

Steve Tully  
Conduct Policy Division  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

26 May 2010

Dear Steve,

**Platforms: delivering the RDR and other issues for discussion**

The IMA represents the UK-based investment management industry. Our Members include independent investment managers, the investment management arms of retail banks, life insurers and investment banks, and the in-house managers of occupational pension schemes. They are responsible for the management of over £3 trillion of funds, including authorised investment funds, institutional funds, private client accounts and a wide range of pooled investment vehicles. In particular, our Members represent 99% of funds under management in UK-authorised investment funds (i.e. authorised unit trusts and open-ended investment companies).

It is in their capacity as providers of authorised funds that our Members have a keen interest in these proposals. Also, some of our members run investment trust savings schemes.

The fund management industry has, from the outset, supported the FSA's overall aspirations regarding the Retail Distribution Review and previous responses from the IMA have echoed that support.

Our detailed response to the Discussion Paper is attached. We recognise that this Discussion Paper is a key component to the FSA's Retail Distribution Review initiative. It is of some concern, therefore, that it has been published at a time when, apparently, decisions and rules regarding adviser charging have already been made.

We support fully the intention behind the review to improve the consumer experience in seeking and obtaining investment advice. As you know, the fund management industry has become increasingly disintermediated, with an increasing proportion of retail funds being distributed through platform propositions. As such, this paper has enormous significance for many of our members' business models and how consumers access funds as part of their overall savings needs.

Of particular concern to our members are:-

### Platform Remuneration

The FSA proposes to ban any payments from product providers to platforms. We support the FSA's aim for transparency, but our members do not all believe it a given that transparency can be achieved only by unbundling charges. Forced unbundling is likely to lead to additional and unnecessary costs to consumers, with no greater benefit in terms of transparency than would be obtained by requiring cashflows to pass first through consumers' cash accounts.

The DP recognises that the aggregation of order flow by a platform reduces the volume of transactions across the fund register. The platforms do not act on behalf of the managers (unlike third party administrators) but they can provide benefits to the managers in terms of both the mechanics of accessing the retail marketplace and some reduction of costs in running the register. It is also true, though, that platforms are chosen by consumers and their advisers. Therefore, a number of our members agree with the FSA's proposal that product providers should not make payments to platforms.

### Rebates

The DP refers to rebates made "in such a way that these charges could appear to offset any adviser charges that are payable". The rebates offered by fund managers can be used however the consumer decides and, if used to fund some of, or their entire, adviser's charge (they are unlikely to exceed it), the payment process will be fully transparent. We therefore do not understand the objection to rebated AMCs.

Indeed, the FSA had previously suggested multiple share classes would be an option (which necessarily involves the adviser/consumer choosing the class that rebates the appropriate amount of the AMC). Also, in the fund industry, trail "commissions" take the form of rebated AMCs, but the FSA contends it cannot ban commissions.

Moreover, the banning of AMC rebates would apply only in relation to retail investors in funds. A significant proportion of investment in retail funds is made by life companies (not life-owned platforms, but the life companies themselves) and banks. They are the legal and beneficial owners of those investments, which back the issuing of different retail investment products (unit-linked, with-profits, personal pension and structured products), which may or may not be sold via platforms. In these circumstances, the life companies and banks can continue to negotiate rebated AMCs with fund managers. They will then be able to lower their own product charges. The effect will be a clear incentive to buy life and structured products over funds. It is already the case, and of concern, that many retail consumers do not understand that when buying a life or structured product that refers to the return on a fund or funds, they are actually 100% exposed to the life company or bank.

The DP considers a number of other important issues, which we comment on in the attached, together with some important points relating to the rules for product providers.

We look forward to ongoing dialogue with the FSA in the follow up to its next consultation paper.

Yours sincerely

A handwritten signature in black ink, appearing to read "Andy Maysey". The signature is stylized with a large, sweeping underline that loops back under the first name.

Andy Maysey  
Senior Adviser – Retail Distribution

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

We agree in broad terms with the FSA's analysis of the issues related to platform remuneration. In previous IMA submissions we have advised the FSA that platforms are responsible for an increasing market share of the retail fund distribution chain and are developing their business models, in relation to the establishment of cash accounts for example, to make it more attractive to distribute through the platform proposition.

