INTERIM TECHNICAL NOTE
Completing Section K of the Retail Mediation Activities Return (RMAR)

This note provides interim technical guidance for firms completing Section K of the RMAR. It should be read in conjunction with the Handbook Guidance in SUP Chapter 16 Annex 18b G. We are issuing this now to help firms that are due to submit data over the coming months. We intend to consult in 2014 to change the Handbook Guidance.

1. General

1.1 Throughout Section K of the RMAR, firms are required to report a breakdown of the data to show whether the advice provided to the retail client was independent or restricted. If an advisory firm exclusively provides independent or restricted advice, the columns of the form not relevant to the firm should be left blank. This is illustrated in example 1.

Example 1 – Completing columns A to G where the firm only provides independent advice
An advisory firm that exclusively provides independent advice would need to complete columns A, B, C and G, as appropriate, leaving blank columns D to F which relate to restricted advice.

1.2 Any revenue reported should be exclusive of VAT levied on the retail client (if applicable).

2. **Type of advice and the way consumers pay an adviser charge** (columns A to F for rows 1 to 6)

2.1 The form requires firms to break down the data provided in rows 1 to 6 based on the way in which a retail client pays their adviser charge.

2.2 **Columns A** and **D** should include data on the adviser charges that are paid directly by the client. This would include, for example, where the client paid the advisory firm directly through a cheque or bank transfer or where a payment was made on behalf of the client by the client's lawyer.

2.3 Where the adviser charge is facilitated by a *retail investment product* provider, this should be reported in either **columns B, C, E** or **F**, depending on whether the charge is facilitated by a product provider or *platform service provider*.

2.4 For an adviser charge where payment is facilitated via a Self-invested Personal Pension (SIPP), a SIPP is legally defined as a product (i.e. a personal pension). The adviser charge should be reported in columns B or E where it is facilitated by the SIPP operator or in columns C or F where the SIPP is held on a platform and the advice charge is facilitated by the platform.

2.5 For an adviser charge facilitated via a discretionary investment manager, the features of the service provided by the discretionary investment manager are likely to have some similarities to those provided by a platform service provider, including the arranging, safeguarding and administering of investments. So to complete Section K of the RMAR, we would generally expect adviser charges facilitated by a discretionary investment manager to be reported as 'invoiced via a platform'.

2.6 In columns A to F, the form refers to the amount 'invoiced'. We recognise that not all firms will issue a physical invoice to their clients. For the purpose of completing Section K of the RMAR, the term 'invoiced' means the adviser charge due from the client in the reporting period.

3. Retail investment product revenue from adviser charges (rows 1 – 3)

3.1 In **row 1**, firms should report the total revenue from distinct one-off advice services (not covered by an ongoing adviser charge) as at the end of the reporting period. This would include, for example, revenue from initial, upfront and ad hoc adviser charges irrespective of whether the charge is paid as a single payment or through regular instalments.

3.2 Where an initial adviser charge is paid through regular instalments, which is only permitted in limited cases as set out in COBS 6.1A.22R(2), only the amounts due within in the reporting period should be reported in row 1. This is illustrated in example 2.

Example 2 - Reporting revenue from initial adviser charges payable in instalments
An advisory firm provides advice to a retail client in relation to an investment where regular contributions are being made and there is a £600 initial adviser charge payable in two equal amounts – now and in 12 months' time. Firms should report £300 in row 1, as this is the amount due from that client within the reporting period. The remaining £300 of the total adviser charge payable would be reported for a future reporting period when it is due from the client.

3.3 Where an advisory firm charges a retail client a fee for advice on a retail investment product and a pure protection policy or mortgage, firms should only report the adviser charge that relates to the retail investment advice in Section K of the RMAR. This is illustrated in example 3.

Example 3 – Advice in relation to a retail investment product and non-investment product
An advisory firm charges a retail client £1,000 for initial advice in relation to both an investment product and pure protection contract. To complete Section K of the RMAR, firms should only report the adviser charge for the investment advice. In this case, the firm's charging structure quotes the cost of this investment advice as £600. £600 should therefore be reported in row 1.

