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26 October 2007

Our ref: Consultations

Dear Mr Percival

DP 07/2 Platforms: the role of wraps and fund supermarkets

This is the Financial Services Consumer Panel's response to DP07/2 Platforms: the role of wraps and fund supermarkets.

Overview

Firstly, we should like to make it clear that there are a number of important issues raised in the Paper which overlap or link directly to the Retail Distribution Review (RDR), to which the Panel is considering its response. Consequently there are questions contained in DP07/2 to which we are not yet in a position to provide definitive answers. This response should therefore be considered alongside our response to the RDR, which will be submitted and published at the end of the year.

We welcome this Discussion Paper as clearly the rapid development of this complex market poses considerable challenges for the FSA in developing an appropriate regulatory framework that correctly identifies and addresses risk. We are keen to see effective consumer protection, no matter the platform used, and we also want to ensure that the responsibilities of product providers, platform providers and distributors/advisers are assessed effectively in terms of Treating Customers Fairly.

We are concerned that the Discussion Paper may not provide a sufficiently comprehensive analysis of the wraps and platforms market. As we understand it, the key to identifying the potential benefits and detriments for consumers is the scope and function of individual platforms, which in practice vary substantially. In particular, single provider platforms might well bring considerable benefits to advisers and to a lesser extent, consumers in terms of efficiency and net cost savings. But the same platforms could limit consumer choice of products and even choice of adviser – advisers using single provider platforms may well find it prohibitively expensive or inconvenient to take on clients with an existing portfolio outside the range of the platform. Conversely, some clients may find themselves tied in to platforms which suit their advisers but which do not meet their needs.

Platforms which, rather than being single provider based, offer a breadth of service similar to a full back office function (akin to a full trading platform) with additional technological benefits would seem to be more of an aid to holistic financial planning, providing consumers with better access to services and products. Nevertheless there will be some consumers, perhaps with small and relatively inactive investment portfolios, for whom wraps and platforms will never be a cost efficient benefit at all. It is vital therefore that the FSA accurately identifies the regulatory risks in all types of wraps and platforms and develops an effective regulatory framework that will continue to address the issues arising from this rapidly changing marketplace.

It has been argued that platforms may provide opportunities for the development of better, longer-term relationships between advisers and their clients. Again, with those potential benefits come a number of potential difficulties which need to be addressed. For example, will there be an appropriate level of consumer protection in place, including the elimination of bias at all stages of the sales/advice process? Will the additional cost of an adviser using a platform – both setting-up and on-going expenses - provide real added value for the client? There are important questions to be answered too in relation to the adequacy of disclosure and the transparency of overall and platform-related costs.

We also have concerns about the level of protection that will be enjoyed by consumers using platforms on an unadvised basis.

Chapter 2 - Analysing the platform market

Q1: Do you believe that it would be desirable to have consistent terms for platforms with different characteristics? If so, how do you believe this could be achieved?

We think it is important that the FSA fully understands the differences between the types of wraps and platforms on offer, both now and in the future, and that it correctly identifies the regulatory risks posed by this complex and rapidly developing market. The potential for consumer detriment is significant and if not properly identified, there is a risk that the regulatory regime will fail to address this. Within the range of services available however, consistency of terminology within flexible boundaries is important for consumers, both as an aid to cost comparison and in terms of increasing the level of consumer understanding of these services. We also think that a consistent approach might help consumer choice and might facilitate a better 'fit' between platform provider, adviser and consumer.

Chapter 3 - Applying regulation to providers and users of platforms

Q2: Do you believe a principles-based approach to platforms, without detailed rules or guidance, is appropriate?

We believe a principles-based approach could be appropriate, providing the risks are effectively identified and only if such an approach achieves the right outcomes for consumers, particularly in the areas of Treating Customers Fairly, transparency and effective disclosure. However we see a very clear need here for FSA guidance on aspects of fairness to consumers. There is a real need for measurable and

meaningful TCF outcomes to be applied in this complex market. We are also conscious of the position of small firms and their clients when using wraps. We are pleased that the FSA has decided to allocate additional resources to the regulation of small firms and would like to hear more about how small firms using wraps will be assessed.

