

Broadening access to financial advice for mainstream investments

Consultation Paper

CP22/24***

November 2022

How to respond

We are asking for comments on this Consultation Paper (CP) by **28 February 2023**.

You can send them to us using the form on our [website](#).

Or in writing to:

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1 Summary

Why we are consulting

- 1.1** As set out in our [Consumer Investments Strategy](#) (CI Strategy) published on 15 September 2021, we want to see a consumer investment market in which consumers can invest with confidence, understanding the risks they are taking and the regulatory protections provided. We do not want to restrict consumers if they want to invest, but we do want them to be able to access and identify investments that suit their circumstances and attitude to risk. Central to this is ensuring that consumers can get the advice or support they need.
- 1.2** A key part of the CI Strategy is addressing harm to mass-market consumers who may benefit from investing in line with their risk appetite, but who currently hold their savings in cash. This goal is aligned with the public commitment in [Our Strategy 2022-2025](#) to enable consumers to help themselves and for firms to put consumers' needs first.
- 1.3** Our Financial Lives Survey (FLS) in 2022 identified that approximately 4.2 million¹ consumers hold £10,000 or more of investable assets mostly or entirely in cash despite having some appetite to take investment risk.² Whilst retaining such significant cash reserves can be appropriate in some circumstances, many consumers in this position are likely to experience harm as a result of the real value of their assets falling due to inflation (versus the upside potential from investing).
- 1.4** Evidence suggests that many consumers with excess cash savings would value a personal recommendation to gain confidence in investing. Many consumers also prefer to receive support from a person rather than an online service ([Ignition House](#), 2020). It is crucial that consumers can access the right support to make effective investment decisions, but firms may face challenges in providing advice to consumers with simpler needs and/or lower investment amounts.
- 1.5** In this consultation paper (CP) we set out our proposals for a new core investment advice regime. The aim is to allow firms to provide mass-market consumers with straightforward financial needs greater access to simplified advice on investing into mainstream products, specifically within stocks and shares ISAs (S&S ISAs). We want to make it easier for firms to provide advice that is proportionate to the needs of the consumer at a lower cost. This will help consumers who are holding large sums in cash to invest, potentially for the first time, into S&S ISAs. This is something we committed to in our CI Strategy. The FCA does not specifically authorise or regulate S&S ISAs and we do not recommend any specific S&S ISAs or investments held in them. However, we view these as appropriate investment wrappers given their accessibility and cost-effectiveness which helps consumers step into the world of investing.

1 Using data from *Financial Lives 2020*, the Consumer Investments Strategy reported that 8.4m had £10,000+ investable assets mostly or entirely in cash; preliminary data from *Financial Lives 2022* shows that this has gone up to 9.7m, 44% of whom (4.2m) say they have some appetite to take investment risk.

2 Our Financial Lives 2022 survey was conducted from 1 February to 6 June 2022, with a majority of the interviews completed in May 2022. Our earlier 2020 survey was conducted from 30 August 2019 to 18 February 2020, with a majority of the interviews completed in January and February 2020.

- 1.6** We also aim to provide clarity on some common areas of concern raised by industry stakeholders, including in relation to flexibility in the suitability requirements, and whether marketing to a target audience constitutes advice (see Chapters 4 and 8).
- 1.7** The proposals in this CP have been informed by engagement with a range of stakeholders including the industry, our statutory panels and consumer groups over a number of years, and by feedback on our CI Strategy.

Who this applies to

- 1.8** Whilst this list is not exhaustive, the consultation will primarily be of interest to:
- consumers and consumer organisations
 - authorised firms that provide investment advice, including principal firms with appointed representative (AR) networks
 - authorised firms holding related permissions, eg advising on pension transfers/opt outs
 - financial advisers
 - investment platforms
 - retail banks
 - trade bodies for the investment sector
- 1.9** Who else will be interested in this consultation:
- authorised firms which communicate financial promotions relating to investment business
 - accredited bodies.

What we want to change

- 1.10** From our research on the market, including for work done in support of the CI Strategy, we have identified both supply and demand side issues that we believe can be best addressed through policy changes.
- 1.11** On the supply side, firms have raised concerns on how best to interpret the existing flexibility within current suitability rules, noting prospective mis-selling liabilities if advice given is not suitable. Additionally, firms have raised the economic viability of providing advice to mass-market consumers – especially where there is a human element involved – given requirements around suitability and the initial customer fact find, adviser qualifications and adviser charging (Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review, 2020).
- 1.12** On the demand side, our consumer research shows that less wealthy consumers don't tend to access professional support with their finances as often as wealthy consumers, though many want more support to make financial decisions like investing in a S&S ISA. When consumers do look for support, those who receive advice as opposed to guidance are more likely to hold investment products (Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review, 2020). Additionally, consumers value the confidence a personal recommendation offers. Finally, our

qualitative research has found that customers value human interaction in the advice process and make very few of the more complex financial decisions without some form of human intervention (Ignition House, 2020). If offered a free consultation, only 6% of adults would choose a robo-adviser, whereas 51% would choose to meet face-to-face with an adviser (Mintel, 2021).

1.13 To tackle these market issues, we propose a new streamlined regulatory regime to increase firms' confidence and commercial willingness to provide financial advice proportionate to the needs of the consumer. It will support consumers with straightforward needs holding excess cash to invest it within a S&S ISA wrapper. Firms should find it cheaper and easier to provide this advice to consumers who need it. Consumers should find that unnecessary friction in the advice process is reduced.

1.14 The new regime streamlines some of our existing regulatory requirements in retained EU law and in the FCA Handbook, whilst ensuring high standards of consumer protection are maintained. We propose the following changes:

- Proportionately reducing the existing qualification requirements to reflect the lower risk of this narrow scope advice, focused on only the necessary technical and regulatory understanding to advise on mainstream investments.
- Reframing the existing suitability requirements to reflect the narrower scope and complexity of this advice relevant to the decision that consumers will be making.
- Limiting the possible investments advisers can recommend under the new regime to a set of mainstream investments by excluding any recommendations to invest in high-risk investments.
- Allowing greater flexibility in charging structures to allow consumers to pay for transactional advice in instalments.

1.15 The regime is based on our existing requirements for holistic financial advice, which will continue to apply in some areas. In others, we propose adding new requirements, amending or removing them. The Consumer Duty will also apply. The table below summarises our approach.

	Existing holistic financial advice rules	Core investment advice regime	Chapter reference
Scope of service, service design and filtering	Application of requirements under PROD. Service disclosure requirements at COBS 2.2A	Application of existing requirements under PROD. Service disclosure requirements at COBS 2.2A. Introduction of new definition of 'core investment advice' in Handbook Glossary. Provision of core investment advice limited to a sub-set of products within the S&S ISA wrappers, therefore up to the annual ISA subscription limit set by the Treasury.	Chapter 3, Chapter 6

	Existing holistic financial advice rules	Core investment advice regime	Chapter reference
Suitability	Application of requirements under COBS 9A. Application of FG17/8 Non-Handbook Guidance on streamlined advice.	Application of existing requirements under COBS 9A Application of FG17/8 Non-Handbook Guidance on streamlined advice. Introduction of new Non-Handbook Guidance on suitability requirements when carrying out core investment advice.	Chapter 4, Appendix 2
Training and Competence	Application of relevant requirements under TC and SYSC. Advisers must be QCF level 4 qualified to offer advice without supervision.	Application of certain requirements under TC and SYSC relating to trainee advisers' competence and supervision. Introduction of new requirements in TC to reduce required qualification level for core investment advice only. Application of new record retention requirements.	Chapter 5
Product governance	Application of relevant PROD requirements.	Application of relevant PROD requirements. Limitation on the range of investments that can be recommended to exclude RMMIs and NMMIs.	Chapter 6
Fees and Charges	Application of relevant COBS 6 requirements.	Application of relevant COBS 6 requirements. Introduction of new rule in COBS 6 allowing for payment of advice charges in instalments.	Chapter 7
Marketing and disclosures	Application of relevant COBS 4, COBS 6 and COBS 9A requirements. Application of relevant PROD 3 requirements.	Application of relevant COBS 6 and COBS 9A requirements. Application of relevant PROD 3 requirements. Introduction of new guidance in PERG relating to core investment advice. Introduction of new guidance in COBS 6 and 9A relating to disclosure of the scope and nature of core investment advice.	Chapter 8
Authorisation and Supervision	Requirement to hold 'advising on investments' permission to offer holistic financial advice, General notification requirements under SUP 15 apply.	Requirement to hold 'advising on investments' permission to offer core investment advice. General notification requirements under SUP 15 apply and addition of a specific notification requirement for firms wishing to undertake core investment advice under SUP 15. Introduction of new record keeping requirements for core investment advice specifically.	Chapter 10

	Existing holistic financial advice rules	Core investment advice regime	Chapter reference
Senior Managers and Certification Regime (SM&CR) and Approved Persons Regime (APR)	SM&CR and associated rules apply to directly authorised firms, as APR applies to advisers at firms which are appointed representatives of a principal firm.	SM&CR and associated rules apply to directly authorised firms offering core investment advice, as APR applies to core investment advisers at firms which are appointed representatives of a principal firm.	Chapter 9

- 1.16** To see an increase in the proportion of consumers with large amounts of excess cash having the confidence to invest these savings for better longer-term returns, we are proposing supply and demand side changes aimed at making it easier and cheaper for firms to provide simpler advice to this group.
- 1.17** On the supply side, changes will include
- Reducing the level of qualification needed to provide advice on mainstream products to clients with straightforward needs.
 - Limiting the range of products available within the regime.
 - New guidance clarifying suitability obligations so that firms have confidence on the minimum level of information expected for the fact find. This aims to reduce the time needed for the fact finding and resolve some of firms' liability concerns.
- 1.18** We expect that these changes, along with the Consumer Duty, should mean core investment advice can be offered to consumers at a lower price point than holistic financial advice.
- 1.19** On the demand side, we are introducing increased flexibility in payment schedules relating to advice costs for consumers. Our aim with this is that the price of existing advice provided by humans, rather than robo- or auto-advice, should reduce. This should see a greater number of consumers willing to consider advice and a smaller number put off from receiving advice through perceived high charges. Our expectation is therefore that more consumers will move some of their excess cash savings into investments within S&S ISA wrappers.
- 1.20** Through this we want fewer consumers to experience a significant reduction in the value of their savings due to inflation, and for more consumers to benefit from greater returns associated with investing over the medium to long term.
- 1.21** Financial Services Compensation Scheme (FSCS) protection, as well as the ability to complain to the Financial Ombudsman Service (FOS), will apply for core investment advice in the same way as for holistic financial advice.

Measuring success

- 1.22** These proposals are a key part of our CI Strategy which sets out our 3-year plan to address the key harms in the consumer investment market. It committed to delivering against 4 outcomes. One is to target a 20% reduction in the number of consumers with higher risk tolerance holding over £10,000 in cash by 2025. The implementation of the Consumer Duty is also part of meeting this outcome. A key success measure of these proposals is whether they help achieve this outcome.
- 1.23** We can also measure the success of our proposed new regime by the following:
- the number of firms using the new regime
 - the number of new core investment advice customers and amount invested through the core investment advice regime
 - the change in the number of new S&S ISAs taken out by consumers (and other S&S ISAs data), measured through His Majesty's Revenue and Customs (HMRC) and FLS product holding data
 - the increase in the percentage of consumers with over £10,000 in investable assets investing rather than holding cash
 - firms' complaints data (where relevant) and analysis of the FOS' adjudications on complaints

Next steps

- 1.24** We will gather feedback on our proposals and the questions in Annex 1. We welcome feedback on our proposals by 28 February 2023. We will consider all responses.
- 1.25** Subject to the responses received, we will look to publish a final policy statement and finalise rules and guidance in spring 2023, targeting implementation of the regime before the end of the 2023/24 financial year (ie end March 2024) so firms will be able to start offering core investment advice from the beginning of April 2024.

2 The wider context

The harm we are trying to reduce

Consumers holding excess cash where they may benefit from investing

- 2.1** As we stated in our 2020 Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review, we want more people to invest. Keeping considerable sums of money all in cash will generally not make sense for many people. We want to see a market that offers the right support to meet wide-ranging consumer needs and gives consumers the confidence to invest where suitable. This would be good for consumers, the industry, and the wider UK economy.
- 2.2** But we know this is still not happening. FLS (2020) identified that at least 15.6m UK consumers had over £10,000 in investable assets.³ Amongst these, 55% held the majority (at least 75%) or all of this in cash. Approximately 8.4m UK consumers held the majority of or all their £10,000+ investable assets in cash.⁴
- 2.3** Our most recent data suggests that this figure has increased. FLS (2022, in publication) identified that approximately 9.7m UK consumers have over £10,000 in investable assets and held these mostly or entirely in cash. Out of those, the number of consumers who have some appetite for investment risk is approximately 4.2m.⁵ Whilst retaining such significant cash reserves can be appropriate in some circumstances, many consumers in this position are likely to experience harm as the real value of their asset falls due to inflation, as opposed to potential returns from investing. One of the outcomes we set out in the CI Strategy is a 20% reduction in the number of consumers holding cash in this way. This would equate to approximately 840,000 consumers moving some of their assets from cash into mainstream investment products.

Barriers for firms in providing support

- 2.4** It is crucial that consumers can access the right support to make effective investment decisions. However, firms tell us that they sometimes face challenges advising those with simpler needs and/or lower investment amounts on a commercially viable basis. Firms say this is due to our rules on adviser qualifications and a lack of confidence in applying the flexibility built into existing suitability requirements.

3 Financial Lives data on investable assets includes the total value of money held as savings in current accounts as well as cash savings products, plus the total current market value of any investment products held. It does not include property, collectables like wine, art or jewellery, or defined contribution pension assets. Some adults don't know how much they have or prefer not to say. As a result, population estimates (the number of adults in millions) are likely to be an under-estimate of the actual population.

4 Financial Lives data on the proportion of investable assets held in cash is calculated by comparing the amount of money each adult holds in cash savings products to the amount they hold in investment products. Some adults did not tell us their cash and/or investment values, but rather their overall level of investable assets. These adults have been excluded from this analysis. As a result, population estimates (the number of adults in millions) are likely to be an under-estimate of the actual population.

5 Financial Lives asks survey respondents how willing they are to take risk when investing, on a scale of 0-10. We assume people who scored themselves 4 or more have some appetite to take investment risk.

- 2.5** Some rules (eg qualification requirements) are designed to provide sufficient protections to consumers when receiving holistic financial advice on the most complex issues. But they apply broadly to advice across different contexts even where customers' needs are simpler and investment amounts are low.
- 2.6** There are areas of the existing framework that offer some flexibility (eg the suitability assessment process). But our engagement with firms has suggested that many firms do not feel confident making use of this flexibility due to the potential they perceive for inadvertently breaching regulations and creating mis-selling liabilities. This hesitance persists despite past interventions to provide further non-Handbook guidance on suitability (eg on simplified advice (FG12/10) and streamlined advice (FG17/8)). Giving firms greater confidence through the dedicated support we offer individual firms through Innovation Pathways and the Regulatory Sandbox is also constrained by its capacity to deliver systemic change to the market.
- 2.7** These challenges can mean that firms' charges are such that they either (a) do not service the mass market effectively, preferring to advise wealthier individuals where the fees they will earn will be more substantial; or (b) offer cheaper online automated advice and/or guidance models. Whilst the latter can work for some customers' needs, there has been limited take up of robo-advice services. Our research shows that customers tend to prefer human interaction and benefit from a personal recommendation to take investment decisions (Ignition House, 2020).

Fees and pricing

- 2.8** Our 2019 Retail Distribution Review (RDR) and Financial Advice Market Review (FAMR) survey showed that 40% of firms have a minimum investment sum threshold and that even firms without a formal minimum threshold generally have high average pot sizes among their current customers.
- 2.9** Our regulatory return data indicates that average adviser charges tend to range between 1% to 3% of the investment sum. However, consumer research has shown that most consumers would be willing to pay up to 1%, or £100 for advice on a £10,000 investment (Ignition House, 2020). The most recent published HMRC figures (for 2019-20) suggest that the average S&S ISA subscription is below £9,000, indicating that current average fees for financial advice would not be considered proportionate by most consumers. Therefore, consumers who would benefit from investing some cash savings and would welcome a personal recommendation are not currently served as effectively as they could be by the traditional advice market.
- 2.10** Automated advice services usually incur lower fixed operational costs than traditional, holistic financial advice. In some cases, automated or robo-advice has been offered at a relatively low price or for free. On average, we found through our 2020 [Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review](#) that total annual fees – covering both advice and investment charges – are approximately 0.8% for automated advice, compared to 1.9% for holistic financial advice. Automated advice is, therefore, priced at a level that should make it more accessible to mass-market consumers, but robo-advice-only models have generally not achieved the expected take-up from consumers. Research shows that such services are not generally trusted by consumers. This is partly because they don't offer any human interaction to help the consumer understand what information is being asked of them and to ensure that they do not make mistakes when supplying relevant

information (Ignition House, 2020). FLS (2022) data shows that 81% of UK consumers would have a low level of trust in computer decision-making to complete financial advice without any human interaction.

Consumer needs and preferences

- 2.11** Of those who have made or changed financial products in the last 3 years without taking advice, the most popular reason for not using advice was being 'confident making decisions myself' (48%). This figure fell to 19% for those under the age of 35 (Mintel, 2022). This highlights the need for advice for this group in particular. However, with typically lower levels of wealth held, this age group is currently less likely to be able to access traditional financial advice.
- 2.12** Data from FLS 2020 and 2022 show consumers are not receiving advice even when they potentially need it: in both surveys, only 8% of adults reported taking financial advice over the previous year – just 4.4m consumers in 2022. Of those with at least £10,000 in investable assets, just 17% had received financial advice in the last year (FLS, 2022), representing a small proportion of the potential market for financial advice. Consumers do not always believe they would benefit from advice, with our 2022 FLS data showing that 60% of consumers who had not received financial advice over the last 12 months but have at least £10,000 in investable assets citing they thought they didn't need it. The overall picture is that mass-market consumers find it difficult identifying that they need advice and when they do, their needs are not being fully met.
- 2.13** Worryingly, customers are increasingly turning to investment in high-risk investments such as mini-bonds, contracts for difference and cryptoassets. Data indicates that 11% of UK adults hold high-risk investment products, with younger adults more likely to be in this group. Of those, 52% show at least one characteristic of vulnerability or no or low appetite for investment risk (FLS, 2022) and so these products are likely to be unsuitable. Consumer research suggests some consumers do not appreciate the different risk levels associated with different types of investment meaning many consumers may be invested in inappropriate products.
- 2.14** In addition, research conducted for the FCA found a significant proportion of investors do not fully understand the associated risks of investing, with 45% of non-advised investors failing to recognise that 'losing some money' was a risk ([Britain Thinks](#)).
- 2.15** Our proposals for a core investment advice regime detailed in this paper aim to tackle this apparent mismatch between advice provision, consumer needs, and investment product take-up. This will enable consumers with no or limited investing experience to receive recommendations to invest in mainstream products within S&S ISA wrappers.
- 2.16** We propose a regime in which the requirements for firms are proportionate for consumers with more straightforward investment needs. This will enable firms to broaden their provision of financial advice to mass-market consumers, whilst ensuring that consumers have sufficient protections.

Wider context

- 2.17** Given the harms identified above, we want to act now to ease regulatory barriers that firms might face in providing advice to mass-market consumers. We are making changes that are possible within the existing legislative framework and with the FCA's existing powers.
- 2.18** Our aim is to create a proportionate set of requirements which allow for the creation of a more dynamic, modular regulatory framework for financial advice. Where consumers have simpler needs and the investment solutions are more mainstream, the requirements on firms should also be less complex.
- 2.19** This work sits within the context of the Government's enactment of the repeal of retained EU law and its replacement with a regulatory framework that is tailored to the UK. The approach to the design of the core investment advice regime has been to ensure it can act as a foundation for prospective future regulatory change made within this regulatory framework.
- 2.20** In addition to this CP, which we committed to in our CI Strategy, we have also committed to review the wider advice/guidance framework in the future. We will launch wider work in Q1 2023 to kick off the review and gather inputs from key stakeholders. Where relevant, we will also use feedback to this CP to inform the review.

How it links to our objectives

- 2.21** We committed in the CI Strategy to exploring a new more streamlined regulatory regime for advice on investments within S&S ISAs for new investors with simple needs who have never received financial advice before. We propose a new regime which aims to improve availability of advice for consumers who are not otherwise receiving it by reducing disproportionate compliance costs and giving firms the confidence to use existing flexibility in financial advice regulation. This aligns with the commitments we made in Our Strategy (2022-2025) to enable consumers to help themselves and for firms to put consumers' needs first.

Consumer protection

- 2.22** Our proposals seek to strengthen consumer protection by allowing a greater number of consumers to access financial advice, thereby reducing the harm from unmet consumer needs. In doing so, a greater number of consumers will benefit from a personal recommendation to invest some of their cash savings, thus potentially benefiting from the higher returns longer term investment tends to bring.

Competition

- 2.23** The proposals also link to our aim of promoting effective competition in the interests of consumers. The difficulties that firms currently face in providing advice for mass-market consumers mean there is relatively little competition for this target market. Lowering some of the barriers to servicing this market should help to remedy this.

Wider effects of this consultation

- 2.24** The economic context has changed markedly since the commitments made in the CI Strategy in September 2021. There are increased risks to consumers in terms of the rising cost of living, which may see some who have savings needing to access them to cover increased costs. However, our most recent data suggests that there is still a significant proportion of consumers with large amounts of excess cash savings (FLS, 2022). We therefore consider this intervention is still necessary as this work is to establish a regime which meets consumer needs in the future, by giving them confidence to make investment decisions which are suitable for the longer-term notwithstanding market conditions.
- 2.25** The rising cost of living is also associated with greater loss to the real value of consumer savings due to higher inflation, and greater risk that consumers turn to high-risk investments to make some quick cash. During challenging economic circumstances advice can help consumers make the right financial decisions with their money when it matters most. We want our intervention to help increase availability of advice at a more affordable cost.
- 2.26** We assume that if firms take up the proposed regime and offer core investment advice at a lower cost to consumers than holistic financial advice, the number of consumers receiving financial advice will increase. This may have the effect of creating a new pipeline of future customers for holistic financial advice, as those who have previously benefited from financial advice are more likely to seek advice again when they may have larger sums to invest and/or more complex needs.
- 2.27** We are proposing changes to the existing regulations that fall within our remit to maximise the support firms can give to consumers on the advice side of the advice/guidance boundary. We want to ensure the controls on advisers are commensurate to the underlying risks to consumers. As such, the proposed regime provides a basis for future work to develop a more modular advice framework, allowing us to test more proportionate requirements in a controlled way.

Unintended consequences of our intervention

- 2.28** There is a small risk that consumers with more complex needs may use the core investment advice regime for advice when they may be better suited to holistic financial advice. We consider this unlikely as the filtering and suitability processes employed by firms should ensure those with more complex needs are filtered out of the regime.

Equality and diversity considerations

- 2.29** We have considered the equality and diversity issues that may arise from the proposals in this consultation paper. Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010.
- 2.30** We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules. In the meantime, please include any views on this in your response to this consultation.

3 Protecting consumers: scope of service, service design and filtering

Introduction

- 3.1** This chapter sets out the scope of the core investment advice regime and the amendments we are proposing to target market design and customer filtering requirements.
- 3.2** Our proposals aim to create a regime that allows consumers with excess cash savings beyond their emergency buffer to receive a personal recommendation which gives them confidence in deciding whether to invest in mainstream products.
- 3.3** We want the regime to be straightforward and affordable for mass-market consumers with at least £10,000 in cash savings. We discuss a range of amendments to the existing financial advice regime in the following chapters to achieve this. Additionally, we provide detail on where requirements will remain the same as for holistic financial advice.

Proposed new requirements

Definition of core investment advice

- 3.4** It is important that both firms and consumers are aware of the limits of core investment advice. To this end, we will create a new Handbook definition of core investment advice. We propose that the overall definition comprises the following:
- advice may only be given on investments into a new S&S ISA
 - advice may only relate to investments up to the value of the annual ISA subscription limit set by the Treasury
 - advice may only be given on a sub-set of investment products held within a S&S ISA (discussed further in Chapter 6)

Advice may only be given on investments into a new S&S ISA

- 3.5** S&S ISAs represent a convenient, tax-efficient investment wrapper for retail consumers. To keep the tax implications as simple as possible for investors, we will limit the regime to advice relating to investments held within a S&S ISA wrapper. While other forms of investment ISA are available, we believe that limiting the regime to S&S ISAs provides a straightforward option for investments and is likely to be an appropriate solution for consumers with uncomplicated needs and relatively low sums to invest. S&S ISAs are well recognised and widely available to the mass market. Other forms of ISA including innovative finance ISAs, junior ISAs and lifetime ISAs are not included in the core investment advice regime.

3.6 The intended high-level target market for this is consumers with excess amounts of cash savings and relatively straightforward investment needs. The regime will therefore be limited to advice on new S&S ISAs. In referring to S&S ISAs, we intend the explanation of S&S ISAs used in limb 1 of the definition of core investment advice set out in Appendix 1 of this CP.

