

February 2008

# 08 / 3

*newsletter* ★★★



This newsletter provides a summary of CP08/3. Please see the section 'Who should read this paper?' to see if CP08/3 is relevant to you.

Financial Services Authority

## Simplifying Disclosure: Information about services and costs

### Why are we issuing this paper?

In this Consultation Paper (CP), we seek views on a new disclosure document that investment firms can use to explain their services and costs to consumers. We propose to introduce this new document as guidance to replace the existing initial disclosure document (IDD) and menu. The new document aims to be simpler and more flexible for firms and to present key information to consumers in a clear and simple way. The new document would be just one way for firms to comply with a number of our Conduct of Business Sourcebook (COBS) requirements – firms would be free to design their own disclosure material to comply with COBS and our Principles for Businesses. We are also seeking views on whether industry guidance might be a viable option in this area.

## What is the background to this?

The retail investment market is characterised by relatively complex products, poor consumer awareness, low levels of financial sophistication and a heavy reliance on financial advisers. In this market, there is the potential for information asymmetry and principal-agent problems between consumers and advisers to arise, which may result in commission bias and confusion among consumers about the services they will receive.

The IDD and menu aimed to address these market failures, but our research suggests they have been relatively ineffective. Nevertheless, we still believe that clear and accessible information – on the status of the adviser, adviser remuneration, and potential conflicts of interest – is important for consumers. Accordingly, we have undertaken work to develop and test alternative disclosure options and we are now proposing to introduce a new disclosure document into guidance in COBS.

## Who should read the full paper?

This CP will be of interest to all firms that offer advice to retail clients. The proposals we outline will give firms guidance on how to comply with certain disclosure requirements in COBS, including a number of requirements that we have transposed from the Markets in Financial Instruments Directive (MiFID).

Since 1 November 2007, firms should be considering their disclosure documents following the implementation of MiFID as set out in COBS, although we understand that firms may have been waiting for our response before making any changes. So this CP will be of interest to firms when they review their disclosure documents to ensure compliance with COBS.

We have considered the impact of the various disclosure options on small firms, which we have discussed with relevant trade bodies and industry representatives.

## Is this of interest to consumers?

This CP will be of general interest to retail consumers who may buy investments, or seek advice on them, and to consumer groups. The issues relate to how firms disclose information about the firm, its services and its costs to consumers. The new disclosure document aims to present key information to consumers about the status of the adviser, the scope of advice, the services offered, and the method of paying for advice, to help them when choosing an adviser. We believe our proposal will provide appropriate consumer protection in a cost-effective way. As a result of our proposals, consumers may notice a difference in the disclosure documents they are given when they meet with advisers.

## What happens next?

We invite views on the questions set out in this paper by 19 May 2008. We will publish feedback on responses to this CP in a Policy Statement in July 2008, together with the final Handbook text. We propose that the new guidance should take effect on 6 August 2008. We also propose a 12-month transitional period that will allow firms to use their existing stocks of the IDD and menu (if they wish to do so), and to give firms time to consider how they will comply with COBS.

The Financial Services Authority invites comments on this Consultation Paper. Comments should reach us by 19 May 2008.

Comments may be sent by electronic submission using the form on the FSA's website at ([www.fsa.gov.uk/Pages/Library/Policy/CP/2008/cp08\\_03\\_response.shtml](http://www.fsa.gov.uk/Pages/Library/Policy/CP/2008/cp08_03_response.shtml)).

Alternatively, please send comments in writing to:

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**It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.**

**A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.**

## How can I get the full paper?

You can download the full Consultation Paper from:

[www.fsa.gov.uk/pages/Library/Policy/CP/2007/08\\_03.shtml](http://www.fsa.gov.uk/pages/Library/Policy/CP/2007/08_03.shtml)

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