

CP12/12^{★★}

Financial Services Authority

Payments to platform service providers and cash rebates from providers to consumers

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The Financial Services Authority invites comments on this Consultation Paper. Comments should reach us by 27 September 2012.

Comments may be sent by electronic submission using the form on the FSA's website at: www.fsa.gov.uk/Pages/Library/Policy/CP/2012/cp12-12-response.shtml.

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Abbreviations used in this paper

AMC	Annual management charge
AuA	Assets under administration
bp	basis point
CBA	Cost benefit analysis
CP	Consultation Paper
DP	Discussion Paper
EU	European Union
FSMA	Financial Services and Markets Act 2000
MiFID	Markets in Financial Instruments Directive
PS	Policy Statement
RDR	Retail Distribution Review
SIPP	Self-invested personal pension

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Overview

Introduction

- 1.1 In August 2011 we published Policy Statement (PS) 11/9 *Platforms: Delivering the RDR and other issues for platforms and nominee-related services*.¹ The final rules introduced a definition of a platform service and included rules on platform service providers and on how advisers should use platform services. PS11/9 also set out our intention to prevent platforms from being funded by payments from product providers and, at the same time, maintained our policy position that product providers should not be able to pay cash rebates to consumers.
- 1.2 We recognised that our position on payments to platforms would have a significant impact on platforms' business models and we wanted to ensure that any changes were introduced in a timescale that would allow firms sufficient time to make the changes required and adapt their models to meet the new requirements. We wanted to consider any unintended consequences that could arise from these proposals, and to look at non-platform distribution and whether the proposals might create an unlevel playing field. We also wanted to consider how consumers interact with platforms and the impact of the proposals on their relationship with platform service providers (referred to in this paper as 'platforms').
- 1.3 We commissioned NMG Consulting to carry out consumer research² and Deloitte to look at how the business models of platforms may be affected, and how the proposed policy on payments to platforms may affect competition.³

1 The final rules as set out in PS11/9 *Platforms: Delivering the RDR and other issues for platforms and nominee-related services*, August 2011, come into force on 31 December 2012 www.fsa.gov.uk/pubs/policy/ps11_09.pdf

2 *The platforms market: consumer interaction*, NMG Consulting, April 2012
www.fsa.gov.uk/static/pubs/consumer-research/crpr87.pdf

3 Analysis of the introduction of rebate bans on the platform market, Deloitte, Feb 2012
www.fsa.gov.uk/smallfirms/pdf/deloitte-platforms.pdf

How platforms are paid

- 1.4 After considering the results of the research, we are proposing a ban on platforms being funded by product providers. Platforms are primarily providing a service to the end consumer and the end consumer usually pays for this service through the product charge. However, the way in which the consumer currently pays for the platform service hinders transparency and has the potential to negatively affect competition in the market. In line with the changes introduced on adviser charging in the Retail Distribution Review (RDR), we do not feel that product providers should be able to ‘buy’ distribution. To ensure the consumer is clear on the cost of the platform, we believe the consumer should pay an explicit fee for the platform service, and payments from product providers to platforms should be banned. This ban would affect both the advised platforms market and non-advised (direct to consumer) platforms that allow consumers to invest directly in retail investment products.

Cash rebates to consumers

- 1.5 We have previously consulted in Consultation Paper (CP) 10/29⁴ on banning cash rebates from the product charges to advised consumers. The draft rules consulted on in CP10/29 proposed a ban on the rebate of product charges in cash to retail clients for all advised sales of retail investment products, not just products sold through a platform. It is worth clarifying that the ban on cash rebates to consumers would apply to new business from the date of implementation of the rules and not to retail investment products purchased before these rules come into effect.
- 1.6 We confirmed this position after considering the responses to CP10/29. We said that we intended to move to a position where cash rebates were banned and that, because of the interaction between this issue and payments to platforms, we would expect to make both changes simultaneously. Our thinking has not changed on this issue, and the research we carried out supports the concerns we had identified with cash rebates. Our view is that cash rebates hinder transparency and potentially provide a mechanism for commission to continue being paid.
- 1.7 This approach would not prevent rebates being made through additional investment into the product (unit rebating). We are consulting on reading these rules across to non-advised (direct to consumer) platforms, as the issues we have identified with transparency around platform payments apply equally to this market.

⁴ CP10/29 *Platforms: Delivering the RDR and other issues for platforms and nominee-related services* (November 2010) www.fsa.gov.uk/pubs/cp/cp10_29.pdf

Timing of the change

- 1.8 We said in PS11/9 that any rules we introduce in this area would not come into effect until after the introduction of the RDR rules on 31 December 2012. The research indicates that many platforms are already introducing an unbundled pricing model in time for the RDR, so charging an explicit fee for the platform service is unlikely to need significant further systems development, although it implies a considerable change in business model for some platforms.
- 1.9 Introducing the systems required for unit rebating may be more complex, with the time and costs required to introduce this differing significantly between firms. Based on the information we have obtained from firms, we consider that introducing the changes on 31 December 2013 would give firms sufficient time to make the necessary changes. We aim to publish the Policy Statement confirming the final rules before the end of 2012, which would give firms over a year to make the changes. We also expect adviser behaviour to bring about change in this market, with advisers looking to use those platforms that will help support their move to an adviser charging model.

The European Union (EU) legislative framework

- 1.10 The Markets in Financial Instruments Directive (MiFID) Implementing Directive limits the scope for Member States to apply additional requirements in certain areas. Article 4 sets out the conditions for creating or retaining national requirements that go beyond MiFID and requires that these be notified and justified to the European Commission. In March 2010, the Treasury notified the European Commission of amendments to the notification that had been made under Article 4 of the MiFID Implementing Directive in January 2007. The amended notification was published in PS10/6.⁵ We are currently discussing with the European Commission the proposals in this paper and the need for a further notification.

Structure of this CP

- Chapter 2 – Payments to platforms and consumers, including the main findings from the NMG Consulting and Deloitte research
- Chapter 3 – Cost benefit analysis
- Annex 1 – Compatibility statement
- Annex 2 – List of questions

⁵ Appendix 2 (Notification to the European Commission) in PS10/6 *Distribution of retail investments: Delivering the RDR – feedback to CP09/18 and final rules* (March 2010) www.fsa.gov.uk/pubs/policy/ps10_06.pdf

- Appendix 1 – Draft Handbook Text
- Appendix 2 – Designation of Handbook Provisions

Equality and diversity

- 1.11** We have assessed the equality and diversity impact of our proposals and do not believe that they will give rise to any issues. However, we welcome any comments respondents may have on this.
- 1.12** As mentioned in CP10/29, we know that platform service operators and other firms will rely on the internet to interact with consumers and others, and they need to be aware that the Equality Act 2010 imposes requirements on them. For example, it requires firms operating websites to make reasonable adjustments to make sure that their website is accessible to disabled people.⁶

Who should read this CP?

