



Financial Services Authority

**Using the FSA's
investment advice and
platforms suitability
and disclosure
assessment template**

March 2010

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1 Introduction

- 1.1 This document will help file reviewers complete the template to assess the suitability and disclosure of investment advice when using a platform. We are publishing this with our review into investment advice and platforms in March 2010.¹ This assessment template is *not* compulsory. Firms may wish to use the template in different ways; for example, when undertaking file reviews as part of the firm's monitoring procedures, or as a checklist for advisers to ensure they give suitable advice and undertake appropriate disclosure. It is important to remember that file reviews – whether using this tool or not – will probably only be effective when the file records are adequately challenged.

Limitation of scope

- 1.2 This template only applies to advice on investments when using a platform. However, some aspects of the assessment relate solely to broader aspects of investment advice, for example, attitude to risk (ATR). The template also addresses the direct impact of the platform (for example, any additional costs the platform incurs) and services the adviser provides that the platform assists with (for example, whether the costs of the overall platform-based service the adviser provides is suitable in light of the client's needs and circumstances).
- 1.3 The toolkit should *only* be used for assessing the *initial* advice for a client to use platform services. This may involve the adviser providing a client with a different type of service (such as replacing a transaction-led service with an ongoing advice service). It also assesses any investment advice given at the same time. The investments recommended can be in any product or tax wrapper – individual savings accounts (ISAs), investment bonds, pensions etc.
- 1.4 This can include cases when:
- the adviser promises a proactive ongoing advice, or has no plans to provide a proactive ongoing service;

1 http://www.fsa.gov.uk/pubs/other/rdr_project_findings.pdf

- a single investment recommendation is made or there are multiple investments;
- the investment level is small or large;
- the portfolio (or part of the portfolio) is in a drawdown plan;² and
- assets (for example open-ended investment companies (OEICs) are re-registered onto the platform³ or when other investments (such as investment bonds and pensions) are switched onto the platform. Note, however, that this toolkit does not cover the pension advice aspects of an occupational pension transfer.

1.5 The template is designed for use with platforms that undertake regulated activities (for example, holding client assets in a nominee account).

1.6 The toolkit should not be used:

- when no investment advice is given (e.g. execution-only or direct offer);
- when the client is not a retail client;
- when the portfolio is managed under a discretionary management mandate;
- to assess the delivery of advice or services promised in the future (for example, portfolio reviews, fund switches, rebalancing exercises);⁴
- when the only recommendation is to re-register investments (for example, OEICs) onto a client's existing platform;
- to assess the pension advice aspects of drawdown and occupational pension scheme transfers; and
- to assess the suitability of existing investment which are re-registered onto a platform.⁵

Please note that this suitability assessment template relates only to whether the advice is suitable and disclosure is clear, fair and not misleading; hence it should only form a part of an overall file review process. It should not replace in full any existing file review checks firms have in place and other issues such as needs analysis, money laundering etc should also be checked.

² The assessment tool will consider the investment and platform issues but not the pension issues (for example, whether drawdown should have been recommended or not, the level of pension income etc).

³ Except when the recommendation is to re-register existing investments onto a client's existing platform.

⁴ However, there may be a need for an ongoing review and the nature of ongoing reviews needs to be disclosed. These aspects are covered in the questions.

⁵ For example, it does not assess the suitability of a seven year old unit trust re-registered onto a platform (unless any advice on its suitability is provided at the time it is re-registered onto the platform).

Guidance on rating a case

- 1.7 The following notes include guidance on how to use this template to rate a case:
- *suitability*: cases are rated ‘suitable’, ‘unsuitable’ or ‘unclear’; and
 - *disclosure*: cases are rated ‘acceptable’, ‘unacceptable’ or ‘uncertain’.
- 1.8 These notes are not a comprehensive list of issues to consider but give an idea of situations that may lead to certain assessments.
- 1.9 Disclosure cannot replace suitable advice. So, however good the disclosure, if a platform is not in the client’s best interests, it must not be recommended. When reviewing the file, you should objectively assess all facts to decide if the adviser’s recommendation is suitable and whether the overall disclosure has been clear, fair and not misleading.
- 1.10 Unclear and uncertain ratings should be recorded when the file has inadequate information to determine whether the advice was suitable/unsuitable or the disclosure was acceptable/ unacceptable. For the disclosure assessment, if all the disclosure material is on file (or referred to concerning generic material such as generic key features documents) then you should rate the case as acceptable or unacceptable. Uncertain should only be used when some disclosure material is missing and you consequently do not have the full picture.

