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Financial Services Authority

# Delivering the RDR:

Professionalism, including its applicability to pure protection advice, with feedback to CP09/18 and CP09/31

June 2010



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The Financial Services Authority invites comments on this Consultation Paper. Comments should reach us by 24 September 2010.

Comments may be sent by electronic submission using the form on the FSA's website at ([www.fsa.gov.uk/Pages/Library/Policy/CP/2010/cp10\\_14\\_response.shtml](http://www.fsa.gov.uk/Pages/Library/Policy/CP/2010/cp10_14_response.shtml)).

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**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.**

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# List of acronyms used in this paper

Retail Distribution Review	(RDR)
Continuing Professional Development	(CPD)
Professional Standards Advisory Group	(PSAG)
Professional Standards Board	(PSB)
Independent Financial Adviser	(IFA)
Statement of Professional Standing	(SPS)
Statements of Principle for Approved Persons	(APER)
Training and Competence Sourcebook	(TC)
Chartered Financial Analyst	(CFA)
Investment Management Certificate	(IMC)
Insurance Conduct of Business Sourcebook	(ICOBS)
Critical Illness Cover	(CIC)
Product Sales Data	(PSD)



# 1 Overview

- 1.1 Our work to develop the Retail Distribution Review (RDR) regime can be divided into four broad elements: clarity of services; remuneration; prudential requirements for personal investment firms; and professional standards.
- 1.2 This Consultation Paper and Feedback Statement brings together all our work to date on professional standards under the RDR – on ethical behaviour, continuing professional development (CPD) and qualifications – together with the supervision and enforcement of these standards.
- 1.3 This paper gives further certainty to individual retail investment advisers (advisers)<sup>1</sup> and their firms, helping to complete the RDR picture alongside Policy Statement 10/6 (PS10/6),<sup>2</sup> which covered description of advice services and adviser charging, and Policy Statement 09/19 (PS09/19)<sup>3</sup> on prudential requirements for personal investment firms. The need for all existing advisers<sup>4</sup> to meet the new appropriate qualification requirements by end-2012 means that this early certainty is vital. We are also delivering certainty on how professional standards will be governed at an earlier stage than originally planned.
- 1.4 Consultation Paper 09/31 (CP09/31)<sup>5</sup> sought the views of stakeholders on the governance of professional standards, and on issues around the transition to higher qualification standards. Consultation Paper 09/18 (CP09/18)<sup>6</sup> put forward proposals for CPD and ethical standards. This Consultation Paper (CP) sets out a summary of the feedback received on these points, and contains additional proposals for consultation to complete the professional standards work.

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1 For the purpose of this paper, we use this term to describe all individual advisers who are within scope of the RDR professionalism work as distinct from the charging and advice work, which is defined as those carrying out activities 2, 3, 4, 6, 10, 12 and 13 in Appendix 1.1 of our TC Sourcebook. This includes individuals who provide retail investment advice within banks, stockbrokers, wealth managers, product providers, independent financial advisers and tied/multi-tied investment intermediaries.

2 *Distribution of retail investments: Delivering the RDR – feedback to CP09/18 and final rules*, March 2010.

3 *Review of the prudential rules for Personal Investment Firms (PIFs) Feedback to CP08/20 and CP09/20*, November 2009.

4 Those who were assessed as competent as at 30 June 2009.

5 *Delivering the Retail Distribution Review: Professionalism; Corporate pensions; and Applicability of RDR proposals to pure protection advice*, December 2009.

6 *Distribution of retail investments: Delivering the RDR*, June 2009.

## Structure of the paper

1.5 This CP is structured as follows:

- Chapter 2 sets out the feedback we received to CP09/18 and CP09/31, our response to that feedback and our final policy.
- Chapter 3 sets out some new policy proposals on Statements of Professional Standing and raises consultation questions on the draft Handbook text.
- Chapter 4 contains our proposals and discussion on data requirements to implement professional standards.
- Annex 1 contains a cost-benefit analysis and compatibility statement.
- Annex 2 sets out previous and forthcoming RDR papers, and summarises what advisers and their firms need to do next.
- Annex 3 sets out a model for comparing professional bodies produced by the Professional Associations Research Network (PARN).
- Annex 4 gives a list of non-confidential responses received to CP09/31. Draft Handbook text for our final policy and new proposals are set out in Appendices 1 and 2, including the final list of qualifications.

1.6 The majority of the content in this paper has been formed with significant input from our Professional Standards Advisory Group (PSAG)<sup>7</sup> and its working group over the last 18 months. Now we are consulting on rules, we have decided to stand down these groups, and would like to express our thanks for the considerable time and enthusiasm they have committed to this work.

## Context and background

### *Supervision and enforcement of professional standards*

- 1.7 We consulted in CP09/31 on our preference to carry out the supervision and enforcement of professional standards, with an enhanced role for professional bodies, and not to create a new statutory organisation – a Professional Standards Board.<sup>8</sup> Our reasons included a desire to make better use of our existing powers and to avoid the potentially duplicative operating costs of a new organisation, as well as the potential complexity arising from overlapping responsibilities.
- 1.8 We restated in CP09/31 the RDR aim of an increased focus on individual advisers. To achieve this we consulted on a requirement for those advisers to provide independent confirmation of their initial and ongoing competence.<sup>9</sup> To do this,

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7 This group comprised the Association of British Insurers, Association of Investment Companies, Association of Independent Financial Advisers, Association of Private Client Investment Managers and Stockbrokers, British Bankers' Association, Building Societies Association, CFA Society (UK), Chartered Institute of Bankers in Scotland, Chartered Insurance Institute, Chartered Institute for Securities and Investment, Financial Services Consumer Panel, Financial Services Practitioner and Smaller Businesses Practitioner Panels, Financial Services Skills Council, Her Majesty's Treasury, Institute of Financial Planning, ifs School of Finance, and the Investment Management Association.

8 CP09/31, paragraphs 2.31-2.38, page 21.

9 CP09/31, paragraph 2.41, page 23.

we described an enhanced role for professional bodies, and set out a proposal to accredit certain bodies that met strict criteria.

### *Ethics*

- 1.9 The view of many in the industry, which we share, is that visible and effectively-enforced ethical standards for advisers are the cornerstone of increased professionalism, and are a key driver of consumer outcomes and perceptions.
- 1.10 Following consultation with industry stakeholders, we set out a draft high-level code of ethics in CP09/18 and sought views on that code, the purpose of which was to set our expectations of behaviour. Chapter 2 of this paper sets out the feedback we received to that code. We have published our proposals on ethics in CP10/12<sup>10</sup> which is consistent with our conclusion that we should apply the proposals to all approved persons, not just those within scope of the RDR. We see value in having codes that explain in more detail how ethical behaviour applies in different roles and sectors, so we encourage advisers to turn to their professional body for help and support.

### *Continuing professional development (CPD)*

- 1.11 We have long stated that a one-off increase in knowledge levels (brought about by reformed qualifications) as a result of the RDR would not on its own be a worthwhile change. We are committed to making sure that advisers maintain and update their knowledge and skills.
- 1.12 In CP09/18, we consulted on how CPD could operate in future. We suggested that it should consist of a majority of structured activity and introduced a minimum requirement for activity in terms of hours spent. We also suggested that any such activity should involve consideration of ethics<sup>11</sup> and, crucially, an evaluation of success in meeting its objectives by way of outcome measures.

### *Qualifications*

- 1.13 Improved knowledge and skills for advisers have been central to the RDR from its outset in 2006. Our November 2008 Feedback Statement confirmed our intention to reform qualifications<sup>12</sup> to reflect the role of the modern adviser and our preference that all advisers (existing and new) should meet this new standard. This preference has not changed.
- 1.14 We have explored in detail potential options for delivering a higher standard of knowledge without examinations. In CP09/31 we set out our position on alternative assessments (sometimes referred to as work-based assessments), giving the industry scope to develop options, subject to these meeting criteria on relevance, level of difficulty and the requirements of the relevant qualifications regulator. We reiterate that these will not be an easy option.

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10 CP10/12 – Competence and Ethics.

11 See 5.26 in CP09/18.

12 By updating the appropriate examination standards at QCF Level 4, or equivalent.

- 1.15 CP09/31 consulted on the transitional arrangements for attaining a reformed qualification, including a list of existing qualifications that we proposed could be used to meet the end-2012 deadline. Alongside this, we consulted on how we propose advisers should use CPD to meet any gaps between these qualifications and the reformed qualifications.

### *Pure protection*

- 1.16 CP09/31 brought together a number of RDR-related topics, including the applicability of RDR proposals to pure protection<sup>13</sup> sales. At present, unless they opt to do so under the Conduct of Business Sourcebook, individuals who only sell pure protection policies to retail customers, on an advised or non-advised basis, are not subject to any examination requirements.<sup>14</sup> Against the background of the RDR proposals for investment advice, CP09/31 requested views on professional standards for pure protection advisers.

### *Corporate pensions*

- 1.17 We have recently published a Policy Statement<sup>15</sup> with final rules that incorporate feedback from the corporate pension element of CP09/31.

### **Target audience**

- 1.18 The proposals and final policy need to be understood and implemented by advisers and their firms. They will also be of interest to their trade associations and professional bodies, as well as their clients and consumers more generally.
- 1.19 More specifically:
- the qualifications and CPD elements will be of interest to organisations that award qualifications and learning providers – we continue to encourage careers advisers and recruiters to engage with the sector in light of these proposals;
  - the supervision and enforcement proposals will be relevant to training and competence professionals and existing professional bodies, as well as other bodies that believe they are able to meet the criteria set out to be an accredited body; and
  - the pure protection content will be of interest to those individual advisers, their firms and customers, who distribute or buy pure protection products and services.

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13 For these purposes, pure protection products are term assurance, critical illness cover (CIC) and income protection (IP). Payment protection insurance (PPI) has so far been excluded from our analysis.

14 Although our Training and Competence rules require firms to ensure that advisers on non-investment insurance contracts are competent.

15 PS10/10 – ‘*Delivering the Retail Distribution Review: Corporate pensions – feedback to CP09/31 and final rules*’, June 2010.

## Summary

### *Supervision and enforcement of professional standards*

- 1.20 Following feedback to CP09/31, we have decided that the FSA will carry out supervision and enforcement of the new professional standards, which will be set through the FSA Handbook. Our proposals seek to deliver higher professional standards in a proportionate and cost-effective way. As such, we are defining what we expect from professional bodies, which are better placed to help us deliver some aspects that are not compatible with us taking on the supervision and enforcement aspects of a Professional Standards Board, such as promoting the profession.
- 1.21 Increased focus on professional standards would require extra staff, whether an internal or external governance model was chosen. We will therefore enhance our capability with additional staff, focusing on professional standards of advisers throughout the main functions of the FSA, from policy making to supervision and enforcement. We will apply our experience of monitoring large numbers of small firms to the task of overseeing the large number of individual advisers.
- 1.22 Following CP09/31, we are introducing a requirement for firms to ensure that their advisers hold a Statement of Professional Standing (see paragraphs 3.13-3.20). This follows our proposals that advisers obtain independent verification that they are meeting the new professional standards. We propose to accredit bodies that apply to us, provided they meet our strict criteria (see paragraph 2.20), including facilitating and furthering the professionalism of advisers.
- 1.23 This approach does not require mandatory membership of professional bodies. We explored the potential to mandate membership, which many see as simpler and more consistent with the concept of a profession, but have decided not to proceed on this basis.
- 1.24 Chapter 2 gives more detail on the criteria to be met and process for bodies to become accredited, along with other practical issues.

### *Continuing professional development*

- 1.25 Chapter 2 confirms that, in future, full-time advisers will need to complete a minimum of 35 hours of relevant CPD each year, with at least 21 hours of this being structured learning. We also confirm what areas this annual CPD activity should encompass. There will be increased emphasis on providing evidence that the adviser has gained new and relevant knowledge, skills or behaviours from the structured activity, linked with the requirements of the adviser's accredited body – this should not just be an accumulation of certificates of attendance. Firms' own training and competence schemes will continue to play an important role in helping advisers to meet these requirements, particularly where those schemes already follow the approach above, as we have seen in many firms.

## *Ethical behaviour*

- 1.26 In considering the feedback to CP09/18 and how best to set out our requirements, we formed the view that these proposed changes should apply to all approved persons, not just those within scope of the RDR. Accordingly, while the feedback is included in Chapter 2, the proposals on ethics are set out in Chapter 5 of CP10/12 – Competence and Ethics – which has all approved persons within its scope. That consultation (CP10/12) closes on 6 September, three weeks before this one, and we welcome responses to relevant elements of that consultation from readers of this CP.

## *Qualifications*

- 1.27 We confirm in this CP the final list of appropriate qualifications, taking into account feedback received to CP09/31 and applications from qualification providers whose qualifications meet the reformed appropriate examination standards (AES). We also explain how the requirements apply to existing advisers, new entrants, and those who may wish to move to an advisory role in the future.
- 1.28 Those who already hold or are studying for an appropriate qualification listed in Appendix 1 may need to carry out qualification gap filling, based on when they achieved their qualification.<sup>16</sup> Individuals subject to gap-filling will either need to complete it by 31 December 2012 (if they were competent as at 30 June 2009) or according to the longer timetable set out in CP10/12.<sup>17</sup> CP09/31 consulted on details of the structured CPD (qualification gap filling) that individuals must complete. We are consulting in this paper on requiring that any qualification gap filling must be independently verified by an accredited body. We confirm that, following consultation in CP09/31, any relevant structured CPD activity that advisers have already completed can count towards qualification gap filling.

## **Next steps**

- 1.29 This consultation will close on 24 September 2010 and we will use responses to finalise our rules, which we will publish in a Policy Statement in December 2010. Annex 2 shows the medium and longer-term timetable for steps to be taken by firms and their advisers.

## **Intended effect of proposals on consumers and potential benefits**

- 1.30 These proposals are intended to improve the professionalism of the retail investment adviser, by delivering consistent and enforced standards. This should have a positive impact on the reputation and levels of consumer trust in the sector. We intend that these changes will, over time, increase consumer engagement with investment advisers by improving the quality of investment advice, leading to better outcomes for clients and reinforcing this reputational impact. The cost-benefit analysis in Annex 1 gives more detail.

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16 Qualifications commenced after September 2010 are likely to meet the updated RDR exam standards, which means that no qualification gap filling would be required.

17 CP10/12 – paragraph 3.8.

# 2 Feedback

## **Supervision and enforcement of professional standards**

- 2.1 In CP09/31 we set out our proposals for the governance (supervision and enforcement) of professional standards. Our main proposal was that the FSA should carry out this activity with an enhanced role for the professional bodies, and that we should not create a new statutory body – a Professional Standards Board (PSB).
- 2.2 Since publishing CP09/31, we have taken account of comments we received and in finalising our policy we continued to work with the PSAG. We are grateful to all those who have participated in the consultation process.

### *Summary of responses to CP09/31*

Q1: Do you agree, for the reasons outlined above, that the internal model (FSA to supervise and enforce with an enhanced role for professional bodies) is the least costly and the least complex to establish and will achieve broadly the same outcome as an external Professional Standards Board?

- 2.3 We received 74 responses to this question from a variety of advisory firms, provider firms, professional bodies, trade associations, individuals and the Financial Services Consumer Panel. 51 respondents were in favour of the proposed approach. A number of other respondents agreed that it is the most cost effective and pragmatic solution at this time, but expressed concerns that:
  - we would need to have dedicated resources that would be separate from our other activities;
  - we would need to ensure that we recruited sufficiently competent and experienced staff; and
  - our operating costs should not escalate beyond the estimates set out in CP09/31.

- 2.4 A small number of respondents suggested that it would be inappropriate to combine our role as regulator with a role in developing and enhancing advisers' professional standards. These respondents suggested the advisory profession itself would be best placed to take responsibility for this through interaction with a PSB. They argued that consumers ought to see the profession driving up its standards rather than being compelled to do so by us and these enhanced professional standards needed to be communicated to the public by a dedicated body. They were also concerned about a system where professional bodies would enter into relationships with us to regulate standards. They argued that it is the role of professional bodies to drive up professional standards and not to act as 'pseudo-regulators'.
- 2.5 Some respondents suggested that, while it may be sensible for cost and operational reasons to opt for the FSA and professional bodies to carry out this activity initially, it should be subsequently moved to a new external body.
- 2.6 While the Financial Services Consumer Panel agreed that the internal model may be the least costly and possibly the least complex to establish, the Panel did not think that it would deliver similar outcomes to an external Professional Standards Board. The Panel expressed concern that it may be difficult for us to achieve sufficient focus on this work in the absence of a dedicated board.
- 2.7 Other respondents pointed to the recent creation of a Legal Services Board<sup>18</sup> as an example of a body that is set up within a profession to regulate the quality of services provided.

**Our response:** Under the RDR, we have always encouraged the industry to drive up its own standards, and we continue to do so. However, the purpose of the professionalism work is to establish consistently applied and enforced professional standards for all advisers. We believe this is essential to improve consumer outcomes.

We accept the points made about the risks associated with us setting, supervising and enforcing professional standards with an enhanced role for professional bodies. We particularly accept those points that relate to dedicated resourcing and management of cost, but we are confident that these can be managed and overcome. We also acknowledge that positive consumer perception and understanding of the changes that take place in this sector is key for those changes to be effective. However, we will not communicate these changes to consumers ahead of the industry implementing them. We note there is a lack of consensus from respondents about which approach is more likely to have a positive impact on consumer perception of the retail investment advice sector.

We share the views of respondents who suggested that, far from sending a clear, positive signal to consumers about advisers' professionalism, the establishment of a new statutory organisation – a PSB – tasked with upholding standards of professionalism would, in fact,

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18 The Legal Services Board is a new organisation, created by the Legal Services Act 2007 which became fully operational on 1 January 2010. Its overriding mandate is to ensure that regulation in the legal services sector is carried out in the public interest; and that the interests of consumers are placed at the heart of the system.

be more likely to confuse consumers, as it would create another body that advisers deal with alongside the FSA, the FOS<sup>19</sup> and the FSCS.<sup>20</sup>

We also believe that, unlike the legal services profession, which has recently separated the approved regulators' representative functions from their regulatory functions, the financial services sector already has that separation. Adding an additional statutory regulatory body would be likely to lead to duplication of roles and responsibility between a Professional Standards Board and the FSA, not least because advisers are already authorised and regulated by the latter, a statutory body which requires advisers to be competent and behave ethically. The creation of an independent body tasked with addressing similar issues could lead to increased costs and potentially contradictory decision making.

We have, therefore, decided to proceed with the proposed approach, but in designing the detailed operation of that approach – such as the role of professional bodies – we have taken into account the concerns and potential difficulties raised by respondents. This is detailed in paragraphs 2.18 to 2.41.

