

FSA Consultation Paper 157: Examination Framework for Retail Financial Services (Investment Advice Strand 1)

IMA represents the UK-based investment management industry. Our members include independent fund managers, and the investment arms of banks, life insurers and investment banks and managers of occupational pension schemes. They are responsible for the management of over £2 trillion of funds (based in the UK, Europe and elsewhere), including authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, our Members represent 99% of funds under management in UK-authorised investment funds (i.e. unit trusts and open-ended investment companies). Intermediaries play a large part in the distribution of IMA members' products for retail investors and in 2002, 79% of the retail industry net sales, were via intermediaries.

Our approach has been to work with practitioners on the detail of the investment content of the curriculum and to consult with other industry bodies on the overall structure of the exams framework. In preparing this response we have worked closely with the Association of Investment Trust Companies.

Specific questions asked in CP157:

2.1: Do you agree with this approach in respect of Pension Transfer Specialists and Broker Fund Advisers?

We do not feel strongly about the approach proposed. We are concerned that that practitioners giving this type of advice should have a higher than core knowledge of investments. This can currently be achieved by taking the Portfolio Management (AFPC G70) paper, Investment Management Certificate, or the Investment Management Asset Allocation Qualification.

2.2: Do you agree with this approach in respect of advising on Syndicate Participation at Lloyds?

This question is not within IMA's remit.

2.3: Do you agree that modules should be developed for Employee Benefits and Corporate Business and, if so, what content areas would you wish to see covered?

These areas might reasonably form part of a specialist Business Planning advanced module. We do not otherwise have a view.

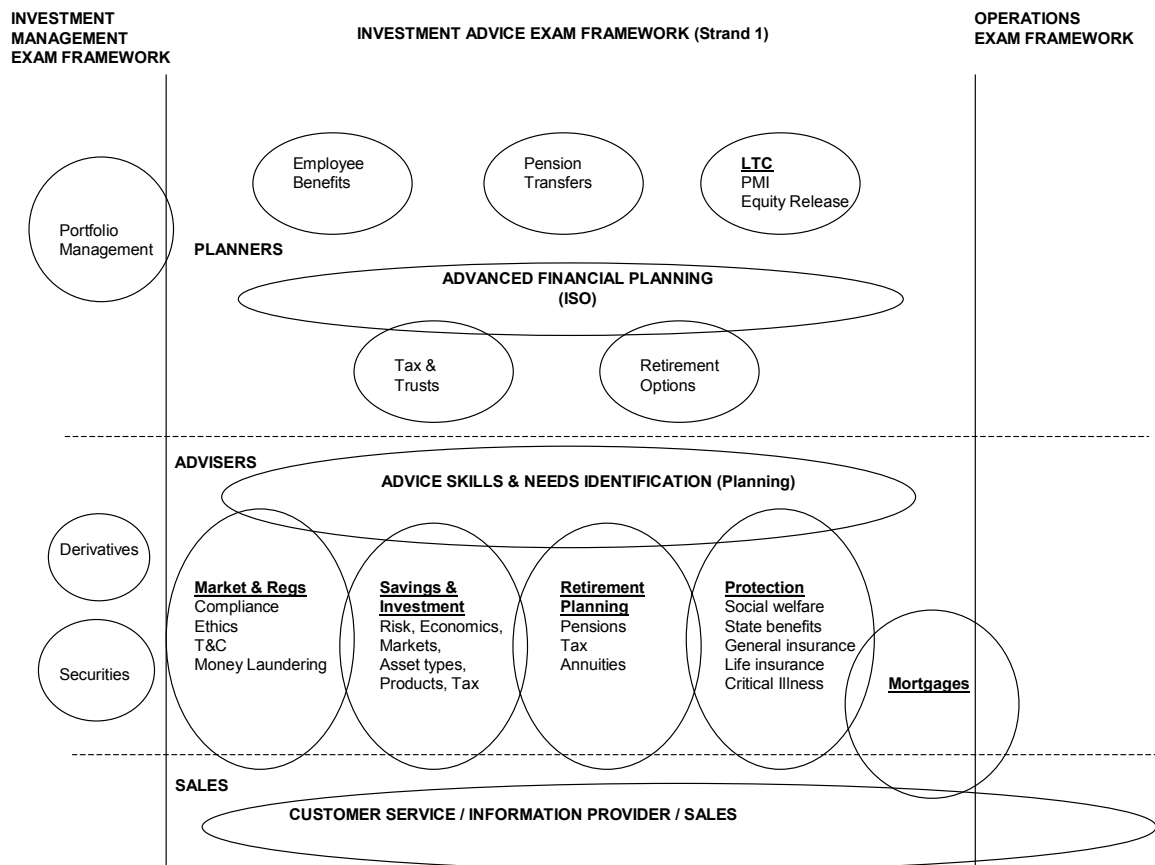
3.1: We invite comments on the proposed examinations structure and the modules set out in figure 1.

