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Financial Services Authority

Financial Services Authority

Investment advice and platforms:

Project findings

March 2010

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1 Executive summary

Introduction

1.1 In June 2007 we published a Discussion Paper (DP) on platforms[1] setting out how we thought firms could use platforms and meet our rules and principles. In general the respondents agreed with our position and we confirmed our view on this market in a Feedback Statement (FS) in March 2008.[2] In these documents we set out our main concerns which included:

- platforms can add a layer of cost and complexity for clients;
- conflicts of interest can potentially encourage firms to use platforms when it is not in their clients' best interests; and
- platforms can be used to underpin new investment advice services which advisers are not adequately competent to deliver.

1.2 In the FS we stated that we would investigate disclosure of costs and services by platform operators[3] and how intermediaries use platforms. This report summarises the findings from our thematic review of intermediaries using platforms. We also referred to this review in Consultation Paper 09/18[4] and stated that the findings would help inform our thinking on whether guidance would be needed in this area. We have published Discussion Paper DP10/2,[5] taking account of these findings and putting forward our suggestions for changes to our regulatory approach.

1 http://www.fsa.gov.uk/pages/Library/Policy/DP/2007/07_02.shtml

2 http://www.fsa.gov.uk/pages/Library/Policy/DP/2008/fs08_01.shtml

3 The results of this can be found at http://www.fsa.gov.uk/pubs/other/gapp_report.pdf.

4 Distribution of retail investments: Delivering the RDR http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_18.shtml.

5 Platforms: Delivering the RDR and other issues for discussion http://www.fsa.gov.uk/pages/Library/Policy/DP/2010/10_02.shtml.

Scope of the project

1.3 The focus of our project was on the quality of advice when advisers recommend investments are held on platforms. We also reviewed the disclosure of costs and services by advisers to complement our work on the disclosure material produced by platform operators. We reviewed the quality of advice since March 2008 (the date of the FS) by reviewing advice to individual clients and by assessing firms' systems and controls to ensure suitable advice is provided and customers are treated fairly. Our review was mindful that platforms are used in different ways: sometimes in a transactional way but also by firms to underpin 'portfolio advice services'.[6] The review considered all investments held on platforms including pensions.

1.4 We initially undertook a high level, desk-based review of 33 independent financial adviser (IFA) firms to provide us with a short-list of 12 where we undertook a full investigation. We focused on higher risk firms and 10 of the 12 firms were where there was an increased risk of poor outcomes for clients. See the annex for details of the project methodology.

Key findings

1.5 **Problems with firms in transition**: Our review found the quality of advice in relation to investments using platforms was mixed. Most firms were in the process[7] of transitioning towards offering portfolio advice services and making changes in the light of the Retail Distribution Review (RDR).[8] However, *none* of the 12 firms had explicitly reviewed their oversight and risk management procedures in the light of these changes to their business models and services to clients. Hence, for example, there was generally inadequate identification and management of conflicts of interest, inadequate review of monitoring procedures in the light of the provision of portfolio advice services as opposed to transactional product sales and mixed results in ensuring adviser competence to match new investment services. Also, the disclosure of ongoing services was poor in most firms with, commonly, contradictions between the firm's terms of business and the suitability report regarding ongoing services to be provided.

1.6 **Mixed results for quality of advice**: 147 client files were assessed across the 12 firms, of which 24 cases were assessed as unsuitable. The cases of unsuitable advice were spread unevenly across the sample, with a quarter of firms accounting for over half of unsuitable cases. **The small sample both in terms**

6 'Portfolio advice services' is an expression we used in the DP (paragraphs 5.16 to 5.20) to mean an ongoing investment advice service that did not amount to discretionary portfolio management. It typically involves recommending a range of investments to meet an asset allocation and reviewing this on a periodic basis.

7 Three firms could be said to have completed this transition.

8 In particular, moving towards the higher qualification level and operating on an 'adviser charging' basis. See http://www.fsa.gov.uk/pages/Library/Policy/Policy/2010/10_06.shtml and http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_31.shtml

of firms and files reviewed and the fact that the majority of the 12 firms had been assessed as higher risk firms means that these results are not representative of the market. The most common reason for unsuitable advice was found to be inadequate consideration of the overall 'solution' – the combined cost of the product(s), the platform and the cost of the advice, including ongoing servicing.