Previous submissions have also pointed to the fact that platform business models, and associated charging structures, are not always transparent to the end consumer. Any change in requirement that results in an improvement of consumers' understanding of the services they receive, and what they cost, is to be welcomed.

The FSA highlights that administration services provided by platforms to product providers generally arise from the platform aggregating orders into a single nominee investment, thereby reducing the administrative burden on the fund manager and the fund register. This is correct in theory. However, platforms charge funds registration fees and for certain events that require communication with investors in accordance with FSA regulation. For many managers, especially smaller houses, these charges, which may be in addition to rebates of AMCs retained by the platform, more than offset any theoretical benefits from aggregation.

Equally, though, it must be recognised that platforms are businesses. They need to recover costs. It is unclear from the DP how, for funds, that could happen in the absence of any rebate from the AMC to facilitate that payment. It seems that the cost will be recovered through a cash account for each consumer, which would have to be funded from investment income, or from sales of assets, or from cash provided by the consumer. Although the FSA's proposals might lead to increased transparency, they would almost certainly lead to increased costs of administration, which would, in turn, reduce returns for consumers. Greater transparency can be achieved without mandatory unbundling.

The FSA proposes that a generic term "platform operator" be established to define the various platform business models. We would caution the FSA that any looseness of the description could encourage the development of other business models specifically to fall outside the scope of new rules.

What is a platform other than a firm that arranges transactions in investments? Why are they in regulatory terms different from e.g. execution-only brokers?

There is a lack of homogeneity in platform business models. The capacities in which they operate and their charging structures are key differentiators, as are the services they offer. Key characteristics include:

- Whether the platform acts as agent or principal in its dealings;
- How charges are taken by the platform;
- Whether the platform has open or guided architecture; and

- What investment products and tax wrappers they offer.

Platforms have to date largely been regarded as utilities, providing operational efficiencies for AFMs as regards distribution mechanics, and substantial benefits for advisers or direct consumers as an efficient way of accessing funds and reporting management information to investors. This latter aspect has been the driver for the growth of platform business generally

Life companies, banks and other funds, whose investments in funds back the issuing of other investment products, can be regarded as principal platforms.

We have some concerns that, even if the FSA were able to draft a watertight definition of platform operator there will inevitably be some arbitrage around that. The FSA should be aware that, in addressing this issue, there is a danger of distorting the market elsewhere.

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

The fact that they aggregate the order flow has benefits for the AFM through their having a smaller register to maintain. Platforms also deliver a consolidated distribution mechanism, which may lead to savings in sales and marketing activity on the part of the fund manager. It is unclear how these activities would be paid for if all payments from the product providers were banned.

Equally, though, it is of concern that the current combination of fund registration fees, rebated AMCs retained by the platform and additional *ad hoc* charges can more than offset those theoretical gains. For example, one member has informed us of an overall cost of £90k a year for a fund to be registered on a particular platform. As noted above, smaller fund management companies, in particular, have net additional costs when using platforms for distribution. This creates a barrier to entry. Indeed, there are reported instances of funds being refused admission to a platform on grounds of the uncertainty of cashflow for the platform.

Since the selection of platform operator is a matter decided by the adviser at point of advice, and the adviser is likely to benefit from the use of the tools offered by some platforms, such as portfolio planning, many of our members agree that there is some logic to requiring the charge for those services to lie with the adviser/client. It could appear either as a separate charge to the consumer's cash account or as part of the charge made by the adviser for advice and ongoing service.

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

In previous responses regarding non-advised services the IMA has expressed the view that the FSA should conduct a fact-finding exercise to familiarise itself with the remuneration process that operates in this part of the distribution landscape.

The mechanics of distribution of retail investment products has costs associated with it, quite apart from advice costs, so there is some logic in % rebates to platforms being used for the payment of those costs, particularly because, as described above,

a charge to the AMC is the only tool a fund manager has to meet distribution expenses external to the fund.

