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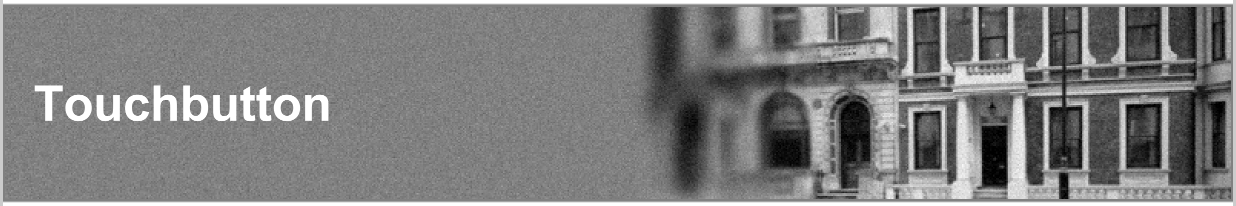

No: 7, 13 June 2012

The Retail Distribution Review – the clock is ticking

In June 2006, when the Financial Services Authority (FSA) launched its Retail Distribution Review (RDR), the FTSE 100 stood at around 5,700 points and investors had already enjoyed the benefits of a three and half year bull market. At that time, few would have believed the market conditions that were to follow….

Now with a little over half a year to go until the implementation date, 1 January 2013, we thought it would be useful to recap over what the regulators hope to achieve through the what is arguably the biggest shake up of the retail investment sector since The Big Bang.

Back in 2006, the FSA set out the RDR as a key part of their consumer protection strategy with the aim of ensuring "consumers are offered a transparent and fair charging system for the advice they receive and they are clear about the service they receive". Linda Woodall, Head of Savings and Investments at the FSA, outlined during a recent speech, that the RDR is about; "making consumers more confident about getting advice and trusting what you tell them; ensuring what you do is properly recognised as a profession by settling minimum standards; getting you to describe what you do in a way your customers can understand; and making sure commission or other forms of remuneration do not influence your decisions and the quality of advice your offer". In other words the FSA want to make sure retail consumers are clear about who is being paid, for what, by whom.

Like us, we expect many of you will already operate within a transparent fee structure and so the impact is more in relation to differentiating between your services rather than overhauling your business model.

When it comes to 'by whom' a key objective for the FSA is for consumers to receive advice from highly respected professionals, with the appropriate qualifications to boot. After all, you wouldn't trust an unqualified surgeon with your heart surgery, so why would you trust an unqualified investment manager with your money? Interestingly, despite the initial fear that many experienced advisers would leave the industry, the recent FSA survey showed the progress towards qualification looks to be on track. A total of 71% were already qualified rising to 93% when adding in those expecting to qualify by the deadline.

It appears the final decision for many firms is whether they will be independent or restricted under the new rules. As specialist investment managers we will be referred to as restricted under the RDR. This appears to be a point which many are contesting through the financial press, but from the Berry point of view we are more than happy for our clients to know that we are specialist investment managers.

It is fair to say the finance industry has had its fair share of scandals over the years; so if this approach of tighter regulation, qualifications and ongoing competence lead to clients having more confidence in the market then it will definitely be all worthwhile. When it comes to looking after other people's money, trust is the single most important aspect of the relationship. In summary, we find it difficult to argue with the fundamental aims of the RDR. In fact we find ourselves asking what took so long!

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