1.7 **Regulatory action**: As a result of our findings – in particular the level of unsuitable advice – we have required two firms to undertake past business reviews of investment advice using platforms, which may result in redress being paid to clients. In addition, one firm has been referred to the Enforcement and Financial Crime Division for further investigation, primarily due to concerns that unsuitable advice may have been given to consumers as a result of training and competence failings and inadequate systems and controls at the firm.

1.8 **Good practices**: Our review also found several firms had successfully integrated platforms into their businesses while consistently offering good quality advice and we have provided examples of good and poor practice in a separate report.[9]

Key risks

1.9 The project found examples of all the areas of concerns that were set out in the DP and FS and our concerns on these issues remain (see paragraph 1.1 above). In particular, as firms increasingly make the transition to providing portfolio advice services and make changes in the light of the RDR, our two main concerns are that firms do not adequately consider:

- **Poor risk management and oversight:** Firms should review their risk management and oversight arrangements these as their business model changes otherwise they risk failing to treat customers fairly; and
- **Individual suitability:** Firms should review suitability of their overall platform-based investment proposition in the light of their clients' needs and objectives. Firms should be aware that a comprehensive portfolio advice service, using a platform, may not be suitable for everyone. There may be clients whose best interests are served by having a simpler, lower cost solution (often on a transactional basis). There are also clients whose existing investments adequately meet their needs and objectives and it may not be in their best interests to switch them to the firm's investment proposition. We set out in the DP and reiterated in the FS that firms must consider the suitability of investing via a platform on an individual basis with clients.

9 http://www.fsa.gov.uk/pubs/other/gapp_inv.pdf

Next steps

1.10 We have produced a Good and Poor Practice Report[10] to help firms understand our expectations when incorporating platforms into their advice process. We have also published a suitability and disclosure assessment template[11] and accompanying notes that firms can use, alongside normal monitoring procedures, to evaluate whether the advice they give to clients to invest using a platform is suitable.We will be using a similar assessment template as part of our normal supervision.

1.11 Firms can find more information on our position on this subject in the DP,[12] the FS[13] and in our summary factsheet.[14] More detail on our wider view on platforms and the RDR can be found at http://www.fsa.gov.uk/pubs/policy/ps10_06_newsletter.pdf.

1.12 We do not intend to extend this thematic project but will continue monitoring and assessing how firms provide investment advice using platforms and this will form a supervisory priority going forward. We will continue monitoring developments in this market and the results of our supervisory activity and, if necessary, will consider whether further regulatory action is required which may include policy developments.

10 http://www.fsa.gov.uk/pubs/other/gapp_inv.pdf

11 http://www.fsa.gov.uk/pages/Library/Other_publications/platform_thematic_review/index.shtml

12 http://www.fsa.gov.uk/pages/Library/Policy/DP/2007/07_02.shtml

13 http://www.fsa.gov.uk/pages/Library/Policy/DP/2008/fs08_01.shtml

14 http://www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/factsheet_wraps.pdf

2 Findings – Quality of advice

2.1 The focus of our project was the quality of investment advice when using a platform. We assessed this subject by reviewing individual client files and the firms' systems and controls for ensuring suitable advice is delivered. This chapter covers the findings from the 12 firms where we undertook a full assessment. We also assessed the disclosure of costs and services by the intermediary firms and our findings are reported in Chapter 3.

File reviews

2.2 When reviewing the client files we used a suitability assessment template similar to the one we have published alongside this report.[15] We considered each case against three unsuitable outcomes:

- the client incurred additional costs without good reason;
- the adviser recommended investments which did not match the client's attitude to risk (ATR), personal and financial circumstances; and
- the client lost benefits (including guarantees) or incurred a financial loss because their adviser recommended a new investment to replace an existing one with no good reason to incur the loss.

Each file was rated 'suitable', 'unsuitable' or 'unclear' where a clear assessment of suitability could not be made. We reviewed a total of 147 client files across the 12 firms.[16] 82 cases were rated as suitable, 41 as unclear, and 24 cases as unsuitable.

15 http://www.fsa.gov.uk/pages/Library/Other_publications/platform_thematic_review/index.shtml

16 The majority of these firms were rated as higher risk of unsuitable advice and hence these results are not representative of the market in general.

