Consultation Paper

10/29**

Financial Services Authority

Platforms: Delivering the RDR and other issues for platforms and nominee-related services

November 2010

FSA®
Financial Services Authority

Contents

The Financial Services Authority invites comments on this Consultation Paper.

Comments should reach us by 17 February 2011.

Comments may be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/Pages/Library/Policy/CP/2010/cp10_29_response.shtml).

Alternatively, please send comments in writing to:

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A confidential response maybe requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

Copies of this Consultation Paper are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

List of acronyms used in this Consultation Paper

AFM	Authorised Fund Manager
AMC	Annual Management Charge
CBA	Cost Benefit Analysis
CGT	Capital Gains Tax
CIS	Collective Investment Scheme
COBS	Conduct of Business sourcebook
COLL	Collective Investment Schemes sourcebook
CP	Consultation Paper
CRD	Capital Requirements Directive
DP	Discussion Paper
EEA	European Economic Area
EU	European Union
FOR	Fixed Overhead Requirement
FSMA	Financial Services and Markets Act 2000
HMRC	HM Revenue and Customs
ICAAP	Internal Capital Adequacy Assessment Process
ISA	Individual Savings Account
IT	Information Technology
LLIFs	Limited Licence Investment Firms
MiFID	Markets in Financial Instruments Directive
PAIFs	Property Authorised Investment Funds
PS	Policy Statement
RDR	Retail Distribution Review

SIPP	Self-Invested Personal Pension
SLD	Securities Law Directive
SREP	Supervisory Review and Evaluation Process
TEFs	Tax Elected Funds

1 Executive summary

Background

1.1 In March this year we published Discussion Paper 10/2 (DP10/2) Platforms: Delivering the RDR and other issues for discussion. It sought views on options for changes to how we regulate platforms to achieve the Retail Distribution Review's (RDR) objectives and we set out four key outcomes that we want to achieve.[1] We also discussed how we should tackle other platform-related issues that we have identified in relation to re-registration, capital adequacy and providing information and voting rights after the point of sale.

1.2 We received over 80 responses to DP10/2 and we would like to thank the respondents for their input.

1.3 The issues discussed in DP10/2 are complex and we recognise that arguments for and against many of the options are finely balanced. We have listened to the views put to us and carefully considered the impact of the proposals we are putting forward to achieve good outcomes for consumers. We have sought to address the industry's concerns wherever possible. However, platforms' business models can differ significantly and the industry's opinion is divided on many of the issues.

1.4 We have previously provided a description of a platform service, but not provided a definition in our Handbook. As we are proposing rules that will specifically apply to platforms, we intend to provide a definition in the Handbook.

Delivering the RDR

1.5 In DP10/2, we set out three potential options for platform remuneration and expressed a preference for the option that would stop fund managers or other product providers from making payments to platforms. We recognise that the arguments are complex and very finely balanced, but we have thought very carefully about the potential impact of our proposals.

1 Paragraph 3.8. DP10/2. http://www.fsa.gov.uk/pubs/discussion/dp10_02.pdf

1.6 Much of the complexity arises around a consideration of whether platforms are providing administration services to fund managers or whether they are providing a distribution mechanism for different funds. On balance, we have concluded that most of their activities are around the former in the sense of undertaking the client accounting (tracking names and addresses, consolidating reporting of holdings, etc), which would otherwise be undertaken by the fund manager and of consolidating orders, meaning that the fund accounting is less complex for the fund manager. It therefore seems reasonable for the fund manager as the recipient of these benefits to pay, since they would otherwise be undertaking these activities themselves. A corollary of this conclusion is that we would expect shelf space and other fees to be based on the cost of delivering administration services.

1.7 We have also considered carefully the points about potential distortion of the market, and do recognise the potential for such effects. We have been particularly concerned that if we were to ban payments by fund managers to platforms while excluding others, such as life companies from a ban on receiving such payments this could create bias in the market towards financial services firms which deal with fund manager as principal, fall outside the commission ban of the RDR and would, therefore, be able to continue to receive payments from the fund manager

1.8 In light of feedback received, we have decided not to pursue this option; instead, we propose to continue to allow such payments, subject to improved disclosure of the payments to clients and impartiality in the presentation of products on platforms.

1.9 We have included rules to clarify that product providers cannot provide a cash rebate from their product charges to consumers if it would offset or appear to offset an adviser charge. This is to prevent such rebates from undermining the objective of Adviser Charging – put forward in the RDR – by effectively replacing commission as a way for product providers to influence adviser behaviour. We felt there was a risk that some advisers may prefer to use products with large rebates to fund the payment of their charge and possibly represent their adviser charges as paid for by product providers.

1.10 We have proposed rules for advisers (both independent and restricted) to demonstrate our expectations when they use platforms. We continue to expect the use of platforms to be consistent with good consumer outcomes and our rules reflect this point. We have also provided comments on applying the best execution rules in relation to all advisers.

Other issues in relation to platforms and other nominee related services

1.11 We stated that we were minded to make re-registration compulsory and we have included a proposal to make it compulsory with effect from the end of 2012. The proposal is to impose the requirement on platforms and other firms holding customer assets through nominee arrangements. For example, this means that customers of a platform must be allowed to re-register their investments to another platform, or other nominee arrangement (e.g. a private client investment manager).

1.12 We confirm the approach we are taking regarding the capital adequacy arrangements for platforms, although there are no Handbook changes proposed.

1.13 We have proposed rules to ensure that investors who access authorised funds through nominee arrangements receive the same information as they would if they had invested directly. These proposals extend to requiring nominees to facilitate the exercising of voting rights on behalf of the end investor.

1.14 We also propose to require nominees to provide aggregated information to authorised fund managers, where the authorised fund manager (AFM) has requested it for liquidity management.

The European Union legislative framework

1.15 We mentioned in DP10/2 that our proposals, depending on their final form, may require notifications to be made to the European Commission (the Commission) under Article 4 of the Markets in Financial Instruments Directive (MiFID). We have considered the compatibility of our new rules with MiFID and do not anticipate the need for any further notifications at this stage. Readers may be interested in the notification that has already been made to the Commission and published in PS10/6.[2]

Cost benefit analysis and draft Handbook rules

1.16 This CP contains a cost benefit analysis (CBA) in Annex 1 for the proposals as required by the Financial Services and Markets Act 2000 (FSMA). The CBA contains an estimate of the costs and an analysis of the benefits. In addition, we refer the reader to the newly published Occasional Paper 40, which discusses some economic models of the platform market.

1.17 We are proposing new rules that will apply to platforms and a wider set of firms concerning advisers' use of platforms, re-registration and the provision of information and voting rights after the point of sale. The draft Handbook text is in Appendix 1.

Structure of this CP

1.18 The CP chapters provide a summary of responses to DP10/02, together with our response to the issues raised and the proposals we are consulting on:

- Chapter 2 – Defining a platform and providing advice through a platform where we put forward our definition of platform service and look at what we expect of advisers when using a platform.
- Chapter 3 – Payments to platforms and consumers, where we discuss the issue

2 PS10/6 Appendix 2 (Notification to European Commission). http://www.fsa.gov.uk/pubs/policy/ps10_06.pdf

of how platforms are paid and the Adviser Charging related issue of rebating product charges to consumers.

- Chapter 4 – Re-registration and capital adequacy. We put forward proposals to require a platform or other nominee company to re-register a client's investments to another platform or nominee company. We also explain our approach to the capital adequacy requirements for firms providing platform services.
- Chapter 5 – Investing in authorised funds through platforms and other types of nominee company, where we propose requirements on such firms to ensure that relevant fund information and voting rights are passed to the end investor.
- Chapter 6 – Summary of the cost benefit analysis.
- Annex 1 – Cost benefit analysis.
- Annex 2 – Compatibility statement.
- Annex 3 – List of non-confidential respondents to DP10/2.
- Annex 4 – List of questions in this CP.
- Annex 5 – Using platform based investments and the independence rule.
- Appendix 1 – Draft Handbook text.

Equality and diversity

1.19 We have assessed the equality issues that arise in our proposals. We believe our proposals do not give rise to discrimination and are of low relevance to the equality agenda. We would nevertheless welcome any comments respondents may have on any equality issues they believe arise from our proposals.

1.20 We are aware that platform service operators and other firms will rely on the internet to interact with consumers and others, and we would remind them that the Equality Act 2010 imposes requirements on them. For example, this Act requires firms operating websites to make reasonable adjustments to make sure that their website is accessible to disabled people.[3]

Next steps

1.21 We hope this CP will prompt further constructive engagement on how platforms should be regulated and that it prompts responses to the questions we pose from a wide range of stakeholders. The deadline for responses is 17 February 2011. We plan to issue a Policy Statement (PS) as soon as possible in 2011.

3 http://www.equalityhumanrights.com/advice-and-guidance/guidance-for-service-providers/your-responsibilities-when-delivering-services/websites-and-internet-services/

Who should read this CP?

1.22 The CP will be of particular interest to platform service providers, product providers, advisory firms and any other firms that provide services to, or receive services from, platforms. It will also be of interest to anyone who operates a nominee company on behalf of investors.

1.23 The term 'platform service provider' has not been defined in the past and firms will need to establish if they provide platforms services. Consequently, we would strongly recommend that Chapter 2 is read by all firms arranging investments for consumers directly or via advisers, providing customers with a consolidated report of their investments, and either holding those investments or arranging for another firm to do so.

1.24 Our proposals for cash rebates from product providers to customers will be of particular interest to retail investment product providers.

1.25 Our proposals for re-registration set out in Chapter 4 are also relevant to any firm that holds a customer's investment as a nominee, such as platforms and private client investment managers and tax wrapper providers.

1.26 The proposals in Chapter 5 on providing information and voting rights to unitholders will also be of interest to any firm that holds authorised funds as nominee, such as platforms, private client investment managers and tax wrapper providers.

CONSUMERS

Consumers and consumer bodies will be interested in our further proposals for Adviser Charging and the other changes in relation to re-registration, platform remuneration, and the passing on of important information and voting rights to consumers who have invested in funds through platforms and other nominee arrangements.

2 Defining a platform and providing advice through a platform

2.1 In DP07/2 we provided a description of platform services,[4] but there is no definition of a platform in our Handbook, although there is a definition of a fund supermarket service which is currently used in conjunction with our rules for the disclosure of the key features of packaged products.

2.2 In general, a platform can be thought of as a funds supermarket or wrap platform dealing with consumers directly or through their advisers. Its core function is generally described as providing access to a diversity of investments but with consolidated administration. Nevertheless, fund managers may view others such as life assurers as platforms for the distribution of their funds, for example, and the service described above can be part of the general service provided by a discretionary investment manager to its clients.

Our response: We propose to define a platform service and platform service provider in the Handbook – see Appendix 1. This does not mean that we are creating a separate rule book for platforms, nor are we asking the Government to introduce a new regulated activity. We have identified a few changes that need to be made in relation to platform services or platform service providers and some that need to be made in relation to a wider set of firms. Consequently, our rules that apply to platform service providers will still relate to the different regulated activities they carry out (i.e. arranging investments and safeguarding and administering assets).

The firms to whom the proposed platform definition is intended to apply are the firms that are commonly referred to as funds supermarkets and wrap platforms.

Their primary function is to provide administration services. Platforms provide consumers with a consolidated view of their investments,[5] a venue through which to invest in funds and other investments, and arrange custody of some or all of their investments. Platforms also provide administration services to fund managers as a by-product of effectively

4 http://www.fsa.gov.uk/pubs/discussion/dp07_02.pdf 'Platforms are online services, used by intermediaries (and sometimes consumers directly) to view and administer their investment portfolios. As well as providing facilities for investments to be bought and sold, platforms are often used to aggregate, and arrange custody for, customers' assets'.

5 A platform may provide consolidated reporting of investments held on the platform (i.e. arranged through or held by the platform) or off the platform (i.e. legacy investments or new investments arranged directly with the product provider or through a different venue).

converting multiple direct investments into a single nominee investment. We recognise that fund managers may derive similar benefits by dealing with other institutional clients such as life assurers, but our proposed definition of a platform service is not designed to capture products such as life assurance bonds. Some platforms may also provide services that help advisers administer their clients' investments and tools to help advisers deliver portfolio advice services.

We are not looking to include in our definition of platform services the administration services generally provided by private client investment managers and advisers. While wealth managers and some advisers may undertake custody of investments and consolidated reporting for their clients, this does not mean that they are providing platform services. To ensure that wealth managers and advisers are not subject to our rules where this is not appropriate, we propose to exclude from our definition those services that are solely paid for by adviser charges and those services that are ancillary to investment management.

Many of the proposals we are consulting on are still relevant to wealth managers and advisers that arrange custody of their clients' assets – for example, re-registration, and passing on information and voting rights to underlying investors. More generally, wealth managers and advisers will also be subject to our rules about the use of platform services, (i.e. where they transact units in a collective investment scheme for a client through a platform rather than direct with the fund manager). The proposed definition captures firms that only offer platform services in relation to investment trusts, exchange-traded funds and other collective investment schemes rather than other more traditional packaged products, but we believe that the requirements may not be disproportionate for such firms.

Some firms providing platform services also do a range of other things such as fund management, advice or distributing directly to retail clients (for example, providing non-advised services direct to retail clients). The firms will also be regulated for these activities as appropriate.

Our proposals

2.3 We propose to remove the defined term 'funds supermarket service'[6] from the Handbook and replace it with the new terms 'platform service' and 'platform service provider'. There will also be some new rules using the new terms..

> Q1: Do you have any comments to make with regard to our definitions of a platform service and platform service provider (contained in Appendix 1)?

Adviser Charging

2.4 We recognised in DP10/02 that the relative ease with which platforms could help to facilitate payment of adviser charges could be one reason for more retail investment business being transacted through platforms. We felt it was important that when a platform facilitated the collection of adviser charges it was done to the same standards as product providers, in line with the RDR rules set out in PS10/06. So, a platform would need to obtain and validate instructions from a customer to pay an adviser

6 The term 'funds supermarket service' is currently used in a limited number of rules within the Conduct of Business sourcebook (COBS) and Collective Investment Schemes sourcebook (COLL).

charge. Any payments taken from a customer's account for adviser charges would need to match payments then made to their adviser firm, and a customer would need to be able to stop the payment of ongoing fees to an adviser firm.

2.5 We asked:

> *Q4: Do you agree with our analysis of what will be required to facilitate Adviser Charging through platforms?*

2.6 Only a small number of respondents disagreed with our analysis in this area. Those who agreed felt that using a platform to facilitate payment of adviser charges was preferable to alternative methods, such as using multiple share classes and that cash accounts on a platform would provide a simple, clear mechanism. Respondents also agreed that platforms should not be responsible for 'policing' the level of adviser charge. Some respondents expressed concerns over using unit cancellations to pay for the adviser charge due to concerns about Capital Gains Tax (CGT) and felt that more efficient mechanisms should be used instead.

Our response: We were pleased that a significant majority of respondents agreed with our position. We noted concerns about using multiple share classes in the DP and we agree that using a platform cash account can be a relatively straightforward way of facilitating payment of adviser charges. When payment is facilitated by a platform we feel it is important that the same requirements are placed on the platform as would be placed on a product provider and we have reflected this in our draft rules. That said, we are not proposing to mandate how an adviser charge is paid: several methods for collecting charges would meet our rules and we do not have a preference for one over another. However, we would expect the adviser to take account of individual client circumstances when agreeing with the client how they will be paid. If a method such as unit cancellation is not in the client's best interests (due, for example, to CGT issues) we would expect the adviser to take this into account when agreeing the best method with their client.

It is also important to note that we do not expect advisers to be remunerated by payments or benefits from placing business with a platform in the same way that they should not receive payments or benefits from placing business with a product provider.

