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Amanda Bowe
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Dear Amanda

SII is pleased to respond to DP 07/1 'A Review of Retail Distribution'. The SII recognizes that although there are some market failures in the retail industry, there are also some examples of outstanding good practice from which others can learn. We welcome the FSA's initiative in seeking an industry led solution to such issues

Please regard this letter as part of our formal response which includes;

- a) full responses to those questions which we believe apply to professional bodies,
- b) a schedule, broader in scope than the formal answers, suggesting areas of collaboration between professional bodies
- c) a schedule setting out those features of the industry sector which we believe apply to SII member interests and therefore provides important context.

You will see that our response centres on Chapter 3 because we believe this is where we have most to contribute. There are other areas, such as the tiering of advice, based on individuals' roles and qualifications, where collaboration between professional bodies is at an early stage and we would like to be part of these discussions as the RDR developments evolve.

SII's heartland has always been the retail investment management sector as a consequence of its creation from the London Stock Exchange when its own individual membership ceased. With over 40,000 examinations taken annually and 40,000 members, its aims are:

- a) the attainment of competence
- b) the maintenance of competence
- c) the promotion of trust.

Therefore, the RDR chimes well with these objectives and we welcome the central thrust of the discussion paper.

In preparing our response, the SII has consulted its members and stakeholders widely through its *Private Wealth Management Forum*, its *Membership Committee* and the *Board*. In addition, the qualifications issues raised have been discussed by the *SII Examinations Board* which includes representatives from the major trade bodies who are active in areas covered by SII's qualifications.

SII's core values of professionalism, excellence and integrity are already supported by a wide range of firms and individuals in the Retail Investment sector. The RDR is an opportunity for the regulator to embed similar principles across the sector in a supportive and structured way.

There are many firms in both the IFA sector and the RIM sector which have excellent professional standards. There are models of 'best practice' for other firms in their sectors which currently may not follow these standards and practices. These standards and practices offer a role model for the industry. Examples of best practice are:

- to recruit individuals, normally graduates, with the intellectual ability to work in a complex, dynamic industry;
- to provide an induction programme for new trainees, which may involve working in different departments to get a picture of how the organisation operates;
- to require staff to gain appropriate benchmark qualifications and encourage them to progress to higher level qualifications such as the SII Diploma (and from June 2008, the SII Masters Programme in Wealth Management);
- to supervise new trainees until firms judge that they are competent to begin working with clients;
- to ensure staff remain up-to-date through membership of a professional body;
- to require staff to undertake CPD in accordance with the firm's policy;
- to require compliance both with the firm's and the professional body's code of conduct;
- to remunerate staff on a blend of team and individual basis with emphasis on customer satisfaction and retention.

The culture within these firms will encourage advisers to treat their customers fairly in an enduring relationship with their clients.

We strongly believe that professional bodies have a significant role in helping and leading changes to behaviour in the retail sector.

Our vision is that FSA, the professional bodies and the firms have important and supportive roles in raising standards:

- o **The FSA** remains the regulator of firms, their senior management and Approved Persons. (The Financial Services Skills Council sets the exam standards for the benchmark examinations).
- o **Firms** remain primarily responsible for the ongoing competence of individuals under the "competent employee" rule.
- o **Professional bodies** set standards for competence, contribute to the means of providing CPD and actively promote high standards of integrity amongst members.

SII looks forward to contributing further to these important developments.

Yours sincerely



Simon Culhane
Chief Executive

Response of the Securities & Investment Institute to DP07/1; The Retail Distribution review

Introduction

This response focuses on the Retail Investments Management Sector (RIM), please see Schedule 2 for our definition of this sector. We focus upon chapter 3 of DP07/1 (Professional Planning and Advice) because we are a professional body. We appreciate that other chapters in the Discussion Paper suggest changes to the RIM sector which primarily affect firms and have some impact on the SII, for example the way in which qualifications and the levels of advice might be categorised and tiered. We will be discussing such suggestions with other professional bodies as the outcome of the RDR feedback evolves. For convenience and clarity, we are setting out the points which could be discussed with other professional bodies in Schedule 1.

