

**MEMO# 29816**

April 8, 2016

# UK Financial Advice Market Review: Recommendations

[29816]

April 8, 2016

TO: INTERNATIONAL COMMITTEE No. 23-16  
ICI GLOBAL REGULATED FUNDS COMMITTEE No. 25-16  
ICI GLOBAL STEERING COMMITTEE No. 10-16  
ICI GLOBAL RETIREMENT SAVINGS COMMITTEE RE: UK FINANCIAL ADVICE MARKET REVIEW:  
RECOMMENDATIONS

On 14 March 2016, Her Majesty's Treasury (HMT) and the Financial Conduct Authority (FCA) published recommendations [\[1\]](#) from the UK Financial Advice Market Review (FAMR). The FAMR's recommendations are intended to improve the market for affordable and accessible financial advice in the UK.

## Background to the FAMR

The FAMR was launched in August 2015 due to concerns that the UK financial advice market was not working well for all consumers. [\[2\]](#) The aim of the FAMR was to "explore ways in which the UK Government, industry and regulators can take individual and collective steps to stimulate the development of a market which delivers affordable and accessible financial advice and guidance to everyone, at all stages of their lives." Two areas of particular focus were the implications of: (i) the implementation of the Retail Distribution Review (RDR) at the end of 2012; [\[3\]](#) and (ii) the reforms to the UK pension system, particularly additional pension flexibility introduced in April 2015. [\[4\]](#)

## Recommendations in the Final Report

The FAMR's 26 recommendations are grouped into the following three key areas:

- **Affordability** – These recommendations contain proposals to make the provision of advice and guidance to the mass market more cost-effective, including by encouraging firms to develop more streamlined services and to engage with customers in a more effective way. There is also a proposal that the FCA set up a dedicated team to assist firms developing large scale automated advice models, so these services can be brought to market more quickly.
- **Accessibility** – These recommendations are aimed at increasing consumer engagement and confidence in dealing with financial advice. FAMR sets forth a

number of measures to help consumers access and use advice more effectively e.g., making their own information more easily available to them and those that advise them; the development of 'rules of thumb'; the use of nudges to encourage customers to seek support at key life stages; and recommendations to help employers better to their staff.

- Liabilities and Consumer Redress – FAMR has a number of recommendations to address liability and consumer redress concerns, while ensuring consumers have adequate protection. There are recommendations to increase transparency about the way in which the Financial Ombudsman Service deals with consumer complaints. The report also includes proposals relating to the funding of the Financial Services Compensation Scheme (FSCS) to assist in managing longer term liabilities.

## **Recommendations of particular relevance to funds and asset managers**

The full list of the FAMR's recommendations is in the Annex.

A number of FAMR's recommendations are relevant to the design and distribution of regulated investment funds, and to the provision of asset management services to retail and professional clients. For example, there are recommendations encouraging:

- Clearer definitions and understanding of “advice” and “guidance” services;
- Greater use of technology to provide advice and guidance;
- Better standards for assessing and reporting suitability;
- More support for retirement savings.

The FAMR also contains more general recommendations to support greater access to, and use of, financial advice and guidance services.

## **Next Steps**

The FCA has identified the delivery of the FAMR recommendations as a key priority in its 2016/2017 Business Plan. It has also identified the implementation of the Markets in Financial Instruments Directive (MiFID) II, which contains requirements related to the FAMR's recommendations, as a key planned activity for the coming year.

The FCA and HMT must report jointly to the Economic Secretary and FCA Board in 2017 on their progress in implementing the recommendations. Both organisations also have indicated that in 2019 they will conduct a post-implementation review of the FAMR.

## **Annex - Recommendations in the final report of the UK Financial Advice Market Review**

Recommendation Indicative timing 1 To support progress over the next 12 months, members of the FAMR Expert Advisory Panel should form a Financial Advice Working Group, together with members of the FCA Consumer, Practitioner, and Smaller Business Practitioner Panel. First 12 months Affordability 2 Advice boundary: Consult on amending the definition of regulated advice under the existing Regulated Activities Order (RAO) so that regulated advice is based upon a personal recommendation, in line with the definition set out in MiFID. Implement in early 2017 (subject to consultation) [\*] 3 Regulatory responsibilities associated with guidance: Consult on new guidance to support firms offering services that help consumers making their own investment decisions without a personal recommendation. This should include a series of illustrative case studies highlighting the main considerations firms need to take into account when developing such services and

