A guide from the Financial Services Authority

FSA
Financial Services Authority

RDR
Is your firm on track?

Why should I read this guide?

This guide is designed to help you implement the requirements of our Retail Distribution Review (RDR) in your firm. It asks some key questions that you can use to check progress, identify any gaps, and prioritise and plan your next steps.

For some of you, implementing the RDR may mean a fundamental change in business model, while for others, the change may be less pronounced. But almost all firms will have at least some adjustments to make to comply with the new RDR rules.

So whatever your circumstances, and whatever the stage you are at, this guide should help you in your journey towards full implementation.

What's covered?

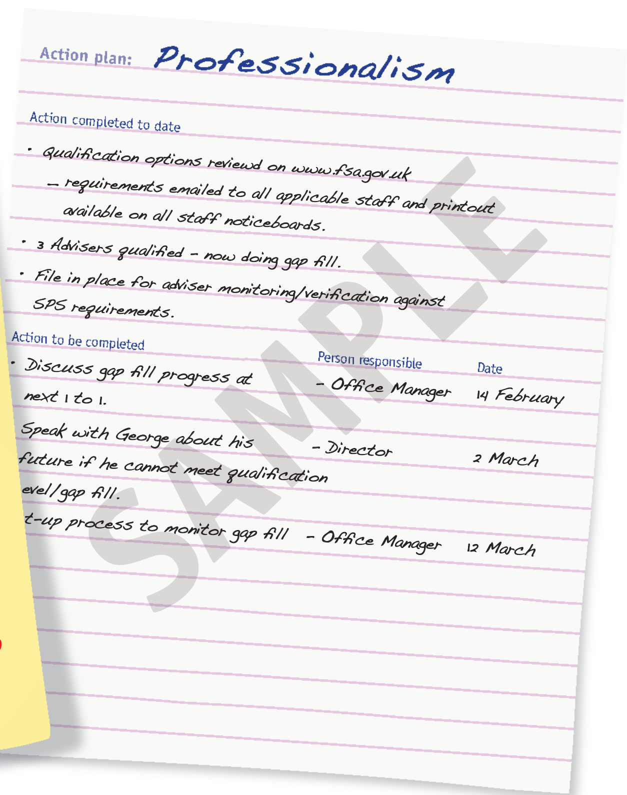
We cover the following key areas:

- **professionalism:** appropriate qualifications, gap fill and statement of professional standing;
- **independent and/or restricted advice:** choosing and implementing your service model; and
- **fees and business models:** moving to a new fee-based adviser charging model.

This guide also encourages you to think about your wider regulatory obligations, such as treating customers fairly, and how you can factor these into the changes you make when implementing the RDR.

The questions in each section will help you consider what you need to do to meet the new requirements, although this list is not exhaustive.

We have included some sample actions to help you implement RDR requirements.



Professionalism

Firms are aware that their retail investment advisers must meet new standards of professionalism from the end of 2012.

Here are a few important areas for you to consider:

- Have you reviewed the **qualification options** on our website?
- Are the advisers assessed as competent as at 30 June 2009 on target to meet an increased level of qualifications by 31 December 2012, including, where applicable, completing their gap fill?
- Are other advisers, such as new entrants, on track to complete their qualifications and gap fill? Their deadline will be the later of 30 months from starting the activity of advice or within 30 months from 1 January 2011.
- Do you monitor advisers regularly to ensure they are on track and that they will have time for any qualification re-sits?
- Have those advisers that need to do gap fill considered using our **gap fill template** to help highlight knowledge gaps?
- What are your contingency plans if your advisers don't achieve the required level of qualification/gap fill by the end of December 2012?
- If recruiting, how will you manage the recruitment process and the RDR timeframes? For example, what would you do if employing an adviser who has not yet achieved an appropriate qualification?
- Are you aware which accredited body/bodies your advisers will use to provide **Statements of Professional Standing (SPS)**?
- How will you monitor/verify your compliance with SPS requirements?
- If some advisers move to non-advisory roles because they don't have the required qualification/gap fill, how will you ensure they don't give investment advice?
- Have you considered what changes are necessary so your Training & Competence regime meets RDR requirements?
- Have you made sure that you know what the requirements will be and what changes will have to be made for **Continuing Professional Development (CPD)**, especially recording, measuring and monitoring?

Top tips

1. Plan ahead now to help ensure your advisers do not run out of time to pass relevant qualifications and, if required, complete their gap fill, building in some extra time for re-sits.
2. Consider the implications for your firm if any of your advisers fail to meet qualification or gap fill requirements.
3. Review your systems and controls to make sure they are robust enough to identify any advisers who continue to give advice when not appropriately qualified.
4. Encourage advisers to consider the various accredited bodies that they can choose from and consider how you can help them interact with accredited bodies.
5. Have a process in place to monitor/verify advisers against SPS requirements.
6. Ensure advisers understand their obligations under APER and for ongoing CPD (number of hours per annum, for both structured and unstructured, how to record it and how it will be monitored) to enable them to obtain their SPS.

Useful information can also be found on the FSA website: www.fsa.gov.uk/rdr

Why not use the 'Professionalism' action plan overleaf to help your firm stay on track?

Action plan: Professionalism

Action completed to date

- 3 Advisers qualified – now doing gap fill.

Action to be completed	Person responsible	Date
• Discuss gap fill progress at next 1 to 1.	Office Manager	14 February

Independent and/or restricted advice

What advice will you provide – independent and/or restricted?