The client incurred additional costs without good reason

Our expectations

2.3 Where a more expensive solution is recommended, there needs to be a good reason and these reasons should be justified to the client. For example, there may be options or benefits that are valuable to the client that merits the additional cost. Similarly, in the broader context of investment advice, where a platform is used and the adviser provides a portfolio advice service, there needs to be a good reason for the additional costs. These additional costs can arise not only from platform charges (where applicable) but also from adviser charges (initial and ongoing) and, potentially, more expensive products.

2.4 We expect firms to consider the overall costs and to recommend a solution that is suitable for the client. In some cases it may not be in the client's best interests to receive the full portfolio advice service and they may be better served by a simpler, lower cost option; for example, a transactional sale that does not need such regular reviewing.

2.5 Similarly, where the firm's investment service can be offered more cost-effectively by a different platform (for example, one without additional costs) we would expect the firm to use the more cost-effective platform unless there is a good reason to use the more expensive one. This does not mean we expect firms to review the platform market for each client, but we expect firms to consider which platform(s) are appropriate for their client bank – or segments of their client bank – in general terms and *then ensure the recommendation is suitable for individual clients*. For example, a firm may have adopted a platform that has a fixed annual administration fee. This may be suitable for many of its clients who have significant sums to invest but where they have clients with small sums to invest, the fixed annual administration may constitute a comparatively high charge which may be unnecessary in light of the services being offered. In this situation, firms have a range of options such as recommending investments off-platform or adopting a different platform that is more cost-effective for this different category of clients. See page 11 regarding platforms alignment and due diligence.

Our findings

2.6 We rated 20 out of the 24[17] unsuitable cases as unsuitable on this point. Reasons included:

- failing to consider the overall impact of the charges – product, platform and adviser – and failing to recommend a lower cost solution that would have been suitable for the clients' needs;

17 Some cases were rated unsuitable for more than one reason.

- failing to consider or understand the disproportionate impact of fixed platform costs on lower levels of investments and hence incurring unnecessarily high costs; and
- unnecessarily incurring costs for some clients by using a more expensive platform whereas a lower cost platform/product would have been suitable for the clients' needs and been able to support the services the firm was providing.[18]

The adviser recommended investments which did not match the client's attitude to risk (ATR), personal and financial circumstances

Our expectations

2.7 Clearly recommendations must be suitable to the client's ATR, personal and financial circumstances. In the context of investment advice using platforms, firms must be aware that they remain responsible for the advice when using financial planning tools provided by the platform. Hence, for example, the firm is responsible for recommending a suitable asset allocation for individual clients in the light of their particular circumstances when using a platform asset allocation tool. Similarly, firms remain responsible for correctly assessing the client's ATR when using a risk profiling tool. Therefore it would be unwise to use risk profiling tools without clarifying and confirming results with clients.

Our findings

2.8 We rated 12 out of the 24 unsuitable cases as unsuitable on this point. Reasons included:

- advisers relying unduly on the results of platform-based risk profiling tools; for example, using the results of the tool without clarifying and confirming results with clients. In some cases the results of the tools did not match the individual clients' circumstances and views and hence unsuitable investments were recommended. See also 'provision of advice' section (paragraphs 2.21 to 2.27);
- inappropriate use of model portfolios held on platforms; for example, failing to adapt portfolios suitably for individual client circumstances. See also paragraphs 2.21 to 2.27;
- inappropriately using 'non-traditional' investments[19] readily available through some platforms; for example, there were unsuitable cases where

18 There may be other valid reasons why a firm selected a particular platform; for example, a better reputation for service or more confidence in the financial strength of the platform operator.

19 'Non-traditional' investments is a broad expression for investments where the investor cannot readily understand what will drive the returns or where the returns are not easily deduced, for example, by reference to a benchmark. This may include, for example, traded life policy investments, hedge funds and other funds where shorting is involved to a significant extent.

the client had little or no knowledge and experience of investments and the firm had not explained the investments and their risk in a way these clients were likely to understand;

- lack of clarity in many cases whether ongoing services were to be provided on the platform-based portfolio where an asset allocation approach had been taken;[20] and
- various other issues unrelated to platforms; for example, inappropriate risk rating of funds for the clients' ATR, a lack of consideration of the term of investment or the knowledge and experience of the client. We found a few cases where the adviser recommended an inappropriate tax/product wrapper.

The client lost benefits (including guarantees) or incurred a financial loss because their adviser recommended a new investment to replace an existing one with no good reason to incur the loss. This includes additional costs going forward.

