Regulatory Update

HAPPY NEW YEAR...

... to all PanaceaIFA.com members.

As is customary at this time of year we look ahead to what we think will be some of the issues on the regulatory radar as well as some of the items that may have slipped under the regulatory radar of the festive period.

Firstly, a quick reminder that the Deposit compensation limit is now set at £85,000 per authorised firm. The new limit took effect from the 31t December2010 and brings the UK into line with EU legislation where the limit is set at €100,000.

The new limit is per individual meaning a joint account will be covered for up to £170,000.

In another change, unlike previously, a firm in default cannot offset monies owed, for example through a mortgage, against the £85,000 limit - the only exception is where the mortgage is combined with a current/savings account as one account.

You may wish to build this into any future financial planning.

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Some areas to look out for during 2011

What's on the regulatory radar?

Product providers to monitor IFA business

Someone to watch over you

At a speech to investment managers on the 14th December, the FSA's Head of Savings & Investments, Linda Woodall explained that UCIS would remain subject to intrusive supervision through 2011. We and others have covered the issues quite extensively in previous updates so they are not repeated here. Through the speech the FSA asked the product providers of UCIS funds to monitor the way in which they are sold through IFA firms, in particular asking the investment management sector to:

- ✦ Consider whether IFAs are competent to advise on these products;
- ✦ Whether IFA firms have the correct client base to promote these products to; and,
- ✦ Analyse the sales, not just based on overall volume, but also in terms of whether for example one IFA is selling UCIS disproportionately to other IFA firms.

What was clear is that we have probably not seen the end of action against IFA firms on UCIS. This also continues a theme of product providers, such as SIPP operators and investment managers (as above), being expected to keep a 'watchful eye' over the business submitted by advisers.

The move towards the CPMA

FSA transition

In April of this year the Risk and Supervision business units will be replaced by separate Prudential and Consumer and Market Protection units - the first changes in the transition from the FSA to the Prudential Regulation Authority and the CPMA. The anticipated switch over is in mid 2012. The practical effects are that some departments or personnel change, however Hector Sants is at pains to explain it will be BAU at the FSA. We agree and do not see any relaxation in the FSA's supervisory activities through the coming year. Expect though many news column inches on debates around how the CPMA will fulfill its role as the consumer champion - expect more thematic reviews and greater prescription from the new regulator!

Broken record time...

If it ain't written down....

This is a recurring theme year on year however in our experience firms don't seem to get any better at it. We are talking about management information produced by the firm to record and monitor a range of areas including:

- ✦ Risk management - have you identified, reviewed and then monitored through MI the risks posed?
- ✦ Distribution analysis - do you know who your clients are (i.e. sophisticated, experienced or high net worth), can you demonstrate what has been sold to them and whether this is in line with the firm's expectations?
- ✦ Competence - can you demonstrate how competence is maintained for the roles performed through the firm?

Management information will always be a starting point for any firm interaction by the FSA and our view is the FSA will start losing patience with firms who cannot produce robust MI.