- 1.13** The CP will be of interest to platform service providers, ISA managers, product providers, fund managers, advisory firms and firms that provide services to, or receive services from platform service providers. It is particularly relevant to firms that receive rebates from product providers.

CONSUMERS

Consumers and consumer bodies will be interested in the proposed rules on how platforms should be funded. These are likely to change consumers' interaction with platform services and the way they pay for some platforms in the market. The changes will affect both advised and non-advised transactions by consumers.

⁶ www.equalityhumanrights.com/advice-and-guidance/service-providers-guidance/your-responsibilities-when-delivering-services/websites-and-internet-services/

2

Payments to platforms and consumers

- 2.1** This chapter refers to the findings of the NMG consumer research and the Deloitte research, which looked at the potential impact of our proposals on the business models of platforms, together with the impact on competition. We set out our further policy thinking and describe our proposals in relation to how platforms should be funded in both the advised and non-advised market. We also confirm our view on rebates to consumers in both the advised and non-advised market and set out our thinking on a possible read-across to non-platform retail distribution channels.
- 2.2** The findings from the NMG consumer research and Deloitte competition and business model research are published alongside this paper and can be found on our website at www.fsa.gov.uk/static/pubs/consumer-research/crpr87.pdf and www.fsa.gov.uk/smallfirms/pdf/deloitte-platforms.pdf.

How platforms are funded

- 2.3** In PS11/9 we set out our intention to prevent platforms from being funded by payments from product providers. We felt that these payments hindered the clarity of relationships and charges for consumers. We said that these payments resulted in a marketplace in which consumers could not easily make price comparisons between different platforms and between the products that are available on those platforms. We also felt that these payments could lead to product bias persisting in the market, as products offered by providers who are unwilling or unable to pay a rebate to the platform from the product charge would not have their products available to the clients of that platform. Such product providers often have a lower charge, so restricted access to their products would be an undesirable outcome for consumers.
- 2.4** However, we also recognised that moving platforms and consumers to a world where platforms are funded directly by payments from consumers would be a significant change

to both the business models of platforms and to the consumer's relationship with the platform. We wanted to ensure that the proposed changes would be introduced in a way that would enable firms to make the changes required in an orderly manner that works for their clients. Because the business models are different, we consider the implications for the advised and non-advised platforms separately.

Advised business

- 2.5 A number of the research findings confirmed our concerns in this area. The consumer research suggests that transparency in this market is poor. Very few consumers had an understanding of what the platform charge was, and while many were more concerned with the overall charge, those consumers who tried to find out what the platform charge was in the information and documentation provided were often not able to do so.
- 2.6 When our proposals were explained to the consumers interviewed, most agreed that the changes would result in better transparency. There was a feeling that this would increase engagement on the issue of charges and could lead to consumers looking at different platforms in the market, although many preferred to leave this decision to the adviser. These proposals should also make it easier for an adviser to compare platforms. We are often told by advisers that it is currently very difficult to compare platforms without using specialist software or carrying out their own detailed research, because of the lack of transparency in the market.
- 2.7 One finding was that consumers considered the typical platform charge to be both fair and value for money, when it was presented to them clearly. This suggests that consumers would be willing to pay an explicit fee for using the platform, if the price of products hosted on the platform reflects the fact that the platform charge is no longer bundled up in the price. Conversations with fund managers suggest a significant number of them would move from the typical current annual management charge (AMC) of 150 basis points (bp) to a clean share class of around 75bp, stripping out both the adviser commission and the payment made to the platform from the fund price. A few suggested they would stay at 150bp and rebate 75bp back to the consumer in additional units, while others thought they would move to 100bp initially and consider their position when our policy intent in this area was confirmed.
- 2.8 As we said in CP10/29 and PS11/9, we would be surprised and disappointed if permitting unit rebates did not lead to fund prices falling when consumers were paying separately for platform and adviser charges. This is because consumers would be confused if there was no reduction in prices, and a higher AMC has an adverse impact on fund performance figures.
- 2.9 However, we believe fund prices remaining at current levels, with commission and platforms costs built in, is unlikely for a number of reasons. In particular, in the run-up to the RDR we are already seeing an apparent increased focus on charges (including fund costs) with transparency and adviser obligations enhancing that further. We expect this to continue to put pressure on the headline price of funds. With the introduction of clean retail share

classes, advisers would find it difficult to justify recommending funds that are priced at a significantly higher level. The competition analysis research has indicated that our policy proposals are likely to lead to greater price competition. This should help to put pressure on providers that are reluctant to re-price their products as a result of the RDR changes.

- 2.10** The competition analysis undertaken by Deloitte suggests the proposals will enhance the positive consumer outcomes of the RDR. There will be increased transparency in the cost of the platform and also an impact on the price of fund management. In addition to increased pressure from consumers, there is likely to be stronger adviser pressure on prices in both the platform and fund manager market. Platforms will need to justify their proposition to the end consumer more clearly than is the case at the moment, given that the consumer will know the cost of the platform service. This should lead to platforms focusing more on attracting consumers and on features that work for their benefit. Currently, platforms used by advisers tend to attract business by designing features that will attract advisers to the platform, rather than primarily focusing on the needs of the end consumer.
- 2.11** The findings of the research support our proposed ban on payments by product providers to platforms, by suggesting that the ban is likely to enhance the positive consumer outcomes of the RDR.
- 2.12** Advisers, platforms and fund managers all provide a distinct service to the end consumer. Our view is that each of these services should be priced to reflect the work being carried out for the consumer, rather than being priced at a level that often bears little relation to the cost of providing that service. The Deloitte research suggests that the proposed bans would exert competitive pricing pressure on each element of the service, as in a post-RDR environment where adviser charging rules would be in force, advisers will need to justify their costs to consumers.

Non-advised business

- 2.13** Many of the findings of the research apply equally to non-advised business placed on platforms. Transparency is poor in the non-advised platform sector. A number of the consumers of non-advised services interviewed claimed the platform service was free to them – which is perhaps unsurprising, since non-advised services are often advertised as such. Improved transparency in this market would help consumers compare the services of different platforms and form a view on whether different products available are value for money.
- 2.14** The Deloitte research indicates that the prices charged by platforms in this sector are generally substantially higher than those of platforms operating in the advised market. At the same time, costs are substantially lower. With a typical charging structure in the advised sector, 50bp from a fund with an AMC of 150bp would be used as trail commission for an adviser. However, in the non-advised sector, this payment is kept by the platform, together with a typical platform charge of 25-30bp, although a portion of it is passed on to the

consumer in some cases. So it seems that non-advised platforms charge more for their services than advised platforms, but our consumer research indicates that some consumers are given the impression that this service is free.

