Financial Services Authority

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Quality of advice on structured investment products

The findings of a review of advice given to consumers to invest in structured investment products backed by Lehman Brothers from November 2007 to August 2008

October 2009

Contents

This report does not give Handbook guidance but updates you on the findings from our thematic review on the quality of advice for structured investment products and our requirements in this area. The report does not define the suitability standards for structured investment products. Firms should have regard to this communication as FSA supporting material which is intended to assist firms in complying with the FSA's rules and Principles. There may be several ways of complying with a regulatory requirement, and following guidance or other material we publish, such as this, is only one approach. For further information, please refer to **www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2009/guidance.shtml**.

A firm's senior management remain responsible for establishing and implementing effective controls over the quality of advice given on structured investment products.

1 Overview

Introduction

1.1 This report summarises the findings of our thematic review of advice given to customers to invest in structured investment products backed by firms which were part of the failed investment group, Lehman Brothers ('Lehman'). It sets out the standards against which we have assessed firms before Lehman's collapse and against which we will assess firms after it. We also provide examples of good and poor practice demonstrated by firms and advisers. These findings are likely to be relevant to all firms and advisers giving advice to customers on structured investment products.

1.2 We visited a sample of 11 advisory firms and reviewed a sample of their customer files to assess the suitability of their advice. We also assessed their systems and controls relating to advice given on structured investment products and considered the extent to which firms had implemented changes and new controls in response to Lehman's insolvency on 11 September 2008. The sample broadly reflected the population of firms which had given advice on these products and included small, medium and large firms. It included IFAs with national coverage, networks and the bank sector.

1.3 In applying our methodology to the period before Lehman's collapse we took into account the degree of due diligence that would have been reasonable for firms and advisers to have undertaken at the time. We did not apply the benefit of hindsight to our reviews.

Suitability of advice

1.4 Across 11 firms we reviewed the files for 157 advised sales and assessed:

- 73 cases (46%) as unsuitable;
- 36 cases (23%) as unclear;[1] and
- 48 cases (31%) as suitable.

1.5 We identified significant levels of unsuitable advice within nine of the 11 firms in the sample.

1.6 Key reasons for unsuitable advice were:

- the recommendation failed to meet the customer's needs and circumstances;
- the recommended product exposed the customer to an inappropriate level of risk including over-concentration of assets in a single product or product type (that is, there was failure to diversify the customer's assets); and
- the recommendation failed to meet the customer's tax needs.

1.7 Our assessments found that product literature issued by the plan managers formed the core basis of firms' and advisers' research on specific products. However, the failings we have identified through our file reviews and in firms' systems and controls suggest more fundamental flaws in core principles of investment advice. They are not solely attributable to any deficiencies in the plan manager's literature.

Risk disclosure

1.8 We did not assess cases as unsuitable for disclosure failings alone; however, a significant proportion of files were deficient in this area. In particular, there was widespread failure by firms to adequately disclose counterparty risk to customers in suitability reports.

Systems and controls

1.9 Most firms' systems and controls in the period before Lehman's collapse had deficiencies which meant they posed a significant risk of providing unsuitable advice to customers. Only in two firms did the controls in place meet our required standards.

1 These are cases where we were unable to make a definitive assessment of suitability. The main reason for this was due to inadequate customer records on file and a lack of clarity as to how recommendations met the customer's needs, objectives or financial circumstances. These may indicate procedural rather than suitability failings, but we were unable to form a view on whether or not the advice given was suitable. Where such cases have been found, we have asked the firm to provide further information as necessary to satisfy us that the case is suitable. Where we are not satisfied that information justifies the case as suitable, firms will be required to take remedial action.

1.10 Firms failed to:

- consider the individual features of structured investment products and their suitability for different customers;
- ensure advisers had a good understanding of structured investment products and were competent to recommend them; and
- ensure they had appropriate compliance monitoring and oversight arrangements, including the collection and use of management information.

Changes after Lehman's insolvency

1.11 Although some firms had made changes to improve controls over structured investment products advice following Lehman's insolvency, most had failed to make sufficient changes to mitigate the risk of providing unsuitable advice. Only two out of nine firms with poor controls in the period before Lehman's failure introduced sufficient measures to reduce the risk to an acceptable level.

2 Our approach

2.1 The purpose of this thematic project was to assess the suitability of advice given to customers who invested in structured investment products involving underlying financial instruments issued by Lehman.