Our expectations

2.9 We expect advisers to review existing investments in the light of the client's circumstances, needs and objectives and to recommend a switch[21] only when it is in the client's best interests. This review should include (but not be limited to) the investments' charges (including surrender penalties), performance, benefits and options. Switching investments onto a platform can often bring benefits to the firm in terms of simpler administration but there needs to be a clear benefit for the client if any loss of valuable benefits or costs is involved. Firms must demonstrate why the switching recommendation is in the client's best interests, and these reasons must be valid.

Our findings

2.10 We rated 9 out of the 24 unsuitable cases as unsuitable because of this. Reasons included:

- switching for false reasons; for example, moving to a platform with the objective of accessing a wide fund choice but the switch was out of a SIPP[22] or another platform where a wide fund choice was already available;
- switching to benefit from consolidation but this was not justified in terms of benefits to the client;
- switching on the basis of potential improved performance but with no consideration of whether the outperformance was likely to offset higher charges; and

20 a spread of individual funds, each usually investing in a single asset class or sector, to meet a certain asset allocation.

21 This relates to any situation where one product is replaced by another. This can include pension switches, encashing and reinvesting investment bonds or unit trusts/OEICs.

22 Self-invested personal pension.

- various other failings unrelated to platforms such as failing to demonstrate suitability in many cases by not undertaking any research into existing investments or not considering how they could be kept and used within a wider portfolio. Also, there were some cases where the file record of the clients' needs and objectives was questionable; for example, most clients of a particular adviser had identical, quite specific, needs and objectives and it appeared the adviser may have manipulated the file records to give support to a platform recommendation. Finally, failing to consider alternative options within existing investments (for example, fund switches).

Systems and controls

2.11 We reviewed the 12 firms' systems and controls by assessing the material provided to us by the firms and through interviewing relevant staff. Our findings below are under the headings of six key areas or 'drivers' of unsuitable advice which we considered during our assessments:

- platforms alignment and due diligence;
- conflicts of interest;
- training and competence;
- provision of advice;
- whole of market; and
- oversight.

Platforms alignment and due diligence

Our expectations

2.12 We expect firms to undertake due diligence on the platform(s) they intend to use to help ensure the selection is suitable for their clients.[23] We have set out in our factsheet[24] some issues firms should consider when undertaking due diligence. One aim of the due diligence is to ensure the platform(s) adopted is aligned with the firm's client bank. This may involve client segmentation and using more than one platform in order to deliver different services to different types of client. We also expect firms to revisit this due diligence process periodically. Readers should note, however, that we have commented further on this subject in the new DP on platforms.[25]

23 The exception to this is when, as we found in some cases, advisers are using platforms on a transactional basis and where appropriate research into the product and provider is undertaken on a client by client basis.

24 http://www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/factsheet_wraps.pdf page 5.

25 http://www.fsa.gov.uk/pages/Library/Policy/DP/2010/10_02.shtml

Our findings

2.13 The majority of the firms had carefully considered which platform(s) to use in the light of their clients and the services they wanted to offer, and had recorded this. Four firms had not considered this adequately and ran the risk of using platforms that were not in the best interests of their clients. For example, one firm had not undertaken an impartial review of the market and some of the market review material had been prepared on their behalf by the platform operator using assumptions that were not relevant to the firm.

2.14 We visited one network firm where the due diligence would have been undertaken by appointed representative (AR) firms where the adoption of a platform is geared to underpin the services the AR firm wants to provide. We did not consider it acceptable that the network itself had not undertaken any monitoring of this within its ARs and hence risked ARs not acting in the clients' best interests.

Conflicts of interest

Our expectations

2.15 There are a number of potential conflicts of interest[26] in using platforms. These can include intermediary firms owning shares in a platform operator (and vice versa), additional remuneration (or 'profit share'), training or other non-monetary benefits, administrative savings by the intermediary firms (and simple convenience) and a potential increase in the value of the intermediary firm itself. Principle 8 states 'a firm must manage conflicts of interest fairly' and firms must also disclose conflicts of interest.

Our findings

2.16 Very few firms could clearly articulate the potential conflicts that platform use can generate. Although disclosure of some potential conflicts (for example, shareholdings in platforms) was mainly undertaken, none of the firms could explain what measures they had put in place to manage the range of potential conflicts of interest.

