

Briefing on Retail Distribution Review (RDR)

Grandfathering of advisers

IMA has supported the RDR proposals to raise competence and qualification levels. There are very many able advisers who provide a good service to their clients. The majority of these are already qualified well above the new mandatory level, which is the equivalent of only the first year of a degree course.

However, it is unarguable that there are too many poorly qualified advisers who have encouraged their clients to invest in inappropriate or inappropriately concentrated investments, which have too often offered higher levels of initial commission. Therefore, we support mandatory minimum standards.

We have, though, agreed with calls to allow a long transitional period for experienced advisers and to allow them to evidence their ability via non-exam routes

Retaining the payment of commission

IMA agrees that there is a balance to be struck in order that consumers with modest amounts to invest can still have access to advice. From an early stage we have raised concerns that tax effects alone (both vat and direct taxes) will give rise to significant increased costs for consumers, but it is only this year that the FSA appears to have recognised that it needs to understand these concerns

Broadly, the rules for advisers and product providers that have already been issued are acceptable subject to some technical amendments. But the FSA is now set on a path that will have unintended consequences, in contrast to the original objectives of the Review. In particular, we believe that the FSA's latest proposals - to prohibit any form of rebate/discount of product charge to facilitate adviser charging - will lead to the funds industry being at a competitive disadvantage to the life industry. The proposals will allow life companies to continue to pay advisers out of the product, which sits on their balance sheet. However, fund managers will not be able to pay advisers out of the fund because the underlying investment belongs to the client rather than the fund manager. The only option open to funds will be for investors to redeem small amounts of units – an unnecessary and costly exercise. This will create an incentive for distributors to use life wrappers as the default option regardless of the needs of the individual investor. This is simply replicating the problems which led to the need for the Review in the first instance.

In summary, the FSA's latest proposals are both at odds with the desired outcome of the Review and to the potential detriment of the end investor.

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