**Q2:** Are there any additional criteria that should be included for the initial and ongoing recognition of professional bodies?

- 2.8 We received 71 responses to this question and the majority of respondents did not recommend substantive changes to the criteria. We contacted a number of respondents to discuss the concerns that they raised and we have refined the criteria as a result.
- 2.9 Several respondents pointed out that the criteria would need to place a great deal of emphasis on the independence of the recognised professional body. A number of others agreed that the bodies ought to be audited regularly, with those audits being submitted to the FSA, but requested greater detail around the audit process.
- 2.10 Certain respondents suggested that the following criteria should be included:
- only bodies with a Royal Charter;
  - only not-for-profit organisations;
  - a minimum number of members (to avoid a proliferation of small bodies that would risk a lack of consistency and cohesion); and
  - no conflicts of interest.

**Our response:** We have looked to the example of other professions to consider the criteria that we should apply to bodies we accredit under our RDR proposals. In doing this, we also note that many professional bodies in the traditional sectors have a different role and function than we are proposing for the bodies under our proposals.

CP09/31 did not propose that any regulatory responsibility be delegated to the professional bodies. Certain professional bodies in other professions do have this responsibility and some respondents have assumed that we intended for the professional bodies in this sector.

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19 Financial Ombudsman Service.

20 Financial Services Compensation Scheme.

To be clear, we are not proposing that the accredited bodies take on a regulatory role. We cannot delegate our statutory functions unless expressly authorised by Parliament to do so. This is because all of our powers to act (including our powers to delegate) derive from the Financial Services and Markets Act 2000 and other relevant Parliamentary enactments. We only intend that the enhanced role for accredited bodies be around the skills and knowledge needed to perform the role of an adviser. We do not intend to remove firms' responsibility for training and supervising their advisers via their own systems and controls.

Under our draft rules in Appendix 1, firms will be required to obtain independent verification of their employees' professional standing. We will accredit bodies, based on strict criteria, to provide this verification. Accredited bodies will also have a role to play in facilitating and furthering the professional development of the retail investment advice sector. We anticipate that existing professional bodies will apply to carry out this role.

We will not restrict eligibility to those bodies established by Royal Charter, charitable organisations or bodies operating on a 'not for profit' basis, as we do not see the value in restricting service provision in the market based on corporate structure. We consider that doing so could be anti-competitive. We agree that accredited bodies should manage any conflicts of interest, especially those that arise from commercial interests, such as selling training or qualifications. But we do not believe it reasonable or realistic to expect all conflicts of interest to be eliminated. It should suffice that conflicts are managed effectively and transparently.

The demands placed on accredited bodies will be such that we expect, for example, that existing professional bodies will have to introduce changes and improvements, some more than others, to meet the demands of firms and advisers. We believe that advisers and their clients would be best served if we provide an opportunity for other organisations that are not currently professional bodies to support advisers in meeting our new regulatory requirements. We welcome applications from new bodies but we will only accredit bodies that meet our strict criteria and will take on the role of furthering and promoting the professionalism and reputation of the wider investment advice sector.

Organisations that wish to become an accredited body will need to meet the requirements set out in this paper. In this way we will be sure that all accredited bodies meet the same minimum criteria. We will not be taking on a role of being a body of last resort and all advisers must obtain their independent verification from one of the accredited bodies.

As a result of these considerations we have refined the final criteria that we publish in this CP (see paragraph 2.20).

Q3: Do you agree that the arrangements described will deliver the required increase in the quality and consistency of professional standards across investment advice sectors?

- 2.11 We received 72 responses to this question and 39 of them agreed with this statement, including the majority of trade and professional body respondents. Six respondents agreed with our proposal, but suggested that the increase in professional standards would only follow over time with effective supervision. Other respondents

pointed out that CPD would need to be structured and relevant to be effective, although there was disagreement over the effectiveness of rules regarding CPD. Three respondents (a bank, a trade body and a professional body) sought further clarity on how the success of these proposed policies would be measured.

- 2.12 21 respondents disagreed and argued that a requirement on advisers to spend time studying for professional qualifications was counter-productive because many of the qualifications covered subject matter that is not directly relevant to the day-to-day work of an adviser. These respondents argued that experience as an adviser is far more significant and effective as a measure of competence than undertaking qualifications. Five respondents (each a regulated firm) questioned whether the professional bodies will actually take action against unethical behaviour

**Our response:** We note that the majority of respondents agree with our assertion that these arrangements will deliver the required increase in the quality and consistency of professional standards. We recognise the concerns and practical limitations that respondents referred to, in particular around relevance of qualifications, effective oversight (by both us and accredited bodies), and the quality of CPD. We address these points in the remainder of this chapter.

We have responded to the concerns raised in the past about the relevance of qualification subject matter by reforming and modernising the content of the appropriate exam standards (AES). We believe that improved knowledge can improve the quality of service, so that investing in advisers delivers consumer benefits. We also note that, if competence has been maintained effectively, as required by our rules, there should not be a significant gap in knowledge. In terms of the enforcement role of accredited bodies, our proposals in Chapter 3 explain that we will expect these bodies to refer issues to us, and that they will be able to withdraw verification that an adviser has met our standards.

We also agree that CPD needs to be relevant and appropriate to be effective. We therefore include guidance in our draft rules in Appendix 1 on the form that advisers' CPD should take.

Q4: Do you agree that updating the FSA Register with further information about advisers' qualifications, and introducing practising certificates for advisers, will contribute to the restoration of consumer trust and confidence?

- 2.13 We received 70 responses to this question. The vast majority of respondents agreed with the assumption that updating the FSA Register with advisers' competency details could lead to improved levels of consumer trust. Most respondents agreed, however, that this development would be ineffective unless consumers were aware of the FSA Register, used it and understood the information it contained. One independent financial adviser (IFA) respondent noted that the General Medical Council's register already lists individuals' names and their primary medical qualification. One network respondent, however, expressed concern that complex qualifications abbreviations might lead some consumers to believe that 'advice is for the wealthy'.

- 2.14 47 respondents agreed that Practising Certificates would be beneficial for consumer trust and confidence, but wanted more detail on the form they would take and clarification on whether or not it would be a requirement that they be displayed, as this would be difficult in the case of large firms where it may not be practical to display all their advisers' certificates. Three IFA respondents dismissed Practising Certificates as unnecessary additional paperwork and doubted whether a certificate would enhance consumer trust.

**Our response:** Responses have supported our view that the availability of information on advisers' professionalism is an important factor that can influence consumer trust and confidence in the retail investment advice sector. We intend to take forward our proposals by providing links from the FSA Register to those run by the accredited bodies. We will also require advisers to hold documentary evidence of their professional standing, following precedents set by other professions.

The name 'Practising Certificates' implies that these documents are a licence to practice, whereas in fact that comes from FSA approval. As a result, we believe that 'Statement of Professional Standing' (SPS) is a better description.

We have decided to link our proposals on SPSs with the requirement to obtain independent verification of professional standing – the SPS may be used as evidence of independent verification. We elaborate on this in Chapter 3 and our draft rules on this policy are contained in Appendix 1.

Q5: Do you think the arrangements described will support the aim of beginning to improve the reputation of retail investment advice?

- 2.15 We received 56 responses to this question. We have taken these comments into account in our refinement of the criteria for accrediting bodies.
- 2.16 Certain respondents agreed in particular with the phrase 'beginning to improve'. They pointed out that, whilst these arrangements will support the aim of improved reputation, this would take time. Other respondents, however, were not convinced and pointed out that other factors (for example, market conditions and the performance of the financial services sector generally) would have more of an impact on the reputation of the retail investment advice sector.
- 2.17 Several respondents insisted that their good reputations were the result of their clients' and communities' positive experiences of them and a change in regulatory policy would be unlikely to affect these perceptions.

**Our response:** We recognise the strong and trusting relationships that clients who have regular contact with their adviser enjoy, but as set out in the research we published in December 2009,<sup>21</sup> consumer trust in investment advisers as a sector is weak and is damaging to the sector. Consequently, we continue to believe that professionalism plays a central role in consumers' attitudes towards this sector, as we set out when we commenced the RDR in 2006.

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21 Wells, J & Gostelow, M (2009) *Professional Standards and Consumer Trust*.

We have always said that it will take time to build the reputation of the sector and we acknowledge there are factors that cannot be controlled. However, we need to focus on what we can change, which includes delivering higher professional standards and introducing a consistent approach through our proposals for accredited bodies.

## **The role of professional and other bodies**

- 2.18 This section consolidates responses to questions one to five from CP09/31 on the role of professional and other bodies, and sets out final policy.

### *Accredited bodies*

- 2.19 We have decided in response to feedback to use the term ‘accredited bodies’. In this section we set out criteria for accrediting bodies and additional detail on how disciplinary mechanisms will operate. Appendix 1 contains draft handbook text to implement this final policy.
- 2.20 Clear and effective criteria for the accredited bodies are vital to ensure that appropriate organisations carry out this role. We consulted in CP09/31 on a number of criteria, which we have updated following responses to the consultation and further input from PSAG. We considered what level of detail to set these criteria at and concluded there is no apparent need to be prescriptive. We do not expect an FSA-authorised firm or a body whose commercial activities would compromise its independence for the purposes of its verification activities to meet our criteria. The criteria we will use to accredit the bodies are set out in the draft Handbook text at Appendix 1 and cover four broad areas:
- a) To act in the public interest and further the development of the profession.
  - b) To carry out effective verification services.
  - c) To have appropriate systems and controls in place and provide evidence to us of continuing effectiveness.
  - d) To cooperate with the FSA on an ongoing basis.
- 2.21 These criteria for accreditation are intended to ensure that there are consistent standards and a level playing field for all advisers. This was one of the original aims of the professionalism strand of the RDR. We expect that prospective accredited bodies will provide us with sufficient evidence that they are able to meet these criteria. If the accredited bodies want to set standards for their members and/or subscribers in excess of this minimum, then they are free to do so in the spirit of raising standards and striving for excellence.
- 2.22 Where an accredited body withdraws an individual’s SPS, it should inform the adviser’s firm of whether the adviser is a member of, or a subscriber to, the accredited body. Under Principle 11,<sup>22</sup> firms are required to appropriately disclose to us anything relating to the firm of which we would reasonably expect notice. This will include withdrawal of an adviser’s SPS.

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22 Principle 11 – Relations with regulators: ‘A firm must deal with its regulators in an open and cooperative way, and must disclose to the FSA appropriately anything relating to the firm of which the FSA would reasonably expect notice.’

- 2.23 It is worth noting that existing professional bodies operating in the retail investment advice sector and elsewhere, typically operate sanctioning regimes for their members. For current retail investment adviser professional bodies, these disciplinary regimes are not assessing compliance with our regulatory requirements, but with the body's own standards. For example, bodies have disciplinary panels that hear complaints about members, with a wide range of sanctions available to take account of individual circumstances.
- 2.24 Therefore we fully expect and encourage bodies to have disciplinary measures that involve a range of sanctions. As we are introducing a requirement for firms to ensure that their advisers provide documentary evidence of verification, we expect the potential threat of the body withdrawing such evidence would be an effective deterrent against non-compliance with requirements.
- 2.25 We recognise that trying to define the issues when we would take action and those where a third party body should act is particularly difficult. Although it is possible to set out examples, the reasons for the issue, the seriousness, the adviser's track record and the involvement or not of the firm will all influence our view on the need for our intervention.
- 2.26 On becoming aware of an issue, we will decide what action we should take. For example, we may act where there are wider issues at the adviser's firm, and/or an appropriate action would be to prohibit the individual from the industry. Alternatively, we may be satisfied that the case can be dealt with by the referring body – for example, where an appropriate response is to require the individual to carry out additional CPD activity. The accredited body might decide it no longer wished to offer its verification service to an individual who did not cooperate with a request to carry out additional CPD. The body might then rely on its terms and conditions with the adviser, which would state that it could withdraw the verification under certain circumstances.
- 2.27 Our research shows that many advisers are already members of professional bodies and we expect many of these bodies will apply to us to become an accredited body. Of those who currently are not members, our research shows that the majority expect to become a member before the end of 2012.<sup>23</sup> We expect that advisers will carefully consider which body to use to obtain independent verification. In doing so, we would wish them to use for example the model produced by PARN, to compare accredited bodies and to challenge them to improve their service. We have set out this model at Annex 3 for reference.
- 2.28 PARN set out three common elements to standards within the professions. The first two were well-established: entry standards to the profession and the complaints handling/disciplinary framework. More recently, a third element has become increasingly important, this being positive support for members in terms of CPD and help – for example, to help them with completing CPD, and in guidance and case studies on ethical issues. This is different to providing the CPD itself. Where the body has a commercial training arm it must be transparent in its management of that conflict of interest.

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23 'The cost of implementing the RDR professionalism regime' NMG 2010.

## *Information sharing*

- 2.29 Section 348 of FSMA restricts our ability to disclose publicly ‘confidential information’. In the absence of consent to its public disclosure from the person who provided the information (and, if different, the person to whom the information relates), we can only disclose such information if there is a ‘gateway’ permitting this disclosure. A gateway is a formal exception to our duty of confidentiality, allowing the disclosure of confidential information to third parties in certain circumstances. Regulated firms are already required to alert us to certain issues. The accredited bodies will be asked to agree to provide us with the documents and information we reasonably require and to cooperate with us in an open and transparent manner.
- 2.30 We also aim to work with accredited bodies in an open and cooperative way. However, any type of conclusion or determination in terms of discipline against individual advisers could not be relied on by an accredited body until the statutory notice procedure had been concluded by us. We would expect accredited bodies to consider the need for action on their part at this point. As a minimum, in the event of an FSA decision to remove the adviser’s approved person status, this will include a requirement by the accredited body that the adviser returns the SPS issued.

## *Becoming an accredited body*

- 2.31 This section details the process for bodies seeking accreditation and the ongoing requirements that they will need to meet.
- 2.32 A body seeking to verify adviser standards will need to apply to us. The application will need to set out how the body will meet the criteria in paragraph 2.20 and should be accompanied by a report from a suitable independent auditor of the matters set out in the criteria. Applications must be accompanied by an application fee of £2,500. This fee is not refundable, regardless of the outcome. It has been established after considering the FSA staff time we expect to take in examining each application. The draft rule is set out in Annex C of the draft Handbook text contained in Appendix 1. Once bodies have been successfully accredited, we do not propose to charge them annual fees.
- 2.33 When considering an application for accredited body status we may:
- carry out any enquiries and request any further information that we consider appropriate, including consulting other regulators;
  - ask the applicant or its specified representative to answer questions and explain any matter we consider relevant to the application;
  - take into account any information that we consider appropriate to the application; and
  - request that any information provided by the applicant is verified in such a manner as we may specify.

- 2.34 If the application is successful, we will confirm this in writing and indicate when we plan to consult to formally change the list of accredited bodies. If the application is not successful we will confirm the decision in writing.
- 2.35 We will enter into an agreement with each accredited body, which will set out the nature of the relationship in more detail. Approval as an accredited body becomes effective only when the name of the organisation is added to our Glossary of definitions.
- 2.36 An accredited body should be willing and able to meet the criteria at all times. As part of their application to us, the body must set out their arrangements for independent auditing of compliance with our criteria for recognition. This audit would assess the organisation's effectiveness in delivering the requirements in its role as an accredited body for retail investment advisers, and should be publicly available.
- 2.37 We expect the body to submit to us an annual report that confirms it met all the criteria in the preceding 12 months and is capable of meeting the criteria in the subsequent 12 months. This annual report should be prepared by a suitable independent auditor and be submitted to us within three months of the anniversary of the date recognition was granted. We consider it good practice for the accredited body to share that report with its members and subscribers.
- 2.38 We intend that where a body is either falling below or is likely to fall below the criteria, we will hold discussions with the body concerned to ascertain whether the criteria continue to be met. If, following a period of engagement and consultation, the body has failed to take appropriate corrective action to comply with the criteria, then we will withdraw accreditation by removing its name from our Handbook. A firm would no longer be able to comply with our rule requiring independent verification of their employees' compliance with our qualification and annual declaration requirements through the body in question.
- 2.39 We expect the body to notify each individual retail investment adviser holding a current SPS of our decision. This would apply equally to those individuals who had a membership relationship with the body and those who subscribed to the verification service offered by the body.
- 2.40 The SPS will continue to be valid for the purposes of our rules until their expiration, as they will have been obtained in good faith by advisers and relied upon in good faith by regulated firms. Advisers would only need to obtain a new SPS once the original document had expired.
- 2.41 In developing our proposals, we have been mindful of the potential competition issues that may arise, which are covered in the accompanying compatibility statement.

## Raising professional standards

### *Qualifications*

2.42 In CP09/31 we published a list of existing qualifications that we considered might continue to be appropriate to meet the reformed qualifications requirements from 1 January 2013. This built on our earlier commitment to advisers that they would not be required to take further exams where they are on course to complete, or have already achieved, an appropriate qualification (listed in Appendix 2) but could fill any gaps in knowledge with structured CPD. We asked:

Q6: Can you provide evidence of any other qualification meeting all three of the stated criteria?

2.43 We received 64 responses from a variety of stakeholders, including individual advisers, firms, qualification providers, learning providers, academic institutions and professional and trade bodies. The responses included feedback on the qualifications listed in CP09/31, as well as names of additional qualifications that respondents believed met the three stated criteria.<sup>24</sup>

2.44 The feedback we received on the qualification list in CP09/31 was generally favourable with the majority of respondents having nothing further to add. However, a number of respondents raised various points on the contents of that list, as follows:

- The list should refer to qualifications only. Titles based on different types of membership of a professional body, for example, member, associate or fellow, should be removed, as this caused confusion, especially as some were conferred without having to pass a qualification.
- Member of the Life Insurance Association (MLIA Dip) was a designation given to individuals either by joining the Life Insurance Association or conferred following the completion of examinations equivalent to the current qualification requirements. Therefore, respondents said, the underlying qualification did not meet the required standards.
- The Chartered Financial Analyst (CFA) Program, while above the level of difficulty of the reformed qualification standards, does not adequately cover the required content of the appropriate exam standards, nor is it sufficiently focused on the UK market in which advisers will be practising.

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24 We set out the following criteria in CP09/31:

- The level of difficulty should be at, or above, a QCF level 4 qualification (or equivalent such as SCQF, NQF, FHEQ);
- The content must be relevant to the investment adviser's role. For example, where the qualification was awarded after 2004, the test would be whether it met the FSSC appropriate examination standards; and if it was awarded before 2004, the test would be whether it was listed in the rules of the FSA's predecessor regulators; and
- The qualification must be awarded by a recognised UK awarding organisation (for example, one given awarding powers by OfQual, the SCQF or the QAA), or an overseas equivalent.