However, the DP also says that platforms are “similarly unaffected with regard to any non-advised business they arrange”. The current platform business model is such that platforms themselves do not give advice and would normally have no influence, or perhaps knowledge, over whether the order they receive is advised or not. More importantly, this would be true of fund managers also, as they will operate on receipt of an order from the platform that will not necessarily indicate whether it is advised or non-advised. It will be all but impossible for a provider to separate out non-advised business received by a platform and to continue to apply rebates only to that element.

Equally, since platforms do not themselves give advice, they are, as a matter of fact, carrying out non-advised business and, therefore, would appear to fall outside the proposed ban on rebates.

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

We welcome the recognition by the FSA in the DP that multiple share classes are not the ideal solution to facilitating adviser charging. The DP also notes that platform operators envisaged problems in administering multiple share classes if they emerge as a solution to facilitating adviser charging. In the Policy Statement (PS 10/6 Delivering the RDR), published at the same time as this DP, the FSA also accepts concerns that a range of retail share classes would cause material consumer confusion and would therefore hinder, rather than help, consumers.

However, the CBA at Annex 1 of the PS makes reference to the FSA's belief that two additional share classes per fund would be sufficient to comply with rules likely to be set for platforms. It is unclear what the FSA means by this. Is it envisaged that fund managers will be required to establish two additional share classes, over and above two that may currently exist e.g. retail and institutional, or would those two be sufficient? We understood that there would need to be a “rebate-free” share class for future business and a share class to continue paying rebates on legacy business. For many funds that will necessitate new share classes, as even if they currently have an “institutional” share class, it may be inappropriate for other reasons.

The FSA should also note that there exists a significant issue in handling a legacy book *ad infinitum*. This will be especially so in the absence of clarification from the FSA as to what it regards as legacy business or new business in various scenarios, a number of which we have set out in previous submissions and correspondence, but to which we have still to receive a response. (See also answer to Q.7.)

In the DP the FSA seems to be supporting the establishment of a consumer cash account on platforms as a way of facilitating the payment of adviser charging. However, whilst this has some merit, it is our view that, in the absence of any contribution to the account by the fund manager through rebates of the AMC, which are proposed to be banned, the account will not always have sufficient liquidity to pay the charges. (See also answer to Q.5.)

Nevertheless, we agree that whatever system of adviser charging is implemented through the platform proposition, it should be transparent and the consumer should be clear as to what charges are being levied and by whom.

In that sense we support the use of a cash account. This has the merit of the consumer being able to see specific monetary amounts coming in to and going out of their account. They would therefore be able to understand what a charge of, say, 0.5% actually means in cash terms. This would provide the very transparency of charging we all agree needs to be put in place.

The DP makes reference to the FSA wanting to ensure that Platforms administer adviser charging to the same standard as that expected of provider firms (Para. 3.37). That paragraph goes on to state that a platform “should obtain instructions from a customer to pay an adviser charge and validate those instructions”. However, Rule 6.1B.9, as currently written, does not recognise this possibility, as it places an obligation on the retail investment product provider and does not allow that obligation to rest, instead, with a third party (such as a platform) that is facilitating adviser charging. If the outcome envisaged by the FSA is that platforms perform a role in validating consumer instructions where possible, then Rule 6.1B.9 must be amended to provide for the obligation to fulfil the “obtain and validate” requirement (which might be a platform or any other firm that is not an adviser and is providing a mechanism for the facilitation of adviser charging) to rest with a third party and not with the product provider.

This issue applies also where the collection of upfront adviser charges is to be facilitated. The FSA sees this occurring through the fund manager arranging for the amount to be deducted from the total amount received from the consumer, and paid to the adviser firm, before it is invested (where, of course, it is not paid directly through a fee or through a regular payment product). This seems rather simplistic, does not take account of the dynamics of the relationship between the parties concerned and gives grounds for confusion.

As described above, the fund manager cannot obtain and validate instructions to undertake this deduction. On any given day it will receive from nominee unit holders aggregate orders comprising:

- New Investments – for which there could be an initial fee
- Regular investments – for which ongoing adviser charging might be required
- Redemptions to top up client cash accounts
- Redemptions for other reasons, initiated by investors

Such complexities militate against the possibility of making a simple deduction and paying this to the adviser firm. Any requirement (explicit or implicit) to pass on disaggregated orders would negate the economic benefits of aggregation.