Working with representatives from other trade associations and institutes, we have built on the framework given on page 9 of CP157 to reflect our vision of 3 levels: Sellers; Advisers and Planners. We have illustrated the 3 levels and exam modules in a revised version of the framework (see below).

Sellers/information providers can take product modules to extend their knowledge in specific areas, such as protection or savings and investment, but will not qualify to become Financial Advisers until they have completed the Advice Skills and Needs Identification paper. This will pull together the technical skills in the context of applying and giving advice.

Financial Advisers should have a basic knowledge of most topics and skills to relate to client needs, including planning skills. They will need an in depth knowledge of the products they recommend and also a good understanding of investment risk management.

Those who wish to move up to the third level should take some specialist / advanced modules, such as tax & trusts. These modules will revisit the topics covered at the adviser level but test in more depth. The ISO standard will represent a benchmark for those who have attained the level of Financial Planner and as such are able to offer a holistic financial planning service. Assessment of skills at this level will be necessary.



The spread of knowledge and skills necessary for an authorised financial adviser to practice professionally might reasonably be covered via 5 modules as follows:

- A markets and regulation and module;
- A savings and investment (including risk) module;
- Advice skills and needs identification – over arching the knowledge modules and bringing in the financial planning aspect essential to the adviser's role;
- A retirement planning module, at least until tax simplification takes effect; and,
- A protection module.

A mortgage module could be added from another strand of the framework depending on the adviser's area of work.

Wrappers, ISA's and tax can be covered within the product and also the skills modules. Tax, therefore, should be included in the appropriate product modules, i.e. ISA's can be covered under Savings and Investment; and, in the Advice Skills & Needs module when it relates to an individual.

Ultimately, whether the subject matter essential to all advisers is covered as 5, 4 or even 3 or 6 modules is not as important as is the fact that the subject areas are covered relevant to role. We recommend that further analysis of the best structure should be carried out with the help of practitioners and agreed with the institutes.

Above the core level, the model has specialist modules which advisers will take depending on the direction of their business. The level and configuration of these modules, and whether they are exams or monitored CPD exercises, also needs further discussion with practitioners and awarding bodies. Therefore, using this model, an adviser would take a series of examinations; extending the products he or she is capable of advising on and developing associated skills.

It is essential that every module is relevant to industry job roles at all levels. At the higher level this will enable, as in the current case of G70 and similar exams, FSA to prevent advisers doing certain types of business if they have not demonstrated the appropriate knowledge and skills. As our revised framework shows, some specialist modules should be optional and some compulsory to the Financial Planner role, but again we recommend further discussion with industry and the awarding bodies.

Where an adviser's remit overlaps with another discipline in financial services then this should be reflected in the exam framework. The Portfolio Management module, for example, could form part of the exams for fund managers, or someone working within unit trust administration.

4.1: Do you agree with the learning outcomes and the indicative content proposed for each module?

The IMA/AITC held two meetings with practitioners to examine the curriculum and investment content/learning outcomes of two of the proposed modules:
(a) UK Financial Services: Investment and Risk; and,
(b) Savings and Investments.

Paul Turner at the FSA attended as an observer at both meetings. The detailed feedback on the learning outcomes in the modules is given in appendix 1; below are the key conclusions made.

'Investment and Risk' and 'Savings and Investments' modules:

At the core level, a module should focus primarily on technical knowledge with limited assessment on the application to client-based scenarios. IMA has ascertained, with the help of practitioners, the level of technical knowledge to be expected (see appendix 2). Knowledge should cover a broad range of products and understanding of market dynamics. It is important that financial advisers are at least "aware of" many different concepts and products even if they do not themselves offer advice in all of the areas. Only by having an awareness of such issues, can an adviser be truly competent when making a referral to another adviser who might be able to offer more comprehensive advice. For example, all advisers should have knowledge and understanding of split capital investment trusts – if only to know the nature of the potential risks and rewards – and as a result know when they may not be appropriate.

The new CII Savings and Investment syllabus requires a minimum level of investment knowledge, which all financial advisers should have. Several areas were then added as 'also important': compound interest and the time value of money. It was noted that neither the CII Savings and Investment syllabus nor the CP157 modules currently mention deflation / stagflation which should be included alongside inflation within sections covering investment risk.

Practitioners see this syllabus as a major step forward in addressing the fact that in the current market, many advisers did not have sufficient knowledge of investments and the importance of asset allocation. It was considered that asset allocation should be given more prominence in a "core level" savings and investment module. This area would be developed even further in any specialist modules.

The CII Savings and Investment syllabus had some scope to test client application, though it was recognised that the main emphasis was on improving the technical underpin of knowledge of investments. Practitioners were happy with this knowledge-based bias provided that another foundation/core module assessed client application in more depth.

Advice Skills and Needs:

Here technical areas such as investments, retirement planning, mortgages and protection should be pulled together and tested in the context of applying this technical knowledge to client based scenarios. Few clients present with just savings or just protection needs – many clients also fail to recognise their own needs and / or to prioritise their needs and objectives correctly and rely upon their financial adviser to identify such errors as part of their advice.

