Discussion Paper

10/2

Financial Services Authority

Platforms: delivering the RDR and other issues for discussion

March 2010

FSA
Financial Services Authority

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1 Overview

Background

1.1 It is now nearly three years since we published our Discussion Paper (DP), which considered the role of wrap platforms and fund supermarkets (DP07/2),[1] followed by a Feedback Statement (FS08/1).[2] Together, these documents gave a detailed analysis of platforms' services and their regulated activities.

1.2 The purpose of this DP is to seek views on options for changes on how we regulate platforms, either in supporting the Retail Distribution Review's (RDR) objectives, or in addressing other issues we have identified through thematic work, our wider experience of supervising platforms and market developments.

Delivering the RDR

1.3 In our RDR Consultation Paper (the RDR CP), CP09/18,[3] we identified several platform-related issues arising from our intention to ensure adviser firms will not continue receiving commissions, profit shares or other remuneration determined by product providers and other third parties. We therefore asked if we needed to change how we regulate wrap platforms and fund supermarkets.

1.4 In this DP we provide a summary of the responses we received, which highlighted a wide range of issues, and discuss the options available to ensure good outcomes for customers. These cover:

- how platforms should be remunerated for the services they provide in connection with advised sales once the RDR comes into effect at the end of 2012;
- the delivery of Adviser Charging through platforms; and
- the use of platforms by advisers providing independent or restricted advice.

1 DP07/2 *Platforms: the role of wraps and fund supermarkets* http://www.fsa.gov.uk/pubs/discussion/dp07_02.pdf
2 FS08/1 *Platforms and more principles-based regulation Feedback on DP07/2* http://www.fsa.gov.uk/pubs/discussion/fs08_01.pdf
3 CP09/18 *Distribution of retail investments: Delivering the RDR* http://www.fsa.gov.uk/pubs/cp/cp09_18.pdf

Other issues for discussion

1.5 The rest of this DP discusses issues concerning wider platform services, not just those which facilitate advised sales. We are especially seeking views on:

- how, and within what timescale, we can improve customers' ability to transfer assets from one platform to another without having to sell and then repurchase them;
- what level of capital platforms should hold to provide their services and to enable orderly and efficient winding down; and
- some issues concerning investing in authorised funds through platforms.

Who should read this DP?

1.6 This DP, which should be read in conjunction with the RDR Policy Statement (the RDR PS), PS10/6,[4] will be of particular interest to platform operators and product providers, but it is also aimed at consumers and the adviser firms that use platforms to deliver advisory services to their customers.

Structure of this DP

1.7 The structure of the DP is as follows:

- Chapter 2 provides background information on the market and its regulation;
- Chapter 3 provides a summary of the responses we received to a question on platforms regulation in the RDR CP and discusses how these issues should be addressed;
- Chapter 4 sets out other platforms issues on which we are seeking views; and
- Chapter 5 provides a high-level cost-benefit analysis.

Next steps

1.8 We ask a number of questions throughout the DP (listed in Annex 1). We hope a wide range of stakeholders will take the opportunity to respond, and therefore help inform and shape the future of platform regulation.

1.9 The discussion period ends on 26 May 2010.[5] Following this, we plan to issue a Consultation Paper on the future of platform regulation this summer, then a Policy Statement by the end of the year.

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4 PS10/6 *Distribution of retail investments: Delivering the RDR – feedback to CP09/18 and final rules* http://www.fsa.gov.uk/pages/Library/Policy/Policy/2010/10_06.shtml

5 The discussion period has been reduced from three months to two months to allow time to complete the consultation process by the end of the year.

2 Background

2.1 Platforms now administer about £110 billion in assets and about half of all new retail fund investment business is placed through platforms.[6] Although the number of platforms continues growing, the four big fund supermarkets dominate the market.[7] Platforms are seen as a convenient venue through which investments such as ISAs can be arranged and then held in one place (for example, to provide a single valuation). They can facilitate both advised and non-advised (including execution-only) business.[8]

2.2 Typical platform remuneration models are set out in Annex 2 to this DP. Fund supermarkets generally provide their services at no explicit added cost to the consumer. This is because they are paid by fund managers and other product providers (this is commonly referred to as 'bundled charging').

2.3 In contrast, wrap platforms have a separate charge for their services, which is paid directly by the customer. Any 'rebates' from product providers are credited to the customer's cash account on the platform and this account pays the wrap platform fees and any fees the customer has agreed to pay their financial adviser. This can result in customers paying more than if they had invested directly or through a fund supermarket, but wrap platforms tend to provide access to a wider range of investments than fund supermarkets. For example, they typically administer more non-commission generating investments such as many exchange traded funds and passively managed funds.

2.4 Platforms provide services to product providers by carrying out particular administration functions and providing a means of distribution. They also supply investment planning tools and other services to adviser firms. Platforms have also developed, or are in the process of developing, model portfolios and guided architecture services[9] that adviser firms can use. They are an example of what

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6 Source: Money Management – Platform survey. February 2010. The report surveyed 15 platforms. A few small platforms were not included.

7 Source: Money Management. It is estimated that Cofunds, Fidelity Funds Network, Skandia Investment Solutions and Hargreaves Lansdown hold 85% of the assets under administration by platforms.

8 Readers who are unfamiliar with the services provided by platforms and our current approach to platforms regulation should refer to our previous DP and FS on platforms.
http://www.fsa.gov.uk/pages/Library/Policy/DP/2007/07_02.shtml
http://www.fsa.gov.uk/pubs/discussion/fs08_01.pdf

9 The term 'guided architecture' is used to describe a service which provides access to a limited number of funds rather than the whole of the market. Typically, the funds are selected by a third party such as an external research company.

economists refer to as 'multi-sided markets' as they serve product providers, adviser firms and consumers and the interests of these parties are not necessarily aligned.

2.5 The fact that the market in which platforms operate is multi-sided implies that policy proposals that regulate only one side of the market would impact the other sides.

2.6 The platform market is still developing and the services provided may change over the coming years, for example, the development of corporate wraps.

Regulation of platforms

2.7 We do not regulate platforms as 'designated investments'. However, when platforms of the type described above are operated or used, they generally involve one or more regulated activities. For example, operating a platform may involve dealing as an agent, arranging investment deals, safeguarding and administering assets, and sending dematerialised instructions.

2.8 We do not regulate platforms that only aggregate data – i.e. aggregate data from several sources to provide a single valuation of a customer's assets. These platforms have been referred to as virtual wraps or shallow wraps and we have no plans to regulate them.

2.9 Regulated activities commonly associated with adviser firms using platforms are arranging deals in investments, advising on investments, and arranging for the safeguarding or administration of investments.

2.10 Our approach to conduct of business regulation of platforms has to date been principles-led. This was because the market was developing and there was a dual risk that detailed rules would soon become out of date or would stifle innovation. Platform operators are subject to prudential requirements, including capital adequacy standards.[10]

2.11 When we published FS 08/01, we said we would carry out thematic work on how adviser firms use platforms and how platform operators' disclose their charges and services. We have now completed this and we provide brief details of reviews and results below. More detailed results can be found in the papers concerning these reviews, which we published in March 2010.

Investment advice and platforms thematic review

2.12 This review looked at whether firms that advise customers to invest through platforms give suitable advice and have adequate systems and controls to support that advice.[11]

2.13 Following a desk-based analysis of 33 firms, 12 firms were chosen for detailed assessments. Firms included in the review ranged from small independent advisers to nationals and large networks; however they were not representative of the industry.

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10 We consider these later in Chapter 4.

11 *Investment advice and platforms: Project findings* http://www.fsa.gov.uk/pubs/other/rdr_project_findings.pdf
Investment advice and platforms: Good and poor practice report http://www.fsa.gov.uk/pubs/other/gapp_inv.pdf

2.14 We found evidence of poor practice in all the key risk areas assessed. And while results varied, the high incidence of failings at certain firms underlined the need for vigilance, particularly as use of platforms is set to increase still further.

