



The FSA has published the initial findings of the Retail Distribution Review (RDR) in the form of a Discussion Paper, DP07/1. The RDR suggests that the regulated advice channel could be divided into two parts:

Professional Financial Planning and Advisory Services (offering 'full advice'); and

Primary Advice which provides more straightforward advice and help on more straightforward needs using simple products.

Within the **full advice channel**, the RDR identifies two possible types of adviser. The descriptions below are based on the ideas contained in the Discussion Paper which may change significantly during the consultation period.

Professional Financial Planners (PFP)

- Require a higher level of qualification eg Chartered Financial Planner or Certified Financial Planner
- Remuneration to be 'fee' based (see definition of Client Agreed Remuneration below)
- Able to refer to themselves as 'Independent'
- Benefit from a lower level of regulatory scrutiny than other types of advisers

General Financial Advisers (GFA)

- Require a qualification equivalent to the CII Advanced Financial Planning Certificate / Diploma in Financial Planning
- Remuneration to be commission **or** 'fee' based (see definition of Client Agreed Remuneration below)
- Would not be able to refer to themselves as 'Independent'
- May be subject to higher levels of capital adequacy, particularly if commission based

Primary Adviser

The Discussion Paper also considers the role for Primary Advice. It is envisaged that primary advice would go some way to fill the advice gap amongst consumers with more simple needs and who might not ordinarily consider visiting an IFA. **Primary Advisers would be subject to a lower level of professional qualification** and would likely make use of decision trees and simple products. Primary Advice would be offered with **lower levels of suitability** than current rules allow.

Customer Agreed Remuneration (CAR)

A key proposal is the Customer Agreed Remuneration (CAR) and the re-definition of the term 'fee'. Under CAR:

- Products are priced by manufacturers **excluding charges to cover the costs of remuneration to advisers** for their services
- Advisers and customers agree the level and pattern of remuneration and any other fees, in the context of a discussion of all services being supplied (and to be supplied). This is very much like a fee discussion and covers both the cost of the initial advice and any services provided on an ongoing basis
- Additional charges are then added to the product charges to reflect agreed remuneration and / or can be charged directly to the client as a fee

There would probably be a **transition period of at least 3 years** (once the proposals were finalised) to allow advisers to achieve the necessary qualifications and amend their business model before the new structure came into effect.