2.2 Our review of advice forms part of wider work we have undertaken on Lehman-backed structured investment products. This work included assessing the marketing literature produced by plan managers of Lehman-backed products and other structured investment products, as well as analysing the structured products market. The findings in this report and our other work are relevant to all those selling structured investment products, not just to those firms that sold Lehman-backed products.

2.3 The aim of our advice work was to review the suitability of advice and identify any failings and good practice in firms when recommending structured investment products backed solely by Lehman.

The assessment sample

2.4 We visited[2] a sample of 11 firms that advised on structured investment products that were solely backed by Lehman and assessed 157 customer files from these firms. The sample broadly reflected the population of firms which had given advice on these products and included small, medium and large firms. It included IFAs with national coverage, networks and the bank sector. The sample of firms accounts for approximately 24%, by value, of sales of structured investment products that were solely backed by Lehman.

Methodology

2.5 Our assessments focused on advised sales undertaken in the period November 2007 to August 2008, before Lehman filed for bankruptcy. We selected a sample of files

2 Visits involved interviews with relevant firm personnel. Analysis of key documentation and data from each firm was considered before each visit.

from each firm that broadly reflected its overall sales of Lehman-backed structured investment products.

2.6 We assessed advice as unsuitable if:

- the customer was recommended a product that did not match their investment timescale or their financial circumstances;
- the customer was exposed to an inappropriate level of risk, for example:
  - o where the product recommended was inappropriate for the customer's attitude to risk; or
  - o where the recommendation did not provide or maintain an appropriate level of diversification within the customer's portfolio; and
- the recommendation did not meet the customer's tax needs.

2.7 We looked separately at the disclosure that firms made to customers in suitability reports of the risks of investing in structured investment products (including disclosure of counterparty risk).

2.8 Further, we assessed the quality of firms' systems and controls for ensuring the delivery of suitable advice on structured investment products in the period before Lehman's collapse.[3] The key areas of focus were:

- the consideration given by firms to the individual features of structured investment products and their suitability for different types of customers, and whether this information was provided to advisers;
- advisers' understanding of structured investment products and their competence to make recommendations to invest in them; and
- compliance, monitoring and oversight arrangements including the collection and use of management information.

2.9 In applying our methodology to the period before Lehman's collapse we considered the degree of due diligence that would then have been reasonable for firms and advisers to have undertaken at the time. We were careful not to apply the benefit of hindsight to our reviews.

2.10 Following Lehman's insolvency, we believe the changed market conditions, and particularly the heightened awareness of the potential for investment grade counterparties to fail, should have prompted a higher degree of due diligence within advisory firms. So our review included separate consideration of firms' systems and controls for providing advice on structured investment products in the period following Lehman's collapse. This focused on the extent to which firms had implemented changes and new controls in response to market events. Our heightened expectations of firms in the post Lehman's environment are set out in this report. We expect all firms giving advice on structured investment products to meet these standards.

3 The focus of our assessments was the period between November 2007 and August 2008.

3 Suitability of advice

3.1 This chapter reports on the findings of our file assessments.

3.2 We reviewed 157 cases and assessed 73 (46%) of these as unsuitable. In nine of the 11 firms visited we found unsuitable advice at significant levels, ranging from 36% to 76% of cases reviewed for each firm.

3.3 We assessed 36 cases (23%) as unclear. These are cases where we were unable to make a definitive assessment of suitability. The main reason for this was inadequate customer records on file and a lack of clarity on how recommendations met the customer's needs, objectives or financial circumstances (for example, where information in a 'fact find' conflicted with information in the suitability report). This may indicate procedural rather than suitability failings, but we were unable to form a view as to whether or not the advice given was suitable for individual customers.[4]

Reasons for unsuitable advice

3.4 We assessed advice as unsuitable for three main reasons:

- Analysis of the customer's needs and circumstances
- Exposing the customer to an inappropriate level of risk
- Consideration of the customer's tax situation

We rated most unsuitable cases as unsuitable for more than one reason. Our expectations and findings are set out below.

4 Where such cases have been found, we have asked the firm to provide further information as necessary to satisfy us that the case is suitable. Where we are not satisfied that this information justifies the suitability of the recommendation, we will require firms to take remedial action.

