

Our conduct of business rules (COB) set out requirements for firms carrying on investment business. From 1 November a new conduct of business sourcebook (COBS) replaces the existing rules.

## This guide explains:

- why we are introducing a new sourcebook;
- how it applies to you;
- what the major changes are; and
- where you can get more information.

## Why are we introducing a new sourcebook?

There are three main reasons:

- We are moving away from detailed rules towards principles-based regulation.
- It improves the structure and presentation of the rules.
- And it implements the European directive, MiFID – the Markets in Financial Instruments Directive.

## How does the new sourcebook affect you?

If you are currently subject to our conduct of business rules, you will be affected by COBS. The impact of the changes will depend on the nature of your business.

COBS introduces a less prescriptive approach than before, giving you more responsibility, choice and flexibility in how you deliver the outcomes we require. It gives you the freedom to innovate and adopt ways of working that are more appropriate to your business. COBS is simpler, shorter and has a more logical format, making it easier to use and comply with.

There are significant changes that affect firms subject to MiFID (normally firms that do more than advising and arranging investments, and firms holding client money). Some of these changes have been extended to apply to non-MiFID firms and business as well.

This factsheet focuses on changes that affect all firms. We will publish additional information for firms subject to MiFID shortly.

### What is changing?

Here are some of the key changes.

#### Client categorisation

The rules refer to 'clients' rather than 'customers'; and the way we categorise clients will change. In most cases, financial advisers that treat their clients as 'private' must now categorise them as 'retail'. For most firms, private clients will automatically become retail clients. The new categories are not identical to the old but are similar, as shown below.

Private	----->	retail
Intermediate	----->	professional
Market counterparty	----->	eligible counterparty

#### Communications and financial promotions

All communications with clients still need to be fair, clear and not misleading, but there will be less prescription of how you achieve this. So, you will have more flexibility to tailor your promotions to the needs of your customers.

#### Client agreements

We will refer to client agreements instead of terms of business letters. There is no longer a list of items that you need to include within it.

#### Initial disclosure document (IDD) and menu

The IDD and menu will be 'guidance' rather than 'rules', so you don't have to use them. But if you do, you will successfully be meeting several of our requirements for providing information about your services and their costs. Or you can develop your own disclosure material, which will need to satisfy our requirements.

#### Suitability

COBS has a single suitability standard: you must collect the information necessary to achieve the outcome – a suitable recommendation. We have also simplified the rules on the 'suitability letter', now called the 'suitability report'.

### Preparing and providing product information

There are fewer prescriptive requirements on the content of key features documents. And we've simplified the variation rules so you just need to give clients enough information to understand the consequences of the variation.

You still need to give key features documents when you make the sale, but you won't need to issue another one after that. We've also removed the need to remind the customer after the sale that they can cancel their policy.

### Training and competence

Employees still have to be supervised until they pass required exams, but we have removed time limits for this.

### Complaints

Some specific time requirements are replaced with broader principles. So, instead of acknowledging a complaint within five days, you must do so 'promptly'. And instead of having to send a holding reply after four weeks, you must keep complainants 'reasonably informed'.

You no longer need to display a Financial Ombudsman Service (FOS) sign at your firm. But you must tell a customer about the FOS when you begin dealing with him or her, and when acknowledging a complaint.

## What will you have to do differently?

You will need to consider the impact on your firm, including:

- how significant the changes are for your business;
- whether you need to follow or apply any new COBS rules;
- whether you need a waiver or modification from any of the new rules;
- whether the simplification or deletion of a rule or guidance affects the way you do business;
- your obligations to your clients;
- how best to meet your obligations in future; and
- whether you need new procedures or have to amend existing ones.

In particular you might want to:

- Consider if you need to apply any new COBS requirements because of the changes to the client categorisation rules. This is unlikely if your clients are currently private clients.
- Review your financial promotions e.g. you may no longer need to use specified product-specific risk warnings. But your risk warnings will still need to be fair, clear and not misleading.

- Revisit your terms of business letter. You still need to disclose most of the information currently required, but have greater flexibility in how you do so.
- If you decide not to use the IDD and menu, consider how you will develop your own disclosure material.
- Consider what information to provide as a result of the simpler variation rules.
- Change your suitability documents, such as suitability report or factfind, or your approach for assessing suitability.
- Consider how all your firm's employees will deal with complaints and whether you wish to adopt a firm 'standard' or process.
- If you think you may require a passport to carry out business in other countries, review the passporting information on our website.

## When will the changes take effect?

You must comply with most of the new requirements from 1 November 2007.

## Where can I get further information?

For more information about the new sourcebook and how MiFID might affect you, see:

- The COBS web page, which includes details of training and e-learning.  
<http://www.fsa.gov.uk/Pages/Doing/Regulated/newcob/index.shtml>
- A summary of administrative matters which firms may need to address before 1 November, for example changes in permission, notifications and passporting.  
[http://www.fsa.gov.uk/pubs/international/mifid\\_guide.pdf](http://www.fsa.gov.uk/pubs/international/mifid_guide.pdf)
- The complete policy statement and final sourcebook (which also contains a transition map).  
[http://www.fsa.gov.uk/pages/Library/Policy/Policy/2007/07\\_06.shtml](http://www.fsa.gov.uk/pages/Library/Policy/Policy/2007/07_06.shtml)

## More questions?

Please contact our Firm Contact Centre:

Tel: 0845 606 9966

Email: [fcc@fsa.gov.uk](mailto:fcc@fsa.gov.uk)

Email any technical questions about MiFID to: [planningformifid@fsa.gov.uk](mailto:planningformifid@fsa.gov.uk)