2.45 In terms of evidence of additional qualifications that could meet all three criteria, we received 26 suggestions from individuals, employers and qualifications providers both during and after the consultation period. The BBA also submitted a large number of International and European qualifications which they considered might meet our qualifications requirements.

**Our response:** Since the publication of CP09/31 we have had the qualifications list set out in CP09/31 independently reviewed and we have taken into account all of the feedback received. As a result of this we have added details around some of the qualifications to specify dates or routes to achievement, to clarify when they meet our requirements and when they do not. We have also removed all designations where these were not gained by examination to reflect the helpful feedback we received. As set out in CP10/12, we intend to publish a list of qualifications that meet our Training and Competence requirements in the FSA Handbook which we intend to update through the Quarterly Consultation process.<sup>25</sup> The final list is contained in the Handbook text in Appendix 2.

We expect to include further qualifications in the October Quarterly Consultation Paper this year, including the International and European qualifications put forward by the BBA<sup>26</sup> in response to CP09/31. We will also be ensuring we meet our European obligations and will be writing to our European and international regulatory counterparts to see if we can mutually agree to recognise equivalent qualifications across borders.

We welcome any further suggestions on qualifications that meet our three stated criteria and we ask that qualification submissions are made in good time<sup>27</sup> in order to be considered in the relevant Quarterly Consultation Paper.

We have removed the designation MLIA Dip from the qualification list. This includes where it was gained by examination, as the examination itself was only equivalent to the existing qualifications standards and so does not meet the reformed requirements.

Our requirement is that international qualifications need to meet the same full exam standards as UK qualifications to be listed as appropriate qualifications. Following discussion with the CFA<sup>28</sup> UK we have added clarification in our final qualifications list in Appendix 2 to the CFA Program Level 1 to reflect this. In the case of the CFA this requirement is met through the combination of CFA Program Level 1 and the Investment Management Certificate (IMC).

Of the 26 qualifications put forward as meeting the qualification criteria, and from our own further research, we have added 14 to the list. 20 have not been included because there was insufficient evidence that they meet the three criteria for us to be satisfied they are appropriate.

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25 Quarterly Consultations take place in January, April, July and October.

26 These qualifications are not contained in this Consultation Paper as we are still obtaining information and evidence to assess whether they meet our requirements.

27 Qualifications submissions should be received at least 2 months prior to the Quarterly Consultation publication date.

28 Chartered Financial Analyst Institute.

### *Existing qualifications and qualifications gap filling*

- 2.46 In CP09/31 we set out four approaches<sup>29</sup> to identifying gaps in knowledge between existing qualifications that meet the reformed requirements and the new standards. Of those approaches we said that we believed option iv) to be the most pragmatic and we asked:
- Q7: Do you agree that option iv) is the most pragmatic solution and do you agree that these proposals will provide advisers with transferable evidence of their qualification?
- 2.47 We received 60 responses to this question, 47 of which (mainly from bancassurers, product providers and professional bodies) agreed option iv) was the most pragmatic solution. One product provider, however, while agreeing overall with taking a pragmatic approach, expressed a preference for option iii) because they felt it provided more clarity to individual advisers. 13 respondents disagreed with our proposals on the basis they believed the approach was too vague and would lead to inconsistent or poor completion of qualification gap filling, which would in turn undermine the overall aim to increase professional standards. Of those respondents that disagreed, four expressed a preference for option iii) and one for a blend of option iii) and iv) because they felt it was more robust.
- 2.48 Alongside this, concerns were raised by six respondents about the practicality of expecting individual advisers to carry out their own gap analysis on the qualifications they held as it was felt this was too complicated and unrealistic, especially for older qualifications, where the syllabus may no longer be readily available to undertake such an analysis.
- 2.49 Overall, there was a strong consensus from respondents that whether option iii) or iv) or a blend of both was ultimately chosen, the most important outcome was the development of a consistent and credible approach that was recognised across the industry, including by firms, qualifications providers and professional bodies. Most believed the qualification provider is key in achieving this and that each awarding organisation should carry out the gap analysis on its own qualifications against the new standards. At the very least they should issue guidance on the identified gaps or, better still, conduct a full gap analysis and provide appropriate support to individuals to address the gaps identified.
- 2.50 Further clarification was requested by 19 respondents, the majority of whom were IFAs or IFA networks – although two were product providers – on the subject of who could verify completion of qualification top up. In particular, five respondents asked who could act as an independent assessor and whether this could be the

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29 The four options we considered for qualifications gap fill were:

- (i) map the content of all modules of all qualifications on the transitional list content to the new standards line by line;
- (ii) map the content of all modules of all qualifications on the transitional list to the new standards unit by unit;
- (iii) map the learning outcomes of all modules of qualifications on the transitional list to the learning outcomes set out in the new FSSC exam standards; or
- (iv) identify at a high level the key areas of improvement from the current exam standards to the new exam standards.

training or compliance function within firms, qualifications providers, professional bodies, networks, product provider training arms or independent training companies, or whether it could only be an FSA-approved recognised body.

- 2.51 Clarification was also sought on what the independent assessor would be verifying – for example, was it the individual’s attendance at a course/seminar or was it the knowledge the individual had gained from that attendance? If the latter, would a further exam be required to demonstrate the learning gained?
- 2.52 Following on from this, one IFA and one product provider also asked whether it was appropriate for professional bodies that were also qualifications providers to be able to verify the completion of an individual’s qualification gap fill, on the basis that this dual role called into question their overall independence.
- 2.53 Finally, we also had requests from one respondent and from our PSAG to make a clearer distinction between CPD top-up for transitional purposes and ongoing CPD, to avoid any confusion.

**Our response:** We have renamed CPD top up ‘qualification gap filling’ to avoid any confusion with the proposed requirements for ongoing CPD which is about keeping knowledge up-to-date.

In terms of the gap analysis, as the majority of the feedback was in favour of option iv) we will adopt that approach. We do however recognise the concerns that were raised and we do not necessarily expect individual advisers to carry out the gap analysis themselves, and we are aware that all of the qualifications providers in our PSAG<sup>30</sup> have told us that they intend to carry out this exercise for individuals against their own qualifications, as well as make appropriate suggestions and arrangements to help individuals to address those gaps. However, this will not cover all qualifications on the transitional list and some individuals may want to do their own analysis. We will allow individuals to do their own mapping, but we expect in 100% of cases this will need to be reviewed and verified by the accredited body before that body issues the relevant SPS.

As we stated in CP09/31, we are not requiring further exams for qualification gap fill but, as with CPD, we expect the prime focus to be on the relevance of the activity to the learning outcome and indicative content. This can be from any source: firm, professional body, training provider, etc, and from any time provided it is completed before end-2012. So as we proposed in CP09/31, CPD carried out in the past can be used to meet the qualification gap fill requirements.

## Ethical behaviour

- 2.54 CP09/18 consulted on a draft code of ethics for advisers, following a recommendation of the Professionalism Working Group published in FS08/6. In accordance with those recommendations, the draft code set our expectations of behaviour and supported the wider aim of raising professional standards.

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30 CFA Society (UK), Chartered Institute of Bankers in Scotland, Chartered Insurance Institute, Chartered Institute for Securities and Investment and the ifs School of Finance.

Q17: What are your views on the model code of ethics as the basis for further PSB/FSA consideration and consultation?

- 2.55 We received 240 responses to this question. The vast majority agreed that the code of ethics was a good basis for further policy discussion, although some held the view that there were sufficient existing provisions without the need for this code. Some said that it was a long overdue requirement, as a basis to set clear expectations of behaviour. Several respondents suggested that a code of ethics should conform to those ethical standards applied in other professions such as medicine and it was suggested that a reference to ‘client confidentiality’ be added to reflect the new code for the actuarial profession.
- 2.56 A smaller number of respondents expressed concern that advisers who are members of professional bodies may, in effect, be subject to two codes of ethics. Others pointed out that in the interest of simplicity and avoiding confusion, an ethical code ought to be consistent with the requirements laid down in FIT<sup>31</sup> and APER if not integrated into one of those sourcebooks completely.

**Our response:** We agree that our policy on ethical behaviour should draw on the form and application of ethical codes in other professions. In particular, we have continued to consider the relationship of any code with our ethical requirements in the statements of principle for approved persons (APER). In considering the feedback to CP09/18, we formed the view that these changes should apply to all approved persons, not just the advisers within scope of the RDR.

We acknowledge the points that, as now, advisers who are approved persons – and so also subject to the ethical requirements in APER – may also choose to be subject to a professional body code of conduct, making them the subject of two codes of ethics. To eliminate the likelihood that these codes conflict, our accreditation criteria will require a body to ensure that its code does not contain any provisions that conflict with APER. This will give advisers certainty that, by subscribing to an accredited body, they are not subjecting themselves to contradictory regimes.

We are not setting out a further version of the CP09/18 code, but will rely on APER (as clarified through CP10/12) and the need for consistency with APER for codes applied by accredited bodies. This does not preclude individual bodies from setting higher standards than APER in their own codes, but it does mean that all advisers will subscribe to the same common standards.

The changes to APER proposed in CP10/12<sup>32</sup> have taken into account the responses we received to CP09/18. In Chapter 3 of this paper we outline proposals on how it will be implemented in practice.

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31 The Fit and Proper test for Approved Persons

32 CP10/12: ‘Competence and Ethics’, June 2010

## *Continuing professional development (CPD)*

Q18: Do you have any comments on this approach to CPD for investment advisers, including comments on any changes that it would involve to current practices?

- 2.57 We received 191 responses to this question, with respondents commenting on the structure, purpose and practical application of our proposals for CPD.
- 2.58 Approximately 70% of respondents agreed with our proposed approach to CPD, and the approach was described as a restatement of best practice. This figure included a large number of small practitioners, but also the majority of trade associations. Many respondents recognised and were supportive of the balance that we set out between prescription and flexibility. In particular the need for a degree of consistency was raised in recognition of the varying standards at present.
- 2.59 Several larger providers, intermediaries and networks suggested that greater importance should be placed on outputs, through monitoring various key performance indicators at an individual adviser level. One large provider firm suggested that the requirement for 35 hours was not high enough due to the complexity and changing nature of the adviser's role. Both individual advisers and firms welcomed the degree of flexibility that we proposed within the minimum requirements.
- 2.60 There were some concerns raised about the definition of 'structured' CPD. It was suggested that a requirement to complete structured CPD could prove ineffective if it resulted in just a 'collection of hours' through attendance at lectures and seminars, without actual learning. Similarly, there was concern that CPD could be seen as a 'box ticking' activity with little focus on outcomes.
- 2.61 Several respondents disagreed with the need for a prescriptive approach to CPD, stating that this may not allow advisers and their firms sufficient freedom in how they develop skills and knowledge.
- 2.62 Some organisations raised concerns over potentially differing requirements from various participants (particularly firms, professional bodies and the FSA) in the market in respect of CPD. However, a common theme from all types of respondent was that individual advisers must take responsibility for their own continuing development.
- 2.63 Some intermediary firms were concerned that, under the wider RDR proposals, providers would not continue to support advisers, leading to less supply of structured training.

**Our response:** We will require firms to ensure that their full-time retail investment advisers complete a minimum of 35 hours of appropriate CPD each year. There must be a focus on learning outcomes and 21 hours must involve structured learning with verifiable and measurable activities and, where possible, outputs.

Firms will be required to ensure that their advisers obtain independent verification as evidence of compliance with our CPD annual declaration requirements. Accredited bodies will carry out reviews on a sample basis. In carrying out these reviews we expect that the accredited body will also assess whether the CPD activity is appropriate.

As a guide for accredited bodies, we have adapted work from the International Federation of Accountants; the three points to emphasise when assessing whether CPD activity is appropriate are: relevance; measurement; and verification.

- **Relevance**

CPD should be relevant to the adviser's current role, future career aspirations and professional responsibilities. We expect that advisers will actively plan their CPD each year, with agreement from their firms and input and guidance from their accredited body. We expect that, in addition to the guidance at TC 2.1.12G, accredited bodies will develop guidance regarding which types of CPD activities are considered professionally relevant. Firms will need to make decisions on the relevance of CPD activities, but individual advisers are encouraged to consult with employers, colleagues, accredited bodies and others to help them identify competency or learning gaps and then specify learning opportunities to meet these needs. In terms of technical knowledge, we expect to see coverage of the content set out in the new appropriate qualification standards.

- **Measurement**

Learning activity can be measured in terms of effort or time spent, or through a valid assessment method, which measures competence achieved or developed.

- **Verification**

A portion of the learning activities should be structured and verifiable. This means that the learning is able to be objectively verified by a competent source. Some learning activities may be measured but not verified. Firms will be responsible for ensuring their advisers retain appropriate records and documents related to their CPD and, on request by the accredited body, are able to provide sufficient evidence to demonstrate their compliance with requirements. Recording CPD is important and we welcome market developments that facilitate advisers' completion of CPD, such as online learning and record-keeping tools, which are open to all advisers, regardless of firm size or structure.

We said in CP09/18 that annual CPD activity should reflect the examination standards, including ethics activity, within the annual total and we maintain this position. We placed emphasis on ethics because there is a lack of understanding about how to carry out CPD on ethics. We are encouraged that some organisations already require advisers to successfully complete assessments relating to professional ethics as evidence of such activity. Typically this will take the form of examining case studies and ethical dilemmas that might arise in the adviser's role.

As a matter of good practice, we will expect individual advisers to go through certain stages in completing their CPD activity. This would involve: considering their development needs; identifying and planning appropriate activities to achieve the desired outcomes; recording and monitoring activities; reviewing through evaluation and reflection the activities undertaken and outcomes achieved; and re-assessing and agreeing future development needs. As part of their sample monitoring of CPD, we will also expect (consistent with our requirement that they have effective verification services in place) the accredited bodies to consider advisers' application of this process.

We are aware that some advisers are members of more than one professional body and that each body may have its own CPD requirements. Indeed some advisers are also members of bodies not directly connected to retail investment advice or even financial services. In these cases advisers are still obliged to carry out CPD relevant to their FSA-regulated activities, consistent with maintaining competence for that role. CPD carried out for other activities should not be counted towards our requirements as this is unlikely to be relevant to the role of an adviser.

If an adviser carries out more than one regulated activity – for example, they manage investments and give advice on investments – that individual will have to complete 35 hours of CPD relevant to the latter. CPD carried out for managing investments would not count towards the 35-hour requirement.

We do not at this stage plan to introduce a requirement for advisers to undertake more detailed periodic testing of their knowledge and skills. We will, however, monitor the need for such a requirement in the future through observing the experience of other professions and examining the effectiveness of our own professionalism policy once implemented.

The market failures that we see often arise from advisers not keeping their knowledge up-to-date. For example, innovations such as platforms, or getting involved in advice on areas that the adviser does not routinely advise on. It is clear from our work in examining other professions that assessment of ongoing maintenance of skills and knowledge is an increasingly important requirement.<sup>33</sup> We have also seen evidence that there are positive benefits to the individuals, their employers and their clients when effective CPD activity is undertaken.

We already require firms to review on a regular and frequent basis employees' competence, taking into account technical knowledge and its application, skills and expertise, and changes in the market and to products, legislation and regulation.<sup>34</sup> Under our approved persons regime, individuals such as retail investment advisers must not continue to perform a controlled function if they have not met the standards of knowledge and skill set out in the Training and Competence Sourcebook (TC) for that controlled function.<sup>35</sup>

We therefore expect firms and individual advisers to already be taking seriously their responsibilities to maintain their knowledge and skills. Our research commissioned for this consultation<sup>36</sup> showed that one in five advisers will have to increase the number of hours of structured CPD to meet the new requirements described above.

We require individuals performing certain roles to maintain their knowledge and skills to reduce the risk of consumer detriment from poor quality advice due to a lack of knowledge or skill. For CPD to add to an individual's competence it needs to be appropriate and relevant to the role being performed. This will support the overall intention to deliver better outcomes for consumers, in part by increasing public confidence that advisers are maintaining their knowledge through the ongoing updating of their knowledge and skills.

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33 See for example GMC proposals for revalidation of doctors where in future, all licensed doctors will need to revalidate on a regular basis if they wish to keep their licence to practice.

34 See FSA Handbook TC 2.1.12R.

35 See FSA Handbook APER 4.2.13E.

36 NMG Financial Services Consulting Ltd. (2010) *'The cost of implementing the RDR professionalism regime'*.

As shown in the research published alongside this paper, many advisers are already carrying out CPD in excess of 35 hours.<sup>37</sup> So we do not believe that stipulating this number of hours will lead to a great additional burden on the majority of advisers.

Rather, a minority will now be required to increase the time they invest in their ongoing development to be more consistent with market practice. Hours-based requirements also provide a relatively easily measurable record of CPD activity. We note concerns from some respondents over the challenge to record CPD effectively, but are aware that online capabilities are being developed to make this task easier, with some firms having sophisticated systems already in place. We expect to see accredited bodies playing a greater role through monitoring of CPD activity. This monitoring is likely to be broader and independent of the monitoring carried out by some firms.

We are not simply stipulating an hours-based approach, but that the quality of CPD is improved in line with the guidance we set out in the draft handbook text in Appendix 1. We believe this is necessary to foster the right attitudes to keeping knowledge and skills up-to-date.

In response to the concerns over the supply of CPD, we are not specifying the source of CPD activity, simply the quality and volume. We have seen that our consultations on the RDR stimulate the supply of CPD and as a result are seeing an increase in CPD options and solutions offered.

We are encouraged by the views of respondents that stressed the role of CPD in conjunction with Training and Competence schemes and with monitoring adviser performance through key performance indicators. This highlights the practical approach taken by many firms in seeing CPD in the context of other activities. We expect that – in practice – an adviser could benefit from CPD support offered by their firm, a professional body or training organisations. We reiterate the view we expressed in CP09/31 that the purpose of CPD is educational and advisers should be able to demonstrate that the quality of their CPD is not diluted by any vested interests of the training provider, such as product sales.

We conclude that advisers must undertake a minimum of 35 hours of CPD and that a significant proportion should involve structured learning with relevant, verifiable and measurable activities and outcomes.

We recognise, however, that there are circumstances in which the requirement to complete ongoing CPD may not be appropriate – for example, for individuals who have temporarily stopped carrying on the activity due to maternity leave, long-term illness, disability, caring responsibilities for a family member and other long-term absences arising from a firm's equality and diversity statutory duties. There is also the question of whether the same number of required CPD hours should apply to advisers who do not work full time. We have considered both of these issues carefully and the draft rules make provisions for these situations by allowing firms to suspend CPD requirements due to employee absence and requiring a lower number of CPD hours for individuals working part-time. We welcome views from respondents on the possible equality and diversity impact of our proposals.

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37 See footnote 36.

