



CFA UK is a member society of  CFA INSTITUTE

## **Delivering the Retail Distribution Review: Professionalism**

**CP 09/31**

A response by

CFA Society of the UK

**10 March 2010**

### **Introductory remarks**

The CFA Society of the UK (CFA UK) congratulates the Financial Services Authority (FSA) on the progress of the Retail Distribution Review. CP09/18 set out welcome proposals for changes to adviser remuneration and provided an update on progress on the work to raise standards of professionalism. CP 09/31 builds on that basis to provide a sound basis for the development and maintenance of higher professional standards within retail investment advice.

CFA UK is grateful for the opportunity to participate in the development of proposals in this area. While only a small proportion of the society's membership works directly in the provision of investment advice to retail clients (and tend to do so from within the private wealth management divisions of larger financial services firms as well as on behalf of private client stockbrokers), CFA UK represents a growing number of practitioners in this part of the investment profession and expects to see further growth in member numbers from private client firms as the take-up of the CFA Program increases.

CFA Institute and CFA UK share the FSA's commitment to improve professional standards and CFA Institute's website contains substantial material to support investor education, together with considerable resources to guide private wealth managers on how best to represent their clients. CFA Institute's Private Wealth Management Body of Knowledge is a valuable, live document that supports the Continuing Education of members working in this area.

## **Comments on the consultation**

CFA UK's response to CP 09/31 will be limited to the questions in section 2: Professionalism.

As indicated in our response below to the questions raised in the consultation paper, we support the decision to adopt an internal model to govern professional standards. The lower cost and reduced time that it will take to introduce an internal model as compared to a Professional Standards Board would be sufficient alone for us to prefer this approach. We also believe that, given the potential complexity of the reporting processes for professional bodies, it will be easier to reach a satisfactory arrangement faster working directly with the FSA.

CFA UK also supports the FSA's proposal to give greater emphasis to the work of professional bodies in raising and enforcing professional standards. CFA UK, in common with other professional bodies, is committed to raising professional standards through education, professional development and the promotion of an ethical code and standards of professional conduct. We believe that the description of the characteristics of professional bodies and the criteria for recognition are both broadly appropriate, (though we make specific comments about some of the criteria in our response below).

We agree that, in view of the professional bodies' proposed responsibilities, it is appropriate for the FSA to agree a Memorandum of Understanding (MoU) with a professional body. We would be grateful for the opportunity to view a draft version of an MoU, or to discuss the likely content of an MoU as soon as possible. CFA UK's Board will need to assess closely the potential cost of reporting and audits. Item 2.44 lists the areas that might be covered by a regular audit. We note that some of these proposed areas would be difficult to measure usefully. For instance, if auditing took place every six months, how would it be possible to measure the effectiveness of CPD within that period? In order to ensure that audit costs are no higher than is necessary, it might be appropriate to agree measures that are more easily quantified for regular audit and a less frequent, industry-wide survey to measure the overall effectiveness of the CPD provided by the professional bodies.

Similarly, as previously stated within PSAG meetings, while we are keen to participate in raising professional standards, we await with interest further details about the information sharing arrangements in relation to individual society members as we have a duty of care in relation to their data as well as a responsibility to protect the integrity of our own professional conduct programme.

We appreciate the consultation paper's comments on Continuing Professional Development (CPD) and look forward to working with the FSA to help develop proposals for CPD and to the publication of proposals in the third quarter of 2010.

In relation to qualifications, we support the decision to require investment advisers to hold a Level 4 qualification. We disputed the additional requirement for Level 4 qualifications to be set at diploma level. We believe that some candidates – on account of their prior learning – would have been able to achieve the desired level of knowledge and application through certificate qualifications. We understand the argument that diploma level qualifications are required to bolster consumer trust, but suggest that this is unlikely to be the case due to the limited level of understanding about the differences between certificates and diplomas. We believe that the determination to require diploma level qualifications will likely be seen as rent-seeking by some practitioners, but accept that the requirement to be seen to adopt harder and longer qualifications might – on balance – increase consumer trust and support it on that basis.

Similarly, while we support the broad approach towards transitional qualifications (though note with disappointment the failure to review all appropriate legacy exams for inclusion on the list prior to the publication of the consultation paper) we believe that alternative assessments are likely to be difficult to design, expensive and distrusted by consumers. We recommend that the FSA audit alternative

assessments carefully as early as practically possible. In particular, if the pass rates recorded by alternative assessment differ significantly from those recorded by examination, then consideration should be given to suspending the alternative assessment option.

As described below, we support version iv of the proposed approach to CPD top-up.

### **Response to questions in the consultation**

#### **Q1 Do you agree, for the reasons outlined above, that the internal model is the least costly and the least complex to establish and will achieve broadly the same outcome as an external PSB?**

We support the decision to advance an internal FSA model to oversee the governance of professional standards. While we appreciate the potential value of the independent, PSB model and the likelihood that the PSB might have been better-placed to represent quickly consumer concerns, it is clear that the establishment of the PSB would have been time-consuming and expensive. As the costs would likely have ultimately been borne by consumers, it is not clear to us that there was a sufficiently strong argument for establishing an independent body. Similarly, the opportunity to act quickly in developing governance via the internal model is valuable. There is momentum supporting the agenda for raising professional standards in the sector. There is a danger that momentum would have been lost had a decision been taken to adopt the PSB model.

Last, the society is concerned that there is still a lack of clarity as to how governance will work in practice. We support the decision to give greater emphasis to the role of professional bodies on setting, monitoring and enforcing standards, but more work needs to be done to deliver the detail on the practical aspects of this activity. CFA UK believes that this work will be done more easily within the context of professional bodies existing relationships with the FSA.