#### Related Product Sales Data Issue

Although a question is not specifically asked on this issue, paragraph 3.40 of this section of the DP makes reference to a proposed consultation on Product Sales Data requirements to be undertaken by the FSA. We would urge the FSA to take account of nominee arrangements when devising new data requirements and returns from

product providers, and to pre-consult further with the industry ahead of making formal proposals.

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

We are surprised by the FSA's implication that it has for some time intended to ban rebates. For our industry, until fairly recently the FSA had been suggesting that multiple share classes (with different levels of AMC) might be an option to facilitate adviser charging and meet the "sufficient flexibility" requirement. If that option were pursued, then consumers would choose the share class with the appropriate level of AMC to allow the correct amount to be **rebated** to pay for the adviser charge. So, multiple share classes could never have been a viable option if the FSA had always intended to ban rebates of any form.

Also, we remain puzzled by how the proposal to ban rebates sits with the FSA's contention (with which we agree) that it cannot ban commissions given MiFID. For the funds industry, trail commissions (or retrocessions, as they are commonly called on the Continent) take the form of rebated AMC. To ban rebates is therefore, for our industry, tantamount to banning commissions.

We suggest that that a number of issues and inadvertent consequences stem from the blanket use of words (such as rebates) that are used by different sectors but that amount to different things, economically or operationally. What FSA regulation must recognise is that balance sheet products (such as life products and bank issued structured products) involve one balance sheet. Collectives, on the other hand, involve two – the product itself and the provider's balance sheet. It is necessarily the case that to achieve the same economic outcome, cashflows will be different as between these two broad groups.

We fully support the proposals to end the practice of product providers levying higher charges and rebating a portion of the charges to the consumer or, indeed, offering "enhanced allocation rates", as these practices clearly mislead consumers. This appears to be the issue referred to in both the Policy Statement (PS 10/6) and the DP, where reference is made to a provider "must not defer, discount or rebate product charges in such a way [our emphasis] that these charges appear to offset any adviser charges". We are not aware, though, that this is a practice that exists in the fund management industry. It is important to draw a distinction between utilising a proportion of the AMC to meet the cost of a service and rebating inflated charges to mislead the consumer.

We believe that, in addressing this issue and proposing a ban on "rebates" as a whole, the FSA has decided on a blanket prohibition that does not take account of the dynamics and inbuilt efficiencies which exist in this part of the market, or the different nature of "rebates" as between sectors. It would therefore be poor regulation.

As the FSA must be aware, all costs incurred by a fund for management, distribution etc., are met from the annual management charge (AMC) levied on the fund. No other source of revenue exists and it is rebates of the AMC (normally invoiced by the platform) that are used to pay platforms and advisers in meeting administration and distribution costs arising.

If rebates of AMC cannot be paid direct to the consumer's cash account, that account will need to derive income from elsewhere to keep it sufficiently in credit to fund adviser charges. Distributions from a consumer's preferred funds might be low or zero. Therefore unit redemptions would need to be undertaken. This solution would lead to consumer detriment:

- The consumer being forced to redeem against the spread
- The consumer could incur a potential tax liability
- Who would choose from which investment of the portfolio to redeem units and, if the account manager, would this not effectively be an investment management decision?
- For the smaller investor, redemptions could soon have a detrimental effect upon portfolio value.

A further effect of banning product rebating would be to skew market competition in favour of the life and structured product industry. This will occur because, for example, a life company when buying fund units as principal to back liabilities (eg unit-linked products) is not a retail customer and can, therefore, continue to negotiate a rebate from the fund manager as a bulk purchaser. The life products could then be offered to the consumer at an apparently "discounted" price, which is not available where the fund is bought direct or through a platform. The same would be true for a bank issuing structured products based on fund returns.

This situation will be further exacerbated given that life companies can continue to facilitate adviser charging through regular premium products, which will maintain an adviser's income stream in a manner similar to the payment of trail commission.