3.7 This also has the effect of keeping suitability requirements proportionate for consumers with lower sums to invest. This means that consumers receiving core investment advice on a transactional basis (see paragraphs 3.11 – 3.19) will not be able to receive core investment advice in future years on the investments they made when they initially received advice. We consider this appropriate as the core investment advice regime is aimed mainly at those with a lump sum to invest and with an investment horizon of at least 5 years. We are interested in whether it is desirable to allow core investment advice recipients the option to receive further instances of transactional advice as part of a pathway to holistic financial advice for those accumulating further cash sums to invest.

Advice may only relate to investments up to the value of the annual ISA subscription limit set

3.8 The amount that can be invested through the regime will be the limit on annual ISA subscriptions, which currently stands at £20,000. The purpose of the core investment advice regime is to allow more consumers to receive advice that will help them to start investing in S&S ISAs to lower the risk of harm from holding excess amounts of cash savings.

3.9 Core investment advice will cover cash ISA transfers into a S&S ISA up to a ceiling of the same value as the annual ISA subscription limit (currently £20,000).

Recommendations may only be made on a limited range of mainstream investment products

3.10 The core investment advice regime targets consumers with straightforward investment needs. We therefore propose a proportionate regulatory approach as to how firms undertake suitability assessments suited to less complex investments. As the regime is limited to S&S ISAs, the list of qualifying investments will apply, which provides some limits on the products that may be held within a S&S ISA and therefore that may be advised upon within the provision of core investment advice. We propose some further restrictions to products that may be recommended within the provision of core investment advice, which are discussed further in Chapter 6.

Provision of core investment advice

3.11 We propose that core investment advice may be offered where all of the following criteria are met

- The permission for advising on investments is held by the firm (or principal firm for an AR adviser).
- The proposed advice service meets the scope set out in the definition of core investment advice.
- The adviser is qualified to give holistic financial advice (QCF level 4 or above) or is qualified to the level set out in Chapter 5 to provide core investment advice.
- The FCA has been notified of the intention to provide core investment advice.

- Requirements under the Senior Managers and Certification Regime (SM&CR) and Approved Persons Regime (APR) for individual advisers in directly authorised firms and ARs respectively are met. These are outlined in detail in Chapter 9.

Interpretation and application of existing requirements to core investment advice regime

Provision of core investment advice

- 3.12** We want customers to have a choice in how they receive core investment advice, backed by adequate protections to ensure the service received meets their needs.
- 3.13** This regime is designed for consumers who may have different wishes regarding the scope of the advisory service, so we want to make sure firms have options to provide advice in a structure that benefits consumers. In particular, we want to ensure core investment advice may be provided on either a transactional or ongoing basis.
- 3.14** Within the current market, advice may be provided on either a transactional (one-off) basis or in conjunction with an ongoing service. Many firms' ongoing services include a periodic suitability assessment. Data from our evaluation of the RDR/FAMR showed that over 90% of new customers are placed in arrangements which include an ongoing service. FCA returns data indicate that firms' revenue from ongoing services has increased from 60% of revenue in 2016 to 75% in 2021 (FCA, 2022).
- 3.15** We consider that transactional core investment advice is likely to be appropriate for a lot of consumers as the regime is intended for those with straightforward investment needs. Additionally, the limit on annual ISA subscriptions is relatively low, and the investments that may be recommended within this regime are mainstream (see Chapter 6).
- 3.16** The Consumer Duty does not mandate how advice services must be structured. Firms may provide transactional advice to customers within the core investment advice regime. The Consumer Duty does not require firms to assess that products remain suitable for a customer on an ongoing basis, where an ongoing service of this nature has not been promised.
- 3.17** As noted in the guidance published alongside the Consumer Duty rules (FG22/5), if the firm is only involved with the provision of a service at a point in time, is no longer providing that service to the customer and does not have an ongoing relationship with the customer, it does not need to act to avoid harm that was not foreseeable at the point it provided the service.
- 3.18** However, given that core investment advice clients are likely to be new or inexperienced investors, we recognise that in some cases the provision of ongoing support services may be desirable, for example to avoid the potential for harm from consumers disinvesting prematurely in response to short-term market volatility.
- 3.19** Ongoing support services may include ongoing advice, but ongoing services that do not amount to ongoing advice may also be provided. In either case, firms must comply with the Consumer Duty requirements under PRIN 2.3.4R to ensure product design of ongoing services meets the needs of the identified target market. Firms should

note the requirements of the Consumer Duty regarding the design and delivery of customer support (PRIN 2A.6). Firms are required to design their support services such that they meet the needs of retail customers, including those with characteristics of vulnerability. Support must be designed so it ensures retail customers do not face unreasonable barriers during the lifecycle of the product, including when customers wish to cancel a contract with the firm. This means that ongoing support must be designed with the needs of retail customers in mind.

- 3.20** The cross-cutting rule on enabling retail customers to pursue their financial objectives (PRIN 2A.2.14R) requires firms to ensure that all aspects of the design and marketing of products meets the needs of retail customers. Firms must also ensure retail customers have the information they need to make informed choices. These Consumer Duty requirements on product design, customer support and supporting customers to pursue their financial objectives, along with the Consumer Duty's price and value outcome (PRIN 2A.4), should ensure that consumers are not filtered into ongoing services that they are unlikely to use or need.

Target market and filtering

- 3.21** A key consideration of the proposed regime is ensuring that the right consumers can receive core investment advice and excluding consumers for whom core investment advice would not be a good fit for their investment objectives.
- 3.22** Service design and the identification of a target market are important first steps for firms to consider appropriate potential clients. We provide full detail on our requirements for firms, including those under PROD and the Consumer Duty, in Chapter 6.
- 3.23** Core investment advice is designed for clients with simpler investment needs looking to receive appropriate support to enable them to make effective investment decisions. Firms must comply with the rules in PRIN 2A.3.4R in triaging clients where core investment advice would not be in their interests. In general, we consider that core investment advice would be suited to the following types of clients:
- clients who hold surplus cash assets and would benefit from investing
 - clients whose income exceeds their expenditure and are looking for advice on suitable investments for their surplus funds
 - clients who generally have fewer assets and would benefit from core investment advice
 - clients who are looking to subscribe uninvested excess cash savings into market-based investments
 - clients who are not looking for wider areas of financial planning (for instance pension or protection advice) that is not included within core investment advice
 - the client should have indicated that they have a time horizon for investing of at least 5 years or more
- 3.24** In complying with the requirements in PRIN 2A.3.4R, we would expect firms to have adequate and appropriate processes in place to triage and exclude consumers who would be outside of the target market for this narrower scope regime. This includes considering the client's knowledge and experience of investing. The firm may choose to adopt different approaches to this, such as including warnings as part of their filtering process to alert the client to the narrower scope of the service, or asking

a proportionate set of questions to elicit whether the client is within the envisaged target market. Any information obtained from the client at the filtering stage may also be used as part of the Know Your Customer process.

- Q1:** Do you agree with our proposed defining features of core investment advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q2:** Do you think that consumers who have received transactional core investment advice should be able to receive further instances of transactional core investment advice in the years immediately following their initial advice (for example for up to 3 years)?
- Q3:** Please explain your answer and state any alternative suggestions for supporting consumers who receive transactional core investment advice to make initial investments and who would like transactional advice in future years on their existing S&S ISA.
- Q4:** Do you agree with our proposed criteria for the provision of core investment advice set out above? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q5:** Do you agree with the proposed approach to service design and filtering? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

4 Requirements for firms: suitability

Introduction

- 4.1** This chapter sets out our proposals for the suitability framework for the provision of core investment advice. Core investment advice involves a narrower scope than holistic financial advice, and this chapter sets out how firms can effectively use flexibilities within the current regime to enable a more streamlined advice proposition to be offered to clients. This chapter does not apply to the existing provisions regarding holistic financial advice.
- 4.2** We are not proposing any new requirements or amendments to existing COBS 9A requirements for the assessment of suitability. Many of these requirements are derived from the MiFID Org Regulation, which is retained EU law, and are copied out into COBS 9A. We are proposing new non-Handbook guidance to outline how firms can undertake a streamlined suitability assessment with a client, having regard to the existing provisions and using the flexibility built into the MiFID Org Regulation, given the 'nature and extent' of the core investment advice service.

Interpretation and application of existing requirements to core investment advice regime

Approach to suitability

- 4.3** A firm should bear in mind that this regime is designed for clients who hold excess cash and meet the target market definition (as set out in Chapter 3) as well as have the required risk appetite for the products covered by core investment advice.
- 4.4** We set out below the key areas of the suitability process where a firm may choose to adopt a proportionate approach to assessing suitability considering the narrower scope of this regime. We further provide non-Handbook suitability guidance within Appendix 2 to this CP that sets out the approach a firm may choose to take for each part of the suitability process when providing core investment advice to a client.
- 4.5** We recognise that some firms may choose to offer this advice through different means, either through face-to-face advice, virtual or telephone-based advice, or through digital means (including hybrid or robo-advice models). The suitability approach below is designed to support the delivery of this advice through all of the above approaches.

Investment objectives

- 4.6** We would expect that a firm obtains details of the higher-level investment objectives of the client during the Know Your Customer exercise, which may include any environmental, social, and governance factors, as well as the duration for how long the client wishes to hold the investment.

- 4.7** Considering the general target market and predicted client base for this regime, we recognise that in some cases clients may not have a defined timescale for holding their investments or any wider defined investment objectives. In these circumstances if the client has indicated an overall preference of 'investing for growth' for a timeframe of at least 5 years, this may be sufficient to enable the firm to evidence that they have obtained sufficient details on the client's objectives to advise them. We would however still remind firms to consider an indicative timescale for how long a client would like to hold the investment as well as the impact of market movements on the client's investments and the fact that investments can go up and down.

Knowledge and experience

- 4.8** Given the target market for this regime, in many cases, clients will have very limited knowledge and experience of investing. We therefore consider that, following the necessary questions being asked at the filtering and triage stage, a firm may choose at the outset of the Know Your Customer process to assess a client as not having any knowledge and experience of investing (for a detailed summary of these expectations, please see the associated non-Handbook suitability guidance in Appendix 2). We still would expect that the client should have indicated that they have a time horizon for investing of at least 5 years.

- 4.9** A firm may then subsequently choose to provide a client with educative information to outline the nature and risks related to investing in a S&S ISA. This would include equipping the client with sufficient information so that they may understand the key features of a S&S ISA, as well as the underlying investments and the associated risks related to investing in market-based investments.

- 4.10** Following the provision of this educative information, a client may then be in an informed and appropriate position to make an investment into a S&S ISA. Should a firm decide to provide educative information to a client, we would expect the firm to undertake a verification with the client to confirm that they have the required knowledge and experience prior to making a personal recommendation. This verification should include sufficient questions such as and not limited to questions to confirm that the client understands the key features of a S&S ISA; risks related to investing, including that investments may go up and down, and that the client may ultimately get back less than they have invested; as well as any relevant additional questions depending on the complexity of the potential investments being recommended to the client.

Financial situation including capacity for loss

- 4.11** Under the core investment advice regime, a firm can simplify and streamline their information collection exercise, particularly when obtaining details of the client's financial arrangements to assess their capacity for loss.
- 4.12** When obtaining the necessary information from a client to assess suitability, a firm may choose to utilise the flexibilities in the current regime that they should obtain sufficient information based upon 'the nature and extent of the service provided' (COBS 9A.2.4UK) and considering where the information is relevant, given the service being provided (COBS 9A.2.7UK).
- 4.13** We therefore would expect the firm to obtain sufficient information to satisfy themselves that:
- the client has sufficient excess household income per month

- the client does not hold significant levels of debt, including any outstanding priority debts that are in arrears
- the client does not have any significant envisaged or foreseen capital expenditure that would take place over the likely term of the investment
- the client holds sufficient liquid (ie cash-based assets) that would cover any unforeseen emergency capital expenditure (suggest at least enough to cover 3-6 months' usual outgoings)
- the client should have indicated that they have a time horizon for investing of at least 5 years

4.14 As such to meet the information collection requirements when providing S&S ISA advice, a firm may decide that they do not need to obtain the following information from a client:

- details of any of the client's protection arrangements
- details of any pensions held by the client, including contributions to existing pension arrangements, workplace pensions held, as well as an estimate or forecast of the client's predicted state pension
- other investments held by the client (other than cash-based assets)

4.15 Some of the above information may be captured during the client filtering and triage stage. In this case a firm may choose to incorporate this information into a fact find as part of the Know Your Customer process.

4.16 We also expect a firm to assess a client's overall attitude to risk to understand if they have the required attitude to risk to invest in a S&S ISA. We recognise that a firm may choose to use a risk profiling tool to do so. We would expect that a firm ensures that the questions in any risk profiling tool are appropriately worded in order that the client clearly understands the responses that they are selecting, and that appropriate weight and consideration is given to all answers in arriving at the client's suggested overall attitude to risk.

Non-Handbook suitability guidance for core investment advice

4.17 The non-Handbook guidance sets out the approach that firms may choose to incorporate into their sales and compliance checking processes.

4.18 The examples and steers provided in the non-Handbook suitability guidance are non-exhaustive and outline how a firm may choose to comply with the existing suitability rules when providing core investment advice to a client. We recognise that there may be alternative means, and outside of the guidance produced, for firms to meet the regulatory requirements when providing core investment advice to a client. Additionally, the guidance is only to be used for the provision of core investment advice.

Q6: Do you agree with our suggested approach for how a firm may choose to undertake the knowledge and experience element of the Know Your Customer process for core investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.

- Q7:** Do you agree with our proposed approach for the factors that we consider are relevant for obtaining the necessary information on a client's financial situation? Please elaborate on the reasons for your answer, as well as outlining where applicable any alternative approaches that you would suggest.
- Q8:** Do you agree with the production of non-Handbook guidance to support firms in arriving at a suitability decision for core investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q9:** Do you have any comments on the content in the non-Handbook suitability guidance? Please provide supporting information in explaining your answer and if there is anything additional that you consider should be included.
- Q10:** Do you consider it would be helpful for a regulatory pro forma document to be produced to assist in setting out the key areas that firms should consider when providing core investment advice? Please outline any reasons supporting your answer when responding.

5 Requirements for firms: training and competence

Introduction

- 5.1** In this chapter we discuss the proposed Training & Competence (T&C) requirements for the core investment advice regime. We explain the changes that we want to make to create a proportionate competency framework for advisers providing only core investment advice to clients. Certain existing T&C requirements will apply to core investment advisers, and we are proposing to introduce new rules or amend others in some areas.
- 5.2** Our proposals reflect the narrower scope of this advice whilst seeking to ensure that core investment advisers have the necessary technical competence to provide this advice.

Interpretation and application of existing requirements to core investment advice regime

- 5.3** Under the existing Training and Competence regime, a retail investment adviser must comply with our relevant T&C requirements documented within the Training and Competence (TC) sourcebook. This includes the following:
- a requirement to hold the Qualifications and Credit Framework (QCF) Level 4 Diploma in Regulated Financial Planning
 - a requirement to undertake a minimum of 35 hours Continued Professional Development (CPD), of which 21 hours must be structured
 - a requirement to provide their CPD records to their Accredited Body when requested to do so
 - for the firm: to obtain verification in respect of a competent retail investment adviser, in the form of a Statement of Professional Standing (SPS)
- 5.4** We recognise that advice on investing funds within a S&S ISA involves a narrower scope and may carry a lower degree of risk, compared to wider holistic financial advice offered outside of the narrower scope of this regime.
- 5.5** As part of our policy objectives, we aim to create a proportionate T&C framework that may reduce the associated regulatory costs for firms in order that they may be able to offer this advice to clients more affordably. We therefore propose some alterations to the current T&C framework to apply to core investment advice.

Oversight of core investment advisers' training and competence

5.6 To ensure consistency with other advice regimes, we are proposing to retain the majority of the existing initial competency requirements included within the relevant sections of the TC and Systems and Controls (SYSC) sourcebooks. Therefore, a firm must not assess an employee as competent to provide core investment advice until the employee has demonstrated the necessary competence to do so (TC 2.1.1 R). We discuss our wider supervisory approach beyond qualifications in Chapter 10.

5.7 We are mindful that whilst core investment advice involves a narrower scope, advice on an investment into a S&S ISA still carries some risk and as such core investment advisers who have not yet been deemed competent to provide this advice, must be effectively supervised. We therefore propose that core investment advisers must be supervised by an individual at the firm who holds the applicable qualifications for TC Activity 4 (ie, the QCF Level 4 Diploma in Regulated Financial Planning) as a minimum. We would expect this supervision to include file checks, as well as other supervision activities deemed as appropriate, to be undertaken on the adviser on a pre-sale basis as part of developing the adviser's competence and to be used as part of any development plan for the adviser.

Trainee advisers who may wish to become core investment advisers as part of the journey to become a retail investment adviser

5.8 We recognise that some individuals may consider becoming a core investment adviser as part of a stepped approach on their journey to become a fully qualified financial adviser. This regime aims to support trainee advisers who would want to use this route, through being able to gain experience by advising clients on a narrower scope regime. This would also create additional benefits to UK consumers, through increasing access to financial advice.

5.9 Firms must have appropriate processes in place to segregate advisers who are trainees to become retail investment advisers and advisers who are trainees to become core investment advisers, to ensure that advisers who can only advise within the core investment advice regime do not advise outside of it.

5.10 If a trainee retail investment adviser passes the relevant qualifications for core investment advice, as well as meets all existing relevant requirements for this, then the adviser can undertake core investment advice without supervision. The trainee adviser should remain under supervision for all other retail investment advice activity conducted outside of the core investment advice regime.

Proposed new requirements

5.11 Advice on investing funds within a S&S ISA (with a restricted range of investments) involves less technical complexity than holistic financial advice, so we propose to alter the existing T&C framework for core investment advice to reflect this narrower scope.

Qualification requirements

- 5.12** The current qualification requirements for retail investment advisers are derived from the RDR that came into effect from 2013. The aim of the RDR was to establish a resilient, effective, and attractive retail investment market that consumers had confidence in and trusted. Following this, new qualification standards were introduced to ensure that firms providing retail investment advice to clients had the relevant understanding of the products being offered as well as the technical ability to do so.
- 5.13** We are consulting on making changes to our TC sourcebook to create a new activity for core investment advice (TC Activity 4A). We believe that this will create an effective delineation between the holistic financial advice undertaken in the retail investment advice regime and the narrower scope of the core investment advice regime, thereby allowing consumers and industry to understand the different competency standards and requirements for each regime.
- 5.14** In analysing the possible qualification options for this narrower scope regime, we firstly considered the current QCF Level 4 qualification that retail investment advisers need to undertake. This includes examinations on Financial Services, Regulation and Ethics; Retirement Planning; Tax and Trust Planning; Investment Principles and Risk; as well as Protection Planning.
- 5.15** In arriving at an appropriate qualification approach, we have given due consideration to the aims and scope of the core investment advice regime. We propose that advisers undertaking this advice should only be required to pass modules that cover the following areas:
- Financial Services, Regulation and Ethics.
 - Investment Principles and Risk.
- 5.16** We consider that these modules will give advisers the relevant understanding of the regulatory framework when providing core investment advice to a client as well as the necessary technical understanding to make an investment recommendation.
- 5.17** We recognise that these modules involve 2 of the main competencies required as part of Activity 4 to provide retail investment advice. We welcome any course provider who may consider offering this course to contact us to discuss how they may structure the course. Please note that these courses, should they be approved, will have to be added to the TC qualifications table (TC App 4.1.1C G), following the usual process for adding or amending qualifications.
- 5.18** We further propose amending our rules as set out in TC 2.2A on the time limits for passing the qualification for this regime. Therefore, a firm must ensure that a core investment adviser passes the Financial Services, Regulation and Ethics module and Investment Principles and Risk module within 24 months of starting to carry on the provision of core investment advice, rather than 48 months for retail investment advice.

Maintaining competence

- 5.19** We would expect firms to have effective controls in place to monitor and ensure the effective ongoing competence of their advisers. We would expect firms to apply a proportionate approach to this and to undertake effective supervision to ensure that advisers can demonstrate on an ongoing basis that they are maintaining their competence. See Chapter 9 on the SM&CR and APR for wider discussion of oversight requirements on advisers beyond qualifications and competence.

- 5.20** We consider that firms may use a variety of methods for doing this including: role plays/observed meetings; analysing key performance indicators; knowledge tests; and undertaking file reviews on a pre- and post-sale basis. We would expect firms to retain records of this and this to feed into the adviser's ongoing competency assessment.
- 5.21** We propose to create an ongoing competency framework that aligns to similar regimes where the scope of advice is narrow, such as the for the insurance distribution market. As such we propose that core investment advisers undertake a minimum of 15 hours CPD each year, rather than the current requirement of 35 hours each year for retail investment advice. We do not propose that this 35 hours per year CPD requirement is separated between structured and unstructured CPD.
- 5.22** Recognising that this advice is limited to an investment into a S&S ISA and the need to be proportionate in our approach, we do not propose that core investment advisers will need to submit their CPD to an Accredited Body for this to be independently verified, or to require core investment advisers to hold a SPS.
- 5.23** When considering relevant CPD for an adviser to adhere to the requirement to undertake a minimum of 15 hours CPD each year, we would suggest that advisers undertake a sufficient range of activities to maintain their ongoing technical competence, as well as to develop their individual skills as an adviser. We have below set out a suggested guide of **non-exhaustive examples of CPD activities** which may be appropriate for a core investment adviser to undertake:

CPD examples	Content required to meet CPD requirement
Training courses and workshops	Any relevant developments (for instance technological, economic, regulatory) relevant to the provision of core investment advice. Training on developing the skills of an adviser, including interacting with a client and training on client communications and interactions involved in the provision of financial advice. Training on key parts of the advice process including completing the Know Your Customer exercise with a client as well as risk profiling.
Studying for an exam/ E-learning activities	Studying for an examination as part of approved qualifications for TC Activity for core investment advice. Activities that test an adviser's knowledge related to the provision of core investment advice.
On-the-job training	Training on technical areas related to core investment advice. Training on relevant parts of the core investment advice sales process, such as risk profiling; undertaking the Know Your Customer exercise; and suitability report writing. Developing the adviser's overall skills including client communications and interactions required as part of the advice process. Any internal training or coaching related to core investment advice.
Conferences, seminars and webinars	This may be either in-person or online training relevant to the technicalities on the provision of core investment advice or developing the skills of a core investment adviser. The course content should be relevant to the individual's role and assist with supporting the adviser in their ongoing competence to provide core investment advice.

- Q11:** Do you agree with our proposals to create a new TC activity for core investment advice? Please explain your answer and state any alternative approaches you believe would achieve the same objective.
- Q12:** Do you agree with our proposals that core investment advisers should only pass the modules in Financial Services, Regulation and Ethics as well as Investment Principles and Risk? Please explain your answer and state any alternative approaches you believe would achieve the same objective.
- Q13:** Are you proposing to offer these examinations to candidates who wish to be qualified to provide core investment advice? If so, do you propose to offer these modules as a complete course or as individual separate modules? Additionally, please let us know if you offer courses that you consider may cover the necessary competencies required for an adviser to provide core investment advice.
- Q14:** If you are proposing to offer a course to cover the modules required, do you consider there to be any challenges in order for these to be operational by the effective date of the regime? If so, please outline any options that you would suggest.
- Q15:** Do you agree with our proposals that core investment advisers should pass the qualifications to provide core investment advice within 24 months, rather than the current 48-month timeframe for retail investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q16:** Do you agree with the proposals that core investment advisers will only need to undertake a minimum of 15 hours CPD each year? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q17:** Do you agree that the CPD hours may be either structured or unstructured? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q18:** Do you agree with the proposal to remove the requirement for core investment advisers to hold a Statement of Professional standing? Please explain the reasons for your answer.

Q19: Do you agree with the proposal to remove the requirement that CPD will need to be independently verified by an accredited body? Please explain the reasons for your answer.

6 Requirements for firms: product governance

Introduction

- 6.1** This chapter sets out our proposals for the product governance requirements of the core investment advice regime.
- 6.2** The Product Intervention and Product Governance sourcebook ("PROD") provides higher-level rules which firms can apply in different contexts. When the core investment advice regime goes live, the Consumer Duty's product and services outcomes will also sit alongside PROD, levelling up the existing standards in areas where PROD does not apply. Together they act to ensure firms have the appropriate systems and controls in place with respect to the design and delivery of their products and services to deliver good outcomes for retail consumers.
- 6.3** Holistic financial advice is governed by various detailed individual regulatory requirements. The higher-level product governance framework of PROD and the Consumer Duty apply alongside these rules.
- 6.4** We want the regulatory protections under the core investment advice regime to be commensurate with the risks. PROD and the Consumer Duty already provide a robust framework underpinning how firms design and deliver advice services. These existing requirements will apply to core investment advice. We provide further support to firms and consumers by setting out in this chapter our interpretation of how PROD and the Consumer Duty apply to the core investment advice regime.
- 6.5** Additionally, we are consulting on new requirements to incorporate additional 'guard rails' into the regime. We set out a definition of core investment advice to constrain the range of investment products which fall in scope of the regime and provide clarity on the existing requirements that apply.
- 6.6** We think both PROD and the Consumer Duty will enable the outcomes we want to see under this regime. We think an additional layer of protection appropriate to ensure the regime is geared towards the mass-market consumers. Our proposals do not represent a new product governance framework but should ensure that the existing framework is right for a narrower range of investments.