Answering the questions in the template

- 1.11 Certain functions are available in the Excel version that are not available in PDF:
- all yellow-shaded cells provide a drop-down menu of possible answers;
 - grey-shaded cells are completed automatically when you, the reviewer, answer questions elsewhere in the template. These grey-shaded cells flag if an unsuitable/unacceptable outcome has materialised. If this happens, the overall advice rating is likely to be unsuitable (or disclosure to be unacceptable). If you disagree with an automatic rating, review your answers to earlier questions to check their accuracy. If you disagree with a particular unsuitable outcome resulting in overall advice being rated unsuitable, you do not need to follow this, but explain why you have taken this approach.
 - Blue markers are next to each question. Once you have answered the question, the blue marker will disappear. Once you have completed the template, look at the top or bottom of the template;⁶ this will tell you whether you have answered all the questions. So, if you change an answer, check to see whether you need to review answers to other questions. The blue markers will reappear for questions where this is the case.

6 Suitability and disclosure worksheets.

- 1.12 Comments are essential to the review, especially to help in quality assurance and moderation.

Important legal note

This template does not constitute Handbook guidance: it does not define the suitability or disclosure standards for investment advice using a platform. Firms should have regard to this communication as ‘FSA supporting material’, which is intended to help firms comply with the FSA’s rules and Principles.

There may be several ways of complying with a regulatory requirement and following guidance or other material we publish, such as this, is only one approach. A firm’s senior management remain responsible for establishing and implementing effective controls over the conduct of investment advice using platforms.

For further information, please refer to the section on FSA guidance and supporting materials in our Enforcement Guide, paragraphs 2.22 to 2.27.

1 File-specific information

This worksheet simply records basic case information to be able to identify the case and reviewer.

2 Suitability assessment

Section 1: Client needs analysis

Q1.1: You should record the client's needs and objectives when seeking advice about their investments. If 'other' is selected, explain in the comments box. These objectives may have been clarified following the preparation of a financial plan, and should be agreed with the client in all cases.

Q1.2: You should record any additional needs and objectives concerning any investments to be switched or re-registered onto the platform.

Comments boxes Record thoughts on how well the adviser has assessed the client's needs and whether the needs appear to be genuine. If the suitability report cites client requests (for example, that the client 'wants to switch to gain access to a wide range of funds'), has the adviser provided an objective assessment of the suitability? If the right advice is not to switch onto a platform, this should be the advice provided to the client even if they have asked to move scheme. Also record any good practice.

Section 2: Unsuitable outcome – 'the client is recommended investments which do not match their attitude to risk (ATR), personal and financial circumstances'

Based on our rules and Principles, we have identified three key outcomes that indicates clients had received unsuitable advice. Sections 2 to 4 asks questions to test for these. There may also be other unsuitable outcomes and these can be recorded in section 5.

Above the first question is a series of boxes which may be used to record information about the client to act as an aide memoir when completing the questions below.

Q2.1: Record the client's ATR as shown in the 'know your client' document/fact find.

Q2.2: Now record the client's ATR as shown in the suitability report. If there is a difference between the client's ATR in the 'know your client' document and in the suitability report, is there an adequate reason for it and has this been adequately explained and the implications made clear to the client?

Q2.3: Are the investments recommended to the client suitable for their ATR and personal and financial circumstances, taking into account their knowledge and experience?

This decision is not limited just to the client's ATR to risk. Also look to see if the client's other investments have been taken into account – for example, if the client has a substantial exposure to property in the rest of their portfolio, it may not be suitable that they are exposed to property here. Also, are the investments suitable in the light of the client's knowledge and experience of investments. This is not to say that more complex investments cannot be recommended to inexperienced investors but they need to be suitable and explained in a way that *this* client is likely to understand.