Our proposals

2.7 We propose to extend our rules so that platforms facilitate the collection of adviser charges to the same standards as product providers. Also, although the rules on Adviser Charging introduced by the RDR in PS10/6 would already ban payments from platforms to adviser firms in relation to personal recommendations, we propose to update guidance in the Conduct of Business sourcebook (COBS)[7] to clarify this.

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7 COBS 6.1A.8G. N.B. we propose to amend COBS 6.1A.8G(1) to make this point entirely clear. In doing so, we also plan to remove some unnecessary text that currently appears at the end of the guidance in brackets ("except if the *firm* providing the *personal recommendation* is the *retail investment product provider*"). We believe this text may be causing confusion, despite having been intended to make clear that product providers are not prevented by the rules in COBS 6.1A from offering, and therefore charging for, advice.

Q2: Do you agree with our proposal to read across our rules on product providers to platforms in relation to facilitation of payment of adviser charges?

Independence and the use of platforms by adviser firms

2.8 In the DP we discussed what using a platform meant when providing advice especially in relation to an independent firm. This followed on from previous discussion in DP07/02 and we have maintained a consistent message throughout.

2.9 We asked:

Q7: Do you agree with our analysis of the issues relating to platform use by adviser firms? If not, please explain why.

2.10 A significant majority of respondents agreed with our analysis of the issues concerning adviser firms using platforms. However, there was still a difference of opinion with regard to using a single platform by an independent firm. One respondent noted 'We believe that where an IFA uses a platform that offers vanilla tax wrappers (which we define to have no investment bias or no tax or jurisdictional marketing advantage) and has completed appropriate client segmentation and platform due diligence exercises that there should be nothing to prevent extensive use of a single platform.' However, another respondent noted 'We agree that in practice a firm with a varied set of customers is unlikely to be able to appropriately meet all their clients' needs by a model based on using a single platform.'

2.11 Some respondents also felt that our position on this issue was not clear and we note that whether an independent adviser can use only a single platform for their clients is a common topic for debate in the industry.

Our response: It is clear that there is a variety of opinion, and confusion, on whether only a single platform can be used by an independent adviser for the majority of their clients. We note platforms are developing their proposition to attract advisers on the basis that their offering is able to service as wide a range of clients as possible. We also note that some independent firms are selecting platforms and labelling them as part of the advisory firm's service. Assuming that use of a platform is in line with the client's best interests, and leads to advice that is suitable (and it is crucial to note that use of a platform will not be the right solution for every client), we accept that an independent firm may be able to use a single platform for the majority of their clients.

However, a number of concerns arise with this approach and we would expect that when an independent firm uses one platform for the majority of its clients it ensures that the platform does not hinder the firm's requirements to meet the independence rules. For example, using a platform for the majority of its clients which only featured products that paid the platform a rebate/fee is unlikely to help a firm meet its obligations to carry out a comprehensive and fair analysis, or the requirement to be unbiased. Furthermore, a platform which ranked products dependent on which product paid the platform the highest rebate/fee would not help an adviser firm (either independent or restricted) ensure it was meeting the client's best interest requirement. If an adviser firm is going to use services such as guided architecture or model portfolio tools we would expect the adviser firm to take steps to ensure that these tools are unbiased.

It is also important for an independent firm to consider the types of products available on the platform and whether extensive use of a platform hinders the firm's obligation to consider all retail investment products that may be suitable for their client. We note that some platforms are moving to offering an unbundled charging model as advisers are demanding the platform holds a wider range of products to help them meet the RDR requirements.

We also note that different wrappers give different outcomes to the consumer due to their features and charges, with the cost of underlying funds varying across different platforms and wrappers. If an independent adviser is going to make extensive use of a particular platform it will need to ensure that use of that platform ahead of other available solutions in the market, remains in line with the client's best interest rule. For example use of that platform does not give their client a worse outcome than other platforms and/or wrappers in the market.

This does not mean we expect a platform that is used extensively by an independent firm to hold every retail investment product in the market. A platform may not be able to, or wish to, hold some investments and it is important that an adviser continues to consider off-platform investments where appropriate.

An adviser can still use more than one platform and indeed a platform may decide to specialise in and offer a limited range of products. The adviser may choose to use that platform for those products but go off-platform, or select another platform when another solution is more appropriate for their client. Our concerns arise when an adviser makes use of only one platform for a majority of its clients and this could, or would, have a negative impact on the outcomes for clients. It is our view that an independent adviser that wishes to use a single platform for the majority of its clients should be required to select a platform that in turn bases its selection of retail investment products on a comprehensive, fair and unbiased analysis of the relevant market. We would be interested in views as to whether this approach is proportionate.

It is also important when a platform is dealing directly with a retail client that it ensures it presents its products in a way that is clear, fair and not misleading and not based on which products pay the highest rebate or fee.

Our proposals

2.12 We are proposing specific rules for adviser firms using a platform generally and for firms that give independent advice and wish to use one platform for a majority of their clients. This is to reflect our concerns and set out our expectations in this area.

2.13 Annex 5 contains some further guidance on this topic, which we are also consulting on.

Q3: Do you agree with the rules and guidance we have proposed in relation to the standards we expect from an adviser when using a platform and providing advice?

Q4: Do you have any comments on the proposed guidance, on the use of platforms and the independence rule, in Annex 5?

Best execution

2.14 In the DP we made clear that the best execution requirements apply to both independent and restricted advisers, in relation to the transaction of units or shares in collective investment schemes.

2.15 A trade body welcomed our clarity concerning the use of platforms by independent advisers, but expressed concern that the best execution requirements stop an independent or restricted adviser from using a single platform. As we will explain, this does not mean that an adviser cannot arrange collective investment schemes though a single platform for a particular client, a segment of their clients or a significant majority of their clients.

2.16 An adviser might decide to restrict themselves to the funds available through a specific platform, but the same funds may be available through other platforms, possibly on better terms.

2.17 The best execution requirement requires an adviser to have in place a process to identify and use an appropriate firm(s) to send their clients' orders to. An adviser has to try and achieve the lowest total consideration (price plus costs related to executing an order) for their retail clients' orders. It is important to emphasise that advisers must act in their clients' best interests when making this choice.

2.18 It is also important to understand that the best execution obligation on firms is to have policies and arrangements which maximise the probability of achieving the best possible result for client orders rather than to obtain the best possible result for each and every order.[8] The effectiveness of the policy must be monitored regularly and reviewed at least annually. For example, an adviser should monitor the performance of the platforms or other firms that orders are transmitted to. This can be part of the ongoing reviews firms carry out on platforms or other services key to delivering their advisory services.

8 Best execution applies to other investments such as investment trusts and exchange traded funds as well. For further information refer to chapter 1.2 of the Conduct of Business sourcebook – http://fsahandbook.info/FSA/html/handbook/COBS/11/2

3 Payments to platforms and consumers

3.1 This chapter outlines respondents' views on our analysis of the issues related to platform remuneration in DP10/2, and whether changes should also apply to non-advised business. It summarises responses to our proposal to stop product providers from continuing to include commission in their product charges which they automatically rebate to clients. We then provide our response to each issue together with our consultation proposals.

Analysis of the issues related to platform remuneration

3.2 In DP10/2 we analysed the issues we believe exist with platform remuneration and we asked:

> *Q1: Do you agree with our analysis of the issues related to platform remuneration?*

3.3 Most of the respondents agreed with our analysis of the issues, in particular concerning conflicts of interest and our belief that it is difficult for customers to understand who they are paying and what they are receiving in return. Nevertheless, several respondents said we need to be clear about the scope of any proposals we decided to pursue and who they applied to. According to some respondents, the conflicts of interest identified apply to products or other services that are not generally referred to as platforms (see Chapter 2 above). This was then either cited as a reason to widen the scope of proposal or as an argument against it on the basis that applying restrictions to part of the market would distort the overall market.

3.4 We were also told that there was a risk that changes could stifle innovation and cause customers to pay more. A few respondents also stated there was no evidence to back further regulation of platforms.

Our response: We are pleased that the vast majority of respondents agreed with our analysis of the issues and share our belief that:

- customers and their advisers should know how much customers are being charged for platform services; and
- conflicts of interest need to be managed effectively to ensure that platforms act in the best interests of consumers.

We comment below on the scope of our proposals for platform remuneration.

Platform remuneration

3.5 In DP10/2 we discussed the issues we have identified with the remuneration of platforms. Many are remunerated by payments from fund managers and this can give consumers the impression that their services are free. This is because fund prices are no more than the cost of going direct to the fund manager and the level of fees paid to and retained by platforms is not widely disclosed or available. This can make it difficult for a customer and their adviser to identify what the customer is effectively paying for platform services and compare different platforms. In contrast, some platforms charge explicit fees and this should make it easier for customers and advisers to understand what they are paying. In practice, we have found that these charges can be complex and poorly explained. Thus customers and their advisers may struggle to understand the effect of the charges.[9]

3.6 We also identified several conflicts of interest created by platforms receiving payments from fund managers. For example, there is no incentive for them to hold funds or other investments which do not, or cannot, pay them a fee and this could make it difficult for some investments to gain access to the retail investment market. Fees might undermine the objectivity of any model portfolios, guided architecture or other similar services provided by a platform to help advisers to identify the most appropriate choices for their customers. A fuller discussion of these issues can be found in Chapter 3 of DP10/2.

3.7 We set out the following options for platform remuneration:

- no changes;
- better transparency possibly with steps taken to remove unacceptable practices; and
- a ban on payments from fund managers or other platform providers so product charges and platform charges are separated.

9 Platform operator disclosure documents – a review of the disclosure material produced by platforms with examples of good and poor practice. http://www.fsa.gov.uk/pubs/other/gapp_report.pdf

3.8 We expressed a preference for third option and asked the following question:

> *Q2: Do you agree with our preference to stop payments from product providers to platforms? If not, please explain why and how any alternative proposals would be consistent with the objectives of the RDR.*

3.9 Just over half of all those who responded to the question favoured the third option. Among fund managers and product providers it was two-thirds.

3.10 The reasons given for favouring this choice were generally in line with those we gave in DP10/2; one respondent voiced the opinion that they could not see how any other model can be consistent with the RDR. Another stated that advisers should be paying for platform services as they were the beneficiary.

3.11 A few respondents pointed out that this approach, in conjunction with Adviser Charging, would provide customers with a clear picture of what they are being charged for advice, investment and the administration of their investments. But some queried why this requirement would only apply to platforms as other firms such as life assurers and self-invested personal pension (SIPP) operators receive payments from fund managers.

3.12 Those against the third option favoured the second. There was no support expressed by respondents for the first option, although a few market participants have told us outside of this process that it is the total cost figure that matters and that there is no need to disclose what part of a product's charges are passed onto a platform.

3.13 The main objections to the third option were that:

- platforms are providing an administration service and it is reasonable for them to charge fund managers a fee for this;
- consumers will pay more as unbundled charging platforms tend to be more expensive;
- transparency can be improved without separating product and platform charges; and
- action against platforms in isolation would distort the market.

Our response: We recognise that the arguments are complex and finely balanced but we have thought carefully about the potential impact of our proposals. Much of the complexity arises around a consideration of what services a platform provides. They have client relationships with fund managers (and other product providers), financial advisers and consumers (i.e. the underlying investors), all of whom may benefit from the services provided.

We have decided not to propose changes that would require product charges and platform charges to be separated (i.e. bring an end to bundled charging). Instead of this, we propose still to allow fund managers and other product providers to make payments to platforms for the administration services they receive, subject to improved disclosure of the payments to consumers and impartiality in the presentation of products.

A number of fund supermarkets have told us they are charging for administration services and our post-RDR rules allow a product provider to make a payment for administration services.

We accept that fund managers and other product providers can benefit from reduced administration costs by dealing with a platform rather than thousands of individual investors (although one respondent questioned whether some fund managers were actually benefiting due to the level of charges, especially shelf-space fees)[10]. Therefore, it seems reasonable for a platform to charge a fund manager as the recipient of administration services and for the platform to structure its charges to take into account the costs (fixed or variable) they may incur to hold a fund or other investment. As a consequence of this, we would expect shelf-space fees and other fees to be based on the cost of delivering administration services rather than the ability to pay.

We understand that some funds can be bought more cheaply through funds supermarkets than wrap platforms. We recognise that this could change in the future, but this has further added to our view that payments by fund managers to platforms should be permitted. Otherwise, there is a risk that some consumers may end up paying more if we stopped bundled charging.

In DP10/2, we highlighted a need to improve the transparency of platform charges so consumers (and their advisers) know what they are paying for platform services, and this can be achieved with bundled or unbundled charging. We are consulting on rules to make platform service providers improve the disclosure of the fees and commissions they receive from fund managers or other product providers and, following this decision, we will continue our work to improve the standard of all information provided by platforms to consumers.

We noted that a wide cross-section of respondents agreed with us that payments could create bias and that it is important to manage conflicts of interest appropriately. We think that this potential bias could be removed by not allowing payments between product providers and platforms but firms are already obliged to manage this and other conflicts of interest. Platforms should ensure that the presentation of different investments, any investment planning tools or other similar services such as guided architecture are objective. Platforms will often provide details of how funds or other investments are selected generally or in response to specific enquires, and clearly this information should be accurate.

As a reflection of the importance of information being presented impartially by platforms, we are consulting on a rule that would ban firms that give advice (independent or restricted) from using any platform that presents retail investment products in a biased manner – for example, by ranking funds according to the size of any fee or commission that the fund manager pays to the platform service provider.

We accept that any platform with just a bundled charging structure is unlikely to hold many investments that do not pay them a fee. This puts those investments which cannot (or choose not to) pay platforms a fee at a potential disadvantage. However, this is not the only way to pay a platform for their services and we are aware that some platforms with bundled charges are planning to widen investment choice with an unbundled charges offering.

10 Some platforms charge fund managers a minimum fee often referred to as a shelf-space fee or pay to play fee.

The effect of the proposed changes is to ensure that consumers know what they are paying for platform services and the visibility of these payments may to some extent have a moderating effect on the level of fees.

Several respondents stated that stopping bundled charging for platforms only would distort the market and we would carefully consider the scope of such a ban should we propose this in the future. There are important differences between providing platform services and manufacturing products that have linkages to funds, but we would consider including rebating charges between fund managers and life assurers, for example.

We expect the platform market to continue to grow and will monitor developments to check that they are in line with our objectives for the retail investment market and if necessary we will take further action to ensure that consumers are achieving good outcomes.

Our proposals

3.14 We propose that platforms can still charge fund managers or other platform providers a fee for providing administration services, but recognise that there are risks with this approach that need to be mitigated.

3.15 We propose to increase transparency by making rules to require platforms to tell customers how much they will receive in fees or commission, and to ban firms that give advice from using a platform service that presents retail investment products in a biased manner.

> Q5: Do you agree with our proposals for platform remuneration? If not, please explain why setting out the effects of our proposal and what should be done instead, and why.

Non-advised business

3.16 We also asked the following question in relation to platform remuneration:

> *Q3: Should any changes to platform remuneration also apply to non-advised business? Please explain your answer.*

3.17 Most respondents stated that any changes to platform remuneration should equally apply to advised and non-advised business. And a few respondents pointed out that platforms do not give advice and simply execute orders given directly by clients or via their advisers.

Our response: The main reason for asking this question was to discover if stakeholders thought that any move to stop payments from product providers to platforms should apply to non-advised business, (i.e. investment business where a customer has not received advice from a financial adviser). Most people thought that they should, but we no longer have a preference to ban these payments in relation to business subject to a personal recommendation.

Notwithstanding this, we do believe it is desirable for there to be common standards for advised and non-advised business wherever possible. We will be seeking to achieve the same standards for many of our proposals such as disclosure, re-registration and fund information. The Adviser Charging rules do not apply to non-advised business, so our proposals to prevent product charges being automatically rebated in cash to consumers will not apply to consumers who have not received advice in relation to the transaction.