(i) Analysis of the customer's needs and circumstances

Our expectations

3.5 As part of the suitability assessment advisers must consider the customer's finances and personal circumstances.[5] When recommending structured investment products, the factors that we expect advisers to consider include, but are not limited to, the following:

- whether the customer has sufficient emergency funds;
- the customer's timescale for investment;
- whether the customer has a potential need for liquid capital during the period of investment and, if so, whether capital has been set aside for this purpose;
- if the investment is designed to provide a set return on a set date to meet a future need for money but the contract has the potential to mature early, what this may mean for re-planning, re-investment, and, hence, potential additional expense for the customer;
- whether the customer has any existing liabilities that may best be repaid before considering investment; and
- the implications of recommending a fixed-term product that cannot be cashed in according to market sentiment.

Our findings

3.6 Most firms and advisers performed acceptably in this area. However, in ten cases (6% of all files) the advice did not adequately consider and meet the customer's needs and circumstances. The main reason for the failings in this area was lack of consideration of customers' timescales for investments, particularly where a 'kick-out'[6] product was recommended.

3.7 For example, where advisers recommended kick-out products they would often justify and explain why the product met the customer's investment timescale if held to maturity, but failed to consider suitability for the customer if the product were to 'kick-out' ahead of maturity. It is important that advisers consider this scenario in relation to the customer's needs and investment timescale and address the implications of potentially having to reinvest the proceeds in another product before the expected end date.

5 COBS 2.1.1R(1), COBS 9.2.1R(2) and COBS 9.2.2R.

6 A kick-out product is a structured investment product which can mature earlier than the full term (usually on any anniversary of the plan start date) if certain criteria are met (e.g. if the relevant index or indices perform in a certain way).

Poor practice: considering a customer's income needs

In one case, a structured investment product was arranged at the same time as an investment bond in order to release money after four years to provide funding for educating the customer's children. However, in the fourth year the investment bond would still have an exit penalty and the money invested in the five-year structured investment product would not be accessible.

The adviser did not analyse how much income was needed at the four-year point and did not make clear to the customer that the recommendations would lock away capital (subject to exit penalties) that might be needed sooner. The adviser also failed to consider whether any surplus proceeds upon maturity would require further investment. The amount invested in the product was likely to give rise to a capital gains tax liability. The adviser did not take steps to mitigate this.

(ii) Exposing the customer to an inappropriate level of risk

3.8 Exposing customers to an inappropriate level of risk was the most significant advice failing. Sixty-seven of the 73 cases rated as unsuitable failed for this reason (i.e. 43% of all files reviewed).

3.9 Our assessments considered two key areas of concern:

- whether the product recommended was appropriate for the customer's attitude to risk; and
- whether the recommendation provided/maintained an appropriate level of diversification within the customer's portfolio.

(a) Consideration of a customer's attitude to investment risk

Our expectations

3.10 In order to give suitable advice, advisers must recommend products which match the customer's attitude to investment risk.[7] Structured investment products are complex and include different features which contribute to the risk profile of the product. Advisers need to consider these features to ensure they recommend a suitable product taking account of the customer's risk profile, investment objectives and financial needs and circumstances.

3.11 We take the view that structured investment products are unsuitable for customers who do not want to take any risk with their capital or have no capacity for loss.

3.12 Having established that a customer is willing to take investment risk, the suitability factors that we expect advisers to consider when recommending structured investment products include, but are not limited to, the following:

7 COBS 2.1.1R(1), COBS 9.2.1R(2) and COBS 9.2.2R.

- The risk of capital loss upon maturity.
- The likelihood of different investment outcomes (e.g. the likelihood that the product will provide the maximum quoted return).
- Counterparty risk – we consider that advisers should have had regard to the financial strength of the underlying counterparties and whether this was appropriate given the customer's attitude to risk. However, we consider the due diligence it was reasonable for advisers to apply on the financial strength of the counterparty changed after Lehman's collapse:
  - o we have not applied the benefit of hindsight to the period before Lehman's insolvency (in September 2008). Where a customer was willing to take counterparty risk we believe that it was not reasonable to expect advisers to distinguish between the financial strength of different counterparties that were rated A or above in this period;
  - o however, **from September 2008**, given the failure of an investment grade counterparty, we expect advisers to have undertaken a higher degree of due diligence when recommending products with counterparty risk, and to consider more carefully how this may relate to each customer's attitude to risk. This due diligence includes: consideration of the number of counterparties underlying a single structured investment product; the location of the counterparties (e.g. UK-based, offshore, US etc); and the relative financial strength of counterparties.
- The suitability of additional product features such as early kick-out.
- The risk profile of the underlying investment indices and implications of a product linked to more than one index.
- Any level of gearing in the product.
- The investment risk, given the term of the product, with particular regard to the customer's investment objectives, including:
  - o the effect of inflation over the investment term; and
  - o whether the investment term is sufficiently long for the underlying investment to achieve the expected returns.