- 2.15** As consumers are unaware of the amount of money being paid to a platform on their behalf, they are unable to make a reasoned judgement about whether the platform is providing good value for money. If consumers paid an explicit fee, the consumer research suggests there is likely to be better consumer engagement with the platform. As a result, there should be greater pressure on the price that the platform can charge. A number of respondents to previous Consultation Papers on this topic have made the point that introducing a ban in only the advised sector of the market would make the market more complex. This is because different platforms and product providers would need different share classes, dependent on whether the business is advised or non-advised. It would also raise questions about the extent to which this would distort competition between platforms providing very similar services to the end consumer.
- 2.16** Platforms in both the advised and non-advised sectors are now playing a more prominent role in the distribution process, either by offering a select list of funds to advisers and/or consumers or by providing a model portfolio process (where a portfolio of funds is put forward as a solution for a particular set of circumstances).
- 2.17** Although direct consumers are not receiving advice when investing through a non-advised platform, their decisions can be influenced by the information provided by the platform. The research conducted on consumers' interaction with platforms indicates that direct consumers make use of (and in some cases rely on) the fund and investment information, tools, research, hints and tips provided by the platform for its clients. The research also revealed that some non-advised customers have the impression that an additional layer of investment management is carried out by the platform, such as identifying the best funds and providing investment expertise. So, while consumers decide for themselves what funds to invest in, they may still be influenced by how the non-advised platform presents and markets the funds available on the platform. This can deliver potentially good outcomes, as long as the process is carried out in an unbiased manner.
- 2.18** However, this can encourage payments for distribution to secure business. A number of product providers we have heard from recently and in earlier consultations (CP10/29) view the payments they make to platforms as a distribution payment. When a platform has been able to negotiate a higher rebate from a fund manager for a particular fund, this is often linked to greater marketing activity being carried out for the fund, with more prominence given to that fund by the platform. In effect, the higher rebate is being used to help secure greater distribution.
- 2.19** In contrast, if product providers were not willing to pay an enhanced rate, they felt this would have a negative impact on the prominence and marketing focus given to their product. The proposed ban on payments by providers will remove the potential for such payments to influence the range of products hosted on a platform. Given non-advised

platforms' growing influence on distribution in the retail investment market, we believe it is important to have similar standards across the industry. Allowing product providers to make payments that influence the distribution of retail investment products by platforms would be contrary to the aims and objectives of the RDR.

Our proposal

- 2.20** In light of the findings of the research, and of our concerns about rebates paid from product providers to platforms, we propose to introduce rules that mean that when supplying a platform service, a platform service provider cannot receive any remuneration for this service (and any other related services) except platform charges payable by the retail client. The rules would also require that the platform service provider must ensure that none of its associates accepts any remuneration for providing a platform and other related services. The service must be paid by a platform charge, agreed with the customer. We would expect this charge not to vary inappropriately according to provider, or for substitutable and competing retail investment products.
- 2.21** The rules would also capture any payments made to a product wrapper held on the platform when provided by the platform service provider. If a platform service provider is also the provider of product wrappers, these are two distinct, albeit related, services and should be priced as such. Our rules would prevent the platform service provider from receiving remuneration from a third party (other than a consumer) in relation to its platform service; this includes providing the product wrapper via the platform. Often there is little distinction between the platform service and the product wrapper, and the wrapper is simply a way to facilitate investment into the underlying fund. Some firms may decide to charge the consumer one fee for providing both a platform and a product wrapper, or they may decide to split the charge out so a separate fee is charged for the platform service and for providing the product wrapper. Essentially, we expect the platform service provider to be only paid by the consumer for providing either of these services.
- 2.22** The work we are carrying out on non-platform distribution, discussed later in the chapter, will consider the impact of this proposal on the market as we recognise that a potential unlevel playing field may be created by those products held on platform and those held off platform. We would welcome views on the impact this will have on the market.
- Q1:** Do you agree with our proposal to require a platform service to be paid for by a platform charge disclosed to and agreed by the client?

Payments and rebates to consumers

Advised business

- 2.23 In PS11/9 we confirmed our intention to prevent product providers from being able to rebate a share of the product charge to the consumer in cash when an adviser is involved. This does not prevent a firm rebating part of their charge to consumers in the form of additional units invested in the fund. We set out our reasons for this in CP10/29 and PS11/9, and they are not repeated here. However, some findings of the consumer research are relevant.
- 2.24 The research found that consumers using a wrap platform⁷, where they would typically hold a cash account on the platform into which rebates were paid, did not generally view these accounts as their own money, but rather a mechanism from which their adviser could be paid. This echoes our concern that these cash payments could potentially act as a proxy for adviser commission and undermine the RDR rules on adviser charging, which will no longer allow product providers to determine the amount of adviser remuneration. The research findings appear to support our view that, if we continue to allow product providers to make cash rebates to the customer's cash account on the platform from which the adviser charge is taken, there is a potential danger that the link between product provider and adviser remuneration could remain intact.
- 2.25 It is also clear from the research that communication to consumers around cash accounts could be improved. As part of the RDR, consumers will now be agreeing the level of adviser charges and how these should be paid with advisers; if the consumer uses a platform this is likely to be from a cash account. For the consumer to understand and agree to this we expect advisers and platforms to improve the information they provide to consumers. We have seen good examples of disclosure from some platforms recently, where the client is sent a statement half yearly that clearly sets out the exact amount the consumer has paid for their adviser and platform charge in that period. The consumer should understand that the cash account is their money; if payments are being taken from it, this needs to be clear to the consumer. We will continue to work with platforms to ensure our expectations are met in this area.

Non-advised business

- 2.26 We have not yet consulted on rules to prevent non-advised platform services from being able to pass a share of the product charge back to the consumer in cash. In PS11/9 we mentioned that the difference between the treatment of rebates for advised and non-advised sales merits further consideration and this has been considered as part of the research

⁷ Wrap platforms typically charge an explicit fee and are not principally funded by rebates from product providers. Wrap platforms tend to host a broader range of products and tax wrappers. A typical feature of a wrap platform is a cash account which can facilitate payments to and from the customer.

carried out by Deloitte. In the advised market, a major concern has been that cash rebates could be used to fund the adviser charge, which is not relevant in the non-advised market. However, some of the concerns we have expressed about cash rebates to consumers are equally valid in relation to non-advised platform services, particularly given our position on payments from providers to platforms. Also, we have expressed our intention to keep the non-advised market under review, in general, as mentioned in PS10/6.