dealing with specific areas of uncertainty identified during the Review. Consult on guidance by early 2017 [\*] 4 Streamlined advice: Develop a clear framework that gives firms the confidence to provide streamlined advice on simple consumer needs in a proportionate way. As part of this, new guidance should be produced to support firms offering 'streamlined advice' on a limited range of consumer needs. This should include a series of illustrative case studies highlighting the main considerations when developing such models. Consult on guidance by early 2017 [\*] 5 Qualifications: Consult on modifying the time limits for employees to attain an appropriate qualification in the FCA's existing Training and Competence sourcebook (TC). Consult in 2017 [\*] 6 Cross-subsidisation: Consult on guidance on the cross-subsidisation rules in relation to the interpretation of 'long term' and the flexibility allowed. Consult in Q3/Q4 2016 7 MiFID II Implementation: HMT should ensure in transposing and implementing MiFID II that, while meeting obligations under EU law, it does not undermine the FCA's ability to follow through with the proposals which are designed to give firms the confidence to deliver streamlined advice. Ongoing 8 Smarter Communications & Suitability Reports: Work together with the aim of bringing about improvements to suitability reports, reducing their length, where appropriate, and the time firms spend preparing them. Ongoing 9 Advice Unit: Build on the success of Project Innovate and establish an Advice Unit to help firms develop their automated advice models. Pilot to run from Autumn 2016 10 Portable fact finds: The FCA should consult on guidance to provide clarity on the standard types of information required as part of the fact find process. In addition, the guidance should also set out key considerations for verifying a fact find that has been performed by third parties. Consult on guidance early 2017 [\*] Accessibility 11 Employer concerns about regulatory liability: Develop and promote a new factsheet to set out what help employers and trustees can provide on financial matters without being subject to regulation. Publish factsheet early 2017 12 Employer best practice: Work with employers to develop and promote a guide to the top ten ways to support employees' financial health. Publish guide early 2017 13 Taxation exemptions for employer-arranged financial advice: Explore ways to improve the existing £150 income tax and National Insurance exemption for employer-arranged advice on pensions. Implementation Q2 2017 14 Pre-retirement advice tax break: Explore options to allow consumers to access a small part of their pension pot before the normal minimum pension age, to redeem against the cost of pre-retirement advice. Subject to consultation 15 Adviser charging: Take steps to ensure that firms and advisers are aware of the existing flexibility in the rules on adviser charging Q3/Q4 2016 16 Pensions Dashboard: Challenge the industry to make a pensions dashboard available to consumers by 2019, bringing together industry and consumer representatives to help them set direction and drive progress. Technology to be available to consumers by 2019 17 Terminology: Publish a shortlist of potential terms to describe "guidance" and "advice", with the final choice of words and approach to implementing them to be confirmed after market research and consumer testing. Shortlist to be published Q3/Q4 2016 18 Designing rules of thumb and nudges: Lead a task force to design and test a set of rules of thumb and nudges. Initial testing to be completed by Q1 2017 19 Ongoing review and promotion of rules of thumb and nudges: Assign the continuing responsibility for the rules of thumb and nudges to an appropriate body with financial capability expertise. This body will be responsible for updating the rules of thumb and nudges, and encouraging the use of them by employers, government agencies and charities. HMT Responsibility to be assigned to appropriate organisation Q1/Q2 2017 Liabilities and consumer redress 20 FSCS funding: The 2016 FSCS Funding Review should specifically explore risk-based levies, reforming the FSCS funding classes, and more extensive use of the FSCS credit facility. The Review should explore the merits, risks and practicalities of alternative approaches. Consult Q4 2016 21 PII market: Following the review of FSCS funding, in light of evidence received as to the impact of the professional

indemnity insurance (PII) market on FSCS funding, consider whether to undertake a review of the availability of PII cover for smaller advice firms. Q3/Q4 2017 22 Ombudsman Best Practice roundtables: Consider undertaking regular 'Best Practice' roundtables with industry and trade bodies where both sides can discuss relevant issues such as evidence used when considering historic sales and suitability requirements. Q3/Q4 2016 onwards 23 Ombudsman uphold rates: Publish additional data on Financial Ombudsman Service uphold rates, specifically around cases where advice was given more than fifteen years before the complaint was made, and a breakdown of financial adviser uphold rates by product. Publish after the Financial Ombudsman Service Data Review in 2017 24 Financial Ombudsman Service website area for advice firms: Consider whether to establish a more visible central area for firms on the Financial Ombudsman Service website by summer 2016, bringing existing resources (e.g. summary of approach, technical guidance notes, case studies etc.) together in one place to help advisers. Establish in Summer 2016 25 Expanding the ombudsman Independent Assessor report: The report of the Financial Ombudsman Service appointed Independent Assessor should be expanded to include a more in-depth analysis of cases they consider and identify potential areas for process improvement. Expand report produced in 2017 26 Longstop review: The FCA should not introduce a longstop limitation period for referring complaints to the Financial Ombudsman Service. As part of the review in 2019, the FCA and HMT will consider any ongoing trends and the impact of the Financial Ombudsman Service's complaints data relating to advice on long-term products. Not given in final report Implementation 27 To support progress over the next 12 months, members of the FAMR Expert Advisory Panel should form a Financial Advice Working Group with members of the FCA Consumer, Practitioner, and Smaller Business Practitioner Panels. Financial Advice Working Group to be formed Q2 2016 28 Report jointly to the Economic Secretary and FCA Board, 12 months after the publication of this document, on the progress made towards implementation. In 2019, both organisations should conduct a review of the outcomes from FAMR. Report on progress Q1/Q2 2017. Review of FAMR outcomes in 2019.

[\*] Timelines for these initiatives are dependent on MiFID timing, but the FCA and HMT should aim to implement measure in line with, if not before, MiFID II implementation. The provisions of MiFID II are currently expected to apply from January 2018. The detailed implementing measures for MiFID II have not yet been published.

Giles Swan  
Director of Global Funds Policy - ICI Global

#### **endnotes**

[1] Financial Advice Market Review, Final Report, March 2016, available from <https://www.fca.org.uk/static/fca/documents/famr-final-report.pdf>

[2] Financial Advice Market Review: Terms of Reference, 3 August 2016, available from <https://www.gov.uk/government/publications/financial-advice-market-review-terms-of-reference/financial-advice-market-review-terms-of-reference>

[3] <https://www.fca.org.uk/news/post-implementation-review-of-the-rdr>

[4] <https://www.gov.uk/government/news/pension-changes-2015>

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.