Our findings

3.13 Key failings in this area included:

- recommendations resulting in an overall portfolio which did not meet the customer's attitude to risk (for example, where a customer with a risk profile assessed as 'cautious' was recommended a structured capital-at-risk product (SCARP), despite their portfolio including a significant holding of higher risk investments);

- recommendations for a structured investment product when the customer wished to take no risk with their capital;
- recommendations for a SCARP when the customer's need was to protect their capital from inflation; and
- recommendations for a structured investment product where the customer had a more speculative attitude to risk, no need for capital protection and the product limited their upside potential.

Poor practice: matching the recommendation to the customer's attitude to risk

One firm made recommendations based on their own 'house view' of how much risk to take in the current economic climate, rather than looking at how much risk their customers individually were prepared to take. This meant that all customers, even those with a high risk profile, were recommended the same type of structured investment product providing 100% capital protection and capping the potential return.

(b) Concentration of assets in a single product or product type

Our expectations

3.14 Advisers should always seek to diversify a customer's investment portfolio. The nature of these products means it is essential that advisers should consider both product and portfolio concentration risk and limit the risk to customers of total loss of capital through counterparty failure:

- product concentration – the suitability of the level of investment recommended for a single product relative to the customer's other savings and investments; and
- portfolio concentration – the suitability of the total proportion of a customer's savings and investments portfolio invested in a single product type (i.e. structured investment products).

3.15 This requires an adviser to consider, and take account of, a customer's capacity for loss as well as their attitude to risk.[8]

Our findings

3.16 Failure by advisers to ensure an appropriate degree of diversification of customers' investment portfolios was a significant issue across our sample. In many unsuitable cases, the level of investment placed in either a single structured investment product, or structured investment products as a product type, was not justified given the customer's attitude to investment risk or needs and objectives. In one case, the proportion of the customer's portfolio invested in a single structured investment product – and therefore exposed to a single counterparty – exceeded 85%.

8 COBS 2.1.1R(1), COBS 9.2.1R(2) and COBS 9.2.2R.

We also saw instances where the lower the attitude to risk of the customer, the higher the level of concentration the firm would recommend in a single product or group of products. It was clear that, while advisers were considering the customer's attitude to risk, very few also considered the customer's capacity for loss when recommending the amount to invest in a given product or product type.

Good practice: level of investment in structured products

One adviser set himself initial guidelines of 10% (single product) and 25% (multiple products) for the maximum exposure his customers should normally have to this product type, taking into account the customer's wider circumstances.

(iii) Consideration of the customer's tax situation

Our expectations

3.17 Advice should take account of the customer's tax situation, including the effect of income tax, capital gains tax and, where applicable, age allowances and married couples' allowance.[9]

Our findings

3.18 In most cases we reviewed, advisers had addressed the customer's tax needs adequately. Advisers generally recommended investing in tax-efficient wrappers if they were available to the customer or demonstrated that they had considered any income tax and capital gains tax implications for customers where they did not recommend tax-efficient products.

3.19 However, in eight cases (11% of unsuitable cases) the recommendation failed to meet the customer's tax needs. Advisers failed to:

- consider using the customer's annual ISA allowance; and
- consider and explain the effect of capital gains tax (CGT) where there was a likelihood of the customer's CGT allowance being exceeded.

Influence of plan managers' literature on the advice given

3.20 Our assessments found that the literature issued by plan managers formed the core basis (and in some cases the only basis) of firms' and advisers' research on specific products. However, the failings we have identified through our case reviews and in firms' systems and controls (see Chapter 5) suggest more fundamental flaws in core principles of investment advice and so are not solely attributable to any deficiencies in the plan manager's literature.

9 COBS 9.2.1R(2)(b).

3.21 In passing plan manager literature to customers, they may have been falsely reassured by any misleading statements or language within it. This may apply even where the advice itself was suitable.