3.4 In **row 2**, firms should report the total revenue due within the reporting period for any adviser charges, which are not initial charges, for ongoing advice services.

3.5 Where an advisory firm has an agreement to provide both initial and ongoing advice, the revenue for the initial and ongoing advice service should be reported separately in rows 1 and 2 respectively.

3.6 If the adviser charge is partially paid directly by the retail client and partially facilitated by an investment product provider, the proportion of the adviser charge paid through each method should be reported separately on the form in the relevant columns. This is illustrated in example 4.

Example 4 – Reporting adviser charges that are paid by retail clients from more than one source

A retail client agrees to pay £1,000 for initial advice provided by an independent financial adviser for a single contribution investment. The client pays £600 directly from their bank account, with £400 facilitated by a platform. The form would be completed as follows:

		A	B	C
		Independent advice		
		Adviser charges invoiced directly to retail clients	Adviser charges invoiced via product providers	Adviser charges invoiced via platform service providers
1	Revenue from initial adviser charges	£600		£400
2	Revenue from ongoing adviser charges			
3	TOTAL	£600		£400
4	Aggregate of initial adviser charges invoiced as a lump-sum payments	0.60		0.40
5	Aggregate of initial adviser charges invoiced as regular payments			
6	Aggregate of initial adviser charges (invoiced as either a lump sum or regular payment)	0.60		0.40

Please note: for the purpose of this example, rows 4 to 6 are also completed. Further details of providing this information are set out in Section 4 of this note.

3.7 If an advisory firm offsets the adviser charge due from the retail client with trail commission received from an investment product provider for pre-RDR investments held by that client, firms should report the total adviser charge that is agreed with the retail client. This is illustrated in example 5. The conditions under which an advisory firm may receive such commission are set out in COBS 6.1A.4AR.

Example 5 – Commission offset against an adviser charge

An advisory firm enters into an agreement to provide a retail client with ongoing advice. The firm charges the client £500 for this ongoing advice, but receives £200 in trail commission for existing investments held by the client. This trail commission is used to reduce the actual amount due from the client to £300. Firms should report the full £500 adviser charge in row 2, as this is the total adviser charge agreed with the client.

3.8 **Row 3** is the total of rows 1 and 2.

4. Payments of initial adviser charges (rows 4 – 6)

4.1 The data reported in this section of the form relates to the number of initial advice services provided within the reporting period, as at the end of the reporting period. This would include, for example, the number of services for which there are initial, upfront and ad hoc adviser charges. The data provided should be reported to two decimal places.

4.2 In **row 4**, firms should report the total number of initial adviser services provided where the adviser charge is payable as a single payment and due from retail clients in the reporting period.

4.3 To complete **row 5**, firms should calculate the proportion of initial adviser charges, payable through regular instalments, that were due from each retail client within the reporting period. The total of these sums should be reported in row 5. This is illustrated in examples 6 and 7.

Example 6 – Reporting the number of initial adviser charges invoiced as regular payments

An advisory firm provides advice to retail client A about an investment where regular contributions are being made and a £600 initial adviser charge is payable in two equal amounts – now and in 12 months' time. Firms should report 0.50 in row 5 for this client, as half the total initial adviser charge was payable within the reporting period. 0.50 would also be reported in a future reporting period, when the remaining adviser charge is due from client A.

The same advisory firm provides advice to another retail client B about an investment where regular contributions are being made. A £900 initial adviser charge, payable in three equal instalments over the next three reporting periods, is agreed. 0.33 would be reported in row 5 for client B as one-third of the total initial adviser charge is payable as at the end of the reporting period.

Reflecting the agreements with client A and B, the form would be completed as follows:

		A	B	C
		Independent advice		
		Adviser charges invoiced directly to ...il clients	Adviser charges invoiced via product providers	Adviser charges invoiced via platform service providers
1	Revenue fro...	£600		
2	Revenue from ongoing adviser charges			
3	TOTAL	£600		
4	Aggregate of initial adviser charges invoiced as a lump-sum payments			
5	Aggregate of initial adviser charges invoiced as regular payments	0.83		
6	Aggregate of initial adviser charges (invoiced as either a lump sum or regular payment)	0.83		

Includes the total due from clients A and B as at the end of the reporting period:

For client A, £300 is due in the reporting period (half the £600 total adviser charge due from client A)

For client B, £300 is due in the reporting period (one-third of the £900 total adviser charge due from client B)

Includes 0.50 in respect of client A and 0.33 in respect of client B.