Answers to the Questions in Chapter 3

The Questions

Q21 – Do you agree that these qualifications are at the right level for the roles described?

Q21.01 We agree that current qualifications are at the right level in the RIM sector. We do not comment upon whether or not they are at the right level for the IFA sector since we do not provide qualifications for IFAs.

For the RIM sector, staff take the SII's Certificate qualifications as their regulatory benchmark. For staff in the retail sector, we have recently added an additional unit as a consequence of the Financial Services Skills Council's ("FSSC's") exam standards. Staff now take:

- a detailed regulatory unit,
- a unit covering investment and risk
- a specialist Securities/Derivatives unit as appropriate for the business of the firm.

Those engaged in discretionary portfolio management continue to take the Certificate in Investment Management or equivalent, comprising a detailed regulatory unit and an investment management unit.

The culture of the firms in the RIM sector is such that many firms require their advisory staff to take the SII Diploma or Masters in Wealth Management in addition to their benchmark qualification.

RIM firms are also more likely to recruit high calibre graduates with the result that their client relationship managers bring a higher intellectual calibre to their work and are better able to work in a complex environment.

Q21.02 There is little overlap between the curriculum provided by the SII to the RIM sector and those provided by other professional bodies to IFAs. This is because the RIM sector needs knowledge about markets while IFAs need knowledge about products.

There is no practical gain from having a common curricula or aligning the levels of qualifications between the two sectors, because the professional bodies' ability to provide relevant services to their different sectors (and through them to the consumers of these services) will be lost. This is evidenced by the Skills Council's new Appropriate Examination list where the SII is the only professional body listed as a provider for qualifications for the RIM sector. In reviewing its qualifications in the RIM sector for MiFID, the SII consulted about 300 practitioners to ensure the continued relevance of our examinations.

Q21.03 In Annex 3 to the RDR two models are described. In Australia there is a single qualification for retail financial advice and a single professional body. However, in the UK there are at least four qualifications for retail financial advice and at least four professional bodies. The UK is therefore closer either to the US model where there is a common designation (Certified Financial Planner) and 320 undergraduate degrees and certificate programmes, and to the Canadian model (many providers of qualifications and minimum examination standards

Q22 – Do you agree there would be clear benefits for consumers of introducing role profiles?

Q22.01 The SII supports the introduction of role profiles. They would be particularly valuable to consumers where there is confusion. However, they will need to be kept simple to ensure that consumers can understand the different roles, for example, a skim through “Financial Services” in Yellow Pages shows how differently firms describe their services.

Q22.02 There will be important questions in deciding how far to go in dividing up activities within the RIM sector. For example, should you distinguish between an investment adviser and an investment manager? Should you separate equities from derivatives? The FSSC has recognised this difficulty in separating its National Occupational Standards between securities and derivatives, and in its List of Appropriate Examinations between advice and management. The SII has also recognised this in having separate Securities and Derivatives and Private Wealth Management streams of qualifications. Perhaps the RIM sector range is too wide for anything other than a single very high level profile.

Q22.03 There is a separate question as to the width of the role profiles. Paragraph 3.10 suggests that they would cover technical, behavioural and Continuous Professional Development (CPD) requirements. The SII welcomes this “holistic” approach. It goes to the heart of “professionalism”. It will be important that the responsibility for these different elements should be clear between the FSA, firms and professional bodies (see Question 23).

Q23 - What role should regulation play in helping to make the necessary changes to qualifications and behaviours?

Q23.01 We favour collaboration between professional bodies in the retail financial sector to achieve consensus where appropriate and within an overarching framework; we believe there is a continuing role for individual institutions. Because professional bodies serve distinctly different sections of the industry we think a single body would not best serve consumers or firms. It would also be difficult to separate wholesale from retail since professional bodies cover both – and in wholesale the differences are even wider than in retail. We do favour increased co-operation between the retail

professional bodies and would like to pursue this actively. There are already informal bilateral links between a number of us and we recommend that these links are formalised through the establishment of a body to harmonise standards in the retail industry and exchange information. This could include a framework for CPD, Role Profiles (with FSSC) and standards for competence. CII have proposed that such a body would “oversee” the professional bodies. We should all consider carefully what this might add. (The SII is already overseen by the Charity Commission, and its qualifications are approved by the Qualifications and Curriculum Authority and the FSSC.)

