a meeting of MINDS

Tuesday 17 October 2017 - Pennyhill Park Hotel, London Road, Bagshot, Surrey GU19 5EU

WINNING ADVISERS XV

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1. SUMMARY

The fifteenth Meeting of Minds Winning Advisers took place on Tuesday 17 October 2017 at Pennyhill Park, Surrey. This document summarises the key issues raised in the topics discussed during the roundtables that took place on the day.

A Meeting of Minds Winning Advisers is a biannual strategic forum organised by Owen James. It is an opportunity for some 60 plus owner managers of top IFAs to work through a set of strategies crucial to the ongoing success of their businesses. These firms will typically have Funds Under Management in excess of £200M and between four and twenty advisers. These Meetings provide a neutral environment where they can examine industry issues, opportunities and develop business strategies to address them.

Participants enjoy access to strategic insight, active involvement in shaping the industry and networking at the highest level.

The day is a blend of roundtable sessions addressing a pre-researched and pre-agreed agenda with open discussion led by objective and professional moderators; keynotes provided by external speakers whose remit is to spark debate and encourage fresh and original thinking; plus substantial networking both structured and unstructured.

To find out more about taking part, please contact Emily Landless at Owen James: emilylandless@owenjamesgroup.com or you can contact her on 01483 862 698.

2. THIS REPORT

The Roundtable Sessions were facilitated by:

- *Paul Miles,* ***SilverBack Consulting***
- *Roderic Rennison,* ***Rennison Consulting Ltd***
- *Sara McLeish,* ***EY***
- *John Chapman,* ***Owen James***
- *Colette Dunn,* ***Milliman UK***
- *Edward Wess,* ***KPMG***
- *Rod Bryson,* ***Capgemini Consulting***
- *Kieron McLoughlin,* ***Architas***
- *John Porteous,* ***Old Mutual Wealth***

We are very grateful for the time and energy they have expended on making A Meeting of Minds Winning Advisers a success and hope you will consider this report an interesting, thought-provoking and accessible read. As ever your feedback is much appreciated.

We would also like to thank the independent experts who were part of the sessions for sharing their knowledge and giving us their time and energy both in the run up to this Meeting and on the day.

3. THE SPONSORS

We would like to thank all our sponsors who make these Meetings possible. The following groups took part in the Meeting and their motivation for taking part is threefold:

- To be, and be seen as being supportive of the industry;
- To understand the stresses and strains being placed on financial advisory firms and, where possible, respond to them;
- To talk openly with these business leaders with a view to ensuring that their businesses are strategically aligned.

Strategic Partners

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YOUR CLIENT

1. CLIENT EXPERIENCE: IS TECHNOLOGY THE SECRET TO A LONG AND HAPPY RELATIONSHIP?

Expert: Bhavick Patel, Invesco Powershares & Ola Abdul, Fundment

Facilitator: Edward Wess, KPMG

General consensus: human capital is still the most important component of the financial adviser business, and the area towards which most expenditure goes.

Saying that, participants recognised the increasing importance of technology, and some indicated heavy expenditure in the area. One participant said his firm had invested £2m in developing a robo advice proposition.

Technology investment was on many participants' minds, and one area of focus was increasing self-service capabilities. Making it easier for clients to interact digitally had paid dividends for a number of advisers, and in particular a few noted that "it's worked to help us gain a younger client base," many of whom were the children of existing clients.

Robo advice was far and away the area of tech investment which attracted the most interest amongst participants.

The general consensus was that the best value-add a robo proposition could deliver was lowering cost to serve for lower-value clients, freeing up advisers to spend more time with higher-value clients. A common theme was the desire to offer clients a panel of 2-3 robo advisors to choose from.

- NB: helpful guides from the lang cat:
  - 2016 guide to direct platform investing: 'Come and have a go: Rise of the Machines'
  - 2017 guide to direct platform investing: 'Come and have a go: are you being served?'