From 31 December 2012, a firm must use the term 'independent advice' or 'restricted advice' when disclosing the extent of its advice service. If a firm provides any advice that does not meet the independent standard, then it should not hold themselves out as independent for its business as a whole.

Just because a firm is 'independent' now does not mean it will meet the new RDR definition of independent; many firms will need to make changes if they want to describe themselves as independent in the future. And choosing to provide restricted advice shouldn't be viewed as the easy option: most of the selling standards that apply to independent advice also apply to restricted advice, including the suitability requirements and professional standards.

Here are a few important areas for you to consider:

- Does the service you plan to offer fit the needs of your existing clients?
- Will you stop offering advice to some clients and, if so, how will you manage this change to ensure that you are treating customers fairly?
- For firms moving to restricted advice, have you considered what you'll do about those clients whose needs cannot be met by the scope of your restriction?
- How will your existing systems and support functions deliver your new service proposition?
- If you are going to describe your firm as independent, what do you need to do to ensure that your firm considers all the retail investment products that may be suitable for clients every time a personal recommendation is made?
- How will you ensure that sufficient research is undertaken to support recommendations?
- If you are offering restricted advice, how will you explain the nature of this restriction?
- If your firm will offer a mix of independent and restricted advice, have you considered how it will market itself?
- Have you considered what products you believe will be higher risk and formulated an approach to these products?
- Have you considered what controls you will put in place to ensure that advisers provide a service consistent with that disclosed?
- If you are planning to use a panel of products to assist you in giving advice, how frequently will you review the panel? What guidance will you provide advisers that want to go 'off panel'?
- If you are planning to use one or more platform services, what due diligence will you undertake to ensure that you adopt the right ones for you and your clients? What guidance will you give advisers that want to go 'off platform'?
- See our **website** for more detailed information.

Top tips

1. Put your clients at the centre of your decisions. Ask yourself: Which type of service best meets my clients' needs? Will my new service be unsuitable for some clients?
2. If your firm wants to hold itself out as independent, what steps must you take to ensure that all retail investment products are considered each time advice is offered?
3. Ensure your firm has a robust internal control system to check that advice standards are being met by advisers.
4. Communicate regularly with your clients about the changes you are making, so they get information directly from you rather than finding out from someone else. This can reassure them and help strengthen your relationship.

Useful information can also be found on the FSA website: www.fsa.gov.uk/pubs/guidance/gc11_20.pdf

Why not use the action plan overleaf to help your firm stay on track with RDR requirements?

Action plan: Independent and/or restricted advice

Action completed to date

- Reviewed definition of independent, plus review of client base. After taking teams' views into account decided restricted would meet clients needs.

Action to be completed	Person responsible	Date
• Decide communications strategy to clients on restricted advice.	Director/Team input	19 March

Fees and business models

You need to ensure that you offer an adviser charging model from 31 December 2012. When devising your charging structure, you should consider the impact it will have on your business model.

Here are a few important areas for you to consider:

- Have you considered with which clients you want to continue providing advice?
- Have you considered segmentation of clients? It could be a challenge to offer the same type of service to every client.
- Will some clients need an ongoing service or only a transactional service?
- How much will your clients be willing to pay and how much can they afford?
- Have you looked at your fixed/variable costs and overheads in detail?
- Have you considered discussing fee schedules with other professionals, such as accountants and solicitor firms?
- Will your charging model expose you to credit risk, and, if so, what will you do about it?
- Will you charge an hourly rate, a fixed fee, a percentage of assets under management, ad hoc charges or all of the above?
- What impact will the different models have on your revenues and your clients, both in the short and longer term?
- Are some charges better suited to some clients than others?
- Are you expecting clients to pay by cheque, via the product or other option?
- If required, will the providers/products you are likely to recommend offer facilitation services?
- Have you reviewed your back office systems to see if they can be used to help with the changes with the new charging structure?
- Have you considered how you will collect and record fees from clients in your new charging model?
- How will you describe your services to clients so they are clearly understood?
- Have you considered discussing your new proposed charging structure with clients to seek their views and start to develop the clients' understanding of the changes ahead?
- Have you considered what changes you will make to your disclosure documents and, if applicable, the fee agreement?

Top tips

1. Consider your clients: which services do they need, want and can afford?
2. Evaluate your costs and prospective revenues carefully.
3. Build a charging model that helps to support your service while remaining fair to clients.
4. Consider how you will collect charges, and what systems you will need to support this.
5. Make sure you can clearly explain your new charges to clients, and what services these charges relate to.

See if the 'Fees and business models' action plan overleaf can help your firm stay on track?

Action plan: Fees and business models

Action completed to date

- December newsletter outlined upcoming remuneration charges.

Action to be completed	Person responsible	Date
• Will back office system track our fee charging?	Office Manager	23 March

What should you do next?

Hints and tips

- Consider putting an action plan in place with timelines to keep you on track, and review it regularly.
- If applicable, consider consulting with your professional body or compliance consultancy firm.
- You might also want to consult with the wider business community. Local Chambers of Commerce or business groups will have experience of conducting cost analysis and marketing strategies. Accountants and solicitors may be able to give you further insight into devising a fee-based proposition.
- With RDR requiring firms to consider a broader range of investments from 31 December 2012 for independent advice, talk to your PI insurer at an early stage to ensure cover will be available for all 'retail investment products'.
- There is useful information on our website, for example, the knowledge gap fill template, details of Accredited Bodies, approved qualification list, one-minute guides and Frequently Asked Questions on various aspects of the RDR.

to find out more, visit the FSA website at:

www.fsa.gov.uk/rdr

Notes