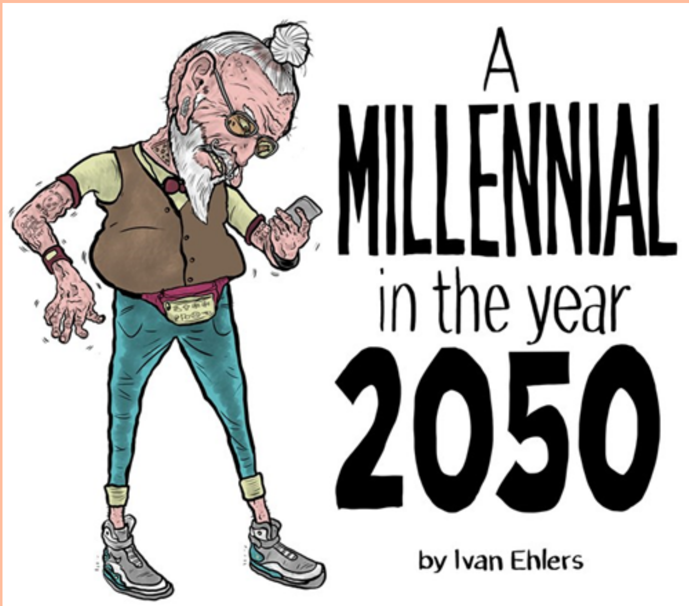

Priscum
June Newsletter

MILLENIAL OF THE FUTURE

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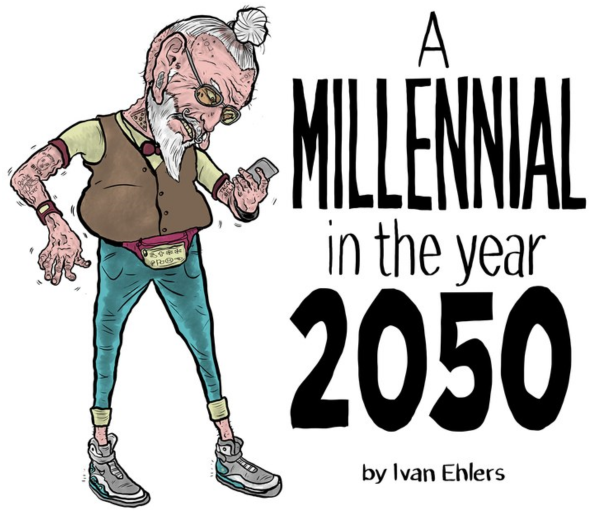
Welcome to the June Edition of the Priscum Newsletter

By Alex Wrightson

Hello and welcome to the June edition of the Priscum newsletter. Also, in today's newsletter separate from my section on Woodford Funds, is an interesting article about how it leaves the Broader Sector exposed. I have also collected several other articles about Poor Mr Woodford into a separate document. The trade Press have been particularly ruthless in the amount of articles they have published. The FCA have also been busy this month they have had extended policy statements recently, so they also are on an extra sheet. There is also a update on Suitability reports that is very useful. We have also decided on the date of our next seminar it will be on the 11th of September probably at the Old Coventarians but that is still to be confirmed. This will involve lots of compliance issues including the forthcoming Senior managers regime.

Priscum Update

Millennials increasingly value face-to-face financial advice – Calder



The subject of a client's objectives in **Suitability reports and what the FCA expects** comes up regularly in the industry. It's never a bad thing to remind you of best practice and what is according to a former senior person at the FCA the best form of defense against the FCA, the FOS and complaints. In 2015 when Rory Percival was the FCA's technical specialist he highlighted an area of concern is the potential for increased standardisation process to result in a lack of personalisation. The FCA were in 2015 looking at client files and seeing standard objectives across different clients and those objectives are solution-based rather than client-based. He confirmed an area of concern for the FCA is that there is the potential for increased standardisation process to result in a lack of personalisation. His advice to firms at that time was to make sure the objectives are individual to each client, where possible using the client's own words. He warned against "outcome focused objectives", quoting examples such as 'you wanted the ability to have funds on a platform so you could switch funds on a regular basis' or 'you want to be on a platform to have access to a range of quality funds".
He added not having template client objectives in suitability reports is the best defense against the FCA, FOS and complaints. Percival suggested firms have a "free text" in the fact-find to give clients space for that extra level of detail, as well as removing the template objectives in suitability reports.

What he said is nothing new. Ever since the regulator issued their original Suitability Report Fact sheet in November 2011, they've suggested its good practice within a suitability report to, "Give a clear summary of the customer's objectives, needs, priorities and relevant existing investments, demonstrating the adviser had taken account of these." An example of what he calls a "*solution-based objective*" is where a client might however say "I need £20,000 to pay for my daughter's wedding and a further £20,000 to fund a once in a lifetime trip around the world. I also need advice on how best to fund any shortfall in my income moving forward as I plan to wind down my work commitments following my travels.