Rebates from product providers to customers

3.18 The RDR aims to address the potential for adviser remuneration to distort consumer outcomes and also aims to improve clarity for consumers. We felt that allowing product providers to continue to include commission in their product charges on an investment product – and automatically rebating it to the consumer in cash – had the potential to maintain bias in the market and confuse consumers. In general, we felt product providers should reduce their product charges, in time for the RDR coming into force, rather than leaving their charges at current levels and then rebating part of them in cash. As well as being clearer to consumers, this would also avoid any adverse tax consequences for customers who receive a cash rebate from their investment.

3.19 The potential for consumer confusion if rebating of charges continues may be especially true in the platform market, as not all consumers monitor what is happening when a cash rebate is paid into a client cash account, from which the adviser charge will be taken. We felt there was potential for confusion around the distinction between product charges and adviser charges and we did not want the consumer to feel that advice was free or funded by products that paid a rebate. Allowing such payments to continue could also lead to the potential for product bias to continue to exist, with those products paying a higher rebate recommended ahead of those products paying a smaller, or no, rebate to help fund the adviser fee.

3.20 So we proposed in DP10/2 that rebating from product providers to customers should no longer be permitted when advice is being provided. This would be the case across all products, not just those products sold through a platform.

3.21 We asked in DP10/02:

Q5: Do you have any comments on the application to platforms of our intention to end product charge rebating?

3.22 We received several strong views on this subject, both for and against, with the responses evenly split. Platform providers mainly disagreed with the proposal, and especially with our view that a rebate to a consumer might obscure the adviser charge, with some respondents feeling this can benefit the client. Some respondents also felt this proposal would lead to a greater number of share classes, as funds were not able to give different deals to platforms within the same share class. A number of respondents thought that good disclosure would address our concerns in this area.

3.23 Trade bodies, fund managers, life companies and banks were generally split on this issue. One fund manager agreed, stating 'We agree with the FSA that the practice of levying higher charges and rebating a portion to the consumer should be ended, as this is a big factor in leading to product bias', with another stating 'rebates [are] needed to generate liquidity and enable customer charges to be funded'. Advisers were generally supportive of the proposal, with one stating 'If the RDR is applied consistently, there should be no need for them.'

Our response: We recognise that this proposal has resulted in significant differences of opinion across the industry. It is important to bear in mind the RDR's objectives when considering this issue. We note a number of respondents feel that rebating to clients is needed to help pay the adviser charge. However, the RDR will no longer allow product providers to determine the amount of adviser charge payable. Instead, this is a matter to be agreed between the adviser and their client, with a product provider acting, if they so wish, as a facilitator for paying the charge after the agreement is reached. When units in a fund are sold through a platform, the fund manager will not usually know who the adviser or customer is, nor will they know what the adviser charge is. As several respondents recognise, a rebate could fund the adviser charge, in much the same way that commission is currently paid to advisers. Clearly, if the fund manager does not know what the adviser charge is they are unable to facilitate it. Like commission payments today, rebates would be set by the product provider and have the potential to create bias in the same way. We do not want to see a situation develop where advisers set their charge dependent on what rebate is available to be paid into the client's cash account, from which the adviser will then take their charge, as we feel this would undermine the objectives of the RDR. Accordingly, we propose for this reason to ban cash rebates to consumers.

It is important to note that our proposal to ban the rebating of product charges in cash from product providers to retail clients would apply to advice in relation to all retail investment products, not just products sold through a platform.

We recognise that platforms can act as a strong market force and have the potential to act on behalf of a number of retail clients to negotiate better deals than a single retail client can achieve by approaching a fund manager directly. While cash rebating of product charges would be one way of passing this benefit onto the client, we feel there are other mechanisms that can achieve the same result.

An alternative way would be to continue to allow reinvestment into the product or to create a share class with a lower Annual Management Charge (AMC) for a specific platform. So if Platform X manages to negotiates a saving of, say, 20 bps for their client from Fund Manager Z, the Fund Manager can either create a new share class specifically for Platform X with an AMC 20bps lower than the norm, or instead reinvest the saving into the product. We note the concerns expressed around multiple share classes – although information we have received suggests the costs are less than we originally envisaged – but we feel either mechanism will enable a discount from the standard AMC to be passed on to the retail client. We do not, therefore, see a sufficiently strong case for allowing cash rebating to continue.

We would be surprised, given the impact on a fund manager's performance figures, if fund AMCs were maintained at the current levels. We would also be disappointed, given the confusion for consumers this would cause. We expect that AMCs would be reduced to reflect the fact that the client will now be paying the adviser separately, and any discounts negotiated would be starting from the reduced AMCs.

Our proposals

3.24 We propose to stop product providers from effectively continuing to offer commission in the form of a cash rebate, which can be used to pay the adviser. Our new rules would stop product providers from paying cash rebates. This measure is designed to ensure that the aims of Adviser Charging are not undermined, so it will only apply to business that is advised.

3.25 As the proposal only prevents cash payments, it would not stop a fund manager from rebating part of their fund charges to customers in the form of additional units.

> Q6: Do you agree with our proposal to ban the rebating of product charges in cash to retail clients across all retail investment products when advice is being provided?

Inducements provided by platforms to adviser firms

3.26 In DP10/02 we set out our position in relation to monetary and non-monetary benefits and stated that we did not want to see platforms providing benefits which resulted in unnecessary switching of assets onto or between platforms. We also said that we did not want platforms to become a channel for commission or commission-like payments from product provides, especially as many of them are owned or part owned by product providers.

3.27 We asked the following question in DP10/2:

> *Q6: Do you agree with our analysis of the issues relating to inducements and our approach to inducements provided by platforms? If not, please explain why not.*

3.28 Around four-fifths of those who answered agreed with our analysis. Most agreed it is inappropriate for platforms to provide monetary benefits to adviser firms but also expressed support for platforms continuing to supply non-monetary benefits such as investment planning tools or training. There were, however, some reservations expressed about the objectivity of investment planning tools provided by platforms and the extent to which they may be influenced by the level of income that platforms receive from fund managers. One suggestion was that adviser firms pay for the tools.

3.29 One issue that divided opinion related to adviser firms having a financial interest in a platform. Several respondents stated that adviser firms should not own shares in the platform they use because of the conflict of interest created and one firm said an adviser should never have a financial interest in a supplier. In contrast, others stated that the conflict was manageable and was no different to the one which exists when product providers own adviser firms.

Our response: The Adviser Charging rules will prevent an adviser from receiving any remuneration other than an adviser charge in relation to a personal recommendation for a retail investment product. This will equally apply to payments from a retail investment product provider or platform.

As we have already discussed we are now consulting on rules that will require a platform to disclose the amount they are paid for providing their service.

Both the adviser and platform will need to bear in mind the inducements rules set out in COBS 2.3, when non-monetary benefits, such as training or investment planning tools, are provided. It continues to be important that any such benefit does not impair compliance with the client's best interests and remains important that an adviser carefully considers the objectivity of any tools provided as they are responsible for the advice provided to the client. When a platform is dealing directly with a client we expect products to be presented in a way that is fair clear and not misleading. We covered this point in more detail in Chapter 2 when looking at how adviser firms use platforms.

In line with the position set out under the RDR, we recognise that there are a number of valid concerns with regard to ownership issues of advisers. We expect firms to take steps to manage this conflict and this will be an area we will continue to monitor closely as part of the supervisory work undertaken in the run up to and post implementation of the RDR.

4 Re-registration and capital adequacy

4.1 Chapter 4 of DP10/02 considered various measures to address other issues arising out of the wider adoption of platforms in the retail investment market.

Re-registration

4.2 We highlighted that some platforms do not allow customers to re-register investors' holdings off their platform. If investors wish to leave certain platforms, assets have to be encashed, causing inconvenience, delay and potential tax consequences. In an industry where we believe advisers will increasingly be offering ongoing portfolio advice services, we considered it appropriate that all providers of platform services enable customers to transfer their holdings in specie from one platform to another where legally possible.

4.3 We stated in DP10/2 that we saw no insurmountable barrier for firms to facilitate re-registration, other than the cost of carrying out this process manually, as all are required to do under current industry processes.

4.4 As a result of these considerations, we stated that we intended to make it compulsory for platforms to allow assets to be re-registered off their platform no later than the implementation of the RDR rules on 31 December 2012. We also flagged that we will expect re-registration to be available whether or not a more automated solution is in place.

4.5 We asked respondents:

> *Q8: Do you agree with our approach to the issue of re-registration?*

4.6 Support for our proposals was almost universal. Many respondents noted that this issue in particular merits regulatory action, with only a couple of respondents suggesting this issue should not be a regulatory matter. Other respondents suggested that re-registration in specie should always have been mandatory and that the requirement should be implemented earlier than 31 December 2012.

4.7 Several respondents suggested that the absence of re-registration away from certain platforms had limited competition in the market and reduced the overall quality of platform services.

4.8 Some respondents pointed out that there was always likely to be a cost to platform service providers and other types of administrator in moving clients from one to the other and that clients should reasonably be expected to pay for any transfer. Numerous respondents suggested that any such charges should be disclosed to customers at the time they agree for assets to be moved onto the platform.

4.9 Several respondents pointed out that our conclusions on other issues in DP10/2 might make re-registration impractical and in some cases impossible, owing to, for example, the existence of discrete share classes for the largest platforms. Others pointed out that we should consider applying equivalent requirements to all nominee arrangements and other wrappers, including those from which assets cannot currently be readily moved, if at all.

4.10 Several respondents underlined the inability of participants to develop an end-to-end re-registration solution. HM Revenue and Customs (HMRC) requirements[11] mean customers must confirm in writing that they wish to transfer management of a tax wrapper itself between ISA managers, including any platform operator acting as such. By contrast, relatively recent legal changes have made it possible to carry out the completely paperless transfer of units/shares in collective investment schemes by abolishing the requirement for wet signatures.

4.11 Many respondents noted there are practical difficulties in carrying out certain types of re-registration, particularly bulk transfers, which may well be related to HMRC's consumer consent requirements.

Our response: In line with our proposals in DP10/2, we intend to introduce a rule to make it compulsory for platforms to allow assets to be re-registered off their platform no later than the implementation of the RDR on 31 December 2012.

To ensure the widest possible participation in improving industry transfers and customer outcomes, we will apply our rules to the whole range of firms that hold assets on behalf of clients via nominee companies.

We will introduce the notion of timely transfer by requiring that any transfers are carried out in a reasonable time. Obviously the principle of timely transfer should apply equally to those operating as registrars for the assets being transferred, as they facilitate re-registration between nominee company managers.

We will work with industry to clarify what is meant by 'reasonable' for the timeliness of each type of transfer, bearing in the mind the different regulatory and tax requirements applying to different wrappers and assets. In this regard, we continue to applaud warmly the progress made by the industry working group on re-registration established by the Tax Incentivised Savings Association (TISA), the Nominee Re-registration Project, now supported by numerous firms and other trade bodies, including the Investment Management Association (IMA) and the Association of Private Client Investment Managers and Stockbrokers (APCIMS). This working group, building on the technical work of

11 For ISAs, see http://www.hmrc.gov.uk/isa/isa-guidance-notes-2008.pdf

other industry groups such as the Securities Market Practice Group has, amongst other things, developed standard messaging to effect transfers of wrappers and underlying portfolio assets. In addition, to facilitate the faster processing of transfers, it will adopt mechanisms such as indemnities between ISA managers to mitigate the need for wet signature exchange.

Our major focus in mandating re-registration in specie is to ensure that firms allow re-registration in specie from one nominee account to another, such as from platform to platform. We are keen that greater progress is made towards greater automation in processing transactions in the funds market in general, but would remind firms that many restrictions on asset movement are part of our general common and statutory law framework of property law. In particular, we believe that the rights of individual customers to have a say in whether they own assets directly rather than as beneficial customers under a platform or other nominee arrangement should be protected. Nor do we support the notion (except in exceptional circumstances such as the transfer of business following liquidation of a nominee company operator) that bulk transfer is likely always to be in the best interests of all customers.

In addition, we will be reminding adviser firms, ahead of RDR implementation, that they should continue to have regard to platforms' ability or inability to offer re-registration off into account when selecting a platform.

We will continue to have regard to the quality of platform disclosures. We will therefore be keen to see clear disclosure of any charges likely to be applied for possible future re-registration of holdings as part of the initial disclosure process, as part of our plans to ensure that platforms provide customers (and their advisers) with a balanced description of the advantages and disadvantages of using their services. The requirement to provide disclosure of any such terms applies equally to other firms applying a charge for re-registration, such as stockbrokers, who we are aware often provide details of such charges as part of their terms of business. Firms should take the earliest possible opportunity to update their customers on any changes to terms and conditions likely to arise from implementing the RDR, including where existing customers may now be offered re-registration and a charge will be applied to provide the service.

Our proposals

4.12 We are proposing rules that will compel all nominee companies, including platforms, to offer to re-register a customer's investments to another nominee company within a reasonable amount of time.

Q7: Do you agree with our proposal to extend the scope of ensuring all firms acting as nominee companies offer re-registration in specie?

Q8: Do you agree with our proposal that re-registration should be carried out in a reasonable time and do you have any feedback as to what might be reasonable for particular wrappers and assets?

Capital adequacy for Limited Licence Investment Firms operating as platforms

4.13 As we highlighted in DP10/2, the vast majority of platforms regulated as discrete legal and regulated entities are subject to our implementation of the Capital Requirements Directive (CRD) as Limited Licence Investment Firms (LLIFs). We clarified in DP10/2 that we look for firms to demonstrate through their Internal Capital Adequacy Assessment (ICAAP) that they have sufficient capital resources to wind down their regulated activities in an orderly manner and suggested[12] some areas that we would expect firms to consider as part of this assessment.

4.14 Winding down an administrative platform, or effecting wide scale re-registration in specie is, as we have observed across the market, costly and time consuming. At its current level, we do not believe it is likely that the Fixed Overhead Requirement (FOR) under Pillar 1 is sufficient to enable platform firms to effect in specie transfer of assets. Obviously, the underlying volume and complexity of the assets as well as how the assets are held is relevant.

4.15 We asked respondents:

Q9: Do you agree with our assessment of capital adequacy?

4.16 Again, there was widespread support for our analysis from firms that felt qualified to respond, particularly on the inadequacy of the FOR under Pillar 1. Respondents highlighted that our approach, on the one hand, mitigates the apparent difficulties of effecting re-registration and on the other, should enable a competitive market to grow through allowing new market entrants.

4.17 Several respondents pointed out there was a possibility that platforms might seek to evade our strict application of a higher capital requirement under Pillar 2 for these firms by locating in other European Economic Area (EEA) jurisdictions and passporting in under MiFID. Though other jurisdictions have, as required, implemented CRD, several have not introduced a supervisory regime equivalent to our Supervisory Review and Evaluation Process[13] (SREP) for the analysis of capital adequacy under the various parts of CRD.

4.18 A number of firms considered the threshold of £10bn for the purposes of applying reverse stress testing analysis to be too restrictive and that we should apply the requirements across the whole population of LLIFs operating as platforms, as well as other market participants including SIPP operators.

Our response: We will continue to apply this approach in our supervision of platform firms operating as LLIFs. We are not in a position to comment on either the regulatory processes applied under CRD by other EEA member states or, in this paper, the prudential regime applicable to SIPP operators.

12 See paragraphs 4.17-4.19 of DP10/2

13 The SREP is the mechanism by which supervisors assess the overall prudential risks of a firm/group, covering inherent business risk, control factors and oversight/internal governance. It includes a qualitative and quantitative assessment of the ICAAP.

