

## **Briefing for Backbench Business Committee Debate: Retail Distribution Review 29th November 2010**

The Investment Management Association (IMA) represents the investment management industry in the UK. Its members managed just over £3½ trillion of assets at the end of June 2010 on behalf of a wide range of clients including pension funds, life insurance companies and investors in retail funds. Almost 90% of retail fund investors buy their funds through intermediaries who are impacted by the Retail Distribution Review.

- IMA supports the Retail Distribution Review's aim of a transparent retail market that works in the interests of investors rather than providers or distributors.
- The new rules already in place will broadly achieve that aim. It is questionable, however, whether the FSA's latest proposals will do so.
- In particular the latest proposals to ban cash rebates to clients will result in some types of product being able to facilitate adviser charging but not others. This is likely to shift the balance of competitive advantage in a number of ways:
  - between funds (which will be unable to pay rebates) and life insurance savings products (which in principle can and some are already finding new ways to do so)
  - between wrap platforms (which may have to change their current practice of passing on all rebates to customers and separately levying their charge) and fund supermarkets (whose charge is bundled with the product price)
  - between advisers (who will not be able to receive rebates to pay for their ongoing services) and non-advised intermediaries like execution-only brokers and banks which are outside the scope of the proposals
- It is unclear how these changed competitive dynamics will play out. But there are real risks that the outcomes sought by the FSA will now not be achieved. There is a risk instead of:
  - Higher charges to consumers (income tax and VAT effects are likely to lead to this immediately)
  - Continued high initial payments to advisers – the problem that led to the RDR in the first place
  - Greater complexity and opacity for consumers
- The IMA is therefore calling on the FSA to consider further the scope for unintended consequences before it introduces final rules.

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