Chapter 4 - Adopting platforms

Q4: To what extent (if any) can the adoption of platforms support a move away from up-front commission? Are there differences between fund supermarkets and wraps in this respect?

The adoption of platforms would not in itself achieve a move away from up-front commission, but as a form of enabling technology it could allow for the adoption of different business models that could work better for some consumers. The issue is not just up-front commission, however. We will be dealing with the wider question of adviser remuneration in our response to the Retail Distribution Review, but generally we believe that there should be a clear distinction between independent advice and product sales. We would not like to see the development of platforms blur this distinction or cause consumer confusion. Transparency of costs is critical. As we continue to highlight, the Panel believes that an independent advice service should, by definition, have a remuneration structure that has no intrinsic bias.

Q6: Do you agree that an intermediary's choice of which platforms to use should be driven by the types of customer it will serve and the nature of the service it wants to offer?

Without doubt. The market should be driven by consumer demand. The issue of independence is a key one – independent advisers need to ensure that their choice of platform(s) does not undermine their independent status. We can see that advisers - and possibly their clients - might gain considerably from the use of a platform in terms of cost efficiencies, but this should not outweigh the need for advisers to select from an appropriate range of products (in our view this should be whole of market) and to choose a platform based on their individual clients' needs. In particular we would not wish to see single provider platforms creating a momentum in the market that could not ultimately be justified for clients of independent advisers. In the interests of transparency we believe there should be an obligation on advisers to disclose not only the use of a platform, but also the rationale for the choice of a particular platform.

Q7: Do you believe that the information firms need to undertake 'due diligence' of platforms could be made more accessible?

The Panel is not in a position to answer this question in any detail, but we do believe that firms should not adopt any platform unless they have sufficient information on which to base a reasoned decision, taking into account the interests of their client base and individual clients.

We also cannot see any reason why this information should not be accessible.

Chapter 5 - Platform use in practice

Q8: Do you agree that it is important that firms assess whether platforms are suitable for individual customers? In practice, how might this be achieved?

We believe that customer needs are paramount and that platform suitability should be based on good 'know your customer' practice. Suitability should also be subject to on-going monitoring.

We are concerned that in some cases platform choice may be based more on the relationship between adviser and provider, than on customer needs. This could then push customers on to a platform which does not deliver appropriate benefits.

Q9: Do you agree with our position on on-going services and remuneration (see paragraphs 5.10 to 5.14)?

Payment – whatever form it takes – should be aligned to the level of service provided. Again, our preference is for fees that are agreed upfront where the consumer can see and is aware of all costs, whether initial or ongoing. We would not like to see the adoption of platforms providing an opportunity to obfuscate the charging structure or to allow advisers to pass on their operational costs unfairly to customers.

If on-going fees or commissions are to be paid where there is no on-going service, firms must take particular care to explain what the payment is actually for. Payment for no service at all would be unlikely to constitute fair treatment under the TCF principle.

Q10: We require firms to explain the overall costs of products and services to the customer, including the cost of services delivered through platforms. How do you think this is best achieved?

This is best achieved by clear disclosure at the appropriate point (pre-sale). The cost of the platform must be split out from the other service costs. It is also important for clients to be able to compare the cost of portfolio management and advice when using a platform against a scenario where they would not use a platform. Given that charging structures can be complex, it is essential that this information is clearly explained and that advisers apply TCF principles to their fee structures.

Chapter 7 - Roles and responsibilities of platform providers

Q15: Do you believe that platform providers should take steps to make sure that – where possible – a customer can remove their assets from a platform without having to encash them?

Yes, we are against any system whereby the customer is unfairly penalised. Customers who want to leave a platform should be able to do so without having to encash their investments and/or pay penalty exit charges. In particular we would like to see consumers protected from the introduction or escalation of exit charges after they have opted to use a particular platform.

Chapter 8 - Incentives, charges and information

Q19: What are the particular risks of consumer detriment arising from any lack of standardisation and transparency in platforms' disclosure practices?

There is great potential for confusion, misunderstanding about costs and charging and a lack of consumer confidence in wraps and platforms. If this market is to work well, disclosure must be clear, timely and effective.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'J. Howard', written in a cursive style.

John Howard

Chairman
Financial Services Consumer Panel