Proposed new requirements

Establishing a narrower scope of advice

- 6.7** When a firm has the 'advising on investments' permission, they are authorised to provide regulated financial advice on a wide range of financial products – as set out through the Handbook definition for advising on investments. The list incorporates mainstream investments and more unique or complex types of investments: from shares, debentures and units in collective investment schemes, to funeral plan contracts and peer-to-peer agreements.

- 6.8** As discussed in Chapter 2, our core investment advice regime aims to enable firms to more easily provide simpler advice solutions to mass-market consumers. It has a narrow focus applying only to advice into investments within S&S ISAs – codified through the new definition of 'core investment advice' in our Handbook as set out in Chapter 3. According to the most recent data from HMRC, the number of consumers subscribing to an S&S ISA alone (ie not in conjunction with a cash ISA) was approximately 3.6m over 2020-21. Limiting the regime to just S&S ISAs allows for a more streamlined regulatory framework commensurate to the relative complexity of the investment solution, but one which still has wide appeal for consumers.
- 6.9** S&S ISAs are a tax-efficient wrapper and not a specific investment product. There are limitations on what types of investment products can be included within such accounts and therefore what advisers can recommend using their advising on investment permission. The list of qualifying investments for S&S ISAs is set out in secondary legislation made by the Treasury.⁶
- 6.10** The qualifying investments list for S&S ISAs is broad and not particularly prescriptive. Its principal purpose pertains to a tax regime not a framework of investment risk. It excludes certain products (for example, products limited to being in scope of Innovative Finance ISAs such as peer-to-peer loans), but it permits a wide array of potential investments, which broadly replicate what can be put in a general investment account. This means the list:
- includes certain high-risk investments which we do not think are appropriate to be in scope of our proposed regime – for example, a small subset of unlisted shares
 - generally speaking only lists products with fairly high-level associated descriptions such that there is a risk that esoteric high-risk products could fall within scope of its broad definitions
- 6.11** On this basis, given the general target market, we think there is a risk that products which would be inappropriate to be in scope of our proposed regime could be included by firms who are not paying due regard to retail customer outcomes under PROD and the Consumer Duty.
- 6.12** We want the proposed regime to allow firms to determine an investment solution which is appropriate for their target market. We also want to ensure that appropriate regulatory safeguards are in place to limit this selection to more 'mainstream' investments. This is so higher-risk investments are not sold to consumers for whom they are unlikely to be suitable.
- 6.13** To provide a hard stop against this outcome, we propose that the core investment advice regime excludes advice which recommends investment into Restricted Mass Market Investments (RMMIs) and Non-Mass Market Investments (NMMIs), as set out within our recently published policy statement entitled 'Strengthening our financial promotion rules for high-risk investments and firms approving financial promotions' (PS22/10). They are defined as follows:
- RMMIs: a non-readily realisable security, a P2P agreement or a P2P portfolio.
 - NMMIs: a non-mainstream pooled investment or a speculative illiquid security.

6 The Individual Savings Account Regulations 1998 (SI 1998/1870).

- 6.14** These investments are higher risk, generally complex and not appropriate for the intended target market given the more streamlined regulatory requirements applying to the regime.
- 6.15** Not all RMMIs and NMMIs are currently included within the qualifying investments list for S&S ISAs (eg P2P agreements are not permitted within S&S ISAs, only Innovative Finance ISAs – a separate wrapper which our proposed regime is not focused on), but we want to exclude those which are.
- 6.16** Excluding these 2 categories of products from being advised upon under the proposed regime:
- removes several high-risk investments which are currently included on the qualifying investments list for S&S ISAs, but which we believe to be generally inappropriate for ordinary retail investors (again, as set out in [PS22/10](#))
 - excludes these existing categories of high-risk products to future-proof the proposed regime, as:
 - potential future products which may be inappropriate for many retail investors will be brought into scope of the definition of RMMIs and NMMIs through our wider work on financial promotions
 - any amendments to the qualifying investments list for S&S ISAs to include any other RMMIs or NMMIs which it currently doesn't include will not affect the regime
 - limiting the scope of the regime to preclude these high-risk and potentially more complex products provides a greater level of consumer protection to balance to the lowering of regulatory requirements elsewhere, eg the suitability assessment process and the training and competence requirements for advisers
- 6.17** We want to ensure that recommendations to invest in particular products are focused more on mainstream investments. This exclusion directs the range of available products more towards mainstream investments, but does not limit recommendations to them exclusively. We understand that every consumer's circumstances are unique, so – whilst we're targeting our regime towards mass-market consumers generally – each consumer within that constituency will have different needs. We see the value of advice, so we want to maintain a healthy range of products from the lower risk to higher risk that can be recommended using core investment advice. Some higher-risk products remain in scope of the proposed regime. But where firms follow the overarching product governance framework provided through the rules set out in PROD and the Consumer Duty – as well as the other elements of the proposed regime, including the suitability assessment process – consumers should be appropriately protected from being recommended unsuitable and inappropriate investments.
- 6.18** The proposed exclusion for RMMIs and NMMIs will apply to the core investment advice regime only. It will therefore not prevent any consumers from seeking and receiving financial advice on RMMIs or NMMIs via other forms of regulated advice. However, firms providing this advice would not be able to benefit from the more streamlined rules under the core investment advice regime.

Interpretation and application of existing requirements to the core investment advice regime

Contextualising the existing product governance architecture

6.19 Under the existing regulatory framework for financial advice, the product governance architecture is (pending implementation of the Consumer Duty) built around a number of key elements:

- the Product Intervention and Product Governance Sourcebook ("PROD") – and in particular for distributors PROD 3.3
- existing non-Handbook guidance on best practices with respect to a firm's product governance requirements for delivering more simplified advice services – most notably, 'Streamlined advice and related consolidated guidance' (FG17/8)
- the Consumer Duty, which is set to be implemented by the time the proposed regime goes live

6.20 These elements should ensure firms have in place systems and controls to effectively design, approve, market and manage products throughout the products' life cycle to ensure they meet legal and regulatory requirements.

6.21 We propose to maintain this same set of robust requirements for the core investment advice regime. In delivering financial advice under this regime, firms should therefore continue to meet their existing product governance obligations and the Consumer Duty but within the more limited permissible investment range which defines the core investment advice regime – as set out in detail above. Firms should consider how they can continue to meet their existing obligations within this narrower scope advice framework.

6.22 The following commentary will help firms to consider how to apply existing product governance obligations to the narrow scope of the core investment advice regime. It is not exhaustive, and it should be considered with the rest of this consultation paper, our proposed changes to our Handbook (as set out in Appendix 1), and the rest of the relevant rules and guidance in the Handbook and other relevant non-Handbook guidance (eg FG22/5).

Designing a service which meets the needs of the target market

6.23 In providing core investment advice, firms should design a service which meets the needs of the target market.

6.24 In this instance we are focused on consumers with simpler needs and/or lower amounts to invest – broadly described as mass-market consumers.

6.25 That outcome is achieved in part by the requirements on firms as to the limits of what constitutes core investment advice – eg the regime is only applicable for investments in S&S ISAs, up to the ISA allowance (currently £20,000), and only applicable to consumers investing sums into a new S&S ISA. See Chapter 3 for full details on the scope of service of the regime.

- 6.26** Given the importance of ensuring that this regime is only provided to the appropriate consumers, it is also incumbent on firms to define very clearly a target market and ensure that all aspects of their financial advice provision are tailored to meet the needs of that target market. Not every consumer who is an inexperienced investor with £20,000 or less to invest will be appropriate for the regime. They may instead require holistic financial advice. Firms must be able to determine this effectively and with an appropriate level of granularity.
- 6.27** When delivering core investment advice, the importance of a target market is set out through firms' obligations under PROD and – by the time that the regime is implemented – firms' obligations through the Consumer Duty.
- 6.28** When delivering core investment advice services, in designing their service a firm must, amongst other things:
- specify the target market for the product at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the product
 - take account of any particular additional or different needs, characteristics and objectives that might be relevant for retail customers in the target market with characteristics of vulnerability
 - ensure that all relevant risks to the target market, including any relevant risks to retail customers with characteristics of vulnerability, are assessed
 - ensure that the design of the product: (i) meets the needs, characteristics and objectives of the target market; (ii) does not adversely affect groups of retail customers in the target market, including groups of retail customers with characteristics of vulnerability; and (iii) avoids causing foreseeable harm in the target market
 - ensure that the intended distribution strategy is appropriate for the target market
 - require the manufacturer to take all reasonable steps to ensure that the product is distributed to the identified target market
- 6.29** Key to this is firms ensuring the design of key aspects of their service are in line with the needs of target market, including:
- the scope of the initial and any ongoing service
 - the costs/charges
 - the investment range
 - the marketing strategy
- 6.30** The PROD rules also require distributors to have in place procedures and measures to ensure that, when deciding the range of financial instruments and services to be distributed, and the target market, they comply with all applicable rules.

Interaction between proposed new requirements and existing requirements

Determining an appropriate investment solution for the service

- 6.31** Earlier in this chapter, we set out the importance of restricting the range of investment products which advisers can recommend for inclusion in the S&S ISA wrapper under our proposed regime to the more 'mainstream' end of the investment risk spectrum.

6.32 When delivering core investment advice, once a firm has identified a target market for a particular product (as per the above), the firm can then decide whether it should offer that product through its core investment advice service.

6.33 In determining whether to distribute a given product under the core investment advice regime, firms should have regard to both the new restrictions incorporated into defining what core investment advice can entail and their established (or soon to be established) general obligations under PROD and the Consumer Duty which apply to the core investment advice regime.

- New Restrictions (Core Investment Advice Regime): firms must only advise on products through their core investment advice service which – as per the proposed definition of ‘core investment advice’ – are included on the list of qualifying investments for S&S ISAs but are not categorised as a Restricted Mass Market Investment or a Non-Mass Market Investment.
- Established Obligations (PROD and the Consumer Duty): firms must only advise on products through their core investment advice service which are compatible with the needs, characteristics and objectives of the target market and in a manner which is consistent with the target market for their core investment advice service.

6.34 Firms are explicitly excluded from advising on specific investments set out in the ‘new restrictions’ highlighted above. Beyond this, our interpretation of a firm’s obligations is that it should give due consideration to a range of relevant factors when determining the compatibility/incompatibility of a product with the target market. This is likely to include:

- clarity: a product would not be compatible if a firm has not got appropriate information from the product’s manufacturer to understand it, or even when it does, if the firm still does not understand it sufficiently
- complexity: a product would not be compatible if it is unduly complex relative to the investment knowledge and experience of the identified target market
- risk: a product would not be compatible if it is inconsistent with the typical risk profile (including volatility) and knowledge and experience profiles of the identified target market
- ongoing appropriateness: a product would not be compatible if it did not have a reasonable capacity to remain appropriate on an ongoing basis where the nature of the specific core investment advice service was transactional or point in time
- value for money: a product would not be compatible if it did not represent fair value for the identified target market
- accessibility: a product may not be compatible if it is not easily accessible for the target market or would incur a penalty for accessing

6.35 As already stated, it is incumbent on firms to define their target market for their core investment advice provision in line with their established obligations under PROD and the Consumer Duty. Data on the notional target market for the new regime and the proposed definition of core investments lead us to anticipate that firms’ investment solutions are likely to be targeted towards being low-cost, closely matched to the risk profile of their target market (which for many consumers is likely to be towards the lower end of the risk spectrum), and capable of remaining appropriate over the longer term.

6.36 With respect to value for money, the design of firms’ advisory services should be oriented towards the recommendation of low-cost investment solutions. The

definition of core investment advice only permits investing up to the ISA allowance (currently £20,000). So, consumers' average returns through the investments they take on are likely to be lower in absolute terms reflecting the lower initial capital investment. In line with firms' established obligations – particularly the Consumer Duty's retail customer outcome on price and value – and to ensure that firms' core investment advice service provides overall fair value to consumers we would anticipate that firms place particular importance on recommending products which avoid high fees. These would otherwise readily eat into any expected lower returns (in absolute terms).

- 6.37** With respect to risk and complexity, the design of firms' advisory services should include investment solutions which closely match the needs, investment objectives and knowledge and experience of the target market. Firms must ensure they give sufficient regard to the likely risk profile of clients and ensure their investment solutions do not include products which are unlikely to be suitable for the level of risk clients are willing and able to take, particularly as many clients within the target market are likely to have a lower capacity for loss.
- 6.38** With respect to ongoing appropriateness, we anticipate the vast majority of consumers would be recommended investment solutions which have a strong capacity to remain appropriate on an ongoing basis throughout the consumer's identified investment time horizon. This is in line with the expectations we have set out throughout this CP that most consumers will receive core investment advice on only a transactional basis given their identified need to have support to invest a lump sum of excess cash savings.
- 6.39** If a firm's assessment of a product at any time concludes that it is not compatible with the identified needs, characteristics and objectives of the target market (including identified needs, characteristics and objectives of retail customers in the target market with characteristics of vulnerability), the firm must not distribute the product to consumers through the core investment advice regime in line with PRIN 2A.3.10R.
- 6.40** In addition to all the above, firms must comply with the Consumer Duty's cross-cutting rules in the design and delivery of their core investment advice service.

Q20: Do you agree with our proposed product governance requirements for the core investment advice regime? Please explain your answer and suggest alternative approaches if you believe these would achieve the same objective without compromising consumer protection.

7 Transparency for consumers: fees and charges

Introduction

- 7.1** This chapter sets out our proposals relating to fees and charges raised for core investment advice.
- 7.2** Our aim is to enable a greater number of consumers to receive financial advice by allowing firms greater flexibility to spread the charge for one-off (transactional) advice over multiple payments. This will make accessing financial advice more affordable for mass-market consumers. To do this, existing requirements around fees and charges will remain in place, with the addition of some new requirements.

Interpretation and application of existing requirements to the core investment advice regime

- 7.3** Current regulations state that advice must only be paid for through adviser charges. This rule was introduced as part of the RDR, which had a focus on improving transparency of charging for consumers through the banning of cross-subsidisation and commission payments as a means of paying for advice.
- 7.4** To maintain consumer protections relating to transparency of fees and charges, the regime will retain the ban on payments through commission and on cross-subsidisation of advice costs.
- 7.5** Charges for advice are generally made on either an hourly basis or as a percentage of assets under management. Charges for holistic financial advice vary according to the way in which it is provided, for example as ongoing or transactional advice. Our supervisory experience suggests that firms tend to charge around 3% as a one-off upfront payment and around 1% per annum (£600 and £200 respectively for an initial investment of £20,000).
- 7.6** The Consumer Duty outcome of price and value, reflected in rules and guidance in PRIN 2A.4, will apply to the core investment advice regime. This is regardless of whether advice provided under it was transactional or ongoing, and whether it is paid for as a lump sum, in set instalments or – in the case that a firm provides an ongoing service to a core investment advice client – as an ongoing charge. Firms must ensure that their products provide fair value to customers in the target market, where value is defined as the relationship between the amount paid by a retail customer for the product and the benefits they can reasonably expect to get from it.
- 7.7** Given the more limited nature of the service as compared to holistic financial advice, this is likely to mean that core investment advice is provided at a lower cost to consumers than holistic financial advice. The assessment of value of the service must also include whether any consumers with characteristics of vulnerability are likely to receive the same value from the service.

- 7.8** Current regulations in COBS 6.1A state that that payments for advice can be made over a period of time only where there is an ongoing service or in the case of transactional advice where there is an ongoing payment instruction for the product, and it has been disclosed that no ongoing advice will be provided. If neither of the above conditions apply, a firm may not offer credit to pay for advice unless it is in the consumer's best interests.
- 7.9** Research has shown that consumers are willing to pay for advice, up to a value of <1% of the sum to be invested, or <£250 (Mintel, 2021). But engagement with firms has suggested that any form of one-off, upfront fee may be a barrier to mass-market consumers receiving advice. This is likely to be particularly the case for consumers who have not previously received financial advice and therefore do not have prior experience of the benefits, both financial and psychological, that it can provide (Ignition House, 2020).
- 7.10** Given the sums of money that can be invested into a S&S ISA in one year are relatively low and the investments covered within this regime are mainstream, we consider it likely that the majority of core investment advice will be provided on a transactional basis.
- 7.11** Therefore, it is likely that under the current regulations, a large proportion of potential clients of core investment advice would be subject to the barrier of a relatively large one-off cost at the time of receiving advice.

Proposed new requirements

Reducing barriers to paying for advice

- 7.12** We propose introducing a new rule that will allow firms to accept payment for core investment advice in instalments, even where the advice given is transactional and there is no ongoing service or ongoing subscription to a S&S ISA.
- 7.13** Under such a circumstance, appropriate disclosures would have to be made in relation to the charging structure and the fact that no ongoing service is being provided (see paragraph 8.26 on charges disclosure).
- 7.14** This will mean that consumers may pay for a one-off piece of advice in instalments rather than having to pay for it in one lump sum, where a firm chooses to offer this form of payment.
- 7.15** Our expectation is that consumers who receive an investment recommendation hold the investment(s) for the medium- to longer-term. But, if a core investment advice client who has chosen to pay in instalments for transactional advice divests before they have finished paying for the advice, the outstanding sums would still be payable.
- 7.16** We are proposing this change because we want consumers who would otherwise be interested in advice but put off by the initial fees to be more able to access core investment advice. In doing so, consumers will benefit from the expertise it provides and if suitable may take the first steps into investing some of their excess cash savings.

- 7.17** Supervisory experience of the market suggests that firms generally do not make use of the limited opportunities that are currently available for accepting payments for advice in instalments. The changes proposed here aim to make it clearer to firms that when using the core investment advice regime, the payment of transactional advice fees by instalments is acceptable, so allowing them to offer such payment terms to the benefit of a defined target market.

Relationship to consumer credit

- 7.18** There is an exemption offered in Article 60F of the Regulated Activities Order that allows firms to accept payments to be made in instalments – where they are to be repaid within 12 months and do not attract interest or additional fees – without falling under consumer credit regulation. This would mean that a firm may accept payment for core investment advice provided on a transactional basis in instalments over a period of up to 12 months, providing that no additional charges, such as administration or interest charges, are applied, without the payment agreement being subject to consumer credit regulation.
- 7.19** The government is consulting on the Article 60F exemption which focuses on bringing into regulation exempt 'buy now pay later' products but might potentially extend to the provision of other services offered on deferred payment terms. The Government intends to publish draft legislation on the scope of regulation by the end of the year, when the position will become clearer.

Q21: Do you agree with our proposed changes around fees and charges? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

8 Transparency for consumers: marketing and disclosures

Introduction

- 8.1** This chapter sets out our proposed requirements relating to marketing and disclosures around the provision of core investment advice. Existing rules and guidance applicable to holistic financial advice will apply, and in some areas, we propose to introduce new guidance to help firms interpret the rules in the context of core investment advice.

Marketing

Application and interpretation of existing requirements to the core investment advice regime

- 8.2** Our aim is to enable a marketing regime within which firms understand the requirements so they can successfully market their core investment advice service(s) to their defined target market.
- 8.3** It is important that consumers who may benefit from investing some of their excess cash savings are aware of the services available to help them. While many consumers may feel that they do not have a need for financial advice, others report not having taken advice because they did not think about it or because they did not know enough about financial advisers (FLS, 2020). With this limited awareness or consideration of financial advice, a key feature of the success of the core investment advice regime will be whether firms can successfully market to potential clients.
- 8.4** The Consumer Duty outcome on consumer understanding in PRIN 2A.5.3R requires that firms' communications with consumers, including advertisements, meet the information needs of consumers, are likely to be understood by them, and equip them to make effective, timely and informed decisions. Under PRIN 2A.5.4R, firms should consider the identified target market when sending communications about a specific product or service.

General considerations for consumer marketing and financial promotions

- 8.5** The current regulations around marketing support the marketing environment that we wish to see for core investment advice. We provide more clarity on the status of targeted marketing and other proposals later in this chapter.

Ensuring consumer understanding

- 8.6** We will largely apply the current rules and guidance relating to marketing. Firms may provide advice that is restricted or independent, according to the definition of independent advice in COBS 6.2B.11R. Core investment advice may be provided as either restricted or independent advice.

- 8.7** Under requirements within COBS 6.2B, a firm providing independent investment advice on certain categories of financial instruments must market itself in a way that is intended to attract clients with a preference for those categories or range of financial instruments. Such firms should market themselves as providing independent advice and make clear the range of products they provide advice on.
- 8.8** These requirements will also apply to the core investment advice regime, so customers are clear on the limitations of the service. We propose further guidance here to ensure that firms marketing a core investment advice service make it clear in marketing materials that the service relates only to investments held in a S&S ISA and does not cover the full range of potential investment products.

Targeted consumer marketing

- 8.9** There are rules under PROD 3.3 on distributors of products and investment services. The Consumer Duty adds further requirements in relation to manufacturers and distributors of products and services and the identification of a target market under the products and governance outcome in PRIN 2A.3, discussed further in 6.28 – 6.30. Therefore, firms providing core investment advice should consider the target market they have identified when marketing to consumers.
- 8.10** Industry has raised questions on whether firms would be able to use targeted promotions advertising core investment advice services to potential recipients, some of whom may be firms' existing clients of other products or services.
- 8.11** The main regulations concerning the use of existing customers' personal data for marketing are those within the Data Protection Act 2018, UK General Data Protection Regulation (UK GDPR) and Privacy and Electronic Communications Regulations 2003 and therefore firms must follow the requirements within these. Firms should refer to the Information Commissioner's Office for further information regarding these regulations.
- 8.12** There is existing Handbook guidance in place relating to personal recommendations, including whether information relating to, or marketing particular financial instruments may or may not be interpreted as a personal recommendation. For example, there are circumstances in which firms' use of customer data to select the target audience will not automatically mean that the firm is providing personal recommendations while highlighting the personal circumstances that led to an individual being contacted is very likely to mean that the investment is presented as suitable for the particular investor (PERG 8.30B.18G). Firms are reminded that disclaimers may be used to inform the customer that the communication does not constitute a personal recommendation, although these may not always be sufficient.
- 8.13** Marketing of core investment advice would likely amount to marketing of a service rather than of financial instruments. So, we do not see that providing targeted communications advertising core investment advice services carries a risk of being interpreted by the consumer as a personal recommendation to invest in a specific financial instrument.
- 8.14** Advice needs to be specific to a particular investment and so communications relating to the merits of receiving the core investment advice service or investing generally into a S&S ISA is unlikely to amount to a regulated activity. Firms are reminded of the guidance in PERG which provides more detail on the advice perimeter. However, engagement with industry has suggested that there may be some wariness around what may be considered advice within marketing of a core investment advice service.

- 8.15** Given that potential consumers of core investment advice may have limited experience of investing, it is important that consumers considering the service are aware of its nature and of its limitations. This forms an important part of the suitability journey from service design through to filtering and eventually, for the appropriate consumers who go on to receive advice, suitability report disclosures. This is in keeping with the Consumer Duty rule requiring that firms' communications should equip effective consumer decision-making.

Proposed new requirements

- 8.16** As the core investment advice regime entails a more limited scope and range of potential products than holistic financial advice, clarity on this is likely to be needed in consumer marketing materials. This is to ensure that potential consumers are fully aware of the nature and scope of the service, including what it does and does not do. This information should be available to potential recipients of core investment advice at the earliest practicable point of their engagement with the service, so as to form part of the filtering process.
- 8.17** We therefore propose introducing an additional rule in COBS 6.2B stating that advice under the core investment advice regime is capable of constituting independent advice despite the firm not considering a full range of financial instruments, provided that it meets the requirements in COBS 6.2B.11R.
- 8.18** An additional piece of Handbook guidance will state that firms should make it clear in their marketing that the service provided under the core investment advice regime relates only to a limited range of products and does not cover the full range of potential investment products.
- 8.19** We also propose introducing a piece of Handbook guidance in PERG 8 Annex 1 to make it clear that firms may be able to market a core investment advice service to a defined target market, according to certain criteria, without this constituting a personal recommendation or otherwise advice. The purpose of this is to help firms feel confident in marketing core investment advice services to potential clients. In doing so, this will help to ensure that as many consumers as possible are able to benefit from the returns of investing.

Q22: Do you agree with our proposed new guidance around core investment advice as a limited form of advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

Q23: Do you agree with our proposed new guidance for marketing of core investment advice to make clear the limited range of products? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

Q24: Do you agree with our proposed new guidance intended to clarify the relationship between marketing of core investment advice and personal recommendations? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

Disclosures including initial, suitability, and charges disclosures

Application and interpretation of existing requirements to the core investment advice regime

- 8.20** Our aim is to achieve a disclosures regime which enables consumers to achieve good outcomes. In some cases, this will mean choosing not to receive core investment advice. For those consumers for whom the regime or the products it covers would not be suitable, a good outcome would mean choosing not to receive advice or being excluded from core investment advice services through elements of their design, including disclosures.
- 8.21** The current disclosures rules and guidance cover a detailed list of requirements over initial disclosures prior to advice provision, suitability report disclosures and further disclosures in the case of provision of ongoing services. We will retain the current rules and guidance relating to disclosures, with some additional requirements aimed at ensuring that consumers holding excess amounts of cash savings and who may therefore benefit from receiving core investment advice, are aware of the limited scope of the regime and the charging structure applied to advice provided within it.
- 8.22** In addition to being clear in its marketing about the service being restricted or independent, under COBS 6.2B firms are also required to disclose prior to advice being given whether advice to be given is restricted or independent. COBS 6.2B.33R-COBS 6.2B.39G provide further rules and guidance for firms on disclosing the nature of advice (restricted or independent). These requirements will apply to the core investment advice regime. The core investments advice regime, however, represents a more specific form of advice which requires further FCA guidance to ensure firms make the nature of the service clear to its potential users at the earliest possible opportunity.
- 8.23** Within COBS 9A firms are required to state, before advice is given, whether they will provide a periodic assessment of suitability. The core investment advice regime allows for advice to be provided on either a transactional basis or with some form of ongoing service (see Chapter 3).
- 8.24** Suitability is covered in more detail in Chapter 4. However, elements of the regime relating to specific disclosures required within a suitability report are discussed here and in paragraphs 8.31 – 8.34 on proposed new disclosure requirements.
- 8.25** Current requirements in COBS 9A state that the suitability report must detail the advice given and how that advice meets the preferences, objectives and other characteristics of the client. They additionally state that the suitability report must draw attention to whether the client should periodically seek review of the suitability of their product(s).

