



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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Our ref: ICAEW Rep 56/08

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Dear Ms Wong

FSA CONSULTATION PAPER 08/3 SIMPLIFYING DISCLOSURE: INFORMATION ABOUT SERVICES AND COSTS

The Institute of Chartered Accountants in England and Wales (the ICAEW) is pleased to respond to your request for comments on *Consultation Paper 08/3 Simplifying Disclosure: Information about services and costs* (CP 08/3).

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. The Faculty 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, professional services firms, intermediaries, and regulators.

This response has been prepared having consulted with the ICAEW's Financial Services Faculty and other interested parties.

We have made some general comments and responded to the specific questions referred to in CP 08/3. We also draw your attention to our response in respect of *DP 07/1: A Review of Retail Distribution*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW Representation

ICAEW REP 56/08

FSA CONSULTATION PAPER 08/3 SIMPLIFYING DISCLOSURE: INFORMATION ABOUT SERVICES AND COSTS

Memorandum of comment submitted in April 2008 by The Institute of Chartered Accountants in England and Wales, in response to Financial Service Authority Consultation Paper 08/3 Simplifying Disclosure: Information about services and costs published in February 2008.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the ICAEW) welcomes the opportunity to comment on *Consultation Paper 08/3 Simplifying Disclosure: Information about services and costs*.

WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides 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.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

GENERAL COMMENTS

4. The ICAEW support any initiative that is capable of generating more effective regulation and which is consistent with supporting efficient and orderly markets where the interests of retail consumers are protected in a cost-effective manner.
5. Any regulatory change that reduces complexity and improves transparency and consistency in disclosure more generally and which, therefore, reduces the problems associated with information asymmetry represents a positive development. Consequently, we support the high level objectives of CP 08/03 and believe the initiative provides an opportunity to improve consumers' understanding of, and engagement in the retail financial services market.
6. We believe intelligible and consistent initial disclosure documents represent an important tool for assisting retail consumers and firms to engage with one another, which in turn will assist consumers to make informed financial decisions.
7. The ICAEW is, however, mindful that a substantial segment of the population has a low level of financial capability. We therefore believe that a significant proportion of the UK population would benefit from simpler, standardised and more innovative formats for communicating basic information, such as initial disclosures. We suggest it would be helpful to incorporate simple pictorial representations into any revised standards and that initial disclosures are presented in a more consumer-friendly format more generally.
8. We believe that the consultation should pay greater consideration to standardising initial disclosure documentation in the round, and that the scope of the consultation should encompass COBS, ICOBS and MCOB. A core objective is to improve levels of consumer understanding and to raise the level of engagement in the retail financial services sector more generally. It therefore seems reasonable to argue that the revised standard of disclosure should apply across all segments of the retail financial services sector on a consistent basis.

9. In general terms, the ICAEW favour a less prescriptive approach to regulation and are supportive of principles-based regulation. Whilst this remains our view, in the context of this consultation we believe the use of standardised FSA disclosure documentation is more likely to achieve the desired outcomes. The benefits of consistency and simplicity in initial disclosure documentation to customers buying, or considering buying different products from different providers outweighs the disadvantages associated with reducing the ability of firms to apply their individual judgement on making appropriate disclosures. Of course firms can disclose additional information if they wish, but an FSA standard is our preferred route in this instance.
10. We also believe it is important to retain perspective. The need for high quality, objective personal financial planning services requires that the financial advisory community must, in general, possess substantially higher levels of knowledge and expertise than retail consumers. Simple, clear and consistent information disclosure must clearly be a highly desirable objective, and improving standards of initial disclosure documentation represents a valuable component in reducing the problems associated with information asymmetry. However, protection of retail consumers ultimately depends upon the delivery of high-standards of technical knowledge within ethical frameworks that generate behaviours consistent with the long-term best interests of all stakeholders.

RESPONSES TO SPECIFIC QUESTIONS

Chapter 3 – Options for disclosure

Q1: Do you agree with our proposal to introduce an IDD-style document into guidance in COBS to replace the existing IDD and menu guidance? Please give reasons.

