Summary of feedback received

July 2012

Consultation title	Assessing suitability: Replacement business and centralised investment propositions
Date of consultation	The consultation period ran from 4 April 2012 to 4 May 2012
Summary of feedback received	11 respondents provided submissions to the consultation. The following bullet points summarise the key points that were made: • The FSA should clarify whether there is a difference in the application of the guidance between restricted and independent advisers. • The guidance should reflect the issues of volatility and investment risk when highlighting the factors to consider when making a replacement business recommendation. • Further clarification on the definition of a centralised investment proposition (CIP) is required to ensure that the industry understands the type of arrangement to which the guidance applies. • The FSA should clarify paragraph 4.9, covering arrangements set up between advisory firms and discretionary managers, and the requirement in relation to permissions. Alternative arrangements where a client appoints an advisory firm as their agent, which in turn is treated as the client of the discretionary manager, are also viable. In these occasions, it is possible for the advisory firm not to hold the managing investments permission, and for the discretionary manager not to have a direct contractual relationship with the retail client, without being in breach of permissions. • The FSA should clarify the extent to which advisory firms may rely on due diligence undertaken by other FSA-authorised firms in relation to the point raised in paragraph 4.7.
Response to feedback received	• **Impact of the guidance on restricted and independent business models:** The finalised guidance includes a footnote highlighting that it applies equally to firms, regardless of whether they provide an independent or a restricted advice model after the implementation of the RDR.

- **Risk profiling and replacement business:** We published guidance in March 2011, *Assessing suitability: Establishing the risk a customer is willing and able to take and making a suitable investment selection*. This guidance outlines our expectations of firms in this area and highlights areas of good and poor practice. We have added in a small extra section to Chapter 3 which draws attention to last year's guidance. This makes clear that investment risk is a factor to consider when making a replacement business recommendation.

- **The definition of a CIP:** We describe a CIP in paragraph 2.2 as being a 'standardised approach to providing investment advice' and list three examples of this. We have intentionally not provided a more specific definition as we do not wish to limit the scope of the guidance to a particular offering or business model. The guidance highlights the risks that may occur where a firm chooses to adopt a standardised approach to investment selection rather than offering a bespoke service to each individual client. It is not necessarily the case that all the guidance will apply for every type of CIP. It is for each individual firm to consider the applicability of the guidance to its advice model.

- **CIPs and the managing investments permission:** We note the challenge received on this point and have considered our position on this matter.

  We accept that the guidance does not consider a potential third method of structuring the relationship between a client, their adviser and a third party discretionary investment manager. The third way, which is included in the finalised guidance, is for the client to appoint their adviser to act as their agent. In this scenario, the adviser is treated as the client of the discretionary investment manager and does not either need to hold its own permission to manage investments, nor does it require the client to have a direct contractual relationship with the discretionary investment manager.

- **Reliance on the due diligence conducted by a third party:** To clarify our expectations in relation to provider due diligence, we have amended bullet point 7 of paragraph 4.7 and removed the corresponding footnote.

Changes made to the guidance as a result of feedback received

As a result of the feedback received, we have made some changes to the guidance to clarify our meaning. Additional changes that have not already been highlighted include:

- the replacement of the word 'outsource' with 'refer' to avoid confusion with the glossary definition of 'outsourcing';
- a footnote included in paragraph 3.6 regarding the ability of a solution to facilitate advisor charging when considering replacement business; and

	• further clarification on what we are referring to when commenting on 'non-traditional investments'. We have not included any other additional material requested where we consider that either the points are sufficiently covered, in line with the nature of the document, or the requested material goes beyond the scope of the document.

You can assess the full text of the guidance consulted on here