- 2.27** We are not concerned solely with the situation as it is today and whether there is a specific market failure in this area. We need to consider the RDR rules, which come into force at the end of 2012, and how these will affect the market. The research conducted by Deloitte suggests that non-advised platforms are expected to be seen increasingly as a convenient channel through which consumers can buy and manage retail investments without advisers. It predicts that the overall rates of growth in non-advised platforms' assets under administration (AuA) are likely to be faster than for advised AuA. According to the research, AuA for non-advised platforms are expected to grow at a compound annual growth rate of 71% from 2011 to 2014. So we expect to see a significant trend towards non-advised platforms.
- 2.28** The consumer research suggests there is a lack of transparency as well as confusion in the non-advised market because of the widespread use of rebates, including cash rebates to consumers. We are concerned that keeping product charges at a level that allows a rebate to be routinely passed to the consumer in cash, which is then used to pay for the platform service, can obscure the price of that service. The research suggests that direct consumers are not aware of the costs or charges in relation to platform use. Some consumers using non-advised channels believe they are receiving the platform service for free. This is in spite of the research finding that non-advised platforms have the highest effective charges per customer.
- 2.29** As consumers are unaware of the amount of money paid to the platform on their behalf, they are unable to take an informed view on whether the platform is providing good value for money. This is supported by the consumer research, which indicates that there are restrictions on consumers exercising 'informed choice' in the non-advised platforms market because of the industry practice of payments by product providers to platforms and rebates to consumers.
- 2.30** We also feel that platforms that facilitate non-advised business are often providing services to the end consumer similar to the services provided by platforms that facilitate advised business. As stated in CP10/29, we believe it is desirable for there to be common standards for advised and non-advised business wherever appropriate. A lack of uniform standards could distort competition between advised and non-advised platforms, which are ultimately providing very similar services to the end consumer.
- 2.31** It could also cause unnecessary complication for platforms and product providers if different share classes were needed for advised and non-advised business, as well as creating confusion

for consumers wishing to decide whether to use such services and, if so, which service is most appropriate for their needs.

- 2.32 For these reasons, we consider that our proposed rules should apply equally to advised and non-advised platform services in relation to cash rebates. So we propose to read across the ban on cash rebates to the non-advised platform market. As in the advised market, this would not prevent a firm rebating part of their fund charges to consumers in the form of additional units.

Our proposal

- 2.33 It remains our view that product providers should not be able to maintain prices at a level from which a cash rebate is routinely payable back to the consumer. We consider these rules should be extended to business carried out through non-advised platform services.

Q2: Do you agree with our proposal that cash rebates to consumers for non-advised business should be banned as well as those for advised business?

- 2.34 In responses to previous Consultation Papers on this issue we have been asked to provide more detail on what our rules in this area would permit. We consider that our rules in this area are sufficiently flexible to allow firms to make sensible decisions, with the client's best interests rule in mind when considering how to implement the rule. So there may be certain instances where the situation requires a cash payment to be made to the customer, e.g. where the customer has sold out of a fund, this would be acceptable under the rules, although we expect there to be very few such situations in practice. Our rules also do not prevent a platform from coming to an agreement with the client about the most effective way to pay the additional units back to the client, e.g. the customer may decide to reinvest the units into a different fund from which they came. However, we would normally expect the reinvestment to be made into the same fund from which it was generated.

Timing

- 2.35 The Deloitte findings indicate that firms operating the fund supermarket model would need between 12 and 18 months to adapt to the changes set out in this paper. Wrap platform models already charging the consumer an explicit fee directly would be able to introduce the changes sooner. We have previously stated that any rules in this area will follow at some point after the rules for the RDR are introduced. As mentioned in PS11/9, we understand that introducing any future changes will have an impact on firms' business models, and that they would need time to adapt their systems. However, we are already seeing significant changes in the platform market to prepare for the RDR, which should

help facilitate a number of the changes proposed in this CP. We expect to publish a Policy Statement before the end of 2012, and we propose that the rules should come into force on 31 December 2013, as we consider that this will give firms sufficient time to make the changes required.

Q3: Do you have any comments to make on the proposed date for implementation of 31 December 2013?

Non-platform distribution

- 2.36** A further aspect of the Deloitte research was to look at non-platform⁸ distribution to see if the rules we are introducing, on banning rebates for the platforms market, would lead to competition issues in relation to similar offerings in the wider retail investment market.⁹ These other offerings fall outside the definition of platform service, as set out in PS11/9, and would typically include Self-Invested Personal Pension (SIPP) operators, life companies offering life wrappers, discretionary fund managers, as well as those execution-only brokers and ISA managers that are not caught by the platform service definition.
- 2.37** We recognise that some stakeholders believe any rules we introduce for platforms should be read across to non-platform markets to ensure a level playing field.
- 2.38** The research concludes that platforms are differentiated because the additional services offered by platforms to advisers and customers are more extensive compared to other markets. Customers recognise the difference between the services provided by platforms and by investment vehicles in other markets. The research suggests that the risks of shifting investment to other offerings as a result of the bans are limited for advised customers, but appear higher for non-advised customers.
- 2.39** In the advised sector our proposals would apparently have a limited impact on other similar markets such as life companies and personal pension scheme providers (including SIPP providers) and execution-only brokers. The research also suggests that the predicted growth in platform usage is unlikely to be affected by the rules we are looking to introduce. According to the research, interviews with advisers and industry experts suggest that advisers are expected to continue to value platform services and recognise that these services are differentiated from other markets. As such, advisers are not expected to consider other markets as perfect substitutes for platforms in the provision of these services. However, it does raise some potential concerns about how rebates in the wider market are working currently. For example, we have seen the product charges for certain personal pension schemes such as SIPPs also described as ‘free’ to consumers, when in reality they have been funded by rebates from product providers.

⁸ These are referred to as ‘adjacent markets’ in the research conducted by Deloitte.

⁹ The ban on cash rebates to consumers as consulted on in CP10/29 will apply to advised business to the sale of all retail investment products.

- 2.40** The research suggests that the increased transparency through unbundled platform charges, brought about as a result of the proposed bans, may place non-advised platforms under greater scrutiny in comparison to other investment vehicles where the bans do not apply. This is because customers of non-advised platforms will be presented with a price for a service they may have previously perceived to be free or provided at a minimal cost. Non-platform offerings where the bans do not apply could continue to obtain revenues through fund rebates (where these exist) and choose to operate a bundled charging model. However, the research maintains that non-advised platform services continue to differ significantly from other markets and, in the event that any customers were to switch away from non-advised platform services, this would appear to be the result of beneficial competition as opposed to a distortion in competition arising from the bans. In addition, non-advised services, like execution-only services, often advertise their services as securing the best price for the consumer. If fund prices drop as expected, we would expect this to bring a change to the business model of non-advised firms that are currently paid by rebates from the product, as it may be harder to justify their service proposition at the typical current fund AMC of 150bp if a consumer can obtain a better price through a platform.
- 2.41** Overall, the research concludes that the extent to which customers and advisers switch away from platforms and towards adjacent markets will, in practice, be a function of the ability of platforms to establish attractive purchasing opportunities for their customers. The research also concludes that the bans do not distort competition in favour of other similar markets, but facilitate overall competition.
- 2.42** We recognise that certain sections of the industry may have a different view to the conclusions drawn from the research. We can also see some logic in reading the rules across to non-platform markets. So we are seeking views from across the industry on whether we should ban rebates from all firms providing a similar service to platforms – that is, distributing retail investments to retail consumers. Such an extension might affect pension scheme providers (including SIPP providers), life companies, execution-only brokers (those that are not already caught by the definition) and any other firm that provides a distribution service. It is worth noting that we are not consulting on any changes to non-platform markets at this time as the research did not support taking this action. However, the research was primarily focused on the platform market and we do think this is a topic that needs further discussion.