11. In principle, the ICAEW agrees with the high-level reasoning outlined in this consultation paper.
12. We believe the key components of initial disclosure should be contained within a simplified, single document. However, we are not convinced that the proposed IDD style in general necessarily represents the most effective format for communication and, in this regard, refer you to our general comments above in respect of the use of more engaging and innovative formats.

Q2: Do you believe there is scope for industry guidance in this area? If so, what do you envisage?

13. The ICAEW is a professional body and as such is not best placed to comment on the specifics.
14. In general terms, the ICAEW would always encourage the FSA to engage with industry and all stakeholders at an early stage and well in advance of the issuance of guidance and / or the implementation of any regulation. We believe that the FSA and all stakeholders should work collaboratively to devise a revised regulatory standard that is able to meet the objectives contained in this CP, and that is capable of being applied on a consistent basis across the retail financial services sector.

15. Although in general terms we support a principles based approach, subject to the above comments in this instance we favour an FSA standard.

Q3: If you are interested in developing industry guidance, please describe what you envisage (e.g. whether it would build on our IDD-style document, what areas it would cover) and the likely timeframe.

16. As above, in the context of the CP, the ICAEW favour an FSA standard. In general terms, we believe that any industry and / or regulatory standards should always be an outcome of well-grounded research and should reflect the real needs and responsiveness of consumers.
17. The ICAEW is a professional body and is not therefore positioned to specifically develop industry guidance. However, bearing in mind the ICAEW's public interest remit the Financial Services Faculty would be interested to engage with the FSA and other stakeholders to assist in this process wherever appropriate.

Q4: If you think industry guidance is more appropriate than FSA guidance, what guidance if any, should be provided in the interim while industry guidance is being developed?

18. The ICAEW believes that simple, consistent FSA standards are required and that these FSA standards should be the outcome of grounded consumer research and broad stakeholder consultation.
19. We are not convinced that the findings of the FSA's qualitative consumer research cited in the CP imply that moving from prescriptive rules to more guidance will necessarily improve matters. The way to improve consumers' understanding of the basic issues, such as the status of the adviser, costs of advice and products, and method of payment is to focus on communicating a limited number of key facts in a simple, consistent consumer friendly format , which is applied on a consistent basis across the retail financial services sector. In this sense, introducing greater discretion is likely to result in increasing complexity and inconsistency, which in effect would make matter worse rather than better.

Chapter 4 – Our proposals

Q5: Do you have any comments on our services and costs of disclosure document?

20. The ICAEW believes it is more appropriate to answer this question at a high level.
21. We think a revised approach to initial disclosure documentation is required. Effective initial disclosure documentation needs to communicate basic key facts in a simple, concise and engaging consumer friendly format. This revised format should be the outcome of prior consumer research and industry consultation. In our view a more innovative style is necessary, which suggests that incorporating the use of boxes and / or diagrams and imaginative use of colour would be more effective.
22. When a revised consumer friendly format has been agreed it should be adopted as an FSA standard and applied on a consistent basis across the retail financial services sector.

Q6: Do you agree that firms conducting designated investment business for a retail client in relation to non-MiFID packaged products should give the client information about the firm and its services and costs and associated charges, before providing services?

23. Yes.

Chapter 5 – Cost benefit analysis

Q7: Do you have any comments on our CBA?

24. The ICAEW considers that it is more appropriate to respond to this question at a high level.
25. The focus should be to simplify disclosures so that relevant key facts are communicated in a simple, consistent, comprehensible consumer friendly format. To achieve this objective, the FSA needs to work closely with all stakeholders from outset so that regulatory and industry standards are capable of improving levels of consumer understanding of the basic issues and benefits attaching to receiving high quality financial advice.
26. In the above context, the measure of success should be assessed on the basis of the extent to which changes in regulatory disclosures result in improved levels of consumer engagement, and the degree to which more effective disclosures raise standards of advice in the retail sector more generally. We believe the CP needs to give more emphasis to measuring success and / or failure and associated costs in this context.

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