Although both may ultimately result in the same recommendation(s), the latter is a better example of a "*client-based objective*". Percival confirmed "The aim is to have documents that are manageable, attractive, engaging and informative and personal to that client, that's what you are trying to achieve."

FCA rules and requirements:
COBS 9.2 Assessing suitability: the obligations
COBS 9.2.1. Firms must take reasonable steps to ensure that a personal recommendation, or a decision to trade, is suitable for its client; and when making the personal recommendation or managing his investments, the firm must obtain the necessary information regarding the client's:

1. knowledge and experience in the investment field relevant to the specific type of designated investment or service
2. financial situation
3. investment objectives

Additionally, FCA principle 6 says 'A firm must pay due regard to the interests of its customers and treat them fairly'. It is therefore important when stating a client's objectives in a suitability report to use the client's own words not your own definition. This will help make letters more engaging.

Pensions Update

Philip Green agrees £25m Arcadia pensions deal with TPR and PPF to plunge an additional £25m into Arcadia's pension funds, paving the way for a restructure of his empire.

Pension participation rises to 87% of eligible workers with £90.4bn of contributions put aside for retirement, government statistics reveal.

'High earning' NHS doctors to be given flexible pensions in exchange for also halving the rate of pension growth.

Pensions minister admits incorrect state pension forecasts for over 300,000 members issued for a third of a million people since 2016 with defined benefit (DB) members with "complex" work histories facing a "significant problem".

Opperman: Pension schemes must 'do the right thing' on tackling climate change

Martin Jones: Lifetime allowance quirks on divorce

FOS hike will see advisers exiting DB market – PFS PI insurance becomes too expensive, the PFS has warned.

Give new mothers' pension pots a £2,000 top-up, says Which? New mothers should be given a £2,000 pension top-up to address the gender gap as part of reforms to workplace pensions, according to Which?

- **Surge in women taking benefits post pension age**
- **Third of women have no pension plan**
- **Employers are overlooking benefits link to pension tax**
- **FCA: we'll visit every DB transfer adviser if we need to**
- **Call for steelworker clarity as Swansea firm loses permissions**
- **How Rolls-Royce completed its £4.6bn buyout with L&G**
  Following Rolls-Royce's record buyout earlier this month, James Phillips speaks to some of the key players about the process.

Mortgage Update

- **Mortgage broker revenue jumps 13 per cent as commission dependency grows**
- **Fifth of households struggling to afford mortgage or rent**
- **FCA rules overhaul should give brokers and borrowers more confidence in P2P – Assetz Capital**
- **Labour proposes tightening mortgage lending and end to the 'buy-to-let frenzy'**
- **Use pensions to fund first-time buyer purchases, says housing secretary Brokenshire**
- **Bigger proc fees do not mean higher adviser satisfaction – research**
- **High house prices rather than Brexit behind buyer wariness – BSA**
- **Letting execution-only out of its box will lead to gaming the system – Blackwell**

- Smaller portfolio landlords 'starting to question why they are bothering'
- Broker activity picks up as mortgage lending and approvals jump post-Brexit deadline
- Treasury expects FCA to implement mortgage prisoner affordability reforms 'rapidly'
- Annual house price rises grow to 5.2 per cent in May – Halifax
- 'Remarkable' nine per cent house price rise expected over summer – Reallymoving
- BTL product numbers at highest level in 12 years – Moneyfacts

- 'Keep pension and mortgage separate, there are better ways to raise a house purchase deposit' – Star Letter 07/06/2019
- FCA's U-turn on mortgage advice rules is 'utterly unfathomable' – Bamford
- Downsizing changes coming and review of equity release products underway – Hodge
- Estate agent's 'misleading' Help to Buy ad prompts regulator action
- Families will lend more than £6bn to support property purchases in 2019
- 'People using execution-only will find their journey a lot more challenging than they expected' – poll result
- The ultimate weakness of best-buy lists
- 'Many borrowers could find a mortgage unaided; they pay us to find the right mortgage' – Star Letter 21/06/19
- Brokers warn Berlin-style rent freeze would kill off buy to let – analysis
- Housing costs rising for owner occupiers – ONS

FCA Regulation Roundup

Podcast: Interview with Baroness Sally Greengross on intergenerational issues

Listen to discuss her ideas on intergenerational issues, focusing specifically on planning for old age and the importance of financial advice. She also discusses the work of the Lords' Intergenerational Fairness and Provision Select Committee and its latest report. Our Discussion Paper on Intergenerational Differences was published in May and responses are open until August.