There were more questions than answers to what the best path forward was. Participants noted a number of barriers to adoption:

- Product complexity: whilst some were already exploring offering robo propositions to support products like GIAs / ISAs, advisers noted that offering a robo proposition for pensions savings would be very challenging – "it's hard to demonstrate suitability".
- Meeting customer needs: there was a general sense that customers either wanted f2f advice or robo; offering both to distinct customer segments could add cost and complexity. It could also prove challenging to offer a consistent client experience.
  - NB: BlackRock's Global Investor Pulse Survey found that 50% of UK retail investors who would consider using robo would do so in addition to an adviser, not instead of one.

- Lack of track record: this was seen as a key barrier to early adoption. Interestingly, investment performance was not a widespread consideration here. Advisers wanted to see more info on level of complaints that robo advisers attracted. More importantly, they wanted sight of *why* clients were complaining.
    - Brand was discussed here – would I want to use the robo proposition of a leading investment provider, or "do we trust them?"
- Compliance concerns: "I'm not worried about the advice gap, I'm worried about the compliance gap – how do I demonstrate that the robo advice is the most suitable proposition?"
    - Some noted concerns with how to proceed with guiding clients to the right proposition after a first f2f meeting: "at that point, how do I avoid the perception that I've given advice when X might be more appropriate?"
    - One adviser's solution was an online screen before the first f2f meeting that would help inform a decision about what proposition to offer, whilst avoiding any indication of having given the client advice.
- Insurer concerns: many participants noted that compliance concerns were not just a matter for advisers' regulators, but also their PI insurers. Many advisers had discussed offering a robo proposition with their insurers, who were uncomfortable with the idea for the reasons listed above.
    - IFAs will be unlikely to offer robo propositions if PI insurers aren't willing to offer cover or unwilling to offer the cover at reasonable rates.

The FCA perspective: regulatory counsel was for advisers to ask themselves "if the advice given to a client was coming from a human being, would it be appropriate and how would you categorise it?"

It was also noted that the FCA was going to be doing some work around testing robo propositions to assess advice suitability (without giving those propositions a 'stamp of approval').

- NB: FCA published guidance on robo advice propositions in September 2017: Streamlined advice and consolidated guidance
- NB: FTAdviser discussion on how firms oversaw suitable client outcomes for robo propositions participating in Project Innovate, which could offer a path forward to IFAs considering robo. May wish to consider initially having qualified advisers oversee the dispensation of automated advice:
    - "In most cases, this has involved qualified financial advisers checking the automated advice outputs generated by the underlying algorithms. One sandbox test involved an experienced adviser being present when a consumer received automated advice. This enabled the adviser to check and, if necessary amend, recommendations before the advice was delivered to the client."

2. WHAT WILL YOUR BOOK OF CLIENTS LOOK LIKE IN 10 – 15 YEARS AND WHAT WILL THEIR INVESTMENT NEEDS LOOK LIKE?

Expert: Sandra Carlisle, HSBC Global Asset Management

Facilitator: Edward Wess, KPMG

The expert shared perspectives on some tectonic shifts in the wealth management marketplace:

- Massive wealth transfer to the next generation:
  - Intergenerational wealth transfer in the next 20 years will be the biggest in history
    - Also includes small business owners handing over the reins
  - Millennials could drive $15-20trn in inflows over the next 20-30 years

- These new wealth owners will have different investment priorities:
  - 87% of millennials believe that business success should be measured by more than just financial performance
  - Two thirds of UK millennials believe that values-based investing delivers the same or better financial returns

- Catering to these new priorities can deliver attractive financial returns:
  - Environmental, social and governmental themes can both benefit society and the bottom line
  - Themes discussed by the group included:
    - Renewables are now cost-competitive; should you be investing in Chevron or JinkoSolar?
    - Battery technology has come on in leaps and bounds – Tesla has its Gigafactory; BMW expects to develop breakthrough battery technology by 2026
    - Electric cars are the future of the auto industry
      - Speaking of Tesla…
    - And speaking of electric vehicles, governmental factors will continue to shape markets – what investment opportunities are created by the UK's commitment to ban the sale of all new diesel and petrol cars by 2040?

