

Regulatory Briefing – FS 08/06 Retail Distribution Review (RDR)

Introduction

This paper is the latest in this process. It will be of interest to firms and appointed representatives of firms involved in the manufacture and or distribution of retail investment products.

The RDR process has been used by the FSA to address many problems which have persisted since the introduction of regulation 20 years ago. Over the past two and a half years, input has been sought and received from the industry, consumer representatives and other stakeholders. The FSA is now clear as to the changes required from firms, principally the following three measures:

- Improvement in the clarity for consumers of the characteristics of different service types and the distinctions between them.
- Raise professional standards.
- Reduce conflicts of interest inherent in remuneration practices and improvement of transparency of the cost of all advisory services.

While aimed at those firms covered by COBS and not impacting directly on firms covered by MCOB and ICOBS, it is recognised that for some firms, there may be some overlap. This will be particularly apparent where there is a complex structure where more than one of the Conduct of Business Sourcebooks applies.

Purpose of the Retail Distribution Review

There are a number of problems which have persisted over the twenty years since regulation was first introduced in the United Kingdom. The FSA are aware that there are continuing areas of bad practice which are all too apparent in their supervision activities.

There are also other initiatives such as the possible introduction of a Money Guidance Service and the automatic enrolment with Personal Accounts in 2012 which make the implementation date of 31st December 2012 appropriate.

Specifically, FSA are looking for:

- An industry engaging with consumers delivering more clarity.
- More opportunity for consumers to have their needs and wants addressed.
- Standards of professionalism which inspire confidence and build trust.
- Remuneration structures allowing competition to work for the benefit of consumers.
- Firms to be viable to deliver long term commitments while treating customers fairly.
- A regulatory framework that can support delivery of all these aspirations while not inhibiting future innovation where this benefits consumers.

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Summary of Key Proposals

The key proposals are summarised below:

Clarity of Services

- Clear distinction between independent advice and sales service.
- Independent advice to be truly independent.
- Clarity on nature and distinction of different services.
- Existing practices to be reinforced (eg client ability to repay debt under KYC process).

Remuneration

- Removal of product provider influence over setting adviser charges.
- Customers to be able to understand clearly the different services on offer.

Professional Standards

- Establishment of an overarching Professional Standards Board.
- Establishment of a benchmark qualification of at least QCA Level 4 (first years bachelor degree equivalent) to cover all investment advisers.

Consumer Access and Liability Management

- FSA to give firms greater clarity as to how the rules apply.
- Remove rules around Basic Advice.

Prudential Requirements for Personal Investment Firms

- Simplify and make consistent the calculation of capital resources.

Action Points

There is no specific action at this stage other than to consider the potential impact that this may have. The FSA have stated that the RDR is now finished and will now become the Retail Distribution Programme. There is a Consultation Paper due in June 2009 and the final implementation is planned for 31st December 2012.

Further detail can be found at: www.fsa.gov.uk/pubs/discussion/fs08_06.pdf

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