2.15 The main reason for unsuitable advice was inadequately considering the overall 'solution', including the combined cost of funds, products, platform and advice.

2.16 The review also found evidence of weak systems and controls at many firms within the sample, highlighting the need for adviser firms to review and implement strong oversight and management functions when introducing platforms into their business model.

2.17 But the review also found several firms which had successfully integrated platforms into their businesses while consistently offering advice that was in their customers' best interests.

2.18 In light of the risks to customers and unacceptable practices identified, platforms advice will form a supervisory priority in the future. And where we find unsuitable advice and weak systems and controls we will take tough regulatory action.

Thematic review of the disclosure of platform charges and services

2.19 We reviewed disclosure material from twelve platform operators who offered services to adviser firms as well as to consumers.

2.20 We found a mixture of good and poor practice. Main areas of concern identified included poorly explained charges, poorly structured documents and general lack of customer focus with most disclosure documents prepared by platform operators, particularly the documents' structure and how charges' are presented.

2.21 It can be difficult for customers (and their advisers) to understand the platform and product charges (when purchased via a platform). Therefore, we have published a good and poor practice report[12] concentrating on presenting charges more effectively to help consumer (and adviser) understanding.

2.22 We are also reminding platform operators of their responsibility when producing disclosure material to be clear and succinct, regardless of whether the platform operator is a business-to-business or business-to-consumer platform.

12 *Platform operator disclosure documents: Good and poor practice report*
http://www.fsa.gov.uk/pubs/other/gapp_report.pdf

3 Delivering the RDR: issues for platforms

3.1 In this chapter we ask for views on platform issues which are relevant to achieving the RDR's objectives. This includes feedback on responses we received to question 15 on platform regulation in the RDR CP, and indicates where we are considering consulting on rules or guidance affecting platforms.

Responses to the RDR CP

3.2 The RDR proposals are designed to ensure adviser firms will not continue receiving commissions, profit shares or other remuneration determined by product providers and other third parties. In the RDR CP we noted we had begun receiving questions from the industry about the acceptability of other firms, such as fund supermarkets, continuing to receive commission from product providers, and wider questions about the transparency of incentives and charges on platforms in the longer term.

3.3 We also recognised the RDR proposals may encourage, or accelerate, changes in the different roles that platforms perform (for example, adviser charges might increasingly be collected, in future, via platform cash accounts). Consequently, we asked the following question:

Do you think changes are needed to the way we regulate wrap platforms and fund supermarkets?

3.4 In total 239 respondents commented on this question. Nearly two-thirds of respondents agreed that we should make changes. In comparison, around a fifth of respondents thought that no change was necessary. The remainder were undecided or had no view. Some issues referred to by respondents were not directly related to the RDR.

3.5 We received several proposals on how to change our regulation of platforms. A significant number stated we needed to be clear about whether we regulate platforms as a service or a product. In general those respondents suggested platforms are not a product. Some respondents said they would welcome formal rules and guidance for platforms, subject to constraints imposed by the maximum harmonising European directive, Markets in Financial Instruments Directive (MiFID).

3.6 We agree a platform is a service, not a product; however they can display product features and the platform operator may also be a product provider or closely

associated with one. At a basic level a platform can be just an administration service, but in many cases platforms provide investment planning tools or other services which encourage advisers to use them.

3.7 In the past we have used the term 'platform provider', which may be confused with the term 'product provider'. Consequently, we have decided to use the term 'platform operator' in this DP to describe an entity that supplies platform services.

Facilitating the RDR

3.8 We agree with the majority of respondents that changes are needed to how we regulate platforms as a consequence of the RDR.[13] The key outcomes we want to achieve concerning platforms and the RDR are as follows:

- platforms services do not undermine the RDR objectives, especially concerning Adviser Charging;
- platforms do not provide incentives to adviser firms, which results in customers incurring additional costs from the unnecessary switching of investments onto or between platforms;
- customers do not suffer detriment from how platforms are remunerated, for example, incentives may restrict choice; and
- customers are provided with a clear description of platform charges and the services they receive.

3.9 We set out below the responses relevant to these issues, our reaction and options we have identified.

Platform remuneration

3.10 Views were split among respondents as to whether platforms receive payments from product providers for supplying administration services or commission for distributing products. We generally consider this to be a commission payment; however the outcomes of such payments for consumers are more important.

3.11 Respondents frequently commented on the lack of transparency around platform costs and stated that customers should be told how much they pay for platform services (i.e. what a platform is paid by a product provider). Alternatives put forward to resolve this when the RDR comes into effect included improved disclosure of payments received from product providers and forcing platforms to have separate platform charges by stopping bundled product charges.

3.12 Trade bodies held contrasting views on the practice of bundled charges. One view was that payments received by platforms from product providers look like commission and therefore should be banned. The opposing view was that these payments are made by product providers for reduced administration costs and any increased distribution opportunities they benefit from.

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13 We also agree that other changes are needed and these are discussed in chapter 4.

3.13 Platforms are currently obliged to give an indication of the income level they will obtain from product providers in relation to designated investment business (for example, arranging an investment transaction through the platform).[14] The platform is obliged to disclose the actual amount on the customer's request. Following our review of platform disclosure, we found this information is rarely prominent; so many customers may be unaware of indicative costs and their right to request specific information.

3.14 As wrap platforms have separate charges, customers should be fully aware of how much they pay for platform services. In practice, our review found some wrap platforms disclosed their charges so poorly that customers were unlikely to understand the amount or effect of the charges.

3.15 As a result of our review we are actively encouraging platforms to improve their standards of disclosure.

Our analysis

3.16 We want to ensure platform remuneration does not undermine the RDR objectives, particularly regarding ending product and provider bias. We also wish to ensure platform remuneration does not restrict choice or influence the prominence of different products on a platform. This includes influencing the composition of model portfolio or guided architecture offerings. Customers should also know the amount they pay for platform services and be able to easily compare the costs and services of different platforms.

3.17 A fund supermarket gives a fund manager or other product provider access to many adviser firms. Without it, they might find it difficult to obtain retail investment business. This may become a growing issue as commentators expect Adviser Charging to push more retail investment business through platforms. Typically, fund supermarket charges are expressed as a percentage of the funds under administration (an ad valorem fee) and may have little relationship with how much any utility services provided to the product provider actually cost. The product provider may pay an additional amount for their products to be marketed by a platform, and some of the product provider charges may effectively pay for investment planning tools and other services a platform provides to adviser firms. This is why the payments appear to be more of a payment to secure distribution than for utility services.

3.18 Fund supermarkets continue dominating the platforms market and generally administer few non-commission generating products. This is unsurprising as their business model is usually built on providing a service at no extra charge to the customer and funded by product providers.[15] The income fund supermarkets receive from fund managers is typically represented as 0.25% of the value of assets the platform administers. But, we are aware the amount received can vary significantly and fund managers may pay minimum fees.[16]

3.19 Some respondents believed there was no need to provide customers with a break down of the amount fund supermarkets receive and the product provider retains.

14 This rule is taken from the maximum harmonising EU directive, MiFID.

15 There are a few exceptions to this. For example, we know of one fund supermarket that charges its customers an annual fee.

16 These are commonly referred to as 'shelf space' or 'pay to play' fees.

They stated that the total charge mattered more and a break down of the product charges would only cause confusion. Furthermore, if payments are simply for supplying administration services, it is unclear why platforms should be treated differently to other third parties who supply such services. However, platforms often supply many other services and are a clear part of the distribution chain, unlike most third party administrators. Therefore, it may be in the customer's best interests to know how much the platform earns.

