

Andrew Tyrie MP
Chair, Treasury Commission,
7 Millbank,
House of Commons.
London. SW1P 3JA.

19th January, 2011.

Dear Mr. Tyrie,

RETAIL DISTRIBUTION REVIEW (RDR).

I am a member of the AIFA RDR Working Party and in this capacity have been sent a copy of AIFA's submission to the Treasury Committee. I believe the submission to be well presented and professional and in many respects it has our support.

However on the issue of replacing commission with Adviser Charging or Consultancy Charging in the case of Group Personal Pensions (GPP's), I do not believe the submission reflects the views of a substantial majority of the membership of AIFA. I think it is important this is brought to your attention.

I am advised that today only 8% of remuneration is by fees and the balance by commission. This means that the whole retail financial services industry must go through a revolutionary change in how it conducts business and on remuneration to accommodate Adviser and Consultancy Charging. It is impossible to believe the majority of Advisers welcome this. It is also worth mentioning that much of the high cost of implementing the RDR is associated with this change in remuneration.

There is some real evidence to support my view in that there is currently no prohibition on advisers being remunerated by fees if they prefer that basis but most utilise the commission structure.. I also strongly believe investors prefer to have the choice between commission and fees.

In paragraphs 1, 11, 12 and 13 of their submission AIFA give the distinct impression that their position on RDR (which is supportive of the ban on commission) has the broad support of their wider membership although they accept there is opposition.

I requested evidence from AIFA to support their view that RDR and especially the commission ban has their members support.. I have asked them in particular whether they have ever conducted a survey of their whole membership. They have not answered this point so I have to conclude they have not done so. While they claim to have independent evidence to support their position they will not supply details to me.

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In paragraph 13 of their submission they have quoted from the “independent” research by the NMG Group of July 2009 which I have been told was commissioned by the FSA. There are different ways of interpreting this research and it is interesting that Advisers were not asked directly whether they were in favour or opposed to the RDR or the ban on commission.

I suspect Advisers responded to the research on the basis that the RDR is a “fait accompli”. The NMG data showed that only 30% of advisers were enthusiastic advocates and the balance less supportive by varying degrees. I believe this can be interpreted that 70% of advisers are opposed to the RDR.

The position of our company might help to explain my reasoning. While we are opposed to the new regulations being introduced by the RDR we have no alternative but to be willing adaptors and would have responded to the survey accordingly. We have a business to run and must do so based on the prevailing legislative and regulatory environment.

As a quite separate issue I would like to add to AIFA’s submission on factoring. I believe they made an excellent case in support of factoring for regular contribution plans which I endorse. However they failed to mention the substantial extra cost of the introduction of Consultancy Charging in the GPP market. We believe this runs into hundreds of millions of pounds and should have been included in the FSA’s Cost Benefit Analysis.

AIFA are aware of my concerns on their position and submission and that I will be raising them with you. I have sent them a copy of this letter as a matter of courtesy so they may respond if they consider it appropriate .

Yours sincerely,

D.W.Johnstone.

Chairman

c.c. Stephen Gay AIFA.