Over the past couple of years, we have carried out a number of assessments of platform operator ICAAPs in line with the approach outlined in DP10/2. We have also sought additional confirmation from firms through our CBA survey that they do not anticipate the need to build additional capital resources in order to be able to wind down their regulated activities in an orderly manner. However, we intend to carry out supervisory reviews of all platform operator ICAAPS to ensure they consistently apply our guidelines. This will assist in assuring us, and platform users, that these firms have adequate resources under the CRD, given their role in assisting firms to implement the RDR Adviser Charging requirements. We will conduct this work over the next few months, and hope to complete our assessments ahead of publishing the Policy Statement.

On reverse stress-testing, as we explained in DP10/2, PS09/20 formally introduced a requirement for qualifying firms explicitly to identify and assess the scenarios most likely to cause their current business to become unviable. In this context, firms required to carry out this analysis are the larger, more complex firms that fall within the scope of the requirement as proposed in PS09/20, on the basis of assets under management/ administration, fee and commission income from regulated activities and assets or liabilities, and subject to the adoption of the amendments proposed in our Consultation Paper published in October 2010.[14]

14 The scope rules as set out in SYSC 20.1.1R(1) to (4) (PS09/20,http://www.fsa.gov.uk/pubs/policy/ps09_20.pdf), will be effective from 14 December 2010, with the amended scope rules contained in Appendix 1 of CP10/22 (http://www.fsa.gov.uk/pages/Library/Policy/CP/2010/10_22.shtml) expected to come into force on 28 March 2011, subject to the adoption of the proposed amendments

5 Investing in authorised funds through nominees

5.1 This chapter sets out the feedback we received in response to DP10/2 and explains our proposals for new rules in this area. In particular, it discusses our proposals for requiring nominees to:

- disseminate fund information from authorised fund managers (AFMs) to the end investor in a timely manner;
- pass on voting rights to the end investor, or to facilitate the exercising of voting rights; and
- provide aggregate investor base information in response to requests from AFMs to enable managers to manage the liquidity of their collective investment schemes (CIS).

Providing information to underlying investors

5.2 Where investors use platforms to invest in CIS, the platform operator aggregates the holdings and holds them in a nominee account. This means that the entry on the CIS manager's unit register is that of the nominee company and not the underlying investor; and the AFM does not know the identity or size of the holding of each of the underlying investors.

5.3 The Collective Investment Schemes sourcebook (COLL) rules require an AFM to provide certain information about the CIS to its clients. The rules use the term 'unitholder', so for the AFM to discharge its obligation under our COLL rules, it must send the communication to the named unitholder, which would be the platform operator or other nominee company. However there is currently no requirement for the nominee company to pass the information to the underlying investors.

5.4 AFMs are required to provide certain information to unitholders such as reports and accounts, which must be produced at the end of each interim and annual accounting period, and ad hoc notifications about changes to the scheme.

5.5 COLL requires AFMs to send short form reports for both interim and annual accounting periods to all unitholders. In addition, AFMs must produce long form reports and accounts, which must be made available on request.

5.6 In respect of notifying investors about changes to a scheme, COLL requires the AFM to classify the change as notifiable, significant or fundamental. A notifiable change can be notified to investors either before or after the relevant change, with no specific timeframe, whereas notifications in respect of significant changes must be sent to investors at least 60 days in advance of the effective date of the change. Fundamental changes must be subject to a unitholder vote at either an annual or extraordinary general meeting. Changes to schemes can be material: a CIS could change its investment policy completely, or change its dealing frequency.

5.7 We have been aware for some time that platform operators and other nominee companies do not necessarily forward this important information from the AFM to the end investor, or do not do it in a timely manner.

5.8 A study of platform operators' terms and conditions showed that often platform operators offer investors the opportunity to request copies of fund notices (and voting rights, see the next section) but the importance of this information, and the fact that it will not always be provided as a matter of course, is sometimes not clearly disclosed. Some platforms impose a charge for this service.

5.9 We carried out an information gathering exercise where we asked a number of platform operators about their policies for onward transmission of this information. The responses were varied, but supported the findings of the analysis we had already undertaken. Most platform operators make the reports and accounts available on their website so investors could access them (but do not necessarily inform investors when these are available). Some made fund notices available on their websites, but this requires the investor to visit the website to access the information. It is not clear whether platform operators send emails or secure messages to affected investors to highlight the changes.

5.10 We consider that investors who access authorised funds through a platform operator, or other type of nominee company, should receive the same information and in the same timely fashion as if they were holding the funds directly.

Provision of voting rights to underlying investors

5.11 Where the AFM proposes to make a fundamental change to a scheme, it must send notice of this to all unitholders and invite the unitholders to vote on the proposals. Where the investment is held via a nominee company, there is no obligation on the nominee company to pass these voting rights on to the end investor or to facilitate the exercise of these voting rights.

5.12 Our information gathering exercise again identified inconsistency across platform operators in their treatment of voting rights. Some offered this facility in their terms and conditions, but again there was not always clear disclosure. Where this service was offered, it was at additional cost. Some platforms stated they would vote on behalf of the unitholders.

5.13 The European Commission has proposed the Securities Law Directive (SLD), which aims to regulate the legal framework governing, amongst other things, the processing of rights flowing from securities held in securities accounts. This may require the account provider, or the nominee company, to ensure that account holders - the underlying investors - receive and can exercise voting rights with or without the facilitation of the account provider or have the rights received and exercised by the account provider under the account holder's instruction. The SLD is not likely to be implemented before 2012.

5.14 As with the provision of information, we think that investors who access funds through a platform should have the opportunity to vote on fundamental changes within the scheme in which they invest. Furthermore, the future implementation of the SLD is likely to require us to make rules requiring all nominee companies to either pass on or facilitate the exercising of voting rights.

5.15 We asked:

> *Q10: What is your view of the services currently offered by platform operators to provide investors with information about their investments? Do investors receive enough information and do they receive it in good time?*

5.16 Most respondents agreed that providing information to investors varied between platform providers; and some respondents agreed that, on the whole, end investors are not receiving adequate or timely information about their investments. A small number of respondents highlighted that if platform providers were required to disseminate information there would be a cost to this service; however many respondents asserted that if such information could be provided electronically this would help keep costs down. Several respondents were concerned about potential consumer detriment where investors are not provided with appropriate information about their investments. Contrary to this, a small number of respondents shared the view that end investors were not sophisticated enough to understand the information that would be provided.

Our response: We are pleased that respondents broadly agreed that consumers who invest through platforms and other types of nominee providers should be provided with the same information as they would if they invested directly. We are somewhat disappointed by the responses that suggest that investors would not understand the information and therefore there is no need for it to be provided. We believe that providing information and voting rights help to secure our statutory objectives relating to consumer protection and market confidence, and we note the level of inconsistency across the market in respect of providing fund-related information. We therefore propose to introduce a requirement for information to be provided to end investors on a timely basis, including by electronic means. By allowing information provision by electronic means we expect that this will take the form of an individual notification sent either directly by email to an investor, or to an investor's secure message area within a firm's website, with the relevant documents attached. We do not consider an email or secure message with a signpost to where relevant information can be located to be a sufficient method of provision of information. The information that is to be provided is the interim and annual short form reports, information on changes provided by the authorised fund manager in accordance with COLL 4.3, notifications of unitholder meetings issued in accordance with COLL 4.4 and notifications in respect of suspension of dealing or winding up of the fund. We do not expect end investors to have to pay a direct charge for this service, but we accept that administration fees may rise slightly to allow for firms' additional costs.

We are also proposing to require nominee firms to have appropriate systems and controls in place either to exercise voting rights at the instruction of end investors, or to facilitate exercising of voting rights, but we are allowing firms the flexibility to determine the best method for complying with this rule appropriate to their operating model and other considerations.

We stated in DP10/2 that this issue is not unique to platform providers, and that other firms such as ISA and SIPP providers and stockbrokers also hold authorised funds in nominee accounts on behalf of retail investors. We are therefore proposing to introduce a new definition of intermediate unitholder to ensure that our requirements capture all relevant firms. We accept that there may be unauthorised nominees who will not be captured by our rules.

We accept that intermediate unitholders may not hold email addresses for all end investors, but we expect that the introduction of these requirements may prompt such firms to contact existing clients in order to obtain such information. Where an intermediate unitholder does not have an email address for an end investor or for that investor's adviser, it must send the information by post. Where it is not practicable to send the information or notifications of unitholder meetings to the investor, it can be sent instead to the adviser authorised to receive information on that investor's account.

It may be the case that there is a series of intermediate unitholders or firms between the AFM and the investor. In such situations we expect each firm to pass the required information to the next firm so it reaches the end investor in a reasonable time. This is especially important when the investor is being asked to react to the information in a short space of time, as in the case of a unitholder meeting.

Our proposals

5.17 We are proposing new rules to ensure that investors who access authorised funds through intermediate unitholders receive the same information as they would if they had invested directly. This includes a new defined term, 'intermediate unitholder'.

5.18 The proposals extend to requiring intermediate unitholders to facilitate the exercising of voting rights on behalf of the end investor.

5.19 Our proposals are broadly in line with the current draft text of the Securities Law Directive.

Q9: Do you agree that the new definition 'intermediate unitholder' incorporates all relevant firms?

Q10: Do you agree with our proposal to introduce a requirement for intermediate unitholders to pass on information provided by authorised fund managers to end investors?

Q11: Do you agree that we are allowing an appropriate level of flexibility by requiring intermediate unitholders to have appropriate systems and controls to either exercise voting rights on the instruction of investors, or to facilitate investors' exercising of rights?

Hosting of authorised funds with 'non-standard' features

5.20 Recent developments in authorised funds have led to the introduction of property authorised investment funds (PAIFs) and tax elected funds (TEFs). These funds are associated with particular tax regimes created by HMRC to allow investors tax efficiency by investing in CIS.

5.21 Anecdotal evidence from AFMs suggests these types of products are not being launched because platform operators are not prepared to host them, limiting their distribution. We also asked in DP10/2 whether platforms were prepared to host multiple share classes, or CIS that did not deal daily (a less frequent dealing period might be appropriate for a fund that invested in illiquid assets, e.g. real estate). These issues all relate to product innovation.

5.22 We asked:

Q11: Do you agree that where platforms do not host funds with non-standard features or tax regimes, this could lead to poor outcomes for consumers? Please give reasons for your answer.

5.23 Most respondents, including adviser firms and AFMs, felt that where platform operators chose not to host these types of funds, this should not result in negative outcomes for consumers, because it is the adviser's responsibility to select a suitable product for the client. This might require the adviser to seek out an alternative platform provider, or to choose a product off-platform. Most respondents agreed that we should not introduce requirements for platforms to host all fund types and that this should remain a commercial decision for the firms concerned.

Our response: We agree with most respondents that advisers should consider all available product types, which may entail using another platform or investing off-platform. We are not proposing any additional requirements for firms in this area. However, advisers should consider the points raised in Chapter 2 of this CP about independence and adviser firms using platforms.

We note that the industry has started work to facilitate product innovation (and in particular the ability to identify gross and net unitholders), and we expect this work to continue.

Provision of aggregated information to product providers

5.24 The increasing presence of platform operators and nominees between investors and AFMs makes it harder for AFMs to know, and therefore understand, their investor base. Aggregation of unit deals can mask any trends in investor behaviour, making it more difficult for the AFM to manage CIS liquidity as effectively as possible – a key feature of open-ended products.

5.25 We asked:

> *Q12: To what extent should platforms be required to give product providers information about the end investors?*

5.26 The majority of respondents agreed that, where such information would assist the AFM in managing liquidity, platforms and other nominee companies should be required to provide it. A number of respondents to DP10/2, mostly AFMs but also some adviser firms and others, agreed that this would be helpful, not only for liquidity management but also to enable AFMs to design their communications to the appropriate audience. Where respondents disagreed with us, it was largely due to concerns about providing information which will identify individual investors, or because of an increase in costs. A small number of respondents commented that where authorised funds are sold through a platform, the responsibility for ensuring the suitability of the investment does not rest with the AFM.

Our response: There have been several instances recently where CIS have experienced liquidity issues, and it remains a key risk for the asset management sector. In line with our statutory objectives we remain focused on ensuring effective liquidity management in authorised funds. AFMs have told us that receiving information about the investor base would assist them in managing liquidity effectively and so we propose to require intermediate unitholders to provide such information where requested to do so by AFMs. We expect it is likely to be the larger nominees offering more widely-sold CIS who will be asked by AFMs to provide such information, as smaller nominee holdings are unlikely to impact the liquidity position of a large fund.

This information is intended for liquidity management purposes only and it should not be possible to identify individual investors from the data requested or provided. Such information could include distribution channels and fund flows, as well as minimum and maximum holding sizes. AFMs may also need to know whether the investments are held within a tax efficient wrapper.

> Q12: Do you agree with our proposal to require intermediate unitholders to provide aggregate information when requested by authorised fund managers?

6 Summary of cost benefit analysis

6.1 Under the Financial Services and Markets Act 2000 (FSMA) we are required to provide an estimate of the costs and an analysis of the benefits that will arise from the policy proposals. A detailed cost benefit analysis (CBA) is contained in Annex 1 of this CP. Here is a summary of the most important points.

Feedback to DP10/02

6.2 We received responses from a large number of stakeholders to DP10/2. Only a minority of them (mainly platform operators) commented on our high level CBA.

6.3 Respondents generally agreed with the main issues we identified in the high level CBA published in DP10/2 and commented that it was difficult to provide cost and benefit estimates before policy proposals had been developed in more detail. Many respondents were concerned that the creation and management of multiple share classes would considerably increase complexity and costs for the industry.

6.4 In terms of benefits, respondents were not in a position to provide quantitative estimates, but almost all of them argued that changes in the platform market were necessary. Providing more choice for consumers, having a clear charging structure in the industry and increasing consumer awareness in the market were often quoted as desirable outcomes.

Direct costs to the FSA

6.5 We do not envisage additional costs to us or other regulatory agencies from the proposals discussed in this CP. If anything, the changes introduced by the RDR, coupled with the changes in the platform market, should improve the quality of advice, therefore reducing the number of complaints filed by consumers with an overall saving for the FSA and other bodies.

Summary of compliance costs

6.6 Table 1 below, which reproduces table 5 in Annex 1, summarises our overall estimates of compliance costs for our proposals. We stress the fact that these figures represent an upper bound of the true costs. This is explained in detail in Annex 1.

Table 1: Total compliance costs (£m)

	One-off costs	Ongoing costs
Platform operators	60.2	25.3
Fund managers	6.6	1.1
Other intermediate unitholders	60.2	21.2
Total	**127.0**	**47.6**

6.7 Approximately £70m of the one-off costs and £34m of the ongoing costs are attributable to the proposals on the provision of information to fund managers and to underlying investors. However, these costs are likely to overestimate the true figures as they are based on the assumption that a paper copy of the relevant documentation needs to be sent to investors. As explained in Chapter 5 we are allowing firms to contact investors using electronic means.

6.8 Approximately £26m of the one-off and £9m of ongoing costs are due to the ban of cash rebates to consumers, while the rest of the costs are due to the disclosure of payments that platforms receive from fund managers and product providers (£25m one-off and £3m ongoing) and to the proposals on mandatory re-registration (£7m one-off and £2m ongoing).

6.9 Table 2 below summarises the total compliance costs according to the proposals.

Table 2: Total compliance costs (£m) by proposal

	One-off costs	Ongoing costs
RDR–related proposals	50.9	12.0
Re-registration proposals	7.4	2.1
Provision of information proposals	68.7	33.6
Total	**127.0**	**47.6**

Indirect costs (market impacts)

6.10 We have identified two potential indirect market impacts that could arise as a result of the proposals discussed in this CP: impacts on price competition and impacts on the number of share classes.

The impacts on (price) competition

6.11 Of all the proposals discussed in this CP there are two that are likely to have an impact on the competitive process. The first is the proposal on mandating re-registration in specie and the second is the proposal to ban cash rebates to consumers.

