PARADIGM

THE FUTURE OF IFAs

TARGET
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WELCOME TO TARGET…

Welcome to Target,

In this months edition we provide Paradigm's view on the recent FSA platform paper, an update regarding the Mortgage Market Review (MMR) and details of support in relation to oral disclosure for ICOBS.

We also include articles from a selection of our strategic partners which we hope you find of interest.

If you have any queries regarding Target, please contact:

helpdesk@paradigmgroup.eu

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CP 10/29 Platforms: Delivering the RDR and other issues for platforms and nominee-related services

In a culmination of discussions around RDR and Platforms the FSA has released its Consultation Paper outlining proposals on how they intend to regulate platforms in a post RDR world. We are pleased to say that many of the proposals are exactly what we expected and should cause you no concern at all. The biggest shock in the paper is the apparent u-turn on Platform remuneration in which the FSA has gone against their own, and the majority of the professional respondent's views, that RDR is best served by a complete ban on bundled charging, opting instead for the much softer approach of permitting them, highlighting the apparent risks and enforcing complete disclosure.

Please read on for the main proposals laid down by the FSA outlining how they may affect your firm, its clients or the product providers you use.

Adviser Charging

The FSA have clarified that Platforms should facilitate payment of adviser charges only on direct instruction from the client and any payment needs to be matched against the instruction. The client will be able to stop the payment at any time.

Rebates to Consumers – the end of fund manager rebates to wrap accounts?

The FSA have proposed banning cash rebates from product providers and fund managers to client's accounts as they deem these actions capable of undermining the rule on adviser charging i.e. advisers may choose platforms based on rebates (read commission) levels.

Platform Remuneration – Bundled Charging to Remain with Increased Disclosure Requirements

The FSA have decided not to propose the removal of bundled charging instead opting for improved disclosure of payments. However, commissions cannot be bundled within the fund or product.

Inducements – Adviser charging is the only remuneration that the Adviser can receive.

As expected the adviser charging rules will prevent any IFA from receiving inducement or remuneration other than that expressly agreed by the client. Inducements can also include training or investment planning tools.

Independence

The FSA have outlined that there is nothing to prevent the extensive use of a single platform that offers vanilla tax wrappers (defined as wrappers with no investment bias or no tax or jurisdictional marketing advantage). Choice and use of a platform continues to depend upon current suitability requirements and client segmentation.

Guided Architecture and Risk Profiling Tools – many product provider tools no longer fit for purpose?

It will be a requirement post 2012 for IFAs to be able to demonstrate expressly that any investment models or tools that you use are fully independent and completely unfettered.

Platform Operations

Re-registrations – All nominee companies to be compelled to re-register within a reasonable amount of time.

It is great news that the FSA have reaffirmed their proposal to compel re-registrations off and on platforms within a reasonable time.

Rebates from fund managers – a new wrap class of share or rebates through reinvestment

As cash rebates will no longer be permitted, the only option to offer differential pricing in a platform is to offer a new wrap class of share or to offer rebates in the form of increased units.

Both of these put pressure on the fund managers Authorised Corporate Director and Custodian increasing their internal operational fees. On the other side, fund managers will receive downward pressure on their pricing as the market aims to harmonise the differential pricing currently enjoyed by the large distributors. This could very well lead to convergence of fund pricing to either the lower platform level or the current wrap level.

How we can help:

It is reassuring to us and hopefully to you that this is a reiteration of what we had predicted was in your interests and that of your client. It does however; stress the need to act as soon as possible to prepare your clients and your company for the changes.

Your Business/Compliance Consultant and Investment Consultants can help you with this process and we are pleased that many Paradigm Partners have already started the process of service redesign:

- Segmenting your client bank and designing a service that is appropriate for them.
- Delivering a completely independent auditable portfolio service:
    - Ibbotson – asset allocation consultancy
    - OBSR, iShares and Prism – fund consultancy
    - Paradigm Wrap – investment administration
- Designing disclosure documentation and compliance systems and controls to ensure this service is delivered.

These services are all consistent with the consultation paper and will reduce or remove the operational cost associated with working within the new financial world.

If you would like to know more about this or how we can help please contact your field based Paradigm consultant in the first instance.

FSA Review of Oral disclosure in sales of non-investment insurance & protection products

On 30 June 2010 the FSA published their post implementation review (PIR) of the Insurance Conduct of Business Sourcebook (ICOBS) that came into effect on 6 January 2008. The review found significant failures by firms concerning oral disclosure in sales of protection products, in particular Critical Illness Cover (CIC). These findings were deemed disappointing by the regulator, particularly as oral disclosure rules were introduced in ICOBS, following the shortcomings identified in their 2006 thematic review.