3.22 Distributors should note their responsibilities to act with due skill, care and diligence when passing on a promotion created by another firm. These responsibilities are set out in our regulatory guide *The Responsibilities of Providers and Distributors for the Fair treatment of Customers (RPPD)* (http://fsahandbook.info/FSA/html/handbook/RPPD).

4 Disclosure by advisers

Our expectations

4.1 A firm's communications with customers – including its suitability reports – should communicate the risks of investing in structured investment products in a way that is fair, clear and not misleading, including setting out any possible disadvantages for the customer. This includes, but is not limited to, explaining to the customer the nature of counterparty risk and the possibility that, if a counterparty failed, their capital could be lost.

Our findings

4.2 All firms in the sample failed (in some or all cases) to adequately disclose the risk of investing in structured investment products to their customers. There were four main areas where disclosure failed to meet our standards, including:

- failure to explain counterparty risk;
- misleading explanation of counterparty risk;
- failure to provide information on the product recommended, or information provided on the wrong product (for example, referring to an entirely different structured investment product than the one which the customer actually invested in); and
- factually incorrect information within suitability reports.

4.3 Two firms in our sample displayed systemic failures around counterparty risk disclosure.

5 Systems and controls

5.1 This chapter sets out the findings of our assessment of firms' systems and controls for the sale of structured investment products.[10] Our assessments focused on three areas which we consider to have the greatest impact on the provision of suitable advice. These are:

- Consideration of individual product features and their suitability for different types of customers
- Advisers' understanding of structured investment products
- Compliance monitoring, oversight and management information (MI)

5.2 We considered two time periods: what was reasonable before Lehman's collapse; and what is reasonable following it.

Standards before the collapse of Lehman Brothers

5.3 We assessed most firms' systems and controls in the period before Lehman's collapse as deficient and having posed a significant risk of provision of unsuitable advice. Only in two firms were the controls considered adequate.

(i) Consideration of individual product features and their suitability for different types of customers

Our expectations

5.4 Advisers should consider the features of each structured investment product sold and, consequently, how appropriate it is for certain groups of customers. This includes undertaking sufficient research over and above providers' marketing material, for example, to determine the risks of specific product features[11] and assessing how these matched different customer risk profiles. Within larger firms,

10 Assessments focused on systems and controls in connection with structured investment products. Our comments, therefore, relate solely to the firms' procedures for this area of business.

11 See Chapter 3, para 3.12 for examples of the product features which should be taken into account.

where research is done centrally, this assessment should then be disseminated to advisers and outcomes monitored. Research should have sought to identify who the underlying counterparties were and considered their financial strength. It is our view that it was reasonable for firms to rely on credit ratings and to have assumed that the risk of failure of counterparties rated A or above was low. The firm's attitude to risk profiling methodology should have accurately determined each customer's attitude to risk to ensure advisers recommended suitable products.

Our findings

5.5 We saw mixed standards and a wide variation of approaches to research across the sample of firms. Poor performance was most evident where:

- firms placed heavy reliance upon the plan manager's literature as a source of research and/or where product selection was based upon those products offering the highest potential returns (with little or no regard given to the suitability of product features for individual customers);
- there was no firm-level strategy for product research; and
- where research was left solely to the responsibility of individual advisers (leading to variation in the standards of output across individual advisers and a failure to consistently recommend suitable products to all customers).

5.6 Better practice was noticeable where firms recommended products based on consideration of clearly defined criteria, the key individual features of different structured investment products and their suitability for different customer needs, circumstances and objectives.

5.7 We also identified issues in some firms around processes for assessing a customer's attitude to risk. This included the use of flawed profiling tools, such as the lack of a category for identifying customers who wish to take no risk with their capital. This meant some firms placed customers in incorrect risk categories and provided unsuitable recommendations as a result.

Good and poor practice: assessing counterparty financial strength

Good practice

When considering the financial strength of the counterparties to individual structured investment products, as well as considering their credit rating, one firm also analysed the counterparty's credit default spreads, credit outlook and financial reporting. This due diligence led to the temporary suspension of Lehman-backed products from the firm's panel shortly after its credit rating was downgraded in June 2008 and removing them shortly before the bank filed for bankruptcy.

This action goes beyond what we would have expected of advisers at that time. The firm also adopted a policy of not considering products for recommendation where the plan manager did not disclose the name of the counterparty.