Participants discussed three further themes:

<u>How ESG factors impacted participants' approach to investment and advice</u>

- Factors of interest were the infrastructure changes that might come about from the rise of electric vehicles
  - When will we see electric charge points in petrol station forecourts? What does this mean for E&P firms like BP, who play in both upstream and downstream energy sectors?
  - What about the increase in electricity use in the evenings when people plug their cars in? How will energy infrastructure cope? Who will be the winners and losers from this shift?
- Advisers noted that the impact of ESG had not been felt materially in their businesses:

- Need more track record on how ESG impacts financial returns - "I still need to answer to my Investment Committee"
- Not a lot of clients had asked participants about ESG factors; some advisers noted that they would be less willing to work with clients who asked them to avoid certain groups of stocks on ethical grounds (tobacco, defence, etc.)

<u>How do we access the clients of the future?</u>

- General consensus was that waiting for intergenerational wealth transfer would leave things too late. Average age of client at one firm was 56, which was in line with most firms present.
- Participants discussed strategies for attracting younger clients:
  - Paying dividends now: lower-cost advice propositions geared at the children of existing clients
    - One adviser had seen good take-up of a low-cost advice proposition to any client's child with income and wealth below certain thresholds
  - Laying the groundwork for the future: financial education programmes for the children of clients
    - One participant talked about a programme he had set up, whereby his firm held seminars with clients' children on 'finances 101,' covering things like debt, budgeting, and investment
    - Programme was very well-received by clients and children
    - Certainly a bet for the future – children participating were as young as 11-16!

<u>How do we attract the advisers of the future?</u>

- If average age of client is trending upwards, that also holds true for advisers themselves
- A popular theme in the room was building up capabilities amongst analysts and paraplanners, often at the expense of investing in more advisers / consultants
  - One participant noted that his firm had halved its number of consultants and doubled number of support staff
- Participants noted a number of benefits from upskilling analysts and paraplanners:
  - Cost savings of rebalance towards 'support staff'
  - Widening number of clients' contacts meant more touchpoints for the client to work with
    - Also means that the client relationship is also more clearly owned by the firm than adviser
    - Some advisers said they had seen a clear uplift in client retention after making the change
  - Participants also saw material benefits to employee retention – staff felt more invested in client relationships and the business, and more valued due to increased investment in training
    - Part of this was showing a more varied career progression to staff members – you don't need to do one thing
    - 'Doing the right thing' isn't just an investment thesis but a way to run an advice business
      - Increased training is an investment in your people and the right thing to do
      - One adviser noted a very successful deployment of a bonus pool for all staff – going beyond the minimum required was important to him
        - Also had benefits to the business – not one employee had left in the 2 years since introducing a bonus pool.

3. WHAT DO YOUR CLIENTS REALLY CARE ABOUT? ARE YOU SURE YOU KNOW?

Expert: Steven Greenfield, Dimensional Fund Advisors

Facilitator: Rod Bryson, Capgemini

A number of firms undertake client research to ensure they understand what the clients think of their service delivery and overall firm proposition. The regularity varies but most were undertaking regular research and finding some useful outcomes from confirming their existing thinking from anecdotal verbal client comments to highlighting small issues which they weren't aware about - this had an impact for certain clients such as the size of the print on the documents they were issuing to clients.

In terms of measuring adviser value, firms agreed with the Dimensional research that clients really focus on the adviser helping them achieve their goals and providing peace of mind that their goal will be met rather than specific investment returns. However one or two firms had detected a trend towards greater interest from clients to ask for specific returns, however for the majority of firms this wasn't the case.

The research indicated that f2f engagement was still the key/primary way of connecting with advisers by clients but increasing numbers were using email. Firms felt this research reflected how their clients engaged with them, however it was noted that an increasing number of retired clients were increasingly happy to use video chat as they were becoming used to this technology from engaging with their children and grandchildren and appreciated the convenience. It was clear that clients would want to continue the face to face engagement for key meetings with the adviser but increasingly for all basic servicing telephone, email and video chat would continue their growth with adviser ensuring they provided these services.

Linked to how clients wanted to engage with their advisers it was clear they also expected to engage at least four times a year with their adviser and therefore if clients were expecting to engage at this level then using different forms of engagement was necessary to be efficient. Firms felt that this was something they already do today in many respects by segmenting their clients by the complexity of their needs and the level of service they require to support those needs and in effect those who wanted a high degree of engagement due to their complex needs were given this linked to an appropriate fee level to cover the likely increased cost of providing that level of engagement.

