

Telephone: 020 7066 9346

Email: [enquiries@fs-cp.org.uk](mailto:enquiries@fs-cp.org.uk)

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

26 May 2010

Our ref: DP 10/2 Platforms

Dear Mr Tully

## **DP 10/2 Platforms: Delivering the RDR and Other Issues**

This is the Financial Services Consumer Panel's response to DP10/2.

The prevalence of platforms in the investment market shows that there is an appetite for the services that they provide and that they can in certain circumstances deliver real benefits for consumers. This can only happen however if there is sufficient transparency surrounding costs and services and if independent advisers are not constrained in the advice that they give by their choice of platform or platforms. It is important too that consumers are able to compare costs across the market and to be able to switch from one platform to another if they choose to do so.

We note that the FSA is proposing to complete the consultation process on the future of platform regulation by the end of 2010. This represents a challenging timetable for the FSA to develop robust policy in a complex area. Given the importance of platforms to retail investors and to the financial services sector more widely, it is important that the FSA takes the time to get its approach to platforms right, particularly given their role in a post RDR world.

We now have concluded our own limited research programme into the advantages and disadvantages of platforms and we are concerned about:

- The complexity of charging structures and the apparent lack of understanding and clarity around the whole area of charges from a consumer perspective;
- The lack of detailed analysis into how the current charging structure could lead to bias and could engender anti-competitive practices and therefore poor consumer outcomes; and
- The potential for 'collusive' behaviour given the dominance of a few key players in the market.

Although we are supportive of the need to consider how the use of platforms and fund supermarkets may support the objectives of the RDR in principle, we remain

concerned about the impact of such changes on the industry and the implications for consumers; specifically on investors' access to platform services and on the price that they may have to pay to use them.

We are looking forward to seeing specific proposals from the FSA later in the year, together with the further information and more detailed analysis that we think is essential and that we have called for in this response. It is essential that, when the FSA publishes its CP later this year, the FSA demonstrates a full understanding of this market and the implications for various stakeholders arising from any proposed change.

Our comments on the specific questions contained within the Discussion Paper are set out below.

### ***Chapter 3 – Delivering the RDR: issues for platforms***

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

We do not take issue with the FSA's analysis so far, but there are a number of key questions which remain unanswered at the moment and which call for further analysis and evidence. These include:

- If provider payments to platforms are banned for advised sales, would this be likely to have any impact on adviser choices and reduce adviser bias, bearing in mind payments to advisers are already banned? If so, why?
- What impact might banning provider payments in relation to platform services for advised sales have in relation to the breadth and depth of funds/services that platform providers offer, and more broadly to levels of competition among platform providers?
- Advisers are expected to demonstrate, if they only recommend funds from one platform, that this is in the best interests of the client. What are the plans to/feasibility of monitoring compliance with this, given the disparate nature of advisers? Would banning provider payments to platforms on advised sales be likely to make it easier or harder for an adviser recommending from one platform to remain compliant?
- What are the wider ramifications of favouring an unbundled charging model over a bundled one? Is there any evidence to judge whether the expansion of unbundled wrappers would make a material difference to investor welfare, sufficient to offset the adjustment costs?
- To what extent does the FSA consider that it might need to distinguish between funds supermarkets and wraps when developing policy?

Before finalising its proposals, we would like the FSA to undertake further research in these areas. Without this information we have not been able to respond in as much depth as we would like to some of the issues raised in the Discussion Paper.

**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.**

If there is evidence to show that payments from product providers to platform operators introduce bias in terms of adviser choice, then we would support that these should be stopped for advised sales, as this would be consistent with the objectives of the RDR.

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

Again, subject to further information and evidence as outlined above, we are not inclined to support the application of a ban on payments from product providers to platforms for non-advised business. This is consistent with the RDR, which applies only to advised business. Although we are satisfied at least at this stage that the flow of funds should be allowed to continue, this would be subject to greater transparency and clarity for consumers about the purpose and amount of the payments – specifically, that funds pay to appear on the platform. For investors wishing to buy on a non-advised basis the key issues are cost and convenience. We would not wish to see unintended consequences from the platforms review that adversely impacted on their choice of investment medium and the level of transaction charges.

**Q4: Do you agree with our analysis of what will be required to facilitate Adviser Charging through platforms?**

We agree with the FSA's analysis. We would like to see a level of standardisation in Adviser Charging through platforms and, ideally, by advisers that do not use platforms at all. Consumers will then be in a position to compare the total cost of various services and to make an informed decision. As is noted in the Discussion Paper, this would include details such as the rate of interest paid on funds held in cash accounts within platforms.

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

In the absence of any evidence to suggest that the end of product charge rebating would be detrimental to consumer interests, we support the FSA's approach.

**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 have nothing to add to the FSA's analysis and we support the FSA's approach to inducements provided by platforms.

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

We have nothing to add to the analysis, but we continue to have concerns about whether, in practice, all advisers are conducting the kind of broad and in depth

analysis of client needs that the FSA envisages before reaching a decision on the use of a platform or platforms. As we have said in response to question 1, we would like to know more about the FSA's plans to monitor advisers' compliance with FSA requirements. Given that the FSA is still receiving questions about the use of platforms by independent advisers (paragraph 3.59 of the Discussion Paper), perhaps the FSA could consider consulting on more specific or prescriptive guidance than is contained in the Good and Poor Practice Report that was published in March.

#### ***Chapter 4 – Other platforms issues for discussion***

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

We agree with the FSA's approach to the issue of re-registration and we would strongly support the introduction of a requirement on platform operators to allow assets to be re-registered. If possible we would like to see this in place as soon as possible. We believe that this is an area of actual or potential detriment for consumers who wish to switch advisers or platforms and are dissuaded from doing so by cost or practical difficulties caused by inflexibility or unfair behaviour by platform operators.

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

The Panel is not in a position to respond to this question.

##### **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?**

The Panel has not conducted research in this area, but we are concerned by the report in the Discussion Paper that some platform operators are not, for example, passing on information about voting rights to investors in authorised funds. We would like to see proposals in the forthcoming Consultation Paper to ensure that the operating terms and conditions used by platforms cannot contain provisions that have an adverse impact on the ability of investors to exercise their voting or other rights relating to their underlying investments.

##### **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. This is an area of significant potential consumer detriment that could lead to poor outcomes for consumers in terms of both investment choice and financial loss. Clients of advisers using such a platform will not necessarily be receiving good advice and buying the products that best suit their needs. Clearly this is undesirable and we would like this to be addressed within the Consultation Paper.

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

Our view is that platform operators should be required to give product providers sufficient key information to meet the needs of providers in terms of product design

and strategic fund management, provided that this is in a form which does not enable the product provider to identify individual investors.

**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 would be helpful if the FSA published more detailed examples of good and bad practice as regards transparency of charges.

We would like the FSA to consider whether further regulatory requirements should be put in place to address the circulation of marketing literature or 'newsletter' type publications by platform operators. Consumers are not always aware that literature of this type can effectively be little more than financial promotions paid for by product providers, and can regard them as informed and targeted information effectively endorsed by the platform operator.

### ***Chapter 5 – Cost-benefit considerations***

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

**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.**

**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 Panel is not in a position to respond to these questions.

Yours sincerely

Adam Phillips  
Chair  
Financial Services Consumer Panel