6.12 With regard to the former, the ability to re-register assets between and off platforms would increase the ease of switching platform provider if investors (or advisers on their behalf) want to do this. They will want to switch if, for instance, a better service or more advantageous terms are available elsewhere, or if they are not satisfied with the services provided by the platform. This proposal would put more pressure on platforms to improve their offering to consumers.

6.13 Regarding the proposal on consumer rebates, the results of our analysis indicate that this should facilitate price competition. Research commissioned by the FSA suggests that if rebates are banned altogether, there is a risk that the intensity of the price competition that may develop in the longer term post the introduction of RDR rules would be impeded, since fund managers could not offer a discount easily once a fund has been launched. In other words, in the longer term, a ban of consumer rebates may imply higher overall prices for consumers than would have occurred in the absence of a ban of rebates.

Share classes

6.14 In PS10/6 we have taken into account the additional share classes that fund managers expect to introduce to remove the commission from fund charges, in order to comply with RDR rules. A complete ban of rebates to consumers might have forced fund managers to create additional, platform-specific share classes.[15]

6.15 This could have had a detrimental effect on our re-registration proposals and therefore on the beneficial competition effects these proposals could facilitate. However, the policy proposal we are putting forward in this CP does not have this shortcoming and would not require the creation of additional share classes.

Benefits

Platforms and the RDR

6.16 The proposals on disclosure of payments from fund managers will reduce the risk that platforms will present the funds available in a biased way, for instance because some funds pay them higher rebates than others.

6.17 By allowing discounts to be passed on to consumers in the form of additional units we are also providing an additional channel for future price competition to develop in the longer term, with the potential of a lower level of prices resulting from the competitive process.

15 The results of our surveys showed that between 1 and 4 share classes would have been created, in addition to those accounted for in PS 10/6.

6.18 Our proposals also ensure that the risk of advisers expropriating consumers' rebates, in breach of the new Adviser Charging rules, is minimised.

6.19 These measures, taken together, will help to ensure the benefits identified in the RDR[16] will come into effect and we will see, amongst other things, an improvement in the quality of advice and a reduction in the incidence of mis-selling, which will help improve consumer confidence in the industry over the long term.

Re-registration and capital adequacy

6.20 The major benefit of mandating re-registration in specie is its positive impact on competition in the market. Re-registering assets is easier and cheaper than selling the assets on one platform and repurchasing them on a different one. This will also have positive implications for the long term efficiency of the market.

6.21 The benefits associated with the clarification of capital requirements are likely to be minimal, given the very small amount of additional capital that platforms will need to raise. However, clarifying the way in which the FSA interprets capital requirements should reduce regulatory uncertainty.

Investing in authorised funds through platforms

6.22 Improved communication between all links in the chain between the fund manager and the end investor should lead to better outcomes for consumers, as they are kept appropriately informed about their investment. This in turn could lead to the investor base becoming more knowledgeable about authorised funds.

6.23 The benefit of intermediate unitholders passing on information to fund managers is improved fund liquidity management. Improved liquidity management means that the fund manager may not need to invoke special redemption measures, such as deferred redemption, or, in extreme circumstances, to suspend the fund. Both of these activities would lead to consumer detriment and could lead to an increased administrative burden for all the links in the fund management distribution chain.

> Q13: Do you have any comments on the cost benefit analysis?

16 See p. A1:9 of PS10/6.

Cost benefit analysis

1. Under the Financial Services and Markets Act 2000 (FSMA) we are required to provide an estimate of the costs and an analysis of the benefits that will arise from the policy proposals. In essence, a cost benefit analysis (CBA) is a statement of the differences between the baseline and the position that will arise if we implement the proposals. In most cases the baseline can be approximated with the status quo, but this is not the case here: the changes introduced by the Retail Distribution Review (RDR) reforms will alter the landscape of the retail distribution market substantially and it is under this new regime that the proposals discussed in this CP need to be assessed.

2. In the remainder of this section we:
   - describe the methodology used to conduct the CBA;
   - describe the market failures we have identified;
   - summarise the proposals assessed in this CBA;
   - describe the baseline against which policy options are assessed;
   - present an estimate of the direct and compliance costs;
   - discuss indirect costs and market impacts; and
   - analyse the benefits associated with the proposals.

Feedback to DP 10/02

3. We received responses from a large number of stakeholders to DP10/2. Although only a minority of them (mainly platform operators) commented on our high level CBA, we have received some useful insights on potential market impacts and changes in the behaviour of firms and consumers.

4. Respondents generally agreed with the main issues we identified in the high level CBA published in DP10/2 and commented that it was difficult to provide cost and benefit estimates before policy proposals had been developed in more detail. Many respondents were concerned that the creation and management of multiple share classes would considerably increase complexity and costs for the industry. In this

respect we developed a solution that makes the creation of additional share classes less necessary.

5. In terms of benefits, respondents were not in a position to provide quantitative estimates, but almost all of them argued that changes in the platform market were necessary. Providing more choice for consumers, having a clear charging structure in the industry and increasing consumer awareness in the market were often quoted as desirable outcomes.

6. We thank all respondents to our surveys and to the DP10/2 consultation for their contribution to the present CBA.

Methodology

7. In order to produce the CBA and incorporate the feedback received on our analysis published in DP10/2, we have carried out the following steps:

   - We conducted three quantitative surveys of incremental compliance costs and behavioural responses by firms. We sent questionnaires to 19 platform operators, 21 fund managers and 53 advisory firms. We received responses from 16 platform operators, 13 fund managers and 28 advisory firms. The platform operators who responded to our survey account for almost the entire market, measured by assets under administration. The fund managers that responded to our survey represent approximately 38% of the market in terms of assets under management. Advisory firms were selected from those that, given our market knowledge from the platform thematic research, were more likely to use platform services. We believe their responses provide sufficient insight into how adviser firms will be impacted by the proposals. Our survey confirmed that advisers are not expected to incur any incremental compliance costs due to the proposals discussed in this paper. To inform our understanding of the survey results and to gather additional cost information on policy proposals we re-contacted some of the respondents to the survey and discussed some of the policy implications in more depth.
   - We commissioned Prof. Roman Inderst of Frankfurt University and Prof. Tommaso Valletti of Imperial College, London to use formal economic analysis to study the role of platform charges in the market for retail investment services. The results of their study are published alongside this CP in Occasional Paper 40.[1]
   - We analysed the results of the two pieces of research above to understand the likely market developments resulting from the policy proposals.

Market failure analysis

8. We have identified several potential failures in the platforms market that may warrant regulatory intervention. Such failures are discussed in more depth in the main body of this paper. However, we briefly summarise them here:

1 See http://www.fsa.gov.uk/pubs/occpapers/op40.pdf

- First, as detailed in Chapter 3, there is the potential for some advisers not to comply with our Adviser Charging rules by matching their fees with the rebates that fund managers pass on to consumers when they invest on a platform. This is exacerbated by the fact that consumers may not be aware of how much platform services actually cost, given that most charging is currently bundled.
- Second, fund selection for advisers may be influenced by fund managers or platforms if some market practices continue: for example, if platforms are allowed to give prominence to specific funds on the basis of how much funds pay to the platform, but these payments are not transparent and are therefore not factored into advisers' recommendations.
- Third, barriers to re-registering assets from one platform to another may deter consumer switching between platforms, with negative impacts on competition and therefore on market outcomes.
- Fourth, some platform operators may not be holding enough capital to manage wind-down, with potential detrimental effects on consumers.
- Fifth, underlying investors may not be receiving important information from fund managers, or not receiving it in a timely way, if they invest through a platform, compared to investors that invest directly in a fund.
- Sixth, fund managers may not be in a position to manage their liquidity appropriately, as they do not have enough information on underlying investors.

Summary of the proposals analysed

Platforms and the RDR

9. As described in Chapter 2 and 3 of this CP, we are introducing rules on:

- Rebates to consumers: We propose to stop product providers from effectively continuing to offer commission in the form of a cash rebate, which can be used to pay the adviser. Our new rules would stop product providers from paying cash rebates.
- Rebates to platforms and inducements: We propose that platforms can still charge fund managers or other platform providers a fee for providing administration services. However, we propose to make rules to require platforms to tell customers how much they will receive in fees or commission.
- Facilitation of Adviser Charging: We propose to extend our rules so that when a platform facilitates the collection of adviser charges, this is done to the same standards as product providers.
- Unbiased presentation of products: We propose rules to ensure that platforms present retail investment products to retail and professional clients in an unbiased manner. Firms using platforms services must also ensure that the platforms they use present retail investment products in an unbiased manner.

Re-registration and capital adequacy

10. We are proposing rules that will compel all nominee companies, including platforms to offer to re-register a customer's investments to another nominee company within a reasonable amount of time.

11. We are also clarifying our position with regard to capital requirements for platform operators, where we will continue to apply our current approach in the supervision of platform firms operating as Limited Licence Investment Firms (LLIFs).

Investing in authorised funds through platforms

12. We are consulting on rules in relation to:

- We are proposing new rules to ensure that investors who access authorised funds through intermediate unitholders receive the same information as they would if they had invested directly. This includes a new defined term, intermediate unitholder. The proposals extend to requiring intermediate unitholders to facilitate the exercising of voting rights on behalf of the end investor.
- We propose to require intermediate unitholders to provide aggregate information on underlying investors where requested by authorised fund managers.

Setting the baseline

13. To correctly interpret the costs and benefits associated with the various policy proposals, it is crucial to bear in mind that the rule changes discussed here will be in force in a market setting that is quite different from the existing situation. This is due to the changes to be introduced in the retail investment market by the RDR, as explained in PS10/6.[2] It is therefore against a baseline where other RDR rules (in particular Adviser Charging and new standards for independence) are in force but no additional intervention in the platform market takes place that the impacts need to be assessed.

The pre-RDR situation

14. In their work carried out on behalf of the FSA for CP09/18 and PS10/06 Oxera,[3] an economics consultancy, argued that currently the dominant form of competition in the retail investment market is on the level of commission payments to advisers. Oxera argued that adviser firms control access to consumers and commission payments are therefore the dominant way for product providers to obtain business.

15. This is also confirmed by evidence from the platform market. At present, most of the rebate that fund managers offer to platforms (usually a total of 75bps out of an annual management charge (AMC) of 150bps) is paid to advisers as commission

2 http://www.fsa.gov.uk/pubs/policy/ps10_0610.pdf

3 See Oxera, Retail Distribution Review proposals: Impact on market structure and competition for more details. The report is available here: http://www.fsa.gov.uk/pubs/other/oxera_rdr.pdf

(usually 50bps) with the remainder being kept by platforms as remuneration for their services.

16. Given that the remuneration of the adviser depends, in most cases, on the fund manager (or the product provider), there is an incentive for advisers to recommend products with a high AMC that pay commission rather than products with a low AMC (e.g. Exchange Traded Funds (ETFs) or low cost tracker funds) that pay little or no commission.

The post-RDR situation

17. There are two main changes, introduced by the RDR, that we have taken into account to develop the appropriate baseline:

- first, commission will be banned for advised sales and fund managers will not be able to remunerate advisers; and
- second, advisers will be required to agree their charges with their clients upfront.[4]

18. Taken together, the two changes above imply that a particular product recommendation will no longer have an impact on the adviser's remuneration, so advisers will no longer have an incentive to recommend a high-AMC product over a low-AMC product. If advisers structure their charges as a proportion of the value of the client's investment (i.e. an ad valorem fee), then, in this case, they will have a direct incentive to minimise the charges taken out of the investment.

19. Therefore, in the absence of any additional intervention, it will be the market (and competitive forces) that will determine how the 50bps that typically go to advisers in the form of commission will be split between fund managers, platforms and consumers (and whether consumers will end up paying a higher or lower product price compared with the current situation).

20. In summary, we have assessed the policy proposals for platforms against a situation in which other RDR-related rules have been implemented. We assume that the majority of advisers will comply with our rules, either spontaneously or because of our supervision and enforcement activities.

4 Our rules on Adviser Charging, published in PS 10/6, read:

A firm must disclose its charging structure to a retail client in writing, in good time before making the personal recommendation (or providing related services).

(1) A firm must agree with and disclose to a retail client the total adviser charge payable to it or any of its associates by a retail client;

(2) A disclosure under (1) must;

(a) be in cash terms (or convert non-cash terms into illustrative cash equivalents);

(b) be as early as practicable;

(c) be in a durable medium or through a website (if it does not constitute a durable medium) if the website conditions are satisfied; and

(d) if there are payments over a period of time, include the amount and frequency of each payment due, the period over which the adviser charge is payable and the implications for the retail client if the retail investment product is cancelled before the adviser charge is paid and, if there is no ongoing service, the sum total of all payments.

Direct costs to the FSA

21. We do not envisage costs to us or other regulatory agencies from the proposals discussed in this CP in addition to those reported in PS10/6. If anything, the changes introduced by the RDR, coupled with the changes in the platform market, should improve the quality of advice, therefore reducing the number of complaints filed by consumers with an overall saving for the FSA and other bodies.

Incremental compliance costs

22. The estimates of the incremental compliance costs of the proposals reported in this section are based on the results of the surveys that the FSA conducted, as well as on follow-up discussions we had with a number of firms.

23. In regard to platform operators one respondent consistently reported costs considerably higher (sometimes even two orders of magnitude larger) than its peers. Consequently, when assessing the overall incremental costs of the proposals, it should be borne in mind that estimates presented here are likely to represent an upper bound of the true costs.

Platforms and the RDR

24. With regard to the RDR-related proposals described in Chapter 3, firms will incur incremental compliance costs only in relation to the banning of cash rebates from fund managers to consumers and with regard to rules or guidance on disclosing the payments that platforms receive from fund managers.

25. We do not propose to introduce rule changes with respect to payments from fund managers to platforms or inducements. The regulation of firms in relation to these will not differ from the one to which they are currently subject.

26. The estimates of one-off and ongoing costs for platform operators and fund managers in relation to proposals on disclosure of payments are summarised in Table 1.

Table 1: Compliance costs of proposals on disclosure of payments (£m)

	One-off costs	Ongoing costs
Platform operators	21.7	3.4
Fund managers	2.9	0.0
Total	**24.6**	**3.4**

27. Fund managers expect to incur one-off costs only in relation to these proposals, but not ongoing costs. The one-off costs are largely the cost of re-negotiating contracts with platform operators. Once such contracts have been renegotiated, ongoing costs are thought to be no higher than in the current situation. Platform operators, on the other hand, expect to incur one-off costs to set up the necessary Information Technology (IT) systems. They will also incur ongoing costs to

maintain compliance, i.e. communicate to clients the details of the payments received from fund managers on a regular basis.

28. The other RDR-related change discussed in this CP deals with banning of cash rebates paid to consumers. As described in Chapter 3, fund managers will still be able to provide rebates to consumers in the form of additional units or by re-investing into the fund. This implies that fund managers will not need to create additional share classes as a way of varying prices to consumers, a concern that was raised in feedback to initial proposals to ban rebates to consumers put forward in DP10/02. The cost of creating and administering additional share classes to separate new business from legacy business has been taken into account in PS10/6. At the time we had already accounted for an average of two additional share classes per fund.[5]

29. Therefore, the compliance costs associated with the banning of rebates to consumers do not include the costs necessary to create and manage additional share classes over and above those already included.

30. Incremental compliance costs largely reflect the cost of changing systems to accommodate the new rules and additional administrative costs. We have supplemented the results of our survey with additional discussions with platform operators to take into account that rebates could be re-invested in the fund, as the original survey only asked questions about a complete ban of rebates. However, we report here the compliance costs based on an overall ban of rebates as most firms reported that, in the time available, it was not feasible to provide specific cost estimates, but they expected costs to be in the same region.