3.20 We also highlight that – as far as we are aware – administration services the platforms usually provide are a by-product of platforms effectively converting multiple direct investments into a single nominee investment. This reduces the overall cost and administrative burden for fund managers operating regulated collective investment schemes.

3.21 The Financial Services Consumer Panel urged us to 'explore the widespread practice of rebates in the platform market and to develop proposals in relation to these that are aligned with the wider RDR proposals of removing provider influence.'

3.22 The bundled charges model of platform remuneration may hamper the potential growth in market share for many products which do not or cannot pay fund supermarkets. However, advisers may demand a wider range of investments, and there are signs this is already happening.[17]

3.23 Fund supermarkets who charge minimum fees may price smaller fund managers out of the largest part of the platforms market. Alternatively, there may be pressure to increase fund management charges to finance increasing platform fees.

3.24 A fund supermarket may negotiate larger payments from fund managers, consequently reducing the net fund management charges. However, it is unclear if a customer would benefit from this. For example, the platform may use the extra income to provide more services to adviser firms. Those extra services may or may not be beneficial to individual customers. In contrast, a customer is likely to directly benefit from an increase in the rebate of product charges to a wrap platform.

Options for platform remuneration

3.25 We have identified several options for platform remuneration with respect to advised retail investment business:

a) no changes;

b) The current practice of product providers paying platforms is allowed to continue. But we can take steps to:

   (i) provide rules or guidance on unacceptable practices (for example, concerning shelf space fees or fees for marketing products);

   (ii) require the specific disclosure of this income to a customer; or

c) stop all payments from product providers to platforms.

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17 Two fund supermarkets recently announced plans to add a service with unbundled charges and a wider range of investments. This is in addition to their bundled charges fund supermarket service.

3.26 We prefer option (c). However, this is not a final view. We will take into account responses to the questions below and a full cost benefit analysis has not been carried out yet. The MiFID Implementing Directive limits the scope for the UK and other European Union Member States to apply additional requirements in certain areas it covers. For options (b) and (c) we will need to take these limitations into account.

3.27 If platform charges and product provider charges are separated, consumers can judge the value of the services they are being provided with more easily. If a fund manager reduces its charges, the customer is likely to benefit directly from this. Any increases in platform charges will be clearly visible to its customers and their advisers. With a bundled charging model this may not be apparent. We understand that the cost of additional services provided through platforms can absorb any reduction in fund management charges negotiated by platforms. Accordingly the total charge payable by the customer tends to remain the same.

3.28 Stopping payments from product providers may also remove the risk of payments influencing the choice of products on a platform and how investment planning tools, model portfolios and guided architecture are constructed.

3.29 We will consider establishing further disclosure requirements to provide transparency, but we may need to change the nature of product providers' payments. For example, it is difficult to relate a minimum fee payable by a product provider to a platform (shelf space fee) to a customer's individual investment.

3.30 It may be possible to deal with some of the issues identified above by requiring changes to how bundled charges are structured. If we stopped minimum fees this might help stop smaller product providers being priced out of the market. Alternatively, it can be argued that product providers should pay a fee that reflects the costs of their products being hosted by a platform, the reduced administration costs, or both.

3.31 It may be possible to ensure certain products are not given more prominence that others by stopping promotional payments. However, this may be difficult to enforce in practice as they could be built into other payments.

Non-advised (including execution only) business

3.32 The RDR does not include any proposals in connection with non-advised business, except for group personal pensions. Consequently, firms can continue to receive commission determined by product providers for non-advised business. We have said that on balance, we consider that changes are not necessary for non-advised services at this time, but we will keep this under review. Platforms are similarly unaffected with regard to any non-advised business they arrange.

3.33 We welcome comments on whether consumers would benefit from including non-advised business in any proposals to change platform remuneration.

Q1: Do you agree with our analysis of the issues related to platform remuneration?

> Q2: Do you agree with our preference to stop payments from product providers to platforms? If not, please explain why and how any alternative proposals would be consistent with the objectives of the RDR.

> Q3: Should any changes to platform remuneration also apply to non-advised business? Please explain your answer.

Adviser Charging

3.34 A few respondents believed the RDR would drive more retail investment business through platforms, and that Adviser Charging was one reason why.

3.35 Adviser Charging can be arranged through platform cash accounts, but several platform operators stated they should not be a policeman on the reasonableness of adviser charges. This is because they have no knowledge of the services being provided.

3.36 The same platform operators also envisaged problems if multiple share classes emerge as a solution to pay adviser charges. They foresee problems arising from ensuring that each piece of new business is directed to the appropriate share class.

3.37 We agree that platforms can offer a potential solution to Adviser Charging for product providers and adviser firms, but we want to ensure platforms administer Adviser Charging to the same standards as product providers. So a platform should obtain instructions from a customer to pay an adviser charge and validate those instructions. A customer should be able to stop the payment of ongoing fees from their cash account to an adviser firm.

3.38 A platform's customers should be aware of how much they are paying to use a cash account. This may be an explicit charge, but there may also be an implicit charge. If a platform retains a proportion of the interest payable on cash accounts, it is important for this to be clearly and prominently disclosed to customers. Our rules require the rate of interest payable to customers to be disclosed.

3.39 It is important for customers to know how the platform cash account functions and how it is managed. This should include clear disclosure of how fees will be paid in the absence of sufficient cash in the customer's account. If this is by unit redemptions, customers should be made aware of the potential consequences (for example, it might trigger a liability to capital gains tax) and a customer may be better off paying fees a different way. There may also be issues for a platform, if assets are not readily realisable or subject to a suspension of trading.

3.40 We will consult on our data requirements for product sales in the summer; this is likely to require data (for example, on product charge levels) from product providers and platform operators. Therefore, we will not discuss any issues related to this here, but we can confirm that platform operators will not have to actively monitor the effect of adviser charges on products. This is because the RDR PS has confirmed we will not proceed with proposals in this regard.

> Q4: Do you agree with our analysis of what will be required to facilitate Adviser Charging through platforms?

Rebates from product providers to customers

3.41 One of the RDR aims is to stop product providers from structuring their charges in a way that could mislead or conceal from the customer the distinction between product charges and adviser charges. We want to end the practice of product providers levying higher charges and then rebating a portion of them to the consumer, as this sort of 'rebate' could obscure the existence of the adviser charge that the customer will pay.

3.42 As explained in the RDR PS, we are aware that some firms have interpreted our rules differently and concluded that we do not intend to stop product providers routinely passing a proportion of product charges back to a customer. Given the level of confusion in this area, we have decided to consult on additional rules to make clear that product providers must not defer, discount or rebate their product charges in such a way that these charges could appear to offset any adviser charges that are payable. As this issue has arisen largely in the context of platforms, the additional rules will be consulted on in our platforms CP this summer.

3.43 In relation to platforms, this approach would stop platforms from passing a rebate of the product charges to customers. This includes paying product provider rebates to customer cash accounts on platforms.

> Q5: Do you have any comments on the application to platforms of our intention to end product charge rebating?

Monetary and non-monetary inducements

3.44 A variety of views were expressed concerning this subject. Respondents felt there was a danger of inducements rules blocking platforms from giving adviser firms assistance. The reason given was customers can benefit from their adviser using the investment planning tools provided by many platforms.

3.45 One respondent commented that platforms assist adviser firms with consolidating their customers' assets and can also share their income with the adviser firm in return for specified levels of business.

3.46 A trade body stated there was no need for us to alter our rules and guidance in circumstances where platforms have an interest in adviser firms or adviser firms have an interest in platforms.

Our analysis

3.47 Now we have taken steps with Adviser Charging to deal with the risk of product and provider bias, we do not wish to see platforms providing monetary or non-monetary benefits that result in unnecessary sw itching of assets onto or between platforms. Neither do we want to see platforms become a channel for commission or commission-like payments from product providers, especially as many of them are owned or part owned by product providers.