## Other issues raised during the consultation

### *Increased qualifications requirements for advisers*

- 2.64 Some people hold the view that our reformed qualifications requirements do not go far enough and that for some roles in the retail investment advice sector there should be a minimum requirement of QCF Level 6, or equivalent, qualification.

**Our response:** We have consulted extensively on the qualifications reform, as did the Financial Services Skills Council when they consulted on the actual content and level of qualifications, and we believe our proposals reflect the modern role of the adviser. We do, however, fully support any industry-led initiative to continue raising the professionalism of the sector.

### *Additional flexibility in qualification assessment methodology (alternative assessments)*

- 2.65 We received feedback from six respondents to our proposal in CP09/31 to allow a broader range of alternative assessments to formal written exams than simply oral equivalents. One product provider welcomed the change in approach. Two respondents, one of which was a bancassurer, the other a qualifications provider, while welcoming the change in approach, reiterated the need to ensure any alternative assessment method was robust.
- 2.66 This view was reinforced by the Financial Services Consumer Panel, which disagreed with the change in our approach to examinations and asked for reassurance that alternative assessments would not provide an opportunity for grandfathering or for the industry to work around the requirements. It reminded the Panel that there was similar resistance 12 years ago when examination requirements were first introduced. Finally, one IFA requested we consider work-based assessments further.

**Our response:** Since the publication of CP09/31, we have seen a number of alternative qualification assessment methods being developed. We agree with the feedback received that alternative assessments should not be seen as a guaranteed or easy option and that they must be no less robust than their equivalent written exams. Any alternative assessment method will need to meet the requirements of the relevant qualifications regulator, as well as those proposed in CP10/12. Any qualification tested by an alternative assessment method to a written exam will need FSA consideration before it can be included as an appropriate qualification. We indicate in the final list of appropriate qualifications in Appendix 1 those which involve alternative assessment methodologies. There are not that many at this stage as qualification providers are still developing their proposals. So if any new qualifications are developed that meet our criteria during the course of this year, we will consult on including them in the final rules we intend to publish in December 2010 through our October quarterly CP and using a shortened consultation period, as proposed in CP10/12.

In response to the point about work-based assessments, it may be possible to incorporate work-based assessments as an alternative assessment methodology. This would be up to a qualification provider to create. However, any assessment must be made by testing the

learning outcomes and indicative content of the appropriate examination standards as published by the FSSC. As such, it is highly unlikely that a substantive part of such an assessment could involve checking client files.

### *Qualifications requirements for new advisers*

- 2.67 We have also received a number of requests from firms and individuals asking for clarification on how the qualifications requirements will apply to new advisers – that is those who were not deemed competent as at 30 June 2009 and those who have subsequently joined and will join the sector.
- 2.68 We have been asked whether individuals not currently working in the retail investment advice sector, but who hold an existing qualification, will be able to make use of the ‘no regrets’ provisions and fill any gaps in knowledge with qualification gap filling if at any point they enter the sector, rather than take further exams.

**Our response:** Advisers that were deemed competent after 30 June 2009 (including new advisers) do not have to meet the end-2012 qualification deadline. However, we have proposed in CP10/12 to apply an overall qualification time limit of 30 months to all advisers to achieve an appropriate qualification.

To meet the qualification requirements, advisers within this group can choose either to take an existing appropriate qualification as listed in the draft Handbook text and address any gaps between that qualification and the new exam standards with qualification gap filling or to take one of the new qualifications set out in the Handbook text (Appendix 2).

We are aware that some individuals may have already started to complete a QCF Level 3 qualification (or equivalent) to meet the existing standards. In line with recognised good industry practice,<sup>38</sup> they are fully entitled to expect to be allowed to complete this within a reasonable period. To clarify, it is a commercial decision for qualifications providers on whether they continue to provide lower level qualifications, therefore there is no reason why qualifications should not exist that do not appear on our list of appropriate qualifications, although these will not meet regulatory requirements. We believe there is value in individuals being able to access qualifications at different levels, as it helps new entrants and trainees to develop the appropriate skills and knowledge in preparation for performing a specific role.

To avoid any unintended consequences, we have amended our rules for individuals who do not currently operate within the retail investment advice sector but who hold an existing appropriate qualification that meets the reformed requirements as listed in Appendix 2. Where these individuals wish to take up an advisory role at some point in the future, they will be able to make use of existing appropriate qualifications and fill any gaps in knowledge between that qualification and the new standards at the point at which they join the sector. In these circumstances, the 30-month time limit as proposed in CP10/12 will apply to the completion of the qualification gap fill.

38 For example as prescribed by the QCF, the National Qualifications Framework (NQF), the SCQF and the FHEQ.

## Professional standards for pure protection

### *Feedback statement on pure protection*

- 2.69 At present, individuals involved in selling (on an advised or non-advised basis) pure protection policies to retail customers are not subject to any examination requirements – although they are subject to the SYSC competence requirements. Our Training and Competence rules require firms to ensure that advisers on non-investment insurance contracts are competent, but do not specify an exam requirement. Where advisers are selling under the Conduct of Business Sourcebook, they are then required to pass an examination, which also covers pure protection policies. In addition, firms are required to have appropriate systems and controls to ensure they are satisfied with the suitability of anyone who acts for them. This includes the assessment of an individual's honesty and competence. Individuals selling pure protection policies must be able to demonstrate the knowledge and ability necessary for the performance of their duties.<sup>39</sup>
- 2.70 The Retail Distribution Review proposes that the qualification requirement on investment advisers will continue, at a higher overall level of QCF Level 4, although it is currently anticipated that the protection module will continue at QCF Level 3.
- 2.71 We will shortly publish the findings of our post-implementation review of the Insurance: Conduct of Business Sourcebook (ICOBS). This review identifies a number of problems with consumer understanding of Critical Illness Cover (CIC) and with firm compliance with oral disclosure requirements. We therefore decided to ask for views on whether increased professional standards for advisers selling pure protection would be appropriate, in order to inform our consideration of options to address the failings we found.
- 2.72 In CP09/31 we asked:
- Q12: Please provide any analysis or evidence you may have on the application of professional standards (professional conduct, qualifications and keeping knowledge up-to-date) to pure protection advice, both:
- a) where it is provided by an investment adviser; and
- b) where it is provided by an adviser who does not advise on investments.
- 2.73 We received 53 responses to this question from a variety of providers, intermediaries, professional bodies and industry representative bodies. There was no single prevailing view, but there was an overall majority of responses in favour of some kind of professionalism requirement on pure protection advisers.
- 2.74 Some responses expressed support for professionalism requirements for advisers on pure protection to be similar to those proposed for retail investment advisers, and in some cases the respondent made clear that this meant a qualification at QCF level 4.

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39 Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU 2.3.1R)

The basis for this response tended to be that individuals providing advice to consumers should be qualified to the same level.

- 2.75 A larger group of respondents expressed support for professionalism requirements that are appropriate to the needs of protection advisers, and where an opinion was expressed it was that the appropriate level for this qualification would be QCF Level 3. It was generally felt that a qualification requirement would improve advice standards and levels of trust in the industry. Some respondents said that a basic protection qualification might be the baseline standard, with additional qualifications available for those advising on more complex needs, such as estate planning.
- 2.76 Some respondents expressed the opinion that specific professionalism requirements for pure protection would be excessively costly for firms, because these products are low risk from the perspective of potential consumer detriment. One respondent stated that a requirement for protection advisers to be qualified would mean that those who currently advise on pure protection as part of wider general insurance broking activity would choose not to qualify, and that this would effectively create two separate industries. Another respondent felt that requiring qualifications would result in individuals leaving the industry.
- 2.77 Other respondents stated that firms should be responsible for ensuring that their monitoring, training and competence procedures result in advisers providing good advice to consumers. Qualifications should remain a matter of individual choice.
- 2.78 Some respondents raised the issue of non-advised sales, with some stating that there is greater risk of consumer detriment from these sales than from advised sales.

**Our response:** We note that there was no overwhelming response either for or against requiring professional standards for pure protection advisers, but that the majority of respondents were to some degree in favour.

The complexity of protection products means that the provision of high quality explanations by firms to consumers buying these products is particularly important. Taking into account the feedback received, we will consider further the possible costs and benefits of introducing professional requirements for those selling pure protection, as a way of improving the quality of sales in general and explanations in particular. We will also examine other regulatory options to achieve the desired improvement in the quality of pure protection sales.

# 3 Proposals

- 3.1 This chapter sets out our final policy proposals for the supervision and enforcement of professional standards and for Statements of Professional Standing.
- 3.2 We intend to raise standards in the market for retail investment advice for all individual advisers, whatever type of firm they work within. In the terminology of the post-RDR world, the new standards will therefore apply both to advisers who are providing restricted advice and independent advice. Our aim is to deliver better outcomes for consumers and, in the longer term, to improve the perception of retail investment advice.
- 3.3 We have turned the final policy set out in Chapter 2 into the draft Handbook text shown in Appendices 1 and 2.

Q1: Do you have any views on the possible equality and diversity impact of our CPD draft Handbook text?

Q2: Do you have any views on the possible equality and diversity impact of our draft Handbook text?

## **Implementing the new professional standards**

- 3.4 Responses to our December 2009 consultation have largely supported our view that there is much to gain from moving towards achieving a recognised profession of retail investment advice. Our work seeks to lay down the minimum requirements, but we will be happy to see initiatives that seek to go beyond that.
- 3.5 In this section we set out in more detail our policy decisions to:
  - implement the professional standards through our Handbook, supervision and enforcement; and
  - require firms to ensure that their advisers are subject to independent verification and hold a Statement of Professional Standing (SPS).

## *Our role*

- 3.6 In this section we explain how we will implement increased and consistent professional standards, with reference to supervising individual advisers.
- 3.7 In response to feedback we will implement our proposal from CP09/31 for us to oversee adherence to our professional standards. We have well-established structures and mechanisms that can be adapted to cover these new responsibilities.
- 3.8 We recognise that it will be necessary to develop our capability to monitor individual advisers. This development will include additional focus on adviser standards throughout our main functions, from policy making to authorisation, supervision and taking enforcement action. We recognise that the risks presented to our objectives by individuals in isolation are unlikely to match those presented by firms, but the design of this enhanced capability will ensure that there is sufficient focus on individuals. Our approach will be risk based as is all our supervisory activity.
- 3.9 We will be basing our approach on existing FSA structures, making extensive use of our experience of supervising large numbers of entities. We monitor the activities of over 17,000 small firms, including most of the investment advice firms, 60% of which have only one or two advisers. We have developed extensive capabilities from this experience, such as collecting and analysing key data regarding these firms, filtering this information through risk profiling and alerts, and then decision-making for potential supervisory or enforcement interventions. We are putting this experience to use in implementing our approach to monitoring around 48,000 individual investment advisers that are currently approved to offer advice in the retail market.
- 3.10 Approved persons, including retail investment advisers, must meet our standards set out in APER and we will monitor advisers both reactively and proactively against these standards. Supervision activity will cover both firms and individuals. Our customer contact centre will also receive alerts, such as whistle-blowing cases and complaints. As with our small firm supervisory approach, a triage function will analyse data, receive and filter alerts and determine the need for action by supervisors, or in serious cases refer directly to enforcement.
- 3.11 To add to this supervisory activity, under the Financial Services Act 2010 we are taking on new powers to suspend approved persons and to impose penalties on individuals who have carried out controlled functions without approval.<sup>40</sup> We will be able to make use of these new powers in dealing with the any issues that we find with advisers in the future.
- 3.12 In CP09/31 we explained that we already receive information relating to retail investment advice through our firm-facing supervisory activity and our own outcomes-testing activity. We stated that we would use this and new insights from additional data and from information received from complainants, whistle-blowers and professional bodies. We discuss proposals for these data requirements in Chapter 4.

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40 CP10/11 'Implementing aspects of the Financial Services Act 2010'

## *Statements of Professional Standing*

- 3.13 This section sets out the role that Statements of Professional Standing (SPS) will play in evidencing advisers' compliance with our professional standards requirements. It lists the content of these statements and explains how we will ensure that they are a reliable indicator of professional standards.
- 3.14 Following consultation in CP09/31, we intend to accredit bodies that meet our strict criteria. Under the rules we propose in Appendix 1, advisers will be required to provide their firm with an SPS issued by an accredited body. It is likely that existing professional bodies will apply to us for accreditation.
- 3.15 Providing an SPS is an important role. In return for accreditation, these bodies must agree to certain conditions regarding how they will check advisers are achieving the required professional standards, and the frequency and nature of sampling individual adviser records. By setting the same requirements for all bodies we expect that this will deliver much-needed consistency in interpreting and monitoring standards by the different bodies.
- 3.16 Firms will still be required to ensure that all advisers meet our training and competence requirements, specifically in the three areas of qualifications, continuing professional development (CPD) and ethical behaviour, which give an overall picture of competence. In practice, we expect that accredited bodies will require advisers to confirm to the body that they have carried out relevant CPD activity and that they have adhered to ethical behaviour consistent with that set out in APER.<sup>41</sup> Evidence of appropriate qualifications should need to be verified only once, and the FSA Register will confirm, as it does now, that the adviser is an approved person. Once the accredited body has satisfied itself about the adviser's professional standing, the adviser will receive evidence in durable form<sup>42</sup> from the accredited body that the independent verification has been carried out.
- 3.17 We have reviewed the extensive research that we have already carried out into information that consumers would find helpful during the advice process, and we have also considered the information set out in Practising Certificates from other professions. There is certain basic information that we have agreed with the PSAG<sup>43</sup> that should be prominently set out in the SPS. We expect that the accredited body will publish this information on its own register of members or retail investment advisers as appropriate. The basic information we expect to be covered in the SPS and (where appropriate) to be verified by the accredited body is as follows:
- name of adviser;
  - name and contact details of the accredited body and a named signatory;
  - end date of verification (maximum of 12 months from date of verification);
  - confirmation that the adviser's qualification(s) have been verified;

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41 Statements of Principle and Code of Practice for Approved Persons (APER).

42 Must either be hard copy, or electronic as long as records of the evidence are kept for a minimum of three years.

43 Professional Standards Advisory Group.

- confirmation that the adviser has signed an annual declaration which states that in the preceding six months they:
    - have kept their knowledge up to date; and
    - complied with APER.
  - adviser’s individual reference number as it appears on the FSA Register; and
  - A statement that: ‘People must be approved by the FSA before giving financial advice. You can check if this person is approved by the FSA to give advice by going to [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register) and searching with their FSA individual reference number of: ABC123456.
- 3.18 A pre-requisite of accreditation from us is that the accredited body will issue SPSs to advisers in a durable form and with this information included.
- 3.19 The accredited body must agree to carry out additional checks on a random sample of advisers who will submit evidence of their CPD activity to the accredited body for review. This must include a robust review of 10% of all advisers’ CPD records. These reviews must take into account the guidance that we have set out for CPD in Appendix 1.
- 3.20 The accredited body will agree to make it a condition of membership (or a contractual condition of using its verification service) that it may withdraw its SPS if it discovers it has relied on false or inaccurate information about an adviser’s qualifications, CPD or ethical behaviour. The body may also choose to include other conditions in relation to issues such as misconduct.

- Q3: Is the proposed content of the Statement of Professional Standing (SPS) sufficiently clear and unambiguous to be:
- a) effective in providing evidence to firms that their advisers have met the new professional standards; and
  - b) helpful to consumers?

# 4 Data proposals and discussion points

- 4.1 This chapter sets out how we intend to use data to help us supervise the professional standards of individual advisers. We consult on proposals for new professional standards data and we discuss how we might collect transactional data relating to individual advisers.
- 4.2 Our supervision currently makes use of data from firms to inform us about actual or potential risks that may arise. We take a risk-based approach to firm supervision based on insights from this data and other intelligence that we have access to. We are planning to adopt similar principles in our supervision of professional standards by using some of this existing data to identify issues at an individual adviser level.
- 4.3 In addition, we are seeking to collect data covering the professional standards of advisers. A key dependency is being able to identify those individual advisers who are subject to RDR proposals. We intend to collect this through a notification process, along with:
- the FSA Individual Reference Number of the adviser, including trainees;
  - the FSA Firm Reference Number of the adviser's firm;
  - the qualification status of each adviser – whether they are advising but unqualified or fully qualified (hold an appropriate qualification);
  - the date the adviser started advising (where a qualification has not already been attained); and
  - the name of the accredited body.
- 4.4 Establishing systems to enable us to adopt this approach will cost us between £1.2m and £2.2m. While this is higher than we envisaged in CP09/31 (where we estimated IT costs to be between £0.5m and £1m) we believe this best achieves our desired consumer protection outcomes. Processing costs to us would be in the region of £7.50 per notification.<sup>44</sup> We estimate that this would cost firms £25 per notification to us.

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<sup>44</sup> As set out in CP10/2 we estimate administration costs for notifications in respect of existing approved persons to be £7.50 for FSA and £25 for firms. Our estimate of the FSA cost is based on 15 minutes for a full time employee.

- 4.5 We do not believe the costs to firms will be great given that most of this is data they will already hold. Some firms may incur costs will also arise in project managing any changes that they need to make. We intend to start using this data from 1 January 2013. This data, along with other insights, such as the results of outcome testing, will allow us to identify issues at an individual adviser level and, over time, to build a profile of individual advisers.
- 4.6 We have also considered an alternative where firms would monitor their advisers and would notify us in the event of rule breaches. This alternative approach relies on firms carrying out robust analysis, which we think is less likely to achieve our consumer protection objective. We are open to feedback and, were we to be persuaded to adopt this alternative approach, we would consult on draft rules to do so through a shortened consultation period. We would use a quarterly CP to enable us to introduce final rules by the end of 2010.

Q4: Can you provide evidence to show how much it will cost your firm to submit these professional standards data to the FSA? Do you have a view on the merits of the alternative approach suggested?

- 4.7 As we outlined in CP09/31, we also expect that, to support our consumer protection objectives, further benefits for supervisory activity would be realised from us capturing information about an individual adviser's transactional activity. We could do this through product sales data (PSD) returns submitted by provider firms. The PSD record already requires information to be reported at an individual transaction level, although providers may not hold data on the individual adviser involved in the transaction. We expect that advisory firms would collect information on the sales made by their advisers at an individual adviser level. It may be necessary for us to require advisers to supply providers with the adviser's individual reference number. Alternatively, sourcing data from adviser firms may be a more effective approach as we could then see across the range of transactions recommended for an individual customer.
- 4.8 Adding the adviser's individual reference number to these returns would allow us to use this information to improve our understanding of risks that might arise at an individual level and so better protect consumers. In developing these proposals we considered an alternative option whereby firms would carry out analysis of their advisers and would notify us in the event of rule breaches. Such alerts, possibly combined with other insights we have on the individual adviser, such as information from accredited bodies or whistle-blowing, may lead to our intervention. As with the data proposals above, we would start this notification from 2011 and so would consult in a new time frame in a quarterly CP.
- 4.9 We intend to consult later in 2010 on the detailed data requirements arising from our Charging and Advice proposals as set out in PS10/6 including the collection by us of individual transaction level data.