Please note: this example assumes client A and B both paid the adviser charge directly from their bank account and received independent advice.

Example 7 – Further example of reporting the number of initial adviser charges invoiced as regular payments

An advisory firm provides advice to five retail clients about investments where regular contributions are being made. In each case the initial adviser charge agreed is £100 and payable in instalments, although in each case the period over which these instalments are made differs. This is shown in the table below.

	Total initial adviser charge to be paid	Total initial adviser charge due in the reporting period	Proportion of initial adviser charge due in the reporting period
Client A	£100	£10	0.10
Client B	£100	£20	0.20
Client C	£100	£10	0.10
Client D	£100	£40	0.40
Client E	£100	£20	0.20
Total	£500	**£100**	**1.00**
		(reported in row 1)	(reported in row 5)

In this example, £100 would be reported in row 1 as this is the amount due from clients in the reporting period. In row 5 the firm should report 1.00 as this is the sum of the proportion of initial adviser charges, payable through regular instalments, that are due from these clients in the reporting period.

4.4 **Row 6** is the total of rows 4 and 5, which should be reported to two decimal places.

4.5 As set out in paragraph 3.6 of this note, data reported in this section should be broken down by the way in which the adviser charge is paid. Where the client pays an adviser charge through more than one source, the proportion of the charge paid through each source should be identified and reported on the form. This was illustrated in example 4.

5. **Number of one-off advice services** (row 7)

5.1 In **row 7**, firms should report the total number of distinct, chargeable one-off advice services provided to clients during the reporting period. This includes any advice given that was not funded through an ongoing adviser charge, which could include, for example, initial, upfront and ad hoc advice services for which a corresponding initial adviser charge is due.

5.2 To illustrate the difference between data reported in row 7 and that previously provided in rows 4, 5 and 6, please see example 8.

Example 8 – Information reported in row 7 compared to that reported in rows 4, 5 and 6

An advisory firm provides an upfront advice service to five retail clients in the reporting period and an ad hoc advice service to a further two clients that was not covered by an ongoing advice charge.

Of the five clients that received an upfront advice service, one of these services related to advice on an investment where regular contributions were being made, with the adviser charge payable in equal instalments split across two reporting periods.

In all cases, the retail client paid the adviser charge directly from their bank account and independent advice was given by the advisory firm.

The table below and supplementary commentary illustrates how the form should be completed:

		A	B	C
		Independent advice		
		Adviser charges invoiced directly to [illegible]tail clients	Adviser charges invoiced via product providers	Adviser charges invoiced via platform service providers
4	[illegible] as a lump-	6.00		
5	Aggregate of initial adviser charges invoiced as regular payments	0.50		
6	Aggregate of initial adviser charges (invoiced as either a lump sum or regular payment)	6.50		
7	Number of one-off advice services	7		

Includes the upfront advice service where the adviser charge is paid in instalments. The proportion of the adviser charge due as at the end of the reporting period is 0.5.

Includes the 4 upfront advice services where the adviser charge is paid as a single payment and the 2 ad hoc services also paid as a single payment.

Includes the 5 upfront advice services and the 2 ad hoc services provided in the reporting period.

5.3 Row 7 measures the number of one-off advice services provided to retail clients in the reporting period. Where the same client received more than one such advice service, such as an upfront advice service and a separate ad hoc advice service that was funded through a separate adviser charge, this should be reported as two one-off advice services.

5.4 Any advice agreements that were cancelled with no initial adviser charge being paid, or where any initial charge paid was returned to the retail client, should not be reported in Section K of the RMAR. However, any initial advice services where the client paid an adviser charge to the adviser, even if the client did not act on the recommendations of that adviser, should be reported.

