

27 February 2002

Response to Discussion Paper 9 FSA Examination Review

The Investment Management Association (IMA) thanks the FSA for its invitation to comment on the issues raised in Discussion Paper 9. It welcomes the Examination Review and supports its objectives, its vision and the process proposed. IMA looks forward to being involved in the consultations on the various activities, starting with that on investment advice.

IMA was formed on 1st February 2002, representing a merger of the Association of Unit Trusts and Investment Funds and the Fund Managers Association. It represents 175 authorised firms and over £2 trillion of assets under management.

IMA aims to encourage higher standards of professionalism amongst its member firms and amongst investment advisers. The availability of relevant qualifications that motivate individuals and enhance business performance is central to this aim. However, it believes that standards set by FSA must be in relation to risk, and that higher standards than these are an issue for the industry.

Objectives and Issues (Chapter 2)

IMA supports the overall objectives of the Review. It concurs with the description of the current situation. It welcomes FSA's aim to develop a less complicated and more consistent qualifications picture with clearer designations for all players. Its members hope that gaps and deficiencies in the exam coverage of some areas may be rectified. It welcomes the emphasis on maintaining competence and proposes that in the case of investment management and operations, this can and should be demonstrated via internal record keeping rather than sitting new exams. It is also pleased that the transferability of staff between roles and jurisdictions may become easier and recognises the value of international standards.

Single Qualifications Framework (Chapter 3)

The IMA warmly welcomes the intention to develop a unified framework of qualifications and agrees with the rationale explained in 3.2.

The risks to consumers of insufficient knowledge, skills and understanding are highest in the area of financial advice. They are present to a lesser extent in the provision of information by product providers to individual investors. To address these concerns IMA:-

- (a) Has long campaigned for higher standards of investment knowledge and understanding amongst those advising on investment funds. It has also noted that the Investment Advice Certificate run by the Securities Institute is of a better standard than the much more popular Financial Planning Certificate in this regard. Some years ago it produced a syllabus setting out the knowledge

- (b) and application skills which it considered appropriate for a new entrant adviser to attain before being authorised to provide investment advice. It is now working with CII on a top-up module for FPC holders on investment.
- (c) Is also hoping to introduce a client service qualification (CSQ) tailored for those involved in informing the public about the products and services of investment fund management companies, or talking individuals through decision trees. This is pitched at a level below authorised financial advice and administration supervisors. It would be interesting to discuss the syllabus for this qualification in relation to the proposed bridging qualification. Given the consumer risks inherent in client service communication, it is hoped that the FSA will include CSQ in its qualifications framework.

A thorough, back-to-first-principles, analysis of the competencies required for such roles, complete with regulatory knowledge required to ensure responsible behaviour in consumers' interests, will ensure a firm foundation for future exams. IMA believes that this process should lead to a reduction in risk for consumers and to greater confidence in financial services.

IMA does not consider the potential risks to consumers in relation to fund management and investment administration to be of the same order. It believes the depth of knowledge required is sufficient, but there is scope to make modules more relevant. IMA looks forward to working with FSA to this end.

IMA understands and supports the model described in 3.3 and 3.4. It can also see the merit of a single regulatory module for each core area of activity listed under 3.4 provided it is at the optimum level relative to the regulatory risks involved per activity.

IMA welcomes the modular approach and the intention to prescribe a sufficient range of modules to reflect the range of functions undertaken by those in regulated roles. However, institutes can be reluctant to develop specialist modules due to uncertainties over future demand. While IMA understands the reasons for their caution, if the vision expressed in 3.5 is to be realised, institutes will need to be encouraged to be more in touch with their customers. IMA will be pleased to assist with the market needs analysis. It is also planning, probably in association with the Financial Services National Training Organisation, to put forward learning pathways to guide employers and employees with respect to particular roles.

While this review is about exams, i.e. knowledge tests, FSA is also clearly interested in work-based assessment as a means of proving competence. IMA appreciates the practical challenges of implementing work-based qualifications. However, it still believes that there is a place for externally accredited qualifications which are not exams, but which cannot be awarded without a given level of knowledge. Focusing on the application of knowledge such qualifications can be highly relevant to need and constitute examples of the good practices that the FSA seeks to encourage in authorised firms. Such qualifications, for example, the Investment Administration Management Award (IAMA) can also be highly effective in maintaining competence. The IAMA challenges individuals in their current working environment.

The idea of a bridging qualification is an interesting one. As mentioned above IMA's proposed CSQ may provide a valuable basis in considering this further. Also IMA members in Scotland have formed the Scottish Investment Operations Limited to

develop a centrally run training programme for new entrants to the sector. Their experiences too could inform FSA's thinking here.

International Standards (Chapter 4)

The IMA welcomes the FSA's intention to seek the development of international standards, but realises there will be regional variations in the detail for legal, regulatory and other reasons. Many IMA members are international businesses. In the UK fund management industry, the standards expected of fund managers have risen as more and more firms adopt the Association for Investment Management and Research's (AIMR's) Chartered Financial Analyst exams as their core qualification. Our members are now urging the AIMR to improve the content of the qualification for non-US candidates. One reason why Annex D to Policy Statement 60 is so long is the number of international exemptions; it is hoped that international standards will result in rationalisation despite the need to show understanding relevant to local, national contexts.

The Review Process

The IMA agrees with the points made in chapter 5. The variable quality of exam provision is a point of concern for members and we welcome the thorough approach that is proposed and the criteria outlined in Annex A.

As mentioned above, we recognise the need to make examination providers more responsive to consumer needs. The suggestion of regular reviews by the regulator made in point 3 of the Annex should help to ensure this is the case.

Maintaining Competence

Members are pleased to note that existing competent employees will not be required to re-take entry level qualifications. They understand the need to demonstrate the continuing competence of their employees and are willing to do so, but they emphasise the need for the process to be practical and cost effective. They would prefer not to be subject to external retesting and IMA believes that they should be able to demonstrate "maintaining competence" in ways, which dovetail effectively into routine business management. Clearly, the supply of good quality, well-targeted training events and development opportunities are essential and the association aims to ensure that this is forthcoming. The Investment Administration Management Award, mentioned above is one example. Many firms have set-up rigorous assessment systems providing clear records of an individual's training and competence relative to the role in question. "Training and competence" procedures have improved enormously in recent years thanks in part to IMRO's prompt to the back office several years ago. IMA is also helping members to share good practice through its "toolkits programme". IMA believes that such records are easily monitored by the FSA.

Victoria Nye
Director, Training and Education
Investment Management Association (IMA)
Tel: 020 7831 0898 Fax: 020 7831 9975 Email: vnye@investmentuk.org