Q4: Do you have any comments on the possible read-across of platform rules on payments for services to non-platform markets?

Q5: Do you have any comments on the draft rules in Appendix 1?

3

Cost benefit analysis

Feedback to CP10/29 and PS11/9

3.1 Section 155 of the Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA), which is defined as an estimate of the costs together with an analysis of the benefits of our proposals.

3.2 In this chapter we:

- describe the methodology used to conduct the CBA;
- summarise the proposals assessed in this CBA;
- briefly describe the baseline against which the costs and benefits of the proposals are assessed;
- present an estimate of the direct costs to us and the compliance costs to firms;
- describe the market failures identified and analyse the benefits associated with the proposals; and
- discuss other market impacts on quantity, quality, variety of transactions and efficiency of competition.

Methodology

3.3 To support our CBA and overall analysis of the platform market, we commissioned two independent pieces of research:

- Deloitte and Professor Stephen Davies, of the University of East Anglia, an expert in competition analysis, carried out business model analysis and competition analysis into the platforms and adjacent markets (i.e. SIPP products, life company products and execution-only brokers' services) www.fsa.gov.uk/smallfirms/pdf/deloitte-platforms.pdf.

- NMG carried out a piece of qualitative consumer research which primarily looked at consumers' interaction with platforms.

www.fsa.gov.uk/static/pubs/consumer-research/crpr87.pdf.

3.4 The content and main results of these studies have been described in the main text of this CP. In addition to the studies, we have relied on the analysis we conducted for direct costs to the FSA and compliance costs to firms as a result of banning cash rebates in CP10/29 and PS11/9, including the feedback received to the CP, as well as additional conversations our policy experts have held with the industry.

Summary of the proposals analysed

3.5 As described in Chapter 2 of this CP, we are consulting on draft rules covering:

- **Rebates to consumers:** In CP10/29 we consulted on rules that would stop product providers from paying cash rebates through an advised platform. We now look to read across these rules to non-advised platforms as well.
- **Rebates to platforms:** We propose to make rules to stop platforms receiving rebates from product providers, such as fund managers. These rules would apply equally to non-advised platforms.

Setting the baseline for the cost-benefit analysis

3.6 The cost and benefit analysis assesses the differences in costs and benefits between the baseline and the position that will arise if we implement the proposed bans.

3.7 The baseline for this CP is how the retail market would look after the introduction of the Retail Distribution Review (RDR) reforms, as well as the rules on platforms set out in PS11/9, but not the bans we are consulting on here.

Population of firms

3.8 These proposals will affect all platform service providers and fund managers regulated by the FSA. Table 1 shows the total population of firms within the scope of our proposals.

Table 1: Number of firms affected

	Number of firms
Platform service providers	27
ISA managers	70
Ex-only brokers	100
Fund managers	118

Direct costs to the FSA

- 3.9 Following internal consultation with supervisors and enforcement officers and assessment of the resources needed after the introduction of the proposed bans, we do not envisage any additional costs to us from the proposals discussed in this CP in addition to those reported in CP09/18¹⁰ given that no additional resources will be required. At the time we estimated direct costs of £2m one-off and £1.2m ongoing.

Compliance costs to firms

- 3.10 This section presents a summary of the incremental compliance costs estimated by Deloitte, except fund managers' costs, which were based on data we gathered for previous consultations.¹¹ Further information on Deloitte's calculation can be found in their report.¹²
- 3.11 Deloitte estimate the total incremental one-off compliance costs of the proposals discussed in this CP to range between £17m and £43m. Total incremental ongoing costs are expected to be between £4m and £11m a year. These costs are mainly in relation to banning the payments that platforms receive from fund managers and for some firms' costs of developing systems and processes to cater for unit rebating. Table 2 summarises how these costs are distributed among the affected product service providers and fund managers.

Table 2: Incremental compliance costs for implementing the proposed bans (£m)

	One-off costs	Ongoing cost
Platform operators	11.6-37.8	3.2-9.8
ISA managers	0.7	0
Ex-only brokers	1.0	0
Fund managers	3.7	1.1
Total	17.0-43.2	4.3-10.9

- 3.12 Incremental one-off compliance costs for platform operators and fund managers make up the bulk of the costs estimated and largely reflect the cost of changing systems to accommodate

10 CP09/18 *Distribution of retail investments: Delivering the RDR* (June 2009) www.fsa.gov.uk/pubs/cp/cp09_18.pdf

11 CP10/29 *Platforms: Delivering the RDR and other issues for platforms and nominee-related services* (November 2010) www.fsa.gov.uk/pubs/cp/cp10_29.pdf

12 Slides 109-111 of Deloitte's report

the new rules. In particular, the largest cost item that would be incurred as a result of the bans would be for firms changing their existing systems, in which they pay cash rebates, to systems that support unit rebating.

- 3.13** Deloitte indicated that the relevant implementation costs for this aspect of the proposals are within the range of £500,000 to £1m for a typical *advised platform operator*. For the *non-advised platforms operators* the largest costs of compliance range from £4m to £20m. Other costs expected to be incurred by all platforms relate to managing share classes and other operational costs.
- 3.14** As in CP10/29, we have assumed that fund managers will not need to create additional share classes as a way of varying prices to consumers, as we believe the costs of creating and administering such additional share classes to separate new business from legacy business has already been accounted for in PS10/6. Whereas at the time we had already accounted for an average of two additional share classes per fund.¹³ Deloitte also do not believe there will be a proliferation of share classes if unit rebating is allowed.
- 3.15** The figures quoted for non-advised platforms were considerably higher than for advised platforms. Non-advised platforms expected to incur additional costs relative to other platform business models to ensure that revenue collection from customers replaced current revenue streams. Deloitte suggested that the costs would be closer to £8m one-off and £2m ongoing for the typical non-advised platform.¹⁴
- 3.16** Deloitte estimated the compliance costs for ISA managers captured by the ‘platform service provider’ definition would equate to £10,000 for each firm of this type. Deloitte were unable to obtain compliance cost information from execution-only stockbrokers, but they produced an estimate of the population.¹⁵ Therefore, we have assumed that for this CP, execution-only stockbrokers would incur similar costs to those of ISA managers.
- 3.17** For completeness we also present the costs to fund managers estimated in CP10/29 for fund managers to accommodate systems changes that the ban in cash rebates would require.