AMC income is the only source of funds that a fund manager can use to meet any external expenses for the fund. If life companies and banks, acting as principal, are able to negotiate reduced fees as bulk purchasers or fund units, then why should not nominees be able to do likewise, and thus achieve a better deal for their customers? What matters is that consumers should benefit from the economics of aggregation and that cash flows should be transparent.

We fully support the FSA's aim to prevent product providers from structuring their charges in such a way that could mislead or conceal the distinction between product charges and the cost of adviser services. However, given the negative effects of banning rebates altogether, and given that such a distinction can easily be made and understood in relation to authorised funds, the rebating of AMCs should be able to continue, provided it takes the form of monetary amounts paid direct to the consumer in an open and transparent way. In other words, there should be a requirement for transparency of cash flows. We call upon the FSA to review its position.

We further understand that the FSA has some concerns over whether advisers could negotiate a discount from the product provider, through a rebate, which exactly matched the adviser charge and, therefore, appear to offset the adviser charge to the consumer.

It seems to us that new Rule 6.1A.15 relating to advisers and new Rule 6.1B.7(1) for providers, concerning the structuring of charges and whether they mislead or

conceal from a retail client the distinction between product charges and the cost of adviser services, would seem to address this issue and enforcement of those rules would lead to better outcomes for consumers in this area.

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

We understand that it is the FSA's view that platforms are MiFID firms and that therefore inducement rules arising under MiFID should be adequate. It is not clear to us that they necessarily would be subject to MiFID requirements if they offered only life-wrapped products.

The existence of platforms (whether wraps or supermarkets) has facilitated the availability of financial planning and portfolio management tools to advisers. If used appropriately, such tools might be expected to increase the availability and quality of investment advice. But training, coaching and ongoing support are vital if such tools are to be utilised appropriately.

Moreover, platforms are increasingly adopting other forms of guided architecture. Many wraps (especially adviser or wealth manager-owned offerings) promote favoured product lists; and some supermarkets "soft" promote certain funds over others by the way in which they are displayed on the platform, via news bulletins or by differential administration or information services.

It is increasingly the case that fund managers are expected to offer higher fees or AMC rebates in order for their funds to be on the favoured list, more prominently displayed or subject to the better quality services (or, rather, that if they do not increase payments, their funds will effectively be "demoted"). This marks a step change in the relationship between managers and platforms, and in the distribution landscape. Moreover, given the general lack of transparency around platform charges, consumers are not generally aware of the factors that might be influencing the guided architecture. It is this area that the FSA should address and ensure that transparency is increased and that the consumer, and his adviser, is able to identify and understand the costs involved in making investments in this way.

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

We generally agree with the analysis of the issues relating to platform use of by adviser firms. Whether an adviser can maintain a whole of market status through the use of a single platform is questionable, but given the size of the "whole of the market", we urge the FSA to adopt a pragmatic approach. However, it is our view that platforms should be encouraged to offer the widest choice of products on the market (or, at least, be discouraged from adopting practices which would limit such a range of products being held through size, cost etc.) and so ensure that a wide range of products is available to advisers. This will result in a better service to the consumer. (See also answer to Q.11.)

Our members have, though, expressed concerns over some adviser activity associated with platforms, and adviser charging more generally, which may give rise to consumer detriment.

### Legacy book

The FSA has indicated that advisers can continue to receive trail commission from business sold before the RDR rules on adviser charging take effect. Apart from the business strain this will impose on fund managers and third parties, who will need to maintain a back book of business *ad infinitum*, advisers will lack external motivation to review consumers' portfolios, as any change in portfolios will result in the cessation of trail commission and, with it, a steady income stream. (See also answer to Q.13.)

### Regular premiums/payments

As drafted, rule 6.1A.22 (2) enables advisers to recover adviser charges through the sale of regular premium (i.e. life) products only. This could result in advisers favouring regular premium products simply so that they can achieve an income stream. This will also introduce unnecessary life cover into meeting savings needs. We ask the FSA to amend this rule so that it covers also regular contribution savings schemes.