Finally the research highlighted the topic of referrals and that 97% from the client sample would be happy to refer their adviser to friends/family/colleagues however between 41-56% of clients had made a referral and 52% of the advisors had waited at least a year before asking for referrals. During the discussion some firms felt they had a referral process in place but many questioned its effectiveness. There was also an acknowledgment with firms that adviser often lacked confidence to ask and this was equally the reason the research had indicated although clients would be happy to provide a referral, many had not as they hadn't been asked by their adviser. During the session a number of firms felt that advisors coming into the sector and developing overall in the last 6-7 years now had all of the technical skills due to regulation and increased professionalism but equally were lacking the soft skills that the previous generation of advisers had but with less technical skill base which was something firms needed to improve. Dimensional highlighted a successful referral training service they had provided to a number of advisory firms to help advisers and firms improve their referral penetration levels.

4. IS IT TIME TO TURN YOUR UNSERVED CLIENTS INTO A PROFIT CENTRE?

Introduced by: Pollyanna Harper, BlackRock iShares
Expert: Mark Hopcroft, Embark Group
Facilitator: Colette Dunn, Milliman UK

In the current regulatory and low interest rate environment advisers have to work harder than ever to get returns for clients. This means that that advisers need to continue to be smarter with their time and prioritise their client bank.

The session was introduced by iShares who said that the advisers in the room probably put their clients into tiers and asked: how do you make a profit from tier three clients? iShares is working with Embark to help support advisers. Embark is an Adviser Platform that is in the process of launching a Retail Platform. Embark is working closely with iShares to secure a successful retail launch.

The expert, from Embark, gave a short presentation to give food for thought for the session. He stated that the 'unserved' fall into a few categories including Millennials and the low mass market. The requirement is for technically slick and low cost solutions. To serve the 'unserved' there is a need for younger advisers to come into the market, and for there to be new technology in place to access these clients.

Most advisers tend to use 3-5 platforms, some of which provide great service and some of which do not. Advisers are often reluctant to move from existing platforms, even where the service levels are not good, as it is onerous and easier in the short-term to stick with the familiar.

Embark's retail platform uses a robo-advice model with human interaction to support at key points. When the work is process driven, the robo-advice is sufficient but when there is any complexity or confusion, human interaction is required. Any human interaction is obviously more expensive. The US platform, Betterment, was provided as a good example of a slick platform that serves clients and supports advisers.

The decumulation market is where much of the advice need and value sits as it is complex and there are large amounts of client money. We had a discussion about the difference between a 'customer' and a 'client' with the conclusion being that 'customers' are transactional and may involve a single purchase through an adviser whereas the adviser will have an on-going relationship with their 'client. We noted that, even post RDR, there is no need to have on-going relationships with everyone and that it is acceptable to have transactional 'customers' on the books.

5. QUANTIFYING THE INTANGIBLE – COMMUNICATING YOUR TRUE VALUE AND CHARGING FOR IT

Expert: Keith Hare, Benchmark Capital

Facilitator: Paul Miles, SilverBack Consulting

Sponsored by: Schroders

The expert started the session by suggesting that Adviser Firms should "break up their propositions" and then introduced a list of the possible components. He then asked the audience to identify what they considered to be most valued by their clients.

The list is as follows:

- Trust/integrity
- Competence/experience/expertise
- Relationship/personal skills
- Being available when required
- Delivering investment returns for clients
- Helping to educate clients on the importance of saving
- Being independent
- Being chartered
- Being small/running my own business
- Being large/part of a large group
- Helping clients plan their income in retirement
- Helping clients minimise their tax bill (legally of course!)
- Helping clients align (and keep aligned) their investments with the appropriate level of risk
- Providing clients with a visual plan/cashflow model
- Regular communication and contact on relevant issues
- Building a plan that is specific to a client's individual circumstances
- Something else?

Both groups identified the importance of their responses matching that of their clients – perhaps this is not always the case.

The overwhelming top three were: **Trust**, **Piece of Mind**, and **Continuity of Relationship**. However, it is difficult to quantify!