- 8.26** COBS 6.1A contains regulations on disclosure of adviser charges, stating that firms must disclose as early as is practicable the total charges, in cash terms and the schedule for payment. The disclosure must detail the service the charges apply to, and how to cancel in the case of an ongoing service. Under COBS 6.1E, in the case of platforms, platform charges must not appear to offset adviser charges.
- 8.27** These rules will apply to the core investment advice regime. Firms must ensure that the method of charging its customers, including any schedule for payment instalments should be clearly disclosed as early as is practicable, in accordance with COBS 6.1A.24R.

Proposed new requirements

Initial disclosures

- 8.28** It is important that consumers receiving transactional advice are aware that they will not receive an ongoing advice service, so further to the requirement to state whether there will be periodic suitability assessments, firms should make it clear to such clients that the service is transactional and no ongoing advice is included in its provision.
- 8.29** To achieve the above aims, we propose new Handbook guidance to state that the initial disclosure, made prior to provision of advice under the core investment advice regime, should detail that the advice to be provided is restricted to a list of mainstream products held with a S&S ISA.
- 8.30** Further, we propose new Handbook guidance stating that where a firm offers advice under the core investment advice regime, they will be required to disclose prior to the advice being given whether the advice is transactional (one-off) or an ongoing advice service is provided.
- 8.31** These changes will ensure that clients seeking core investment advice are aware of the nature and limits of the service prior to receiving advice.

Suitability report disclosures

- 8.32** As discussed in Chapter 3, core investment advice may be offered on an ongoing or a transactional basis. Therefore, customers may require further information to ensure that they are aware of the scope of the service they are receiving, particularly as consumers being advised within the core investment advice regime are likely to have limited experience of investing. While some of this information will have been provided at the initial disclosure stage, the suitability report provides an important opportunity to remind clients of key information that will remain relevant throughout the holding of their purchased investments.
- 8.33** We propose new Handbook guidance stating that the suitability report should remind clients of whether the service provided was transactional or part of an ongoing advice service.
- 8.34** New guidance will also require the suitability report disclosure to inform the client that they will be responsible for ensuring the product(s) recommended continue to meet their needs in the future where transactional advice has been provided.
- 8.35** Through these additional disclosure requirements, clients receiving core investment advice will be better informed about the service and better prepared to maintain their investments following purchase. This is particularly important given that the intended consumer base for this regime is likely to have limited prior experience of investing.

- Q25:** Do you agree with our proposed new requirements for initial disclosures? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q26:** Do you agree with our proposed new requirements for suitability report disclosures? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

9 FCA approach: application of the Senior Managers and Certification Regime (SM&CR) and Approved Persons Regime (APR)

Introduction

- 9.1** This chapter sets out our proposed approach to the application of the SM&CR and APR to firms and advisers using the core investment advice regime. Broadly, our existing rules and guidance for holistic financial advice will apply to firms and advisers offering core investment advice. We propose some supplementary new requirements to provide information to the FCA on advisers offering core investment advice via our Connect system which are discussed later in the chapter.

Application and interpretation of existing requirements to the core investment advice regime

- 9.2** The SM&CR applies to authorised firms offering holistic financial advice, and the APR to advisers acting as an appointed representative (AR) of a principal firm. When providing core investment advice, firms and ARs should apply existing requirements in SM&CR or APR to advisers offering this service. This is to ensure the same high standards are maintained for this simplified form advice.
- 9.3** If an adviser is already certified or approved as an adviser, under our proposals they would not need to be re-certified or re-approved to offer core investment advice. Their existing certification or approval would allow them to provide core investment advice. The adviser will be subject to existing annual reassessment requirements.
- 9.4** Firms must hold the 'advising on investments' permission to offer core investment advice. Firms which already hold the 'advising on investments' permission should be familiar with the SM&CR and advisers working at ARs and principals should be familiar with the APR. On this basis we provide a short summary of our proposals below.

Our proposals for the application of SM&CR

- 9.5** The SM&CR applies to the existing holistic financial advice regime for directly authorised firms. It does not apply to advisers at ARs. In general, the SM&CR rules aim to ensure that people take responsibility for their actions, it's easy to understand who is responsible for what and there is good conduct at all levels.
- 9.6** The requirements of SM&CR regime span multiple sourcebooks, and SYSC 23.3.3G provides a list of the rules that apply and where they can be found in the Handbook. Firms should consult these rules and relevant guidance. Where firms are in breach of these rules, the FCA can take appropriate action to hold them to account.

The Certification Regime (CR)

- 9.7** The 'Certification Regime' provides a set of rules that require firms to make sure that people are fit and proper to perform the certification function. It applies to people who perform certain roles, known as 'Certification Functions'. They are involved in aspects of a firm's business that involve, or might involve, a risk of significant harm to the firm or its consumers. These roles are detailed in SYSC 27.8.
- 9.8** Certifying someone means assessing whether the person is fit and proper to do a particular role. We describe the 'fit and proper' assessment in more detail later in this chapter.
- 9.9** Firms need to do this assessment either at the point of recruitment or before a person performs a Certification Function if they are already employed at the firm. If the firm considers the person to be fit and proper for the role, it would need to issue them with a certificate which states the firm is satisfied that the person is fit and proper to perform the function the certificate sets out, and what aspect of the firm's affairs the person will be involved in as part of performing their function.
- 9.10** Firms must re-assess whether the person is fit and proper to perform the role at least once a year, and if the person is continuing to perform the function must renew the certificate.
- 9.11** If a firm conducts a 'fit and proper' assessment on an employee, and then decides not to issue a certificate, the employee must cease to perform the Certification Function. The firm must also notify the person, in writing, of the decision not to reissue the certificate, what steps (if any) the firm proposes to take about the person following the decision, and the reasons for proposing these steps. The firm should then consider if the circumstances of the decision warrant a notification to us per the requirements in SUP 15.3.11R and as per our requirements set out in Principle 11. In order to facilitate this we may need to make technical amendments to the existing Directory Persons forms. We will engage further on these in future if required.
- 9.12** Financial advisers already certified by their authorised firm to provide holistic financial advice will not need to be certified again to offer core investment advice. They will be subject to the existing annual reassessment requirements.
- 9.13** Certified advisers at directly authorised firms are subject to requirements to report to the FCA that they hold relevant qualifications through our rules at SUP16. We are proposing that new advisers qualified to offer core investment advice only should also be subject to the same requirement to report to the FCA.

Fit and Proper Requirements

- 9.14** For new advisers offering only core investment advice, when making a 'fit and proper assessment', firms must have regard to any general rules that we have about the qualifications, training, competence and personal characteristics required of an individual for that role (see Chapter 5). Guidance in our Handbook sets out the factors that firms should look at when assessing people as fit and proper. This includes factors like a person's honesty, integrity and reputation; their competence and capability; and their financial soundness. We are not proposing to change or add to these factors for advisers offering only core investment advice.

9.15 Similarly, as is currently the case for holistic financial advice, rules requiring firms to request a reference from Senior Manager and Certification Function candidates' past employers – known as 'regulatory references' will apply to new core investment advisers unchanged.

9.16 Firms would also need to update their regulatory references where new, significant information comes to light. A firm's compliance with the regulatory referencing requirements would also need to be consistent with its common law duties and other relevant legislation, such as those about the rehabilitation of offenders and spent convictions.

Conduct rules

9.17 As per our existing conduct rules, firms must:

- train individuals newly subject to the Conduct Rules on how the rules apply to them
- notify us if an individual has breached a Conduct Rule, and – they have taken disciplinary action (ie a formal written warning, suspension, dismissal or reduction/recovery of their remuneration) as a result

9.18 We provide guidance and examples of when we would consider someone to have breached a Conduct Rule in COCON 4.

9.19 As these rules already apply to individuals working in firms holding an 'advising on investments' permission, firms should already be familiar with them. We propose that any new advisers offering core investment advice only and certified as fit and proper by the firm would also be bound by these rules from the commencement of the regime.

Proposed new requirements

9.20 An authorised firm which certifies a new adviser for core investment advice only must hold a record of all certified individuals. We are proposing a delay of 1 year from the date of implementation of the regime before the firm should report the certification to us using the relevant form via the Connect system. This is to allow for the relevant form to be built. We will confirm the changes to the required forms in due course.

Q27: **Do you agree that the SM&CR – including fit and proper assessment and conduct rules – should apply to directly authorised advisers offering core investment advice who are not already certified as holistic financial advisers? Please explain why.**

Q28: **Do you agree with our proposal to delay reporting of individuals offering core investment advice only to the FCA for a period of 1 year from the implementation date of the regime? Please explain why.**

Application and interpretation of existing requirements to the core investment advice regime

Our proposals for the application of the APR

- 9.21** We want to ensure that there is appropriate oversight of any ARs offering core investment advice only and propose to do so by applying our existing rules and guidance in relation to the APR. Any QCF Level 4 qualified adviser that is already working at an AR who intends to offer core investment advice will already be bound by these rules.
- 9.22** We are not consulting on the AR rules generally, which are already in place and apply to firms in the financial advice market using an AR model. The rules in relation to appointment and notification of ARs are set out in detail in SUP 12 of our Handbook.
- 9.23** The principal firm will enter into a written agreement with the AR, setting out what business the AR can do. The full list of regulated activities ARs can do are set out in SUP 12.2.7G. The principal is responsible for ensuring that its ARs act within scope of their appointment. But the principal is only responsible for what they have accepted responsibility for.
- 9.24** To ensure that adequate oversight arrangements for ARs offering core investment advice, we are proposing to extend our rules and guidance in relation to ARs to these individuals. Where a QCF Level 4 qualified financial adviser already offering holistic financial advice at an AR, they will already be bound by the rules listed above.

Rules for Principal firms holding contracts with ARs

- 9.25** As under the existing regulatory framework for financial advice, we propose that principal firms must also submit applications and notifications to the FCA relating to Approved Persons.
- 9.26** Principal firms have to conduct checks on prospective advisers at ARs, and we provide guidance on the information principal firms should obtain and verify in SUP 12 Annex 2. We provide an outline of key points below, and firms should consult SUP 12 and our website for full information.
- 9.27** Before appointing an AR, principal firms must also check that they have adequate:
- controls over the regulated activity they will be allowing the AR to undertake on their behalf, including appropriate governance arrangements and risk management frameworks
 - resources to monitor whether the AR is complying with our rules and, if it isn't, the ability to enforce compliance
- 9.28** Principal firms are responsible for recording how they completed these checks and verified the information. They must also retain those records for future inspection by the FCA. We may ask, for example, how a principal firm verified the financial information disclosed by the prospective AR or the competence of the staff in the AR.
- 9.29** If at any time a principal firm has grounds to believe that the conditions set out above in paragraphs 9.26-9.28 are not satisfied, or are likely not to be satisfied, the principal firm must take immediate steps to rectify the matter or terminate its contract with the

AR and notify the FCA of this. If the termination results in the wind down of the relevant business then the principal must ensure this is done in an orderly way.

9.30 In addition to the controls and monitoring described above, we normally expect principal firms to check their AR's financial position at least once a year to ensure the AR is financially stable. Additionally, principal firms should be able to demonstrate that they have rigorous management information to allow close and continuous supervision and monitoring of ARs.

9.31 Principal firms must be able to demonstrate that their checks on ARs include reviewing the suitability of the advice given to consumers. Any remedial action that is required should be clearly documented with a clear audit trail for future reference. Principal firms must also check the suitability of the AR on an ongoing basis.

9.32 As per existing requirements in SUP 12.9.1R, principal firms should keep the following records and provide these if requested:

- the AR's name
- a copy of the original contract and any amendments
- the date and reason for terminating or amending its contract with the AR
- any multiple principal arrangements
- the financial position of the business it carries on in its capacity as the principal's AR
- any individuals who are Approved Persons or require a qualification

9.33 Records should be retained for at least 3 years from the date of termination or the amendment of the contract. The principal firm should have full access to the AR's records in respect of the information detailed in SUP 12.9.3.

The Approved Persons Regime

9.34 The FCA has rules in place to ensure candidates are fit and proper to hold important roles within firms. This includes approved persons working at ARs who are subject to the APR. The APR applies to SM&CR firms with respect to their ARs. It will apply to all advisers working at ARs offering core investment advice. Any QCF Level 4 advisers at ARs already approved do not need to be re-approved by the FCA.

9.35 The APR rules are detailed in SUP 10A of the FCA Handbook, and we provide detail on some of the main rules below. An 'approved person' is an individual who we approve to do one or more activities that are called 'controlled functions'.

9.36 When a principal firm appoints an AR, it is the principal firm's responsibility to identify which individuals within the AR are performing a 'controlled function' and ensure that the APR rules are followed. The relevant controlled function for core investment advice will be the CF30, consumer function, as described in SUP 10A.10.7. Details are set out below in relation to reporting requirements for individuals at ARs performing controlled functions.

9.37 Anyone performing a controlled function at an AR has to be approved by the FCA. The principal firm has to assess that the individual is fit and proper to be an 'Approved Person' and submit a Form A to us to approve the individual. We only approve people who we are satisfied are fit and proper to perform the controlled function they apply for. The FCA has given guidance on the Fit and Proper test for Employees and Senior Personnel in the FIT Sourcebook.

- 9.38** Approved Persons have to understand, and meet, our regulatory requirements, as well as understand how we apply them. These include our fit and proper test, the Statements of Principle, and the provisions of the Code of Practice for Approved Persons. These explain the behaviours we expect of people we approve. The principal firm also needs to report anything that could affect the ongoing suitability of the AR to us, via Form D.
- 9.39** We can take enforcement action against both the principal firm and the Approved Persons if the person performs an FCA controlled function without approval, and if we suspect they are involved in misconduct.

Notification requirements in relation to ARs

- 9.40** We require principals to notify us when they appoint an AR and when the relationship is terminated. We provide the Appointed Representative appointment Form in Connect. This requirement will apply from the start date of the regime.
- 9.41** Principals are also responsible for submitting relevant applications and notifications to us relating to Approved Persons. This currently includes notifying us of where advisers working at ARs carry out holistic financial advice as this requires a specific qualification. We propose that under the core investment advice regime, Principals must notify us of advisers working at ARs that carry out core investment advice, either in addition to holistic financial advice, or exclusively. This will be required from the start date of the regime. Principals should use Connect to make notifications and submit forms. We plan in future to make some small changes to Form A to enable firms to differentiate between advisers offering *core investment advice only*, advisers offering holistic financial advice only, and advisers offering both.

Q29: Do you agree that the APR should apply to new ARs offering core investment advice, who are not already approved, with advisers classified as CF30? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.

Q30: Do you agree with our proposal for principal firms to submit notifications applications to the FCA on behalf of their ARs? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.

10 FCA approach: authorisation and supervision

Introduction

- 10.1** This chapter sets out information on our proposed approach to the authorisation and supervision of firms and advisers using the core investment advice regime. We propose to make some amendments to existing requirements for holistic financial advisers, described below.

Proposed new requirements

Authorisations approach

- 10.2** Our aim is to ensure that we have a proportionate framework in place through which firms and advisers using the regime have the right permissions to carry out regulated activities, without creating undue supplementary requirements.
- 10.3** Taking account of the existing permissions framework, we propose to allow any firm that holds an 'advising on investments' permission to be able to offer core investment advice, provided that:
- the adviser meets the relevant qualification criteria, so is qualified to QCF Level 4, or meets the new qualification standard we are proposing for core investment advice only (see Chapter 5)
 - the scope of the advice meets the definition of core investment advice (see Chapter 3), and
 - the firm notifies us of its intention to offer core investment advice
- 10.4** A firm must have an 'advising on investments' permission to offer holistic financial advice. As such, it should be able to offer a simplified form of advice, too. A firm without an advising on investments permission will not be able to use the core investment advice regime unless they seek to vary their permission.
- 10.5** In addition to the requirement for a firm to hold the 'advising on investments' permission, we propose to require a firm to notify us if it intends to use the core investment advice regime. This will allow us to understand which firms are using it for supervisory purposes, and to monitor uptake of the regime. We propose that a firm must notify us before it can commence providing core investment advice services to customers.
- 10.6** If a firm ceases to carry out core investment advice, we propose that the firm should notify us of this fact.

10.7 We propose that firms should submit their notifications to us electronically, using the Connect online system. The notification will be made through a new form, requiring firms to confirm via tick boxes:

- if they intend to start/stop offering core investment advice
- when they intend they intend to start/stop offering core investment advice
- how many advisers will offer/stop offering core investment advice

10.8 In general, we may conduct a basic review of the notifying firm's existing permissions and any other information held on the firm we consider relevant. We may need to ask the notifying firm for further information in some specific instances, however this does not prevent the firm from commencing core investment advice.

Q31: Do you agree with our proposal that the core investment advice regime should be open only to those with an 'advising on investments permission', where other relevant criteria are met regarding qualifications and scope of advice? Please explain why.

Q32: Do you agree with our proposal that firms should notify us where they intend to offer core investment advice? Please explain why.

Q33: Do you agree with our proposal that firms should notify us where they intend to stop offering core investment advice? Please explain why.

Supervision approach

10.9 Firms offering core investment advice must hold the advising on investments permission and will already be familiar with FCA supervision and associated requirements including submission of regulatory returns. These are set out in our Supervision manual, SUP, including reporting requirements for Retail Investment Advisers at in SUP 16 Annex 18.

10.10 Firms offering core investment advice must collect and hold relevant client personal data in accordance with their obligations under GDPR that they should provide to us on request. This is to support future supervisory activity, and will allow us to request data from firms to ascertain any conduct risks or thematic issues that may be arising from the provision of core investment advice.

10.11 We are not currently proposing to introduce a new regulatory return for firms containing this information. We will review the uptake of the regime in due course to determine if the introduction of a regulatory return would be proportionate and would represent value for money.

Data retention

10.12 We want firms offering core investment advice to hold sufficient records to enable them to send data to us upon request for the provision of core investment advice.

10.13 The table below sets out the data we propose firms should keep so that it can be provided to us in a timely manner. We request that firms hold this data from the effective start date of the regime, and the data is over an annual period. We request that the data is retained for at least 5 years:

Area	Data Required
1. Total Product Sales	<ul style="list-style-type: none"> a. The total number of retail clients the firm and/or its appointed representatives have provided with core investment advice in the last 12 months b. The number of retail clients out of (a) who proceeded with the personal recommendation c. The total values of lump sums invested in the last 12 months d. The total values of investments made through regular contributions in the last 12 months e. The total number of personal recommendations in the last 12 months that proceeded on an insistent client basis f. The total number of retail clients receiving ongoing core investment advice in the last 12 months g. Whether retail clients are able to cancel an ongoing service h. Whether there any fees or contractual penalties for cancelling an ongoing service and; i. Total number of complaints on core investment advice that the firm has received within the last 12 months
2. Adviser sales (including appointed representatives)	<ul style="list-style-type: none"> a. The number of retail clients identified in category (1)(a). who were advised by an appointed representative of the firm in the last 12 months b. The total numbers of retail clients advised in the last 12 months per adviser (including appointed representatives). c. The total values of investments made (following personal recommendations proceeded with) for core investment advice in the last 12 months and; d. The total values of adviser sales for core investment advice in the last 12 months broken down per each adviser at the firm (including lump sum contributions and total values of ongoing contributions)

Area	Data Required
3. Charges	<ul style="list-style-type: none"> a. The total charges applied for lump sum investments split between a one-off payment and – where the charge has been spread across the term of the investment – the total value of the agreed charge b. The number of <i>retail clients</i> in last 12 months who paid an adviser charge of less than or equal to 0.4% of the amount <i>invested</i> c. The number of <i>retail clients</i> in last 12 months who paid an adviser charge of less than or equal to 0.8% of the amount <i>invested</i> d. The number of <i>retail clients</i> in last 12 months who paying an adviser charge of less than or equal to 1.2% of the amount <i>invested</i> e. The number of <i>retail clients</i> in last 12 months who proceeded to transfer into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of 0.75% or less of the amount <i>invested</i> f. The number of retail clients in last 12 months who proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 0.75% and less than or equal to 1.5% of the amount <i>invested</i> g. The number of retail clients in last 12 months who proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 1.5% of the amount <i>invested</i> h. The average value of the total costs per personal recommendations proceeded with in last 12 months, broken down by average annual percentage and average fee (this includes the initial advice charge applied) i. The average value of all ongoing advice charges in the last 12 months, broken down (where relevant) by average annual percentage charge and average fixed fee (where the average is calculated by dividing the total amount received for charges in relation to ongoing advice in the last 12 months and dividing it by the number of retail clients who received ongoing advice in that period)
4. Training and Competence	<ul style="list-style-type: none"> a. The total number of <i>advisers</i> (including appointed representatives) only providing core investment advice at the firm b. The number of individual <i>employees</i> with supervisory responsibilities for supervising <i>core investment advice</i> at the firm c. The number of <i>advisers</i> (including appointed representatives) assessed as competent only to provide core investment advice by the firm d. The number of <i>advisers</i> (including appointed representatives) that are fully qualified to provide <i>core investment advice</i> and the number that are working towards their qualifications e. The number of advisers (including appointed representatives) that are pre-competence and under supervision for providing <i>core investment advice</i>

Area	Data Required
5. Investments recommended through core investment advice	<p>a. The monetary value of all investments made following personal recommendations in last 12 months where the firm/wider group is providing the platform service/asset management products</p> <p>b. The monetary value of investments made following personal recommendations in last 12 months into each fund (including multi-manager and discretionary fund management recommendations) including the relevant ISIN code</p>

Q34: Do you agree with our proposal to require firms providing core investment advice to hold the information specified in order to provide it to us on request? Please explain why.

Q35: Do you agree with the proposals that this data should be over an annual reporting period that will come into effect from the start of the regime? When responding please outline any reasons that support your answer.

Annex 1

Questions in this paper

- Q1:** Do you agree with our proposed defining features of core investment advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q2:** Do you think that consumers who have received transactional core investment advice should be able to receive further instances of transactional core investment advice in the years immediately following their initial advice (for example for up to 3 years)?
- Q3:** Please explain your answer and state any alternative suggestions for supporting consumers who receive transactional core investment advice to make initial investments and who would like transactional advice in future years on their existing S&S ISA.
- Q4:** Do you agree with our proposed criteria for the provision of core investment advice set out above? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q5:** Do you agree with the proposed approach to service design and filtering? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q6:** Do you agree with our suggested approach for how a firm may choose to undertake the knowledge and experience element of the Know Your Customer process for core investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q7:** Do you agree with our proposed approach for the factors that we consider are relevant for obtaining the necessary information on a client's financial situation? Please elaborate on the reasons for your answer, as well as outlining where applicable any alternative approaches that you would suggest.
- Q8:** Do you agree with the production of non-Handbook guidance to support firms in arriving at a suitability decision for core investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.

- Q9:** Do you have any comments on the content in the non-Handbook suitability guidance? Please provide supporting information in explaining your answer and if there is anything additional that you consider should be included.
- Q10:** Do you consider it would be helpful for a regulatory pro forma document to be produced to assist in setting out the key areas that firms should consider when providing core investment advice? Please outline any reasons supporting your answer when responding.
- Q11:** Do you agree with our proposals to create a new TC activity for core investment advice? Please explain your answer and state any alternative approaches you believe would achieve the same objective.
- Q12:** Do you agree with our proposals that core investment advisers should only pass the modules in Financial Services, Regulation and Ethics as well as Investment Principles and Risk? Please explain your answer and state any alternative approaches you believe would achieve the same objective.
- Q13:** Are you proposing to offer these examinations to candidates who wish to be qualified to provide core investment advice? If so, do you propose to offer these modules as a complete course or as individual separate modules? Additionally, please let us know if you offer courses that you consider may cover the necessary competencies required for an adviser to provide core investment advice.
- Q14:** If you are proposing to offer a course to cover the modules required, do you consider there to be any challenges in order for these to be operational by the effective date of the regime? If so, please outline any options that you would suggest.
- Q15:** Do you agree with our proposals that core investment advisers should pass the qualifications to provide core investment advice within 24 months, rather than the current 48-month timeframe for retail investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q16:** Do you agree with the proposals that core investment advisers will only need to undertake a minimum of 15 hours CPD each year? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.