Q5: What are your views on the most effective way for the FSA to obtain systematic individual transaction data linked to the individual adviser? Do you have a view on the merits of the alternative approach suggested?

# Cost-benefit analysis and compatibility statement

## Cost-benefit analysis

1. Sections 155 of FSMA require us to perform a cost-benefit analysis (CBA) of our proposed requirements and to publish the results. Specifically, we are required to publish ‘an estimate of the costs together with an analysis of the benefits’.
2. This CBA therefore estimates the costs and benefits of the policy changes outlined in the consultation text and, where possible, establishes the economic value of these costs and benefits. In this section, we look at the costs that will fall on the FSA, individual advisers, adviser firms and other market participants as a result of implementing our proposed new rules on professionalism. We then analyse the benefits of the new rules. Finally, we summarise the findings of the analysis and provide estimates of the overall cost of the new rules.
3. The proposals analysed in this CBA can be summarised as follows:
  - a) revised qualification requirements for people advising on retail investment products (advisers);
  - b) qualification gap-fill to meet the new appropriate qualification requirements by end-2012;
  - c) revised Continuing Professional Development (CPD) requirements (enhanced requirements on relevance, type and amount);
  - d) a requirement for advisers to obtain a Statement of Professional Standing (SPS) from an accredited body;
  - e) new data reporting requirements; and
  - f) criteria and an application process to become an accredited body.

## *Methodology*

4. In analysing the costs and benefits associated with the proposals presented in this Consultation Paper (CP), we have taken into account the responses to CP09/18 and CP09/31, as well as our knowledge based on new research and our analysis of the retail investment advice sector.

5. We have considered the following issues, which we analyse in the remainder of this Annex:
  - the direct costs to the FSA;
  - the incremental compliance costs to firms;
  - indirect costs; and
  - the nature and magnitude of the benefits.
6. To inform this analysis we have carried out three new pieces of research:
  - A new quantitative survey of the incremental compliance costs of and behavioural responses to our proposals by advisers, conducted by NMG Financial Services Consulting (NMG).<sup>1</sup> NMG conducted telephone interviews with 780 advisers. The sample of advisers interviewed was designed to be representative of the overall population of advisers.<sup>2</sup> The final report is published alongside this CP.
  - Unpublished internally commissioned research on the effects of qualifications, CPD and ethical requirements on consumer outcomes in a number of industries all over the world. We will publish this research during the consultation period.
  - A survey of bodies likely to seek to become accredited bodies to inform our analysis of the costs they would incur, and, therefore, their commercial incentives to become accredited, as well as their behavioural responses to our policy proposals.
7. In addition to the new pieces of work mentioned above we used, where appropriate, the analysis carried out for the CBAs published in CP09/31 and in PS10/6, consultations with industry representatives and market participants (including the PSAG), reference to academic literature and internal FSA research.

### *Direct costs to the FSA*

8. As we described in CP09/31, changing our processes to set, supervise and enforce against professional standards will lead to one-off costs of recruiting and training staff and of running a project team amounting to £2.3m to £2.5m (excluding IT costs). The cost of establishing new information systems was estimated in CP09/31 at between £0.5m and £1m. However, as stated in paragraph 4.4, we now expect this cost to range from £1.2m to £2.2m. In addition, based on the approach set out in Chapter 4, the cost of each notification by firms of various information on each adviser is expected to be around £7.50, equating to a one-off cost of approximately £360,000.<sup>3</sup> So in total, initial costs will be in the range of £3.9m to £5.1m.
9. As outlined in CP09/31, increased policy, supervisory and enforcement activity (including assessing applications from organisations seeking to become accredited

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1 NMG Financial Services Consulting Ltd. (2010) *The cost of implementing the RDR professionalism regime*, the 'NMG Report'.

2 Other than those advisers who advise retail customers on securities and derivatives only (see paragraph 21).

3 Based on estimates for similar activity as set out in CP10/2 on the Mortgage Market Review and assuming 48,000 initial notifications.

bodies, entering into agreements with successful applicants and subsequently monitoring those bodies) is expected to lead to increased ongoing costs to the FSA of up to £3.5m.

### **Incremental compliance costs**

10. As discussed in Chapters 2 and 3, individuals who advise on retail investment products will be required to: (1) attain an appropriate qualification; (2) carry out a minimum of 35 hours of appropriate CPD per year, of which 21 hours must be structured; and (3) obtain an SPS from an accredited body. This section assesses the costs we expect individual advisers and the wider industry to incur as a result of these policies.

#### **Cost to advisers: Attaining an appropriate qualification**

11. According to the NMG Report:
  - 48% of all retail investment advisers currently hold one of the qualifications that were included in the transitional list in CP09/31.<sup>4</sup>
  - 25% of advisers attained an appropriate qualification before 2007 and could not have been influenced by the RDR, as the proposal that advisers attain a higher minimum qualification was first discussed in DP07/01.
  - 23% of advisers have attained an appropriate qualification since 2007 and the cost of these advisers' studies may therefore be attributable to the RDR.
  - A further 30% are currently studying towards an appropriate qualification, while the remainder have not yet started – again these costs are largely attributable to the RDR.
12. We estimate the total incremental compliance costs of the appropriate qualification requirement to be in the range of £135m to £210m.<sup>5</sup> We believe the lower end of the range is more appropriate. Advisers who have recently completed their qualifications tend to report lower costs than those who are currently studying or are yet to start. These latter groups are estimating future costs and these are likely to be less accurate than the estimates of those who have completed their studies. The mean estimate is more affected by these higher estimates than the median. The range of costs compare to our previous estimates of £140m to £165m published in PS10/06.<sup>6</sup>

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4 With the exception of the Member of the Life Insurance Association (MLIA Dip).

5 The lower end of the range is calculated using the median cost estimate and the upper end the mean cost estimate. NMG do not include in their estimates advisers who report that they will definitely not take the appropriate qualification. These advisers account for approximately 4% of all advisers. If we include the costs of these obtaining an appropriate qualification then the range of incremental cost estimates would be £140m to £225m.

6 The incremental compliance costs estimates in PS10/06 were based on results from a survey of adviser firms. Here the estimates were calculated using information from a survey of individual advisers.

13. It is important to note, however, that not all of this cost arises directly from the Retail Distribution Review. A majority of advisers indicated in our research that they and/or their firms would have raised their qualifications irrespective of the RDR.<sup>7</sup> We have, however, made no adjustment to our estimates to take account of adviser motivation for obtaining an appropriate qualification and are likely, therefore, to overestimate incremental compliance costs.

**Table 1: Total incremental compliance costs of an appropriate qualification**

<b>One-off costs</b>	<b>Estimates based on the median</b>	<b>Estimates based on the mean</b>
	<b>£ million</b>	<b>£ million</b>
Qualification costs, including exams, materials, and other expenses	35	75
Opportunity cost of study time	100	135
<b>Total</b>	<b>135</b>	<b>210</b>

Source: NMG (2010)

Figures have been rounded to the nearest £5m

#### Cost to advisers: Qualification gap-fill

14. As discussed in Chapter 2, advisers who already hold or expect to complete one of the qualifications on the transitional list published in CP09/31 (and updated at Appendix 2 to this paper) will need to undertake ‘qualification gap-fill’ – i.e. structured learning to bridge the gap between the content of their current qualification and the reformed exam standards. Our CBA assumes that: (1) this gap-filling requirement will apply to all advisers who either hold one or expect to complete an appropriate qualification by end-2012; and (2) advisers who have not yet started will choose to undertake one of the qualifications meeting the reforms that do not require qualification gap-fill.
15. The NMG Report has found that there are approximately 23,000 advisers who already hold one of the qualifications listed in CP09/31 and approximately 14,000 advisers who have commenced studying for an appropriate qualification. Accordingly, we assume that c. 37,000 advisers will need to undertake some qualification gap-fill to ensure that they are RDR compliant by end-2012.
16. The cost of qualification gap-fill is difficult to estimate for a number of reasons. Each qualification has a unique gap-fill requirement depending on its content and relevance. Furthermore, the structured learning needed to ‘fill the gap’ is available from a number of training providers in the market and the fees that these providers charge can vary widely. We estimate that, on average, each adviser will need to spend 16 hours on qualification gap-fill. The NMG Report suggests that advisers will typically spend a fifth of their learning/study time during working hours, leading

<sup>7</sup> 21% of advisers who obtained an appropriate qualification post 2007 cite the FSA’s requirements as their main motivation for taking the qualification; for advisers who are currently studying for an appropriate qualification the figure is 38% and for advisers yet to start studying the figure is 43%.

to the equivalent of 3.2 hours worth of lost earnings. The other 12.8 hours of learning are undertaken in advisers' own time. From these figures we estimate the cost to advisers of qualification gap-fill in terms of lost earnings and leisure time is approximately £420 per adviser or £15.5m in total.

#### Cost to advisers: Revised CPD

17. Our proposed requirement is for 35 hours of CPD per year, of which 21 hours must be structured. According to NMG's research, the average amount of CPD an adviser does each year is 83 hours. Fewer than 11% of advisers do less than 35 hours of CPD each year and fewer than 23% of advisers carry out less than 21 hours of structured CPD.
18. Based on this analysis, the driver of incremental compliance costs for this requirement is the cost of reaching 21 hours of structured CPD. Any remaining hours of CPD to meet the 35-hour requirement, for those few advisers who do not meet this standard, are likely to be met in a low-cost way, such as keeping up-to-date with product and market developments, which are unlikely to generate material costs.
19. Among the 20% or 9,500 advisers who do not yet meet the standard of 21 hours of structured CPD, we anticipate that the industry will incur costs of £3m to £4m annually. These calculations include opportunity costs and, based on the survey results, assume that advisers will undertake a quarter of their CPD activities during working hours and the remainder during their leisure time. These calculations were based on 25 hours of structured CPD and are therefore an overstatement of incremental compliance costs.

**Table 2: Total incremental compliance costs of CPD requirements**

Ongoing costs	Estimates based on the median	Estimates based on the mean
	£ million	£ million
Costs of materials, courses and other expenses	0	1
Opportunity cost of time spent on CPD	3	3
Total	3	4

Source: NMG (2010)

Figures have been rounded to the nearest £5m

#### Cost of obtaining Statements of Professional Standing (SPS)

20. In CP09/31 we proposed a requirement that all advisers obtain independent verification of their attainment and maintenance of professional standards and we have outlined how this requirement will apply in practice in Chapter 3. To estimate the cost of these requirements, we surveyed eight professional bodies and sought information from other professions, such as the General Medical Council. Ultimately, the costs to advisers will be the fees that they are charged by the accredited bodies.
21. Advisers will need to incur the cost of accreditation. Based on information from potential accredited bodies we expect that the on-going cost of obtaining an SPS will fall within a range of £60 to £175 per adviser. Based on this, we estimate the

additional on-going costs to all advisers to be in the region of £3m to £8m. This is likely to be an overestimate for those advisers who belong to professional bodies who already meet the accreditation standards and would therefore not incur additional costs. However, the actual price that advisers will need to pay to obtain verification of professional standards will depend on the level of competition that develops in this new market. Therefore it is difficult to estimate at this point what this price is likely to be. We discuss the likely nature of competition further in the section below.

### Costs to advisers: advising on securities and derivatives only

22. We are aware that there are some advisers who advise only on securities and derivatives and do not advise on packaged products. We have examined our data on approved persons at firms with permissions related to only advising on securities and derivatives and not other retail investment products and with permissions relating to retail investment customers. This data, combined with discussions with firm supervision and market sources, has led us to estimate a figure for this CBA of between 300 and 370 advisers in this group. Our CBA calculations assume that the actual figure is at the higher end of this range.
23. These advisers mainly work in wealth management and stock-broking firms, where advisers tend to have attained higher-level qualifications and are more likely to be members of a professional body. We have made the assumption that their circumstances are similar to wealth managers surveyed in the NMG Report and that they will incur similar costs. For this group of advisers, the costs of becoming RDR compliant amount to £980,000 for qualifications (including opportunity costs of hours of study), £95,000 for qualification gap-fill, £44,000 annually for CPD and between £22,000 to £65,500 annually for obtaining independent verification.

### Costs to firms

24. Firms will incur costs to meet the new requirements on providing us with data on their advisers. As set out in Chapter 4, we estimate these costs to be £25 per notification, equating to an aggregate initial cost of £1.2m.<sup>8</sup> Firms will continue to incur annual costs of £25 per adviser, to the extent there is turnover in their staff or changes to the professional standards information among their advisers.

### *Indirect costs (market impacts)*

25. In CP09/18 and PS10/6 we reported analysis by Oxera and the FSA of a number of potential indirect costs and the likelihood of them arising from the implementation of the RDR proposals. That analysis included the assessment of market exit by financial advisers and the impact on access to financial advice, the effects on prices in the short and long term, the unwinding of cross-subsidies and the effect on the regular premium market.
26. Not all the above effects are relevant for RDR proposals related to professionalism issues discussed in this CP, but there are additional impacts that have not been considered in the past. We therefore focus on the following two indirect costs:

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<sup>8</sup> Assumes 48,000 advisers verified initially.

- additional information on market exit by retail investment advisers and the impact on access to financial advice; and
- the functioning of the economic market of accredited bodies.

#### Additional information on market exit by financial advisers

27. The CBA published in PS10/6 contained estimates of exit from adviser firms and analysed the likely market impacts for consumers of this reduction. There we estimated that approximately 11% of advisers would leave the industry. The NMG Report suggests a similar impact: 5% of advisers say that they were already due to retire by 2013, 3% of advisers will retire earlier than planned, a further 3% will leave the industry completely and 2% will take another role within the industry (the remainder gave no response).
28. Therefore, the conclusion reported in PS10/6 (that, in economic welfare terms, advisers leaving the market would not create a net cost because the supply of advice in the longer term will not be affected) remains valid. We stress that we have not reduced our estimates of incremental costs to take into account the reduction in the number of advisers. This is in line with our approach in PS10/6.

#### *Efficiency of competition and market structure for accredited bodies*

##### The economic market for verification of standards of professionalism

29. The market for the verification of standards of professionalism as such does not exist currently. Our proposals would create this market because advisers would be required to have their compliance with professionalism requirements verified independently. The verification service must meet explicit criteria regarding the standard of this service.

##### The nature of competition in the market for verification of standards of professionalism

30. The incentives of most advisers are likely to be to obtain verification through the organisation that has the most relaxed standards, since this would reduce the cost of compliance. As a result, accredited bodies, in the absence of the minimum criteria to become an accredited body the FSA is proposing, would not compete on quality but mostly on price. The FSA is therefore setting up minimum criteria to become an accredited body and devoting resources to monitor the market and to establish whether minimum standards of verification are being met, and to taking action where this is not the case, such as withdrawing accreditation status. The strength of this incentive depends on the extent to which the FSA monitors accredited organisations and on the extent to which there are complementarities between demand for verification services and for other services provided to retail investment advisers, i.e. whether an organisation's business model would be affected by the loss of accredited status.

## Commercial incentives of organisations to become accredited

31. The commercial incentives to become an accredited body will depend on the costs they need to incur to be accredited by the FSA, and the income they can earn from providing verification services. We expect commercial incentives to differ depending on the objectives of the organisation providing the service and the costs they will incur. Some professional bodies could expect to lose membership if they do not provide this service to their members and would therefore decide to offer it. They could offer it on a profitable basis or a not-for-profit basis, or even a combination of the two: the former for non-members and the latter for members. Other organisations, such as those who already offer compliance or training services are likely to enter the market if it is profitable.
32. In the course of our discussions with a sample of eight professional bodies, we sought to establish the costs to those bodies of reforming their internal systems and processes to be able to verify advisers' professional standards and their initial views on whether they could enter the market.
33. As we have stated above, the incremental cost of becoming an accredited body will be lower in the case of bodies that already have systems and processes in place for recording CPD plans, reviewing CPD samples and producing written certification.
34. Most of these bodies already produce certificates for various purposes (e.g. to denote membership or completion of prescribed CPD courses). A number of bodies contacted, however, acknowledged that they would need to employ additional staff to check the necessary sample of CPD records, process applications for 'verification' and share information with us, where possible. Overall we expect that some bodies will incur only marginal extra costs to meet requirements. Other bodies estimate that additional costs to meet our requirements might be in excess of £1m. Across the expected number of accredited bodies, costs to establish the right capabilities to meet our requirements could be in the region of £2m, assuming an average of £250,000 per body, based on our discussions with professional bodies. We are also requiring accredited bodies to apply to FSA incurring an application fee of £2,500 and independent audit fees to support their application in the region of £25,000 each. If we assume eight bodies apply then these initial application costs would equate to £220,000.
35. In addition to these set up costs, accredited bodies will incur annual costs, primarily additional staff to meet the required standard of checks on 10% of CPD records. Overall we estimate that costs for organisations seeking to become accredited bodies will be three full-time equivalent employees (approx £100,000) per annum each. Each accredited body will also incur annual audit fees of approximately £25,000 per annum.
36. It is not possible to say how prices of verification services will be set, but we would expect the incremental costs of providing the service would be passed on to advisers seeking verification of their professional standards. The price will be constrained to the extent that there is more than one organisation competing to offer this service to advisers.

37. Professional bodies tend to be either charitable or not-for-profit organisations, however they need not offer the service on a not-for-profit basis. Irrespective of business models, the level of competition in this market will determine the price charged to advisers to have their professional standards verified.
38. All of the organisations that we held discussions with and that are currently active in the financial services industry have expressed an interest in becoming accredited bodies. Given initial discussions with bodies that are currently not operating in the financial services industry and with other bodies which currently provide compliance and/or training services to retail investment advisers and other professionals in the financial services sector, there is some indication that there will be new entrants to this new market for accredited bodies.

### Outcomes of competition in the market for verification of standards of professionalism

39. It is clearly difficult to predict how the market will behave once the verification process is implemented, but the current evidence points towards some competition developing. NMG's research shows that approximately 20% of advisers are members of two or more professional bodies and our discussions with interested bodies established, in most cases, their willingness to provide verification services to non-members, provided that the adviser concerned operates in the accredited body's 'sub-sector' or that their employer is a member of the body. If verification is provided to advisers by more than one accredited body, this will reduce any potential market power, as switching should be relatively easy since all the adviser would need to do is supply the same information to another provider.
40. Given the uncertainty about the number of bodies that will seek accreditation and the sectors covered there is a risk for some advisers that competition does not develop sufficiently. For instance, if only one body provides verification to advisers operating in a market segment where they could achieve a local monopoly. This would expose advisers to higher prices than peers in other parts of the market.