You should also bear in mind that the client may have a different ATR for different parts of platform investments, e.g. between pension and non-pension investments.

Q2.4: This question simply prompts you to consider if the adviser should recommend holding funds on deposit (for example, for an emergency reserve or for known short-term capital expenditure) rather than investing. This could also include over-committing the client – recommending too high investment levels. Any cash in a cash account on the platform can be considered as funds on deposit where they are used for short term savings (but note that platform cash holdings can be used for other purposes; for example, paying platform or adviser charges, or as a temporary holding position pending investment).

Q2.5: Similarly, this question asks if it would have been in the client's best interests to have repaid debt rather than investing. There are situations where it is appropriate to invest rather than repay debt; for example, a mortgage which the client is comfortably servicing and wants flexibility of access to investments, or if penalties are associated with repaying a loan. However, there are also situations where it may be best to repay debt, for example, outstanding credit or store cards with high interest levels.

Q2.6: This question is a prompt for the next question.

Q2.7: Reviewers also need to think about the term of the investments; for example, a pension investment that is suitable for someone with a medium-risk profile client with 30 years until retirement will be different from one that is suitable for someone with a medium-risk profile but three years from retirement (and whether the client is likely to go into drawdown may impact the risk profile).

You should also bear in mind that there may be different terms for different parts of the platform investments, e.g. between pension and non-pension investments.

Q2.8: In the absence of ongoing reviews, a portfolio made up of funds to meet a certain asset allocation (ie a spread of individual funds, each usually investing in a single asset class or sector, to meet a certain asset allocation suitable for the client's ATR and personal circumstances) will become unbalanced over time and there is scope for the solution no longer to meet the client's risk profile and personal circumstances in the future. If riskier equity funds outperform other funds in the long term, for example, the risk rating of the portfolio will increase.

Advisers should, at the least, make it clear to clients the importance of ongoing reviews and the reason for them. The adviser does not need to offer these reviews – they could be undertaken by the client or by another adviser – but the client should understand why the policy needs to be reviewed to make sure that it continues to meet their needs.

This may not be an issue if there are mitigating circumstances, such as where the client makes use of a product's automatic rebalancing facility.

When answering this question, you need to consider, has the client been led to expect that the adviser will conduct these reviews? Have they been carried out or arranged for a future date? Have they been carried out within the agreed timeframe?

Q2.9: You should consider whether products and tax wrappers selected are in the client's best interests in the light of their tax position and other circumstances. For example, all other things being equal, would an ISA be preferred over an OEIC? Similarly, has the adviser inappropriately recommended an investment bond over an OEIC, or vice versa?

The grey box 'outcome materialised' will show suitable, unsuitable, or unclear depending on your answers to the above. As stated in the introduction, if you disagree with this automatic rating, review your answers to earlier questions to check accuracy.

Comments box If the unsuitable outcome has materialised, explain why this is the case. Is this a significant problem? Are there any mitigating circumstances? If one of the unsuitable outcomes has materialised, we would expect the overall advice to be unsuitable.

Section 3: Unsuitable outcome – ‘the client has lost benefits (including guarantees) or incurred a financial loss because their adviser recommended a new investment to replace an existing one with no good reason to incur the loss. This includes additional costs going forward.’

You should also refer to the note on value for money on page 13 below when answering this section.

- Q3.1: This question is a prompt for this whole section. If the answer is ‘no’ then the rest of the section is greyed out and does not need completing.
- Q3.2: Where the adviser has said poor performance in existing investments is an issue resulting in advice to switch, do the circumstances of the case justify this assessment? Is it likely that receiving investments can offer better performance? Is better performance enough to make up any additional charges?

Where an adviser has recommended a switch out of a policy because it invests in with-profits, we expect the adviser to provide analysis of the ceding with-profits fund beyond simply noting the existence (or lack) of market value reduction (MVR) penalties, terminal bonuses and the recent reversionary bonus history.