31. The estimates of these compliance costs are reported in Table 2.

Table 2: Compliance costs of ban of rebates to consumers' cash accounts (£m)

	One-off costs	Ongoing costs
Platform operators	22.6	7.6
Fund managers	3.7	1.1
Total	**26.4**	**8.6**

Facilitation of Adviser Charging

32. We do not expect the requirement for platforms to obtain and validate an instruction from a customer to pay an adviser charge to result in any material cost or benefit. We would expect platform operators to obtain and validate an instruction before withdrawing money from a customer cash account in any case, and we are clarifying that the standards that apply to retail investment product providers, published in PS10/6 to also apply to platform operators.

5 See PS 10/6 p.A1:5.

Independence and unbiased presentation of products

33. We expect that the rules we have proposed for advisers when using a platform will not result in any material cost (or benefit) for advisers. We are clarifying that existing requirements such as the client's best interests rule apply if an adviser decides to use a platform operator when making a personal recommendation.

34. For instance, our rules already require independent advisers to base a personal recommendation for each client on a comprehensive and fair analysis of the relevant market which is both unbiased and unrestricted. This requirement was included in the CBA for PS 10/6.

35. Similarly, we would expect a restricted adviser to consider whether the use of a particular platform was consistent with the requirement to act in accordance with the best interests of its client.

36. The costs for platform operators to present products in an unbiased manner are included in those mentioned in Table 1 on page A1:6.

Re-registration and capital adequacy

37. We believe that only platform operators will incur incremental compliance costs associated with mandatory re-registration and capital adequacy proposals. Our clarification of the capital adequacy rules affects only platform operators. We expect our proposals on re-registration to affect only platforms, as we understand other operators of nominee accounts already allow re-registration of assets.

38. The estimates of incremental compliance costs associated with mandatory re-registration are reported in Table 3. Platform operators quote IT, software and record-keeping costs as the main sources of costs in this area.

Table 3: Compliance costs of mandatory re-registration (£m)

	One-off costs	Ongoing costs
Platform operators	7.4	2.1

39. It is also questionable whether all the above costs can be attributed solely to regulatory intervention: the industry has been working on providing re-registration *in specie* over the last two years before we signalled we might intervene in the market to correct this failure.

40. We are aware that our proposals on mandatory re-registration will apply to all firms operating nominee companies for the administration and segregation of client assets and not only to platform operators. Our rules will therefore also apply to investment managers and stockbrokers.

41. However, we are aware that the general market practice of this type of firm is to allow re-registration *in specie*. For instance, members of the Association of Private Client Investment Managers (APCIMS) already subscribe to a good practice guide on 'inter-broker client transfers', and compliance is likely to ensure that firms already

satisfy the requirements of our new policy proposals. We therefore estimate that no additional cost (nor benefit) will emerge as a result of our intervention for investment managers and stockbrokers, and their clients.

42. In terms of the clarification of our existing capital requirements, respondents to our surveys reported that in general they will not require significant amounts of additional capital. A total figure of between £125,000 and £140,000 was reported. The cost of holding this additional amount of capital will be the ongoing financing cost.

43. However, as reported in Chapter 4, we are concerned that firms may not fully understand the implications of our clarification. We will therefore be carrying out further work to assess the level of capital at firms and the adequacy of existing capital held by all platform operators to meet the requirement that they hold sufficient capital to wind down in an orderly manner. This will necessitate our review of ICAAPs of firms that have not previously been subject to the process before the publication of our Feedback Statement in 2011.

Investing in authorised funds through platforms

44. The proposed rules on providing information to investors and to fund managers will impact most nominee companies. Most of the fund managers who replied to our survey stated that they would not incur any additional costs. However, those who said that they would incur a cost reported that they would expect platform operators to charge back any cost incurred to the fund manager. In this respect it is likely that some of the costs will be shared between platform operators and fund managers, although it is difficult say how this burden will be split. Our estimates capture the total costs to the industry, but not how this will be split between fund managers and platforms, as this is a commercial decision that will be taken by platforms in future.

45. Our survey only took into account platform operators. However, our rules, as in the case of re-registration, apply to all intermediate unitholders. We have based our estimates for this group of stakeholders on the costs that platforms reported. We have estimated the number of companies (other than platform operators) affected by such rules to be approximately 240. We have then assumed that the cost incurred by such companies would be equal to the median cost incurred by platform operators. The estimates of compliance costs are reported in Table 4.

Table 4: Compliance costs of provision of information (£m)

	One-off costs	Ongoing costs
Platform operators	8.5	12.4
Other intermediate unitholders	60.2	21.2
Total	**127.0**	**47.6**

46. A crucial point for interpreting the cost estimates above is that platform operators based them on the assumption that they would need to post letters to their customers, incurring printing and postage costs. However as explained in Chapter 5,

we have decided, on proportionality grounds, that intermediate unitholders can communicate with investors via electronic means (e.g. by email). We do not know precisely the level of reduction in cost estimates this would entail but we believe this would be a significant reduction.

47. As a useful benchmark we refer to the report that Real Assurance produced for the FSA in 2006[6] which presented an estimate of the administrative burden of COLL. The overall ongoing cost associated with COLL was estimated to be in the region of £8.5 million in 2010 money terms. It is likely therefore that the costs presented in Table 4 considerably overestimate the true burden.

Summary of compliance costs

48. Table 5 below summarises our overall estimates of compliance costs for our proposals. Again, we stress the fact that these figures represent an upper bound of the true costs that will be incurred by the industry for the reasons presented in the previous paragraphs.

Table 5: Total compliance costs (£m)

	One-off costs	Ongoing costs
Platform operators	60.2	25.3
Fund managers	6.6	1.1
Other intermediate unitholders	60.2	21.2
Total	**127.0**	**47.6**

Indirect costs (market impacts)

49. We have identified two potential indirect market impacts that could arise as a result of the proposals discussed in this CP: impacts on price competition and impacts on the number of share classes. Below we discuss our analysis of these impacts and the likelihood of them arising.

The impacts on (price) competition

50. Of all the proposals discussed in this CP, two are likely to have an impact on the competitive process. The first is the proposal on mandating re-registration *in specie* and the second is the proposal to ban cash rebates to consumers.

51. With regard to the former, the ability to re-register assets between and off platforms would increase the ease of switching platform provider if investors (or advisers on their behalf) want to do this. They will want to switch if, for instance, a better service or more advantageous terms are available elsewhere, or if they are not satisfied with the services provided by the platform.

6 See http://www.fsa.gov.uk/pubs/other/Admin_Burdens_Report_20060621.pdf

52. It should be particularly advantageous for consumers not to have to sell their assets and buy them again in order to transfer to another platform, as this avoids the associated transaction costs and potential capital gains tax (CGT) effects. The ability of investors to transfer their assets more easily should have a positive impact on the competitive process, since it gives platforms an incentive to improve the service they offer, to obtain better prices on the funds they host and even to lower their charges.

53. The potential effectiveness of this measure is confirmed by the results of our surveys, which show that advisers would switch if re-registration was quicker and cheaper. Platforms expect more re-registration to take place if mandatory re-registration is introduced. Advisers have incentives to switch clients between platforms if switching enables them to offer a better service to clients or where they are able to obtain lower fund charges. The latter effect is strengthened where advisers receive an ongoing ad valorem fee based on the client's investment, since the adviser will be motivated to reduce the charges taken out of the client's investment. Even if only a minority of advisers or consumers take up the opportunity to re-register assets, this may provide sufficient competitive pressure to make the benefits of improved services or improved terms available for all investors.

54. Regarding the proposal on consumer rebates, the results of our analysis indicate that this should facilitate price competition. Prof. Inderst and Prof Valletti's research suggests that if rebates are banned altogether, there is a risk that the intensity of the price competition that may develop in the longer term post the introduction of RDR rules will be lower. In other words, in the longer term, a ban of consumer rebates may imply higher overall prices for consumers than would have occurred in the absence of a ban of rebates.

55. To explain this result more fully we describe briefly the mechanism identified by Prof. Inderst and Prof Valletti in OP 40. There are two channels for price competition to operate post the introduction of RDR rules: one channel is competition around product charges for the fund (i.e. the AMC) and the second channel is discounts or rebates on the product charge.

56. If discounts to consumers via a platform are banned, then one of the channels for competition is not available. If a fund manager wanted to reduce the price of its funds for some investors it would not be possible to do this on only one platform. The fund manager would have to offer the same AMC on all platforms (and for all consumers). There is no possibility for the fund manager to shift demand from one platform to another once a fund has been launched, since the channel to reduce prices for consumers on only one platform is closed. This implies that platforms will not be able to compete on discounts on prices for existing funds. Price competition could only operate through the first channel, the AMC, and by introducing additional share classes.

57. If share classes vary between platforms this creates difficulties for re-registering assets.[7] This is because an investor may have a share class that is not available on a different platform and may be forced to sell and repurchase the assets instead in order to re-register his assets onto another platform.

58. It is possible that after the introduction of the RDR there will be a one-off change to the level of the AMC when funds are launched, since commission will be stripped out of charging. Our proposals facilitate subsequent price competition if fund managers want to increase demand by offering discounts on the AMC. For instance, if a fund is launched at 100bps, fund managers may want to retain the ability to offer a discounted price of 90bps.

59. The RDR rules are introducing fundamental changes to the market for funds and so it is difficult to predict the extent to which price competition on fund charges will develop in the future. Much depends on the extent to which advisers' incentives to search for the best price on suitable funds become aligned with those of investors, and the extent to which platforms compete to offer better prices to consumers.

60. Furthermore, given that Adviser Charging rules do not apply to non-advised business, discounts would still be available for this segment of the market. This could increase the attractiveness of the non-advised sector as a whole, as it could be cheaper than the advised segment, after taking into account the cost of advice.

61. The above considerations, coupled with the problems identified in Chapter 3, expose two risks we have considered when deciding how to proceed in determining the costs and benefits associated with policy proposals:

- The results of OP 40 highlight that banning rebates to consumers would remove one channel for the development of competition on product prices, with potential negative impacts on consumer welfare. Banning rebates would also undermine the proposal on mandatory re-registration, with additional negative effects on competition.
- However, the other risk is that, by not intervening, non-compliant advisers could expropriate the rebates offered to consumers, by altering their adviser charges to coincide with the highest rebates on offer, convincing the consumer that the advice comes at no extra charge. This would clearly have the potential to undermine other RDR-related objectives.

62. Indeed, such considerations were important in the various policy options explored. The decision to allow rebates to consumers that do not take the form of cash was taken by considering both risks.

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7 We can look at the implications of restricting consumer discounts differently. When a single platform demands a higher platform-fund charge, then if other platforms have access to the same share class (i.e. a share class with a given AMC), the fund can no longer pass this through only 'locally' (i.e. to one platform only). An increase in the AMC also affects demand at the other platform(s) and is, therefore, dampened. (In fact, the simultaneous increase of the AMC at the other platform(s) shields the first platform from a loss in demand to its competitors.) When discounts are allowed, the platform can, however, be more aggressive, as its margin has increased, and pass on the discount to the consumer. But this channel does not exist when discounts to consumers are banned and competition may be hampered.

Share classes

63. In PS10/6 we have taken into account the additional share classes that fund managers expect to introduce to remove the commission from fund charges, to comply with RDR rules. A complete ban of rebates to consumers might have forced fund managers to create additional, platform-specific share classes.[8]

64. This could have had a detrimental effect on our re-registration proposals and therefore on the beneficial competition effects these proposals could facilitate. However, the policy proposal we are putting forward in this CP does not have this shortcoming and would not require the creation of additional share classes.

Benefits

Platforms and the RDR

65. The proposals for rules or guidance on disclosure of payments from fund managers will reduce the risk that platforms will present the funds available in a biased way, for instance because some funds pay higher rebates than others.

66. Ensuring that the payments that platforms receive from fund managers are properly disclosed should improve the functioning of the competitive process. Advisers remunerated by their clients will have an incentive to look for the best deals available and, by having easy access to price information across a number of platforms, may switch business from one platform to another, putting pressure on overall charges. This is of crucial importance for those charges that are directly paid by consumers such as the initial charge and the AMC. The competitive process will also be facilitated by the proposal on mandatory re-registration, which should make the switching process much easier.

67. The ban on rebates to consumers will ensure that the risk of advisers expropriating consumers' rebates, in breach of the new Adviser Charging rules, is minimised. This will ensure that advisers will not be incentivised to recommend one product over another and should remove any bias from the market. Had cash rebates been permitted, there would have been a risk that providers competed around the size of the rebate paid to the consumer to help fund the adviser charge, and that advisers were influenced by the size of the rebate on offer rather than which product is suitable for the consumer.

68. However, by allowing discounts to be passed on to consumers in the form of additional units we are also providing an additional channel for future price competition to develop in the longer term, with a lower level of prices resulting from the competitive process.

69. These measures, taken together, will help to ensure the benefits identified in the RDR[9] will come into effect and we will see, amongst other things, an improvement

8 The results of our surveys showed that between 1 and 4 share classes would have been created, in addition to those accounted for in PS 10/6.

9 See p. A1:9 of PS10/6.

in the quality of advice and a reduction in the incidence of mis-selling, which will help improve consumer confidence in the industry over the long term.

Re-registration and capital adequacy

70. The major benefit of mandating re-registration *in specie* is its positive impact on competition in the market. Re-registering assets is easier and cheaper than selling the assets on one platform and repurchasing them on a different one. It also avoids potentially negative CGT implications and should encourage advisers to move their clients onto platforms that provide the best deals. This will also have positive implications for the long term efficiency of the market. Our survey of adviser firms showed that more than 90% of adviser firms would expect to re-register more clients on different platforms if re-registration were either quicker or cheaper.

71. The benefits associated with the clarification of capital requirements are likely to be minimal, given the very small amount of additional capital that platforms will need to raise. However, clarifying the way in which we interpret capital requirements should reduce regulatory uncertainty.

Investing in authorised funds through platforms

72. Improved communication between all links in the chain between the fund manager and the end investor should lead to better outcomes for consumers, as they are kept appropriately informed about their investment. This in turn could lead to the investor base becoming more knowledgeable about authorised funds. Also, sophisticated investors may provide more scrutiny on the activities of fund managers for the benefit of all investors. Efficient and timely flows of information could also mean fewer queries or complaints from consumers where their funds have undergone changes without their prior knowledge.

73. The results of our survey confirmed that the majority of advisers would like to receive periodic and ad hoc information sooner and more frequently from platforms, so that a more thorough service can be provided to their clients.

74. The benefit of intermediate unitholders passing on information to fund managers is improved fund liquidity management. Improved liquidity management means the fund manager may not need to invoke special redemption measures, such as deferred redemption, or, in extreme circumstances, to suspend the fund. Both of these activities would lead to consumer detriment and could lead to an increased administrative burden for all the links in the fund management distribution chain.

75. Again, the results of our survey show that 85% of fund managers would welcome additional information from platforms to manage their liquidity, confirming that the potential benefits associated with these proposals could be substantial.

Compatibility statement

Introduction

1. In this Annex we set out our view on how our proposals and draft rules in this CP are compatible with our general duties under Section 2 of FSMA and our regulatory objectives set out in Sections 3 to 6 of FSMA. We also outline how our proposals are consistent with the principles of good regulation (also in Section 2 of FSMA), which we must have due regard.

Compatibility with our statutory objectives

2. The proposals outlined in this CP will support three of our statutory objectives: working towards improving confidence in the financial system; securing the appropriate degree of protection for consumers; and promoting financial stability.

Market confidence

3. We believe our proposals support our overarching RDR objectives of removing product provider influence over adviser remuneration and improving the clarity of services offered by firms to consumers. Our proposals will serve to mitigate risks to an improvement in the quality of advice and consumer confidence, following the introduction of the rules in PS10/6. Adviser remuneration will not be influenced by cash rebates from providers to consumers. Platform operators will also have to become more transparent about the services they provide in order to justify their charging structures to consumers.