Q23.02 Each professional body has a code of ethics for members. Theoretically there could be a single code for the retail industry. However this assumes a homogenous industry. Retail financial services are so varied that a single code would need to be very high level indeed – probably to the point that it became unclear and provided no useful guidance. For example RIM sector firms are focused on markets, while IFA sector firms focus on products. The SII’s Code of Conduct is attached in schedule 3 as an example. It is based upon the FSA’s General Principles but is different because it is not rule based. It goes beyond rules into ethics – which lie at the heart of behaviour. We therefore suggest that the formal group should lay down the overarching scope, content and approach of each body’s code, but not the actual wording.

Q23.03 One particular initiative which could raise standards would be for professional bodies and firms to work together to issue practicing certificates. The professional body would set and maintain the ethical standards and the CPD requirements, and the firm would confirm the individual’s continuing competence (for which they have responsibility under the rules, and knowledge from supervision). Such certificates are used in other professions such as law and accountancy. We set out our ideas about how this might work in Schedule 4.

Q24 – Do you agree that better labelling of available services would help in building the professionalism and reputation of the sector and in making services clearer to consumers?

Q24.01 The logic of having role profiles is that they are made known to the consumer, and that they are self-explanatory. We agree that there is scope for better labelling. Therefore the SII supports the extension of labelling changes into the RIM sector but at a high level only. It is willing to discuss these with other professional bodies and stakeholders.

Q24.02 The practicing certificate is one solution that SII can contribute to resolving the “alphabet soup” of qualifications which can confuse retail consumers. This would confirm the competence of an individual against standards set by the FSA (under the competent employee and TC Rules) and the professional body (under its qualifications and CPD requirements).

In our view, Practicing Certificates offer a number of advantages. They:

- enable consumers to understand the level of competence of retail advisers (Practicing Certificates are proposed only for the senior level of advisers who would use a designation such as RPC – Retail Practicing Certificate – but we are not currently suggesting that more junior advisers should use a common designation, though there could be an advantage in that).

- can be used as a common description across all retail sectors providing a benchmark of competence regardless of whether the practitioner is an IFA or stockbroker or pension transfer specialist.
- could have CPD achievements (time and/or even refresher assessments) as a condition of their award and renewal.
- provide another remedy (for example for a member with no CPD records) short of terminating membership.
- follow the practice of many other professions such as accountancy and law.
- avoid the professional body vouching to customers for individuals' competence since the firm is in a much better position to judge this.
- could require firm confirmation of CPD for the annual renewal thereby making the firm an active partner in the sign-off of continuing competence.

The certificate could, for example, evidence that an individual has:

- Completed his or her benchmark examination.
- Is a current member of a professional body and therefore adopts its code of conduct.
- Has undertaken a certain number of hours of CPD.
- Has his or her firms' endorsement of their continuing competence.

However, we recognise that there may be other solutions from the industry and the SII is committed to collaborating with other bodies on these.

Q25 – Do you agree with these proposed measures to enhance the role of professional bodies and do you think these would make a difference to the professionalism of the financial advice sector?

Membership

Q25.01 We are delighted that the FSA recognises Professional Bodies as key contributors in raising professional standards. The combination of initial qualification, willingness to take up membership of a body and subscribe to its code of conduct, undertake measurable CPD embody the definition of 'principled practitioner' at the centre of these issues. The SII does not think compulsory membership is a realistic expectation in a Principles-based environment. In view of this we would welcome FSA's strong encouragement – perhaps a "safe harbour" – for individuals who hold membership of a professional body. There are already some excellent examples of best practice in the RIM sector and we would hope that these could serve as role models going forward.

The SII would much appreciate strong encouragement from the FSA for investment professionals to become members of a professional body. Indeed without this support, unless there are clear regulatory benefits to them some individuals may be reluctant to take up membership of such bodies because of the high standards that professional bodies expect of their members. Such encouragement will need to be done officially, although falling short of a requirement to join a professional body, a "safe harbour" on meeting continuing competence requirements would be appropriate. Relying on an environment in which membership is positioned as desirable but optional can be shown by past experience to be insufficient.

