

RDR for Dummies – Retail Markets

Table 1

Product Distributors who are in law agents of the client	Those Product Distributors who are not agents of the client
IFA's	Banks
	Building Societies
	Insurance Companies
	Investment Companies
	Government

Table 2

Providers of Financial Advice Who are Agents of the Client	Providers Who hold themselves out as giving financial advice who are not agents of the client
IFA's	Government
	Government Quangos
	Broadcast Media
	Print Media
	Web Media
	Banks
	Building Societies
	Insurance Companies
	Investment Companies
	Government

Rule 1

In the event of the sale of a financial product of any type by any of the above firms listed on both sides of the above table the full cost of commissions, expenses, marketing support or other subsidies, co-payments or money value contributions will be fully disclosed before the point of sale and after the point of sale.

Rule 2

Only firms who are agents of the client may hold themselves out as giving financial advice. Product selling firms listed in the right hand columns of tables 1 and 2 above can only advise customers about their product. They cannot make any recommendation as to whether it is suitable for the client.

Definitions

An IFA is someone who is the agent of the client and will not be a tied agent of any firm on the right hand column of tables 1 or 2 or any subsidiary thereof. They may be Actuarial firms, or other professional firms that employ suitably qualified staff, or subsidiaries of the companies listed in the right hand column of the above tables.

Remuneration

1. IFA's

In respect of the remuneration of IFA's this can be by any means that is agreed between the client and the IFA. This must be made clear in advance. The amount of the remuneration is a matter for the client and the IFA to decide. Clients are reminded that it is up to them in a free market to decide what they consider to be acceptable. No one will be able to claim that any such payment is incorrect except as is traditionally available through the Common Law of England.

2. Everyone Else

In respect of non IFA product distribution it is entirely up the provider firms what charges they wish to make, as long as they are fully disclosed in all respects, including the effect on investment returns at the point of sale. Clients are reminded that in such commercial transactions the Common Law of England will hold that the rule of caveat emptor – buyer beware – applies.

Investment risk

Investing is risky. That is why investors achieve a return over the risk free return. If clients want to know more about investment risk, seek professional advice or read a book.

Rates of Return for Illustrative Purposes.

When using rates of return to illustrate product benefits firms are instructed to assume sensible rates. The Financial Services Supervisor will check these are random intervals and if it is discovered that sales people and IFA's are being at all speculative in the ROR assumptions their trading authorisation will be revoked for all companies in their group or business for at least six months whilst a full investigation is made. This revocation will not come into immediate effect but the FSS will put the case to the Independent Assessor for adjudication which will take one month to complete. The firm will have the opportunity to make its case.

Product Design

It is a free market. Product design innovation will benefit clients. That is why free economies are successful at creating wealth. If clients are unsure of the product they are being offered they should exercise the responsibility bestowed by freedom and walk away, or seek professional, or alternative professional advice.

Professional Indemnity Insurance and Capital Adequacy and Reserves - IFAs

All IFA's must ensure that they have adequate PI insurance to cover potential professional negligence claims. Their PI broker will be able to recommend an appropriate level of cover. PI insurance will sufficient capital for professional negligence risk. Firms are expected to hold sufficient working capital for normal commercial purposes, but no specific amount is prescribed since capital requirements vary from firm to firm. (Capital adequacy for banks, building societies insurers and so forth are specified under the companion regulations – Bank Regulation for Dummies)

Common Sense

All market participants, including clients, are expected to exhibit common sense in all dealings.

Openness

The FSS expects all firms to be entirely open and honest in their dealings with the FSS. Agents of the FSS will make unannounced random visits to FS firms. These visits are in the nature of discovery. They are not fishing expeditions.

Fees

IFA's

The FSS fees will be capped at £250 per annum per firm. Adviser fees will be payable to the professional institutions who establish and accredit their professional status. Professional institutions will pay the same £250 fee.

RH Column Firms

Fees will be 0.01% of global turnover. This is in excess of the fees required to run the FSS. The surplus will be used to create a fund for depositor and investor protection.