The FSA has therefore written to all firms that sell protection products to reiterate the ICOBS requirements for all firms to:

- make appropriate oral disclosures when selling a protection product to a consumer by phone or face-to-face;
- provide product information in a way which is clear, fair and not misleading; and
- be clear about the status and scope of service the firm is providing and that any advice given must be suitable.

Action requested

All firms selling protection products are required to establish, implement and maintain adequate policies and procedures sufficient to ensure compliance with the rules in ICOBS

Following their findings the regulator requests that:

- Your firm reviews its sales policies and procedures for compliance with the rules in ICOBS.
- You provide written confirmation, within six months from the date of the 29th November letter, that your firm has completed the review and that your firm's sales policies and procedures (for sales of non-investment protection products) are sufficient to ensure compliance with all the relevant rules in ICOBS.
- If you cannot provide the confirmation above within six months, your firm provides a written plan and timetable as soon as possible, but no later than six months from the date of this letter, to ensure such compliance.

Your response should be sent to GIOralDisclosure@fsa.gov.uk

Please note that if you elect to sell non-investment insurance under COBS rules (i.e. full KYC information is obtained via a fact find and the advice is summarised in a suitability report) then the above will not apply.

For those firms who do advise under ICOBS, Paradigm are in the process of producing support material to help firms with this exercise and this will be distributed to principals shortly. In the meantime, should you have any queries, please contact your field based Paradigm consultant in the first instance.

FSA CONSULTS ON CHANGES TO MORTGAGE SALES

Earlier this month, the Financial Services Authority (FSA) outlined proposals which focus on enhancing the mortgage sales process, the role of intermediaries and improving disclosure of information for customers.

The consultation builds on the FSA's Mortgage Market Review to date, and a key element is requiring that those selling mortgages ensure that each one sold is 'appropriate' for the customer's needs and circumstances, therefore clarifying the role of the mortgage seller (both intermediary and branch based).

This follows earlier proposals by the FSA which looked at responsible lending and the role of the lender and the customer, and which set out that the responsibility to assess whether a customer can afford a mortgage ultimately lies with the lender.

In addition key proposals include:

- Replacing the obligation to issue an Initial Disclosure Document to the customer with requirements to clearly and prominently disclose key information about how the intermediary will be paid and the service they offer;
- Changing the trigger points for providing the Key Facts Illustration to minimise information overload on consumers and reduce burdens on firms;
- A requirement for all individuals that sell mortgages to hold a relevant mortgage qualification ensuring appropriate professional standards across all sales;
- Replacing the existing labels used to describe the firm's service with the Retail Distribution Review's 'independent' and 'restricted' labels; and
- Requiring firms to disclose to customers whether they will consider deals that can only be obtained directly from a lender.

Sheila Nicoll, the FSA's director of conduct policy, said:

"This next step of the Mortgage Market Review recognises the importance of the intermediary and ensuring the quality of every mortgage sale. It also indicates how the intermediary and other sales staff fit into our vision of a sustainable mortgage market that works well for consumers. By clarifying the role and responsibility of mortgage sellers, we are removing the blurring that could take place between the role of seller and lender."

Scottish Widows – Corporation Tax and Pension Contributions

We are coming to the end of the further temporary extension to loss relief. Nevertheless, it is worth reminding corporate clients with 31 December year ends of the opportunity to carry back for one year.

An extended loss relief claim is possible for companies making returns for accounting periods ending between 24 November 2008 and 23 November 2010. This extension allows companies (and unincorporated businesses) to carry back trading losses for up to three preceding years. However, this deadline is fast approaching and not many companies will have a year end that falls between 31 October and 24 November. Even if this opportunity has now been missed, it is worth reminding corporate clients of the facility to carry back for one year which still remains. It's a particularly good time to grasp this opportunity because, according to Companies House, 31 December is the second most popular choice for a company year end.

If a company makes a trading loss, that loss can be offset against the current year, carried back one year to the previous accounting year (and offset against tax due for that year) or carried forward for an indefinite period.

For a loss making period, with no corporation tax to pay, how do pension contributions get corporation tax relief?

The simple answer to this is that pension contributions are normally allowable deductions for corporation tax purposes and, since the deductions form part of the company expenses, any trading loss can get relief under the trading loss rules for a company.

These allow trading losses to be:

• set against other income and gains of the same accounting period or of the previous accounting period (Corporation Taxes Act (CTA) 2010 section 37); or

• carried forward to set against future trading profits (CTA 2010 s45).

It's possible to create or increase a trading loss by making an employer pension contribution. Directors of many companies may feel that making a pension contribution during a trading period when profits are low (or a loss is made) is a pointless exercise.

But trading losses may be offset against the preceding year or carried forward to set against future profits.

So, as long as the company either paid corporation tax in the previous period or will be paying it in subsequent periods, tax relief will be given for pension contributions providing they are wholly and exclusively for the purposes of the trade.