Training

Q25.02 The SII is eager to be fully involved in developing and maintaining role profiles as in the Recommendations of the Professionalism and Reputation Group. We support the Group's proposal of an "industry-led" approach. The FSSC could be responsible for mapping the level of qualifications to the roles, and for making the lists of examinations relating to these and the professional bodies could be responsible for the behavioural and technical elements of the roles. All stakeholders such as the FSSC and consumers would be fully consulted.

CPD

Q25.03 CPD is an important part of professionalism. The SII (like other professional bodies) is strongly in favour of minimum requirements for Continuing Professional Development including its content, minimum time and recording. For the SII compulsory CPD would be a logical development from our current annual voluntary CPD target. We are also aware that some firms already require compulsory CPD and we would welcome a move to compulsory CPD in order to achieve a level playing field.

The SII already sets an annual target for CPD facility for members and has an on-line facility for members to record their time which is open to the employer. SII audits a sample of the members using the SII recording scheme and the audit is signed off by the member's firm as well as SII. In addition we already accredit the CPD schemes of certain firms where the firms' own schemes can be benchmarked against the SII CPD scheme and this flexible approach is consistent with our collaborative model of CPD. There is scope for refresher testing and at this stage SII recommends this to be voluntary, but to be encouraged SII already has the infrastructure to measure refresher testing and members already have access to this on a voluntary basis.

Even though SII offers an extensive programme of qualifications for all levels of staff, it recognises that qualifications are just one factor in determining the competence of an adviser. Advisers also need on-going training together with CPD and the SII is (eg Interpersonal communication and managing client relationships) already committed to expanding its current programme into new areas that will raise the skills of individuals.

Information Sharing

Q25.04 We agree that there are clear advantages to consumers through the professional bodies alerting FSA to bad conduct of individual members in order to prevent more consumers being damaged. However, there are important Data Protection and Defamation barriers which would need to be overcome.

Professional bodies (and any cross industry body established by them) have to be wary of members complaining that wrong information was given to their firms and the FSA, and possibly malicious individuals making serious allegations against members, both of which are costly to refute. Further, this would expose the body to risk of defamation

and breach of data protection laws if passed on to FSA or a cross industry body without statutory immunity. However in circumstances where a member has been censured as a result of disciplinary action, including an appeal - or other public information comes into the body's possession, details could be passed to the FSA. If these barriers are too high, passing on the body's concerns to the firm may be a possible alternative.

New Member due diligence

Q25.05 Professional bodies undertake a number of checks on new applicants and on their sponsors but do not have the legal right to make the criminal records and credit checks which FSA and firms have in respect of Approved Persons. For example the SII requires that any new member or fellow should have the support of another member or his or her firm. We would also need to understand the legal implications of refusing membership where it threatens the livelihood of the individual. We therefore suggest that the professional bodies should not have this responsibility and that the employing firm and the FSA should continue to do this.

Monitoring and Sanctions

Q25.06 The question is whether the professional bodies should "actively monitor" the conduct of their members. As FSA will appreciate, it is impractical for the regulator closely to monitor the activities of its Approved Persons and similarly it is extremely challenging for professional bodies to endeavour to monitor the actions of their members. Currently we do monitor members, CPD and require them to confirm their compliance with the SII's Code of Conduct. Although at present, we do not think it practical or possible for the professional bodies to take over from the FSA more active monitoring of individuals. SII does however check the list of persons against whom the FSA has taken disciplinary action. The FSA and firms both have the responsibility, the powers and the access to data which enable them to do this.

Q25.07 This leads to the next question as to whether the professional bodies alone, or a cross industry body, by themselves or with FSA support, should "discipline" their members for breaching the professional body's standards. We favour this as a useful complement to FSA's own authority over the conduct of Approved Persons. A possible solution would be for FSA to continue with its disciplinary powers, and for the professional bodies or a cross industry body to have limited powers of discipline e.g. private warning, reference to firm, or public reprimand. The FSA could then take appropriate action in more serious cases.