### *Benefits*

41. The various proposals of the RDR will change the landscape of the retail investment industry in the UK. The objective of the package of proposals is to improve the quality of advice, leading to a reduction in the incidence of mis-selling to the benefit of consumers. The proposals in this CP contribute to this benefit.
42. It is very difficult to attribute specific effects to only the proposals contained in this CP, as changes in behaviour from market participants will take place as a result of the implementation of the entire package of RDR rules, including those in relation to charging and advice. However, there are logical arguments that suggest that the proposals presented in this CP will contribute to improve the quality of advice to the benefit of consumers.
43. Advisers who hold higher minimum levels of relevant qualifications and who address any gaps in their knowledge through regular CPD will be more competent and less likely to make mistakes that could result in unsuitable products being

recommended to their clients. Greater emphasis on ethical standards may also lead to improved quality of advice.

44. We expect that the monitoring and deterrence mechanisms proposed in this CP will be sufficient to improve incentives to comply with professionalism requirements. This is because:
- all advisers will need to demonstrate that their CPD and qualifications meet the required standards and they must make ethical declarations;
  - we expect there to be a more consistent approach to monitoring these requirements through accreditation requirements (for instance, a larger number of CPD record reviews);
  - we devote enough resource to monitoring accredited bodies to ensure they meet the minimum standards for verification including monitoring and reporting back to the FSA where appropriate; and
  - where advisers are found to be in breach of these requirements and they do not take action when prompted by the accredited body then the body would pass this information to the FSA which would take action against the adviser (for instance, removal of Approved Person status).
45. We expect our proposals for advisers who only offer advice on individual securities and derivatives to have on their own limited impact on the quality of advice in this sector. The RDR charging and advice rules do not include advice on individual securities and derivatives. So we do not expect remuneration incentives, which is one of the most important group of incentives, to change, as they will for advice on packaged retail investments. Furthermore, NMG's results demonstrate that the majority of advisers in the wealth management segment are qualified to level 4 or above. We expect the effect of our proposals for advisers who only offer advice on individual securities and derivatives to stem from the support they would offer for compliance with our rules in APER. For the reasons outlined above we expect our proposals to make it easier for us to detect and take action against breaches of the ethical requirements contained in APER.
46. In the following two sub-sections, we report the recent evidence we have gathered on the link between professional standards and consumer outcomes described above, and an estimate of the size of consumer detriment that is present in the market, which the proposals presented in this CP will help to reduce.

#### Links between professionalism and consumer outcomes

47. Our research<sup>9</sup> covered the effects of qualifications, CPD and ethical requirements on consumer outcomes in a number of industries all over the world. Evidence of positive links were found in a number of cases, but the most relevant case is a review of financial planning advice from Australia.
48. In 2003, the Australian Securities and Investment Commission (ASIC) conducted a survey to assess the quality of financial planning advice available to consumers.

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<sup>9</sup> Unpublished internally commissioned research which will be published during the consultation.

- a) An extensive mystery shopping exercise was conducted and 124 completed financial plans were collected. These were forwarded to ASIC and were evaluated by an expert panel on 29 criteria – each plan was given a score out of 100.
  - b) Plans completed by advisers with a ‘certified’ status (i.e. qualification as a Certified Practising Accountant (CPA) or Certified Financial Planner (CFP)) was positively correlated with quality. CPAs are qualified above degree level, have a minimum of three years’ industry experience and undertake CPD.
  - c) CPA-qualified advisers obtained an average score that was seven points higher than advisers with no qualifications, while CFP-qualified advisers obtained an average score that was five points higher than non-qualified advisers. These differences were statistically significant.
49. A similar result emerges from our recent platform thematic review.<sup>10</sup> As part of the review, we gathered data on the level of qualifications of advisers, and we have subsequently matched this data with the percentage of advice that was judged to be suitable or unsuitable. The advice of chartered advisers was deemed to be ‘suitable’ in 71% of cases and ‘unclear’ in 29% of cases. The advice of advisers with a diploma was suitable in 43% of cases, ‘unclear’ in 32% and unsuitable in the remaining 25% of cases. Finally, for advisers at a certificate level, the figures were 11%, 60% and 29% respectively. The suitability of advice clearly increases with the level of qualifications.
50. A third piece of evidence that we refer to is an internal review carried out by a major banking group. The review analysed, among other things, the quality of advice provided by those advisers qualified to level 4, compared to those who are at level 3. The overall quality measure was derived from an internal Key Performance Model of Verification Fail Rate (a measure of ‘poor’ quality). The analysis showed that:
- a) For level 4 qualified advisers, the average for this measure was 20% lower than for those qualified to level 3 only.
  - b) For level 6 qualified advisers, the improvement was a 33% lower fail rate.
  - c) The average ‘Risk Score’ (a blend of Key Performance Indicators including quality of advice, persistency of business by the adviser and any complaints received), for level 4 qualified advisers was 10% lower than for those qualified to level 3 only.
  - d) For level 6 qualified advisers, the improvement was 16% lower.

Higher qualifications are correlated with better outcomes for consumers. It is also worth noting that the study indicated better outcomes for the firm in terms of adviser productivity.

51. Overall, we have seen that higher professional standards can lead to better outcomes for consumers. As our professional standards proposals come into effect we will continue to seek to draw conclusion from linking the standards attained by advisers to the outcomes experienced by their clients and customers.

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<sup>10</sup> [www.fsa.gov.uk/Pages/Library/Other\\_publications/platform\\_thematic\\_review/index.shtml](http://www.fsa.gov.uk/Pages/Library/Other_publications/platform_thematic_review/index.shtml)

52. For PS10/6 we have reviewed the most recent cases of unsuitable advice for which we have evidence available and, where possible, an estimate of the annual consumer detriment that is due to the unsuitable advice. The total annual consumer detriment we estimated there to be, on the basis of examples on pension transfers, unit trusts vs. equity ISAs, investment bonds vs. equity ISAs and personal pensions, was in the region of £200m. Not all of the estimated detriment relates to professionalism. Competence is likely to have been a contributing factor, for instance where ISA limits were not used.
53. Additional evidence on the prevalence of unsuitable advice has also been recently presented in two separate thematic reviews, although the problems identified were not due solely to advisers not complying with professional standards. The platform thematic review published in March 2010, found that unsuitable advice was given in 24 out of 147 cases (16%). As another example, the thematic review of sales of Lehman Brothers' structured products highlighted that 46% of sales were clearly unsuitable, with suitability unclear in a further 23% of cases. In addition, in wealth management, we are observing what appear to be consistent problems around the up-risking of client portfolios and inappropriate targeting, often of complex, illiquid and high-cost products. We anticipate that improved standards of professionalism will make incidents such as these less likely.
54. Through our ongoing supervisory activity, we continue to see evidence of advice issues across all types of advisers including those working within banks, private client and wealth managers and IFAs.

### *Summary*

55. In summary, the costs to the FSA are expected to be in the range of £4m and £5m initially and £3.5m annually. The total costs to advisers will be in the region of £155m to £225m to meet the standards required by end-2012 and then £3m to £4m annually after that. Advisers will also incur the costs of independent verification of their compliance with professional standards. Since this market does not exist currently it is difficult to predict the price of this service. Based on information from potential accredited bodies we expect the on-going cost of obtaining an SPS will fall within a range of £60 to £175 per adviser, leading to additional on-going costs to all advisers in the region of £3m to £8m. This is likely to be an overestimate for those advisers who belong to professional bodies who already meet the accreditation standards and would therefore not incur additional costs.
56. Benefits are expected to arise through improvements in the quality of advice delivered to consumers as a result of higher, more consistent professional standards and increased compliance with professional standards, through effective FSA monitoring and enforcement of accredited bodies and advisers. These measures will support RDR rules on charging and advice. The FSA will, however, monitor the development of this market, but the benefits of increased compliance with rules on professionalism are contingent on this being effective.
57. In the longer term, we anticipate that higher standards of professionalism will result in greater trust in advisers.

Q6: Do you have any information that would materially affect the findings of this cost-benefit analysis? If so, please attach with your response.

## Compatibility Statement

### *Introduction*

58. In this Annex, we set out our view on how our proposals and draft rules in this CP are compatible with our general duties under Section 2 of FSMA and our regulatory objectives set out in Sections 3 to 6 of FSMA. We also outline how our proposals are consistent with our principles of good regulation to which we must have regard.

### *Compatibility with our statutory objectives*

59. Our policy proposals and draft rules contribute mainly to our statutory objectives of working towards improving confidence in the financial system; and securing the appropriate degree of protection for consumers; they do not contribute materially to the rest of our statutory objectives.

#### Market confidence

60. We believe our proposals will lead to higher professional standards for all advisers. This will lead to improvements in the quality of advice and in the longer term may contribute to greater levels of consumer confidence in the market for investment advice.

#### Consumer protection

61. Currently, consumers may be unable to easily understand or verify the professional standards of advisers. We consider that the independent verification requirement, higher minimum levels of training and maintenance of professional standards will raise the quality of advice. This, combined with the other regulatory intervention arising from the Retail Distribution Review (RDR), will enhance the level of consumer protection in the market.

### *Compatibility with the Principles of Good Regulation*

62. Section 2(3) of FSMA requires that, in carrying out our general functions, we consider the principles of good regulation. Our proposals set out in Chapter 2 fulfil all seven of our principles of good regulation:

a) *The need to use our resources in the most efficient and economic way*

Our proposal will require us to devote additional resources to supervision and enforcement action as outlined in the CBA. We will also need to devote resources to the assessment and monitoring of accredited bodies. Our efficiency will be enhanced because we will require accredited bodies to report issues relating to the professional standards of their members/subscribers to us – thereby enhancing our ability to detect rule breaches.

b) *The responsibility of those who manage the affairs of authorised persons*

The refinement of our proposals on professionalism requirements for firms' advisers will ensure that there is greater clarity for those who oversee the professional standards of advisers.

c) *The principle that a burden or restriction which is imposed should be proportionate to the benefits*

We have carried out a cost-benefit analysis as above. Our proposals on raising professionalism requirements are part of the wider RDR which will address the persistent problems that have been observed in the market for retail investments. It is difficult to separately attribute the benefits to individual strands of policy: our proposals provide support for the package of RDR rules.

d) *The desirability of facilitating innovation*

Our proposals affect the market for advice and would create a new market for verification of professional standards. We do not expect them to hinder innovation in the market for advice (see the cost-benefit analysis above for further details). In the case of the verification of professional standards we are setting a framework within which beneficial innovation could arise, although it is not possible to say at this stage the extent to which this would happen.

e) *The international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom*

The proposals have paid specific regard to developments occurring in the EU, specifically the work on retail investment products, in order to minimise changes for firms in the near future. We do not believe our proposals will have a materially damaging effect on the competitive position of the United Kingdom.

f) *The need to minimise the adverse effects on competition*

Our proposals affect the market for advice and would create a new market for verification of professional standards. Our proposals are part of the RDR package of rules. Our conclusions on the effect of this package of rules as set out in PS10/06 have not changed, as set out in our CBA.

The criteria for accredited bodies are intended to accommodate new entrants into that market. We are anxious to avoid a situation occurring where any one accredited body gains market power over a particular group of advisers. We will mitigate the risk of this happening through monitoring the market and managing our relationships with the accredited bodies.

g) *The desirability of facilitating competition*

We do not believe that our proposals will have a material effect on the facilitation of competition.

*Why our proposals are most appropriate for the purpose of meeting our statutory objectives*

63. In developing our proposals, we have taken steps to engage extensively with a wide range of industry practitioners, consumer representatives and other stakeholders to get their views on the issues to be addressed and to identify potential solutions. Through this we developed a better understanding of the key complexities in the markets, solutions which could be most effective in resolving these and how the market could potentially react to proposed regulatory interventions.
64. We have taken into account the responses to CP09/18 and CP09/31 and conducted a number of pieces of research – including the extensive field based research by NMG. The ensuing debate and analysis has led us to believe that the proposals we have outlined are most appropriate in attempting to tackle the persistent problems observed in the retail investment market.
65. Our proposals aim to improve professional standards in the industry and consequently reduce the level of unsuitable advice. We have also worked to ensure that the proposed changes are consistent with upcoming changes within the EU.



# Summary of previous RDR policy papers and future timetable

## I – Previous RDR policy papers

Date	Paper	Section of the RDR	Comments
June 2007	DP07/1 – A Review of Retail Distribution	All	This paper set out for discussion the proposals put forward by the five industry groups we convened to help us address the range of issues identified by the RDR.
July 2007	DP07/4 – Review of the Prudential Rules for Personal Investment Firms	Prudential requirements	In this paper, we discussed potential changes to the prudential rules for personal investment firms, updating the requirements in order to better mitigate the market failures in this sector.
April 2008	FS08/2 – Review of the Prudential Rules for Personal Investment Firms	Prudential requirements	This Feedback Statement summarised and commented on the responses we received to DP07/04 and indicated how we would take forward the issues raised.
April 2008	Retail Distribution Review – Interim Report	All	This report set out the main areas of feedback we had received to DP07/1 and identified some possible changes to the regulatory landscape suggested by that feedback.
November 2008	FS08/6 – Retail Distribution Review	All	This Feedback Statement set out our proposals for the retail market for the distribution of investment products and represented the beginning of formal consultation.
November 2008	CP08/20 – Review of the Prudential Rules for Personal Investment Firms (PIFs)	Prudential requirements	This paper set out our proposed changes to the prudential rules for personal investment firms, following on from FS08/2.
June 2009	CP09/18 – Distribution of retail investments: Delivering the RDR	Services, charges, professionalism	This paper described the changes we were proposing as a result of the RDR and included draft Handbook text to deliver these changes.

November 2009	PS09/19 – Review of the Prudential Rules for Personal Investment Firms (PIFs)	Prudential requirements	This paper set out final rule changes to prudential requirements arising from CP08/20. Following feedback from the industry, we extended the transition to the new regime by a year to 31 December 2013. While this allows firms more time to adapt to the new requirements, we expect firms to start considering now what additional resources they will need to have in place.
December 2009	CP09/31 – Delivering the Retail Distribution Review	Professional standards, corporate pensions and pure protection business	This paper addresses the commitments made in CP09/18 to consult further with market practitioners on the governance of professional standards, corporate pensions, and pure protection.
March 2010	PS10/6 – Distribution of retail investments: Delivering the RDR – feedback to CP09/18 and final rules	Services, charges, professionalism	This paper contained final rules on describing and disclosing advice services and Adviser Charging. It also set out our position on Simplified Advice.
March 2010	CP10/8 – Pure protection sales by retail investment firms: remuneration transparency and the COBS/ICOBS election	Pure protection	This paper set out proposals concerning pure protection sales by investment advisers, covering remuneration and disclosure. It also set out our approach to the COBS/ICOBS election with reference to Adviser Charging.
March 2010	DP10/2 – Platforms: delivering the RDR and other issues for discussion	Platforms	This discussion paper sought views on changes to our regulation of platforms, to support the RDR remuneration objectives and to address issues identified through thematic work and wider experience.
May 2010	CP10/12	Competence and ethics	This paper included proposals on ethical standards which apply to investment advisers within scope of the RDR.
June 2010	PS10/10	Corporate Pensions	This paper contained final rules applying the consultancy charging to the corporate pensions market for group personal pensions, group stakeholder pensions and group self invested personal pensions (referred to here as GPPs)

## II – RDR timetable

Date	Section of the RDR	Actions	
		FSA	Firms and practitioners
2010	Professionalism	Policy statement to CP10/14 (Q4 2010)	Consultation closes on 24 September 2010.
	Pure protection	Consultation on labelling of adviser services (Q3 2010).	Interested parties should respond to the consultation.
	Service and charges	Consultation on changes to transactional sales reporting (Q3 2010).	Interested parties should respond to the consultation.
	Platforms	Publish Consultation Paper (Q3 2010). Publish Policy Statement (Q4 2010)	Interested parties should respond to the consultation.
End 2011	Prudential Rules for Personal Investment Firms (PIFs)		PIFs subject to new prudential rules from 31 December 2011 on a transitional basis. For further details see PS09/19 – Review of the Prudential Rules for Personal Investment Firms (PIFs).
End-2012	Professionalism	FSA will carry out thematic work and monitoring.	Advisers who do not possess a qualification on the transitional list need to qualify at the new level. Advisers who do possess a qualification on the transitional list need to complete any additional CPD top up.
	Remuneration	FSA will carry out thematic work and monitoring.	All advisers and product providers must prepare and be ready to operate Adviser Charging and consultancy charging and meet the associated requirements from January 2013.
	Description of services	FSA will carry out thematic work and monitoring.	All advisers must prepare to describe their services as independent advice or restricted advice from January 2013. All advisers must prepare and start complying with the new independence and product requirements from January 2013.
End of 2013	Prudential Rules for Personal Investment Firms (PIFs)		PIFs must comply fully with the new prudential rules from 31 December 2013. For further details see PS09/19 – Review of the Prudential Rules for Personal Investment Firms (PIFs).