3.48 Our starting point is that the rule on inducements[18] already covers providing monetary and non-monetary payments to adviser firms in relation to designated investment business. This includes benefits paid by platforms to adviser firms.

3.49 We are aware that platforms provide a variety of benefits. Generally, they are non-monetary, for example, training, consultancy services, assistance with systems integration and investment planning tools. But we are also aware of a number of monetary benefits.

3.50 When platforms provide services to adviser firms they should ensure they provide a clear, fair and not misleading description of their services. It is important for platforms to manage any conflicts of interest appropriately concerning investment planning tools; for example, in relation to products from product providers which own or partly own the platform.

3.51 Some adviser firms hold shares in a platform operator. In such circumstances, the conflict should be disclosed and managed to ensure an adviser firm acts in its customers' best interests.

3.52 There is a risk that platforms will compete for business from adviser firms by offering incentives which do not comply with our inducements rule. Our thematic work on platform use identified a firm which had entered into a volume override arrangement. We are currently looking into this as a potential breach of our inducements rule.

Q6: Do you agree with our analysis of the issues relating to inducements and our approach to inducements provided by platforms?

If not, please explain why not.

Independence and the use of platforms by adviser firms

3.53 Overall, there were mixed views as to whether adviser firms providing independent advice should be able to use a single platform or whether use of multiple platforms is necessary.

3.54 Those in favour of multiple platform use said no single platform was right for all customers. A couple of life assurers also thought using a single platform was inconsistent with independence.

3.55 A specific concern was whether an independent adviser using a platform carrying a single provider's products will meet the requirements to provide unbiased and unrestricted advice. One independent adviser asked us to recognise that using a single vanilla wrapper is not the same as using a single product provider.

3.56 The proposed definition of independence also caused one trade body to question whether a platform will need to develop fully integrated listed securities trading so independent advisers can use it for their customers. It was concerned that the facility would be costly and rarely used.

18 COBS 2.3.

Our analysis

3.57 We want to ensure that using platforms does not undermine the RDR objectives or, more generally, the delivery of suitable advice (independent or otherwise). When choosing to use platform services, an adviser firm should ensure customers do not incur additional costs on their investments without any additional benefit.

3.58 With regard to platforms, it is important to note there are no requirements for them to administer any particular type of investment. This also extends to fully integrating a listed securities trading facility. The post-RDR independence requirements now apply to a wider range of investments, but we recognise some of them are unlikely to be suitable for many consumers. For example, many unregulated collective investment schemes are high risk or difficult to realise before a fixed date. There may also be a high marginal cost for a platform to administer a variety of rarely used products. However, in Chapter 4 we do discuss the issues facing some types of funds if they cannot be distributed through platforms.

3.59 The issue of platform use by independent advisers is one that we dealt with extensively in our previous platforms DP and FS.[19] Despite this, from time to time we still receive questions about this, including responses to the RDR CP.

3.60 In view of these continuing questions and new independence requirements imposed by the RDR, we are now discussing this further. However, this is a development of our discussions in DP07/2 and not a replacement. We also draw readers' attention to the examples of good and poor practice related to whole of market advice that we have published this month.[20]

Transaction-led services

3.61 Many adviser firms provide and may continue to provide transaction-led services and they may only need to use platforms as a transaction venue. In which case, there may be no need to aggregate a customer's assets on one platform and it may be in a customer's best interests to purchase a fund or product through the venue that arranges it at the lowest charge. All advisers (independent or otherwise) should also be aware that the best execution requirements apply to the transaction of units or shares in collective investment schemes.

Portfolio advice services

3.62 Many adviser firms also offer portfolio advice services. A customer may benefit from having their assets aggregated on a platform, but those advantages should outweigh any disadvantages.

3.63 An independent adviser must consider off platform investments as well. This may be necessary to gain access to products such as national savings products. Some platforms will only administer funds that deal on a daily basis, so this excludes funds which deal on a less frequent basis, such as some property funds. There may

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19 Chapter 6 of DP 07/2 dealt with the giving of independent advice when using platforms. http://www.fsa.gov.uk/pubs/discussion/dp07_02.pdf

Also see paragraphs 3.46 to 3.58 of FS 08/01. http://www.fsa.gov.uk/pubs/discussion/fs08_01.pdf

20 *Investment advice and platforms: Good and poor practice report* http://www.fsa.gov.uk/pubs/other/gapp_inv.pdf

also be fewer advantages for arranging some investments through a platform, for example, life assurance bonds.

3.64 Many platforms have facilities to record non-platform holdings to produce valuations and asset allocation analysis. This data can be delivered to the platform through back office systems. Switching between funds and product wrappers can be easier and less costly on platforms, but funds within life policies cannot be transferred elsewhere.

Single and multiple platform use

3.65 In practice, a firm with a varied set of customers is unlikely to be able to use a single platform for all their customers. Additionally, a firm should not assume that platform services will be suitable for its customers.

3.66 We have explained before that it is good practice for a firm to segment its customers into groups with similar needs and circumstances when carrying out a due diligence exercise to assess the suitability of the services provided by different platform operators. This may identify that different groups of customers are likely to be best served by different platforms.

3.67 For example, in our good and poor practice report on investment advice and platforms,[21] we highlight a firm which failed to take into account the impact of a platform's flat annual administration fee when recommending investments to customers with smaller sums to invest.

Whole of market access

3.68 In general, platforms provide access to a large number of funds but often only through a limited number of providers for investments such as life assurance bonds and pensions. Hence, we have been asked again whether it is acceptable for an independent adviser to use such platforms.

3.69 We cannot provide a simple answer to this question, as circumstances dictate whether or not it is appropriate. Nevertheless, we think it may be helpful to set out some factors that need to be taken into account.

3.70 Many such products are described as 'vanilla' or 'benign wrappers' because they are established to hold large numbers of funds or other permissible investments. i.e. the product's function is to act solely as a tax wrapper around a set of funds or other investments. However, in practice they may not be benign. We give an example below for an independent adviser who decides that a life assurance bond is suitable for a customer.

3.71 An independent adviser is obliged to select a life assurance bond from the whole of the market. The adviser must then decide which life assurance bond is suitable for a customer's individual needs and circumstances. This would typically include, (but is not necessarily limited to) assessing the breadth of funds available, the product charges and individual fund charges, any restrictions, and other terms and conditions. An adviser may also factor in any benefits the customer will receive

21 *Investment advice and platforms: Good and poor practice report* http://www.fsa.gov.uk/pubs/other/gapp_inv.pdf

from arranging the investment through a platform. If the exercise identifies the life assurance bond available through the platform is not suitable, the adviser should select an off platform life assurance bond instead.

3.72 Some advisers may decide to switch from independent to restricted advice. If they do so, they should remember the description applies to a range of products the adviser can recommend. A platform is not a product, and restricted advisers are equally bound by best execution for the collective investment schemes they arrange.

Q7: Do you agree with our analysis of the issues relating to platform use by adviser firms? If not, please explain why.

4 Other platforms issues for discussion

4.1 In Chapter 3 we ask for views on several issues relating to delivering the RDR objectives. In this chapter we discuss other platform-related issues, some of which were raised by respondents to the RDR CP:

- how to improve customers' ability to transfer assets from one platform to another (re-registration);
- the level of capital platforms should hold; and
- issues relating to investing in authorised funds through platforms.

Re-registration

4.2 A number of respondents to the RDR CP stated that platforms must allow their customers to re-register their assets to another platform. It was suggested that we should step in if the industry fails to come up with a solution.

