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31 March 2003

Our ref:PR8/MT

Dear David

CP157: Examination Framework for Retail Financial Services (Investment Advice Strand 1)

I am writing on behalf of the Financial Services Consumer Panel with our response to CP164.

Question 2.1: Do you agree with our intention not to review the current examination requirement for the activities of Pension Transfer Specialist and Broker Fund Adviser?

1. We have no comments at present but think that the question of whether or not to review these activities should be re-visited once the examination framework is clearer.

Question 2.2: Do you agree with our intention not to include the activity of Advising on Syndicate Participation at Lloyd's in the examination review?

2. No comment.

Question 2.3: Do you agree that modules should be developed for Employee Benefits and Corporate Business and, if so, what content areas would you wish to see covered?

3. We have no comment at this stage – the question depends on the eventual examination framework.

Question 3.1: We invite comments on the proposed examination structure and the modules set out in Figure 1.

4. We agree with many of FSA's aims: the move to increase the emphasis on skills and applications, the proposal for a bridging qualification, the emphasis on

maintaining competence, and the proposals concerning the governance of awarding bodies (see our response to Q4.2). However many key issues are not raised.

The uses to which flexibility of structure might be put

5. The Panel has previously expressed concern about the gap between those individuals in the full training and competence regime and those covered only by the general 'commitment' to train. The Panel would support the development of a training structure for those who are outside the formal training and competence regime, as a way of encouraging businesses to take their 'commitment' seriously, and as a way of giving individuals opportunities to develop their roles over time. The Panel also see advantages in developing examinations which could be of use to non-authorised 'generic' advisers so that common standards apply both to authorised and non-authorised individuals.

6. However, the Panel would not support the use of the new examination structure as a move towards a general 'dumbing-down', with people who are holding themselves out as advisers having only the foundation level of qualifications. The critical question here must be what standards the FSA expects as a minimum and the Panel's view is that this must be informed by consumer needs. This then raises the questions of which of the proposed modules would be necessary, whether they are the right modules, and how advisers hold themselves out to consumers.

7. Our view is that those with foundation level exams alone should not be permitted to give full advice. Anyone who is holding themselves out as an 'adviser' needs a depth of knowledge. On the other hand, it would be equally unacceptable for a consumer to consult an adviser believing that he or she has a range of knowledge, if in fact that knowledge is quite narrowly based. The Panel believes that there is a danger of advisers 'selling only what they know'.

8. A more flexible examination framework would need to be supported by more flexible training. We believe that as well as looking at the curriculum and assessment methods for examinations, the FSA also needs to look at how they are taught and at the quality of training materials. As new products become available, and as existing products evolve, advisers need to be able to form their own view of their strengths and weaknesses, rather than relying on received wisdom.

9. We would also expect the FSA to develop some clear guidance on transferability, which is put forward as one of the advantages of this approach. For example, if advisers trained in one specialism wish to carry out other types of business, what level of activity could they carry out before being required to take the examination module for the new specialism?

10. The consistency of standards between different types of advisers is also important. In many cases, consumers may have a choice of using a financial adviser, an accountant, a lawyer or a tax adviser. We would like to see the FSA working together with other bodies involved in professional training, such as the Chartered Institute of Taxation, the Law Society and the accountancy bodies, to determine that standards are broadly consistent. This would also assist the development of an exemptions policy.

Are these the right modules?

11. There is a lot of potential overlap between the modules. For example, we do not see how someone could give advice on retirement planning without also having the savings and investments module. This suggests that either the modules need to be quite broad or that several modules would be the required minimum before an adviser could hold themselves out as offering full advice.

12. We support the proposal for a bridging qualification in paragraph 3.6 of CP157. However, this appears to be framed in terms of consumer education. We hope that it will tie in to the examination framework so that there is also an incentive for people working in the industry, who are not within the training and competence regime, to take it.

Question 4.1: Do you agree with the learning outcomes and the indicative content proposed for each module?

13. It is difficult to comment on the detail of the indicative content without knowing which types of adviser will be expected to pass each module. We have concentrated below on some of the broader issues. However, we hope that the FSA will address the issue of how the learning outcomes and the indicative content are to be kept up to date on a rolling basis and the extent to which advisers are expected to be aware of forthcoming changes.

14. The Panel welcomes the increased emphasis on practical skills in the Advice skills and needs module, and in particular the inclusion of communication skills. However, in order to be assured of reasonable consistency across the industry, there should be some independent external assessment.

15. An important area that is not currently covered is 'updating skills'; in other words, a knowledge of the key sources of information relating to a particular topic, and an ability to use these to keep oneself up to date. We would like to see this added to all the modules both to give advisers the necessary tools and also to reinforce the point that maintaining competence is just as important as passing the initial examination.

