Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Our ref: Consultations

Dear Mr Vaughan

DP 07/4 Review of the Prudential Rules for Personal Investment Firms

This is the Financial Services Consumer Panel's response to DP07/4 Review of the Prudential Rules for Personal Investment Firms. We have focused our response on the key issues raised in the Paper from a consumer perspective, rather than dealing with specific questions. There are clear links between the prudential requirements and the current Retail Distribution Review, to which the Panel has already responded[1], but we would like to see any changes taken forward outside the scope of the Review if necessary.

Preferred Consumer Outcomes

Capital Commitment

We agree that a review of the prudential rules for personal investment firms is both timely and appropriate. The prudential requirements for these firms have become outdated and fragmented. Although we do not favour an over-simplistic 'one size fits all' approach, the current minimum capital resource requirements seem too low in absolute terms and do not reflect the commitment consumers would expect from the owners of an investment firm. We were pleased to see from the Paper that some 73% of smaller personal investment firms already hold capital resources greater than twice their 'own funds' requirement. We believe this gives a clear indication that a general uplift in the minimum requirements would be consistent with current industry approach and would in addition provide greater comfort to consumers.

Sustainability

The new requirements should, of course, be sensible and proportionate. It is important that consumers continue to have access to small independent advisers and that the costs of such a service are reasonable and affordable. Small personal investment firms have an important role to play in the financial services industry.

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[1] Published on the Panel's website at www.fs-cp.org.uk

There is a difficult balance to be struck between ensuring that small businesses are not 'priced out of the market' by regulatory requirements and the need for sufficient financial strength in that sector to ensure viability and sustainability. We will be interested to see other responses to this Discussion Paper on this point and the detailed proposals that are subsequently put forward.

Redress

As a general principle it is entirely appropriate for firms to meet the costs of compensation/redress to their clients when things go wrong. Greater capital resources should go some way to ensuring that this burden is met by the firm concerned and not by other businesses in the sector through the Financial Services Compensation Scheme levies. We are not in a position to provide detailed comments on Professional Indemnity Insurance, but if feasible it would be in consumers' interests for some form of insurance or segregated capital sum to be available to meet costs in run-down.

Regulatory Approach

The RDR Sustainability Group has called for a regulatory dividend for robust management and systems and controls within firms. This would be entirely consistent with the FSA's risk-based approach, but it is important that such a dividend did not allow individual firms to operate under the regulatory radar, given the importance of personal investment firms to individual consumers and the collective risks posed by this sector of the advisory market.

Yours sincerely,

John Howard

Chairman
Financial Services Consumer Panel