Our analysis of the issues

4.3 Some platforms do not allow customers to re-register their holdings off their platform. Where this is not available, customers have to sell and repurchase their holdings in order to transfer them elsewhere (for example, to switch them to another platform). This could cause a tax liability or other additional costs from being out of the market or transaction costs.

4.4 Many advisers have used platforms, especially fund supermarkets, only as a transaction venue and there may normally be no reason to transfer a holding to another platform. However, more and more advisory firms appear to be offering portfolio advice services and it may be appropriate to transfer holdings away from an existing platform.

4.5 A platform can manually re-register assets from one platform to another but this can be a difficult and lengthy process to administer for Individual Savings Accounts (ISA) or in bulk. Nevertheless, we are aware of some platforms that encourage assets to be re-registered onto their platform even though they may not allow them to be re-registered off.

4.6 Costs may also be a factor in inhibiting the transfer of assets away from a platform. A recent report suggested that it can be time consuming process and could cost an adviser as much as £600 per customer (time spent on administration etc).[22]

4.7 The result of this market practice is that customers and their advisers may find it more difficult, or even impractical, to transfer assets to another service provider. Some may even be put off by the hurdles without investigating the practicalities of a transfer. This is a poor outcome as customers should be able to transfer their assets[23] elsewhere if they are no longer satisfied with the service they receive. The lack of re-registration also presents a potential barrier to new entrants to the platform market.

4.8 As this is a well-known restriction, advisers should be aware of the issue when arranging for their customers' investments to be held by a platform. However, customers are unlikely to be aware unless they have been informed by their adviser or it has been disclosed adequately in customer documentation provided by the platform operator.

Potential solutions

4.9 We have previously publicly stated that platforms can make a reasonable charge for the manual re-registration of assets off their platform, but there does not appear to have been significant change to market practice.

4.10 Recent legal changes have made it possible to carry out the paperless transfer of units/shares in collective investment schemes and we are encouraged by industry-led moves to help create an automated solution for re-registration. This could be beneficial for customers and the industry as a whole by reducing costs and making the re-registration process quicker and more reliable.

4.11 Due to the potential for customer detriment, we are minded to make it compulsory for platforms to allow assets to be re-registered off their platform no later than the implementation of the RDR on 31 December 2012. This gives the industry time to agree and put in place an automated solution, but we will expect re-registration to be available whether an automated solution is in place or not.

4.12 In the meantime, we continue to expect adviser firms to take into account this issue when selecting a platform and we will be engaging with platform operators to ensure that their communications to customers give a balanced description of the advantages and disadvantages of using their services.

Q8: Do you agree with our approach to the issue of re-registration?

Capital adequacy of platform operators

4.13 According to our interpretation of their current regulated activities, all but one of the platform operators[24] are categorised as Limited Licence Investment Firms (LLIFs).

22 Source.: The RDR, platforms and the provision of advice by CWC Research. 2010.

23 Some assets cannot be re-registered. For example, funds in life assurance products.

24 Either as stand-alone regulated entities, or as a group of entities constituting the platform operator. One firm is currently categorised as a BIPRU Full Scope firm.

LLIFs calculate their minimum capital resource requirement as the higher of their base capital requirement or the sum of credit and market risk requirements or their Fixed Overhead Requirement (FOR). However, we recommend that LLIFs, when conducting their Pillar 2 assessment, should conduct a bottom-up analysis that considers all risks (e.g. operational risk) that they are potentially exposed to.[25]

4.14 The main objective of the provisions, introduced under the Capital Requirements Directive,[26] is to better align the regulatory capital held by firms to the underlying risk presented by their business models.

4.15 As the Fixed Overhead Requirement under Pillar 1 is only seen as a proxy for wind-down costs, we expect a firm to demonstrate through their Internal Capital Adequacy Assessment (ICAAP) that they have sufficient capital resources to be able to wind down their regulated activities in an orderly manner. For a platform operator, this would typically involve either:

1. returning client assets or money representing the realisation of investments to investors, if that is their choice; or
2. transferring assets to a purchaser of the business or of the underlying client accounts in a manner that does not cause significant inconvenience, loss or create tax implications for platform users.

The latter option generally demands that most client accounts are transferred in specie, where relevant.

4.16 Winding-down an administrative platform, as we have observed in the market, is costly and time consuming. At its current level, we do not believe it is likely that the FOR is sufficient to enable platform firms to effect in specie transfer of assets. Obviously, the underlying volume and complexity of the assets as well as how the assets are held is relevant. If the bottom-up Pillar 2 analysis results in a figure which is higher than the FOR or winding-down cost, the firm should hold this higher capital amount.

4.17 In our draft ICAAP guidance published earlier this year,[27] we suggested a wind-down assessment should consider:

- the likely period the firm believes it would take to wind-down its regulated activities;
- the likely costs incurred by the business during this period including any additional 'closure' costs, for instance as a result of terminating contracts;
- realistic cash and fund in-flows and out-flows over this period taking into account the likely impact of 'distressed conditions' during the wind-down period; and
- additional losses or liabilities that could crystallise during the wind-down period.

25 http://www.fsa.gov.uk/Pages/Library/Other_publications/Miscellaneous/index.shtml – ICAAP Observations for Limited Licence Investment Firms.

26 Implemented in the UK through the General Prudential sourcebook (GENPRU) and the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

27 See footnote 25.

4.18 Although we do not have detailed information about how quickly assets can be transferred, various statements from firms suggest that assets are unlikely to be easily or quickly transferred. The absence of automated fund transfer facilities and the non-direct nature of holdings of client assets (within nominee accounts and tax wrappers) rather than direct individual holdings in funds, makes the transfer of assets in specie an apparently very demanding proposition for LLIFs of this type.

4.19 Key areas we expect firms to cover in their analysis might include, but would not be limited to:

- adapting proposals for assets which are wrapped and unwrapped (i.e. those that can be transferred in specie and those for which it is potentially irrelevant);
- adapting proposals to different wrappers given (e.g. implications for transferability of underlying assets, which may vary depending on the nature of the wrapper, such as an ISA or Self Invested Personal Pension (SIPP);
- considering the complexity of underlying assets if encashment is a possibility. How quickly could portfolios be liquidated and what constraints might apply to vehicles which themselves become illiquid from time-to-time;
- realistically articulating the relevant permission and notification requirements for underlying investors, including considering the need for customers to agree a particular change to their own holdings. How long might a transfer be foreseeably delayed before an adviser or underlying customer responds;
- realistically assessing communications with a wide range of fund and wrapper providers – reflect existing real world experience rather than based on assumptions about other's ability to expedite your request, particularly given potential volume of requests;
- realistically assessing of the level of contact necessary with adviser firms and over what period to ensure that transfers and/or encashment of holdings can be carried out effectively;
- clarifying the types and numbers of staff needed throughout the winding down process;
- estimating the costs of third-parties in winding down process e.g. lawyers' fees; and
- assuming the levels of ongoing income and assessment of amount of resources allocated to business as usual activity and to resolve any reconciliation issues.

Cash accounts

4.20 In setting out our Pillar 2 assessment framework we acknowledged that for those LLIF acting solely as agents, an important protection for investors is the need to segregate their assets from the firm's. Where the firm breaches our Client Assets Sourcebook (CASS) requirements we will consider applying a Pillar 2 add-on. Our analysis of the basis on which platform cash accounts are operated suggests these are operated as client money accounts only. We believe these client money accounts are all held with external banks.

4.21 However, as we set out in our Dear CEO letter of 19 January,[28] under FSA Principle 10 'a firm must arrange adequate protection for clients' assets when it is responsible for them'. A higher priority is being given to achieving compliance with client asset requirements because we are concerned that firms are not, currently, always achieving an adequate level of protection. This intensive supervision will persist and we will continue to visit firms throughout 2010 to assess the adequacy of protection at firms with the relevant requirements, which may include platform operators.