- Q17:** Do you agree that the CPD hours may be either structured or unstructured? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q18:** Do you agree with the proposal to remove the requirement for core investment advisers to hold a Statement of Professional standing? Please explain the reasons for your answer.
- Q19:** Do you agree with the proposal to remove the requirement that CPD will need to be independently verified by an accredited body? Please explain the reasons for your answer.
- Q20:** Do you agree with our proposed product governance requirements for the core investment advice regime? Please explain your answer and suggest alternative approaches if you believe these would achieve the same objective without compromising consumer protection.
- Q21:** Do you agree with our proposed changes around fees and charges? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q22:** Do you agree with our proposed new guidance around core investment advice as a limited form of advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q23:** Do you agree with our proposed new guidance for marketing of core investment advice to make clear the limited range of products? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q24:** Do you agree with our proposed new guidance intended to clarify the relationship between marketing of core investment advice and personal recommendations? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q25:** Do you agree with our proposed new requirements for initial disclosures? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.

- Q26:** Do you agree with our proposed new requirements for suitability report disclosures? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.
- Q27:** Do you agree that the SM&CR – including fit and proper assessment and conduct rules – should apply to directly authorised advisers offering core investment advice who are not already certified as holistic financial advisers? Please explain why.
- Q28:** Do you agree with our proposal to delay reporting of individuals offering core investment advice only to the FCA for a period of 1 year from the implementation date of the regime? Please explain why.
- Q29:** Do you agree that the APR should apply to new ARs offering core investment advice, who are not already approved, with advisers classified as CF30? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q30:** Do you agree with our proposal for principal firms to submit notifications applications to the FCA on behalf of their ARs? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.
- Q31:** Do you agree with our proposal that the core investment advice regime should be open only to those with an ‘advising on investments permission’, where other relevant criteria are met regarding qualifications and scope of advice? Please explain why.
- Q32:** Do you agree with our proposal that firms should notify us where they intend to offer core investment advice? Please explain why.
- Q33:** Do you agree with our proposal that firms should notify us where they intend to stop offering core investment advice? Please explain why.
- Q34:** Do you agree with our proposal to require firms providing core investment advice to hold the information specified in order to provide it to us on request? Please explain why.
- Q35:** Do you agree with the proposals that this data should be over an annual reporting period that will come into effect from the start of the regime? When responding please outline any reasons that support your answer.

Annex 2

Cost benefit analysis

Executive Summary

1. This Annex sets out our assessment of the costs and benefits of the proposed core investment advice regime.
2. Our core investment advice regime is designed to address a significant consumer harm identified in our [Consumer Investments Strategy](#): too many consumers hold large sums of money beyond that needed for an emergency buffer in cash instead of investing, despite many having the risk appetite to do so. These consumers, therefore, experience harm by seeing the value of their wealth erode due to inflation versus the upside potential returns from investing. A key underlying issue is a lack of available support: mass-market consumers value the help of a financial adviser to provide the necessary help to get them investing, but financial advice is not reaching all parts of the consumer market.
3. To mitigate this harm, the Consumer Investments Strategy committed to “explore regulatory changes to enable firms to provide more sales and support services to mass-market consumers investing in straightforward products like stocks and shares ISA wrappers,” as one of the levers to target a 20% reduction in the number of consumers with higher risk tolerance holding over £10,000 in cash – a proxy for what ‘holding too much cash’ looks like in practice – by 2025. We’re delivering against this commitment by creating a simpler regime for financial advice – our core investment advice regime.
4. Our proposed core investment advice regime amends the existing regulatory framework for financial advice to allow firms to more easily provide simple financial advice to mass-market consumers with simpler needs. We aim to ensure regulatory requirements are commensurate to the risk of advice provision for consumers with straightforward needs through streamlining the compliance framework for providing core investment advice (only) whilst proportionate regulatory protections remain in place.
5. We anticipate that our proposed regime will bring significant benefits to both consumers and firms. For firms – especially larger, more vertically integrated firms – the framework that the proposed regime offers will allow them a commercially viable route to providing financial advice to a large base of mass-market consumers with simpler investment needs. This will provide the opportunity for greater revenues and profits.
6. Consumers should feel empowered to make more effective investment decisions through greater access to financial advice, which is both cheaper and more aligned with their simpler needs. Consumers who may be keeping all their savings in cash (beyond an emergency savings buffer), despite having some appetite for investment risk, should therefore benefit from receiving recommendations on straightforward investments, which give the opportunity for returns over the medium to long term.

7. Whilst we expect the proposed regime to generate costs (predominantly for firms), it's important to emphasise that the proposed regime is entirely optional. A firm would only incur the costs of the proposed regime where it believes that there is an overall net benefit to undertaking the regime.
8. The costs of the regime are limited to what a firm would have to invest in order to meet the requirements: familiarisation and legal costs, staff training costs, governance and IT change costs. For firms that will likely familiarise themselves with our proposed regime (ie all financial advisory firms and other interested firms) but choose not to pursue it, the estimated cost per firm is £650 (ie a total one-off cost for the industry of £4.42m). For firms that familiarise themselves with our proposed regime and decide to pursue it, we estimate the cost per firm to be approximately £451,000 for large firms, £180,000 for medium firms and £19,000 for small firms. We cannot provide overall industry costs as we don't know how many firms will wish to undertake the proposed regime, so we provide likely costs per firm and estimates of the number of firms likely to use the regime.
9. It's possible that certain groups of consumers may incur costs through the regime, but this would only apply in limited circumstances – eg consumers who wouldn't have sought advice if the regime didn't exist but now do so will incur advice fees. Seeking core investment advice would be voluntary, however, so consumers will only incur advice fees costs if they expect they will benefit from doing so. We expect the advice fees cost to be outweighed by the benefits of investing with professional support. As with holistic financial advice, consumers receiving core investment advice will be empowered to make this assessment as costs are required to be disclosed through the advice process.
10. We consider some of our assumptions and estimates to be uncertain. We would therefore encourage any data input from firms regarding the cost of compliance with our proposals, or any other aspects of this cost benefit analysis, within their response to this consultation.
11. A full summary of the costs and benefits of our proposed regime discussed within this cost-benefit analysis is set out below. We consider the costs are proportionate to the benefits and therefore justified. Firms will only adopt this if it is net beneficial to them. Our breakeven analysis, based on illustrative scenarios of industry participation, also suggests the policy will be net beneficial, as under those scenarios 500 – 13,600 consumers are needed to take up core investment advice and invest in S&S ISAs for our policy to breakeven. We think this is achievable given that the breakeven levels represent a small proportion of new S&S ISA consumers annually. This means it would only require a small percentage increase in S&S consumers for our policy to breakeven. We are confident this will materialise, given the size of the untapped market of mass-market consumers. Our latest (as yet unpublished) data tells us that the number of consumers with over £10,000 in investable assets held mostly or entirely in cash and who have some appetite for investment risk is approximately 4.2m (FLS, 2022).

	Costs	Benefits
Firms	Familiarisation and legal cost – £4.42m (£650 per firm) Training costs* IT costs* Governance change costs* Reduction in revenue per client* Reduction in holistic financial advice clients and related revenue*	Proportionate regulation reducing costs of providing advice Access to larger market of potential clients Increased profitability
Consumers	Financial cost of paying for advice for consumers who would otherwise have invested without advice	Reduced costs of advice More consistent returns and lower unpredictable losses Reduction in probability of inflation-related financial loss
FCA	Authorisations Supervision Technology development	

* Please note that due to uncertainty of take up, we have only quantified the familiarisation and legal costs that will be incurred by all firms in the sector. Other costs, eg training, IT and Governance change costs, and revenue reduction per client are not quantified because only incurred if the firm considers they are outweighed by any benefit from additional clients/revenues. Reduction in holistic financial advice clients/revenues are also dependent on optional take up and therefore unquantified here. See cost section for costs per firm should they decide to opt into the regime and breakeven analysis for overall illustrative estimates.

Introduction

12. The Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
13. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.
14. This CBA is structured as follows:
 - Problem and rationale for intervention
 - Our proposed intervention
 - Baseline and key assumptions
 - Benefits
 - Costs
 - Costs and benefits of potential future amendments to the regime

Problem and rationale or intervention

Harm

- 15.** The Consumer Investments Strategy identified that a significant proportion of consumers are holding large amounts of cash savings.
- At the time of its publication, our Financial Lives 2020 survey identified that at least 15.6m UK consumers had over £10,000 in investable assets; amongst these mostly mass-market consumers, 55% held the majority (>75%) or all of this in cash. Approximately 8.4m UK consumers, therefore held the majority or all of their £10,000+ investable assets in cash.
 - More recent (as of yet unpublished) data from our Financial Lives 2022 survey show that the picture hasn't improved over the last 2 years. The more recent survey identified that at least 16.8m consumers had over £10,000 in investable assets, and 58% of these consumers held the majority (>75%) or all of this in cash. Approximately 9.7m UK consumers, therefore, hold the majority or all of their £10,000+ investable assets in cash.
- 16.** It may be appropriate in some cases for consumers to hold such large amounts of money in cash (eg saving for an imminent large purchase). In general, however, consumers who retain large amounts of cash savings beyond what is needed for an emergency buffer will experience harm as the real value of their wealth falls due to inflation and as they miss out on potentially higher returns available from investing over the medium to long term. This has been exacerbated by the recent rise in inflation and the prospect of this rising further.

Drivers of harm

- 17.** It is crucial that consumers can access the right support to make effective investment decisions, but certain drivers of harm on both the demand and supply side of the financial advice market inhibit investment amongst mass-market consumers.
- 18.** On the demand side, we identify asymmetric information as a key market failure: information and expertise are more available to consumers with higher levels of investable assets. Consumers with lower levels of investable assets find it more difficult to access advice on the best approach to managing their savings, meaning that they may be less likely to be able to protect their savings from the negative effects of inflation.
- In comparison to higher net worth consumers, mass-market consumers' capability with respect to engaging with financial services is broadly low (FLS, 2020). Most are at least mildly risk averse, largely wary about making investment decisions, and struggle to engage with currently available non-advised guidance services (eg direct-to-consumer platforms), where they can be overwhelmed by the range of options presented. We are therefore concerned that the financial advice market doesn't work well for consumers with low financial capability.
 - Where mass-market consumers have a willingness to invest, they want professional support to give them the necessary confidence to give it a go. In seeking some form of 'expert' support before investing, many consumers are open to paying for advice but prices from traditional advisers tend to be higher than what mass-market consumers are willing to pay; whereas data from FLS 2020 showed that most consumers are willing to pay an initial fee for advice to a value of 1% of

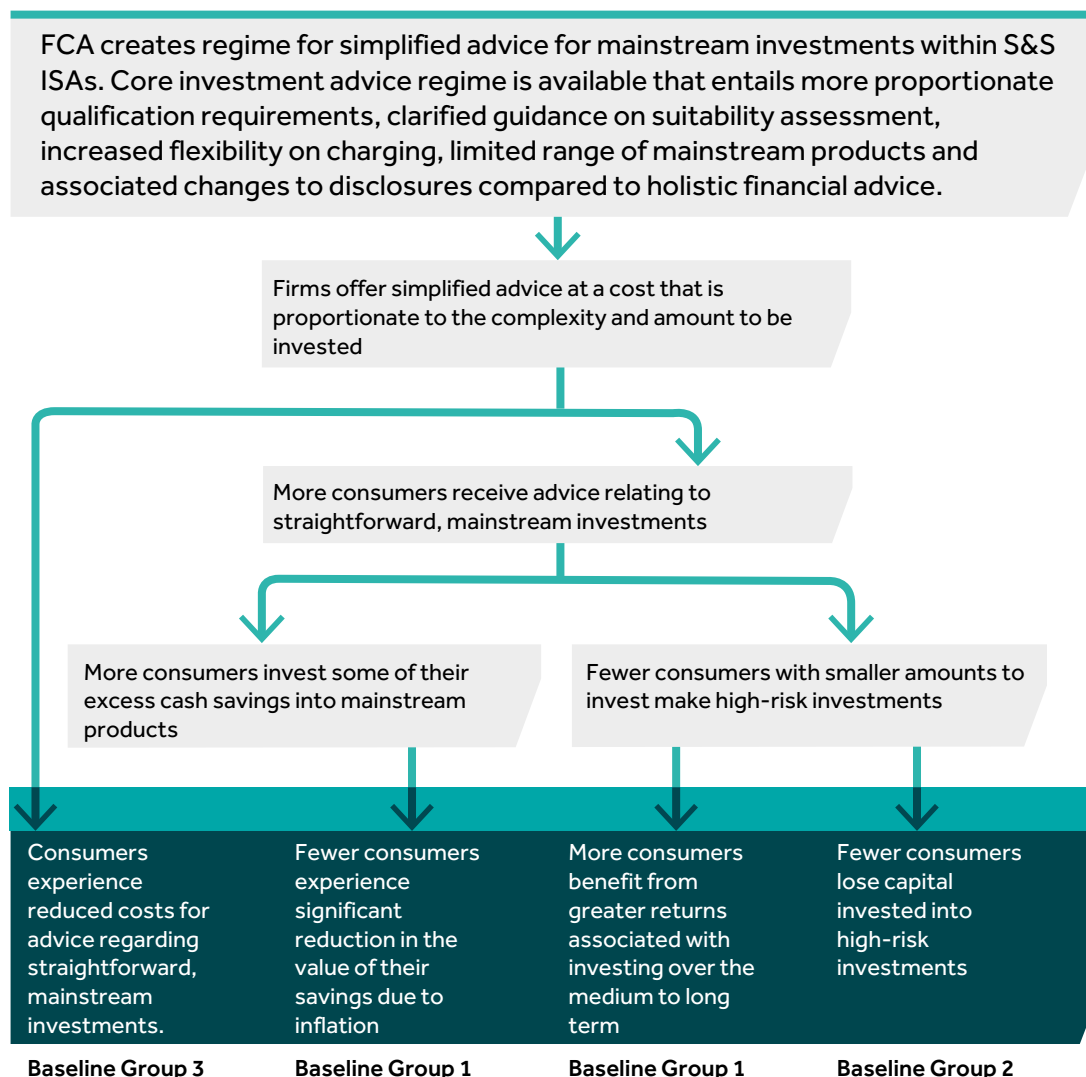
the investment or up to a flat fee of £250, our regulatory return data demonstrates that averages fees stand higher at approximately 3%. Through our supervisory work, we have observed that most firms tend also to have minimum investment amounts in order to access holistic financial advice which far exceed what many consumers are prepared (or simply have) to invest. Furthermore, whilst many firms offer robo-advice models which provide the necessary 'expert' input at very affordable prices, first-time investors do not trust these advice solutions – strongly preferring human intervention (eg only 6% of adults would choose a robo-adviser if offered a free consultation, according to Mintel's [UK Consumers and Financial Advice Market Report 2021](#)). Consumers are therefore largely priced out of the market for traditional financial advice.

- 19.** On the supply side, there is also some regulatory failure: firms face challenges advising those with simpler needs and/or lower investment amounts because of their lack of confidence in applying the limited flexibility built into existing rules. The associated compliance costs mean there is a minimum cost for offering advice that is higher than would be commercially viable to charge consumers who have lower sums of money to invest.
- Some rules (eg, qualification requirements) are designed to provide sufficient protections to consumers when receiving holistic financial advice on the most complex issues but apply invariably to all forms of advice even where customers' needs are simpler and investment amounts are low.
 - Other rules offer some flexibility (eg, the suitability assessment process), but firms generally aren't comfortable making use of such flexibility. Through ongoing industry engagement, we know this lack of confidence persists despite past interventions to provide further non-Handbook guidance on suitability (eg, [FG17/8](#)) and the dedicated support we offer through Innovation Pathways to help firms.
- 20.** The combination of these demand-side and supply-side challenges means the financial advice market does not function as effectively as it could: mass-market consumers see the value of financial advice, but the immediate cost of the service means many are priced out of the market. The evidence above suggests that firms either: (a) do not service the mass-market effectively, advising predominantly wealthier individuals who can more comfortably afford the more substantial fees; or (b) offer cheaper robo-advice-only models which are not generally trusted by consumers because they don't offer any human interaction. Data from both FLS 2020 and 2022 demonstrates this: in both surveys, only 8% of adults reported taking financial advice over the previous year.
- 21.** The Consumer Investments Strategy therefore publicly committed to "explore regulatory changes to enable firms to provide more sales and support services to mass-market consumers investing in straightforward products like stocks and shares ISA wrappers," targeting a 20% reduction in the number of consumers with higher risk tolerance holding over £10,000 in cash by 2025.

Our proposed intervention

- 22.** We are proposing a new more streamlined regulatory regime for financial advice which will enable firms to provide simpler financial advice in order to support consumers with straightforward needs to get into investing by putting their excess cash savings into more 'mainstream' investment products (ie lower risk products likely to appeal to and be suitable for mass-market retail investors) within S&S ISA wrappers.
- 23.** The new regime is designed to allow firms to service consumers' core advice needs, in comparison to the current advice framework which envisages firms servicing consumers' holistic needs – hence it will be referred to as our "Core Investment Advice Regime." This regime will be optional for firms to take up and offer to consumers.
- 24.** To create the more streamlined regulatory framework for financial advice, the proposed regime incorporates several design elements to simplify our existing regulatory requirements whilst ensuring high standards of consumer protection are maintained. The overall aim is to ensure the controls on investment advisers under the regime are proportionate to the underlying risks to consumers and complexity of the advice. We are reducing the regulatory requirements in comparison to the existing financial advice regime, as we are narrowing the regime's scope to just a simple investment solution, a selection of 'mainstream investments' within a S&S ISA. S&S ISAs are the most appropriate target investment solution for our proposed regime: having no tax implications but allowing for a wide range of potential investments, they're simple but effective; they're well recognised and they're widely available to the mass-market being offered by a wide array of providers.
- 25.** Our proposed regime will therefore:
- introduce more proportionate qualification requirements to reduce costs for firms, requiring advisers under the regime have only the necessary technical and regulatory understanding to advise on mainstream investments within S&S ISAs
 - streamline the suitability requirements to make it easier for firms to offer simpler advice on investments within S&S ISAs, reflecting the lower risk of the investment decision customers are making
 - improve optionality around charging to make advice more accessible to consumers
 - limiting the range of products advisers can advise upon to exclude certain high-risk investments
 - ensure core regulatory protections remain appropriate (eg product governance, marketing, disclosures, data retention requirements and our supervisory/authorisations approaches)

26. The following figure sets the causal chain by which we expect to see our proposal reduce the harms described above.



27. Following the publication of our consultation paper, there will be a 3 month consultation window where we will collate stakeholders' written feedback with the view to publish the final rules for our regime in spring 2023, targeting implementation of the regime before the end of the 2023/24 financial year (ie end March 2024).

Baseline and key assumptions

28. As explained above, the current financial advice market does not provide mass-market consumers with the right professional support to allow them to make effective investment decisions. The established holistic financial advice offering – which the current regulatory framework effectively mandates – does not meet the needs of most mass-market consumers who have simpler investment goals and/or lower amounts of money to invest.
29. In the absence of our proposed policy intervention to provide a simpler and cheaper advice solution, consumers would be likely to take 1 of 3 actions, which we consider to be our baseline groups.

- **Baseline Group (1): Consumers wouldn't seek advice and wouldn't invest:** whilst many mass-market consumers are willing to invest and would rely on professional support to give them the confidence to do so, the majority are unwilling or unable to pay the higher fees for holistic financial advice, which may be disproportionate to the sums to be invested, or prefer human interaction instead robo-advice offerings despite having lower price points. They therefore don't seek advice, and without the helping hand of an adviser, will not invest.
- **Baseline Group (2): Consumers wouldn't seek advice but would invest anyway:** certain mass-market consumers are willing to invest, see the value of financial advice yet are unwilling to either pay the higher fees of holistic financial advice or seek robo-advice despite its lower fees, but nevertheless invest anyway. Given that mass-market consumers generally self-report low knowledge or understanding of investments, without professional advice these consumers may be more likely to purchase high risk investments or other investment products.
- **Baseline Group (3): Consumers would seek holistic financial advice and would invest:** certain mass-market consumers are willing to invest, see the value of financial advice and pay the higher fees of holistic financial advice, if they can indeed find an adviser who would be willing to have them as a client. They therefore invest, and are likely to see the benefits of investing, but they pay for advice more comprehensive than they truly require.

30. If we do not intervene, the consumers we are targeting as part of our proposed regime will continue to face harm – regardless of their baseline situation.
31. For Baseline Group (1): We consider that these consumers would be likely to continue to experience harm as the real value of their wealth falls due to inflation. Data from successive editions of our *Financial Lives* surveys supports this assumption. In 2020, amongst those consumers with more than £10,000 in investable assets (at least 15.6m), 55% (8.4m) held the majority or all of these investable assets in cash, despite 33% of those consumers (5.0m) having some appetite to take risk generally. In 2022, 2 years later in the absence of any policy intervention, both those statistics had roughly remained constant, only marginally increasing in each case to 58% (9.7m) and 34% (5.7m) respectively. Data from FLS 2022 showed that only 17% of consumers with over £10,000 in investable assets had received financial advice in the previous year – a trend which we anticipate will continue if we do not intervene.
32. Even in circumstances when inflation (as measured by the Consumer Prices Index 12-month rate) is maintained at the Bank of England's target rate of 2%, holding assets in cash would see a significant loss of wealth in real terms over time. In these circumstances, over a 4 year period, a consumer would see a cumulative reduction in wealth of 7.62%. Inflation is of course, however, currently much higher than the Bank of England's target. According to the Bank's November 2022 Monetary Policy Report, the rate of inflation is expected to keep increasing over the coming months, peaking at approximately 11% in the latter quarter of this year. According to the Bank's more detailed inflation predictions over the next 4 years, therefore, a consumer would see a cumulative reduction in wealth of 15.47%. Without intervention, it's clear therefore that inflation could potentially cause substantial harm to this group of consumers (especially when considered in comparison to the upside potential benefits of likely investment returns – as set out in paragraph 53 of this CBA).
33. For Baseline Group (2): We consider that these consumers would be likely to purchase investment products which are not suitable to their circumstances, especially given the challenging economic climate more generally. Higher-risk investments may be

more attractive to consumers who are trying to earn quick wins to meet short-term financial challenges, but who – spurred on by popular appeal, aggressive advertising, or general hype – don't fully understand the risks without the support of a financial adviser. For example, the cryptoassets market is becoming more understood and more widely accessible which has broadened the profile of investors. However, this high-risk option – just as with other high-risk options – is very unlikely to be suitable for these mass-market consumers, potentially creating more future financial hardship. Research conducted for the FCA found that a significant proportion of investors do not fully understand the associated risks, with 45% of non-advised investors failing to recognise that 'losing some money' was a risk of investing.

34. For Baseline Group (3): We consider that these consumers would be likely to continue to seek an advice offering which goes beyond their straightforward needs and accordingly pay more than they need to. For holistic financial advice, firms tend to charge ~3% as a one-off upfront payment and ~1% per annum (equal to £600 and £200 respectively for an initial investment of £20,000). According to our most recent data, there are at least 16.8m of UK adults with £10,000 or more in investable assets (FLS, 2022), but only 4.4m UK adults received financial advice in the last year. In the counterfactual we consider that the numbers of consumers in this group will decrease for a few years, as more mass-market consumers who potentially would have sought holistic financial advice are priced out of the market due to the strain on finances caused by the current economic climate.

Current market for financial advice and anticipating the uptake of the proposed regime

35. We do not yet know how many firms may undertake our proposed regime as it will be optional for firms to undertake once it is implemented, but we can provide estimates for: (a) how many firms are likely to be in scope of considering taking advantage of it; and (b) how many firms we believe are likely to undertake it from our industry engagement to date and supervisory understanding.
36. As a minimum, firms will need to have the 'advising on investments' permission in order to undertake the regime, so every firm with that permission will be able to take advantage of our policy intervention. There are currently 6,199 firms with the 'advising on investments permission'. Most of these firms are what we categorise as **advisers and intermediaries**, but a small minority (849, or around 14%) are firms which we categorise as having other primary functions – eg **wealth managers, asset managers, life insurers, retail banks**, etc.
37. We envisage that there may be additional firms, whose primary activity isn't the provision of financial advice, who may consider seeking the 'advising on investments permission' to undertake the regime as part of their broader business activities. For the purposes of this cost benefit analysis, we have therefore factored in a discretionary 10% increase to the overall number of firms with the 'advising on investments' permission currently to get to an overall figure of firms who may consider undertaking the regime – an additional 620 firms to give a total of 6,819 firms.
38. Whilst we think it's likely that several thousand firms may consider whether to take up the proposed regime, we anticipate that some types of firms may be more likely than others to do so.