- Q3.3: Where the adviser has said investment flexibility is important to the client, do the existing investments have only a limited range of fund options? Generally platforms offer a very wide range of funds where the existing scheme ‘only’ offers 50 or so – in this case, how would the client benefit from access to more than 50 funds?
- Q3.4: One very important consideration is whether the adviser has checked if all existing investments have guaranteed benefits (especially for with profit policies – investment bonds or pensions).

If benefits are applied to existing investments, you must assess whether this has been adequately disclosed by the adviser and whether the advice to lose it by switching to another scheme is suitable.

This can also apply to other benefits such as maturity guarantees with structured products (assuming certain criteria are met) or even shareholder perks with directly held equities.

- Q3.5: Where there has been a penalty on encashment, including an MVR, there needs to be a good reason for the switch; this reason needs to be in line with the level of penalty. There should be evidence that the effect of penalties has been taken into account in advising the switch to proceed.

- Q3.6: Similar consideration should be given when any tax has been incurred.
- Q3.7: It is important to consider how much more expensive the platform-based solution is than the existing investments. Generally, the smaller the difference in cost, the more likely the benefits are to outweigh the costs of switching.

When costs are higher these should be suitable in the light of the client's needs and circumstances, and it is unsuitable when there are unnecessary additional costs for benefits or services that are not relevant to the client. Would it have been in the client's best interests to have switched investments in the future? For example, if the investment had an MVR-free or penalty-free date in the near future.

If several investments are being consolidated onto a platform, check the adviser has considered the merits of switching each investment. Looking only at the overall position may hide cases where it is better for the client to switch some of the investments but to retain others.

Section 4: Unsuitable outcome – ‘the client has incurred additional costs for having their assets held on a platform without good reason.’

You should also refer to the note on value for money on page 13 below when answering this section.

Q4.1: This question is a prompt for this whole section. If the answer is ‘no’ then the rest of the section is greyed out and does not need completing. It asks if there are higher costs than a simpler, lower-cost, solution (for example, where no platform is used or where no ongoing services are provided).

Q4.2: This question is similar to 3.7 but concerns new investments. When the platform and/or the services the adviser provides using the platform, is more expensive than a simpler, lower cost option, is there a good reason for this in light of the client's needs and circumstances? Is the additional cost in line with the extra benefit the client gains?

Also, where there are additional costs, if no ongoing services are provided by the adviser, the case is likely to be unsuitable unless there is a good reason for the additional costs.

Q4.3: We have explained elsewhere⁷ we recognise the platform choice can be a strategic firm decision rather than being decided on an individual client basis.⁸ However, there is the need to ensure suitability applies to each individual client. Hence, where the firm has made a strategic decision to use

⁷ Chapter 4 of DP07/2 (http://www.fsa.gov.uk/pubs/discussion/dp07_02.pdf)

⁸ Although we have seen some firms recommend platforms on a client by client basis.

one platform, we expect firms to consider whether individual clients are recommended investments that are held on, or off, the firm's adopted platform. It is unlikely that the adopted platform, and the services the firm offer using it are suitable for everyone. Similarly, where the firm has adopted two or more platforms (perhaps geared for different types of clients) then the assessment should additionally be, if on-platform is suitable, which of the firm's platforms it should be.

That said, the suitability to the individual client is pre-eminent and, in this assessment, you should also consider whether the firm's selection and adoption of particular platform(s) is suitable for this individual client. Where there are clients for whom the firm's investment proposition, and services to clients, could have been delivered at lower cost using a different platform, then this could highlight a flaw with the firm's consideration of platforms alignment to its clients and due diligence. This presents the risk of unsuitable advice to clients, or a category of clients, more broadly across the firm which would need addressing. If the firm has a diverse client base, it is unlikely that a single platform is likely to be suitable for the majority of the firm's clients.