Reverse stress-testing

4.22 We consulted on changes to the requirements we place on firms to undertake stress testing in CP08/24.[29] This CP proposed introducing 'reverse stress-testing requirements' for firms to explicitly identify and assess the scenarios most likely to cause their current business plan to become unviable.

4.23 More recently PS09/20[30] formally introduces the new reverse stress-testing requirement to be put into place by 14 December 2010. The PS also sets out the criteria that would exclude certain BIPRU investment firms from these requirements. We believe that many LLIFs already undertake the sort of analysis described in the PS, at least implicitly, as part of their orderly wind-down analysis and their business and strategic planning process.

4.24 As we laid out in PS09/20, all BIPRU investment firms with funds under management or administration greater than £10 billion on a consolidated basis; or total annual fee and commission income greater than £250 million; or total assets greater than £2 billion or total liabilities greater than £2 billion will be subject to the reverse stress-testing requirement. We also explained that supervisors may ask certain firms who don't meet these quantitative criteria to undertake a reverse stress-test if the supervisor believes it would be valuable.

Q9: What is your view of our assessment of the capital adequacy of platforms based on their categorisation as LLIFs?

Investing in authorised funds through platforms

4.25 Some respondents to the RDR CP stated customers receive less information when they invest in authorised funds through platform operators compared to investing directly, and that product providers are increasingly 'disintermediated' from the end consumer.

Provision of information and voting rights after the point of sale (impact on investors)

4.26 The rules in the Collective Investment Scheme Sourcebook (COLL) ensure product providers have certain requirements concerning providing information, including annual and half-yearly reports and accounts and unitholder voting rights. These rules require the product provider to give this information to the unitholder, i.e. the person named on the unit register. Where a consumer invests through a

28 http://www.fsa.gov.uk/pubs/ceo/ceo_letter0119.pdf
29 http://www.fsa.gov.uk/pubs/cp/cp08_24.pdf
30 http://www.fsa.gov.uk/pubs/policy/ps09_20.pdf

platform operator the holding is combined with other consumers and is registered in a nominee account in the name of the platform operator. The product provider discharges his responsibilities under COLL by notifying the platform operator.[31]

4.27 For this structure to work effectively for consumers, the platform operator must disseminate this information to its clients in a timely manner. For example, if an authorised fund manager (AFM) plans to make a change to the fund which is regarded as significant in accordance with COLL 4.3.6R, it must give at least 60 days' notice to unitholders, which enables them to make other arrangements for their investments if they so wish. Where the investment is held through a platform operator, the platform operator is given at least 60 days' notice. However, there is no regulatory obligation on the platform operator to cascade this information, and we understand that practices on whether this is done (and at what cost to end investors) vary in the marketplace.

4.28 Direct investors in authorised funds also receive the right to vote on fundamental changes to the fund, under COLL 4.3.4R. Where an AFM plans to make such a change it must arrange an extraordinary general meeting (EGM) where all unitholders can vote on the proposals. Where a consumer has invested through a platform operator, the platform operator receives notice of the forthcoming EGM. A recent information gathering exercise has identified differences between platform operators for the treatment of voting rights. Some platform operators do not pass on voting rights at all and disclose that they will not do so in their terms and conditions, whereas other platform operators proactively pass on voting rights to investors, or exercise the rights themselves. Most commonly platform operators disclose in the terms and conditions that investors must request voting rights in writing. They may charge for this service.

4.29 Although the use of platforms can provide benefits for investors, a failure to receive post-sale information and an inability to exercise voting rights are negative outcomes.

Q10: What is your view of the services currently offered by platform operators to provide investors with information about their investments? Do investors receive enough information and do they receive it in good time?

Innovation and product design (impact on product providers)

4.30 We have already seen an increase in the use of platforms and some commentators have suggested that the RDR will result in a further increase in fund distribution channelled through platform operators after it comes into force at the end of 2012.

4.31 This will have an inevitable effect on product providers. We have highlighted below two areas where issues have been raised with us.

Fund taxation

4.32 In recent years the government has made several improvements to the tax regime for authorised funds, for example creating the Property Authorised Investment Funds (PAIFs) and Tax Elected Funds (TEFs) regimes.

31 In this section we refer to platform operators however we are aware that these issues are present wherever a nominee account is used, including stockbrokers and ISA plan managers, which are outside of the scope of this paper.

4.33 PAIFs and TEFs rely on income streaming to ensure that the different types of income paid by the fund are taxed appropriately. A manager of a PAIF, for example, is required to split a distribution into three types of income: Property Income Distribution; PAIF Interest Distribution and PAIF Dividend Distribution. Only the PAIF Interest Distribution is taxable. With a TEF, taxation is carried out at the level of the investor – so for the correct amount of tax to be collected, information about the different income streams must be available to the end investor.

4.34 If a platform is unable to support these requirements, it may choose not to host funds which are TEFs or PAIFs, which inhibits their ability to get to market through the platform route and undermining the tax reforms that have been made.

Product design

4.35 Innovation in the product market may mean funds do not provide simple daily-dealing. For example, funds may have several different share classes, or offer 'limited redemption'. Limited redemption arrangements can be an important tool used by AFMs to manage liquidity effectively, especially in funds which invest in less liquid assets such as property. If platforms only host funds that deal daily, investor choice may be inappropriately limited, or providers may have an incentive to structure funds in such a way that they fit a platform's requirements, but this is not reflective of their actual underlying investments, causing a risk of consumer detriment.

4.36 One aspect by which providers can exercise liquidity management more generally is by understanding their investors' profile. For example, a fund with a large number of small investors is unlikely to face a relatively large redemption request all at once, compared to a fund with a smaller number of large investors. As more of a fund's total assets are held with only a few entries from platforms on its unitholder register, a provider will not know the underlying profile of the platform investors – are there only one or two, or in fact thousands (who are unlikely to coordinate redemption requests en bloc). So this disintermediation makes fund management more difficult with a corresponding increase in risk to investors.

Q11: Do you agree that where platforms do not host funds with non-standard features or tax regimes, this could lead to poor outcomes for consumers? Please give reasons for your answer.

Q12: To what extent should platforms be required to give product providers information about the end investors?

Q13: Are there any other issues that we should consider? Please provide details and, where relevant, suggestions on how these issues could be addressed.

5 High-level cost-benefit analysis

5.1 We have carried out a high-level cost benefit analysis of the options for changing our approach to regulating platforms discussed in this DP. We would welcome comments on the likely costs and benefits.

5.2 If in light of responses we receive we decide to propose changes to our rules or guidance, our CP will include a full analysis.

Platform remuneration

5.3 In this DP we discuss three possible options for platform remuneration, which are set out below.

No changes

5.4 This proposal represents a baseline, against which the costs and benefits of the other options should be compared.

5.5 Some fund managers may create new share classes with reduced fund management charges, as the RDR bans commission payments to adviser firms. If the existing fund management charges are retained for advised business, this would increase overall fund prices, unless part of the charges is rebated to customers (i.e. at least as much as the former commission payments).

5.6 If fund management charges cannot be rebated to a customer's cash account, the wrap platform business model would need to change to offer products at available prices (i.e. available share classes). The wrap platforms would continue to charge consumers separately for their services, but without any rebates to offset against fees payable. As long as share classes are available that allow the fund supermarket model to continue (i.e. include a payment to the fund supermarket), then this type of model would not need to change.

5.7 The theoretical outcome for a (two-sided) market in the absence of price regulation (on any side of the market) can be thought of as a likely description of how the market would develop under the 'no change' option, as there are currently no rules that govern how much platforms can charge to product providers, advisers or consumers.

