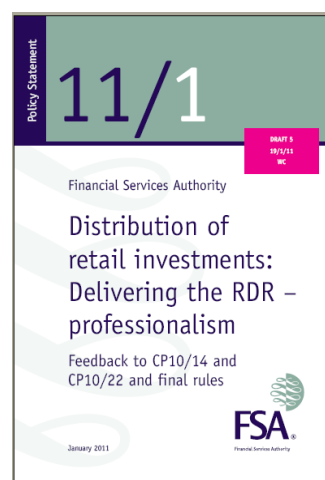
The FSA’s intention is to raise standards in the market for retail investment advice for all individual advisers, whatever type of firm they work in – with the aim of delivering better outcomes for consumers and improving the perception of the advice sector.

The full Policy Statement can be found at: [http://www.fsa.gov.uk/pubs/policy/ps11\\_01.pdf](http://www.fsa.gov.uk/pubs/policy/ps11_01.pdf)

### Timeline

The FSA believes that many individuals and firms are well under way to meeting the new requirements. For those with some way to go the FSA advises that they should be working on attaining an appropriate qualification and/or carry out gap fill activity by end of 2012.

**Please note that this document does not give the views of the CII Group or the Personal Finance Society but it is a summary of the Policy Statement.**



## Qualifications

The Policy Statement contains a **list of appropriate qualifications** confirmed by the FSA – this includes the CII Diploma in Regulated Financial Planning (see TC Appendix 4E of Policy Statement). The addition of qualifications to the list will continue and where the FSA are able to add further qualifications that have already been consulted on it will do so via the monthly Handbook notice.

Some respondents to the previous consultation document said that the scope of the exam standards was too broad and in some cases not relevant. In reply, the FSA's Policy Statement confirms that the final examination standards account for the fact that investment advisers need knowledge outside of their preferred areas of practise in order to understand whether recommendations are suitable for clients. The FSA has set out an intention to review the examination standards but they have confirmed that the review will not take place before the RDR is implemented.

### Qualification gap filling

The FSA are maintaining the principle that an adviser with a higher level qualification than the proposed Level 4 'benchmark' for 2012, does not need to sit examinations but can instead fill gaps between their qualification and the 2010 examination standards through CPD. Existing CPD can be used for gap-fill though it should be structured rather than unstructured. However, the FSA notes that if structured CPD is not available to fill the gap identified, then an adviser may complete the gap by reading suitable material.

How gap-filling activity is verified will be left to the accrediting body to decide. "This may be self certification right through to reviewing every item of supporting evidence for each gap."

### Alternative assessment

The FSA notes that there are already some qualifications contained within the FSA handbook that use alternatives to written examinations as means of assessment. The regulator also confirmed that it is talking to a number of qualification providers about their pilot assessments and they anticipate more coming in to the market in due course. (NB: The CII is currently piloting an alternative assessment).

## Supervision and enforcement of professional standards

The FSA will carry out supervision and enforcement of the new professional standards. As part of this process the regulator intends to proceed with the requirement for firms to supply the FSA with data about individual advisers' professional standards (from end – 2012) and to alert the FSA to issues that arise about individual employees (from July 2011). Such information will be provided to the FSA by the firm not the Accrediting Body.

Building on insights from firms, Accredited Bodies, whistle blowing and other data, the FSA will pull together an adviser database that should enable the FSA to identify the highest risk advisers.

### Accrediting Bodies – what they are and when they will be approved

No adviser will be able to practise without a Statement of Professional Standing after December 2012. Accrediting Bodies will be tasked with issuing these to advisers. In order to attain accrediting body standing, organisations must demonstrate that they meet the following criteria:

- Act in the public interest and further the development of the profession
- Carry out verification services on qualifications, CPD and ethics
- Have appropriate system and controls in place to provide evidence to the FSA
- Cooperate with the FSA on an ongoing basis

Organisations that wish to become accredited must submit evidence to the FSA to show how they meet these criteria. However, they are unlikely to be able to gain approval as Accredited Bodies until the second quarter of 2011. It is only once organisations have gained this approval that they will be able to verify gap fill activities undertaken by advisers.

### Statement of Professional Standing

The FSA will implement the proposals set out in the previous consultation that firms need an SPS for all their competent individual advisers - whether offering independent or restricted advice.

Only the FSA can remove the adviser's status as an approved person. If the SPS is removed by the accredited body, or the accredited body does not intend to issue an SPS, the accredited body must notify the adviser and the FSA within a 'reasonable' timeframe. The FSA will then examine why the accredited body has made this decision and determine the need for action on its part.

The FSA are not making it a requirement for pre-competent advisers to hold an SPS or to carry out CPD activity.

### Continuing professional development

In future, advisers will need to complete a minimum of 35 hours of relevant CPD per year, of which 21 must be "structured learning".

In the previous consultation paper the FSA said that there should be a focus on outcomes. However, this Policy Statement asserts that not all advisers are ready for an outputs-only CPD regime. The FSA therefore intends to implement a blend of input and output based CPD.

An additional change is that structured CPD will have to constitute 30 minutes or more continuous activity rather than an hour. This should help to reduce difficulties and increase opportunities for CPD activity.

The FSA has decided against raising the 10% CPD sample check requirement at this stage to give the new regime time to evolve.

Advisers will be expected to demonstrate that they have learned and developed knowledge and skills as a result of CPD. Firm's own training and competence schemes will play a key role in helping advisers meet the necessary requirements.

### Next steps

This Policy Statement marks the end of a lengthy consultation process. Advisers will be expected to meet the higher professional standards by December 2012.

The requirement for firms to alert the FSA when they identify competence and ethics issues arising from their advisers will come into effect in July 2011.