Lifecycle financial advice is an essential process that needs to be addressed at the foundation level. It was agreed that the CP157 'Advice Skills and Needs' paper should be part of the lower level modules that must be taken in conjunction with the other, more knowledge based modules.

Taxation:

This should be covered in the core modules, as it is integral to an adviser's work even at a lower level in terms of individual needs and product choice. Hence the taxation of the returns on the investor and taxation internal to the product are both areas that should be covered in the 'Advice Skills and Needs Identification' module and in the 'Savings and Investments' module. In addition there is the need to cover the basics of the main personal taxes – income tax, CGT and IHT – to enable advisers to put into context, product knowledge on, say, age related allowances and the impact of chargeable events on an individual's personal income tax liability and potential means tested state benefits. In terms of the current CP157 it was felt that taxation knowledge should be moved "downwards" to form part of the foundation or core modules.

Taxation and trusts could remain as a more advanced module where the knowledge is developed in more depth, for example in the area of estate planning.

Advanced/Specialist Investment Module:

Practitioners reaffirmed the recommendation that any advanced investment module should largely revisit many of the topics covered within a foundation module but develop the depth and sophistication of that knowledge. Any advanced investment module should also develop portfolio construction in more depth. As suggested earlier, such a module should cross the line between the investment advice strand and investment management strand of the framework.

Attached are **appendices 1 to 4**, which give more detailed information on views regarding the learning outcomes and indicative content.

4.2: We invite comments on the appropriateness of the assessment objectives and the methods of assessment proposed?

The industry needs accurate assessment and we believe that examinations can only go so far. We would therefore encourage a range of assessment methods and materials, although cost-effectiveness verses quality is key and

needs to be discussed further with the examination institutes. Where appropriate, work-based assessment should be considered which represents an important element for some qualifications e.g. the Client Service Qualification.

Practitioners consulted, considered that Multiple Choice Questions (MCQs) could be focused on the application of knowledge, as opposed to just straightforward knowledge recall. Many considered that MCQs should be seen as the main means of assessment for any “core” savings and investment module - possibly supplemented by short written questions.

There was a view that exclusive focus on written questions would add to the cost of assessment, cause delays in feedback and could result in an undue emphasis on exam technique, because of rigid assessment schemes being used to accommodate volume marking.

4.3: Which level of the National Qualifications Framework do you think each module should be linked to?

Linking modules to the QCA framework was seen as very helpful in defining the depth of knowledge required. By referring to the three tiers described earlier, we believe that exams relevant to Information Providers/Sellers should be assessed at levels 2 – 3, Advisers should be assessed at levels 3 - 4 and Financial Planners 4 - 5.

4.4: We invite suggestions on how designations should link with the examinations framework.

We fully concur with the need for clear designations to assist consumers. We recommend educating the consumer by producing a simple guide, which could be linked to roles following depolarisation. The designations should incorporate a descriptor to explain what the adviser is empowered to do. It could also be linked in some way to academic qualifications to help consumers understand the equivalent level. We think it is important to improve the IFA brand by explaining to the public that this role is distinct / unique, in being able to advise across a range of products. ISO might help to show consumers that an adviser has attained financial planning status.

5.1: Do you consider the principles proposed for transitional arrangements are appropriate?

Members didn't have strong views and practitioners appeared to be happy with the principles and grandfathering arrangements proposed.

5.2: What principles should underpin an exemptions policy?

The principles should be underpinned through clear evidence of CPD and appropriate investment knowledge. As mentioned earlier, we believe that FPC holders should be required to top up their qualifications to ensure appropriate investment knowledge at the new advisor level.

5.3: Do you think that a formal periodic assessment for maintaining competence should be introduced?

As part of T&C requirements, our members believe they have developed robust appraisal systems and do not see the need for formal testing over and above what their employers already require.

The practitioners we consulted agreed that it was difficult to reassess financial planners but that re-testing by individual firms to identify shortfalls in knowledge might be useful. Desk-based competency assessment that identified gaps in knowledge would need to be fully supported by adequate systems and would require careful policing / auditing. It was also felt that methods of assessment would vary depending on the type of adviser and that the higher qualified the adviser, the lighter the regulatory 'touch'. It was generally considered that only guidance and not a rule was required.

APPENDICES:

Appendix 1: Table of CP157 investment related modules cross-referenced with the CII Savings and Investment paper. For the purpose of this exercise, comments have been annotated as 4 levels of assessment:

1. Be aware of...
2. Demonstrate knowledge and understanding of...
3. Apply knowledge and understanding of...
4. Analyse and evaluate

Appendix 2: Summary of views as to what level of knowledge the investing public should expect of a "benchmark qualified" adviser, and reasons to support the proposal that investment knowledge is central to all financial advice roles. This appendix contains comments received from attendees at both meetings.

Appendix 3: List of differences between CP157 and the CII Savings and Investment syllabus and detailed observations on the CII syllabus.

Appendix 4: List of areas included in G70 (current CII advanced portfolio planning module), which are not covered in the CII Savings and Investment syllabus - indicative of areas that could be deemed to be more advanced.