Benefits and market failures

- 3.18** We have identified several potential market failures in the platforms market that may warrant regulatory intervention. It is our view, supported by the research carried out by Deloitte that platforms are likely to gain considerable market share post-RDR and that detriment from the market failures identified would potentially increase. We expect that addressing these market failures now will produce potential benefits for consumers and the market as whole. In this section we describe the potential market failures identified in the

¹³ See PS10/6 p.A1:5

¹⁴ Slide 109 of Deloitte’s report

¹⁵ Slide 74 of Deloitte’s report refers to 100 execution-only brokers captured within the platform definition

advised and non-advised business markets and the mechanisms through which benefits will arise from our proposals.

Rebates to consumers

- 3.19** As we stated in CP10/29, there was the potential for some advisers not to comply with our adviser charging rules by matching or offsetting their adviser charges with the rebates that fund managers pass on to consumers when they invest on a platform. So the choice of the platform could be dictated not by the best interests of customers, but rather by some advisers' reaction to the platforms that offered the highest cash rebates.
- 3.20** NMG's research found that few consumers seemed to know what their platform charge was with any certainty, or how each one of the involved parties (fund managers, product providers and advisers) was paid. So even when the payment flows (including rebates) between the parties in the investment chain are fully explained to the advised customers (as will be the case when rules on the impartial presentation of funds and disclosure of payments come into force from 31 December 2012 as set out in PS11/9), consumers may still be confused by the complexity of payments and potential 'hidden' charges. And these may still influence the behaviour of advisers, to the consumer's detriment.
- 3.21** With non-advised platforms, although there is no adviser acting on behalf of the consumer, there is a similar lack of transparency in pricing, so consumer confusion can occur. In particular, NMG's research findings also apply to the non-advised market.¹⁶ Even after our rules on the impartial presentation of funds and disclosure of payments are introduced from 31 December 2012, perceptions that the platform service is free could continue, due to the overall complexity of the bundled charging system and possible hidden charges. The complexity of rebates could continue to be used by non-advised platforms to obscure charges and lead consumers to believe they were getting a service at no cost to them. The perception that the service provided is free may lead consumers to use non-advised platforms when it is not in their best interest.
- 3.22** We expect the ban on cash rebates to consumers to minimise the risk of advisers expropriating consumers' rebates, in breach of the adviser charging rules and positively reinforce the benefits identified in the RDR.¹⁷ The research undertaken by Deloitte also appears to support these views by concluding that the effect of the rebate bans could be expected to be beneficial overall to consumers, while not reducing investment choice.
- 3.23** For both non-advised and advised platforms, we expect that banning cash rebates will enhance transparency by helping consumers compare different platforms and form a view on whether they are really offering value for money. The NMG research suggests that banning rebates would result in non-advised consumers shopping around more. Although Deloitte suggests that this is not expected to increase substantially.

¹⁶ Page 74 of NMG research.

¹⁷ See p. A1:9 of the PS10/6 CBA.

Rebates to platforms

- 3.24** In CP10/29 we also stated that fund selection for advisers may be influenced by fund managers or platforms if some market practices continue. This could be the case where platforms give prominence to specific funds on the basis of how much funds pay to the platform. Allowing payments between providers and platforms to secure distribution provides a route by which product bias can persist after the RDR has been introduced.
- 3.25** Many product providers we spoke to in the course of this consultation view their payments to platforms as a form of distribution payment. Some went on to express the view that when a platform was able to negotiate a higher rebate from a fund manager for a particular fund, this was often linked to greater marketing activity carried out by the platform for that fund, with more prominence given to that fund by the platform. In effect the higher rebate being paid was used to help secure greater distribution for some products over others, which itself could indicate a potential for limiting or hindering distribution opportunities available to ‘cheaper’ funds offering little or no rebates to platforms.
- 3.26** Similar concerns arise in the non-advised market. NMG’s research suggests that consumers use (and in some cases rely on) the fund and investment information, tools, research, hints and tips provided by the platform for its clients. The consumer research suggests that some platform customers have the impression that an additional layer of investment management is carried out by the platform, such as identifying the best funds and providing investment expertise, even if the platform itself may firmly believe no recommendation was given. So while consumers decide for themselves what funds to invest in, the impact that bundled charges potentially have on how the platform presents and markets the funds available on it may still influence the consumer’s choice.
- 3.27** Bans on payments between product providers and platforms will reduce the risk that providers may influence product distribution, access and choice in the platform market post-RDR to the potential detriment of consumers. The unbundling of charges will potentially enhance transparency. Greater transparency could help consumers and advisers to choose products based on individual merit, and might drive consumers to shop around more.

Indirect costs

- 3.28** Effects on the quality, quantity or variety of products and services, or effects on the level of competition, are known as indirect costs. We describe these below.

Adviser and consumer behaviour post RDR

- 3.29** Deloitte finds that the RDR rules will create incentives for advisers to shop around to get the best deal on fund prices and platform prices. These incentives arise from a desire to demonstrate the value of their service to clients. We expect that another type of incentive could create a similar outcome: advisers’ revenues could be directly affected by fund prices and platform prices if their adviser charges are based on the value of the client’s portfolio.

- 3.30** In contrast, the pressure to reduce prices from consumers using platforms without advice is likely to be lower. NMG's research finds that few direct customers of platforms have sought to find out platform charges. Deloitte suggests that only some consumers acting without an adviser, therefore, could be expected to actively seek the best deal.

Potential impact on competition

- 3.31** Deloitte concludes that, to the extent that the ban on cash rebates enables advisers to shop around and consumers to value the service offered by a platform, the bans could support competitive pressure on prices introduced by RDR rules.
- 3.32** Deloitte do not identify significant negative effects of the bans on competition. The costs of implementing the bans are unlikely to cause platforms to exit the market or to significantly raise barriers to entry. Deloitte do not expect the costs of consumers switching platforms to increase markedly and prevent consumers and advisers from seeking the best deal.
- 3.33** Deloitte expects a small number of new share classes to be offered by fund managers as a result of the bans and expects unit rebating to be adopted by fund managers wishing to compete on price. However, these share classes are unlikely to be additional to those we have already accounted for in PS10/6.
- 3.34** Deloitte recognises it is possible that platforms may attempt to limit price competition by using complex pricing structures and fund managers may limit the ability of advisers or consumers to switch to lower cost funds by introducing new share classes. However, it concludes that such a scenario is unlikely given low barriers to entry in both markets, meaning that a new entrant offering demonstrably lower cost offerings could take business away from other platforms.
- 3.35** Another strategy that fund managers could employ to reduce price competition is vertical integration. Deloitte, however, finds that the levels of competition in both platform services and funds are likely to mean that lower-priced funds and platform services should be available for advisers and consumers to select if they prefer.

