

## Financial Promotions

### Introduction

The Financial Services Authority (FSA) broadly defines a Financial Promotion as an invitation or inducement to engage in investment activity that is communicated in the course of business. Precise details can be found in the appropriate Conduct of Business rules which are COBS Chapter 4, ICOB Chapter 2 and MCOB Chapter 3. Further guidance can also be found in the Perimeter Guidance Manual, Chapter 8.

The underlying concern of the FSA is that Financial Promotions should be clear, fair and not misleading. They also see that the production and distribution of Financial Promotions has a major impact on Treating Customers Fairly (TCF).

### Financial Promotions – The Detail

Generally speaking, Financial Promotions fall into 2 categories:

- **Real Time Financial Promotions:**  
These are made in the course of a personal visit' telephone conversation or other interactive dialogue.
- **Non Real Time Financial Promotions:**  
Basically anything else and this will include newspaper and television advertising.

Websites can fall into either category depending on the degree of interactivity although generally speaking, they will be considered as Non Real Time Financial Promotions.

Cold calling constitutes a Real Time Financial Promotion but one which was not initiated by the recipient of the call. There are clear rules and guidance about the process of cold calls. These vary considerably depending on the nature of the business involved (eg COBS 4.8.2R sets out clear guidelines for Mifid business and MCOB 3.7.3R prohibits cold calling). The precise impact on an individual firm's activities should be reviewed against the rules governing them before undertaking such activity.

### Topping and Tailing

The Financial Promotion should show clearly who is issuing it. Also, the regulatory disclosure should appear at the appropriate place, normally at the end of the item to be issued.

- Compliance
- Internal Audit
- Risk Management
- Corporate Governance

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## **The Audience**

When producing a financial promotion, the firm should look at it from the perspective of the audience at whom it is aimed. Remember a firm is under obligation to pay due regard to the interests of its customers and treat them fairly. The firm issuing the Financial Promotion should ask itself the following questions:

- Will the target audience understand the communication?
- If the promotion is for a specific product or service, is it clear:
  - Who has issued the Financial Promotion?
  - What the product actually is?
  - What will the consumer's money will be paying for?
  - What the product will do for the consumer?
  - What need is being met?

## **The Promotion Itself**

Having ensured that the Financial Promotion is appropriate to the audience, it is necessary to ensure that where appropriate, the following items have been covered correctly

- Have charges been clearly explained and does the promotion suggest the product or service is free of charge, when in fact there are charges.
- Any returns quoted in the headline should be realistic and not just available under strictly limited circumstances. Also, reference to a return should not include the original investment amount.
- The required commitment should be made clear. For instance, if the quoted return is only available under certain conditions, eg if the customer keeps their money invested for a specific period or does not make withdrawals, that should be obvious in the text.
- Drawbacks must be given sufficient prominence. For example, it should be clear what the penalties are for withdrawing the investment early. If there are there any potential drawbacks in the small print that should be in the main body of the promotion.
- Where there is risk to capital, this should be clear as must whether the Client will get their original investment back.
- Where the promotion mentions a guarantee, it should be clear what the nature of the guarantee is and to what extent it is guaranteed.
- The Financial Promotion must ensure that it contains an appropriate balance between the risks and the benefits within the promotion.
- Where the promotion mentions past performance, it must ensure a suitable risk warning has been included. Reference to specific data also triggers the requirement for a comparative table.
- If the promotion draws attention to favourable tax treatment, it must state that this might not continue in the future.

## Action Points

- Is a suitably senior person within the firm nominated to review and sign off all Financial Promotions?
- Is the Register of Financial Promotions up to date?
- Are copies of Financial Promotions maintained with the Register or is there a suitable signpost to where they may be found?
- Is a timescale put on Financial Promotions to review and see if they are still valid?
- Where a firm has Appointed Representatives, are appropriate controls in place to ensure their Financial Promotions are reviewed and signed off before use?

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