Pension contributions need to be paid before the end of the accounting period.

Example
• ABC Ltd anticipates profits in the trading year ending 31 December 2010 of £10,000.
• They had a £400,000 profit in the accounting period ending on 31 December 2009.
• Annual pension contributions for the directors and other employees are £100,000.

Should the payment be made now or delayed?

A SOLUTION

If the payment is made in the accounting period up to 31 December 2010, the company will have a trading loss of £90,000.

This loss can be set back against the previous year's profits, gaining a corporation tax repayment (or saving, if the tax hasn't been paid over to HMRC yet) of £26,775 (29.75% of £90,000) with no tax due for the year ending 31 December 2010.

	31.12.09	31.12.10
Anticipated profit		£10,000
Pension contribution		(£100,000)
Profit	£400,000	£Nil
Trading loss available for relief		(£90,000)
Carry back	(£90,000)	
Profit after carry back	£310,000	
Corporation tax rate	29.75 %	21 %
Corporation tax saving/repayment	£26,775	£2,100

The total tax saving is £28,875. This means tax will be saved at an overall effective rate of 28.87%.

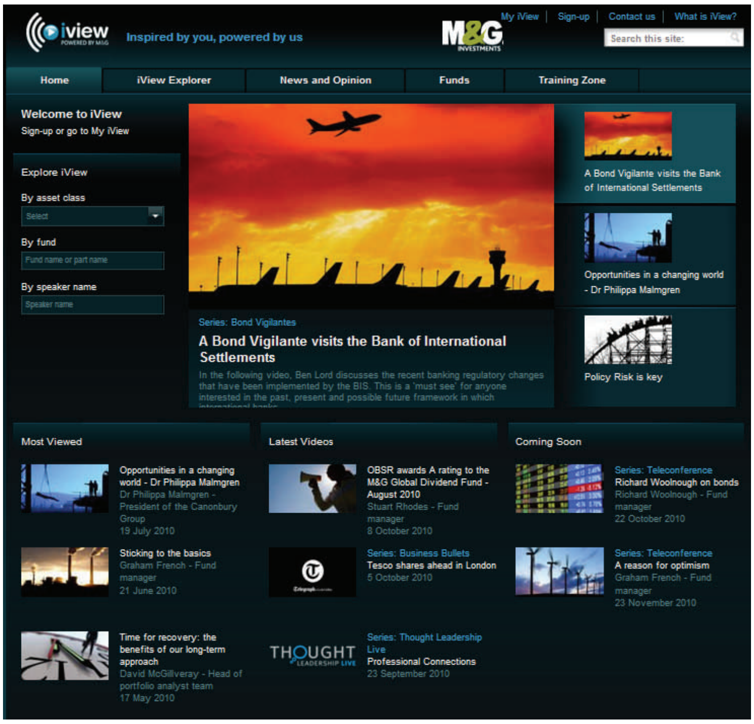
Clearly, in this example, the pension contribution does not need to be delayed, even though the consequence of the contribution being made is that the company has no profit in the period. To delay the payment until the next accounting period would mean a delay for any corporation tax relief for the payment, potentially until 1 October 2012.

PLANNING SUMMARY

The end to the temporary extension to loss relief may be a missed opportunity but it presents a further chance to talk to your corporate clients about pensions and investment planning.

M&G – Investment Ideas worth sharing

M&G have announced a major step forward for the popular iView channel, which will see it become an online platform in its own right. The aim is to make iView into an essential portal for advisers who want the latest market insights, commentary and educational material.



The story so far

iView was launched in May 2009 as the first interactive channel in the investment industry to offer bespoke fund information and educational content for advisers. At the time, it was compared to the BBC's hugely successful iPlayer service, thanks to the functionality it offered.

Investment ideas worth sharing

The iView offer has now developed even further to provide TV-quality news programmes from specialists in many fields of investing, alongside thought-leading documentaries and fund-specific videos. Contributors will include M&G's top performing Fund Managers, a wide range of external content providers, such as The Daily Telegraph, Citywire and industry leading experts such as Dr Philippa Malmgren. A range of educational content will also help advisers with their continuous professional development.

Anne-Marie McConnon, M&G's Head of Intermediary Marketing says, "Our success has been thanks to the content we offer. With these new developments, we hope to attract many more advisers to our service, while offering existing users more reasons to visit us regularly.

"At the heart of our service is the belief that investment videos don't have to be boring and our aim is to entertain as well as inform. To make sure we are achieving these goals, we will be putting together an adviser panel. The panel will help ensure that adviser input underpins everything we do, and the results will drive and shape the content we deliver."