39. The price of core investment advice will depend on the interaction of the supply and demand for it. We anticipate that (a) the costs of providing core investment advice will be lower due to the less complex regulatory requirements the proposed regime incorporates; and (b) willingness and ability to pay for financial advice is relatively lower for mass-market consumers than for those who currently pay for holistic financial advice. These 2 factors are likely to lead to the price of core investment advice to be lower and as a result the amount of revenue per client a firm can earn will also be lower.
40. Given that we expect a reduction in revenues per client for core investment advice relative to holistic financial advice, we anticipate that core investment advice may be more commercially attractive to larger vertically integrated firms than smaller firms because: (a) they more effectively benefit from economies of scale with their significant existing customer bases so are more likely to drive higher volumes than smaller firms and (b) they are likely to also offer appropriate investment products within S&S ISAs in their other business lines so will benefit from increased inflows into their own investments, increasing revenues of the business as a whole.
41. Such firms may be able to offer lower cost advice services more competitively as they will be able to market them alongside the range of other products and services they offer, and – in the case of firms such as retail banks – information on levels of consumer savings held in cash may facilitate marketing the regime to an appropriate target market, therefore increasing their likely number of clients under the regime.
42. We therefore consider it likely that a greater number of large, vertically integrated firms than smaller firms will take up the core investment advice regime.
43. We are not able to estimate the price at which core investment advice will be offered to consumers, but the new Consumer Duty sets an expectation that services are designed and offered with consideration of price and value levels that reflect good outcomes for consumers, and existing rules in COBS 6 which limit charges to advice only, should also lead to lower costs under the proposed regime.
44. Although we anticipate uptake of the proposed regime could materialise in this way, the number of firms who will actually take up the proposed regime remains uncertain. Whilst take up will ultimately depend on firms' reaction to the comprehensive proposals set out in this consultation paper, the consensus from both (a) our industry engagement to date and (b) our understanding of the interaction between the current market and the proposals which we're putting forward, we anticipate that a realistic range for the number of firms who will choose to undertake the regime is 10-100. The table at paragraph 55 provides a full breakdown of this estimated range. Although this is a relatively large range, this does reflect the optional nature of the regime as well as the broad sentiment and scope for firms to take it up. Given the uncertainty behind take up, in our cost section we present costs per firm as this is likely to be a more reliable metric given that it is not dependent on the number of firms that take up our proposed regime. For illustrative purposes only, we do reference total costs under 2 scenarios, as helpful for the breakeven analysis.
45. We envisage firms of all sizes will consider our proposed regime. In the current market, we observe that there are currently 48 large firms which we consider to be vertically integrated, 207 medium firms and 5,944 small firms who have 'advising on investments' permission and will therefore consider our proposed regime. We also anticipate an additional 620 firms who don't currently have advisory permissions, may consider our proposed regime. We assume these additional firms have a similar

firm size profile to those with permissions and expect slightly more of the large firms who don't currently have advisory permissions will consider our proposed regime. We therefore assume that a total of 60 large vertically integrated firms, 228 medium firms and 6,531 will at least consider our proposed regime.

- 46.** We consider it most likely that the firms that take up our proposed regime will be skewed towards large vertically integrated firms who currently have the requisite 'advising on investments' permission. If take up is borne out more towards a low uptake scenario we anticipate that it will be these firms which will predominantly account for the uptake. In a high uptake scenario, we anticipate that it will still be these firms which will account for most of the uptake, but that some medium-sized, small-sized and potentially even some firms who apply for the 'advising on investments' permission will make up the full cohort.

Benefits

Benefits to firms

- 47.** Reduced cost of advice through regulatory reform: our proposed regime streamlines a number of the requirements of the existing regulatory framework for financial advice. This should enable firms to more easily design a commercially viable and affordable advice offering, which can tap into a larger market of mass-market consumers for whom take up of financial advice is currently low. It should also enable those firms who are already attempting to offer more simplified advice provisions to do so at a lower cost.
- 48.** In our engagement with industry to date, we have received encouraging feedback on reforms that reduce burdens on firms under this regime. For example:
- our proposed approach to Training and Competence (TC) requirements will allow core investment advice to be provided by those with only 2 of the relevant modules of the full QCF Level 4 qualification currently mandated by the existing regime, not the full qualification. We anticipate advisers providing core investment advice would therefore demand lower remuneration and cost less to train, reducing costs for firms which allows for the delivery of a more attractive advice offering to mass-market consumers – one that is cheaper but still meets their needs.
 - our proposed approach to fees and charges would allow firms greater flexibility in accepting payments for advice in instalments. Firms would be able to design advice solutions for mass-market consumers that avoid the considerable barrier of requiring a large upfront payment for advice.
- 49.** Increased revenues and profits: by reducing compliance costs for core advice provision and giving firms the confidence to use existing flexibility in financial advice regulation, our proposed regime allows for a more commercially viable route for firms to provide financial advice that is: (a) affordable to mass-market consumers with simpler needs and/or lower amounts to invest; and (b) trusted by mass-market consumers as it involves a professional (ie not wholly robo-advice).
- 50.** We expect that these advice solutions will increase demand for professional financial support amongst the mass-market, increasing firms' revenues and profits as they take on potentially large volumes of clients amongst the mass-market previously unserved

by the financial advice industry. We anticipate that larger vertically integrated firms in the retail investment sector will benefit the most given they will be able to exploit economies of scale within their existing business structures and customer base to offer the most competitive core investment advice offerings, however all firms could benefit from tapping into this largely unserved market.

- 51.** The market of potential clients for core investment advice is potentially substantial: the number of UK consumers with at least £10,000 in investable assets held mostly or entirely in cash and who have some appetite to take investment risk is 4.2m (FLS, 2022). Our proposed regime itself is designed to contribute to target 20% of this group of consumers by 2025 – as per the commitment made in the Consumer Investments Strategy – so approximately 840,000 consumers. We anticipate, however, that the actual number of consumers who decide to use core investment advice within that timeline will be lower than this because: (a) this policy intervention is only intended to contribute to meeting this total alongside the implementation of the new Consumer Duty (not meet it independently); and (b) elements of the regime will take time to operationalise once it goes live so its full impact is not likely to be realised until beyond the 2025 timeline.

Benefits to Consumers

- 52.** The proposed regime will benefit mass-market consumers by enabling firms to offer simpler and cheaper advice solutions which are much more aligned to their needs than existing advice solutions offered across the market. Improving the accessibility to financial advice will allow more consumers to make effective investment decisions, thus avoiding their wealth being eroded due to inflation whilst sitting in cash and instead benefiting over the medium-long term from the potential returns from investing.
- 53.** The specific benefits to consumers depend on the baseline group they belong to:
- a.** For Baseline Group (1) – those who wouldn't seek advice and wouldn't invest if we didn't intervene – the main benefit is the reduction in the probability of individuals' financial loss caused by inflation. With the option of cheaper and simpler financial advice, these consumers are more likely to seek professional support in order to get into investing, likely leading to better returns than holding money in cash. The table below illustrates what a £1,000 investment 10 years ago in various investment vehicles would have returned to date in current prices compared to holding it in cash. These figures do not incorporate any associated fees (including advice fees).

Savings and investment accounts	Return (on £1,000 over the last 10 years; 2012-2021 inclusive)	Inflation-adjusted Return (on £1,000 over the last 10 years; 2012-2021 inclusive)
100% equities (based on the MSCI World Index)[†]	£3,500 (+250%)	£2,876 (+188%)
A 'balanced' fund (60% equities; 40% bonds)[†]	£1,715-£2,316 (+71.5-131.6%)	£1,447-£1,908 (+44.7-90.8%)
A 'cautious' fund (40% equities; 60% bonds)[†]	£1,500-£1,957 (+50-95.7%)	£1,291-£1,612 (+29.1-61.2%)
A cash savings account	£1,050 (+5%)	£863 (-13.7%)

[†] Source: FCA analysis of a range of funds from providers with large market share in the UK. This includes Vanguard, BlackRock, L&G and Fidelity. Some of those analysed were created later than 2012, so figures given are likely to be a conservative estimate of returns that could be made over a 10-year holding of mainstream investments.

- b. As shown above from the evidence of historic investments, over the past 10 years investing in a range of different general strategies generated far greater returns to holding money in cash – especially when factoring in inflation. Investment offers a means to mitigate and offset real term losses in cash due to inflation, although – of course – past returns are an imperfect predictor of the future and there is no guarantee that consumers would earn similar returns of the next 10 year period.
- c. For Baseline Group (2) – those who would invest without advice if we didn't intervene – with the option of cheaper and simpler financial advice, it is more likely that these consumers may seek professional support to invest, rather than investing in widely advertised higher-risk investments which are likely to be unsuitable to their needs. FCA data shows how the pandemic has prompted a surge in non-advised sales. In 2021, 80% of completely new investment ISA sales were classified as "non-advised", up from 77% in 2020 and just 63% in 2019. With the help of professional support, such consumers are likely to benefit from investing in more suitable products, with more consistent returns and lower probability of losses over the intended duration of the holdings (compared to high-risk investments which carry a significant risk of losing all sums invested). Evidence from Mintel (2022) suggests there is likely to be increasing demand for S&S ISAs under the baseline. They report that 26% of adults intend to start investing in or open another new S&S ISA within the next 12 months. This is equivalent to 14 million – well above the 3.6 million S&S ISAs newly subscribed to in 2020/21, although not all of the 14 million will be the first-time investors this regime is aimed at. This group of consumers who intend to invest will directly benefit from more affordable streamlined financial advice.
- d. For Baseline Group (3) – those who would invest with holistic financial advice if we didn't intervene – with the option of cheaper and simpler financial advice, these consumers may benefit from lower fees to get to the same investment recommendation. However, the overall number of such consumers currently receiving holistic financial advice is likely to be small. According to FLS 2022, only 17% of UK consumers with over £10,000 in investable assets had used advice in the previous year (although, it should be noted that this figure includes consumers with much higher sums of investable assets and who may have more complex financial needs and/or other financial requirements such as protection or pensions). Some consumers within this group could save money if they are investing in mainstream products as the core investment advice regime should offer them a cheaper alternative which is suitable for them. The number benefitting from reduced costs is however likely to be relatively small.

Breakeven analysis

54. As discussed, as the policy is optional, firms will only apply to use the regime if it's net beneficial to them. For illustrative purposes however we consider the total costs to industry in an illustrative scenario of 10-100 firms offering streamlined advice and estimate the number of consumers that will need to take up advice and invest in S&S ISA for the proposed package to be 'net beneficial', given the compliance costs incurred by firms. We then discuss how likely it is that such additional investments materialise.

55. Whilst we do not estimate total costs due to uncertainty of take up, for the purpose of our breakeven analysis we can illustrate total costs according to 2 scenarios (low and high uptake), which are broken down below.

Low Uptake Illustrative Scenario (10 firms)	High Uptake Scenario (100 firms, with assumed split among large, medium and small firms)
10 large vertically integrated firms	50 large vertically integrated firms
	30 medium-sized firms
	10 small firms
	10 large vertically integrated firms who do not yet have the 'advising on investments' permission but seek it through the authorisations gateway to undertake the regime.

56. We estimate a total quantifiable cost of £8.94m for the low uptake and £37.08m for the high uptake scenario. This only includes one-off costs as we do not quantify any ongoing costs (ie loss of revenue) as a result of our proposals, as explained in the Costs section below.
57. As explained in the baseline and key assumptions section, it is uncertain how many firms will take up our proposed regime. Furthermore, it is uncertain and difficult to predict, how many consumers will invest in S&S ISAs who wouldn't have done so under the counterfactual (baseline group 1). The latter is somewhat related and dependent on the former because the more firms that take up the regime, the more likely consumers will receive core investment advice and will therefore invest as a result of this. Given the uncertainty around the number of consumers that are likely to invest as a result of core investment advice, we can use the potential financial benefits to consumers illustrated in the table at paragraph 53(a) to estimate the number of consumers who would need to take up investments in S&S ISA for our proposal to breakeven. The data in this table in the benefits section suggests financial benefits to consumers may range from approximately £290 to £1,880 per £1,000 invested over a period of 10 years when we account for inflation. Data from HMRC/Mintel shows the average subscription value in S&S ISAs over the last 5 years (since 2016/17) is £9,389. If we assume the average S&S ISA subscription value of £9,389 is invested per consumer over a period of 10 years and divide the total (illustrative) cost of the policy proposal by the potential financial benefit to consumers, this implies that between 500 and 13,600 consumers will need to invest in S&S ISAs for the policy to breakeven.
58. There is evidence to suggest that the policy is likely to breakeven. Firstly, historical data from Mintel on S&S ISA subscriptions over the last 10 years since 2011/12 shows that the average volume of newly subscribed consumers each year was 2.8 million. The latest year of data shows there were 3.6 million newly subscribed S&S ISA consumers during 2020/21, this implies that the number of newly subscribed consumers would require only an increase between 0.01% and 0.38%. This indicates that our breakeven levels are relatively small compared to the flow of new consumers in the previous year and is likely to be achieved.
59. There is also supporting evidence on consumer intentions to invest in S&S ISAs in the future. Research by Mintel (June 2022) highlighted in the benefits to consumers section above, implies roughly 14 million people intend to invest/open a S&S ISA. Whilst it is unlikely that this 14 million will actually invest, this gives an indication of consumers intentions and interest in investing in S&S ISAs and signals that demand is likely to rise under the counterfactual.

60. In addition to this, our policies should reduce both supply and demand-side frictions, which is also likely to increase demand. We believe that the combination of these 2 effects is likely to result in the number of new consumers who invest in S&S ISAs as a result of receiving core investment advice to surpass the breakeven levels and thus that our proposals will be net beneficial.

Costs

Costs to Firms

61. We anticipate firms' compliance costs to be limited given that our proposed regime is not new per se, but an adaptation of the existing regulatory regime for financial advice. The design principles of our proposed regime centre around: (a) the disapplication of certain requirements under the existing regulatory regime (eg suitability requirements, qualification requirements, etc.); and (b) the application of some limited new requirements (eg to limit investment options available in the S&S ISA wrapper).
62. The resulting outcome is that our proposed regime will represent – for all intents and purposes – a simplified version of what firms already know and must already adhere to when providing financial advice. Firms' costs are therefore limited to only initial one-off and ongoing compliance costs: familiarisation with our proposed regime, compliance training costs, governance changes, etc.
63. When considering firms' potential costs, it's important to state that our proposed regime is entirely optional. Firms will only take up the regime where they anticipate a net benefit from doing so. We have therefore divided costs into those to be incurred by the whole financial advice industry or other interested firms– regardless of whether they undertake the regime or not, that are likely to consider our proposals and those to be incurred only by firms that choose to undertake the proposed regime. For the whole financial advice industry or other interested firms, we estimate total cost (ie familiarisation and legal costs) of £4.42m and a cost per firm of £650. For firms who decide to take up our proposals, on average we estimate costs per firm to be £451,200 per large firm, £179,800 per medium firm and £18,600 per small firm.

Direct Costs: for the whole industry

64. **Familiarisation and legal costs:** we expect that all firms who may consider undertaking the proposed regime will incur familiarisation costs. As set out above we have estimated there is a total of approximately 6800 firms.
65. We anticipate that there will be approximately 120 pages of policy documentation, excluding the legal instrument. Assuming 300 words per page and a reading speed of 100 words per minute, it would take around 3 hours to read the document. It is further assumed that 20 staff at each large firm, 5 staff at each medium firm and 2 staff at each small firm will read the text.
66. Regarding legal costs, we assume 30 pages of legal text. We anticipate that 4 legal staff at each large firm, 2 legal staff at each medium firm and 1 legal staff at each small firm will read the legal instrument, taking 67 hours per large firm, 25 hours per medium firm and 4 hours per small firm.

67. The total familiarisation and legal cost is estimated to be £4.42m. On average this would cost £650 per firm.

Direct Costs: per firm, for firms opting to undertake the regime

68. The number of firms who will provide core investment advice is uncertain. Theoretically there could be up to approximately 6,800 firms who could choose to undertake the proposed regime but given our assumptions regarding the types of firms most likely to undertake the regime, a more realistic (but highly uncertain) range of firms that could take part might be around 10-100. For this reason, our cost per firm estimates are a more reliable indication of cost rather than our total industry estimates which are dependent on our assumptions on take up.
69. **Training costs:** if firms choose to undertake the core investment advice regime, we anticipate that some staff training will be required to facilitate understanding and implementation of the regime (eg the approach to the suitability assessment and other guidance). We estimate that 1 day (7 hours) of basic training will be required.
70. The number of staff requiring training will vary greatly according to both how many advisers each firm participating in the regime has and what proportion of advisers will be trained to offer advice under the core investment advice regime at each firm.
71. Based upon our supervisory understanding of the financial advice market, we would anticipate that in general firms would only train a smaller proportion of their overall number of advisers to offer core investment advice as it is likely to act as an ancillary offering to firms' existing provision of holistic financial advice as the latter will remain most firms' predominant revenue-generating service. We set out our relevant assumptions below based upon our supervisory judgement and data on the average number of financial advisers in each type of firm.

Firm Size	Small	Medium	Large [†]
Number of advisers	<6	6-50	>50
Average number of advisers	2	11	287
Proportion of advisers who will undertake core investment advice	100%*	15%	15%
Assumed number of advisers who will undertake core investment advice and require basic training	2	2	43

[†] Large firms are likely to include retail banks. It is possible that such firms may wish to train further branch staff to provide or speak to customers about core investment advice.

* Whilst generally we anticipate only a smaller proportion of a firm's advisers would be trained to offer core investment advice, for smaller firms who choose to undertake the regime, we would expect that all advisers would be trained as the minimum number of advisers required to run any training sessions in a commercially efficient way would likely require the participation of every adviser.

72. We have not included training costs for individuals to gain adviser qualifications as we anticipate that many advisers likely to provide advice under the regime would be those already qualified to give advice on investments or otherwise likely to join a training pathway to becoming fully qualified to provide advice on investments. However, such staff would still require the same training as those who already hold QCF level 4 qualifications to familiarise themselves with the core investment advice regime.
73. We do expect that in some cases, firms may also wish to train staff who do not currently have the requisite qualifications, in which case it may be more costly for firms to train 'core investment advisers'. However, this additional cost is not reasonably

practicable to quantify as we do not know how many existing financial advisers vs non-advisers (who don't have the requisite qualifications) firms will train to implement our proposed regime. Our training cost estimates therefore only include training for staff who hold the requisite qualifications.

74. We have used standardised compliance cost assumptions to estimate the cost of staff time, including overheads, and the cost of organising the training itself. On average we estimate this cost to be £13,800 per large firm and approximately £600 per medium and small firm. This may vary depending on the size of the firms that choose to use the regime.
75. **IT development:** we expect that firms that choose to undertake the proposed regime will incur costs related to updating their IT systems to accommodate the changes. It is assumed that the changes required will be minimal and will likely include changes to websites and systems to ensure data retention requirements are met
76. Based on standardised assumptions, we assume it will take a large firm an average of 546 person days to update their IT systems and a medium firm an average of 156 person days across several roles (business analysis team, design team, programming team, project management team, test team, senior management) to develop the IT in-house to facilitate core investment advice. We expect small firms will need to seek external expertise to conduct this IT development. We also assume that it will take a small firm an average of 52 person days. We acknowledge that there may be significant disparities amongst firms, with some firms needing more days than the average and some needing less.
77. On average we estimate this would cost approximately £222,400 per large firm, £61,400 per medium firm and 15,500 per small firm. For firms who choose to offer a robo-advice service as part of their core-financial advice delivery, IT changes may be more substantial, but this is not a necessary cost of taking up the regime.
78. **Governance changes:** the proposed regime is a streamlined version of existing provision, but we do expect that there will be some costs associated with governance changes. The training and competence elements of the regime allow for advisers with a lower level of qualification to provide core investment advice under the supervision of advisers qualified to QCF level 4 or beyond. Creating this change in structure and resources will entail some costs. There will also be costs associated with gaining executive approval for using the regime along with specifics of its implementation.
79. We anticipate that a change project would be of minor scale based on the above changes. According to our standardised assumptions, we assume it would take 540 person days across project teams and managers for large firms and 280 person days for medium firms and 6 person days for small firms to carry out governance changes. We also assume additional resource for Board review, which we anticipate being 1.8, 1.4 and 0.4 person days respectively for large, medium and small firms, in addition to an Executive Committee review which we anticipate being 2.9, 2.1 and 0.7 person days respectively for a large, medium and small firms respectively.
80. Using the cost of various staff resources required, we estimate a total cost of change in governance. On average we estimate this would cost approximately £214,900 per large firm, £117,700 per medium firm and £2,500 per small firm.

- 81. Potential authorisations costs:** for any firms not currently holding the advising on investments permission and wishing to utilise the core investment advice regime, an application must be made through the authorisations gateway. The cost associated with applying for a permission (or a variation in permission) varies according to permissions already held. It is therefore not possible to state conclusively what the cost would be for firms applying for the advising on investments permission. For illustration purposes, we can use an example of a retail bank currently holding the arranging in investments and making arrangements with a view to transactions in investments permissions for designated investment business. As the firm already holds permissions for regulated activities, it would need to apply for a variation of permission in order to provide core investment advice. In the case of the existing permissions listed above, the fee would be £500.

Indirect Costs to Firms

- 82.** Whilst firms can already offer forms of more streamlined advice, our proposed regime will allow them to do so in a more commercially viable way. This will have 2 indirect consequences for (certain) firms, which are not reasonably practicable to estimate:
- a.** The price of more simplified advice is likely to be lower under our proposed regime, meaning that firms will generate less revenue per client for offering this service. However, this reduction in revenue per client will be counteracted by an overall increase in the number of clients which firms will be able to sell core investment advice to.
 - b.** Core investment advice becomes an alternative good for consumers of holistic financial advice causing a substitution effect, where consumers could opt for the cheaper and simpler alternative. This substitution effect could cause a reduction in the number of clients that demand holistic financial advice. However, this is likely to be offset by the larger number of mass-market clients firms can obtain when offering core investment advice. If core investment advice is predominately provided by large vertically integrated firms, this substitution effect may shift clients towards large firms away from smaller firms who were offering holistic financial advice.

Costs to consumers

- 83.** Our proposed regime aims to target mass-market consumers who – despite seeing the value of receiving professional support – have never received financial advice in the past because the current market does not serve their advice needs particularly well. When these consumers therefore seek financial advice under our proposed regime, they will of course incur costs to pay for that advice which they would not have otherwise incurred absent of our proposed regime as they would continue to be effectively locked out of the financial advice market, however, they would only incur these costs if they considered it beneficial to them.
- 84.** We expect the following costs to different baseline group consumers:
- a.** For Baseline Group (1): we consider that these consumers would face increased costs, ie the costs of the additional advice, if utilising this regime. However, they would only incur these costs if they expected that the growth in their wealth through investing would offset the advice costs. Even with that very reasonable expectation, however, there is of course, potential that consumers experience overall losses if they invest only throughout market downturns or withdraw their

investments during a market downturn. It is not reasonably practicable to estimate this potential cost as it's not possible to assess how many consumers may be affected and by how much. However, prolonged market downturns have occurred 10 times since the 1950s based on the FTSE All-Share index; the longest of these lasted for 2.6 years, with an average length of 1.1 years (Vanguard, 2022). On this basis, investors with a medium to long-term investment horizon are likely to have some degree of protection from downturns, although losses are – again, of course – still possible.

- b. For Baseline Group (2): we consider that these consumers who would have invested into a S&S ISA anyway may be attracted by the availability of lower-cost advice and therefore pay for advice that they would not have taken were the regime not available. Again, however, this is not a cost of the policy as they would only seek this advice if they considered it beneficial, for example because they consider it would lead to better, less risky investment. In addition, this regime is primarily targeted at consumers who would not be likely to invest without a personal recommendation.
- c. For Baseline Group (3): we consider that there are no costs for this group, only cost savings if this group decided to move to core investment advice.

Costs to the FCA

85. We anticipate that the risk inherent to the provision of core investment advice will be low. Given the narrower scope of core investment advice within S&S ISAs only, the advice carries a lower degree of technical complexity – especially in comparison to holistic financial advice under the existing regulatory regime. Historic supervisory work has also shown that investment advice more generally already carries a lower unsuitability rating and lower costs with respect to professional indemnity insurance than more complex advice (eg defined benefit pension transfers). We therefore anticipate that our oversight and regulatory approach of our proposed regime can be more proportionate relative to our regulation of the existing advice regime.

86. Authorisations: in line with targeting more proportionality, our authorisations approach will rely on existing frameworks rather than creating new ones.

- a. The regime will use the existing 'advising on investments' permission; core investment advice will not become a new regulated activity. To be 'authorised' to undertake core investment advice, firms will only be required to have the 'advising on investments' permission, but – as the regime is optional – firms will also be required to notify us that they are proceeding to undertake this new activity so that we can monitor uptake and compliance. This approach will be of minimal cost to the FCA, given that – beyond the one-off costs to deliver the relevant technology changes (see 'Technology' section below) – what will be required of firms will be a notification not an application and therefore will not require resource-intensive processing.
- b. Under the regime, advisers will be bound by the existing Certification Regime and Approved Persons Regime to ensure that there are appropriate checks that they are suitably qualified and competent. Under the Certification Regime, directly authorised firms will have to certify their advisers; under the Approved Persons Regime, applicable to firms which are appointed representatives, the FCA will have to approve their advisers. This approach will also be of minimal cost to the FCA, because – again, beyond the one-off costs to deliver the relevant technology changes (see 'Technology' section below) – we anticipate that the number of advisers who need to be approved over time will be low.

- 87. Supervision:** again, in line with targeting more proportionality, our supervisory approach will focus on monitoring the new regime reactively and dynamically as part of our wider oversight of the financial advice market. The proposed regime will require firms to keep records of key data points: product and adviser sales, consumer charges and investments sold. To the extent that any risk of harm is detected in the provision of core investment advice across the market, we will be able to request this data on an ad hoc basis to monitor any risks to consumers or markets. This supervisory approach will be absorbed into our general supervisory activities and bring no additional costs to the FCA.
- 88. Technology:** in order to operationalise our planned authorisations approach, we will be required to deliver 2 technology/business process changes.
- a.** A new form which firms will be able to complete to satisfy the notification requirement when they elect to undertake the regime.
 - b.** An amendment to the existing form – “Form A” – which firms use to seek approval for their advisers to satisfy the requirements of the Approved Persons Regime.
- 89.** We continue to work to ascertain the exact costs to the FCA of delivering these 2 technology/business process changes.