The discussions then moved to Fixed v Hourly Rate Fees. Both Groups stated they only charge Fixed Fees, some had tried Hourly Rate Fees but they really struggled to work it as a model and had switched to Fixed Fees.

Participants shared ideas:

- Create an Audit Document, which measures everything, client sees what they get, and it acts as a good compliant process.
- Create a Client Advisory Board – often provides opportunities.
- An innovative idea from one firm was to introduce a Jigsaw Puzzle based on a system of RAG for each area of advice – Red = not good, Amber = work in progress, and Green = good. Once set up the jigsaw was referred to in all communications regarding clients' objectives and acted as a simple way to review progress.
- Charge monthly retainers and fixed fees for any advice.
- Calculation of the fixed fee is based on a 'risk premium for the type of advice', complexity of advice, and the number of wrappers. Experience has seen an increase in income over charging a percentage of AUM.
- Russell Investments provide a template for a 'Client Vision Document', a kind of Road Map.
- Profitability can be increased by utilising modern technology to support processes.
- Clients do not know what they want when they first engage!

It was suggested that there may be pressure in the future to providing 'Commoditised Advice' BUT not for full blown Financial Planning.

The groups then looked at the issue of continuing to look after the children once 'Mum and Dad' had died. One participant said: he had introduced free advice to family members under the age of 30 on the basis that the only help they would require was a mortgage and ISA.

6. BUSINESS PLANNING: TO BUILD, TO BUY, TO SELL – WHAT IS THE BEST APPROACH?

Expert: James Rainbow, Schroders
Facilitator: Sara McLeish, EY

- Agreed that whether you plan to sell / stick around / build a succession plan internally….. everyone needs a plan! And it is remarkable how financial planners so often fail to do business planning! It is estimated that just over 10% of advice firms have a succession plan in place, even though it is crucial to have a documented plan in place.
- Noted that an acquirer would pay more for a business if the owner has planned to make themselves redundant….
- "Grow your own" talent is challenging – with graduates there are very significant costs, and often a poor retention rate and/or an unwillingness to take on responsibility or step up.
- Widespread interest in selling the business within the next 5 years but a number wished to step back from a leadership role and/or have a less active role but stay involved in the business or the industry for a further 2-5 years…. The idea of an "overnight retirement" looks a little outdated.
- All agreed on the importance of cultural fit with any potential acquirer or partners – agreed that many proposed deals abort on grounds of cultural mismatch, and that negotiations can be very time consuming and distracting so it is important to identify cultural alignment or mismatch asap.
- In terms of succession planning, retention and leaving a legacy – agreed that creating the right kind of culture, vision and levels of staff engagement is key. A number of methods for engagement around the room including annual trips abroad for staff and partners, and also a questionnaire to ask staff how they would like to be recognised and rewarded (e.g. share options, variable pay, training and development etc).

YOUR PROPOSITION

7. PEER TO PEER – IT IS REALLY TOO HOT TO HANDLE?

Expert: Jake Wombwell-Povey, Goji

Facilitator: John Chapman, Owen James

The expert presented the case for advisers to consider lending as an asset class which should be part of an adviser's discussion with clients.

Key points:

- With interest rates at historic lows and forecast to remain so, advisers need to consider alternatives to find yield.
- The direct lending sector has grown rapidly with over £11bn invested by over 200,000 retail investors globally.
- The development of Direct Lending Platforms has been key to this growth. Direct Lenders (Retail, Family Offices, Institutions and Funds) have been able to lend via the platforms to Borrowers (Consumers, Corporate, Property, Leasing and Receivables).
- It should be stressed that P2P lending is only a small percentage of the overall direct lending market.
- Platform's operational efficiencies enable them to compete on cost and service. The cost advantage over banks include savings on branch infrastructure, money collection, deal origination costs, FSCS fees, administration and marketing.
- Institutions are investing in the sector.
- The investment landscape shows that wealth preservation is critical with an ageing demographic; cash accounts offer meagre returns; inflation is eroding real returns; yields on traditional fixed income is low; and volatility, driven by political uncertainty, remains high.
- Direct Lending has the following attributes – attractive risk adjusted returns; Uncorrelated performance; highly diversified; low volatility; and capital protection "Through the cycle".
- Discussion around the table covered the following:
- Detailed discussion on the regulatory status of the direct lending platforms and the direct lenders on the platforms. Goji is regulated by the FCA.
- Goji is the first fund of funds manager in the direct lending space.
- It is difficult for IFA's to undertake Due Diligence on individual asset classes and Goji's solution provides a single asset class on a platform.
- Goji's management fee is 95bps including the platform and the target return is 5% net of fees.
- It is important to understand that Direct Lending does not focus on adverse credit opportunities – the actual default risk is low.
- The benefits of Goji are that the investment diversifies risk by investing in a number of platforms and a number of loans; only invest in asset backed loans; and average duration is 3.5 months.