Link to the Policy Statement: [http://www.fsa.gov.uk/pubs/policy/ps11\\_01.pdf](http://www.fsa.gov.uk/pubs/policy/ps11_01.pdf)

PFS Website on RDR: <http://www.thepfs.org/pages/memberservices/RDR.aspx>

**January 2011**

## Annex A

Diagram taken from the FSA's Policy Statement. It summarises the roles of the main participants in the market and sets out the FSA's intended outcomes of the policy.

Consumers	Advisers	Accredited Bodies	Firms	FSA
<ul style="list-style-type: none"> <li>• Made aware of new standards through FSA and accredited body comms activity</li> <li>• Will be encouraged through the adviser's Statement of Professional Standing (SPS) to check FSA Register to ensure advisers are approved</li> <li>• Will be encouraged to ask adviser for their SPS</li> <li>• Will still complain to the firm in the event of unsuitable advice with ultimate recourse to FOS and potential recompense</li> <li>• May complain to the accredited body that issued the SPS if their adviser behaves unprofessionally</li> <li>• Will receive more consistent and better quality investment advice</li> <li>• Will know their adviser has attained and maintains high standards</li> </ul>	<ul style="list-style-type: none"> <li>• Must adhere to enhanced professional standards and make annual declaration to accredited body</li> <li>• When competent will be required by firms to obtain an SPS from an accredited body</li> <li>• May be part of a sample of advisers asked to submit their records for review by an accredited body</li> <li>• Will need to invest more personal capital (Continuing Professional Development, cost of qualifications, accredited body fees)</li> <li>• Will be more accountable for unethical behaviour</li> <li>• Will benefit from help and support from accredited bodies</li> <li>• Must meet the reformed qualifications requirements in the relevant timescales in order to be able to give retail investment advice</li> </ul>	<ul style="list-style-type: none"> <li>• Will apply to FSA for accreditation and enter into agreement</li> <li>• Will be listed in the FSA Handbook</li> <li>• Will be subject to annual independent audit and ongoing FSA monitoring</li> <li>• Will communicate standards and provide help and guidance to advisers such as areas for CPD focus</li> <li>• Will verify that advisers meet the required standards in all areas</li> <li>• Issue annual SPSs</li> <li>• Will alert FSA to issues and may then act to discipline advisers</li> <li>• May rescind or refuse to issue SPSs</li> <li>• Will promote the profession to consumers and new entrants e.g. may publish a register of advisers</li> </ul>	<ul style="list-style-type: none"> <li>• Still apply for FSA approved person status for their advisers</li> <li>• Must still check advisers for fitness and propriety</li> <li>• Must still ensure advisers are trained and competent</li> <li>• Still need effective systems &amp; controls to monitor advisers</li> <li>• Still responsible for quality of advice</li> <li>• Will need to ensure their advisers have an SPS</li> <li>• Will supply FSA with professional standards data about their advisers</li> <li>• Will notify FSA in event of serious competence and ethics issues</li> <li>• Still operate discipline including notifying FSA if dismissing an individual</li> </ul>	<ul style="list-style-type: none"> <li>• As now, will approve, supervise and enforce against advisers</li> <li>• Set clear expectations of ethical behaviour</li> <li>• Will recognise accredited bodies and monitor their effectiveness.</li> <li>• Increase focus on firms' training &amp; competence arrangements and assessment of adviser quality</li> <li>• Will carry out more analysis of data</li> <li>• Will receive and filter alerts on individual advisers from various sources.</li> <li>• Will alert accredited body as appropriate</li> <li>• Will create links from the FSA Register to the accredited bodies' websites</li> </ul>
<b>Trust increases</b>	<b>More accountable</b>	<b>Key role in raising standards</b>	<b>Benefit from better quality advisers</b>	<b>More focus on individual advisers</b>

## Annex 2

RDR timetable taken from FSA Policy Statement

Date	Section of the RDR	Actions	
		FSA	Firms and practitioners
2011	Service and charges	Consultation on RDR-related changes to RMAR and complaints reporting (Q1 2011).	Interested parties should respond to the consultation.]
	Service and charges	Consultation on product disclosure changes to reflect Adviser Charging (Q1 2011).	Interested parties should respond to the consultation.
	Platforms	Publish policy statement (Q1 2011).	Should respond to the final policy and rules as published.
	Prudential requirements	Consultation on how to apply a consistent approach to the EBR so that it delivers a level outcome irrespective of the firm's business model (Q3 2011).	Interested parties should respond to the consultation.
End 2011	Prudential Rules for Personal Investment Firms (PIFs)		PIFs subject to new prudential rules from 31 December 2011 on a transitional basis. For further details see PS09/19 – Review of the Prudential Rules for Personal Investment Firms (PIFs).
End-2012	Professionalism	FSA will carry out thematic work and monitoring.	Advisers who do not possess a qualification on the transitional list need to qualify at the new level. Advisers who do possess a qualification on the transitional list need to complete any additional CPD top up.
	Remuneration	FSA will carry out thematic work and monitoring.	All advisers and product providers must prepare and be ready to operate Adviser Charging and consultancy charging and meet the associated requirements from January 2013.

Date	Section of the RDR	Actions	
		FSA	Firms and practitioners
End-2012	Description of services	FSA will carry out thematic work and monitoring.	All advisers must prepare to describe their services as independent advice or restricted advice from January 2013. All advisers must prepare and start complying with the new independence and product requirements from January 2013.
End of 2013	Prudential Rules for Personal Investment Firms (PIFs)		PIFs must comply fully with the new prudential rules from 31 December 2013. For further details see PS09/19 – Review of the Prudential Rules for Personal Investment Firms (PIFs).