### Product availability and choice

The elimination of product rebates and payments to platforms could encourage them to hold non-rebate paying products such as ETFs and Investment Trusts on their books and thereby come closer to offering a whole of market proposition. Conversely, since the ongoing charges are to be funded from the consumer's cash account, these products would not contribute toward that fund and could be eliminated from the portfolio for that very reason.

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

We agree that the current situation whereby assets can be easily registered onto a platform but must be redeemed to be transferred is not in the best interests of the consumer, particularly where flexibility of movement may be a necessary part of managing their portfolio. The issue of flexibility will become more pertinent as advisers carry out regular reviews of their clients' investments and platform services as a component of their independent status and activity.

It has always been possible to carry out re-registration manually and we know of nothing standing in the way of platforms offering such a process. Indeed, some already do so. We note that some platforms re-register holdings onto the platform but not off it. We also find this difficult to understand since, as we understand it, the former process is if anything more involved than the latter. When a consumer transfers out, its account is closed and transfer instructions issued. The firm simply monitors assets dropping off its stock reconciliation. But when a consumer transfers in, the receiving firm must follow account-opening procedures, track the arrival of assets, follow up slow-arriving assets, reconcile and confirm completion of transfer, and only then allow the consumer access to other functionality such as portfolio management tools.

The IMA supports the industry-led work to encourage automated re-registration. It will require all parties to adopt the appropriate electronic message format, but there

is a range of options for carrying these messages. We see no reason why the timescale envisaged by the FSA cannot be met. We ask the FSA to indicate, perhaps within guidance, a maximum period (i.e. a number of business days) within which it considers re-registrations should be affected.

However, we urge the FSA to apply similar pressure to other sectors to enable the equivalent of re-registration for other products. Not to do so would amount to discriminatory regulation.

**Q9: What is your view of our assessment of the capital adequacy of platforms based on their categorisation as LLIFs?**

We agree with the assessment.

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

IMA has previously relayed to the FSA concerns expressed by members that they are not able easily to communicate with the end retail consumers where a platform is involved in the distribution chain. This issue was also highlighted in the IMA's review of issues arising from the Credit Crunch for authorised funds.

AFMs are reliant upon platforms and other intermediaries to pass on fund material to the consumer, whether that constitutes regulated point of sale disclosure documentation such as the Simplified Prospectus, or fund material such as Voting Rights, Annual reports and accounts etc.

We understand that platforms and intermediaries are generally good at passing on regulated documentation to the consumer. We note, though, that fund information should be passed on to the unit holder, and where this is a nominee account, there is no obligation on the nominee (e.g. a platform) to pass on that information to the consumer.

However, recent market conditions led to Managers wishing to communicate additional, timely messages to unitholders, and it became increasingly clear that platforms were unable or refused to administer this activity. Managers had to rely instead on indirect, public communications such as press releases and messages on their websites etc.

It is our view that all links in the intermediation chain should have a responsibility for providing good communications to the end consumer, not least in the context of the treating customers fairly principle, and to ensure that relevant information is communicated in a timely way. In turn the FSA should monitor this through its supervisory activity.

In particular, we call on the FSA to review its COLL requirements as regards unitholder voting, which do not currently adequately recognise the issues arising where layers of intermediaries are involved.

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

We agree from the perspective that Advisers and, in turn, consumers, would not have access to “whole of market” investment products. This is becoming particularly important with the growing substitutability of products and limitation of choice.

Clearly, the availability of tax efficient fund structures is important to consumers. If platforms are going to be able to offer a whole of market solution, they must make available systems that comply with legislative requirements. Their inability or unwillingness to do so will remove one major route to invest in TEFs etc (ie through platforms) and so must result in consumer detriment where advisers rely on platforms to offer the whole of market solution. A number of wealth management systems can accommodate REITs and will similarly accommodate TEFs (tax-efficient securities funds), PAIFs (tax-efficient property funds) and the new tax regime for investment trusts predominantly invested in interest-bearing securities. Therefore, the affluent will benefit from these products, but the mass retail market will not. This was not the Government’s intention.