A note on value for money for sections 3 and 4

A platform-based investment proposition can involve additional costs for clients. These additional costs can come from more expensive products (particularly in relation to existing investments), or from platform costs (where applicable) or from adviser charges for additional services (for example, for ongoing advice). In some cases it may be in the client's best interests to have a lower cost option; for example, keeping existing (lower cost) investments or having a transactional service without incurring the costs of ongoing advice. If the adviser does not offer this service then it is unacceptable for the adviser to recommend the higher cost solution just because this is the only service they provide but when this is not in the client's best interests.

When reviewing cases where there is a lower cost option, make an objective assessment about whether there are benefits to the client in doing so, and that the benefits are in line with the additional costs. For example, reviewers are unlikely to find it sufficient for the adviser simply to have noted that the receiving platform offers a choice of 500 funds, especially if one of the ceding schemes has a choice of 100 funds. The client should have a clear need for those funds and receive a real benefit from having them. You should look to see that the benefit to the client of the additional fund range out-weighs the additional charges. Some questions to ask include:

- What precisely does the platform-based investments and service offer that a less expensive alternative does not?

- And what value does the client get by paying more? Does that value at least make up for the additional charge?
- Is the performance on the platform-based investments and service likely to be able to out-perform the lower cost options by at least the amount of the additional charge? How has this been analysed?

Consider costs in the light of the circumstances of the case. For example, additional costs are harder to offset by improved investment performance when it is a more cautious portfolio as the variation in returns is less significant. Similarly, if the term is comparatively short, then there is less scope to offset extra costs as there is less time to make up losses.

If the file does not contain sufficient information to be able to tell whether the additional charges can be out-weighed, then the answers to sections 3 and 4 are likely to state there is not enough information to completely assess the answer. This may make the final rating of the advice unclear. In this case, you should ask the adviser to provide further information to show the advice is suitable. You should check this further information adequately addresses your concerns. If not, the case rating is likely to change to unsuitable.

Consolidation of investments can be more to the advantage of the adviser than to the client (by reducing the administration involved), so there should be a demonstrable advantage for the client if investments are to be consolidated to a more expensive platform-based investment proposition. Do clients have a real demand for less paperwork (via consolidation) that is enough to justify a more expensive option?

Clear disclosure of additional charges is not sufficient to overturn these requirements. Reviewers should check that more expensive options are in the client's best interests.

When making a recommendation, you should always opt for the lowest cost option that adequately meets the client's needs and objectives.

You should also consider the amount of remuneration the adviser has taken. Inducements should not impair compliance with the firm's duty to act in the best interests of the client. Consider the amount of commission, fees or adviser charge-style payments in relation to the work undertaken and whether it could have impaired compliance with this duty. Has it encouraged advice to switch existing investments, or use platform-based investments, when the client would have received better value for money in the existing investments or an off-platform solution that offered less remuneration?

Section 5: Other concerns

- Q5.1: There may be other sources of client detriment and other unsuitable client outcomes beyond those considered so far. Are there any? If so, record them here.
- Q5.2: This assessment focuses on the suitability of advice but you may find other material procedural failings that need to be highlighted, such as deficient money laundering verification. However, if you are using this template in addition to your normal file reviewing processes you may find that this is covered by your normal file review form.

Suitability assessment

Your answers to the questions in the template should indicate the result of the case. As an indicator, the grey boxes at the end of sections 2 to 4 will provide an automatic result on the basis of your answers to the questions. If you disagree with these automatic results then you should review your answers to the questions within the section. This section allows you to record your overall rating and rationale for your decision including, if applicable, why you have come to a different decision to the automatic answers.

Procedural failings are important and may give rise to learning points for the adviser but should not, on their own, lead to the conclusion that the advice is rated unsuitable. However, if the failings are of sufficient magnitude or several of them have occurred, they may lead to the case being rated unsuitable overall.