Poor practice

One firm only considered the strength of the plan managers of the structured investment products it recommended and failed to take any account of the financial soundness of counterparties. It approved such plans and made these available for its advisers to recommend without providing any guidance about who the products may, or may not, be suitable for. This indicates the firm's lack of understanding of the nature of counterparty risk and resulted in a failure to communicate the risks of structured investment products to their customers.

(ii) Advisers' understanding of structured investment products

Our expectations

5.8 Advisers should have a sound understanding of how structured investment products work and understand the key risks of these products in order to be competent to provide advice on them.

Our findings

5.9 From our interviews and file reviews we found advisers' understanding of structured investment products to be poor across nearly half of the firms in the sample. Deficiencies in knowledge included:

- a failure to understand the implications of counterparty risk in the period before Lehman's collapse;
- an inability to explain the difference between structured investment products and structured deposits;
- a failure to appreciate how individual features of structured investment products could make them more or less suitable for different types of customers; and
- a failure to understand the implicit charges in structured investment products, leading to communications to customers suggesting that these products had no charges.

(iii) Compliance monitoring, oversight and management information (MI)

Our expectations

5.10 Firms should employ appropriate monitoring and oversight arrangements to ensure advisers provide suitable advice on structured investment products. Monitoring should focus on the specific risks of structured investment products and the suitability of the advice (i.e. the outcome of the advice for the customer). It should not be solely process focused. In addition, a firm should have appropriate MI to monitor and review structured investment products advice to enable it to act upon risks and issues and ensure that it is treating its customers fairly.

Our findings

5.11 Our sample of firms performed poorly in this area, with over half displaying significant deficiencies. Significant failings were evident across all kinds of firm; however, where we saw better performance this was within small firms.

5.12 Key failings included:

- compliance monitoring that was too low in volume to allow the firm to identify risks, issues and trends;
- compliance monitoring that was overly process focused, and not focused on whether the advice was in the customer's best interests (outcomes focused);
- a lack of, or poor quality, remedial action taken by firms when issues were identified, for example, with reliance on advisers to address actions unsupervised;
- a failure to identify adviser training needs or to provide guidance on structured investment product risks; and
- poor quality MI that failed to allow firms to distinguish between structured investment products and other investment business, or MI that was too high level, meaning firms could not identify and act on risks and issues.

Good practice: compliance monitoring, oversight and MI

One firm collected detailed product-level MI and regularly produced reports at various levels of granularity for review at different levels of the business. They used this to instigate and oversee remedial action identified in file checks and monitor the ongoing performance of advisers. The firm was able to demonstrate that MI had enabled it to identify trends and supported remedial action undertaken.

Standards after the collapse of Lehman Brothers

5.13 The collapse of Lehman should have prompted firms giving advice to recognise the potential for investment grade counterparties to fail. As a result, we expect firms to have reviewed the adequacy of their existing systems and controls to ensure they are appropriate to mitigate the risk of providing unsuitable advice. So, when assessing firms' systems and controls as part of this review, we also considered the actions firms had taken to enhance their systems and controls for sales of structured investment products in response to Lehman's collapse.

5.14 Although several firms made positive changes, most failed to do enough. Only two of nine firms, where the controls in the period before Lehman's failure were unacceptable, introduced sufficient changes to reduce the risk of unsuitable sales to a satisfactory level.

5.15 The following table sets out examples of some of the positive steps firms took following Lehman's collapse.

Example measures introduced by firms after Lehman's failure:

- introducing concentration risk thresholds;
- introducing clear risk warnings in suitability report templates covering the nature of counterparty risk (*it should be noted that communications should not focus on this issue to the exclusion of other risks*);
- increasing the minimum credit rating of counterparties for products to be considered for recommendation given their customer base (e.g. only products with a counterparty rated AA or above considered) *note paragraph 5.16*; and
- introducing adviser competency testing on structured investment products.

5.16 Firms should note our enhanced expectations on counterparty risk for the period since Lehman's insolvency, as set out in Chapter 3. They should also consider the relative suitability for different types of customers of counterparties with different financial strengths – for example, whether counterparties with stronger credit and financial indicators may be more appropriate for lower risk customers and whether less strong counterparties may be more appropriate for higher risk customers. Advisers also need to consider the suitability of the product for individual customers given the location and number of counterparties. They should consider the specific needs, circumstances and investment objectives of their customers as well as understanding their capacity for loss and attitude to risk.

5.17 We expect all firms giving advice on structured investment products to be meeting these expectations.

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