2.17 For the network we visited, as with platforms alignment and due diligence, this would usually apply at an AR level rather than network level as conflicts of interest can vary between ARs. The network had not undertaken any monitoring on this within its ARs which was concerning given the potential for this to result in unsuitable sales.

26 We use the term 'conflict of interest' here to include inducements.

Training and competence

Our expectations

2.18 We expect firms to ensure their advisers are competent to provide the advice and services they offer, and to demonstrate good standards of ethical behaviour. This includes ensuring competence in any new areas of advice, for example, having the technical knowledge, skills and expertise to provide portfolio advice services or recommend 'non-traditional' investments using a platform. In addition, we expect advisers to be competent in the use of platforms and any financial planning tools used.

Our findings

2.19 There were mixed results in firms' approaches to training and competence. Some firms placed a high emphasis on developing staff and, for example, were already progressing towards QCF level 4,[27] or higher, as set out in our Retail Distribution Review (RDR) professionalism proposals.[28] In some cases this also applied to back office staff including paraplanners.[29]

2.20 Five firms were using exchange traded funds (ETFs), institutional class funds or 'non-traditional' investments. Of these, we considered three to have taken adequate steps to maintain and, where necessary enhance, competence but two had unacceptable practices which led, in one case, directly to unsuitable advice.

Provision of advice

Our expectations

2.21 This section covers the processes in giving advice – fact-finding including the assessment of ATR, research and recommendation (including the approach to asset allocation) and fund/product selection. We expect advisers to have robust processes in place to ensure they act in client's best interests and provide suitable advice.

2.22 Where firms are using model portfolios, these must be used in a way that is suitable for individual clients. There is a significant risk where a simple default position is taken; for example, in every case where the client has a cautious ATR the adviser recommends the firm's standard cautious model portfolio. There are likely to be situations where model portfolios need to be adapted to the client's particular circumstances; for example, to take into account their existing investments, the term of the investment and the client's knowledge and experience of investments. In addition, recommending a model portfolio

27 For example, the Chartered Insurance Institute's Diploma in Financial Planning.

28 http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_31.shtml

29 There is no agreed definition of a paraplanner but the role may involve research and drafting suitability reports.

in all cases is unlikely to meet with our rules on independence and recommendations must be suitable for individual clients.

2.23 Firms must also consider the overall costs of the solution they are recommending, including product, platform and adviser charges (initial and ongoing) to ensure their recommendations are suitable in the light of the alternative options (see paragraphs 2.3 to 2.6).

Our findings

2.24 Most firms used risk-profiling tools, either platforms-based or non-platform based. We are happy for firms to use financial planning tools such as risk profiling assessments but firms should be aware that they are unlikely to produce the correct result in every circumstance. We found several cases where the risk profiling tool appeared to over-rate the client's ATR on the basis of their answers to the questions. This has given us cause for concern about these tools more generally and we intend to undertake further work on this. In the meantime we recommend advisers, when using risk profiling tools, use the results as a basis for discussion with the client to ensure the correct ATR is recorded, rather than viewing the results as a definitive assessment. Most firms were doing this in any case and we consider this to be good practice.

2.25 Several firms had a centralised approach to investments, typically using model portfolios. These were often created using platform-based financial planning tools and the platform was used for implementing and reviewing these portfolios over time. However, in some cases these were handled inappropriately through:

- inadequately considering how model portfolios should be used in conjunction with existing investments;
- inadequately considering how the asset allocation/portfolio risk rating may need to vary depending on the term of the investment; and
- inadequately considering whether the model portfolios were appropriate to clients with different levels of knowledge and experience. This is another example of where firms were failing to consider the suitability of their recommendations to individual clients.

2.26 All firms were operating an 'adviser charge'-style remuneration basis. Initial advice varied from 3% to 5%. For ongoing adviser charges, five firms charged 0.5% pa, two firms 0.75% pa and five firms 1% pa. There is the risk, where adviser charges are higher, that the overall cost of the solution (product, platform and adviser) may become unsuitable in the light of the client's needs and the alternatives available in the market (see paragraphs 2.3 to 2.6) and we saw this in a number of cases.

2.27 On this overall costs issue, there were mixed results with some firms clearly thinking through the overall costs for clients and providing solutions that were good value for money. Other firms appeared to pay little or no attention to the overall costs and risked recommending unsuitable solutions where, for example, a simple, lower cost option may have met the client's needs more cost-effectively.