Costs and benefits of potential future amendments to the regime

- 90.** Our proposed regime is entirely optional. We therefore cannot be certain how many firms will choose to undertake the regime at this stage. In line with our intention for our proposed regime to provide a more proportionate and streamlined regulatory framework for the provision of simpler financial advice, there are 2 additional components of the proposed regime which we see value in incorporating into the regime but which we would only execute if uptake of the regime by industry participants is to such an extent that the components would: (a) represent value for money; and (b) lead to better overall outcomes for consumers and markets.
- 91.** These 2 components are the following:
- a.** The development of a new regulatory return to systematically require firms to submit to us on a periodic basis the data which the regime requires firms to keep records of (see Chapter 10).
 - b.** Amendments to the Financial Services Register to display information pertaining to certified/approved advisers operating within the regime, as is currently done analogously for the existing regime.
- 92.** We will review the number of firms which have notified us of their uptake of the regime 1 year after it has been implemented to assess whether the 2 conditions outlined above are satisfied to proceed with the implementation of these 2 additional components. If we would wish to proceed, we would work with industry to take the most appropriate steps to incorporate these 2 additional components into the regime.

93. For the purposes of this cost benefit analysis, we have outlined the indicative costs and benefits of these 2 additional components below. If we would wish to proceed, we would expect to publish a full and more detailed cost benefit analysis on these specific proposals, so the below is intended to only give a higher-level sense of the potential costs and benefits at this stage. Please note, these costs and benefits are not considered and included in the cost and benefits of this proposal.

		Regulatory Return	Financial Services Register Changes
Costs	Consumers	Potential additional compliance costs for firms – both from the one-off technology/business change development costs and the ongoing work to submit the data. These costs may be passed onto consumers.	Potential additional compliance costs for firms from the one-off technology/business change development. These costs may be passed onto consumers.
	Firms		
	FCA	One off technology/business change development costs. No ongoing costs, as the regulatory return would form part of our intended reactive and dynamic supervisory approach for the regime, which is to be absorbed into 'BAU' supervisory operations.	One off technology/business change development costs.
Benefits	Consumers	The regulatory return would allow us to have better regulatory oversight over the regime, allowing us to intervene more effectively where we identify potential risks of harm, creating better outcomes for consumers.	Transparency and accessibility for consumers would improve: rather than contacting individual firms to understand if an individual is qualified to undertake core investment advice, a consumer would be able to more easily look them up on the FS Register.
	Firms	As we would look for the regulatory return to be similar to what firms already provide for the existing financial advice regime, there would be more consistency across the 2 regulatory frameworks.	Consumers would have more confidence in firms because of the transparency of information on their advisers and will be therefore potentially more likely to take up their services.
	FCA	Better regulatory oversight.	Better regulatory oversight.

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of **consumer protection**.

8. Our consumer protection objective is to secure an appropriate degree of protection for consumers. In considering this, we are required to have regard to the matters listed in s.1C(2)(a)-(h) FSMA.
- **The differing degrees of risk involved in different kinds of investment or other transaction.** Our proposals are designed to enable firms to provide simpler financial advice to mass-market consumers more easily. As set out in Chapter 6, in order to ensure that mass-market consumers are provided sufficient protections under the proposed regime, we propose to narrow the range of investments available to be recommended when receiving core investment advice. Other elements of the proposed policy intervention complement this restricted investment regime – including the filtering process, the suitability assessment process, and the required disclosures – to add further layers of protection ensuring consumers are only recommended investment solutions suitable to them.
 - **The differing degrees of experience and expertise that different consumers may have.** Amongst the mass-market consumers which our proposed regime is targeting, our proposals are designed to consider the differing degrees of experience and expertise of different consumers through both the proposed filtering process – as set out in Chapter 3 – and the proposed suitability assessment process – as set out in Chapter 4. Both these elements of the proposed regime will ensure that: (a) firms only seek to offer core investment advice to those consumers who are appropriately inexperienced and lacking in expertise – ie in many cases consumers who have never invested before; and (b) those consumers who do receive core investment advice are subsequently recommended a suitable investment solution which advisers recommend in consideration of those consumers' experience and expertise with investing.
 - **The needs that consumers may have for the timely provision of information and advice that is accurate and fit for purpose.** Our proposals are designed to ensure that consumers have timely, accurate and fit-for-purpose disclosures throughout the advice process – including the report produced from the dedicated suitability assessment process – so that they understand at the appropriate junctures their advisers' recommendation and the fees they must pay for that recommendation, amongst other things – as set out in Chapters 8 and 3 respectively.
 - **The general principle that consumers should take responsibility for their decisions.** Our proposals are designed to expand access to financial advice by providing a simpler, and importantly cheaper, alternative than the current holistic financial advice offering available within the market. Our aim is to broaden access to financial advice amongst the mass-market to better enable more consumers to take responsibility for their money and better empower them to make more effective investment decisions.
 - **The general principle that those providing regulated financial services should be expected to provide consumers with a level of care that is appropriate having regard to the degree of risk involved in relation to the investment or other transaction and the capabilities of the consumers in question.** Our proposals are designed to ensure that firms provide consumers an appropriate level of care with regard to the risk involved with the provision of core investment advice and the capabilities of the consumers whom the regime is targeting. A golden thread which runs through our proposals is to seek to ensure that the level of regulatory protection provided by the new regime is commensurate with the inherent risk of the activity the regime provides for (ie core investment advice).

- **The differing expectations that consumers may have in relation to different kinds of investment or other transaction.** As set out above, our proposals are designed to consider the differing expectations that consumers may have in relation to different kinds of investments through both the proposed filtering process and the proposed suitability assessment process, as both these elements of the regime act to ensure that consumers are recommended (or not) investment solutions which are suitable to their individual circumstances – as set out in Chapters 3 and 4.
- **Any information which the scheme operator of the ombudsman scheme has provided to the FCA pursuant to section 232A.** Our proposals have been informed by information we have received from the Financial Ombudsman Service through our regular engagement with them to date.

9. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to improve the identified issues with the functioning of the financial advice market that advice is not accessible and affordable to a large proportion of the population. For the purposes of the FCA's strategic objective, "relevant markets" are defined in section 1F FSMA.
10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in section 3B FSMA.

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

11. Our proposals are designed to provide an innovative systematic policy intervention to mitigate an identified harm which is being experienced by millions of consumers, as set out in Chapter 1. Using our resources to deliver this policy intervention has the capacity to deliver substantial positive change for consumers.

The principle that a burden or restriction should be proportionate to the benefits

12. In Annex 2 we have set out our analysis of the costs and benefits of our proposals for consultation. Overall, we believe that our proposals are a proportionate response to the harm that we have found, delivering a net benefit to both firms and consumers.
13. Our proposed regime is also entirely optional for firms to undertake so no firm need offer core investment advice if they do not believe the benefits of doing so outweigh the potential burden when considering their individual circumstances.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

14. Our proposals support the desirability of sustainable growth in the economy by enabling firms to better serve mass-market consumers in seeking financial advice. This supports the sustainable growth of the advice industry by allowing it to increase supply to meet the currently unmet demand for low-cost simpler financial advice. In turn, it also supports the sustainable growth of the wider financial services sector and the economy because improving access to financial advice enables more consumers to invest their capital, benefiting those individuals and firms who support that process across various functions and who are the end recipients of that investment.

The general principle that consumers should take responsibility for their decisions

15. Our research shows that consumers lack confidence to take investment decisions without support. They may therefore benefit from the support offered by a professional financial adviser to take responsibility for their investment decisions. Our proposals are designed to better enable firms to offer professional support in the form of simpler financial advice to a greater number of consumers can make effective investment decisions.

The responsibilities of senior management

16. Relevant senior management will need to ensure that firms comply with our proposed rules, having regard to their responsibilities under the Senior Managers and Certification Regime.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

17. We have had regard to this principle and do not believe that our proposals undermine it.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. We have had regard to this principle and do not believe that our proposals undermine it.

The principle that we should exercise of our functions as transparently as possible

19. Following a period of pre-consultation stakeholder engagement which we completed over previous months, we are now publicly consulting on our proposals. We will continue to engage with stakeholders throughout this consultation process before making final rules.
20. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). We do not consider this relevant in relation to our proposals.

Expected effect on mutual societies

21. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

22. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.
23. Improving access to advice for consumers whom the market is not serving effectively represents a positive step for consumer outcomes from an economic perspective. Given the potential number of consumers who will be eligible, we believe that our proposals have the capacity to create a competitive market for simpler cheaper financial advice in the form of core investment advice.
24. Our cost benefit analysis in Annex 2 provides more detail on our assessment of our proposed regime's impact on competition within the financial advice market.

Equality and diversity

25. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.
26. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in Chapter 2 of this consultation paper.

Legislative and Regulatory Reform Act 2006 (LRRRA)

27. We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are:
- Transparent: as set out above.
 - Accountable: our proposals meet a commitment we made as an organisation in our Consumer Investments Strategy to "explore regulatory changes to enable firms to provide more sales and support services to mass-market consumers investing in straightforward products like stocks and shares ISA wrappers." We will review all the feedback we receive to this consultation paper.
 - Proportionate: as set out above.
 - Consistent: our proposals seek to create a new regulatory framework for financial advice which – whilst having clear differences to the existing framework to allow for greater simplicity – maintains consistency with the existing regime wherever appropriate to do so.
 - Targeted only at cases in which action is needed: we consider that there is a considerable need for this policy intervention given the scale and the significance of the identified harm it seeks to mitigate.

- 28.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are proportionate to the potential harm to consumers or risks to our statutory objectives identified.

Treasury recommendations about economic policy

- 29.** We have considered the most recent recommendations from the Treasury under s. 1JA FSMA. Our proposals are consistent with these recommendations as they aim to improve outcomes for consumers who are experiencing harm due to the present difficulty of accessing financial advice.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
APR	Approved Persons Regime
AR	Appointed Representative
CI Strategy	Consumer Investments Strategy
CP	Consultation paper
CPD	Continuous professional development
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FLS	Financial Lives Survey
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act (2000)
HMRC	His Majesty's Revenue and Customs
LRRA	Legislative and Regulatory Reform Act (2006)
MiFID	Markets in Financial Instruments Directive
NMMI	Non-mass market investment
QCF	Qualifications and Credit Framework
RDR	Retail Distribution Review
RMMI	Restricted mass market investment
S&S ISA	Stocks and shares individual savings account
SM&CR	Senior Managers and Certification Regime
SPS	Statement of professional standing
UK GDPR	UK General Data Protection Regulation

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response 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 Rights Tribunal.

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Appendix 1

Draft Handbook text

CORE INVESTMENT ADVICE INSTRUMENT 2023

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137R (Financial promotion rules);
 - (c) section 137T (General supplementary powers);
 - (d) section 138C (Evidential provisions); and
 - (e) section 139A (Power of the FCA to give guidance); and
 - (2) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*, except for Part 2 of Annex D, which comes into force on *[date]*.

Amendments to the Handbook

- D. The modules of the FCA’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) below.

(1)	(2)
Glossary of definitions	Annex A
Training and Competence sourcebook (TC)	Annex B
Conduct of Business sourcebook (COBS)	Annex C
Supervision manual (SUP)	Annex D

Amendments to the Perimeter Guidance manual

- E. The Perimeter Guidance manual (PERG) is amended in accordance with Annex E to this instrument. The general guidance in PERG does not form part of the Handbook.

Notes

- F. In the Annexes to this instrument, the “notes” (indicated by “**Note:**” or “*Editor’s note:*”) are included for the convenience of readers, but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Core Investment Advice Instrument 2023.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

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

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

<i>core investment advice</i>	<p>a <i>personal recommendation</i> where the <i>investment</i> to which that <i>personal recommendation</i> relates:</p> <ol style="list-style-type: none"> (1) is held or will be held within an <i>ISA</i> which contains only a stocks and shares component and is not an <i>innovative finance ISA</i>, <i>lifetime ISA</i>, <i>maxi-ISA</i>, <i>mini-ISA</i>, <i>group ISA</i> or a junior <i>ISA</i> as defined in Section 2B of The Individual Savings Account Regulations 1998; (2) is not: <ol style="list-style-type: none"> (a) a <i>restricted mass market investment</i>; (b) a <i>non-mass market investment</i>; or (c) an <i>insurance-based investment product</i> or other <i>life policy</i>; (3) is connected with the opening of a new <i>ISA</i> (including ongoing <i>personal recommendations</i> where that advice is part of an arrangement entered at the time the new <i>ISA</i> is opened); (4) does not concern the transfer of an <i>ISA</i> subscription from any year where that <i>ISA</i> subscription involves a stocks and shares component; and (5) does not concern the transfer of an <i>ISA</i> subscription consisting of a <i>cash component</i> where the amount which has been or will be transferred exceeds the amount specified in Section 4ZA (1) of The Individual Savings Account Regulations 1998.
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Amend the following definitions as shown.

<i>retail investment adviser</i>	<p>an <i>employee</i> who carries on activities 2, 3, 4, <u>4A</u>, 6, 12 and 13 in <i>TC</i> Appendix 1.1.1R (other than in relation to a <i>Holloway sickness policy</i> where the <i>Holloway policy special application conditions</i> are met).</p>
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Annex B

Amendments to the Training and Competence sourcebook (TC)

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

2 Competence

2.1 Assessing and maintaining competence

...

Supervisors

...

2.1.5 R Where an *employee* has not been assessed as competent to do so and:

- (1) ...
- (2) gives *advice on P2P agreements* to retail clients, the firm must ensure that the individual supervising and assessing that *employee* has attained an appropriate qualification for giving *personal recommendations* on retail investment products to retail clients; ~~or~~
- (3) undertakes the activity of a *pension transfer specialist*, the firm must ensure that the individual supervising and assessing that *employee* has attained an appropriate qualification for undertaking the activity of a *pension transfer specialist* and an appropriate qualification for giving *personal recommendations* on retail investment products to retail clients; ~~or~~
- (4) gives core investment advice, the firm must ensure that the individual supervising and assessing that employee has attained an appropriate qualification for giving personal recommendations on retail investment products to retail clients.

...

2.1.5M G ...

Knowledge and competence requirements for core investment advice

2.1.5N R TC 2.1.5OR applies to a firm providing core investment advice.

2.1.5O R A firm must not, for the purposes of TC 2.1.1R, assess an employee as competent to carry on activity 4A in TC Appendix 1 until that employee

has attained each module of an appropriate qualification for giving *core investment advice*.

2.1.5P G The effect of TC 2.1.5OR is that a *retail investment adviser* only carrying on the activity of *core investment advice* who does not carry on other activities in TC Appendix 1 for which appropriate qualifications are required is only required to be qualified to the standard required for giving *core investment advice*.

2.1.5Q G An *employee* who carries on activity 4A in TC Appendix 1 is a *retail investment adviser*. As such, the rules in this section applicable to *retail investment advisers* apply unless stated otherwise.

...

Continuing professional development for retail investment advisers (including advisers providing core investment advice)

2.1.15 R Subject to TC 2.1.17R, a *firm* must ensure that a *retail investment adviser* (other than one providing only *core investment advice*) who has been assessed as competent for the purposes of TC 2.1.1R remains competent by completing a minimum of 35 hours of appropriate continuing professional development in each 12 *month* period.

2.1.16 G In order to meet the requirement in TC 2.1.15R, a *retail investment adviser* (other than one providing only *core investment advice*) should complete no less than 21 hours of structured continuing professional development activities.

2.1.16A R A *firm* must ensure that a *retail investment adviser* providing only *core investment advice* who has been assessed as competent for the purposes of TC 2.1.1R remains competent by completing a minimum of 15 hours of continuing professional development in each 12-month period.

2.1.16B G In relation to TC 2.1.16AR, the 15 hours of appropriate continuing professional development can include structured and unstructured training and need not consist of only formal classroom-based learning. For examples of structured and unstructured professional development, see TC 2.1.20G and TC 2.1.21G.

...

Continuing professional development record-keeping

2.1.24 R A *firm* must, for the purposes of TC 3.1.1R (Record keeping), make and retain records of:

(1) the continuing professional development completed by each:

- (a) *retail investment adviser* (under TC 2.1.15R), excluding a retail investment adviser who only provides core investment advice;
- (b) *pension transfer specialist* (under TC 2.1.23AR);
- (c) relevant employee (under TC 2.1.23DR);
- ~~and~~
- (d) retail investment adviser who only provides core investment advice (under TC 2.1.16AR); and

...

...

Independent verification

2.1.27 R A *firm* must obtain from an *accredited body* independent verification of the *firm's* compliance with:

- (1) in respect of its *retail investment advisers* (excluding retail investment advisers who only provide core investment advice) only, the requirement in TC 2.1.1R to attain each module of an appropriate qualification;

...

2.1.28 R Where TC 2.1.27R applies, The the independent verification in TC 2.1.27R required must be obtained by a *firm*:

- (1) ...

...

...

2.2A Time limits

Calculation of time limits for attaining an appropriate qualification

2.2A.1 R (1) For the purposes of TC 2.1.1 R₂:

- (a) if an *employee* carries on an activity in TC Appendix 1 (other than core investment advice or an overseeing activity), a *firm* must ensure that the *employee* attains an appropriate qualification within 48 *months* of starting to carry on that activity₂;
- (b) if an *employee* carries on core investment advice, a *firm* must ensure that the *employee* attains an appropriate

qualification within 24 months of starting to carry on that activity.

- (2) For the purposes of (1), a *firm* must record the date on which the *employee* starts to carry on that activity.

2.2A.2 R For the purposes of calculating the ~~48 months~~ time period referred to in ~~TC 2.2A.1R~~ TC 2.2A.1R(1)(a) or (b), a *firm* must:

- (1) aggregate periods of time spent carrying on the activity during different periods of employment; and
- (2) disregard any period of 60 *business days* or more during which the *employee* is not carrying on the activity due to being continuously absent from work.

...

TC 4 Specified modified requirements

TC 4.1 Specified requirements for MiFID investment firms and for third country investment firms

...

4.1.4 R Unless the context requires otherwise the *rules* in column 1 of the table are amended as set out in column 2:

Column 1

Column 2

Relevant rule

Amendments

TC 2.1.1R(1)

...

TC 2.1.2R

The provision is amended by adding after *TC 2.1.2R*:

“A relevant individual (other than one who is only providing core investment advice), who has not acquired the necessary knowledge or competence to carry out the activities in *TC 4.1.2R* above, cannot provide those activities under supervision for a period exceeding 48 months.”

Note: in relation to core investment advice, see *TC 2A.1R(1)(b)*.

...

App 1 TC Appendix 1**App 1.1 Activities and Products/Sectors to which TC applies subject to TC Appendices 2 and 3**

App
1.1.1R

Activity	Products/Sectors		Is there an appropriate qualification requirement?
Designated investment business carried on for a retail client			
Providing basic advice	1.	Stakeholder products excluding a deposit-based stakeholder product	No
Advising or giving personal recommendations (as relevant)	2.	Giving personal recommendations on securities which are not stakeholder pension schemes, personal pension schemes or broker funds	Yes
	3.	Giving personal recommendations on derivatives	Yes
	4.	Giving personal recommendations on retail investment products (including core investment advice) which are not broker funds	Yes
	4A	Providing core investment advice	Yes
	...		

...

App 4 Appropriate Qualification tables**App 4.1 Appropriate Qualification tables**

TC App 4.1 is relevant to TC 2.1.10E (selecting an appropriate qualification).

App 4.1.1 E

Part 1: Activities

Note: The activity numbers in this table relate to the activities in TC App 1.1.1 R. These tables do not cover activities 1, 5, 13A, 13B, 13C, 20A, 21B, 23A, 23B, 23C, 23D, 23E, 24, 25 or 26 as these activities do not have a qualification requirement. In relation to *advising on P2P agreements* (activity 9A), see TC 2.1.5HR and TC 2.1.6R(2).

Part 1A: The Retail Distribution Review activities (RDR activities)

Activity Number	RDR Activity
2	Giving <i>personal recommendations</i> on <i>securities</i> which are not <i>stakeholder pension schemes</i> , <i>personal pension schemes</i> or <i>broker funds</i>
3	Giving <i>personal recommendations</i> on <i>derivatives</i>
<u>4A</u>	<u>Providing core investment advice</u>
4 and 6	(4) Giving <i>personal recommendations</i> on <i>retail investment products</i> which are not <i>broker funds</i> and (6) giving <i>personal recommendations</i> on <i>friendly society tax-exempt policies</i> (other than <i>Holloway sickness policies</i> where the <i>Holloway policy special application conditions</i> are met)
12	Giving <i>personal recommendations</i> on and dealing in <i>securities</i> which are not <i>stakeholder pension schemes</i> , <i>personal pension schemes</i> or <i>broker funds</i>
13	Giving <i>personal recommendations</i> on and dealing in <i>derivatives</i>

App 4.1.1 - A G Activity 4A above (Providing core investment advice) is a sub-set of Activity 4 (Giving personal recommendations on retail investment products which are not broker funds).

...

App 4.1.1C G ...

Part 2: Appropriate Qualifications Tables

Note: A qualification is deemed an appropriate qualification if it appears in this table and is attained within the relevant time period, where one is indicated by the dates set out in the qualification column.

[Editor's note: the FCA will in due course make amendments to this table, if appropriate, to reflect feedback from consultation on the courses providers will offer to meet the new appropriate qualification requirements for *core investment advice*.]

...

Annex C

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 Information about the firm, its services and remuneration

...

6.1A Adviser charging and remuneration

...

Ongoing payment of adviser charges

6.1A.22 R A *firm* must not use an *adviser charge* which is structured to be payable by the *retail client* over a period of time unless (1), ~~or~~ (2) or (3) applies:

- (1) the *adviser charge* is in respect of an ongoing service for the provision of *personal recommendations* or related services and:
 - (a) the *firm* has disclosed that service along with the *adviser charge*; and
 - (b) the *retail client* is provided with a right to cancel the ongoing service, which must be reasonable in all the circumstances, without penalty and without requiring the *retail client* to give any reason; ~~or~~
- (2) the *adviser charge* relates to a *retail investment product* or a *pension transfer*, *pension conversion* or *pension opt-out* or arrangement with an *operator of an electronic system in relation to lending* for which an instruction from the *retail client* for regular payments is in place and the *firm* has disclosed that no ongoing *personal recommendations* or service will be provided; ~~or~~ or
- (3) the *adviser charge* is in respect of *core investment advice*.

...

6.1A.23 R If COBS 6.1A.22R(1), ~~or~~ (2) or (3) do not apply, a *firm* may not offer *credit* to a *retail client* for the purpose of paying *adviser charges* unless this would be in the best interests of the *retail client*.

...

6.2B Describing advice services

...

Requirements for firms providing focused independent advice

...

6.2B.16 G ...

- (3) Core investment advice is capable of constituting independent advice despite the firm not considering a full range of financial instruments, provided that it meets the requirements in COBS 6.2B.11R.

...

Disclosing the nature of advice provided

...

6.2B.33 R When a firm provides core investment advice:
A

- (1) its marketing to clients must include a statement that any personal recommendation is provided in relation to core investment advice and the firm has not considered a full range of financial instruments;
- (2) its disclosure under COBS 6.2B.33R must include a statement that any personal recommendation is provided in relation to core investment advice and the firm has not considered a full range of financial instruments; and
- (3) it must disclose to a client in good time before the provision of investment advice whether it will only be providing a one-off personal recommendation relating to a particular transaction or if it will also be providing ongoing services for the provision of future personal recommendations.

...

9A Suitability (MiFID and insurance-based investment products provisions)

...

9A.3 Information to be provided to the client

...

9A.3.5 G ...

Providing a suitability report: core investment advice

9A.3.5A **G** Where a *firm* is providing a *suitability report* in accordance with this chapter for the provision of *core investment advice*, the *suitability report* should include a statement:

- (1) reminding the *client* whether the *firm* is only providing a one-off *personal recommendation* relating to a particular *transaction* or whether it will also be providing ongoing services for the provision of future *personal recommendations*; and
- (2) if the *firm* is not providing any future *personal recommendations* referred to in (1), that the *client* will be responsible for ensuring that the *financial instruments* recommended in the *suitability report* continue to meet their needs on an ongoing basis.

...

9A.4 Record keeping and retention periods for suitability records

...

9A.4.4 **EU** ...

Record-keeping requirements for core investment advice

9A.4.5 **R** A *firm* which provides *core investment advice* must keep records in relation to that activity as set out in COBS 9A Annex 1.

Insert the following annex after COBS 9A.4. The text is all new and is not underlined.

9A Record keeping: core investment advice Annex 1

This annex belongs to COBS 9A.4.5R.