# PARN model for comparing professional bodies

## Three pillars of professional standards – case study comparisons

Pillars	Aspects of Pillars	Choices/Variations	ACCA	GMC	NMC	RICS	SRA
Entry Standards	Min. Level of entry	Lower than degree	✓	✗	✗	✗	✗
		Degree level	✗	✗	[✓]	✓	✗
		Higher than degree	✗	✓	✗	✗	✓
	Range of entry paths	Diploma/NVQ	✗	✗	✓	✗	✗
		Degree	✗	✓	✓	✓	✓
		Professional qualification	✓	✗	✗	✗	✗
		Experience	✓	✗	✗	✗	✗
	Degree of control of entry paths	Accreditation/ QA	✗	✓	✓	✓	✓
		Authentication of Certs.	✓	✓	✓	✓	✓
		Own qualifications	✓	✗	✗	✗	✗
	(Post degree) Supervised experience	Pre-Qualification	✓	✓	✗	✓	✓
		Post-Qualification (Preceptorship)	✗	✓	[✓]	✗	✗

Pillars	Aspects of Pillars	Choices/Variations	ACCA	GMC	NMC	RICS	SRA
Complaints & Discipline	Ethical code	Beneficiaries other than client?	✓	✓	✓	✓	✓
		Aspirational	(✓)	X	(✓)	X	X
		Actionable	(✓)	✓	(✓)	✓	✓
	Complaints	Public	✓	✓	✓	✓	✓
		Private	X	X	X	X	X
		Handled internally	✓	✓	✓	(✓)	✓
		Handled externally	X	X	X	(✓)	{X}
		Use of ADR	X	X	X	X	X
		Informed complainant	✓	X	✓	✓	✓
		Compensation	✓	X	X	✓	X
	Complaints processes	Filtering	✓	✓	✓	X	✓
		Investigation	✓	✓	✓	✓	{X}
		Disciplinary	✓	✓	✓	✓	✓
		Appeals	✓	✓	✓	✓	✓
	Committees	Investigating	X	✓	✓	X	{X}
		Disciplinary	X	✓	✓	X	✓
		Combined	✓	X	X	✓	X
	Establishment of guilt	Balance of probabilities	✓	✓	✓	✓	(✓)
		Beyond reasonable doubt	X	X	X	X	(✓)
	Consequences of transgression	CPD	X	✓	X	✓	X
		Supervision Order	X	✓	✓	X	✓
		Suspension	✓	✓	✓	✓	✓
		Expulsion	✓	✓	✓	✓	✓
		Name and shame	✓	X	✓	✓	✓
		Removal of privilege	X	✓	X	✓	✓
		Fine	✓	X	X	✓	✓
		Quiet word/warning	X	X	X	✓	✓
Appeals Process	Public apology	X	X	X	✓	X	
	Internal	✓	X	✓	✓	X	
	External (Courts)	X	✓	X	X	✓	

Pillars	Aspects of Pillars	Choices/Variations	ACCA	GMC	NMC	RICS	SRA
CPD & Positive Supports	Compliance policy	Mandatory	✓	{X}	✓	✓	✓
		Voluntary	X	X	X	X	X
		Obligatory	X	X	X	X	X
		Mixed	X	X	X	X	X
	Level of CPD requirement	Hours/ points	✓	X	✓	X	✓
		No set requirements	X	✓	X	✓	X
		Competency framework	X	{X}	X	X	X
	Control over what counts	Accreditation of Suppliers	X	X	X	✓	✓
		Acceptable activities	✓	X	✓	X	✓
	Measurement	Inputs	✓	X	✓	X	X
		Outputs	X	X	[✓]	X	✓
		Combination	X	X	X	✓	X
	Support for CPD	Guidelines	✓	[✓]	✓	✓	✓
		Recording templates	✓	[✓]	✓	[✓]	✓
		Reflection templates	X	[✓]	[✓]	[✓]	{X}
		Helplines/advice	✓	✓	✓	✓	{X}
		Mentoring	✓	X	✓	X	X
	Support for ethical behaviour	Ethical dilemmas	✓	✓	X	[✓]	[X]
		Training on code	X	✓	✓	✓	✓
		Requirement to sign up to code	✓	✓	✓	X	X
		Ethics Helpline / Advice	✓	✓	✓	✓	✓
		Access to code	✓	✓	✓	✓	✓

## Key

- ✓ Regulator uses or provides this option
- X Regulator does not use or provide this option
- (✓) Regulator uses both of these (usually exclusive) options
- {X} Currently provided by another professional body
- [✓] Regulator will provide this shortly
- [X] Another body will provide this shortly



# List of respondents to CP09/31

For a list of respondents to the questions in CP09/18 please see Annex 3 of Policy Statement 10/6.

ABI	Chartered Institute of Bankers in Scotland
Adviser Alliance	Chartered Insurance Institute
AEGON	Cirencester Friendly Society Ltd
AIFA	Compliance and Training Solutions Ltd
Argentis Financial Management Ltd	Compos Mentis (Training) Ltd
AXA Life	Creative Benefit Solutions Ltd
Adam Samuel	David Severn
Aspira Corporate Solutions	DG Mutual
Association of Financial Mutuals	EA Consulting Group
Aviva	Edgar Financial Advice Ltd
Barclays Wealth Compliance	Eldon Financial Planning Ltd
Black Swan Financial Management	Ethos Financial Management Ltd
British Bankers' Association (BBA)	Fidelity International
Brewin Dolphin Limited	Financial Futures IFA limited
Bruce Stevenson Financial Services Ltd	Financial Services Consumer Panel
CFA Society of the UK	Focus Solutions Group plc
Cairn Independent Ltd	Formula Ltd
Chadney Bulgin LLP	Foster Denovo
Chartered Institute for Securities & Investment	Friends Provident

GDC Associates	Santander
George Collier	Simply Biz
Global Life Zurich Financial Services	Sesame
Highclere Financial Services	Scottish Life
HSBC Bank plc	Spence & Spence Ltd
ICAEW	Standard Life plc
<i>ifs</i> School of Finance	T H March & Co Ltd
Institute of Financial Planning	TISA
Investment & Life Assurance Group	Tenet Group Ltd
Investment Management Association	The Association of Private Client Investment Managers and Stockbrokers
Jelf Employee Benefits	The Capita Group Plc
John Dyer (Life & Pensions) Ltd	The Dentists and General Mutual Benefit Society Ltd
Legal and General	The Original Holloway Friendly Society Ltd
Lloyds Banking Group	The Personal Finance Society
Matrix Capital Ltd	The Royal Bank of Scotland Group
McLaughlin Financial Planning Ltd	The Society of Pension Consultants
Mouchel Group plc	Threesixty Services LLP
Nationwide Building Society	Tower Watson
Net-Innovate Ltd	Travers Smith LLP (2 responses from this company)
Openwork Market Solutions Ltd	UBS Wealth Management
Oval Financial Services Ltd	Warwick Butchart Associates Ltd
PageRussell Ltd	Wills & Trusts IFP Ltd
Pensions Management Institute	Wiltshire Friendly Society Ltd
Perceptive Planning	Wishart Wealth Management Ltd
Peter Nellist	Wynford Davies & Co
Prudential	
Rensburg Sheppards	
Richard Witcombe Financial Advisory Services	
Royal London Group	
SG Wealth Management Ltd	

# List of questions in this CP

- Q1: Do you have any views on the possible equality and diversity impact of our CPD draft handbook text?
- Q2: Do you have any views on the possible equality and diversity impact of our draft Handbook text?
- Q3: Is the proposed content of the Statement of Professional Standing (SPS) sufficiently clear and unambiguous to be:
- a) effective in providing evidence to firms that their advisers have met the new professional standards; and
  - b) helpful to consumers?
- Q4: Can you provide evidence to show how much it will cost your firm to submit these professional standards data to FSA? Do you have a view on the merits of the alternative approach suggested?
- Q5: What are your views on the most effective way for the FSA to obtain systematic individual transaction data linked to the individual adviser? Do you have a view on the merits of the alternative approach suggested?
- Q6: Do you have any information that would materially affect the findings of this cost-benefit analysis? If so, please attach with your response.



# Draft Handbook text

Note:

This draft instrument does not take into account the proposed changes to the Training and Competence sourcebook set out in the draft Training and Competence Sourcebook (Qualification Requirements and Time Limits) Instrument 2010 published with Consultation Paper 10/12.

**[TRAINING AND COMPETENCE SOURCEBOOK (RETAIL DISTRIBUTION REVIEW) INSTRUMENT 2010]**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 138 (General rule-making power);
    - (b) section 156 (General supplementary powers);
    - (c) section 157(1) (Guidance); and
    - (d) paragraph 17(1) (Fees) of Schedule 1 (The Financial Services Authority); and
  - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 31 December 2012.

**Amendments to the Handbook**

- D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
General Provisions (GEN)	Annex B
Fees manual (FEES)	Annex C
Training and Competence sourcebook (TC)	Annex D
Supervision manual (SUP)	Annex E

**Citation**

- E. This instrument may be cited as the [Training and Competence Sourcebook (Retail Distribution Review) Instrument] 2010.

By order of the Board  
[ ] 2010

## Annex A

### Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>accredited body</i>	any of the following bodies recognised by the <i>FSA</i> for the purpose of providing the independent verification required under <i>TC 2.1.25R</i> :  [insert names of bodies recognised by <i>FSA</i> for this purpose]
<i>retail adviser</i>	an <i>employee</i> who advises <i>retail clients</i> on <i>designated investments</i> (other than <i>long-term care insurance contracts</i> ).

## Annex B

### Amendments to the General Provisions (GEN)

In this Annex, underlining indicates new text, unless otherwise stated.

#### Accredited bodies

- 2.2.20A G In the *Glossary*, the definition of *accredited body* contains a list of accredited bodies. Further information on *accredited bodies*, including guidance on the process for including a body in the list, is set out in *GEN 2 Annex 2G* and the obligation to pay the application fee is set out in *FEES 3.2*.

After GEN 2 Annex 1 insert the following new section. The text is not underlined.

#### **2 Annex 2 G Accredited bodies**

##### Introduction

1. An *accredited body* is a body appearing in the list of such bodies in the *Glossary*.
2. For the purpose of this Annex, “*accredited body*” includes bodies applying to the FSA for accreditation.

##### Process for including a body in the list of accredited bodies

3. Before adding an organisation to the list of *accredited bodies* in the *Handbook*, the *FSA* will comply with all the requirements imposed by the *Act* in relation to the exercise of its rule-making powers. This will include consulting on any proposed amendment to the list.
4. In considering the compatibility of a proposed addition with the *regulatory objectives*, the *FSA* will determine whether the *accredited body* will contribute to securing an appropriate degree of protection for *consumers* having regard in particular to:
  - (1) the matters set out in paragraphs 10 to 20; and
  - (2) the rules and practices of the *accredited body*.
5. An application to the *FSA* to be added to the list of *accredited bodies* should set out how the *accredited body* will satisfy the criteria in paragraphs 10 to 20. The application should be accompanied by a report from a suitable auditor which sets out its independent assessment of the *accredited body's* ability to meet these

criteria.

6. When considering an application for accredited body status the *FSA* may:
  - (1) carry out any enquiries and request any further information that it considers appropriate, including consulting other regulators;
  - (2) ask the applicant or its specified representative to answer questions and explain any matter the *FSA* considers relevant to the application;
  - (3) take into account any information which the *FSA* considers appropriate to the application; and
  - (4) request that any information provided by the applicant is verified in such a manner as the *FSA* may specify.
7. If an application is successful, the *FSA* will confirm this to the applicant in writing and indicate when it plans to consult on a change to the *Glossary* definition of *accredited body*. If the application is not successful, the *FSA* will confirm its decision in writing.
8. The *FSA* will enter into an agreement with the *accredited body* which will specify the requirements that the *accredited body* must meet. These will include the matters set out in paragraphs 10 to 20. Approval as an *accredited body* becomes effective only when the name of the organisation is added to the *Glossary* definition of *accredited body*.
9. Paragraphs 10 to 20 set out the criteria which an *accredited body* should be willing and able to meet at all times.

Acting in the public interest and furthering the development of the profession

10. The *FSA* will expect an *accredited body* to have an objective to act in the public interest, to contribute to raising consumer confidence and professional standards in the retail investment advice market and promoting the profession and act in a way that is consistent with that objective.

Carrying out effective verification services

11. If independent verification of a *retail adviser's* professional standards has been carried out by an *accredited body*, the *FSA* will expect the *accredited body* to provide the *retail adviser* with evidence of that verification in a *durable medium* and in a form agreed by the *FSA*.
12. The *FSA* will expect an *accredited body* to have in place effective procedures for carrying out its verification activities. This should include:
  - (1) verifying that each *retail adviser* who is a member of or subscriber to the *accredited body's* verification service has made an annual declaration in writing that the *retail adviser* has, in the preceding 12 months, complied with *APER* and completed the continuing professional development required

under TC 2.1.14R;

- (2) verifying annually the continuing professional development records of no less than 10% of the *retail advisers* who have used its service in the previous 12 *months* to ensure that the records are accurate and the continuing professional development completed by the *retail advisers* is appropriate; and
  - (3) verifying that, if required by *TC*, the *retail advisers* who use its services have attained an *appropriate qualification*. This should include, where relevant, checking that appropriate qualification gap fill activities have been completed by a *retail adviser*.
13. The *FSA* will not expect an *accredited body* to carry out the verification in paragraph 12(3) if a *retail adviser* provides the *accredited body* with evidence in a *durable medium* which demonstrates that another *accredited body* has previously verified the *retail adviser's appropriate qualification*.
14. The *FSA* will expect an *accredited body* to make it a contractual condition of membership (where a *retail adviser* is a member of the *accredited body*) or of using its verification service (where a *retail adviser* is not a member of the *accredited body*) that, as a minimum, the *accredited body* will not continue to verify a *retail adviser's* standards and will withdraw its independent verification of those standards if the *accredited body* is provided with false or inaccurate information in relation to a *retail adviser's* qualifications or continuing professional development or a false declaration in relation to a *retail adviser's* compliance with *APER*. In this regard, an *accredited body* must have in place appropriate decision-making procedures with a suitable degree of independence and transparency.

Having appropriate systems and controls in place and providing evidence to the *FSA* of continuing effectiveness

15. The *FSA* will expect an *accredited body* to ensure that it has adequate resources and systems and controls in place.
16. The *FSA* will expect an *accredited body* to have effective procedures in place for the management of conflicts of interest and have a well-balanced board with at least one independent board member.
17. The *FSA* will expect an *accredited body* to have a code of ethics and to ensure that its code of ethics and verification service terms and conditions do not contain any provisions that conflict with *APER*.

Ongoing cooperation with the *FSA*

18. The *FSA* will expect an *accredited body* to provide the *FSA* with such documents and information as the *FSA* reasonably requires and cooperate with the *FSA* in an open and transparent manner.
19. The *FSA* will expect an *accredited body* to share information with the *FSA*

(subject to any legal constraints) in relation to the professional standards of the *retail advisers* who use its service as appropriate. Examples might include conduct issues, complaints, falsification of qualifications or continuing professional development or a failure to complete appropriate continuing professional development.

20. The *FSA* will expect an *accredited body* to submit to the *FSA* an annual report by a suitable independent auditor which sets out that auditor's assessment of the body's satisfaction of the criteria in paragraphs 10 to 19 in the preceding 12 *months* and whether, in the auditor's view, the body is capable of satisfying the criteria in the subsequent 12 *months*. The *FSA* will expect this annual report to be submitted to the *FSA* within three *months* of the anniversary of the date on which the *accredited body* was added to the *Glossary* definition of *accredited body*.

#### Withdrawal of accreditation

21. If an *accredited body* fails or, in the *FSA*'s view, is likely to fail to satisfy the criteria, the *FSA* will discuss this with the *accredited body* concerned. If, following a period of consultation, the *accredited body* has failed to take appropriate corrective action to ensure that it satisfies and will continue to satisfy the criteria, the *FSA* will, after consultation, withdraw the *accredited body*'s accreditation by removing its name from the list of *accredited bodies* published in the *Glossary*. The *FSA* will then expect the body to notify each *retail adviser* holding a current statement of professional standing of the *FSA*'s decision. A statement of professional standing will continue to be valid for the purposes of *TC 2.1.25R* until its expiration.

## Annex C

### Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 3.2 Obligation to pay fees

Method of payment

...

- 3.2.3 R (2) *FSA does not specify a method of payment for a person seeking to:*
- (a) *become a recognised body or a designated professional body;*  
or
  - (b) *be added to the list of designated investment exchanges or accredited bodies.*

- 3.2.4 G The *FSA* expects that a *person* seeking to become a *recognised body* or a *designated professional body* or to be added to the list of *designated investment exchanges or accredited bodies* will generally pay their respective fees by electronic credit transfer.

- 3.2.7 R Table of application, notification and vetting fees

(1) Fee payer	(2) Fee payable	Due date
...		
<u>(zg) Applicants to be added to the list of accredited bodies</u>	<u>£2,500</u>	<u>On or before the date the application is made</u>

## Annex D

### Amendments to the Training and Competence sourcebook (TC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### Supervision

- 2.1.4 G *Firms* should ensure that those supervising *employees* carrying on an activity in TC Appendix 1 have the necessary coaching and assessment skills as well as technical knowledge and experience to act as a competent supervisor and assessor. In particular *firms* should consider whether it is appropriate to require those supervising *employees* not assessed as competent to pass an appropriate examination as well except where the *employee* is giving advice on ~~packaged products~~ retail investment products, see TC 2.1.5R.
- 2.1.5 R Where an *employee* is giving advice on ~~packaged products~~ retail investment products to *retail clients* and has not been assessed as competent to do so, the *firm* must ensure that the individual supervising and assessing that *employee* has passed an appropriate examination.

...

#### Examination requirements before starting activities

...

- 2.1.8A R A firm must ensure that an *employee* who was assessed as competent as a *retail adviser* for the purposes of TC 2.1.1R at 30 June 2009 does not carry on the activity of a *retail adviser* without first attaining an appropriate qualification.

...

#### Exemption from appropriate examination requirements

- 2.1.9 R (1) If a *firm* is satisfied that an *employee* meets the conditions in this *rule* then the requirements to have passed each module of an appropriate examination will only apply if that *employee* is carrying on one of the activities specified in this *rule*.
- (2) The conditions are that a *firm* should be satisfied that an *employee*:
- (a) has at least three years' up-to-date relevant experience in the activity in question obtained while employed outside the *United Kingdom*;
  - (b) has not previously been required to comply fully with the relevant examination requirements in TC 2.1.1R; and

- (c) has passed the relevant regulatory module of an appropriate examination;

but (b) and (c) do not apply to an *employee* who is benefiting from the “30-day rule” exemption in SUP 10.10.7BR, unless the *employee* benefits from that rule because he is advising *retail clients* on ~~*packaged products*~~ *retail investment products* or is a *broker fund adviser*.

- (3) The relevant activities are:
  - (a) *advising on investments* which are ~~*packaged products*~~ *retail investment products*, if that advice is given to *retail clients*;
  - (b) the activity of *broker fund adviser*;
  - (c) *advising on syndicate participation at Lloyd’s*; or
  - (d) the activity of a *pension transfer specialist*.

...