Consumer Protection

4. One of the outcomes of our proposals will be to restrict the influence that product providers and platforms have on the promotion of one fund over another. This outcome is also designed to keep in line with our broader RDR Adviser Charging objectives of aligning advisers' interests to those of their clients more closely. Furthermore, we look to make it easier for consumers to transfer assets from a platform (or other nominee company) to another in an efficient and orderly manner, promoting greater competition in the market. By applying our existing

capital adequacy framework to platforms we will also look to reduce the risk of consumers claiming redress from platforms that cannot afford to pay it.

5. We are also proposing to place requirements on platforms and other types of intermediate unitholder to pass on fund-related information received from the fund managers to consumers. This is to ensure that such information is used to inform consumers' decision making about fund investments and that voting rights are passed on to the retail client.

Financial Stability

6. Our proposals will look to clarify how our existing rules on capital adequacy apply to platforms. The rules are designed to align regulatory capital held by firms to the underlying risk presented by their business models.

7. We are also looking to introduce a requirement for platforms and other types of intermediate unitholder to pass on non-investor-specific information, e.g. unitholding sizes, to fund managers on request. This information will enable fund managers to manage fund liquidity more effectively.

Compatibility with the principles of good regulation

8. Section 2(3) of FSMA requires that, in carrying out our general functions, we have regard to the principles of good regulation. The proposals set out in the CP fulfil all our principles of good regulation:

   a. *The need to use our resources in the most efficient and economic way*

9. We have proposed further rules and guidance to address issues raised pre and post DP 10/02, in order to aid firms in complying with the new requirements. This will help to reduce future uncertainty in the application of rules and the need for individual guidance.

   b. *The responsibility of those who manage the affairs of authorised persons*

10. Our proposed rules will require firms' senior management to have a far greater role in managing conflicts of interest that arise and ensure that firms take the necessary steps to fulfil their requirements.

11. We have also sought to ensure that our approach is flexible enough to enable firms to meet the requirements in a way which is suitable for their business. For example, platforms are free to negotiate terms with product providers to provide a discount on charges in the form of additional fund units added to the retail client's investments.

   c. *The principle that a burden or restriction which is imposed should be proportionate to the benefits*

12. We have carried out a cost benefit analysis (see Annex 1). We consider that our proposals are proportionate to the market failures identified and the benefits our proposals claim.

   d. *The desirability of facilitating innovation*

13. Our proposals are not expected to hinder innovation.

e. The international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom

14. The proposals have paid specific regard to developments occurring in the EU, specifically the work on retail investment products, in order to minimise changes for firms in the near future. We do not believe our proposals will have a material effect on the competitive position of the United Kingdom.

f. The need to minimise the adverse effects on competition

15. Our proposals have been designed to minimise the adverse effects on competition by taking a flexible approach to regulation. This will allow firms to implement our requirements in a manner that is compatible with the nature of their business. We have taken account of the variety of platforms that exist in the market and the likely innovations in this area.

16. We aim to introduce minimal changes, while encouraging platforms to produce clear and effective disclosure to enable their customers to better understand the service they are receiving. In the long term, this could encourage customers and intermediaries to shop around for better services, further improving competition.

g. The desirability of facilitating competition

17. In the long term, competition may be enhanced if advisers when using platforms place a greater focus on price/quality product trade-offs to attract new customers. Furthermore, with better comparable disclosure on charging, advisers and consumers will have the tools to enable them to shop around and compare services, which could encourage platforms to become even more consumer-oriented. Re-registration will also look to foster competition by making it easier for a consumer to transfer investments between platform operators.

Why our proposals are most appropriate for the purpose of meeting our statutory objectives

18. In developing our proposals, we have taken steps to engage extensively with a wide range of industry practitioners, consumer representatives and other stakeholders to get their views on the issues to be addressed and to identify potential solutions. Through this we developed a better understanding of the key complexities in the market, solutions which could be most effective in resolving these and how the market could potentially react to proposed regulatory interventions.

19. We have taken into account the responses to DP 10/02 and conducted several pieces of research. The ensuing debate and analysis has led us to believe that the proposals we have outlined are the most appropriate in attempting to tackle the persistent problems observed in the retail investment market in respect of platforms.

20. Our proposals aim to remove the potential for bias created by current remuneration arrangements and improve transparency in the platforms market. The approach we

have taken is largely outcomes-based, with the intention of minimising, where possible, changes firms must make. We have also worked to ensure, so far as is possible, that the proposed changes are consistent with forthcoming changes within the EU.

List of non-confidential respondents to DP10/2

2020 Financial Services

AJ Bell

Association of Member-Directed Schemes

AWD Group Plc

Aegon UK

Alexander Forbes Financial Services Limited

Alliance Trust Savings Limited

Altus Limited

Artemis Investment Management Limited

Association of British Insurers

Association of Independent Financial Advisers

Association of Investment Companies

Aviva

Axa UK

Baillie Gifford & Co

BlackRock Group Limited

British Bankers Association

Canada Life Limited

Citywide Financial Partners

Cofunds Limited

Defaqto

Dennehy Weller & Co

ea Consulting Group

Eversheds LLP

Financial Escape Limited

Financial Services Consumer Panel

Foster Denovo Limited

Friends Provident Life and Pensions Limited

HSBC

Henderson Global Investors Limited

Integrated Financial Arrangements plc

International Financial Data Services

Intrinsic Financial Services Limited

Investment & Life Assurance Group Limited

Investment Management Association

John Blackmore

Liontrust Investment Funds Limited

Lloyds Banking Group plc

M&G Investments

Macquarie Bank International Limited

MoneyScience Investment Consultancy

Navigant Consulting (Europe) Limited

Novia Financial plc

Nucleus Financial Services Limited

Pershing Limited

Prudential UK

Querns Asset Managers LLP

Raymond James Investment Services

Royal London Group

SEI Investments (Europe) Ltd

Schroders Investment Management Limited

Sesame Bankhall Group

Seven Investment Management

Skandia UK

St. James's Place Wealth Management

Stan KirkStandard Life plc

T Bailey Asset Management

TCF Fund Managers LLP

Tax Incentivised Savings Association

Tenet Group Limited

The Association of Independent Discount and Non-Advisory Brokers

The Association of Private Client Investment Managers and Stockbrokers

The Carbon Footprint Fund PLC

The Institute of Chartered Accountants in England and Wales

The On-Line Partnership Limited

The Society of Pension Consultants

Threadneedle Investment Services Limited

Threesixty Services LLP

True Potential LLP

UK Platforms Group

Vanguard Investments UK Limited

Zurich Financial Services Limited

List of questions in this CP

Q1: Do you have any comments to make with regard to our definition of a platform service and platform service provider (contained in Appendix 1)?

Q2: Do you agree with our proposal to read across our rules on product providers to platforms in relation to facilitation of payment of adviser charges?

Q3: Do you agree with the rules and guidance we have proposed in relation to the standards we expect from an adviser when using a platform and providing advice?

Q4: Do you have any comments on the proposed guidance, on the use of platforms and the independence rule, in Annex 5?

Q5: Do you agree with our proposals for platform remuneration? If not please explain why setting out the effects of our proposal and what should be done instead, and why.

Q6: Do you agree with our proposal to ban the rebating of product charges in cash to retail clients across all retail investment products when advice is being provided?

Q7: Do you agree with our proposal to extend the scope of ensuring all firms acting as nominee companies offer re-registration in specie?

Q8: Do you agree with our proposal that re-registration should be carried out in a reasonable time and do you have any feedback as to what might be reasonable for particular wrappers and assets?

Q9: Do you agree that the new definition 'intermediate unitholder' incorporates all relevant firms?

Q10: Do you agree with our proposal to introduce a requirement for intermediate unitholders to pass on information provided by authorised fund managers to end investors?

Q11: Do you agree that we are allowing an appropriate level of flexibility by requiring intermediate unitholders to have appropriate systems and controls to either exercise voting rights on the instruction of investors, or to facilitate investors' exercising of rights?

Q12: Do you agree with our proposal to require intermediate unitholders to provide aggregate information when requested by authorised fund managers?

Q13: Do you have any comments on the cost benefit analysis?

Annex 5: Using platform based investments and the independence rule (COBS 6.2.15R[1])

Introduction

1. In Chapter 6 of Discussion Paper 07/2[2] (and the follow up Feedback Statement 08/1)[3] we set out our position in relation to platforms and the independence rule. We also provided a summary for smaller firms in a factsheet.[4] Our position has not changed. However, we have received requests from the industry for further explanation of our position on platforms and independence,[5] and the circumstances in which firms can use one platform. This annex seeks to meet these requests by additional clarification and good and poor practice examples.[6] Whilst this annex relates to the current COBS rules, the examples set out in this document are also relevant to the independence rules introduced by the RDR post 2012.

The independence rule

2. Currently the independence rule states that a firm must not hold itself out to a client as acting independently unless it intends to provide personal recommendations on packaged products from the whole market (or the whole of a sector of the market).[7]

3. Packaged products include (but are not limited to) collective investment schemes (CISs such as OEICs[8]), investment bonds, personal pensions and SIPPs.[9] Hence the rule has its effect at the product level and not the funds within the product. For example, when considering SIPPs, it is the SIPP which is subject to the whole market requirement and not the funds within the SIPP. It should also be noted that the funds available within a SIPP are an integral part of the product and should also be part of the firm's considerations when selecting a suitable product for the client.

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1 With the implementation of the RDR (31.12.12), this rule will be replaced by COBS6.2A.3R
2 http://www.fsa.gov.uk/pages/Library/Policy/DP/2007/07_02.shtml
3 http://www.fsa.gov.uk/pages/Library/Policy/DP/2008/fs08_01.shtml
4 http://www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/factsheet_wraps.pdf (page 6).
5 For the purposes of this annex, all references to firms and advisers refers to those firms and advisers holding themselves out as being independent.
6 Unless stated otherwise these examples are fictional. The good and poor practice examples are examples only and firms can use other approaches to meet our rules and Principles.
7 And offers the client the opportunity of paying a fee for the provision of such advice
8 Open-ended investment companies.
9 Self invested personal pensions.

4. At present, platforms generally have access to a very wide (or even whole of market) range of CIS funds but usually a much more limited range of other packaged products such as investment bonds, personal pensions and SIPPs.[10] Hence, in practice, the whole of market rule is harder to meet in relation to these products when using platforms.

5. It is also worth noting that there is a close relationship between the independence rule and suitability[11] and best interests[12] rules as will be seen from the scenarios below.

6. In Discussion Paper 07/2 and Feedback Statement 08/1 we set out situations where firms could use platforms and remain independent. In summary, these included:

   - considering products from outside the platform;
   - using a platform with multiple packaged products; and
   - providing a specialist service through one platform.[13]

7. In addition, a combination of these factors, or using more than one platform, can aid firms in meeting the independence rule. We anticipate that most firms will use products from outside the platform as their primary means of meeting the independence rule.

Using one platform for all clients for all investments

8. We think this is likely to be very rare in the current platforms market, although as the market develops this position may change. The firm's client bank would have to be defined; that is, having a similar range of needs and objectives such that the firm's investment proposition – including the use of a particular platform - would be suitable for all of them. In addition, they would not have any 'outlier' clients. In practice this is only likely to arise where the firm screens out clients for whom the platform-based service would not be suitable.

Good practice

In Discussion Paper 07/2 we gave an example of where it may be possible to use a single platform for all the firm's clients.[14] This example was of a firm where they had a defined category of clients and screened out clients for whom the single platform-based services were not suitable.

10 Currently, some platforms do not have access to the wider range of products covered by retail investment products definition from 31.12.12.

11 Principles 6 and 9, COBS9.2R.

12 COBS2.1.1R.

13 We also discussed the possibility of using a platform with universal, or 'vanilla', wrappers and products (where they are considered suitable for all). However, at present, it is not generally the case that these wrapper products are benign and suitable for all as they generally involve varying charges and features.

14 http://www.fsa.gov.uk/pubs/discussion/dp07_02.pdf paragraph 4.15.

9. Firms operating this way still need to be mindful of the products from the whole of the market so that they can identify 'outlier' clients for whom this is not suitable, for example, if they have particularly individual needs that cannot be met by the platform-based products.

Poor practice

The firm has decided to use a single platform for all clients and for all investments. Although the firm discloses the nature of the services, and the costs, they do not undertake adequate assessments of suitability for individual clients and all clients are moved onto the platform irrespective of the individual needs and circumstances.

Using one platform for *all* clients for most of their investments

10. This is a more likely scenario than the one above as, even when there is a defined category of clients, there are probably going to be outlier clients and hence the potential need for recommending products off platform. The platform adopted would need to be competitive in terms of charges and features across the defined category of clients for this to be an appropriate approach.

Good practice

The firm only deals with a defined category of clients but remain mindful of the products available across the market. Hence, when a client has a particular individual need, then they are able to recommend a product off platform that is suitable for this client and in their best interests. For example, if the platform-based SIPP does not offer the option of individual commercial property purchase (or SIPPs available through the platform are uncompetitive in this respect) then the firm recommends another SIPP where it is suitable for the client to invest in an individual commercial property.

Poor practice

The firm uses a single platform but has not assessed for which clients the platform-based services are – and are not - suitable. They use the platform routinely for all clients without adequate consideration of the clients' needs and personal circumstances. This risks unsuitable advice with some clients; for example where the platform has a fixed fee and the client's investment level is very low (and hence the flat fee has a disproportionate impact of the overall costs), or where it would have been in the client's best interests to have been recommended a particular investment that is not available on the platform.

11. Another application of this scenario is where the firm uses a platform that has no additional costs for the CIS investments for all their clients when CISs are recommended. As stated above, platforms generally have a very wide (or whole of market) range of CISs and hence it is much more straight-forward to meet the independence rule with these investments.

Using one platform for some of their clients

12. A firm may want to use a single platform to offer a platform-based service to a segment of their client bank. Here the firm has identified a defined category of clients and wish to provide platform-based services to these clients. Clients for whom this service is not suitable should be handled differently (for example, using off-platform investments). This includes ensuring that the needs and circumstances of clients within the defined segment of the client bank are also considered individually and any outlier clients are handled appropriately.

Good practice

The firm has decided it wants to provide a 'premier service' to its more wealthy clients (which it has defined as having over a certain level of investable assets). It undertook appropriate due diligence on the platform to adopt and considered which clients were suitable for this approach, and which were not. Although most clients within their defined segment proved to be suitable for this service, and the platform used to underpin it, it did not adopt a 'one-size-fits-all' approach and continued to recommend products off-platform on those occasions where the platform-based solution was not suitable for the individual client's needs and circumstances.

Poor practice

The firm adopted a particular platform to support the ongoing services it planned to offer to clients. However, it recommended platform-based investments with ongoing services to all clients irrespective of their individual needs and circumstances. This use of a single platform would be unlikely to be the best interests of this wide range of clients. The firm did not have a clear idea of when providing ongoing advice was in the client's best interests, and when it was not. In addition, the firm's management did not put in place any controls (for example guidance) on the recommendation of the platform-based services. Hence the firm risked recommending unnecessarily expensive platform-based services when, for example, a lower cost transactional service may be in the best interests of some clients.

Using more than one platform

13. Where a firm has a diverse range of clients, it may be in the firm's interests – as well as the clients' best interests – for the firm to use more than one platform. The firm may want to offer different levels of service to different categories of client. We have set out before[15] how clear segmentation of the client bank and effective matching of firm services and platform selection can be a beneficial approach. This is likely to increase the 'hit rate' of clients for whom one of the firm's services is suitable. Clearly, as with the other scenarios above, it will be necessary to consider each client individually and ensure that any outlier clients are handled appropriately.