Such an outcome can be summarised as follows:

- The number of funds available on each platform is determined by the number of consumers available on each platform: product providers would join platforms that do well in attracting consumers. Therefore the number of funds on each platform is determined to maximise the joint interest of platforms and advisers/consumers without taking into account the interest of product providers. This is because product providers 'multihome' (i.e. join multiple platforms) and therefore there is little competition between platforms to attract them. Typically, a consumer can gain access to a wide range of funds through a single platform and therefore platforms have little incentive to take into account product providers' interests when setting platform charges. This implies that platforms charge a high price[32] to fund managers for the benefit of advisers/consumers (i.e. although consumers ultimately pay for the cost of the platform through product charges, or explicitly through their cash account).
- This does not imply that platforms make excess profits: they may be forced by competitive pressures to transfer the 'excess price' charged to funds to advisers/consumers. This may be the case, as many platforms are not profitable at the moment.

Changes to the fund supermarket model

5.8 We could make it compulsory for platform operators to fully disclose the income they will receive from product providers.

5.9 Platforms using the fund supermarket model would incur additional compliance costs to produce the necessary disclosure documents and to modify their systems to provide the necessary information to consumers.

5.10 A more transparent pricing model would incentivise platforms to pass on efficiency savings to consumers more quickly. Although, making the payments more visible may act as a disincentive for product providers to provide platforms with larger payments.

Stopping payments from product providers to platforms

5.11 If platforms cannot charge product providers, they would need to charge consumers or adviser firms instead. This may mean that platforms offer the same pricing structure as now, such as ad valorem charges. Alternatively, new pricing models may emerge, such as a two-part tariff based on usage. This is difficult to predict at this stage.

5.12 Product providers would have an incentive to join more platforms than they would have if a positive price was being charged. This could lead to additional administration costs for platforms, unless platforms design criteria to limit the number or type of investments they accept.

5.13 What happens to the number of advisers/consumers using platform services and to platforms themselves is difficult to predict with certainty but if payments from product providers are banned and competitive pressure is high, platforms would have to increase the price charged to consumers to remain financially viable. If the

32 The term "high" should be interpreted as higher than marginal cost.

increase in consumer charges exceeds the reduction in platform charges to product providers, consumers will end up paying more than they were before.

5.14 If such an increase in prices cannot be borne by consumers then there is a possibility that some platforms would have to leave the market.

5.15 By stopping payments from product providers to platforms we would remove the risk of such payments influencing the choice of products available through platforms. In addition, the transparency of prices will be ensured and this is a key element of the rule changes implemented by the RDR.

Stopping the rebate of product charges to consumers

5.16 We are discussing this issue as it is clear that some firms appear to have assumed that it will remain acceptable to rebate product charges directly to consumers (although not to advisers).

5.17 The consequence of stopping these payments is that platforms cannot pass on a rebate of product charges directly to customers or to their platform cash account. Consumers would therefore need to pay platform and adviser charges directly.

Compliance costs

5.18 Compliance costs would be mainly related to the creation of additional share classes if fund managers decide to do so to accommodate the platform model. Platforms may also face some costs to update their systems to accommodate different payment mechanisms.

Indirect costs

5.19 If fund managers can rebate any share of their charges to consumers they can accommodate many different prices within a single share class. If a share class needs to be created to change fund charges, this may take time and money, and fund managers may be reluctant to do this on a regular basis. In the event that fund managers do not find it worthwhile to create additional share classes they may either leave the market altogether or increase the overall price paid by consumers as they would need to pay adviser charges on top of existing fund management charges.

5.20 The creation of more share classes might create a barrier to re-registration in some circumstances.

Benefits

5.21 The benefits associated with the ban would emerge because of an increase in transparency and a mitigation of the effects of consumers' behavioural biases. Thus, investors and their advisers will not be tempted to choose a product simply because they can offset some of the adviser or platform charges thanks to a reduction in the product charges that is paid into their cash account. It will also be easier for consumers to compare the costs of different types of investments.

5.22 In the long run, it is expected that competition between fund managers may reduce charges to consumers in line with the current charge net of the rebates.

Re-registration

5.23 The cost and difficulty associated with transferring assets away from a platform may substantially decrease competition in the market and may result in consumers being locked-in to a platform. This may result in platforms gaining market power over consumers.

5.24 We acknowledge that the process of re-registering assets may be costly, especially if the process is not automated, and we plan to estimate such costs once policy proposals are more advanced. We would be interested to hear views on the standards that should be set for re-registration and the costs of meeting those standards, for example, standards requiring the completion of the re-registration process within a specific period. However, our view is that the benefits from increased competition are likely to be substantially higher than the costs.

Capital adequacy

5.25 In this DP we are discussing initial proposals to require platforms to hold enough capital to provide their services effectively and to provide an orderly and efficient winding down.

5.26 This requirement would increase the ongoing cost of doing business for some platforms as it is likely that they will be required to hold more capital. On the other hand, consumers will be better protected and will be less likely to face problems, should a platform stop doing business.

5.27 We will estimate the amount of capital required to be raised by firms and the extent of the benefits associated with them once policy proposals are at a more advanced stage. We would also analyse whether higher capital requirements would result in higher barriers to entry in the industry.

Investing in authorised funds through platforms

5.28 We discuss a number of issues related to the provision of information and voting rights to investors who have used a platform to purchase units in an authorised fund. As well as issues related to platforms not being prepared to hold certain types of funds.

5.29 When policy proposals are at a more advanced stage, we will analyse these issues further.

Q14: What compliance costs do platforms expect to incur if the proposals discussed in this DP are implemented?

Q15: What costs, other than compliance costs could arise from the implementation of the proposals discussed in this DP? Please provide broad estimates of their magnitude.

Q16: What benefits could arise from the implementation of the proposals discussed in this DP? If possible, please provide broad estimates of their magnitude.

List of questions

Chapter 3 – Delivering the RDR: issues for platforms

Q1: Do you agree with our analysis of the issues related to platform remuneration?

Q2: Do you agree with our preference to stop payments from product providers to platforms? If not, please explain why and how any alternative proposals would be consistent with the objectives of the RDR.

Q3: Should any changes to platform remuneration also apply to non-advised business? Please explain your answer.

Q4: Do you agree with our analysis of what will be required to facilitate Adviser Charging through platforms?

Q5: Do you have any comments on the application to platforms of our intention to end product charge rebating?

Q6: Do you agree with our analysis of the issues relating to inducements and our approach to inducements provided by platforms?

If not, please explain why not.

Q7: Do you agree with our analysis of the issues relating to platform use by adviser firms? If not, please explain why.

Chapter 4 – Other platforms issues for discussion

Q8: Do you agree with our approach to the issue of re-registration?

Q9: What is your view of our assessment of the capital adequacy of platforms based on their categorisation as LLIFs?

Q10: What is your view of the services currently offered by platform operators to provide investors with information about their investments? Do investors receive enough information and do they receive it in good time?

Q11: Do you agree that where platforms do not host funds with non-standard features or tax regimes, this could lead to poor outcomes for consumers? Please give reasons for your answer.

Q12: To what extent should platforms be required to give product providers information about the end investors?

Q13: Are there any other issues that we should consider? Please provide details and, where relevant, suggestions on how these issues could be addressed.