16. Although these modules cover the investment advice strand, we believe that more thought needs to be given to how investment relates to other 'strands', such as

mortgages. More could be done in this respect to ensure that the indicative content follows consumer needs rather than industry preconceptions. For example, debt repayment may not be an investment instrument, but most clients with disposable income to invest will have the choice of investing or reducing their borrowings. This should be acknowledged in the curriculum for 'determining an investment strategy' in the Savings and investments module.

17. *Retirement planning module* – We question the relative weight given to planning before retirement and planning afterwards. 'Other methods of funding retirement' and 'income generation' are important and probably need fleshing out. For example, would this cover an understanding of equity release and long-term care products?

18. *Savings and investments* – We are surprised that gearing does not feature in this module.

Question 4.2: We invite comments on the appropriateness of the assessment objectives and the methods of assessment proposed.

19. New standards will not be effective without proper monitoring and assessment. We therefore welcome the proposals to develop new methods of assessment, including scenario-based elements, and we support the suggestion that awarding bodies should go through the approval processes operated by QCA for public examinations. However, more needs to be done.

Independence of examiners and trainers

20. We are concerned by the conflicts of interest inherent in allowing awarding bodies to run training courses on their own examinations. The Panel believes that examiners should be independent of training bodies.

Governance arrangements

21. These need to ensure the independence of awarding bodies, for example by ensuring that they are not dominated by a narrow segment of the industry.

Consistency across assessment methods

22. While we welcome the proposals to develop new methods of assessment, we would be concerned if this led to inconsistent standards across awarding bodies.

Accreditation of training materials

23. As stated above, we are concerned about advisers' reliance on received wisdom. We would like to see FSA reviewing the quality of training materials.

Question 4.3: Which level of the National Qualifications Framework do you think each module should be linked to?

24. The current minimum standard does not appear to have met consumer (or indeed adviser) needs adequately. For example, recent experience with split capital investment trusts shows that some IFAs were not equipped to understand the complexities of the product. Therefore we would not support any reduction in the

current standard: i.e. level 3 for the core modules, and level 4 for higher-level modules.

25. However, we believe that some level of analysis is needed to support decisions about the level of any qualification. For example, the level at which comparable examinations are set (such as those for tax advisers). The Panel has previously encouraged the FSA to provide some evidence about the impact of the training and competence regime, specifically the extent to which the level of the passmark affects competence on the job.

Question 4.4: We invite suggestions on how designations should link with the examinations framework.

26. We reiterate our belief that the responsibility should be on firms to ensure that their staff are trained. However, with a modular approach it is increasingly important to avoid consumer detriment arising from confusion or misrepresentation, and we see the need for clear designations in that context.

27. In framing designations, the FSA needs to achieve a balance between transparency and false reassurance. For example, an adviser can say with complete accuracy that he or she has passed 'FPC1'. This means nothing to a consumer unless he or she knows what level each exam is at. In a modular system, there is also a danger of a halo effect if a consumer is told that an adviser has passed a higher-level exam but the areas of specialisation are not relevant to the consumer's own needs.

28. The Panel thinks that a common designation might be appropriate to advisers who have passed all three core modules (although consumer research would be necessary to ensure that this conveys the right message). But this should be put in context. For example, there could be some sort of document in a standard format that the adviser could show clients (along the lines of the payment 'menu'), listing the range of possible exams/specialisations and showing which ones the adviser currently has. This would also provide an incentive for individual advisers to undertake further training.

Question 5.1: Do you consider that the principles proposed for transitional arrangements are appropriate?

29. No comment.

Question 5.2: What principles should underpin an exemptions policy?

30. See our comments at paragraph 10 above.

Question 5.3: Do you think that a formal periodic assessment for maintaining confidence should be introduced?

Question 5.4: If yes, what format should it take and how frequently should it be carried out?

31. The Panel reiterates its support for periodic re-testing. The form that this takes, and its frequency, will depend on what is being tested, and should also be informed by some analysis of where consumer detriment has been caused in the past by failures to maintain competence. (See paragraph 25).

32. For example it ought to be fairly straightforward to test knowledge of legislative change with the use of new technology, as tax legislation changes every year, it should perhaps be tested regularly. However, it might be more difficult but equally important to test awareness of the 'environmental' changes that determines the suitability of various investment options, such as changes in inflationary trends. The new assessment methods proposed above, such as scenario-based testing, might be helpful here.

Yours sincerely,



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cc. FS Consumer Panel

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