- This asset class cannot be risk profiled.
- Goji invests on a monthly basis across 7 businesses.
- It is envisaged that little will change for the sector in an economic recovery. Banks lend to safe businesses, but businesses need quick and positive lenders to provide additional financial support. In addition, BASLE III penalises banks capital requirement on SME lending.
- Goji will be integrating with Intelligent Office – Nick Eatock is a NED at Goji.

8. BREAKING THROUGH THE COMPETITION IN FINANCIAL ADVICE

Expert: Garrett Harbron, Vanguard

Facilitator: John Chapman, Owen James

Garrett Harbron, Investment Strategist from Vanguard presented his document highlighting the need for financial advisers to transition from portfolio managers to relationship managers. There is a downward pressure on fees and Garrett highlighted the following issues with the current propositions:

- Traditional value proposition is primarily focused on outperformance.
- This value proposition has extremely high hurdles.
- Traditional proposition requires tremendous alpha after fees and taxes.
- Outperformance and value proposition has not been achieved for the vast majority.
- Advisory performance is not getting worse, but comparative information and competitive substitutes are getting better.
- Like most industries, continuous improvements are essential to keep up with technology, new entrants and evolving value proposition.

Downwards pressure on fees can be seen in current advisory ongoing fees at 1%, but UK Robo fees are at 0.75% and US Robo fees at 0.25%.

Keeping track on "costs to serve" is the key to future profitability.

Vanguards' predictions for the future of advice and advisers:

- Dominated by investment professionals acting principally as behavioural coaches and relationship managers, and less like portfolio managers.
- Return on adviser's time will be the critical metric.
- Keeping investment costs down and matching adviser engagement to the level of fees will be the key to maintaining margins.

The debate around the table focused on cash flow modelling as being a key to customer engagement and building initial confidence with the client. It is also key to demonstrating value in the service provided by advisers. Key points from the debate are:

- Stop talking about performance.
- Cash flow modelling works and provides a facilitator for detailed discussion. Some advisers prefer simple cash flow tools, others prefer more detailed – whichever method is selected, it is important to provide cash flow modelling in a cost effective manner.
- IFA's have developed engagement strategies using simple dashboard information, don't present glossy brochures and prefer graphical information. Also use "Scenario" examples with new clients to show what the adviser has done for a similar client.
- Advice costs are being focused on by new clients, particularly those aged under 40. Lower growth environments also provide a challenge on costs and MIFID II will provide a new challenge as costs become even more transparent.

9. MIFID II – WHERE HAVE WE GOT TO?

Expert: Andy Sutherland, TCC Group

Facilitator: Roderic Rennison, Rennison Consulting

Overview

Until recently there has been a misconception on the part of some financial intermediaries that what are termed "Article 3 Exempt Firms" that none of the changes and obligations arising from MiFID II (which becomes effective on 3rd January 2018,) do not apply to them. This is not the case.