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

There is no commercial need or regulatory justification for requiring aggregators (or advisers) to supply product providers with the name and address of each end-investor. However, our members do desire information about distribution channels and fund flows so that they can best serve the end consumer when designing, launching and marketing funds, and when providing continuing information about the fund as a service to holders. Provision of data on individual client holdings will not help that analysis; aggregate information on whether funds are held direct, in specific tax wrappers or are being used to back other RIPs would be helpful.

With the increasing usage of platforms by intermediaries the proportion of funds intermediated through that route has grown. The net effect of this is that fund registers largely comprise nominee account names rather than those of the underlying consumer. Indeed, it is entirely possible that the nominee name is that of an aggregation of nominee holdings.

The supply of distribution channel information to AFMs by platforms is, at best, mixed in delivery. Some platforms do supply useful information on those advisers who are generating business and whether investments are held directly or via a tax wrapper such as a SIPP, ISA etc. However, others refuse to supply such a breakdown or claim they cannot.

This lack of information makes it difficult to understand their marketplace, the nature and drivers of demand for their funds, and the channels through which business comes. It also adds to the difficulty the AFM may have in managing liquidity issues as identified in the DP.

On a more positive note, this situation is changing. Some key platforms are now passing distribution channel data to the IMA and this will improve, to some extent, the accuracy of fund distribution statistics and enable trend data to be made

available to the market and FSA. However, there are a number of platforms which are woefully behind the curve in being able, or willing, to supply this information. Many of these are life-owned platforms.

**Q13: Are there any other issues that we should consider? Please provide details and, where relevant, suggestions on how these issues could be addressed.**

It is disappointing that we find ourselves with final rules for product providers yet we still have no certainty or greater clarity over the answers to valid industry operational questions, particularly in the area of the legacy book.

The FSA has indicated that the adviser charging requirements arising through the RDR will not apply to investments made before 31 December 2012 and, therefore, commissions can continue to be paid on this business without there being an ongoing service provided by the adviser and a customer agreement as to payment for that service.

Industry estimates indicate that, by 2012, there could be £150bn of legacy assets on platforms, which would constitute a significant amount still paying commissions.

This has a number of deleterious effects:

- There would be no external motivation for an adviser to review a consumer's portfolio as they would risk losing a continuing income stream.
- If such a review takes place and the consumer changes funds they will end up with, potentially, a number of different share classes which would be confusing.
- Fund managers will need to administer these different share classes and payments arising from them, which will lead to increased cost and complexity
- In the absence of any guidance from the FSA on any future review of this situation, Managers will have to administer this situation *ad infinitum*

We suggest that the FSA should consider introducing a cut-off date, after which all commission-paying legacy business should be phased out.

**Q14: What compliance costs do platforms expect to incur if the proposals discussed in this DP are implemented?**

This question is not within IMA's remit.

**Q15: What costs, other than compliance costs could arise from the implementation of the proposals discussed in this DP? Please provide broad estimates of their magnitude.**

Many of the costs will be dependant upon, and influenced by, the platforms and the business models they adopt. Until this position becomes clearer it is difficult to provide estimates with any accuracy. However, it could be assumed that costs would include:-

- Extra VAT costs to be paid by consumers on ongoing adviser charges (trail commissions are currently exempt).

- Extra expenses charged by platforms to facilitate the more complex billing and settlement arrangements (especially if rebates of AMCs are banned) for administration and platform charges.
- Continuing costs for fund managers, and other parties, in maintaining the systems for their legacy books.

Additionally, the industry will incur the cost of launching and running additional share classes if rebates of AMC are banned.

And a significant, but as yet unquantifiable, cost of banning rebates of AMC would be the cost to the industry and consumers of funds increasingly being “wrapped” by life companies and banks.

**Q16: What benefits could arise from the implementation of the proposals discussed in this DP? If possible, please provide broad estimates of their magnitude.**

The benefits of transparency are difficult to quantify but are generally unarguable. It is likely that many retail consumers will not be able to understand the implications of, or therefore utilise, additional information on who is being paid for what. But greater transparency will aid advisers in their decisions as between different operators, which in turn should be of benefit to their clients, the retail consumers.