Annual public meeting

Registration is now open for our annual public meeting (APM). The event will take place on Wednesday 17 July, from 9.30am until 12pm, at The Brewery, 52 Chiswell Street, London, EC1Y 4SD.

Advice firms that did not answer FCA DB probe could see permissions revoked

Money Laundering Controls at smaller firms

The FCA is stepping up its programme of anti-money laundering (AML) compliance spot checks and there is intensified scrutiny of AML compliance including an increase in spot checks. The move is prompted by criticisms in December 2018 by the Financial Action Task Force (FATF). The report suggested that UK regulators could do a better job of monitoring compliance at smaller firms, ensuring intelligence is being shared and proactively seeking to prosecute failures. The FATF report lags issues with the systematic use of risk assessments among smaller firms, something the FCA may now begin asking firms to rectify during spot checks. Where weak controls are identified ongoing risk assessments continue to be an issue.

Laundering the cash....again!

FCA publishes second set of rules following their Asset Management survey

The FCA has published new rules and guidance to improve the quality of the information available to consumers about the funds they invest in.
The asset management industry plays an important role in the UK's economy. Over £1 trillion is managed for individual investors and £3 trillion on behalf of UK pension funds and other institutional investors. The FCA's asset management market study presented evidence of weak price competition in many areas of the asset management industry. This means lower returns for savers, pensioners and other investors. The new rules and guidance require fund managers to:

- describe fund objectives and investment policies to make them more useful to investors
- explain why or how their funds use particular benchmarks or, if they do not use a benchmark, how investors should assess the performance of a fund measure past performance data against each benchmark used as a constraint on portfolio construction or as a performance target, and
- clarify that where a performance fee is specified in the prospectus, it must be calculated based on the scheme's performance after the deduction of all other fees

FCA calls on firms to act following a review of costs & charges disclosures

The FCA has published its findings to assess the effectiveness of disclosure by asset managers and intermediaries, such as wealth managers, to client. The work was prompted by new disclosure requirements on costs & charges introduced by MiFID II which came into effect in January 2018.
The regulator was aware of public claims of an intent to deliberately ignore the new rules. Some areas of non-compliance with the new rules were found because of the way some asset managers calculate transaction costs and how prominently they were disclosed The FCA also found that asset managers generally do not disclose all associated costs and charges and where full disclosures are made inconsistencies between documents and website mean consumers can find the information difficult to understand.

New controls for effective stewardship

The FCA and Financial Reporting Council (FRC) are seeking what can be done to encourage asset managers to monitor closely the companies they invest in, actively engage with them, and hold them to account on material issues – delivering long-term, effective stewardship. A Consultation Paper on regulatory measures to implement the provisions of the amended Shareholder Rights Directive (SRD II) for life insurers & asset managers.
The Directive comes into effect on 1 June 2019 SRD II aims to promote effective stewardship and long-term investment decision-making. A joint Discussion Paper (DP) by the FCA & FRC on the importance of effective stewardship which aims to advance the debate about what effective stewardship should look like, what the minimum expectations should be for financial services firms who invest for clients and beneficiaries, the standards the UK should aspire to and how these might best be achieved.

Investment pathways and other measures to improve retirement outcomes

The FCA is consulting on measures to stop up to 100,000 consumers a year losing out on pension income when they access the pension freedoms. The FCA is concerned about consumers moving into drawdown and holding their funds in investments that will not meet their needs. The FCA is proposing that firms offer customers who do not take advice a range of investment solutions that broadly meet their objectives, otherwise known as 'investment pathways'. The FCA is also proposing that consumers' pension investments are not defaulted into cash savings unless the customer actively chooses this option. These measures are a part of the FCA's wider pensions strategy, and follow from the Retirement Outcomes Review report in summer 2018

Making overdrafts simpler, fairer and easier to manage

This month we confirmed that we're introducing reforms to make overdrafts simpler, fairer, and easier to manage and to protect the millions of consumers that use them. The changes represent the biggest overhaul to the overdraft market for a generation.
They include:

- Stopping banks and building societies from charging higher prices for unarranged overdrafts than for arranged overdrafts.
- Banning fixed fees for borrowing through an overdraft – calling an end to fixed daily or monthly charges, and fees for having an overdraft facility.
- Requiring banks and building societies to price overdrafts by a simple annual interest rate.
- Requiring banks and building societies to advertise arranged overdraft prices with an APR to help customers compare them against other products.
- Issuing new guidance to reiterate that refused payment fees should reasonably correspond to the costs of refusing payments.
- Requiring banks and building societies to do more to identify customers who are showing signs of financial strain or are in financial difficulty, and develop and implement a strategy to reduce repeat overdraft use.

