



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

1<sup>st</sup> November 2007

Our ref: ICAEW REP 108/07

Your ref:

Rory Percival  
Retail Investments Policy  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

By e-mail [dp07\\_02@fsa.gov.uk](mailto:dp07_02@fsa.gov.uk)

Dear Sirs

**Financial Services Authority Discussion Paper 07/2:  
Platforms: the role of wraps and fund supermarkets.**

The Institute of Chartered Accountants in England and Wales (the 'ICAEW') welcomes the opportunity to comment on DP 07/2 on the role of wraps and fund supermarkets.

The ICAEW operates under a Royal Charter, working in the public interest. As a world leading professional accountancy body, we provide leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The ICAEW is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

The ICAEW's Financial Services Faculty was established in 2007 to become a world class centre for thought leadership on issues and challenges facing the financial services industry, acting in the public interest and free from vested interests. It draws together professionals from across the financial services industry and from the 25,000 ICAEW members specialising in the sector. This includes those working for regulated firms, in professional services firms, intermediaries, and regulators.

We have reviewed the Discussion Paper and are pleased to submit our comments on a high level basis.

Chartered Accountants' Hall  
PO Box 433 Moorgate Place London EC2P 2BJ  
[www.icaew.com](http://www.icaew.com)

T +44 (0)20 7920 8100  
F +44 (0)20 7920 0547  
DX DX 877 London/City

## **General comments**

1. In principle, the ICAEW supports any initiative that is capable of protecting the interests of retail consumers, and which is likely to result in the more positive engagement of consumers in the retail investments market. In this regard, it is important to consider all the issues arising from DP 07/2 in context of the broader objectives relating to DP 07/1: a Review of Retail Distribution.

2. We believe DP 07/1 should focus on finding ways to improve the quality of advice in the retail investments market more generally, and to facilitate the closure of the savings-gap through the provision of appropriate investment products at low-cost.

3. Platforms can play a key role in helping to achieve both of the above objectives: firstly, by assisting suppliers to deliver improved, competitively priced, asset allocation and portfolio management services to more affluent customers; and secondly, by assisting suppliers to reduce administration and distribution costs in the mass-market.

4 All platforms should be regulated by the FSA on a consistent basis. Regulation should not impede the development of platforms and should not be overly-prescriptive.

5. Subject to appropriate regulation, we see the market for platforms broadly developing in two ways that will reflect the needs of different market segments, and business models will reflect these differentiated needs.

The market for platforms is likely to develop along the following lines:

a) In the-high-net worth market segment, platforms will provide tools to manage the relatively complex, financial planning and asset management needs of more affluent customers. In this context, platforms will serve as cost-effective, portfolio management and administration vehicles. In this situation, we refer to platforms as 'wraps'.

High-net-worth retail customers tend to value an ongoing, personalised, fee-based relationship with a trusted financial advisor. The costs of providing this type of service are consistent with the notion of fees and Customer Agreed Remuneration (CAR), as broadly described in DP 07/1. The ongoing charge for providing this type of service could take the form of an annual management fee incorporated into the charging-structure of the wrap.

b) For mass-market customers with less complex needs, we think platforms will help to facilitate low-cost distribution models and are likely to support the products of a single firm. In this market segment, we do not believe there will be any significant move away from the commission model, and platform costs are likely to be incorporated into the product's charges. We refer to this type of model in terms of a 'platform' or 'supermarket', rather than a 'wrap'.

## **Comment on specific questions:**

**Q2: Do you believe a principles-based approach to platforms, without detailed rules or guidance, is appropriate?**

High-level rules are required to establish clarity as to what is precisely meant by the respective terms, 'platform', 'wrap' and 'supermarket'. This definitional issue should be addressed in the form of appropriately drafted generic rules, which will provide a clear framework for the classification of platforms on a consistent basis over time.

High-level principles are required to protect the interests of retail consumers. The principle of Treating Customers Fairly will play an important role in managing risks and developing acceptable practice in this relatively new market.

To safeguard retail consumers, and minimise the potentiality for problems arising in the future, all definitions must be comprehensible to the general consumer, but not expressed in terms that could inhibit future innovation, i.e. hybrid solutions.

**Q3 Do you believe that our Handbook makes it difficult for platform providers and intermediaries to focus on platforms as services, leaving behind traditional 'packaged product' structures? If so, how would you recommend we change our requirements?**

Platforms are not simple packaged products and regulatory definitions and requirements should reflect that fact.

**Q4: To what extent (if any) can the adoption of platforms support a move away from up-front commission? Are there differences between fund supermarkets and wraps in this respect?**

This will depend on the particular market segment and the business model required in the circumstances.

In the higher-net-worth segment of the market, wraps will act to encourage the adoption of annual management fees and a move away from up-front commission.

In the mass-market segment, we do not think this is likely to happen as platforms and supermarkets will need to meet the needs of different customers. This requires a different business model and it is unlikely there will be any significant move away from up-front commissions. For the commission-drive model, there needs to be clarity of disclosure as regards adviser remuneration.