If the case is rated as suitable or unsuitable, this is the final rating (subject to any quality assurance or moderation process). Cases rated unclear have one further step. Unclear cases are those where key information has not been supplied in the file and it is impossible to reach an accurate conclusion about the case at this stage. Examples include the following:

- It may be impossible to tell if platform-based investment and services are more or less expensive than switched existing investments (e.g. because personalised key features illustration is based on funds with very different costs). You may feel the overall rating of the case hinges on this. To rate the case as suitable or unsuitable is unfair, so select unclear;
- If the client has switched to a platform-based investment that is more expensive than an existing investment for reasons such as consolidation, investment flexibility or performance, you should check that benefits to the client of the platform-based investment out-weigh any additional costs. If information is missing from the file, rate the case unclear (unless other substantial problems exist that make the advice unsuitable).

You should request the adviser for more information to allow a final rating of the case as suitable or unsuitable (subject to any quality assurance or moderation process). The adviser must supply additional information on these points, ideally dating from the time of the advice (as subsequent file notes may be misleading as to the actual considerations discussed when the advice was provided). You should objectively check this information to ensure it addresses your concerns sufficiently. If the information demonstrates the benefits of the recommended scheme adequately out-weigh its disadvantages, the final rating for the case is suitable. If information cannot be provided, the final rating for the case should be unsuitable.

4 Disclosure assessment

This is a separate assessment to the suitability assessment. A case can be unsuitable but have acceptable disclosure, and vice versa. They are independent of each other.

Section 6: Unclear communication outcome – ‘the client is unable to make an informed decision on the costs and benefits of the products and services being recommended to them’

- Q6.1 A key features document (KFD), or simplified prospectus, must be supplied when an adviser recommends a packaged product. The adviser can provide a KFD (or simplified prospectus) for each packaged product prepared by the product provider or a single document prepared by the platform operator which covers several key feature/simplified prospectus schemes.

Some platform operators provide tools that allow advisers to build personalised KFDs by selecting the funds recommended.

Depending on the packaged product, a key features illustration (KFI) may be required. Where required, the illustration may form a standalone document or the information may be included within the KFD.

Where the adviser recommends investments that are not packaged products (for example, unregulated investments and individual share holdings) then they must explain the nature and risks of the investment as well as information on costs and charges, including the total price to be paid, or the basis of the calculation if the exact price can not be indicated.

- Q6.2 The adviser must disclose the platform charges to the client. This is done by providing the relevant cost information provided by the platform operator. It is not a requirement to repeat these in the suitability report (however, see question 6.6 below).
- Q6.3 Similarly, this can also be achieved by providing the relevant explanatory information provided by the platform operator.

- Q6.4 We have specific rules about the fair and accurate disclosure of commission (or commission equivalent) when recommending a packaged product. Look out for the possibility of remuneration being taken at different ‘levels’ and whether these are correctly disclosed. For example, the adviser could take a fee from the platform cash account and commissions from underlying investments. Also, some products (particularly investment bonds and pensions) allow an ‘adviser charging’-style payment over and above the normal commission. Another example is commissions being drawn from the wrapper (e.g. a self-invested personal pension (SIPP)) and underlying investments as well (which may include discretionary management).
- Q6.5 Similarly, advisers must disclose fees payable by the client. For the purposes of this assessment tool, this includes adviser charging-style arrangements.
- Q6.6 Given the complexity of the potential layers of cost – adviser charges, platform costs (where applicable) and product costs (which sometimes have their own layers – wrapper costs, underlying fund costs, or costs of discretionary management) – it can be difficult for disclosure to be made in a way the client understands.

A firm must provide a client with information on costs and associated charges, including the total price to be paid by the client in connection with the designated investment business, including all related fees, commissions and charges. Where charges are disclosed in a separate document, such as a KFI, the adviser should clearly signpost to this document.

- Q6.7 There is no prescribed format for this and may be, for example, in a terms of business, services and costs disclosure document, client agreement, or in the suitability report. However it is important for the disclosure material to be consistent. For example, if the suitability report states that ongoing services will be provided but the terms of business states that no ongoing services will be provided, this should be rated as unacceptable.
- Q6.8 This section is self-explanatory. For example, look out for standard template comments about the platform or products that do not apply in this particular case.
- Q6.9 The suitability report should explain the potential disadvantages of a transaction. We expect advisers to explain the potential disadvantage with some platform operators who do not permit investors from re-registering some assets away from the platform.

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