6. Retail clients paying for ongoing advice services (rows 8 – 10)

6.1 In **row 8**, firms should report the number of retail clients paying for ongoing advice services as at the end of the reporting period. This would include any clients who have an ongoing adviser charging agreement, even if the adviser charges due are, fully or partially, offset with trail commission received from an investment product provider in respective of a pre-RDR investment held by that client. Any clients on a pre-RDR contract, whereby the client has not entered into an ongoing adviser charging agreement and any ongoing advice received is fully funded through provider commission, should be excluded. Any such commission payments would need to meet our rules set out in COBS 6.1A.4AR and COBS 6.1A.4AAG.

6.2 In **row 9**, firms should report the number of retail clients that started paying for ongoing advice services within the reporting period. This could include:

- new clients to the firm that agreed to start paying for an ongoing advice service
- existing clients of the firm that may, for example, have previously received an initial advice service but had started paying for ongoing advice in the reporting period
- existing clients of the firm that were previously on a pre-RDR commission-based agreement, but moved to an adviser charging agreement and started paying ongoing adviser charges in the reporting period

6.3 In **row 10**, firms should report the number of retail clients that were paying an adviser charge for ongoing advice during the reporting period, but had stopped paying for ongoing advice by the end of the reporting period.

6.4 In completing rows 8 to 10, some firm may find it easier to report, and can report, the number of ongoing advice agreements with retail clients rather than the number of retail clients receiving ongoing advice. For example, if an adviser has a single advice agreement with a couple, this agreement can be reported as '1' on the return even though, in effect, two retail clients are receiving advice. In contrast, if an adviser has separate advice agreements for each individual member of the couple, this should be reported as '2' on the return.

7. **Types of adviser charging structures** (rows 11 – 18)

7.1 This section of the return requires firms to report the minimum and maximum adviser charge, split between independent and restricted advice, for the different charging models the firm operates.

7.2 Firms are required to provide data for all charging structures which are relevant to their firm, with those that are not relevant left blank. This minimum and maximum adviser charge reported should be reported to two decimal places.

7.3 This section of the form also requires firms to indicate their typical charging structure. Firms should therefore indicate, as appropriate, at least one initial and one ongoing adviser charging structure, which is representative of that most commonly used by their firm.

7.4 We recognise that firms may operate a range of different adviser charges relating to different advice services they offer or the amount invested by a retail client, such as 0.25% for a basic ongoing advice service and 0.75% for a premium ongoing service. In this example, 0.25% should be reported as the minimum adviser charge in row 16 and 0.75% the maximum. Likewise, if 0.75% was charged for the first £50,000 under advice and 0.50% for amounts exceeding £50,000 – 0.50% should be reported as the minimum and 0.75% as the maximum.

7.5 Some firms may undertake work on a *pro bono* basis for some clients where, in effect, the adviser charge is zero. To complete rows 11 to 18, any work where no adviser charge (or zero charge) is levied should be excluded.

7.6 The data provided in this section can be based on the advisory firm's published tariff or price lists for disclosing the costs of adviser services to retail clients, and will only require updating as and when the tariff is updated (although firms are required to resubmit this data in every reporting period). The only exception to this will be when the firm offers a combined charging structure (reported in rows 14 and 18), such as where there is a fixed fee and also a percentage of investment charge. Under these types of combined charging structure arrangements, firms should calculate the actual maximum and minimum charges as at the end of the reporting period so that a cash amount can be calculated for the combined charging structure.

7.7 Where a retail client agrees an initial adviser charge for a retail investment product for which an instruction for regular contributions is in place and the adviser charge is payable in instalments, to complete rows 11 to 14, firms should report the total adviser charge, even if that advice is paid over different reporting periods. This is illustrated in example 9.

Example 9 – Reporting the adviser charging structures invoiced as regular payments

An advisory firm provides advice on an investment where regular contributions are being made, with a 2% adviser charge payable in three equal instalments over different reporting periods. For the purpose of completing row 12, the adviser charge would be 2.00%.

Likewise, if the adviser charge was £600 as a fixed fee payable in three equal instalments over different reporting periods, for the purpose of completing row 13, the adviser charge would be £600.00.

Financial Conduct Authority
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