Good practice

The firm had a broad range of clients from those with simple pensions and small investment needs to those with significant sums to invest. The firm developed a range of services to meet the needs of the different clients it dealt with and undertook appropriate due diligence on platforms to ensure it adopted the right ones for itself and its clients. It based the client segmentation on investable assets[16] and at the higher end it adopted a platform with a wide range of products and services and the ability to support the Adviser Charging arrangements it wanted to offer for this service. For the next category of clients, it adopted a lower cost platform and a simpler service appropriate for these clients. It also felt that it had some clients whose needs were simple and did not require routine ongoing services (but offered advice on a reactive basis). It worked on a transactional basis for these clients. It typically used a platform with no additional costs for CIS sales to these clients but did not use a platform when recommending investment bonds and pensions.

It set out clearly which clients were most likely to be suitable for each service and it had processes in place to ensure that each client was considered individually and handled differently to the standard services where this was in the client's best interests. In addition, its business monitoring was based on ensuring the right outcomes were achieved for individual clients.

Poor practice

Individual advisers within the firm adopted different platforms from each other. There was no consistent approach for providing services for clients, or basis for charging clients. There was no clear understanding by advisers, or the compliance officer, about when their platform-based services were suitable and not suitable. This risked unsuitable advice given the lack of understanding about the suitability issues. Finally, there was the potential for costs for clients to be higher than would have been the case had the firm used platforms in a more focused and economic way

Summary

14. The outcome we are seeking is not about ensuring an artificial spread of investments to meet the independence rule, it is about being mindful of the range of product and investment options across the whole market in order that firms can provide suitable advice to their clients. In this context, it is important for firms to be clear about which clients the overall solution – the platform, the products, funds and adviser services – are suitable for, and in their best interests, and which are not. For further information on this see the findings of our thematic project on investment advice and platforms, and the good and poor practice report.[17]

17 http://www.fsa.gov.uk/pages/Library/Other_publications/platform_thematic_review/index.shtml

Draft handbook text

RETAIL DISTRIBUTION REVIEW (PLATFORMS) INSTRUMENT [ ]

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of:

(1) the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(a) section 138 (General rule-making power);
(b) section 145 (Financial promotion rules);
(c) section 156 (General supplementary powers); and
(d) section 157(1) (Guidance); and

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.

B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 31 December 2012.

Amendments to the Handbook

D. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COBS)	Annex B
Collective Investment Schemes sourcebook (COLL)	Annex C

Citation

E. This instrument may be cited as the Retail Distribution Review (Platforms) Instrument [ ].

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

intermediate unitholder	a *firm* whose name is entered in the *register* of *unitholders* of a *non-UCITS retail scheme* or a *UCITS scheme* and which: (a) is not the beneficial owner of the relevant *unit*; (b) does not *manage investments* on behalf of the relevant beneficial owner of the *unit*; and (c) does not act as a *depositary* of a *collective investment scheme* or on behalf of such a *depositary* in connection with its role in holding *scheme property*.
platform service	a service which: (a) involves *arranging* and *safeguarding and administering assets*; and (b) is provided in relation to *retail investment products* which are offered to *retail clients* by more than one product provider; but is neither (c) solely paid for by *adviser charges*; nor (d) ancillary to the activity of *managing investments* for the *retail client*.
platform service provider	a *firm* providing a *platform service*.

Delete the following definition.

~~*funds supermarket service*~~	~~a service consisting of the provision by a *firm* of *regulated activities* for a *customer* which consists of *arranging (bringing about) deals in investments* and *safeguarding and administering investments* with particular reference to *regulated collective investment schemes* where:~~ ~~(a) the *schemes* are managed by other *firms*;~~

~~(b)~~ ~~the *customer's units* are held under arrangements in which their legal title is held by a *nominee company*; and~~

~~(c)~~ ~~the service relates to *schemes* offered by several *product providers*, at least one of whom is not an *affiliated company* of another *provider*.~~

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

6.1A Adviser charging and remuneration

…

Requirement to be paid through adviser charges

…

6.1A.8 G Examples of payments and benefits that should not be accepted under the requirement to be paid through *adviser charges* include:

(1) a share of the *retail investment product* charges or *platform service provider's* charges or *retail investment product* provider's or *platform service provider's* revenues or profits ~~(except if the *firm* providing the *personal recommendation* is the *retail investment product* provider)~~; and

(2) a commission set and payable by a *retail investment product* provider in any jurisdiction.

…

Requirement to use a charging structure

…

6.1A.14A R A *firm* must take reasonable steps to ensure that it does not make a *personal recommendation* to a *retail client* in relation to a *retail investment product* if:

(1) that product's charges or the *platform service provider's* charges are presented in a way that offsets or may appear to offset any *adviser charges* that are payable by that *retail client*; or

(2) that product's charges or other payments are maintained by the *retail investment product* provider at a level such that a cash rebate is payable to the *retail client*.

…

6.1B Retail investment product provider and platform service provider requirements relating to adviser charging and remuneration

Application – Who? What?

6.1B.1 R This section applies to:

(1) a *firm* which is a *retail investment product* provider; and

(2) in relation to *COBS* 6.1B.9R, *COBS* 6.1B.10G and COBS 6.1B.11G, a *platform service provider*;

in circumstances where a *retail client* receives a *personal recommendation* in relation to a *retail investment product*.

…

Requirement not to offer commissions

…

6.1B.6 G The requirement not to offer or pay commission does not prevent a *firm* from making a payment to a third party in respect of administration or other charges incurred, for example a payment to a ~~fund supermarket~~ *platform service provider* or a third party administrator.

Distinguishing product charges from adviser charges

6.1B.7 R A *firm* must :

(1) take reasonable steps to ensure that its *retail investment product* charges are not structured so that they could mislead or conceal from a *retail client* the distinction between those charges and any *adviser charges* payable in respect of its *retail* investment *products*; ~~and~~

(2) not include in any marketing materials in respect of its *retail investment products* or facilities for collecting *adviser charges* any statements about the appropriateness of levels of *adviser charges* that a *firm* could charge in making *personal recommendations* or providing related services in relation to its *retail investment products*; and

(3) not defer, discount or rebate *retail investment product* charges in a way that offsets or may appear to offset any *adviser charges* that are payable, including by maintaining *retail investment product* charges at a level such that a cash rebate is payable to the *retail client*.

6.1B.8 G *COBS* 6.1B.7R does not prevent a *firm* from offering a promotional discount to a *retail client* in the form of extra *units* or additional investment in another form, but ~~A~~ a *firm* should not offer to invest more than 100% of the *retail client's* investment.

Requirements on firms facilitating the payment of adviser charges

6.1B.9 R A *firm* that offers to facilitate, directly or through a third party, the payment of *adviser charges* from a *retail client's retail investment product* or otherwise by means of a *platform service* must:

(1) obtain and validate instructions from a *retail client* in relation to an *adviser charge*;

(2) offer sufficient flexibility in terms of the *adviser charges* it facilitates; and

(3) not pay out or advance *adviser charges* to the *firm* to which the *adviser charge* is owed over a materially different time period, or on a materially different basis to that in which it recovers the *adviser charge* from the *retail client* (including paying any *adviser charges* to the *firm* that it cannot recover from the *retail client*).

…

After COBS 6.1D insert the following new sections. The text is not underlined.

6.1E Platform service providers

Platform service providers: fees and commission

6.1E.1 R (1) If, in relation to a *retail investment product*, a *platform service provider* arranges to accept a fee or commission paid by a third party or a *person* acting on behalf of a third party, it must clearly disclose the amount of that fee or commission to the *professional client* or *retail client* in a *durable medium* in good time before the provision of *designated investment business.*

(2) In the event that it is not possible to make the disclosure in (1) in good time before the provision of *designated investment business*, the disclosure must be made as soon as practicable thereafter.

6.1E.2 G If a *platform service provider* accepts a fee or commission referred to in *COBS* 6.1E.1R, it should pay due regard to its obligations under *Principle* 6 (Customers' interests), *Principle* 7 (Communications with clients) and the *client's best interests rule*, and ensure that it presents *retail investment products* to *professional clients* and *retail clients* in an unbiased manner.

6.1F Using a platform service for arranging and advising

Client's best interests rule and using a platform service

6.1F.1 R A *firm* (other than a *platform service provider*) which:

(1) *arranges* the sale of a *retail investment product* for a *retail client* or makes a *personal recommendation* to a *retail client* in relation to a *retail investment product*; and

(2) uses a *platform service* for that purpose;

must ensure that it uses a *platform service* which presents its *retail investment products* in an unbiased manner.

6.1F.2 G When selecting and using a *platform service* for the purpose described in *COBS* 6.1F.1R, a *firm* should pay due regard to the *client's best interests rule* and the *rule* on inducements (*COBS* 2.3.1R).

6.1G Re-registration of title to retail investment products

Re-registration requests: firms acting as nominee companies

6.1G.1 R If a *client* requests a *firm* acting as a *nominee company* (N1) to transfer the title to a *retail investment product* which is held by N1 on that *client's* behalf to another *nominee company* (N2), and N1 may lawfully transfer the title to that *retail investment product* to N2, N1 must execute the *client's* request within a reasonable time.

Re-registration requests: firms acting as registrars

6.1G.2 R A *firm* acting as a *registrar* should carry out a request by a *nominee company* for the re-registration of ownership of a *retail investment product* to another *nominee company* within a reasonable time.

Amend the following as shown.

6.2A Describing advice services

…

Firms holding themselves out as independent

…

6.2A.4A R In complying with *COBS* 6.2A.3R, a *firm* which:

(1) holds itself out to a *retail client* as acting independently; and

(2) relies upon a single *platform service* to facilitate the majority of its *personal recommendations* in relation to *retail investment products*;

must take reasonable steps to ensure that, as appropriate, the *platform service provider* bases its selection of *retail investment products* on a comprehensive, fair and unbiased analysis of the relevant market.

6.2A.4B G When a *firm* considers whether a *platform service provider*'s selection of *retail investment products* is based on an unbiased analysis of the relevant market, a *firm* should take into account any fees, commission or non-monetary benefits the *platform service provider* receives in relation to those *retail investment products*.

…

13.1 The obligation to prepare product information

…

Exceptions

…

13.1.4 R A single *document* prepared for more than one *key features scheme*, *simplified prospectus scheme* or *EEA simplified prospectus scheme* may combine more than one *key features document*, *simplified prospectus* or *EEA simplified prospectus*, or any combination of them, if the *schemes* are offered through a ~~*funds supermarket service*~~ *platform service* and the *document* clearly describes the difference between the *schemes*.

…

14.2 Providing product information to clients

…

Exception to the provision rules: aggregated scheme documents

14.2.11 R A *firm* may provide a single *document*, which describes more than one *key features scheme*, *simplified prospectus scheme* or *EEA simplified prospectus scheme*, or any combination of those *schemes*, if:

(1) the *schemes* are offered through a ~~*funds supermarket service*~~ *platform service*;

(2) the *document* clearly describes the difference between the relevant *schemes*; and

(3) (in the case of a *simplified prospectus scheme* or an *EEA simplified prospectus scheme*) the *firm* also offers copies of the relevant prospectuses to the *client*.

After COBS 14.3 insert the following new section. The text is not underlined.

14.4 Provision of information by an intermediate unitholder

Provision of information to the beneficial owner

14.4.1 R (1) An *intermediate unitholder* which receives any of the notifications in (a) to (f) from an *authorised fund manager* or *depositary*, must send that notification to the beneficial owner of the relevant *unit* or, if relevant, a *person* acting on that beneficial owner's behalf:

(a) the written notification of a significant change referred to in *COLL* 4.3.6R(1);

(b) information about notifiable changes referred to in *COLL* 4.3.8R(1);

(c) written notice of a meeting of *unitholders* referred to in *COLL* 4.4.5R(1);

(d) the short report referred to in *COLL* 4.5.13R(1);

(e) the notification of suspension of *dealings* in *units* referred to in *COLL* 7.2.1R(2A); and

(f) the notices referred to in *COLL* 7.3 (Winding up a solvent ICVC and terminating a sub-fund of an ICVC) and *COLL* 7.4 (Winding up an AUT and terminating a sub-fund of an AUT).

(2) The notification in (1) must be sent as soon as reasonably practicable after the *intermediate unitholder* has received the notification from the *authorised fund manager* or *depositary*.

14.4.2 R If a *firm* is acting on behalf of the beneficial owner of a *unit* and it receives a notification under *COBS* 14.4.1R, it must send that notification to the beneficial owner of the relevant *unit* as soon as reasonably practicable after it has been received.

14.4.3 R A *firm* must not make a specific charge for the provision of the notifications in *COBS* 14.4.1R(1) and *COBS* 14.4.2R.

14.4.4 G The notifications in *COBS* 14.4.1R(1) and *COBS* 14.4.2R may be sent by means of an *electronic communication*.

Voting rights

14.4.5 R An *intermediate unitholder* must establish and maintain appropriate systems to enable the beneficial owner of the relevant *unit* or, if relevant, a *person* acting on that beneficial owner's behalf, to:

(1) exercise the voting rights deriving from that *unit* as if the beneficial owner were the *unitholder* for the purposes of *COLL* 4.4.8R; or

(2) instruct the *intermediate unitholder* to exercise those voting rights on the beneficial owner's behalf.

14.4.6 R If a *firm* is acting on behalf of the beneficial owner of a *unit* and it receives a notification in relation to the exercise of the voting rights described in *COBS* 14.4.5R, it must enable the beneficial owner of the relevant *unit* to exercise those voting rights or, if relevant, instruct the *firm* or the *intermediate unitholder* to exercise those voting rights on the beneficial owner's behalf.

14.4.7 R A *firm* must not make a specific charge to enable the beneficial owner of a *unit* to exercise, or instruct a *firm* to exercise, the voting rights described in *COBS* 14.4.5R and *COBS* 14.4.6R.

14.4.8 G An *intermediate unitholder* should use all reasonable endeavours to ensure that the beneficial owner of the relevant *unit* is given adequate time to consider how he wishes to exercise the voting rights deriving from that *unit* and to seek professional advice if he wishes to do so.

Information requests by authorised fund managers for liquidity management purposes

14.4.9 R If an *intermediate unitholder* receives a reasonable request from an *authorised fund manager* for information relating to the beneficial owners of the *units* in respect of which the *intermediate unitholder's* name is entered in the *register* of *unitholders*, the *intermediate unitholder* must provide that information to the *authorised fund manager* as soon as is reasonably practicable.

14.4.10 G Examples of information which may be reasonably requested by an *authorised fund manager* include:

(1) a breakdown of the total number of *units* held by the *intermediate unitholder* to indicate the number of *units* attributable to individual

beneficial owners: and

(2) information about the types of distribution channels which have been used to sell the *units* to the relevant beneficial owners.

14.4.11 G When responding to a request for information under *COBS* 14.4.9R, an *intermediate unitholder* is not obliged to provide to the *authorised fund manager* any information which is capable of identifying the beneficial owner of the relevant *units*.

14.4.12 G In determining whether a request from an *authorised fund manager* is reasonable, an *intermediate unitholder* may take into account the frequency with which such requests have been received.

Annex C

Amendments to the Collective Investment Schemes sourcebook (COLL)

In this Annex, underlining indicates new text and striking through indicates deleted text.

Payments out of scheme property: guidance

6.7.5G (1) Details of permissible types of payments out of *scheme property* are to be set out in full in the *prospectus* in accordance with *COLL* 4.2.5R(13) and *COLL* 4.2.5R(14) (Table: contents of the prospectus).

(2) An *authorised fund manager* should consider whether a payment to an *affected person* is unfair because of its amount or because it confers a disproportionate benefit on the *affected person*.

(3) *COLL* 6.4.7R(2) (Payments out of scheme property) does not invalidate a payment that gives rise to a difference between the rights of separate *classes* of *unit* that relates solely to the payments that may be taken out of *scheme property*.

(4) Payments to third parties as referred to in *COLL* 6.7.4R(4) include ~~payment~~ <u>payments</u> to ~~providers of *fund supermarket services*~~ <u>*platform service providers*</u> and other similar platform services.

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