



Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

26 January 2015

Dear CEO

Retirement Reforms and the Guidance Guarantee: Intention to make rules before April 2015 in addition to those set out in PS 14/17

As you will be aware, the FCA is responsible for setting, maintaining and monitoring the standards for organisations delivering guidance for Pension Wise (the Government's new pension guidance service). The FCA also regulates the firms that hold and invest stakeholder and personal pension scheme savings. As the new pension reforms come into effect these firms will play an important role in helping their customers make good decisions about what to do with their pension savings in retirement.

Last July we consulted on changes to our Handbook to take account of the pension reforms announced in last year's Budget, as well as the standards with which designated guidance providers must comply. As a result we published Policy Statement 14/17, which set out the standards for guidance providers and a package of rules for firms, specific to the pension changes. Coupled with our existing rules and principles, these new rules set out the framework for how we expect firms to engage with customers to support the implementation of Pension Wise and provide consumer protection in the new landscape.

However, we are conscious of the importance of the decisions people must take in relation to Defined Contribution pots. In some instances these choices will be irreversible, and people, especially if they do not take the guidance, may not be well equipped to make these decisions. This is evidenced in the recently published findings of our retirement income market study. This report identified poor consumer engagement as a key reason for the retirement income market not working well for consumers.

Against that firms have told us that they are not clear how far they can, or should, go in respect of helping people who choose not to use Pension Wise to understand the implications of their decisions. Similar concerns have been raised during discussion of the new pensions legislation in Parliament. Following the retirement income market study, the FCA has also decided to bring the ABI retirement code into our rules.

To ensure appropriate protection of consumers, accessing their pension saving, and assist firms we intend to seek approval from our Board for further steps to clarify what we expect firms to do. These rules will, by April, provide additional consumer protection by placing a requirement on pension providers for, what has been commonly referred to in debate as a 'second line of defence' (to avoid confusion with common risk terms, we intend to refer to this as 'Additional Protection'). When a customer contacts their pension provider to access their pension, providers will be required to ask the consumer about key aspects of their circumstances that relate to the choice they are making. Providers will be required to give relevant risk warnings in response to answers from the consumer. They must also then further highlight that Pension Wise, or regulated advice, is a key part of protecting themselves and their family when making an important and irreversible decision.

We will require these messages to be delivered to customers in very direct and simple language and propose to set this out in new rules. This will be in addition to the requirement, already included in our near final rules, to remind customers of the availability of the pension guidance (Pension Wise) and how to access it and the requirement to describe the tax implications where a customer plans to take cash from their pension pot.

Subject to agreement of the Board, we are minded that it is appropriate to bring these rules into force on a temporary basis from 6 April, and prior to consultation, to provide important additional protection for consumers. We consider that the delay involved in consulting would probably be prejudicial to consumers. We believe it will be possible for firms to provide the proposed risk warnings without providing regulated advice. The full requirements we will place on firms will be made clear in the published rules.

In addition we have recently published our finalised guidance on retail investment advice FG 15/1: clarifying the boundaries and exploring the barriers to market development, which will be helpful to firms.

The content and timing of the rules are subject to a decision by the FCA's Board.

We will, as already set out in our Policy Statement, be undertaking a review of all the current regulatory requirements around the customer's interaction with providers in the run up to their retirement in the first half of this year, incorporating and building on the ABI Code. As part of that consultation we will also consult on whether to retain or modify the temporary rules that we are proposing to introduce in April.

Yours faithfully,

Christopher Woolard

Director, Strategy and Competition