#### **Q2 Are there any additional criteria that should be included for the initial and ongoing recognition of professional bodies?**

No. We believe that the criteria are comprehensive and appropriate, though we believe that it might be necessary to make some adjustments to the criteria. We review below a number of these in the order in which they are presented:

*'has adequate resources (including financial resources) and systems and controls'*. Might this be clarified as follows – *'has adequate resources (including financial resources), systems and controls to maintain a professional development programme, promote high standards of professionalism and monitor and enforce member adherence to a code of ethics'*.

*'acts in the public interest so that its activities, and those of its members, contribute to raising consumer confidence and trust in the investment advice sector'*. Might this be amended to make it clear that professional bodies might have broader objectives? For instance, could this be rewritten as *'acts in the public interest so that its activities, and those of its members, contribute (among other outcomes) to raising consumer confidence and trust in the investment advice sector'*.

*'leads the professional development of the investment advice market'*. This should be slightly amended to *'contributes to the professional development of the investment advice market'*. There are several professional bodies representing individuals working in this area. Only one can lead. All can – and should – contribute.

#### **Q3 Do you agree that the arrangements described will deliver the required increase in the quality and consistency of professional standards across the investment advice sectors?**

CFA UK believes that the requirement for those providing investment advice to retail clients to achieve more demanding qualifications at a higher level (and the incorporation within those qualifications of testing on application of ethical behaviour), in combination with the emphasis on the role of professional bodies in supporting continuing education and monitoring and enforcing adherence to standards of professional conduct, is likely to lead to a higher, more consistent standard

of advice. However, while we believe that this will be the case, we are unsure as to how this can be measured effectively. To do so would require a more detailed, quantified measure of the standards as they now exist than we have yet seen and would also require the FSA to be able to replicate that measure fairly in future. These are significant challenges.

**Q4 Do you agree that updating the FSA Register with further information about advisers' qualifications, and introducing practising certificates for advisers, will contribute to the restoration of consumer trust and confidence?**

CFA UK is unsure about the benefit of providing direct access for consumers to information about adviser qualifications and about the benefit of introducing practising certificates.

It is important to note that advisers will find a variety of routes towards compliance with the RDR's requirements for professional qualifications. It is unlikely that a consumer will be able easily to interpret the broad range of qualifications that might be listed within the FSA Register.

CFA UK believes that the introduction of practising certificates (which might be viewed by clients) might be valuable, but establishing the value of these certificates in the minds of clients would require a significant investment in marketing by the FSA. It would be important to educate clients in the precise format and design of FSA-issued certificates.

There is a much more certain and important way in which the FSA and the professional bodies can contribute to raising levels of trust. The FSA must undertake more extensive supervision of firms and individuals providing retail investment advice. Firms and individuals that appear not to be in compliance with the RDR requirements must be investigated and, where found in contravention, should be fined. The FSA should work hard to publicise the extent and nature of its enforcement actions both to discourage contravention and to assure consumers that the regulatory framework is being applied. Similarly, professional bodies have a responsibility to the end investor to monitor and enforce ethical codes and standards of professional conduct effectively and to publicise the outcomes of investigation.

**Q5 Do you think the arrangements described will support the aim of beginning to improve the reputation of retail investment advice?**

While supporting strongly the recommendations proposed in CP 09/31 and in CP 09/18, CFA UK believes that it is important to remember that the broad view of the reputation of retail investment advice is affected not just by the reality of that advice, but also by market conditions. The reputation of retail investment advice will rise and fall to some degree in line with the movements in market prices. The RDR *should* be concerned with the consumer view of retail investment advice, but it is much more important that fundamental changes are made to the professionalism of advisers and to the compensation structures within the profession. We believe that the changes proposed within the RDR will raise professional standards and that this will allow the profession to earn a greater degree of trust from consumers over a period of time.

**Q6 Can you provide evidence of any other qualifications meeting all three of the stated criteria?**

Yes. CFA UK submitted the Associate qualification (that was offered from 1979 to 2002) to the FSA as a transitional qualification. As the Associate qualification was deemed equivalent to the CFA at the time that it was discontinued, we strongly support its addition to the list.

**Q7 Do you agree that option iv is the most pragmatic solution and do you agree that these proposals will provide advisers with transferable evidence of their qualifications?**

CFA UK support option iv as the best solution for managing the use of CPD to fill gaps between past qualifications and the new exam standards. Further, we believe that this practical approach will provide advisers with the best framework for generating transferable evidence of their qualifications.

### **About the CFA Society of the UK and CFA Institute**

The CFA Society of the UK (CFA UK) represents the interests of more than 8,500 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members.

CFA UK supports the CFA, Associate (ASIP) and IMC designations. Most members hold either the Chartered Financial Analyst (CFA), or Associate designation. CFA Institute is best known for developing and administering the CFA Program curriculum and examinations and issuing the CFA Charter. CFA Institute's mission is to lead the investment profession globally by setting the highest standards of ethics, education and professional excellence.

Most CFA UK members belong to the CFA Institute and reaffirm annually their adherence to its Code of Ethics and Standards of Professional Conduct. Both CFA UK and CFA Institute are committed to providing members with a wide range of continuing education opportunities. All members are encouraged to undertake ongoing post-qualification continuing education.

CFA UK is the awarding body for the IMC, the benchmark entry-level qualification for those working in investment management in the UK. The examination is accredited by the Qualifications and Curriculum Authority (QCA) and is designated a recommended examination by the Financial Services Skills Council (FSSC) for the purposes of the Financial Services Authority's training and competence requirements. The IMC is held by more than 15,000 investment professionals.

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