Instant access, at any time

All the information on iView will be available online and to download on MP3 24/7, so advisers can get the latest information and insights at a time that suits them. Following feedback from advisers, registration to the site has also now been removed - this will ensure that every adviser can use all the aspects of the service from the moment they first visit. Advisers can automatically receive CPD points but will need to register to receive this and email updates. In addition, iView will be available through mobile devices and integrated with popular social and business networking sites, so it is easy to share and stay informed.

For investment ideas worth sharing, visit www.iviewtv.co.uk

AEGON - Guaranteed products – help your clients reap as they grow

How many uncomfortable conversations have you had with clients at review time in recent years? Wouldn't it be nice to sit down with them with the peace of mind that their investments will, at the very least, have met their expectations?

While difficult conversations are part of a financial adviser's remit, volatile markets and continued economic uncertainty mean it's getting more difficult to manage the expectations of even the most cautious investor.

Guaranteed products can help your clients guard against some of these risks. Paying an additional charge for a guarantee allows your clients to secure their future income, while giving them a real opportunity to benefit from any future market growth.

A growing market

Since being introduced to the UK in 2007, the market has grown considerably, as more advisers consider guaranteed products for all or part of their client's retirement portfolio. This has seen sales reach £445 million in the first half of 2010, an increase of 34% compared with the second half of 2009*.

Designed to attract and meet the needs of a new generation of retirees, guaranteed products can be suitable in a range of circumstances, especially for those clients who:

- have cash on deposit seeking a higher rate of return without the investment risk
- are looking to build a retirement pot with the security of knowing the minimum level of return
- are looking for a money-back guarantee on death without the worry of their investment dropping (other than any income already taken)
- want regular tax-free** income that won't go down but could go up
- want to make the most of stock market growth
- are looking to reduce their inheritance tax bill

Guarantees aren't suitable for everyone. Other products may be more appropriate for clients with a more adventurous attitude to risk or those looking for a high level of income now. What we can say is that the appetite for and suitability of these products as part of a retirement portfolio is growing. And who knows, your clients may just thank you for recommending them.

To find out more about AEGON's range of guaranteed products, please visit our dedicated **Guarantees hub**

**Towers Watson, August 2010*

*** Every client has a set capital content allowance. The income payment amounts are within this allowance so income from the original investment is tax-free for life. Income paid above this amount will be subject to tax.*

The only circumstance in which the guarantees wouldn't apply is if Scottish Equitable plc failed. In this unlikely event, the benefits from the plan may be affected.

This communication is for professional financial advisers only. It isn't for private customers and shouldn't be given out to, or relied on by, them.

Straight to the point

4 fund managers, 1 event, a wealth of insights

Register now for the Joint Investment Forum in January 2011 Register now - See full event details

Speakers - Simon Surtees, Standish, a BNY Mellon company - Tony Lanning, Gartmore - Stuart Rhodes, M&G - Richard Buxton, Schroders

Events all over the UK Choose from 10 different locations across the United Kingdom to gain key investment insights

Hear directly from 4 high profile fund managers With the opportunity to question each investment expert

Key asset classes Including fixed income, equities and more

Venues:

Belfast 7 Jan am

Harrogate 11 Jan am

Birmingham 12 Jan pm

London 19 Jan am

Bristol 13 Jan am

Manchester 12 Jan am

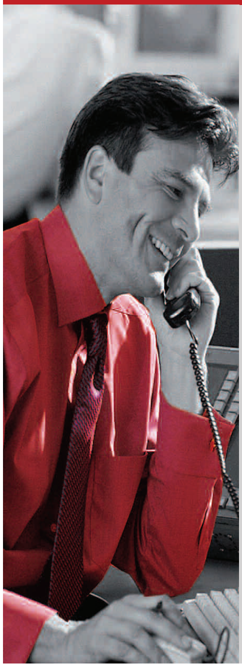
Exeter 13 Jan pm

Newmarket 20 Jan am

Glasgow 6 Jan am

Southampton 18 Jan am

PARADIGM TECHNICAL SERVICES



An integral part of Paradigm Compliance is Paradigm Technical Services. Our experienced, Head Office based team complements the service offered by our field based Paradigm Business Consultants and is and is on hand to offer assistance and guidance with the following:

- All various day-to-day compliance queries
- Technical queries
- GABRIEL / RMAR completion
- Complaints Guidance
- Financial Promotions
- Remote File Reviews
- FSA Applications (*including* Change of Entity / Variation of Permissions / Approved Persons)

Available between 9.00am and 5.00pm Monday to Friday.
The Technical Services team can be contacted as follows:

General Enquiries
- Email: helpdesk@paradigmgroup.eu
Telephone 0845 620 1998

Financial Promotion Submissions
- Email: helpdesk@paradigmgroup.eu
Fax 0845 303 8333

Remote File Review*
- Email: filereview@paradigmgroup.eu

***Please note that the Remote File Review service is only available via prior arrangement with your Paradigm Business Consultant.**