**Q5: Do you believe our approach to regulation should change at all, to assist firms that may want to use platforms to change their business models? If so, how?**

The underlying principles of suitability and treating customers fairly are entirely consistent with the regulation of platforms. It will, therefore, remain important that firms utilising platforms make it absolutely clear to consumers precisely what service is being offered, and at what cost.

**Q6: Do you agree that an intermediary's choice of which platforms to use should be driven by the types of customer it will serve and the nature of the service it wants to offer?**

Yes.

**Q7: Do you believe that the information firms need to undertake 'due diligence' of platforms could be made more accessible?**

Platforms require clearly defined, regulatory minimum standards for the safe custody of assets, administration of those assets, and rules relating to transactions more generally.

Other service providers do not have special regulatory due diligence information and rely on private sector solutions to provide comfort around their controls, and management etc. We see little for the FSA to do beyond making its authorisation and compliance standards clear.

**Q8: Do you agree that it is important that firms assess whether platforms are suitable for individual customers? In practice, how might this be achieved?**

In a general sense we agree.

Different segments of the market require differing solutions, and firms should be able to assess which platform is best able to meet the particular needs of their own particular customers. However, we stress the need for a pragmatic regulatory approach in this regard so that advisers are able to use sensible customer segmentation models. As stated in Q5 above, and Q10 below, clarity of the service offering is paramount.

**Q9: Do you agree with our position on ongoing services and remuneration?**

Subject to the above comments, in a general sense we agree with the underlying line of reasoning.

**Q10: We require firms to explain the overall costs of products and services to the customer, including the cost of services delivered through platforms. How do you think this is best achieved?**

Clarity as regards what services are offered, the nature, amount and impact of charges is pivotal information. Consumers need clear and unambiguous understanding of precisely what service is being offered and who is paying for each particular component of the product and service proposition.

We stress the importance of reliable, comparable and comprehensible information. More information, however, does not necessarily equate to better understanding, and information overload is often counter productive.

The use of a total expense ratio may be one measure that could provide a useful model.

**Q11: Do you feel there are conflicts of interest between a firm and its advisers that also need to be managed and if so, what are they?**

Conflicts of interest may arise in number circumstances, for example where there are cross-shareholdings between platform providers and intermediary advisory brokers.

Where potential conflicts of interests do emerge, these issues can generally be managed by firms' internal risk management processes, through the regulatory principle of Treating Customers Fairly, and through appropriate disclosure.

**Q13: Do you believe that platform providers can or should be encouraged to offer access to more universally suitable products that could then be considered purely as 'wrappers'?**

The best mechanism for meeting consumers' needs and delivering choice are efficient and competitive free markets. Effective regulation should encourage competition, and should not impede suppliers in tailoring products and services according to demand.

We believe demand for holistic asset management services from higher-net-worth clients will act to stimulate the development of wraps as generally referred to in the terms above.

**Q14: Do you believe we need to take account of advisers' use of platforms in considering any changes to the conditions for adviser independence? If so, why?**

ICAEW will be submitting comment on the notion of 'independence' within the terms of our response to DP 07/1.

Within the context of DP 07/2, consideration of the term 'independent' should focus on the extent to which any particular platform is capable of providing comprehensive access to whole of market products.

**Q15: Do you believe that platform providers should take steps to make sure that – where possible – a customer can remove their assets from a platform without having to encash them?**

The transferability of assets between platforms represents a pivotal issue in managing risks to retail consumers. The ability to transfer assets between platforms represents the greatest safeguard to protecting the interests of retail consumers. A stable competitive market for platforms will provide the best mechanism for protecting consumers' interests.

Clear disclosure of exit penalties and other charges or impediments to the free movement of assets between platforms is essential. From the consumer's perspective, the transfer of assets between platforms should be straightforward and as cost-free as possible.

The transferability of assets is also restricted by the impact of UK and overseas tax legislation. If tax legislation were conducive to the free movement of assets between platforms, it follows that the free market would determine economic cost.

There are also legal issues to consider, such as insurance law, and we stress the need for clarity of definition in all matters relating to contractual arrangements.

**Q18 Do you believe that disclosure of platform remuneration across MiFID and non-MiFID business will be, or should be, equivalent?**

Yes, the regulation of platforms should be undertaken on a consistent basis.

**Q19: What are the particular risks of consumer detriment arising from any lack of standardisation and transparency in platforms' disclosure practices?**

Low levels of consumer engagement, information asymmetry, lack of competition and associated risk of market failures.

**Q20: Do you believe we have correctly identified the key issues in charges disclosure?**

We think that the rationale employed within this paper is generally along the right lines.

If you would like further information, or to discuss the details of this response, please contact me on [John.Gaskell@ICAEW.com](mailto:John.Gaskell@ICAEW.com).

Yours faithfully,

A handwritten signature in dark ink, reading "John Gaskell", is positioned above a thin horizontal line.

John Gaskell  
Technical Manager, Financial Planning  
Financial Services Faculty  
T +44 (0)20 7920 8693  
E [john.gaskell@icaew.com](mailto:john.gaskell@icaew.com)