The areas of MiFID II to be aware of

Andy Sutherland the Managing Director of TCC the compliance consultancy provided his expert views on the current "state of play" from the perspective of financial intermediaries and summarised the following 15 areas as ones that intermediaries need to be aware of and have considered in relation to their businesses:

- **Best Execution** - Affects both investments and withdrawals; Update likely to Terms of Business to reflect policy - **Low impact**
- **Client Agreements** - While minimum changes under COBS 8, some amendments likely to be required in the light of MiFID changes – **Medium impact**
- **Client Categorisation** - Assumes majority if not all clients treated as Retail – **Low impact**
- **Complaints Handling** - Minimal changes to Disp standards – **Low impact**
- **Conflicts of Interest** - Likely to impact firms with in-house/own brand funds on a CIP. New rules require proactive approach to "identify and prevent" rather than just manage - **Medium impact**
- **Disclosure** - Aggregated costs and charges 10% drop - **High impact**
- **Inducements** - Many of the changes already covered in UK by RDR - **Low impact**
- **Investment Research -** Low impact for majority of article three exempt / distribution / advisory firms - **Low impact**
- **Product Governance** - Some consideration for firms who offer tailored offerings such as a CIP and represents a formalisation of the current RPPD standards and added responsibility (CF10) to proportionately monitor the arrangements – **Medium impact**
- **Remuneration** - Changes (SYSC 19) largely covered in UK by RDR & FG13/01 – **Low impact**
- **Senior Management, Systems & Controls** - Minimal changes to existing arrangements – **Low impact**

- **Taping** - Some changes in process and record keeping for conversations leading to transactions (e.g. fund switches) that are not covered by a suitability report – **Medium impact**
- **Suitability** - Some potential impact over timing of suitability report (i.e. before completion of transaction). Also, some impact to nature of ongoing suitability / annual reviews – **Medium impact**
- **Independence** - General broadening of existing definition of independence to include MiFID financial instruments although majority of the changes already covered in UK by RDR – **Low impact**
- **Structured Deposits -** New investment type for Part 4a permissions (transfer from BCOBS to COBS) - requires completion of online form before 3/1/18 or Variation of Permission thereafter – material to firms seeking to offer SDs as well as all firms offering "independent" firms - **Medium impact**

FCA Regulatory Overview

Last month FCA Supervisory teams requested MiFID II Transformation plans and status updates from a number of firms; this will provide FCA with a cross-sector view on business readiness. FCA will also be likely to undertake a thematic review of MiFID II compliance in 2019 to assess how well the changes have been embedded across the sector

Business readiness

Initial indications from FCA suggest that it will take a sensible and proportionate approach to MiFID's introduction and that they will be unlikely to take enforcement action against firms for not meeting all MiFID II requirements from day one so long as the firms can give evidence that it has taken sufficient steps to meet the new obligations and that there are plans in place to complete the process.

Key impact areas

MiFID II has lower impact on UK retail investment firms than for those in many other EU countries, as it builds on the work the FCA has done on the retail distribution review (RDR), product governance (RPPD), and remuneration.

The primary areas of impact Article Three Exempt Advisory firms are:

(1) costs & charges disclosure (including on-going and additional reporting); and,

(2) product governance.

Other conduct themes including advice, independence, suitability, conflicts, taping etc. should not be ignored and firms need to understand the impact of the changes on their respective business models.

Structured deposits - notification/VoP:

SDs now fall within the scope of MiFID and this impacts a firm's permissions. FCA has created a new investment type for structured deposits which means **all firms intending to carry out a specific regulated activity, such as giving advice, in relation to structured deposits will need to add this to their part 4A permissions.**

This will also apply to firms offering independent advice.

To assist firms, FCA has created an online form (on its website) and all structured deposit notifications submitted using this form before 2 January 2018 will be free of charge. Thereafter, firms will need to apply for, and pay for a formal

Variation of Permission (VoP).

Legal entity identifiers (LEIs) – identifying clients

Part of the revision to the MiFID II transaction reporting regime involves providing regulators unique identifiers for clients to make it easier to trace their trading activity through more than one firm and therefore to detect market abuse. **For legal persons, which includes charities, trusts and public bodies, they need a LEI.** LEIs will be necessary to undertake trading from 3 January 2018.

Takeaway from the sessions

The obligations brought about by MiFID II need to be both understood and acted upon by financial intermediaries and that there is now only a limited amount of time to do so i.e. before 3rd January 2018

Because MiFID II is complex, advice/guidance should be sought from suitably qualified individuals/firms. The compliance firms that support intermediaries are well equipped to do so.

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