A way needs to be found to overcome the legal difficulties. In particular:

- the fact that many breaches of the ethical code will also be breaches of the regulatory system over which FSA has authority,
- the lack of statutory immunity making the professional body or cross industry body vulnerable to claims that they have acted wrongly and taken away an individual's livelihood,
- the Human Rights Act requirements for an independent tribunal,
- the lack of statutory powers to obtain evidence and of investigation,
- the considerable costs in fighting an individual whose livelihood is at stake.

The FSA itself has put in place a complicated and expensive structure and detailed disciplinary procedures for those breaching the regulatory system. The FSA and the professional bodies that take similar action (such as the Law Society and the General Medical Council) also have statutory powers and responsibilities and large disciplinary teams (costing the GMC nearly £10,000,000 in 2006 and the Solicitors Disciplinary Tribunal in excess of £1,000,000 in 2006) which a professional body or cross industry body would also need.

If membership is voluntary, members can simply resign, and non members would be outside their authority. If membership is compulsory, proposing to withdraw it becomes a career threatening act. Whatever the result of the exploration of these points, it may be more realistic for professional bodies (or a cross industry body), to have more limited powers such as notifying the firm of concerns, giving private warnings, or making public reprimands, leaving more severe action to the FSA (such as withdrawal of the right to practice or other disciplinary action).

Regulatory Dividend

Q25.08 Firms employing SII members would welcome a lighter touch regime if they and their staff commit to the professional body's standards. An example could be a "safe harbour" for members meeting the behavioural, technical and CPD requirements of membership for the "competent employee" rule and the TC Sourcebook, and acknowledgement of this in regulatory supervision.

Q26 – Do you agree with the overall recommendations of the Professionalism and Reputation Group?

Q26.01 Yes, we are impressed by its analysis of the problems and its approach. Our detailed comments are set out earlier. There is much work to do.

Q27 – Do you have any other suggestions for how the overall aim of raising professional standards and enhancing the reputation of the market could be met?

Q27.01 The SII will review the introduction of Practising Certificates (PC) for its members working in the retail sector. The award of an annual PC would be dependent on a number of factors amongst which might be: completing the 'e' learning course on ethics, completing a set programme of CPD designed to match the role; demonstrating the maintenance of competence by satisfactorily completing an annual updating programme. We believe such a model could usefully be adopted in the IFA sector. The SII believes that close co-operation between professional bodies, trade bodies and consumers may throw up interesting ideas.

Q28 – What role should we play in raising professionalism, as opposed to relying on professional bodies? Or, can the industry lead the way in delivering improvements?

Q28.01 The SII agrees with the Professionalism and Reputation Group that the firms, professional bodies and other key stakeholders should address this issue to see if co-operation, particularly between professional bodies, can improve professionalism. A

list of subjects and proposals are attached as Schedule 1 to this Response. Such steps should be proportionate to the risk of the market failures. In RIM FSA has many other initiatives (such as MiFID, the CRD and TCF) already addressing them. There remain many improvements that should be considered. The consequence of professional bodies “raising the bar” as the Group suggests, will be that they will need more support from the FSA to make membership attractive.

Q28.01 The useful international descriptions in Annex 3 of the RDR include 3 examples under “professionalism”. For the reasons set out in the answer to Question 23 the SII believes that the more appropriate example is Canada or the US.

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Conclusion

The SII looks forward to actively contributing to the RDR discussion with FSA, and will give time and resource to discussions with other willing professional and trade bodies to develop an industry-led approach on professionalism and qualifications. The key areas for common approaches are set out in Section 4 and Schedule 1.