Chapter 5 – Cost-benefit considerations

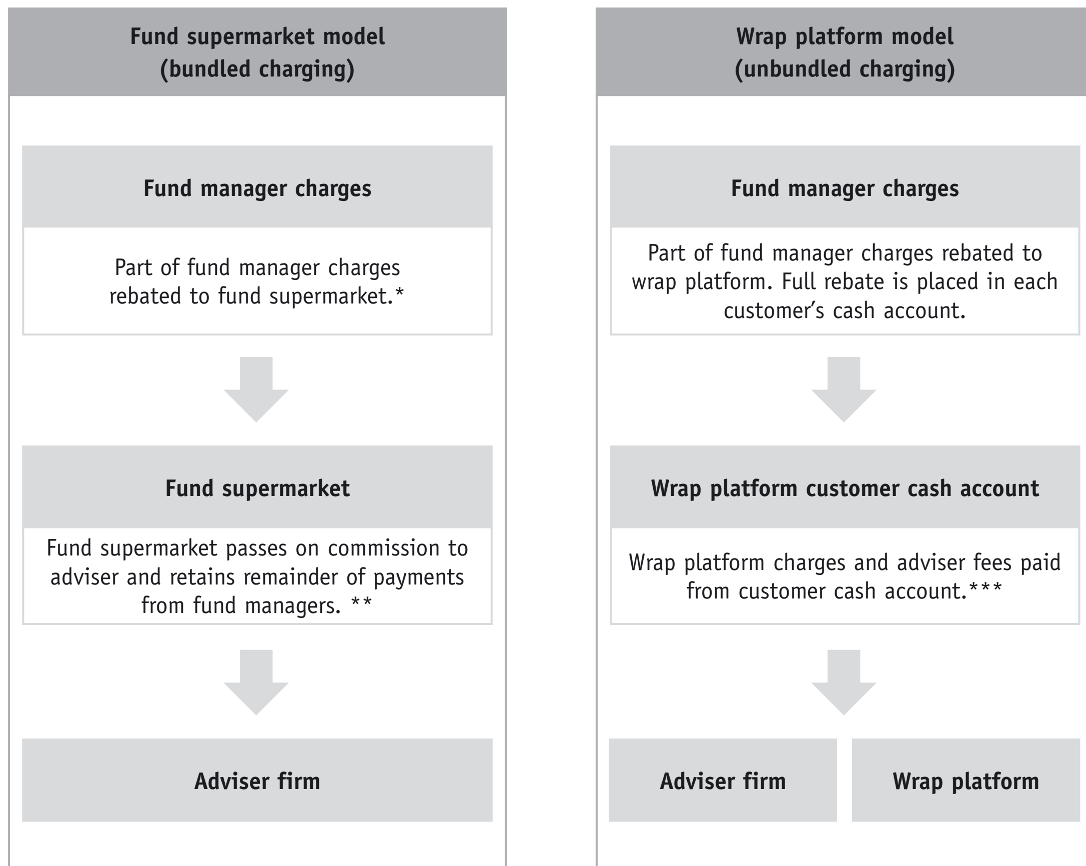
Q14: What compliance costs do platforms expect to incur if the proposals discussed in this DP are implemented?

Q15: What costs, other than compliance costs could arise from the implementation of the proposals discussed in this DP? Please provide broad estimates of their magnitude.

Q16: What benefits could arise from the implementation of the proposals discussed in this DP? If possible, please provide broad estimates of their magnitude.

Examples of platform remuneration models

Examples of current remuneration models for platforms and the adviser firms using them



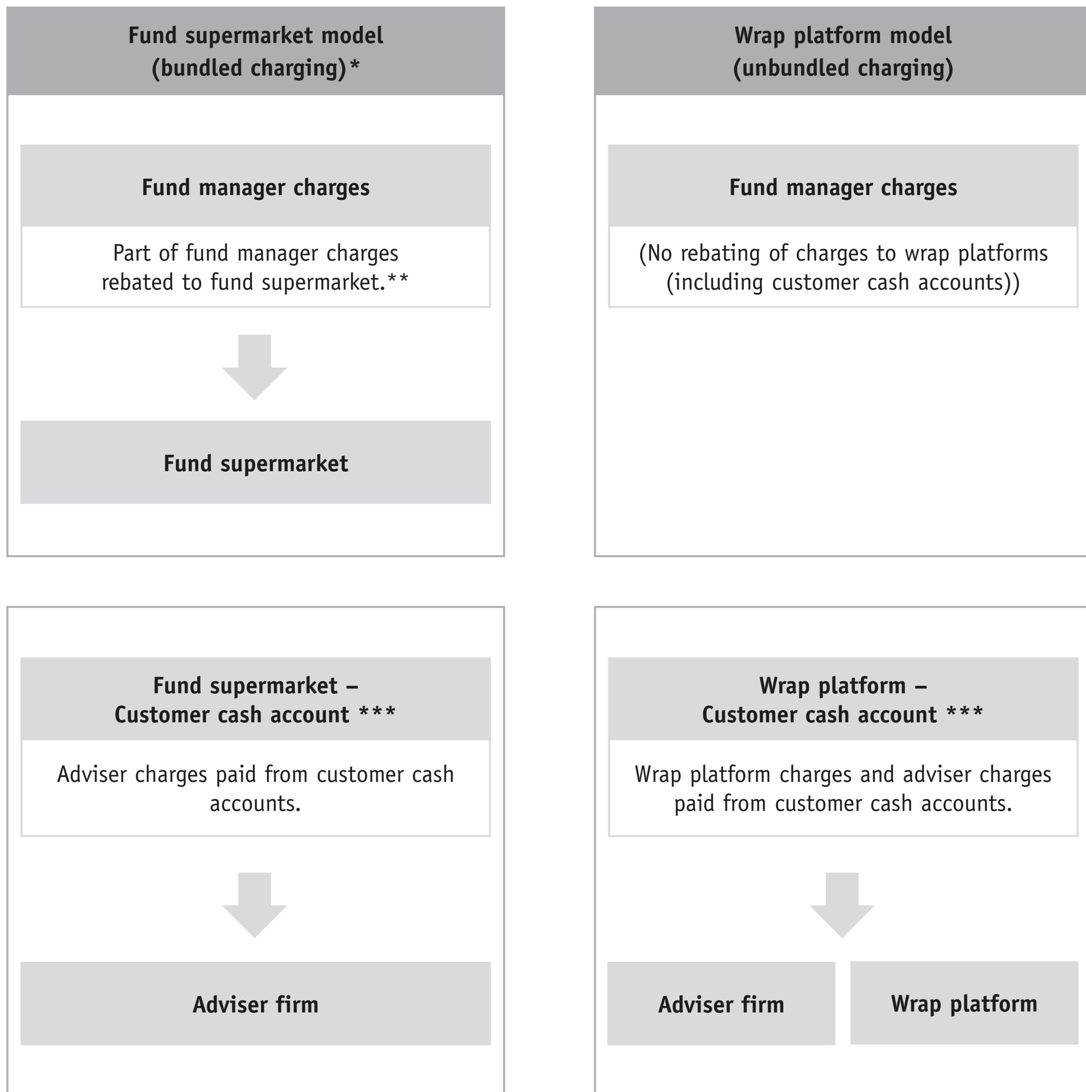
Notes

* The payment from a fund manager includes any commission to be passed onto the adviser. There may be additional payments to the fund supermarket, for example, shelf-space fees. A fund supermarket's income may come from other sources as well, for example, an annual charge payable by customers.

** The fund supermarket may provide a facility for adviser firms to receive a fee from their customers instead of or in addition to any commission payable.

*** The adviser fee is agreed with the customer. The customer cash account may also be funded by interest or distributions. In the absence of sufficient funds, the customer may have to top-up the cash account or the platform may have to redeem units/shares in the funds under administration. Customers may, of course, pay fees direct to their financial adviser.

Post RDR examples of remuneration models for platforms and the adviser firms using platforms



Notes

The examples assume that fund manager charges are not rebated to customers.

* As outlined in Chapter 3, we may take steps to stop payments from fund managers and other product providers to platforms.

** The rebate is payable for fund supermarket services only.

*** The customer cash account may also be funded by interest or distributions. In the absence of sufficient funds, the customer may have to make a payment to the cash account or the platform may redeem units / shares in the funds. Customers may, of course, pay adviser charges direct to their financial adviser instead.

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