Potential impact on quantity

- 3.36** Given the level of competition in the market for platform services, compliance costs from the effect of the bans are likely to be passed directly on to consumers, although the compliance costs are relatively low, at 1–2 bp annually. Research by NMG suggests that consumers would be willing to bear the price increases.
- 3.37** Deloitte suggests that consumers that use platforms without advice may act irrationally and use other distribution channels in response to being charged an explicit price for platform services (if these channels are ultimately higher cost to the consumer). While such a response is possible it is unlikely. NMG's research found most consumers generally believe that platform services are good value for money when they are made aware of the charges.

Potential impact on quality

- 3.38** Deloitte does not expect the quality of platform services to decline as a result of the bans, as advisers will continue to apply pressure to achieve the best trade-off between price and quality.

Potential impact on variety

- 3.39** Deloitte does not expect the variety of platform services to reduce. It concludes that further entry into the platform market is likely, increasing competition, and expects platforms to increasingly need to respond to advisers' demand regarding choice of investment funds.

Q6: Do you have any comments on the cost benefit analysis?

Annex 1:

Compatibility statement

Introduction

1. In this Annex we set out our view on how our proposals and draft rules in this CP are compatible with our general duties under Section 2 of FSMA and our regulatory objectives set out in Sections 3 to 6 of FSMA. We also outline how our proposals are consistent with the principles of good regulation (also in Section 2 of FSMA), to which we must ‘have regard’.

Compatibility with our statutory objectives

2. The proposals outlined in this CP will support two of our statutory objectives: working towards improving confidence in the financial system; and securing the appropriate degree of protection for consumers.

Market confidence

3. Our proposals support our overarching RDR objectives of removing product provider influence over the distribution of products and adviser remuneration and improving the clarity of services offered by firms to consumers. Our proposals will mitigate risks and improve the quality of advice and increase consumer confidence, following the introduction of the RDR rules on 31 December 2012. Our proposals will also help to ensure that adviser remuneration will not be obscured by cash rebates from providers to consumers. The distribution of funds will also not be influenced by rebates from product providers to platform operators, and platform operators will have to become more transparent about the services they provide to justify their charging structures to consumers.

Consumer protection

4. One of the main outcomes of our proposals will be to restrict the influence that product providers and platforms have on the promotion of one fund over another. This outcome is in line with our broader RDR objective of limiting any adverse influence product providers have on distribution and aligning the interests of intermediaries to those of their clients more closely.

Compatibility with the principles of good regulation

5. Section 2(3) of FSMA requires that, in carrying out our general functions, we have regard to the principles of good regulation. The proposals set out in the CP fulfil all our principles of good regulation.

a) The need to use our resources in the most efficient and economic way

6. We have proposed further rules and guidance to aid firms in complying with the new RDR and platform requirements. This will help to reduce future uncertainty in the application of rules and the need for individual guidance.

b) The responsibility of those who manage the affairs of authorised persons

7. Our proposed rules will require firms' senior management to have a far greater role in managing conflicts of interest that arise and ensure that firms take the necessary steps to fulfil their requirements.
8. We have also sought to ensure that our approach is flexible enough to enable firms to meet the requirements in a way that is suitable for their business. For example, platforms are free to negotiate terms with product providers to provide a discount on charges in the form of additional fund units added to the retail client's investments.

c) The principle that a burden or restriction which is imposed should be proportionate to the benefits

9. We have carried out a cost benefit analysis (see Chapter 3). We consider that our proposals are proportionate to the potential market failures identified.

d) The desirability of facilitating innovation

10. Deloitte does not expect our proposals to hinder innovation.

e) The international character of financial services and markets and the desirability of maintaining the competitive position of the UK

11. The proposals have paid specific regard to developments occurring in the EU, specifically the work on retail investment products, in order to minimise changes for firms in the near future. We do not believe our proposals will have a material effect on the competitive position of the UK.

f) The need to minimise the adverse effects on competition

12. Our proposals have been designed to minimise the adverse effects on competition having taken into account the variety of platforms that exist in the market and the likely innovations in this area.
13. We aim to introduce changes that on balance will encourage platforms to tailor their services to the needs of their customers, as well as enabling their customers to better understand the service they are receiving. In the long term, this could encourage customers and intermediaries to shop around for better services, further improving competition.
14. Deloitte research concluded that the bans do not appear likely to lead to an increased risk of reductions in the investment opportunities available regarding either platform choice or fund choice in the market, as the bans do not appear to impact barriers to entry or entry costs within the market. Instead, the bans could lead to an increase in choice of funds, as funds that are currently not paying rebates to platforms will find it easier to access platforms for distribution.

g) The desirability of facilitating competition

15. In the long term, competition may be enhanced if advisers using platforms place a greater focus on price/quality trade-offs to attract new customers. Furthermore, with better comparable disclosure on charging, advisers and consumers will have the tools to enable them to shop around and compare services, which could encourage platforms to become even more consumer-oriented.

Why our proposals are most appropriate for the purpose of meeting our statutory objectives

16. In developing our proposals, we have engaged extensively with a wide range of industry practitioners, consumer representatives and other stakeholders to get their views on the issues to be addressed and to identify potential solutions. Through this we developed a better understanding of the key complexities in the market, solutions which could be most effective in resolving these and how the market could potentially react to proposed regulatory interventions.

17. We have taken into account the responses to DP10/2, CP10/29 and have commissioned two pieces of research.
18. Our proposals aim to remove the potential for bias created by current remuneration practices and improve transparency in the platforms market. The approach we have taken is largely outcomes-based, with the intention of minimising, where possible, changes firms must make. We have also worked to ensure, so far as is possible, that the proposed changes are consistent with forthcoming changes within the EU.
19. Therefore we consider that our proposals are most appropriate for the purpose of meeting our statutory objectives.

Annex 2:

List of questions

- Q1:** Do you agree with our proposal to require a platform service to be paid for by a platform charge disclosed to and agreed by the client?

- Q2:** Do you agree with our proposal that cash rebates to consumers for non-advised business should be banned as well as those for advised business?

- Q3:** Do you have any comments to make on the proposed date for implementation of 31 December 2013?

- Q4:** Do you have any comments on the possible read-across of platform rules on payments for services to non-platform markets?

- Q5:** Do you have any comments on the draft rules in Appendix 1?

- Q6:** Do you have any comments on the cost benefit analysis?

Appendix 1:

Draft Handbook text

**CONDUCT OF BUSINESS SOURCEBOOK (PLATFORMS) (AMENDMENT)
INSTRUMENT 2012**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 156 (General supplementary powers); and
 - (c) section 157(1) (Guidance); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on [31 December 2013].