The Schedules

Schedule 1

Key Points for collaboration with Retail Professional Bodies

- 1.01 **FSA Recognition of Professional Bodies.** We very much welcome the FSA's recognition of professional bodies and their proposal that professional bodies should play a large role in raising professional behaviour and standards in the retail financial sectors. It is important that the professional bodies work with trade bodies in their sector to develop appropriate qualifications for staff at benchmark and senior levels and CPD programmes focused on the needs of the sector.
- 1.02 **Collaboration between Professional Bodies.** Professional Bodies in the retail financial sector, have already established a number of informal bilateral relationships, to increase co-operation with each other and to consider establishing a formal entity such as the Consultative Committee of Accountancy Bodies. We see no consumer benefit in a merger of the current bodies as their autonomy enables them to address the diverse needs of their individual sectors. However, the overarching entity could develop common standards in areas such as those outlined in 1.03 below.
- 1.03.1 **Common Minimum Professional Standards.** The group of professional bodies could explore minimum professional standards for their members in the following areas:
- **A single ethical framework.** (As all professional bodies have ethical standards for members, there could be agreement on the points covered and their scope. A single common code would be difficult since there are significant differences between the financial sectors and this would mean any such code would be so high level as to be difficult to apply or interpret.
 - **Practising Certificates.** Our view is that these should be issued annually by each professional body to their members who meet the criteria specified. Criteria for the award of a Retail Practising Certificate could be along the lines:
 - 1 Approved Person status for CF30.
 - 2 membership of a relevant professional body.
 - 3 actively engaged in providing advice or investment management services for retail clients.
 - 4 application supported by their firm.
 - 5 holds a relevant post graduate level professional qualification (SII Diploma, CFA, accountant, lawyer); for a transition period, competent individuals with long experience at a senior level, who do not hold a relevant post graduate professional qualification, will be eligible for a Practising Certificate if their application is supported by senior staff in the firm.
 - 6 has 10 or more years' experience in the industry.
 - 7 acts in accordance with the letter and spirit of the FSA's Principles and Code of Conduct and of any professional code issued by his professional body.
 - 8 satisfies the Continuing Professional Development (CPD) requirements specified by the professional body.

There would also be common criteria agreed for the removal of an individual's Practising Certificate, which could be along the lines:

- an individual who ceases to meet 1, 2 or 3 above, as a consequence of changing roles, will have his Practising Certificate removed;
- an individual who fails to comply with 1, 2, 3, 4, 6 or 7 above and as a result is subject to disciplinary action by FSA or his professional body will lose his Practising Certificate;
- an individual who fails to satisfy 8 above will be subject to action from his professional body ranging from a personal warning with a notice period in which to meet the requirements, notice to his firm of failure to comply with the CPD requirements; repeated failure to comply will lead to the removal of the Practising Certificate.

1.04 **Compulsory CPD.** To avoid the adoption of different practices in the different retail sectors, any overarching body established as a result of the RDR could set out general principles for all bodies to impose on their retail members. For retail members, compulsory CPD would be tied to the annual award of the Practising Certificate referred to above.

1.05 **Disciplining individual members.** Again, to ensure common disciplinary practices across the sector, the professional bodies could jointly explore setting up a cross-industry disciplinary body so that expertise could be concentrated, the member given access to an independent tribunal and costs shared. For this to have a practical chance of working, the members of any such cross industry body would need to enjoy some of the legal cover currently enjoyed by the FSA or statutory bodies and an indemnity for legal claims brought against them by dissatisfied individuals or firms.

Other activities of a joint body could be:

1.06 Development, in conjunction with the relevant trade bodies, of consumer friendly **role profiles** for both firms and individuals.

The profiles could illustrate the differences in services provided by different types of advisers (professional financial planner, general financial adviser, retail investment advisers and full, primary and focused advice) and firms (describing their different business activities e.g. financial planning, retail investment advice etc.) The profiles should be high level to enable them to capture succinctly and clearly the widely different activities of individuals and firms.

1.07 **Labelling.** To address the “alphabet soup” of different bodies' qualifications, which confuse the consumer, we agree that the professional bodies should be able to co-operate to find ways of establishing a common designation which identifies both the particular professional body concerned and the common standard shared by them.

1.08 At this stage of responding to DP07/1, we believe it is too early to comment on whether the overarching professional body group might define the **curriculum and qualifications** for each of the retail sectors. However, we believe that this is an area for co-operation and we are confident that this could be successful.

Schedule 2

Information about the Retail Investments Management Sector

We believe it will be useful for us to define for FSA the sector which we support and in which we have members and to highlight the differences with other parts of the retail sector. This provides the context to our response.