Whole market

Our expectations

2.28 Firms must recommend products from the whole of the market if they are to refer to themselves as 'independent'.[30] Currently this requirement refers to packaged products[31] which includes investment bonds and personal pensions/SIPPs and not to the fund links within these products. If a platform only offers one, or a limited number, of investment bonds or personal pensions/SIPPs then this is not a whole of market offering even if the product offers access to all funds on the market. In the DP[32] and the factsheet we set out how firms can maintain their whole of market status whilst using one or a limited number of platforms. Readers should note, however, that we have commented further on this subject in the new DP on platforms.[33]

Our findings

2.29 The practices in most firms were acceptable in this respect and firms typically used whole of market research tools and did not use the platforms exclusively.

2.30 For collective investment schemes (for example, OEICs[34] and unit trusts) there is the risk of not being able to recommend the appropriate fund if it is not on the adopted platform but we did not see any instances of this.

2.31 For life and pension contracts we found instances where the platform version was used without adequate consideration of whether this was in the client's best interests. Some of these cases were rated unsuitable.

2.32 One firm used one platform extensively and, taking into account their inadequate assessment of platform alignment and due diligence, they posed a high risk of unsuitable sales as it was possible the solutions recommended were unnecessarily expensive for some of their clients.

30 and offer a fee option to clients.

31 The RDR is proposing a new definition http://www.fsa.gov.uk/pages/Library/Policy/Policy/2010/10_06.shtml.

32 Chapter 6.

33 http://www.fsa.gov.uk/pages/Library/Policy/DP/2010/10_02.shtml

34 Open-ended investment companies.

Oversight

Our expectations

2.33 Firms must establish and maintain appropriate monitoring and oversight arrangements to ensure advisers act in their clients' best interests and provide suitable advice on platform-based investments and services. Appropriate monitoring would include client outcomes, the specific risks of platform-based investments and services, disclosure and the suitability of advice. It should not be solely process-focused.

2.34 A firm should have appropriate arrangements to ensure that sufficient management information (MI) is generated to enable its management to review and monitor platform-based investment advice and services to enable it to act on risks and to ensure it is treating customers fairly. This includes identifying good and poor outcomes for clients and developing key performance indicators to measure performance against these.

2.35 Where firms are changing their business model and/or their investment proposition (for example, starting to offer portfolio advice services) then they should consider their oversight arrangements, risk management procedures and MI to ensure the arrangements remain fit for purpose. When a firm changes its practices, it is very likely that new risks may arise which need to be managed and monitored (for example, that platform trades are only undertaken with express client consent where the firm does not have discretionary permissions and, where periodic reviews are promised, monitoring to ensure that these are undertaken in line with commitments made to clients).

Our findings

2.36 None of the firms had adequately considered the risk management and oversight implications of making the transition into a firm offering 'portfolio advice services' and this remains a key area of concern. For example, we saw failures to:

- recognise when platform-based services were, and were not, suitable for clients;
- monitor ongoing services facilitated by platforms;
- understand that new forms of investment advice[35] provided through platforms merits an assessment under the training and competence requirements to ensure levels of competence are appropriate;

35 For example, providing portfolio advice services, recommending 'non-traditional' investments and using platforms themselves.

- consider the overall costs – product, platform and adviser – and when platform-based solutions are suitable and not suitable; and
- understand that some existing risks (for example, sales bias[36]) still apply when working on adviser charging or fee basis.

2.37 We also found cases where the firm's file reviews were not sufficiently robust in their assessment of suitability. In particular they had not given adequate consideration of when cases were suitable and not suitable when a platform was used, especially in connection with more complex (and expensive) platform-based portfolio advice services.

36 A bias towards making a recommendation to take action (for example, switch a pension) where it is in the client's best interest to take no action.

3 Findings – Disclosure

3.1 In addition to assessing the quality of advice, and systems and controls drivers of unsuitable advice, we reviewed the firms' disclosure of costs and services both by means of individual suitability reports and also assessing the firms' generic disclosure documents, for example the firms' terms of business. We had been concerned that the complexities involved with platforms, and platform-based investment services, could result in poor disclosure of costs and services to clients.

