

Guiding the Profession on RDR



FSA Policy Statement 10/6 Delivering the RDR: feedback to CP09/18 and final rules

An Overview of the Key Proposals

March 2010

Summary

In June 2009 the FSA published a Consultation Paper, CP09/18, which contained detailed proposals for implementing the Retail Distribution Review (RDR). The proposals sought to:

- i) improve the clarity with which firms describe their services to consumers;
- ii) address the potential for adviser remuneration to distort consumer outcomes; and
- iii) increase the professional standards of advisers.

The Policy Statement (PS 10/6) published on 26 March reports on the feedback received, and presents the FSA's final rules on improving clarity of service and addressing remuneration.

The new rules and guidance presented in the June 2009 Consultation Paper will come into effect at the end of 2012.

The FSA proposals relating to the professional standards of advisers were set out in a separate Consultation Paper, CP09/31 (published in December 2009).

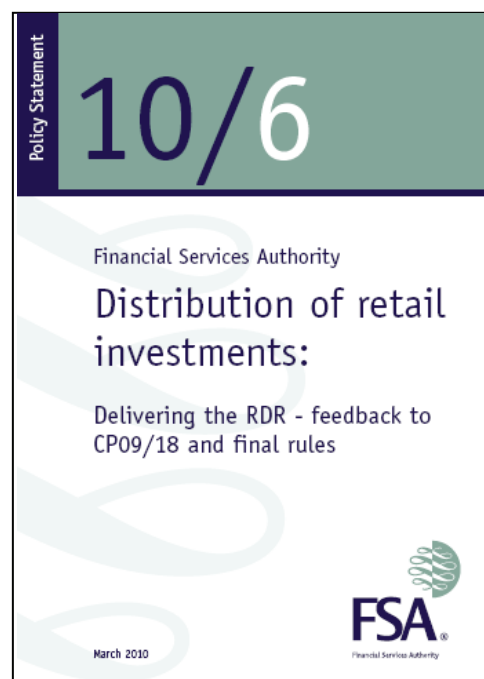
The Policy Statement covers the following areas:

- describing and disclosing advice services to consumers, including the new standard for firms wishing to call themselves independent
- consumer access to advice, streamlined advice processes and non-advised services;
- Adviser Charging and inducements – FSA requirements for adviser firms, product providers and vertically integrated firms, and the FSA's approach to non-advised services;
- the FSA's strategy for supervising the new requirements, including during the transition; and
- a summary of new Cost Benefit Analysis.

The full Policy Statement can be found at:

http://www.fsa.gov.uk/pages/Library/Policy/Policy/2010/10_06.shtml

Please note that this document does not give the views of the CII Group or the Personal Finance Society.



Improving clarity of consumers about advice services

The FSA has gone ahead with proposals to **require that firms describe their advice services as either 'independent' or 'restricted'**, and to update their rules setting out what is expected of a firm that describes its advice as being independent. In particular, it has widened the range of products that FSA rules apply to, so that firms providing independent advice will be expected to conduct a comprehensive and fair analysis of the wider range of retail investment products.

Addressing the potential for remuneration bias

The FSA has gone ahead with **proposals to introduce a system of 'Adviser Charging'**, which will involve all firms that give investment advice to retail clients setting their own charges. Once the rules come into effect, **adviser firms will no longer be able to receive commissions set by product providers** in return for recommending their products, but will have to operate their own charging tariffs in accordance with our new rules. Should they wish to do so, providers will be able to facilitate the collection of adviser charges through the product on a matched basis. The FSA has also made some changes to its rules and guidance on inducements, to reflect the introduction of Adviser Charging and ensure that it cannot be circumvented by firms being paid through 'soft commissions'.

Simplified Advice

In CP 09/18 the FSA confirmed that Simplified Advice could be provided within the existing advice rules, but asked whether it should consider creating a new regime for such processes. This was rejected by the majority of those who responded, with them saying that it would be unnecessary and confusing. Therefore in their Policy Statement, **the FSA have announced that they will not be creating a new regulatory regime for Simplified Advice.**

Given that many firms are at the early stages of developing their own Simplified Advice propositions, the FSA believes it would be unwise to develop definitive guidance on how such processes would be regulated. The FSA acknowledges that greater certainty about the design of the process and the product suite would be needed first.

The Policy Statement highlights the lack of consensus across the industry, or even within industry sectors, on what Simplified Advice should be aimed at, or the target market and the product suite. This has made it difficult for the regulator to develop guidance. There has yet to be a fully developed proposition and the FSA is continuing to challenge firms to lead design of the process and to come forward with developed propositions.

Any complaints relating to Simplified Advice would be dealt with by the Financial Services Ombudsman (FOS). The FSA reports that some respondents asked for reassurances about how the FOS would adjudicate such complaints. In response it says that it cannot, and would not want to offer any reassurances. Instead it says that in developing any new advice process, firms should be mindful that they will only reduce their potential liability by ensuring they deliver suitable advice.

Professional Standards for Simplified Advice

The FSA continues to **resist calls from some quarters to have a lower qualification standard for Simplified Advice**, arguing that it would undermine its aim to increase the professionalism of the sector. It could also be confusing for consumers. The regulator has acknowledged that there could be an argument in terms of proportionality and content of the full standards but is awaiting proposals from the industry that would work in practice. The FSA makes it clear that they are open to suggestions on this particular issue.

Professional Standards

In December 2009 the FSA published a Consultation Paper (CP 09/31) which considered professionalism issues relating to the RDR. This closed on 16 March 2010 and **the FSA has announced that it will publish a combined Consultation Paper and Feedback Statement in the third quarter of this year.**

A copy of our response to the professionalism consultation is available on our RDR website: www.thepfs.org.uk/rdr

Pure Protection

The FSA has announced that it **does not see a case for Adviser Charging for pure protection sales** because it would not address the key problems the regulator has identified in that area. There are, however, issues for pure protection arising out of RDR implementation in investment markets and so the FSA has published a Consultation Paper (CP 10/08) called. *Pure protection sales by retail investment firms: remuneration transparency and the COBS/ICOBS election*

Platforms

In the June RDR consultation the FSA asked whether changes were needed to the way **wrap platforms and fund supermarkets are regulated**. The majority of responses were in favour of change and so the FSA has published a Discussion Paper (DP 10/2): *Platforms: Delivering the RDR and other issues for discussion*

RDR Timetable

Detailed Activity	Date
	2010
Consultation on commission disclosure	Q1
Feedback on proposals in CP09/18 on implementing CPD and ethical standards	Q3
Decision on governance of professional standards	Q3
Consultation on rules for professional standards	Q3
Consultation on labelling of adviser services (TBC)	Q3
Publish Policy Statement and final rules implementing consultancy charging in the corporate pensions market	Q3
Consultation on changes to transactional sales reporting	Q3
Publish Consultation Paper on Platforms	Q3
Publish Policy Statement on Platforms	Q4
Prudential Rules for Personal Investment Firms (PIFs) subject to new prudential rules from 31 Dec 2011 on a transitional basis	End 2011
FSA will carry out thematic work and monitoring on professionalism. 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. FSA will carry out thematic work and monitoring on remuneration. All advisers and product providers must prepare and be ready to operate Adviser Charging and meet the associated requirements from Jan 2013. FSA will carry out thematic work and monitoring on description of services. All advisers must prepare to describe their services as independent advice or restricted advice from Jan 2013. All advisers must prepare and start complying with the new independence and product requirements from Jan 2013.	End- 2012
PIFs must comply fully with the new prudential rules from 31 Dec 2013.	End 2013