#### Continuing professional development

- 2.1.14 R Subject to TC 2.1.16R, a firm must ensure that a retail adviser:
  - (1) who works for an average of 32 hours or more per week, and who has been assessed as competent for the purposes of TC 2.1.1R, remains competent by completing a minimum of 35 hours of appropriate continuing professional development in each 12 month period.
  - (2) who works for an average of less than 32 hours per week, and who has been assessed as competent for the purposes of TC 2.1.1R, completes in each 12 month period one hour of appropriate continuing professional development for each hour worked per week.
- 2.1.15 G (1) In order to meet the requirement in TC 2.1.14R(1), a retail adviser should complete no less than 21 hours of structured professional development activities.
  - (2) In order to meet the requirement in TC 2.1.14R(2), no less than 60 per cent of the retail adviser’s continuing professional development requirement should consist of structured professional development activities.
- 2.1.16 R A firm is permitted to suspend the requirements of TC 2.1.14R in respect of a retail adviser, for the period of time during which the retail adviser is continuously absent from work, if that absence is due to:
  - (1) paternity or maternity leave;

- (2) long-term illness or disability;
  - (3) caring responsibilities for a family member who has a long-term illness or disability; or
  - (4) any other long-term absence allowed in order for the *firm* to meet its statutory duties in relation to equality and diversity.
- 2.1.17 G In *TC* 2.1.16R(3), a family member includes a partner, parent, grandparent, sibling or child.
- 2.1.18 G In deciding whether to suspend the requirements of *TC* 2.1.14R, a *firm* should take into account:
- (1) the *retail adviser's* individual circumstances;
  - (2) the length of time the *retail adviser* is likely to be absent from carrying on the activity; and
  - (3) its statutory duties in relation to equality and diversity.
- 2.1.19 G Examples of structured professional development activities include:
- (1) attending courses, seminars, lectures, conferences or workshops which require attendance for one hour or more;
  - (2) completing e-learning or other courses provided by distance learning.
- 2.1.20 G Examples of unstructured professional development activities include:
- (1) conducting research relevant to the individual's role;
  - (2) reading industry or other relevant material;
  - (3) participating in professional development coaching or mentoring sessions which involve measurable objectives, targets and outcomes.
- 2.1.21 G Continuing professional development should:
- (1) be relevant to the *retail adviser's* current role and any anticipated changes to that role;
  - (2) maintain the *retail adviser's* knowledge of the *appropriate qualification* core subjects in (a) to (c) below (including their practical application):
    - (a) regulation and ethics;
    - (b) investment principles and risk; and
    - (c) personal taxation;

- (3) maintain, as appropriate, the *retail adviser's* knowledge of the *appropriate qualification* specialist subjects of:
  - (a) *retail investment products*;
  - (b) *securities*; and
  - (c) *derivatives*;
- (4) contribute to the *retail adviser's* general professional skill and knowledge;
- (5) include consideration of standards of ethical behaviour relevant to the *retail adviser's* role;
- (6) address any indentified gaps in the *retail adviser's* technical knowledge;
- (7) address the *retail adviser's* personal and professional development needs.

2.1.22 G Continuing professional development completed by a *retail adviser* in relation to activities other than acting as a *retail adviser* should not be taken into account for the purposes of TC 2.1.14R.

2.1.23 R A *firm* must, for the purposes of TC 3.1.1R (Record keeping), make and retain records of:

- (1) the continuing professional development completed by each *retail adviser*; and
- (2) the dates of and reasons for any suspension of the continuing professional requirements under TC 2.1.16R.

Annual declarations

2.1.24 R A *firm* must ensure that a *retail adviser* confirms annually in writing that the *retail adviser* has, in the preceding 12 months:

- (1) complied with *APER*; and
- (2) completed the continuing professional development required under TC 2.1.14R.

Independent verification

2.1.25 R A *firm* must obtain from an *accredited body* independent verification of the *firm's* compliance with:

- (1) in respect of its *retail advisers*, TC 2.1.1R, TC 2.1.8AR and TC 2.2A.1R(1);

(2) TC 2.1.14R; and

(3) TC 2.1.24R.

2.1.26     R     The independent verification in TC 2.1.25R must be obtained by a firm:

(1)     in respect of a retail adviser who began to carry on the activity of a retail adviser on or before 31 December 2012, within 60 days of that date and of the anniversary of that date thereafter.

(2)     in respect of a retail adviser who began to carry on the activity of a retail adviser on or after 1 January 2013, within 60 days of the date on which the retail adviser was assessed as competent as a retail adviser and of the anniversary of that date thereafter.

2.1.27     G     Independent verification for the purposes of TC 2.1.25R should take the form of a statement of professional standing issued by an accredited body.

**TC App 1.1    Activities and Products/Sectors to which TC applies subject to TC Appendices 2 and 3**

**TC App 1.1.R**

**TC App 1.1                    Activities and Products/Sectors to which TC applies subject to TC Appendices 2 and 3**

**TC App 1.1.1R**

Activity	Products/Sectors	Is there an appropriate examination requirement?
<i>Designated investment business carried on for a retail client</i>		
...		
Advising	4. <del>Paekaged products</del> <u>Retail investment products</u> which are not <i>broker funds</i>	Yes
...		

## Annex F

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### 10.10 Customer functions

...

Customer function (CF 30)

...

- 10.10.7C G The *FSA* would expect an individual from overseas to be accompanied on a visit to a *customer*. *TC 2.1.9R(2)* provides that the *firm* will have to be satisfied that the individual has at least three years' up-to-date relevant experience obtained outside the *United Kingdom*. However, the remaining provisions of *TC 2.1.9R(2)* are disapplied in these circumstances (except for an individual who gives advice to *retail clients* on ~~*packaged products*~~ *retail investment products* or is a *broker fund adviser*). The effect of this is that such individuals need not pass the relevant regulatory module of an appropriate examination (see *TC 2.1.9R(2)*).

...

After SUP 16.12 insert the following new section. The text is not underlined.

#### 16.13 Reporting requirements

Application

- 16.13.1 R This section applies to a *firm* with *employees* that are *retail advisers*.

Purpose

- 16.13.2 G (1) The purpose of this section is to set out the requirement for *firms* which employ *retail advisers* to notify individual *retail adviser* professional standards data to the *FSA*.
- (2) The purpose of collecting this data is to assist the *FSA* in the ongoing supervision of *firms* which employ *retail advisers* and to enable the *FSA* to gain an understanding of the professional development of individual *retail advisers* in the interests of protecting customers.

Reporting requirement

- 16.13.3 R (1) A *firm* must submit a report (the 'data report') to the *FSA* containing the information required by *SUP 16.13.4R* quarterly, within 20

*business days* of the end of the quarter, unless (3) applies.

- (2) The reporting periods are the four calendar quarters of each year beginning on 1 January.
- (3) A *firm* need not submit a data report if no changes have occurred in relation to the information submitted by the *firm* in its previous report.
- (4) A *firm* may submit a data report more frequently than quarterly if it wishes.

#### Content of the report

- 16.13.4 R The report must contain professional standards data as follows:
- (1) the *firm's* name and *FSA* Firm Reference Number;
  - (2) the names and *FSA* Individual Reference Numbers of the *firm's* *employees* who are *retail advisers*, including trainees;
  - (3) whether a *retail adviser* has attained an *appropriate qualification*;
  - (4) if a *retail adviser* has not attained an *appropriate qualification*, the date on which the *employee* began to carry on the activity of a *retail adviser*; and
  - (5) the name of the *accredited body* used for the purposes of *TC* 2.1.28R.
- 16.13.5 R The data report must comply with the provisions of *SUP* 16 Annex 27R.
- 16.13.6 R A *firm* must provide the data report to the *FSA* electronically in a standard format provided by the *FSA*.
- 16.13.7 R A data report will have been provided to the *FSA* in accordance with *SUP* 16.13.6R only if all mandatory data reporting fields (as set out in *SUP* 16 Annex 27R) have been completed correctly and the report has been accepted by the relevant *FSA* reporting system.

After *SUP* 16 Annex 26 insert the following new section. The text is not underlined.

#### **16 Annex 27R Professional Standards Data Submission Form**

*(see next page)*

# Retail Adviser - Professional Standards Data Submission Form

(all fields are mandatory)

Firm Name

2 Firm Reference Number (FRN)

Approved Person Name

4 Individual Reference Number (IRN)

Qualification Status

Accredited Body

Date adviser began activity of a retail adviser

In SUP Sch 2.2G insert the following new section. The text is not underlined.

**SUP Sch 2 Notification requirements**

**SUP Sch 2.2**

...

3.2.7 R Table of application, notification and vetting fees

...

Handbook reference	Matter to be notified	Content of notification	Trigger event	Time allowed
SUP 16.9.3R	...	...	...	...
SUP 16.13	The professional standards data as set out in SUP 16.13.4R	Professional Standards Data Submission Form	Quarterly	20 <i>business days</i> after quarter end

...



# Appropriate examinations

## Annex A

### Amendments to the Training and Competence Sourcebook (TC)

#### Note:

It is intended that the following provisions will be included in the Training and Competence Sourcebook (Qualification Requirements and Time Limits) Instrument 2010 which was published in Consultation Paper 10/12. We are proposing to include the qualifications listed in this Annex in addition to those which were listed in the relevant tables in Annex D of that draft instrument when this instrument is made by the Board.

**Unless otherwise indicated all qualifications are valid if awarded by examination only.**

**Table 2** Advising on (but not dealing in) *securities* (which are not *stakeholder pension schemes* or *broker funds*)

Activity Number 2 in *TC* Appendix 1.1.1R

#### **Key**

1 = Full qualification requirement

2+3 = Full qualification requirement

\* = Full qualification requirement includes completion of qualification gap fill and is only valid if the qualification and gap fill are attained within the relevant time limits

#### Syllabus

- (i) Post 2010 reformed Appropriate Exam standards version as revised;
- (ii) Pre 2010 reformed Appropriate Exam standards version

<b>Qualification</b>	<b>Qualification Provider</b>	<b>Syllabus</b>	<b>Key</b>
Chartered Financial Analyst Program Level 1	CFA Institute	(i) and (ii)	3
Associate	CFA Society of UK (Formerly United Kingdom Society of Investment Professionals / Institute of Investment Management and Research)	(ii)	1*
Investment Management Certificate	CFA Society of UK (Formerly United Kingdom Society of Investment Professionals / Institute of Investment Management and Research)	(ii)	2*
Investment Management Certificate (Level 4	CFA Society of UK (Formerly United Kingdom	(i)	2

certificate)	Society of Investment Professionals / Institute of Investment Management and Research		
Certificate in Private Client Investment Advice and Management	Chartered Institute for Securities and Investment (CISI)	Attained through a CISI competency interview and presentation only (ii)	1*
Investment Advice Diploma (where candidates hold technical modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (CISI)	(i)	1
Diploma (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Certificate in Private Client Investment Advice and Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Investment Advice Certificate	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Member of the Securities Institute (MSI Dip) (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Masters in Wealth Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Registered Representative Full Membership Exams - where holders have all three papers or have both Stock Exchange Practice and Technique of Investment papers	London Stock Exchange (records are now kept by the Chartered Institute for Securities and Investment; formerly the Securities and Investment Institute)	(ii)	1*

**Table 3 Advising on (but not dealing in) Derivatives**

Activity Number 3 in TC Appendix 1.1.1R

**Key**

1 = Full qualification requirement

2+3 = Full qualification requirement

\* = Full qualification requirement includes completion of qualification gap fill and is only valid if the qualification and gap fill are attained within the relevant time limits

**Syllabus**

(i) Post 2010 reformed Appropriate Exam standards version as revised;

(ii) Pre 2010 reformed Appropriate Exam standards version

<b>Qualification</b>	<b>Qualification Provider</b>	<b>Version</b>	<b>Key</b>
CFA Program Level 1	CFA Institute	(i) and (ii)	3
Investment Management Certificate	CFA Society of UK	(ii)	2*
Investment Management Certificate (Level 4 certificate)	CFA Society of UK	(i)	2
Associate	CFA Society of UK (Formerly United Kingdom Society of Investment Professionals / Institute of Investment Management and Research)	(ii)	1*
Member of the Securities Institute (MSI Dip) (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Masters in Wealth Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Registered Representative Full Membership Exams - where holders have all three papers or have both Stock Exchange Practice and Technique of Investment papers	London Stock Exchange (records are now kept by the Chartered Institute for Securities and Investment; formerly the Securities and Investment Institute)	(ii)	1*
Diploma (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*

**Table 4** Advising on *Packaged Products* (which are not *broker funds*) including advising on *Friendly society* tax-exempt policies

Activity Numbers 4 and 6 in *TC* Appendix 1.1.1R

**Key**

1 = Full qualification requirement

2+3 = Full qualification requirement

\* = Full qualification requirement includes completion of qualification gap fill and is only valid if the qualification and gap fill are attained within the relevant time limits

Syllabus

(i) Post 2010 reformed Appropriate Exam standards version as revised;

(ii) Pre 2010 reformed Appropriate Exam standards version

<b>Qualification</b>	<b>Qualification Provider</b>	<b>Version</b>	<b>Key</b>
BA in Financial Services	Bournemouth University	1995 – 2001 (ii)	1*
MA in Financial Services	Bournemouth University	1995 – 2001 (ii)	1*
Post Graduate in Financial Services	Bournemouth University	1995 – 2001 (ii)	1*
Diploma in Professional Financial Advice	Calibrand / Scottish Qualifications Authority	(i)	1
Investment Advice Certificate	Chartered Institute for Securities and Investment	(ii)	1*
Certificate in Private Client Investment Advice and Management	Chartered Institute for Securities and Investment (CISI)	Attained through a CISI competency interview and presentation only(ii)	1*
Certificate in Private Client Investment Advice and Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Diploma (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Masters in Wealth Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Member of the Securities Institute (MSI Dip) (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Associate (March 1992 – July 1994 syllabus (including top-up test))	Chartered Institute of Bankers in Scotland	(ii)	1*
Associate (post August 1994 syllabus)	Chartered Institute of Bankers in Scotland	(ii)	1*
Certificate in Investment Planning	Chartered Institute of Bankers in Scotland	(ii)	1*
Chartered Banker (where candidates hold UK Financial Services and Investment modules)	Chartered Institute of Bankers in Scotland	(ii)	1*
Diploma in Investment Planning (current)	Chartered Institute of Bankers in Scotland	(ii)	1*
Diploma in Investment Planning (Existing Adviser)	Chartered Institute of Bankers in Scotland	(i)	1
Diploma in Investment Planning (New adviser)	Chartered Institute of Bankers in Scotland	(i)	1
Diploma in Investment Planning (Retail Banking) (New adviser)	Chartered Institute of Bankers in Scotland	(i)	1
Diploma in Investment Planning (Retail Banking)(Existing Adviser)	Chartered Institute of Bankers in Scotland	(i)	1
Advanced Diploma in Financial Planning	Chartered Insurance Institute	(ii)	1*
Advanced Financial Planning Certificate	Chartered Insurance Institute	(ii)	1*
Associate (ACII) (where candidates hold appropriate	Chartered Insurance Institute	(ii)	1*

Qualification	Qualification Provider	Version	Key
life and pensions modules)			
Associate (ALIA Dip)	Chartered Insurance Institute	(ii)	1*
Diploma in Financial Planning	Chartered Insurance Institute	(ii)	1*
Fellow (FCII) (where candidates hold appropriate life and pensions modules)	Chartered Insurance Institute	(ii)	1*
Fellow (FLIA Dip)	Chartered Insurance Institute	(ii)	1*
Regulated Diploma in Financial Planning	Chartered Insurance Institute	(i)	1
Associate (where candidates have passed the Investment module)	<i>ifs</i> School of Finance (Formerly the Chartered Institute of Bankers)	(ii)	1*
Diploma for Financial Advisers	<i>ifs</i> School of Finance (Formerly the Chartered Institute of Bankers)	(i)	1
Diploma for Financial Advisers	<i>ifs</i> School of Finance (Formerly the Chartered Institute of Bankers)	(ii)	1*
Professional Investment Certificate	<i>ifs</i> School of Finance (Formerly the Chartered Institute of Bankers)	(ii)	1*
Certified Financial Planner	Institute of Financial Planning	(ii)	1*
Fellowship	Institute of Financial Planning	(ii)	1*
BA in Financial Services	Sheffield Hallam University	1995 – 2001 (ii)	1*
MA in Financial Services	Sheffield Hallam University	1995 – 2001 (ii)	1*
Post Graduate in Financial Services	Sheffield Hallam University	1995 – 2001 (ii)	1*
BA in Financial Services	University of the West of England	1995 – 2001 (ii)	1*
MA in Financial Services	University of the West of England	1995 – 2001 (ii)	1*
Post Graduate in Financial Services	University of the West of England	1995 – 2001 (ii)	1*

**Table 10** Advising on and dealing with or for clients in, *Securities* (which are not *stakeholder pension schemes or broker funds*)

Activity Number 12 in *TC* Appendix 1.1.1R

**Key**

1 = Full qualification requirement

2+3 = Full qualification requirement

\* = Full qualification requirement includes completion of qualification gap fill and is only valid if the qualification and gap fill are attained within the relevant time limits

Syllabus

- (i) Post 2010 reformed Appropriate Exam standards version as revised;
- (ii) Pre 2010 reformed Appropriate Exam standards version

<b>Qualification</b>	<b>Qualification Provider</b>	<b>Version</b>	<b>Key</b>
CFA Program, Level 1	CFA Institute	(i) and (ii)	3
Investment Management Certificate	CFA Society of UK	(ii)	2*
Investment Management Certificate (Level 4 certificate)	CFA Society of UK	(i)	2
Associate	CFA Society of UK (Formerly United Kingdom of Investment Professionals / Institute of Investment Management and Research)	(ii)	1*
Certificate in Private Client Investment Advice and Management	Chartered Institute for Securities and Investment	(ii) Attained through CISI competency interview and presentation only	1*
Investment Advice Diploma (where candidates hold technical modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment	(i)	1
Certificate in Private Client Investment Advice and Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Diploma (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Registered Representative Full Membership Exams - where holders have all three papers or have both Stock Exchange Practice and Technique of Investment papers	London Stock Exchange (records are now kept by the Chartered Institute for Securities and Investment; formerly the Securities and Investment Institute)	(ii)	1*
Member of the Securities Institute (MSI Dip) (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Masters in Wealth Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*

**Table 11 Advising on, and dealing with or for clients in, Derivatives**

Activity Number in 13 TC Appendix 1.1.1R

**Key**

1 = Full qualification requirement

2+3 = Full qualification requirement

\* = Full qualification requirement includes completion of qualification gap fill and is only valid if the qualification and gap fill are attained within the relevant time limits

**Syllabus**

- (i) Post 2010 reformed Appropriate Exam standards version as revised;
- (ii) Pre 2010 reformed Appropriate Exam standards version

<b>Qualification</b>	<b>Qualification Provider</b>	<b>Version</b>	<b>Key</b>
CFA Program, Level 1	CFA Institute	(i) and (ii)	3
Investment Management Certificate	CFA Society of UK	(ii)	2*
Investment Management Certificate (Level 4 certificate)	CFA Society of UK	(i)	2
Associate	CFA Society of UK (Formerly United Kingdom of Investment Professionals / Institute of Investment Management and Research)	(ii)	1*
Member of the Securities Institute (MSI Dip) (where candidates hold 3 modules as recommended by the <i>firm</i> )	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Masters in Wealth Management	Chartered Institute for Securities and Investment (Formerly the Securities and Investment Institute)	(ii)	1*
Registered Representative Full Membership Exams - where holders have all three papers or have both Stock Exchange Practice and Technique of Investment papers	London Stock Exchange (records are now kept by the Chartered Institute for Securities and Investment; formerly the Securities and Investment Institute)	(ii)	1*
Diploma (where candidates hold 3 modules as recommended by the <i>firm</i> )	Securities and Investment Institute (now known as the Chartered Institute for Securities and Investment)	(ii)	1*



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