Our expectations

3.2 Principle 7 states that firms must pay due regard to the information needs of its clients and communicate with them in a way that is clear, fair and not misleading. We also have rules relating to the provision of information about products, costs and services. The areas we expect advisers to cover include, but are not limited to, the following:

- providing information about products and funds. This is typically contained within the information supplied by (or via) the platform operator (for example, a key features document);
- information about the platform and its services (except where the platform operator is also acting as product provider in which case see bullet above). There is no prescribed format for this but platform operators often provide information about their services in the form of a brochure or 'key features' document; and
- information about the adviser's costs and services, at the point of sale and in the future. This may be covered by the firm's initial disclosure information (e.g. services and costs disclosure document, terms of business or client agreement). Where this information appears in more than one place it should be accurate and consistent (for example, it would not be acceptable for the suitability report to state that ongoing services will be provided but the terms of business to state that no ongoing advice will be

provided. In addition, the information should be clear about the extent of the service provided). We also expect advisers to make clear the overall costs of the solution – product/fund costs, platform costs and adviser costs (at the point of sale and ongoing) – that relate to the client's level of investment and in a format which enables the client to understand the overall costs.

Our findings

3.3 We reviewed[37] 147 files to assess the advisers' disclosures in individual client cases. We rated cases 'acceptable', 'unacceptable' and 'uncertain' where there was disclosure material missing from the file and hence we could not conclude on the acceptability of the disclosure.

3.4 Of the 147 files, we found 67 to be acceptable, 13 uncertain and 67 unacceptable. These were the same files as the quality of advice assessments where the emphasis was on the higher rated firms and hence these figures are *not* representative of the market in general. The main findings were:

- the highest proportion of unacceptable cases was on account of the terms of business contradicting suitability reports on whether ongoing services would be provided. We suspect this is a widespread problem in the industry; and
- in terms of advisers' responsibilities,[38] the disclosure of overall costs was generally good. Firms achieved this by two main means:
  - Using key feature illustrations provided by platform operators that reflected the product/fund costs, platform costs (where applicable) and adviser charges (initial and ongoing). In this way clients were able to see a reduction in yield figure for the combined costs; or
  - providing in the suitability report a simple table of costs and a total of all charges. However, although this has the scope to provide the client with the overall costs in an easily understood format, the figures were often an inaccurate reflection of the overall cost; for example, quoting annual management charges rather than total expense ratios and not taking into account minimum fees on platforms having a more significant impact on smaller investments.

3.5 Some platforms do not allow re-registration of assets away from the platform. Amongst the 12 firms where we undertook a full investigation, only one of the 6 firms using these platforms explained this to clients in suitability reports.

37 across the 12 firms.

38 However, we have concerns about the standard of disclosure on the part of platform operators. See http://www.fsa.gov.uk/pubs/other/gapp_report.pdf

Annex 1

Project methodology

1. The objective of the project was to investigate practices in this market and to focus primarily on identifying poor practice and poor firms. In broad terms there were two stages:

Desk-based review

2. We requested details from all the main platform operators[39] about the level of business they had received from intermediary firms. This was the primary source of the 33 firms for the desk-based review. Our main selection criterion was that they had undertaken significant levels of business on platforms and/or the level had been increasing significantly.

3. The desk-based review involved a high level assessment of the firms' systems and controls on the basis of information we had asked them to submit. We also reviewed a small sample of client files to assess the quality of advice and disclosure.

4. The purpose of the desk-based review was to make a preliminary assessment of the possible risk the firm posed. It did not involve a full assessment of the firm.

Full assessment

5. We selected 12 firms on the basis of these preliminary desk-based assessments, including both higher and lower risk firms, but with the emphasis on higher risk firms.

6. The full assessment involved two elements:

- file reviews: a wider sample of client files (ranging from 9 to 17 in all per firm) were assessed for both quality of advice (suitability) and disclosure; and

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39 In terms of market share.

- systems and controls: expanding on the information the firms had sent us, we interviewed relevant staff with each firm to assess the systems and controls the firm had in place for ensuring suitable advice was provided.

7. We provided individual responses to all 33 firms. For the 12 firms subject to the full assessment, each firm had specific action points to address and to report back to us. We provided our high level findings to the remaining firms. In all cases where we rated client files to be unsuitable, we required firms to review the case and take remedial action where necessary. For cases rated unclear, we required the firm to investigate the case further in order to establish whether the case was suitable or unsuitable, and to report their findings to us. We required firms to follow a similar process where, in the disclosure assessment, the files were rated as unacceptable or uncertain.

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