We also introduced changes to the Buy Now Pay Later (BNPL) sector, saving consumers around £40-60 million a year. This means:

- Firms cannot charge backdated interest on amounts of money that have been repaid by the consumer during the BNPL offer period.
- Firms have to provide better information to consumers about BNPL offers, reflecting the risks as well as the benefits of the product.
- Firms must give prompts to consumers, to remind them when the offer period is about to end.

For further updates please see the attacherd Regulatory Update. The FCA have been busy this month

Naughty Advisers

Cofunds apologises for IT issues with hamper A Cofunds client has been sent a hamper after claiming the provider's botched replatforming exercise had led to a potential investment loss of £25,000. Cofunds accepted there had been errors and sent Mr B a hamper, which it said was worth £125.50, to apologise. It later offered £100 compensation but Mr B turned this down and instead complained to the Fos. The Ombudsman agreed that the £200 proposed by the adjudicator and the hamper Cofunds had previously sent were reasonable compensation for the IT errors. The Fos upheld Mr B's complaint in part and ordered Cofunds to pay him £200.

Note hamper is not the one offered by Cofunds But I like Grasmere Gingerbread so they deserve some more business. Click on the picture to buy the tastiest gingerbread ever.

The FCA Fines Stewart Ford £76 million between 26 July 2005 and 8 June 2009. Investors lost hundreds of millions of pounds in life savings when Keydata collapsed 10 years ago. Mr Ford extracting £73.3m in fees from the structure over the three years from 2009. Mr Ford was also prohibiting from performing any function in relation to any regulated activity carried on by an authorised person, exempt person or exempt professional firm.

LCF took £236m ($313.3m, €276m) of investors' funds after issuing "misleading" minibonds and Isas on a non-advised basis, promising 8% returns to clients. A spokesperson for Surge Financial added: **"Paul Careless** has not been charged and he is not on bail. Surge was a third party supplier of services used in relation to raising investment for LCF. "It did not handle client money and had no involvement in the deployment of funds to borrowing companies."

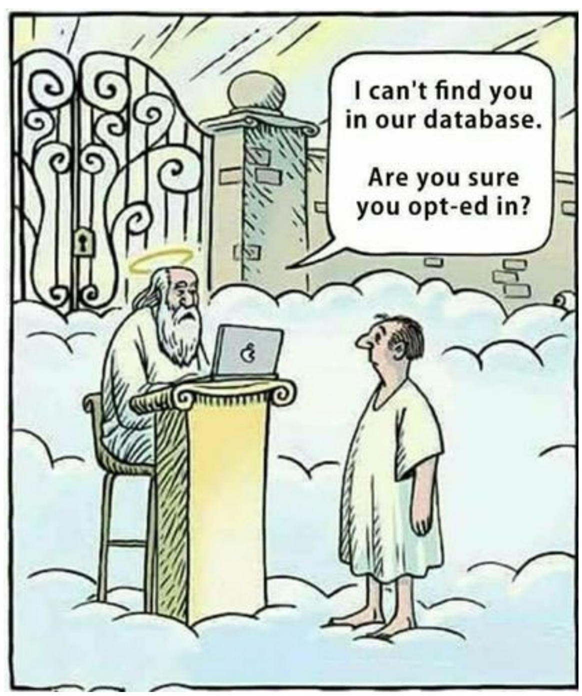
Data Protection Last year we began taking action against organisations for non-payment of the data protection fee, sending out a clear message that those who didn't pay risked a fine. A recent tribunal decision to dismiss the first appeal against our fines, by decorating company Farrow and Ball, confirms that there is no excuse for non-payment. Our blog explains more.

- **Two jailed in £6.2m boiler room fraud**
- **FCA slams claims management companies for making up cases under fictitious names**
- **Estate agents expelled by ombudsman for failing to pay £100k compensation**
- **Competition regulator to investigate Charter Court and OSB merger**
- **Lendy administrators restrict client accounts as overdue loans hit £153m**
- **FCA fines Bank of Scotland £45.5m for fraud failings at HBOS Reading**
- **The Court of Appeal has dismissed ITV's appeal against a financial support direction (FSD) issued by The Pensions Regulator (TPR) in a long-running case over the Box Clever Pension Scheme.**
- **Court dismisses tax lawyer's £30k stamp duty dodge**

Latest News

GDPR: One year on

We have published a **report** on our data protection work since the GDPR was introduced on 25 May 2018, to share our reflections and learnings from the past 12 months. This update provides an overview of our experience in the first year of the GDPR, and shares information and insights that will be further explored in our Annual Report later this year.



- **Mutual sector is prospering, despite regulation challenges**
- **Realising the robo-adviser's potential**
- **Cold-calling needs to be banned across industry**
- **Calls for inquiry into bank's nationalisation**
- **Tax relief solution presented to Treasury**
- **Govt told to focus on care at home**
- **The exciting but complex world of celebrity clients – Izard**