- 2.01 We are pleased to see the recommendation to increase the professionalism of advisers, and believe professional bodies have a major role to play in achieving this. The SII is willing to play its full part - both as a membership professional body, and through its examination qualifications.
- 2.02 The SII understands that the scope of the RDR is intended to apply to all retail business. There are considerable differences between the five sectors (described in 2.03 below) and it is therefore important that there are different approaches to each of them so that they continue to serve the different requirements of their respective customers appropriately.
- 2.03 We summarise below some of the differences between the Retail Investments Management Sector (and its consumers), and the IFA sector served by the Professional Financial Planners (PFPs) and General Financial Advisers (GFAs) (and its consumers) as described in detail in the Discussion Paper
 - The RIM sector is subject to the regulatory requirements of **MiFID** and the **Capital Requirements Directive**. These include the Conduct of Business requirements under NEWCOB such as the duties of suitability and best execution, the systems and controls requirements for “common platform” firms under the new Senior Management, Systems and Controls Rulebook, and the prudential requirements under the GENPRU and BIPRU Rulebooks. The relationship managed firms, approximately 2500 in number, are in the RIM sector and wholesale sector, not the IFA sector.
 - Contrast the IFA sector (unless they are in the unusual position of holding client assets in custody) which are neither MiFID nor BIPRU firms. Indeed a PI Policy is a component of capital.
 - RIM sector firms have recently reviewed policies and trained staff in these Rules, including Conduct of Business and Training and Competence Policies.
 - The consumers want, and expect, to receive different **products** from RIM sector firms compared with those offered by PFPs and GFAs. The latter provide services in savings products such as pensions, insurance and mortgages, whereas RIM sector firms provide services using investments such as equities, CFDs and other derivatives. The only overlap is in **collective funds and investment trust savings schemes**, which normally only account for a small percentage of RIM sector investments. RIM sector customers do not want the type of products likely to be sold with either

basic advice or primary advice; high net worth clients of RIM sector firms and IFAs (dealing with high net worth clients) have different needs.

- The consumers normally want different types of **service** from RIM sector firms compared with all IFAs with normal FSA permissions. The latter provide financial planning and advice (and can only advise on funds, not other investments). Equally, RIM sector service firms do not normally cover financial planning or advice on savings products, but do provide discretionary management services.
- The concepts of “full service advice” and “focused advice” do not work for the RIM sector (or even IFA sector services) and are likely to mislead consumers. Neither IFAs nor RIMs can provide “full” advice because their investment scope is limited as described earlier. The IFA cannot advise on equities including investment trusts or derivatives, and the RIM sector cannot advise on financial planning. “Full Financial Planning Advice” could be a clearer description to consumers of IFAs’ services. However, RIM sector customers are normally well aware of what services they want, and would be confused by categorisation of RIM’s advisory services as “full” or “focused.”
- While there are some IFA firms who provide financial planning services to high net worth customers, most customers of RIM sector services are different from those who use the services of an IFA. RIM sector customers are normally better **informed (‘financially literate’)** and able to look after themselves. They still need protection, but confusion over the services provided by the RIM sector, lack of understanding of risk and information asymmetry, are generally less of an issue. Indeed there are many high net worth, qualified investor and elective professional client exceptions to the retail protections. It would be damaging to consumers if an unintended consequence of the RDR was new universal requirements suitable for the IFA sector but which caused RIM sector firms to avoid investments. This is because the new protections apply to all consumers – but are not appropriate for clients of the RIM sector. Applying more procedures to the RIM sector advising on retail investments including collective investment schemes may well result in them investing in other investments – which may involve more market and liquidity risks than CISs such as equities, since the RIM sector has a choice on what type of assets to choose.
- FSA will be aware that RIM sector firms have recently been subject to extensive regulatory change. Important elements of these changes include Treating Customers Fairly, MiFID and the T & C Sourcebook. The FSA and firms have put so much effort into these initiatives that there remains little more for FSA or firms to do beyond carrying out these policies and rules.

2.04 The size of the RIM sector is an important part of the retail financial market. RIM sector firms’ assets under management exceed £370bn (**APCIMS figure**). Many portfolio managers, banks and execution only firms have large RIM sector operations. There are also many securities firms focusing on retail investment customers. Although difficult to measure, by many benchmarks it is larger than the IFA sector.