1	Application		
1.1	R	This section applies to a <i>firm</i> in respect of <i>core investment advice</i> which it or its <i>appointed representative</i> provides.	
1.2	G	Record-keeping requirements in this Annex in respect of <i>core investment advice</i> are additional to any other record-keeping requirements, including those which may be required by <i>COBS</i> or <i>SUP</i> .	
2	Record keeping: sales, charges and training and competence		
2.1	R	A <i>firm</i> must create, maintain and make available to the <i>FCA</i> on request the following:	
		(1)	On total product sales:

		(a)	the total number of <i>retail clients</i> the <i>firm</i> and / or its <i>appointed representatives</i> have provided with <i>core investment advice</i> in the last 12 months;
		(b)	the number of <i>retail clients</i> out of (a) who proceeded with the <i>personal recommendation</i> ;
		(c)	the total values of lump sums invested in the last 12 months;
		(d)	the total values of <i>investments</i> made through regular contributions in the last 12 months;
		(e)	the total number of <i>personal recommendations</i> in the last 12 months that proceeded on an insistent client basis;
		(f)	the total number of <i>retail clients</i> receiving ongoing <i>core investment advice</i> in the last 12 months;
		(g)	whether <i>retail clients</i> are able to cancel an ongoing service;
		(h)	whether there any fees or contractual penalties for cancelling an ongoing service; and
		(i)	the number of complaints on <i>core investment advice</i> that the <i>firm</i> has received in the last 12 months.
		(2)	On <i>adviser</i> sales (including <i>appointed representatives</i>):
		(a)	the number of <i>retail clients</i> identified in category (1)(a) who were advised by an <i>appointed representative</i> of the <i>firm</i> in the last 12 months;
		(b)	the total numbers of <i>retail clients</i> advised in the last 12 months per <i>adviser</i> (including <i>appointed representatives</i>);
		(c)	the total values of <i>investments</i> made (following <i>personal recommendations</i> proceeded with) for <i>core investment advice</i> in the last 12 months; and
		(d)	the total values of <i>adviser</i> sales for <i>core investment advice</i> in the last 12 months broken down per each <i>adviser</i> at the <i>firm</i> (including lump sum contributions and total values of ongoing contributions).
		(3)	On charges:
		(a)	the total charges applied for lump sum <i>investments</i> split between a one-off payment and – where the charge has been spread across the term of the <i>investment</i> – the total value of the agreed charge;

		(b)	the number of <i>retail clients</i> in the last 12 <i>months</i> who paid an adviser charge of less than or equal to 0.4% of the amount invested;
		(c)	the number of <i>retail clients</i> in the last 12 <i>months</i> who paid an adviser charge of less than or equal to 0.8% of the amount invested;
		(d)	the number of <i>retail clients</i> in the last 12 <i>months</i> who paid an adviser charge of less than or equal to 1.2% of the amount invested;
		(e)	the number of <i>retail clients</i> in the last 12 <i>months</i> who proceeded to transfer into an <i>investment</i> solution that had annual ongoing product and <i>investment</i> charges (excluding ongoing advice charges) of 0.75% or less of the amount invested;
		(f)	the number of <i>retail clients</i> in the last 12 <i>months</i> who proceeded to transfer or convert into an <i>investment</i> solution that had annual ongoing product and <i>investment</i> charges (excluding ongoing advice charges) of more than 0.75% and less than or equal to 1.5% of the amount invested;
		(g)	the number of <i>retail clients</i> in last 12 <i>months</i> who proceeded to transfer or convert into an <i>investment</i> solution that had annual ongoing product and <i>investment</i> charges (excluding ongoing advice charges) of more than 1.5% of the amount invested;
		(h)	the average value of the total costs per <i>personal recommendation</i> proceeded with in last 12 <i>months</i> , broken down by average annual percentage charge and average fee (this includes the initial advice charge applied); and
		(i)	the average value of all ongoing advice charges in the last 12 <i>months</i> , broken down (where relevant) by average annual percentage charge and average fixed fee (where the average is calculated by dividing the total amount received for charges in relation to ongoing advice in the last 12 <i>months</i> by the number of <i>retail clients</i> who received ongoing advice in that period).
	(4)	On training and competence:	
		(a)	the total number of <i>advisers</i> (including <i>appointed representatives</i>) only providing <i>core investment advice</i> at the <i>firm</i> ;

		(b)	the number of individual <i>employees</i> with supervisory responsibilities for supervising <i>core investment advice</i> at the <i>firm</i> ;
		(c)	the number of <i>advisers</i> (including <i>appointed representatives</i>) assessed as competent only to provide <i>core investment advice</i> by the <i>firm</i> ;
		(d)	the number of <i>advisers</i> (including <i>appointed representatives</i>) that are fully qualified to provide <i>core investment advice</i> and the number that are working towards their qualifications; and
		(e)	the number of <i>advisers</i> (including <i>appointed representatives</i>) that are pre-competence and under supervision for providing <i>core investment advice</i> .
		(5)	On investments recommended:
		(a)	the monetary value of all <i>investments</i> made following <i>personal recommendations</i> in the last 12 <i>months</i> where the <i>firm</i> / wider group is providing the platform service / asset management products; and
		(b)	the monetary value of investments made following <i>personal recommendations</i> in the last 12 <i>months</i> into each <i>fund</i> (including multi-manager and discretionary fund management recommendations) including the relevant ISIN code.
2.2	R	The records required by COBS 9A Annex 1 2.1R must be retained for at least 5 years.	
2.3	R	The obligations in COBS 9A Annex 1 2.1R begin on the date that a <i>firm</i> makes the notification required by SUP 15.8.16R(1).	
2.4	G	A <i>firm</i> which does not need to make the notification required by SUP 15.8.16R(1) because it does not intend to provide <i>core investment advice</i> does not need to keep records as set out in COBS 9A Annex 1 2.1R.	
2.5	R	(1)	Unless paragraph (2) applies, the references in COBS 9A Annex 1 2.1R to ‘in the last 12 <i>months</i> ’ must be read as meaning a 12-month period starting on the <i>firm</i> ’s <i>accounting reference date</i> .
		(2)	Where a <i>firm</i> has made the notification required by SUP 15.8.16R(1) but has not yet been through 2 <i>accounting reference dates</i> following that notification, references in COBS 9A Annex 1 2.1R to ‘in the last 12 <i>months</i> ’ must be read as ‘since the date the notification required by SUP 15.8.16R(1) was made’.

2.6	G	An example of how the provision in <i>COBS</i> 9A Annex 1 2.5R(2) works is that where a <i>firm</i> makes the notification required by <i>SUP</i> 15.8.16R(1) on 1 March 2024 and its <i>accounting reference date</i> is 1 October then until 1 October 2025, the reference to ‘in the last 12 <i>months</i> ’ should be read as the period between 1 March 2024 and 1 October 2025.
-----	---	---

Amend the following as shown.

Sch 1 Record keeping requirements

...

Sch 1.3 G

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...				
<i>COBS</i> 9A.4.3UK	Suitability (insurance-based investment products)	<i>Client</i> information for suitability report - details in <i>COBS</i> 9A.4.3UK and <i>COBS</i> 9A.4.4UK	From date of <i>suitability report</i>	For whichever is the longer of 5 years or the duration of the relationship with the <i>client</i>
<u><i>COBS</i> 9A.4.5R</u>	<u>Records on sales, charges and training and competence for core investment advice</u>	<u>All the records set out in <i>COBS</i> 9A Annex 1</u>	<u>Ongoing, starting on the date the <i>firm</i> makes a notification under <i>SUP</i> 15.8.16 R (1).</u>	<u>At least 5 years from the date records are created</u>
...				

Annex D

Amendments to the Supervision manual (SUP)

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

Part 1: comes into force on [date]

12 Appointed representatives

...

12.7 Notification requirements

...

[*Editor's note:* SUP 12.7.9C takes into account changes made by FCA 2022/32, which comes into force on 8 December 2022.]

Other notifications

12.7.9C G ...

- (3) If a firm appoints an appointed representative to carry on core investment advice, the firm must notify the FCA under SUP 15.8.16R before the appointed representative carries out that activity.

...

15 Notifications to the FCA

...

15.8 Notification in respect of particular products and services

...

Firms and appointed representatives providing core investment advice

15.8.16 R A firm must notify the FCA:

- (1) before it or any of its appointed representatives start to carry on the activity of providing core investment advice; and
- (2) as soon as practicable after it or each any of its appointed representatives ceases to carry out the activity of providing core investment advice.

- 15.8.17 R A notification required under SUP 15.8.16R must be made using the form in SUP 15 Annex 15 online at <http://www.fca.org.uk> using the FCA's online notification and application system.
- 15.8.18 G SUP 15.8.16R requires a *principal* to submit a notification to the FCA before each of its *appointed representative* starts to carry on or ceases to carry on the activity of providing *core investment advice*.

...

15 Annex 15 **Notification for firms providing core investment advice**

- R SUP 15 Annex 15
[Editor's note: hyperlink to the form to be added when the FCA makes the final rules]

...

Part 2: comes into force on [date]

16 **Reporting requirements**

...

16 Annex 47AR **Directory persons report**

...	(13)	...
	Activities which the Directory person carries on and for which they hold the relevant qualifications	
	...	
	4. Giving personal recommendations on retail investment products <u>(including core investment advice)</u> which are not broker funds	
	<u>4A. Providing core investment advice</u>	
	...	

16 **Guidance notes for Directory persons report in SUP 16 Annex 47AR**
Annex
47BG

1. ...

...

99A. For example, if the *Directory person* is an *appointed representative* who holds the necessary qualifications to be able to *advise on investments* and advise on *regulated mortgage contracts* but has been appointed by the *firm* only to advise on *regulated mortgage contracts*, the *firm* should select only “20. Advising or arranging (bringing about) regulated mortgage contracts for a non-business purpose”.

9B. Where a *Directory person* carries out activity number 4 and activity number 4a, as set out in TC App 1.1.1R, the *firm* should select both “4. Giving personal recommendations on retail investments products (including core investment advice) which are not broker funds” and “4a. Providing core investment advice.”

Annex E

Amendments to the Perimeter Guidance manual (PERG)

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

8 Financial promotion and related activities

...

8 Annex 1 Examples of what is and is not a personal recommendation and advice

...

(F) Miscellaneous		
(1) Example	(2) Is there a personal recommendation?	(3) Is this regulated advice for someone other than a firm with an appropriate authorisation?
(1)
<p><u>(1A) A firm has identified a number of clients and potential clients that it believes could benefit from core investment advice.</u></p> <p><u>The firm contacts those consumers to provide information on what is core investment advice and the communication also describes the general tax benefits of the ISA wrapper.</u></p>	<p><u>No.</u></p>	<p><u>With regard to the information about the ISA, the answer for example (F1) applies.</u></p> <p><u>The information about the firm's core investment advice service is not regulated advice because it does not relate to advice on the merits of buying particular investments or indeed any investments. It simply encourages the customer to use its advisory services.</u></p>

Appendix 2

Draft suitability guidance

- This guidance sets out non-exhaustive examples where firms undertaking core investment advice may choose to adopt a streamlined approach to the filtering/ scope of service; information collection; suitability assessment; and suitability report disclosure aspects of the suitability assessment process; to comply with our existing COBS 9A suitability requirements when providing core investment advice.
- Core investment advice is designed to serve clients with simple needs and, given the nature of the service provided, it is possible for firms to use the flexibility in COBS 9A in determining what information is necessary to understand facts about client to have a reasonable basis to provide a personal recommendation. This guidance only refers to when core investment advice is being provided and there may be alternative means, outside of this guidance, for firms to meet these requirements.

Area of suitability	Outcome that we are seeking	Rule	Supporting guidance on rule
Scope of service: filtering/defining the scope of service	That firms can effectively define the scope of service for clients and filter clients to align to the target market of this regime	PRIN 2A.3.4R	<p>Firms offering core investment advice are likely to be a <u>manufacturer</u> and a <u>distributor</u> of that service. As such they will need to comply with the relevant aspects of the Consumer Duty rules. There are also relevant existing rules within PROD that firms should consider.</p> <p>PRIN 2A.3.4R (4) sets out that a manufacturer needs to ensure that the design of the product meets the needs, characteristics and objectives of the target market and does not adversely affect groups of retail customers in the target market, including groups of retail customers with characteristics of vulnerability; or causes foreseeable harm in the target market.</p> <p>PRIN 2A.3.4R(6) further states that a manufacturer must take all reasonable steps to ensure that the product is distributed to the identified target market. As such we would expect firms to design appropriate filtering and target market assessments to: (1) identify and exclude consumers for whom the service is not appropriate, and (2) to have a reasonable basis for determining their personal recommendation achieves a suitable outcome for a client.</p> <p>Based on the objectives of the core investment advice regime, we have provided below examples of circumstances where a client may benefit from receiving core investment advice (please note that this list is non-exhaustive and there may be alternative circumstances outside of those set out below where the client may benefit from core investment advice):</p> <p>Core investment advice is likely to be appropriate for:</p> <ul style="list-style-type: none"> • Clients who hold surplus cash assets and would benefit from investing. This may include a client who holds cash savings across several accounts including Cash ISAs as well as National Savings & Investments products, such as Premium Bonds. • Clients whose income exceeds their expenditure and are looking for advice on suitable investments for their surplus funds. This may include circumstances where a client is in regular employment and receives an income that exceeds their outgoings. The client may have additional savings or indicated that they would like to explore options to invest their surplus income. • Clients who generally have fewer assets and would benefit from core investment advice. This would include clients who have a limited amount of investable assets and hold surplus cash savings that they would consider investing. For clients with a greater number of assets and who may benefit from the wider products and financial solutions not covered within this narrower scope regime, we consider that it may be appropriate for them to seek holistic financial advice.

Area of suitability	Outcome that we are seeking	Rule	Supporting guidance on rule
			<ul style="list-style-type: none"> • Clients who are not looking for wider areas of financial planning (for instance pension or protection advice) that is not included within core investment advice. As the core investment advice regime was designed for clients who would benefit from investing in S&S ISAs, if a client indicates that they would like to consider retirement planning or protection planning as part of this advice, we would not expect the firm to advise them under this regime. • Clients who are generally looking for more simple investment solutions for their surplus cash assets. This may include clients who may benefit from either lower cost or lower risk investment solutions. • Clients who do not have high or unsustainable levels of debt. If the client does have debt, then we would expect this debt to be manageable and serviceable from income that the client has. <p>We have provided some examples below of circumstances where a client may be outside of the target market for receiving core investment advice (please note that this list is non-exhaustive and there may be alternative circumstances outside of those documented below where a client may be outside of the envisaged target market for core investment advice):</p> <ul style="list-style-type: none"> • Clients who do not have high or unsustainable levels of debt. If the client does have debt, then we would expect this debt to be manageable and serviceable from income that the client has. • Clients who are looking for advice on existing investments held. This may be where a client has an existing S&S ISA or is looking for advice on their existing investments. In these circumstances we consider that the client should not be advised under this regime and instead seek holistic financial advice. • Clients whose income does not exceed their expenditure, or this is likely to change soon (this may be because of a possible redundancy, change in circumstances, or if they may be subject to additional expenditure in the short-term). • Clients who are looking for wider areas of financial planning (for instance pension or protection advice). If a client indicates that they would like to consider retirement planning or protection planning as part of this advice; the firm should not advise them under this regime. • Clients who are generally looking for more complex investment solutions for investing their surplus cash assets. This may include higher risk or more sophisticated investments. • Clients who have higher levels of debt that is not manageable from surplus income. <p>Once a firm has defined their target market for core investment advice, they should have appropriate processes in place to enable them to triage and exclude consumers who would be outside of the target market for this narrower scope regime. A firm could use warnings, as for example in the design of their filtering processes, to alert the client to the narrower scope of the service or ask a proportionate set of questions to understand whether the client is within the target market for core investment advice. The firm may also consider it appropriate to design any filtering process in the form of a flowchart to obtain whether it would be appropriate for the client to receive core investment advice based on a simple set of questions, or if they require wider holistic financial advice that is not included in the narrower scope of this regime.</p>

Area of suitability	Outcome that we are seeking	Rule	Supporting guidance on rule
Information collection: Investment objectives	To understand the objectives that the client has for subscribing money to a S&S ISA.	COBS 9A.2.1R (1)(c) COBS 9A.2.8 UK	<p>To comply with the requirements in COBS 9A.2.1R (1)(c) and COBS 9A.2.8 UK, a firm should obtain details of the higher-level investment objectives sought by the client, which may include any environmental, social, and governance factors, as well as the duration for how long the client wishes to hold the investment.</p> <p>We recognise that some clients may not have a specific goal or time horizon for investing and in certain circumstances a client's overall objective may be to increase the value of their future savings. In this case we consider an objective of 'investing for growth for at least 5 years' may be sufficient to meet the requirements in COBS 9A.2.1R(1)(c) and COBS 9A.2.8UK. We would however still remind firms in this instance to consider an indicative timescale for how long a client would like to hold the investment and to strongly consider the impact of any market movements before making a personal recommendation to the client.</p>
Information collection: Knowledge and experience	That a firm validates that a client has the required knowledge and experience to receive core investment advice	COBS 9A.2.1R (1)(a) COBS 9A.2.6 UK	<p>To comply with the relevant requirements in COBS 9A.2.1R (1)(a) and COBS 9A.2.6 UK, a firm should obtain the necessary information to establish that the client has the requisite knowledge and experience to make an investment via a S&S ISA.</p> <p>To demonstrate that a client has the requisite knowledge and experience to enable the firm to make a personal recommendation, a firm may then choose to provide information and education to a client on the key features and risks related to investing in a S&S ISA.</p> <p>If the firm chooses to undertake an educative journey with a client, we expect them to discuss and outline the following:</p> <ul style="list-style-type: none"> • The key features of a S&S ISA. • The risks related to investing in a S&S ISA. • The nature of market-based investments, including that these may move up and down. • That past performance is not an indicator of future performance. • The core features, characteristics, and possible risks of the different categories of financial instruments that may be recommended to the client under the service offered. <p>Following this we would expect the firm to undertake a form of verification with the client to make sure that they fully understand the risks and nature of the product as well as investment risk, prior to making a personal recommendation to the client.</p> <p>If, as part of the Know Your Customer process, a firm has identified a client as a vulnerable client or that they may require additional support, we would expect a firm to take additional steps necessary to ensure the client understands the key risks of investing in a S&S ISA as well as the underlying investments recommended.</p> <p>During this process firms must adhere to the relevant principles in the Consumer Duty on consumer understanding and to avoid causing foreseeable harm to retail customers.</p>

Area of suitability	Outcome that we are seeking	Rule	Supporting guidance on rule
Information collection: Financial situation and capacity for loss	To obtain sufficient information from a consumer to understand if they have the financial capacity to subscribe funds to a S&S ISA.	COBS 9A.2.1R (2) COBS 9A.2.1R(1) (c) COBS 9A.2.7 UK	<p>When undertaking an assessment of the client's capacity for loss, firms may choose to utilise the existing flexibility within COBS 9A.2.7 UK and review what is relevant in the context of core investment advice. This may result in a more streamlined approach to questioning than with holistic financial advice.</p> <p>For a firm to assure itself that it has obtained the necessary information on the client's, or potential client's, financial situation when providing core investment advice, we would expect the firm to consider the following:</p> <ul style="list-style-type: none"> • The levels of excess monthly household income that the client has. • Any debts that the client has, including the quantum, term, and level of interest payable on these. • Any planned or foreseen significant capital expenditure that would take place over the likely term of the investment • The level of liquid assets (ie, cash assets) that the client holds and if they hold sufficient levels to cover any emergency expenditure. For example, a personal recommendation may not be suitable for a client without at least enough cash to cover 3-6 months' usual outgoings. <p>As such a firm may choose to not obtain the following information from a client when providing core investment advice:</p> <ul style="list-style-type: none"> • Details of a client's pension arrangements, including contribution levels as well as any occupational or workplace pensions that the client holds • The client's estimated or predicted state pension • Details of a client's protection arrangements • Details of other non-cash investments held by the client <p>The following may indicate that the client does not have the required capacity for loss:</p> <ul style="list-style-type: none"> • The client has significant levels of unsecured debt. • The client is struggling to meet their regular financial commitments. • The client is expecting their financial situation to deteriorate in the short or medium term (eg illness/retirement/redundancy) and as such requires access to additional cash reserves • The client has identified several short-term capital expenditures that would reduce their capacity for investing
Information collection: Tolerance for risk	To ascertain the client's emotional tolerance for risk if losses were to occur on their investments in a S&S ISA	COBS 9A.2.1R (1) (c)	<p>To meet the requirements in COBS 9A.2.8UK in assessing if a client has the appropriate tolerance for risk, a firm should obtain the following information:</p> <ul style="list-style-type: none"> • The client's preferences regarding risk taking • The client's risk profile <p>We recognise that a firm may choose to use a risk profiling tool to obtain the required level of information on a client's tolerance for risk.</p> <p>It is important that if a firm choose to use a risk profiling tool, they must consider the following, as indicated in COBS 9A.2.9UK:</p> <ul style="list-style-type: none"> • That clients are aware of the importance of providing accurate and up-to-date information • That the risk profiling tool is appropriately designed for use with their clients, with any limitations identified and actively mitigated through the suitability assessment process • That any questions asked are appropriately understood by clients and appropriate weight and consideration is given to all answers before arriving at the client's overall risk profile.

Area of suitability	Outcome that we are seeking	Rule	Supporting guidance on rule
Information collection: Firms need to obtain reliable information from a client	To ensure that all information that has been obtained from a client is reliable and up to date. This is so that firms can be assured that they have sufficient details on a client to make a personal recommendation	COBS 9A.2.9 UK COBS 9A.2.12 UK	Firms should make sure that they ask enough questions to obtain the necessary information as part of the Know Your Customer process as well as pay due consideration to the Consumer Duty cross cutting rules requiring firms to act in good faith, avoid causing foreseeable harm, and enable and support customers to pursue their financial objectives. If retrospectively a client does provide additional information after the advice is given that was not disclosed at the time of the recommendation and it was not reasonable for the firm to have gathered that information relevant to the scope and extent of the service; we do not expect this to have been considered in the firm's decision on suitability.
Information collection: Firms ensuring up to date information when providing an ongoing service	That if a firm is providing an ongoing service to a client, they hold the relevant details from them to adequately assess the ongoing suitability of the product and investments recommended.	COBS 9A.2.10 UK	Where a firm's ongoing service includes a periodic review of suitability, firms should consider the information that was obtained when the initial advice was provided and any information that they have subsequently become aware of being out of date or incomplete. Where information is out of date or incomplete, we would expect the firm to obtain up to date information from the client as part of and prior to completing the periodic review. We would expect firms to have necessary and proportionate policies and procedures where relevant to ensure that, when a client is receiving a periodic ongoing review, the necessary information is obtained from the client to enable an ongoing suitability assessment to be carried out.
Suitability assesment: Providing a suitable recommendation to a client	To provide regulatory steers on circumstances that may tend to lead to suitable as well as unsuitable advice	COBS 9A.2.20 UK	In arriving at a suitability decision for a client, we recognise that each client's personal circumstances will be different, and firms should have due regard to any specific objectives outlined by the client as part of the Know Your Customer exercise as well as any characteristics of vulnerability that have been identified. The following outlines circumstances where a personal recommendation to either transfer or subscribe funds to a S&S ISA under this core investment advice regime may not be suitable. The examples provided here are non-exhaustive and there may be other circumstances where investing in a S&S ISA may be unsuitable for a client: <ul style="list-style-type: none"> • Debt that would likely mean that investing is unsuitable for them • The client has indicated that they do not want to take any investment risk • The client has identified a significant short-term capital requirement that the funds subscribed to the ISA will be needed for eg house deposit, wedding deposit, other capital expense needed. • The client's regular expenditure exceeds their income. • The client has indicated preferences (perhaps strong ESG preferences), that are inconsistent with the investment recommendation. • The client has incurred excessive advice, fund, or product charges without good reason. • The client does not meet the requirements for investing in an ISA (for example they are not a UK resident, or they have already used their ISA subscription).

Area of suitability	Outcome that we are seeking	Rule	Supporting guidance on rule
Suitability: Suitability report disclosure	To provide regulatory steers on the content that a firm will need to include into a suitability report	COBS 9A.3.2R COBS 9A.3.3 UK	<p>When a firm provides a suitability report to a client, to comply with the requirements within COBS 9A.3.2R and COBS 9A.3.3R, we would expect the suitability report to contain the following detail as a minimum:</p> <ul style="list-style-type: none"> • The investment objectives for the client. • The client's risk preferences and the risk profile that the client was assessed as. • The client's capacity for loss. • The client's knowledge and experience. • The amount that is either being subscribed, or transferred to the S&S ISA. • The ISA provider and fund(s) that have been recommended. • Why the recommendation has been deemed to be suitable for the client. • The risks related to the transaction and investments recommended (for instance currency risk if an overseas fund has been recommended). • Any disadvantages (ie early withdrawal charge or loss of interest) that may be incurred because of this transaction. • If transactional advice or an ongoing service is being provided. • If transactional advice is being provided, that the client will be responsible for ensuring that the investments recommended in the suitability report continue to meet their needs on an ongoing basis. <p>When providing an ongoing service to a client the suitability report may only need to include:</p> <ul style="list-style-type: none"> • Any changes in the client's circumstances from the details included in the initial suitability report. • Any changes recommended to the investments that the client holds or additional subscriptions to the ISA. <p>FG22/5 outlines the expectations when making customer communications. We would expect firms to consider this guidance when looking at designing suitability report templates as well as the wording within any suitability reports.</p>