Amendments to the Handbook

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument

Citation

- F. This instrument may be cited as the Conduct of Business Sourcebook (Platforms) (Amendment) Instrument 2012.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

platform charge any form of charge payable by or on behalf of a *retail client* to a *firm* in relation to the provision of a *platform service* and which is agreed between the *platform service provider* and the *retail client*.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

6.1A Adviser charging and remuneration

...

6.1A.14A R A firm must not make a personal recommendation to a retail client in relation to a retail investment product if it knows, or ought to know, that:

- (1) the product's charges or the platform service provider's charges are presented in a way that offsets or may appear to offset any adviser charges or platform charges that are payable by that retail client; or
- (2) the product's charges or other payments are maintained by the retail investment product provider at a level such that a cash rebate is payable to the retail client.

...

6.1B Retail investment product provider and platform service provider requirements relating to adviser charging and remuneration

...

Requirement not to offer commissions

...

6.1B.6 G ~~The requirement not to offer or pay commission does not prevent a firm from making a payment to a third party in respect of administration or other charges incurred, for example a payment to a platform service provider or third party administrator. [deleted]~~

Distinguishing product charges from adviser charges

6.1B.7 R A firm must:

- (1) take reasonable steps to ensure that its *retail investment product* charges are not structured so that they could mislead or conceal from a *retail client* the distinction between those charges and any *adviser charges* payable in respect of its *retail investment products*; ~~and~~

- (2) not include in any marketing materials in respect of its *retail investment products* or facilities for collecting *adviser charges* any statements about the appropriateness of levels of *adviser charges* that a *firm* could charge in making *personal recommendations* or providing related services in relation to its *retail investment products*; and
- (3) not defer, discount or rebate *retail investment product charges* in a way that offsets or may appear to offset any *adviser charges* that are payable, including by maintaining *retail investment product charges* at a level such that a cash rebate is payable to the *retail client*.

6.1B.8 G COBS 6.1B.7R does not prevent a *firm* from offering a promotional discount to a *retail client* in the form of extra *units* or additional investment, but a *firm* should not offer to invest more than 100% of the *retail client's* investment.

...

6.1E Platform service services providers: platform charges and using a platform service for advising

Platform service providers: ~~fees and commission~~ platform charges

- 6.1E.1 R (1) ~~If, in relation to a *retail investment product*, a *platform service provider* arranges to accept a fee or commission paid by a third party or a person acting on behalf of a third party, it must clearly disclose the amount of that fee or commission~~ total *platform charge* to the customer in a durable medium in good time before the provision of *designated investment business*.
- (2) In the event that it is not possible to make the disclosure in (1) in good time before the provision of *designated investment business*, the disclosure must be made as soon as practicable thereafter.
- 6.1E.2 G ~~If a *platform service provider* accepts a fee or commission referred to in COBS 6.1E.1R, it should pay due regard to its obligations under Principle 6 (Customers' interests), Principle 7 (Communications with clients) and the *client's best interests rule*, and ensure that it presents *retail investment products* to *customers* without bias.~~
- 6.1E.3 R Except as specified in COBS 6.1E.9R, a *platform service provider* must:
- (1) only be remunerated for its *platform service* (and any other related services it provides) by *platform charges*; and
 - (2) ensure that none of its *associates* accepts any remuneration in respect

of those services.

6.1E.4 G Examples of remuneration that should not be accepted by a *platform service provider* or its *associates* include (but are not limited to):

- (1) a share of an annual management charge; and
- (2) any payment (other than a product charge or a *platform charge*) made to a *platform service provider* in its capacity as a *retail investment product provider* where the relevant *retail investment product* is distributed to *retail clients* by its *platform service*.

6.1E.5 G A *platform service provider* should pay due regard to its obligations under *Principle 6* (Customers' interests) and the *client's best interests rule* and not vary its *platform charges* inappropriately according to provider or, for substitutable and competing *retail investment products*, the type of *retail investment product*.

Distinguishing platform charges from product charges and adviser charges

6.1E.6 R A *platform service provider* must not arrange for a *retail client* to buy a *retail investment product* if:

- (1) the product's charges are presented in a way that offsets or may appear to offset any *adviser charges* or *platform charges* that are payable by that *retail client*; or
- (2) the *platform service provider's* charges are presented in a way that offsets or may appear to offset any *product charges* or *adviser charges* that are payable by the *retail client*; or
- (3) the product's charges or other payments are maintained by the *retail investment product provider* at a level such that a cash rebate is payable to the *retail client*.

Using a platform service when advising

6.1E.7 R Except as specified in *COBS 6.1E.9R*, a *firm* must not use a *platform service provider* as part of a *personal recommendation* to a *retail client* in relation to a *retail investment product* unless the *platform service provider* demonstrates that:

- (1) it does not receive any remuneration in respect of those *personal recommendations* (and any other related services provided by the *platform service provider*) except *platform charges*; and
- (2) its *associates* do not receive any remuneration in respect of those *personal recommendations*.

6.1E.8 G Some examples of remuneration that should not be accepted by a *platform service provider* or its *associates* are set out in *COBS 6.1E.4G*.

Providing additional units to a retail client

6.1E.9 R *COBS 6.1E.3R* and *COBS 6.1E.7R*, as the case may be, do not apply if a *platform service provider* receives a share of an annual management charge from an *authorised fund manager* and the *platform service provider* passes that share on to the *retail client* by way of additional *units*.

6.1E.10 G If a *platform service provider* passes a share of an annual management charge on to a *retail client* by way of additional *units*, it should pay due regard to its obligations under *Principle 7* (Communications with clients).

6.1F Using a platform service for arranging and advising

Client's best interests rule and using a platform service

6.1F.1 R A firm (~~other than a *platform service provider*~~) which:

- (1) arranges for a *retail client* to buy a *retail investment product* or makes a *personal recommendation* to a *retail client* in relation to a *retail investment product*; and
- (2) uses a *platform service* for that purpose;

must take reasonable steps to ensure that it uses a *platform service* which presents its *retail investment products* without bias.

...

Appendix 2:

Designation of Handbook Provisions

FSA Handbook provisions will be ‘designated’ to create a FCA Handbook and a PRA Handbook on the date that the regulators exercise their legal powers to do so. Please visit our website¹ for further details about this process.

We plan to designate the Handbook Provisions which we are proposing to create and/or amend within this Consultation Paper as follows:

Handbook Provision	Designation
COBS 6 Glossary of Definitions	FCA

¹ Press release www.fsa.gov.uk/library/communication/pr/2012/069.shtml and one-minute guide www.fsa.gov.uk/smallfirms/resources/one_minute_guides/financial_advisers/platforms.shtml

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