

Delivering the RDR: Professionalism

Retail Distribution Review 15

March 2010

Introduction

The Financial Services Authority (FSA) published its RDR consultation paper 09/31, *Delivering the RDR*, on 16 December 2009. This outlined proposals for enhancing professionalism, applying RDR to corporate pensions and initial thoughts on applying RDR proposals to pure protection products.

Here we give our views on the professionalism and qualification proposals. We cover the corporate pensions proposals in our RDR bulletin 14.

The main points of the FSA's proposals

- All advisers must hold an approved Qualifications and Credit Framework (QCF) Level 4 qualification by the end of 2012. For more on QCF see the box below.
- A new Appropriate Examination (ApEx) standard is being introduced in summer 2010 at QCF Level 4. This will be a Diploma size(37 credits).
- 'Existing advisers', defined as those who are competent at 30 June 2009, can meet the minimum qualification requirement either by passing a new ApEx qualification or through holding or obtaining an existing QCF Level 4 qualification from a 'legacy' list, which is currently under consultation.
- If the 'legacy' approach is followed, knowledge gaps identified between the legacy qualification and the ApEx standard must be filled through structured continuing professional development (CPD).
- Those not classed as 'existing advisers' must complete one of the new ApEx qualifications, but won't be subject to the end of 2012 deadline.
- Such 'trainees' can continue to advise under supervision once they have completed the new regulation and ethics module.
- Supervisors of trainees must hold a Level 4 qualification by the end of 2012.
- Any new qualification introduced before the ApEx standard is in place will need to be a QCF Level 4 Diploma (or equivalent).
- Alternative forms of assessment will be permitted as long as they're offered by an approved awarding body and test to either a current Level 4 qualification standard or the new ApEx standard.
- A new Professional Standards Board will be established within the FSA.
- All advisers must follow an ethical code. Membership of a professional body will be encouraged but firms will retain responsibility for the advice given by their advisers.
- The FSA will establish a public register of authorised investment advisers, including details of the qualifications held and membership of any relevant professional bodies.

We welcome this package of measures, although we have a number of concerns.



New Appropriate Examination (ApEx) standards

During 2009 the Financial Services Skills Council (FSSC) worked with the industry to develop the new ApEx standards that will be required for new advisers from July 2009. The FSSC expects to complete its work by March 2010, allowing awarding bodies to develop qualifications to meet the ApEx standard. The academic level of the new ApEx standard is QCF Level 4 and the size is a Diploma (with a minimum of 37 credits). The FSA also intends to insist that at least 80% of the qualification is assessed at Level 4.

For investment advisers, the ApEx covers six areas: regulation and ethics; tax; investment; protection; pensions; application of knowledge (financial planning process). The first three have now been completed and approved, whilst the remaining three are out for formal consultation.

Significantly, the FSA has also confirmed that any new 'qualifications' introduced between the issue of CP09/18 (June 2009) and the introduction of the ApEx standards in the summer of 2010 will also have to meet the QCF Level 4 Diploma criteria. This is a welcome move, making sure we don't see a batch of lesser qualifications introduced in the interim, which would inevitably require more extensive CPD to plug gaps.

About the QCF (Qualifications and Credit Framework)

What is the QCF?

The framework is a new way of recognising skills and qualifications. It does this by awarding credits for qualifications and units (small steps of learning). It covers all industries, professions and qualifications.

How will it help me understand the qualifications system?

At present, it's hard to understand all the different types of qualification that learners hold - what level they are, how long they take to complete, what content they cover, and how they compare with other qualifications. The new framework will help present qualifications in a way that's easy to understand and measure.

Credit and level

Every unit and qualification in the framework will have a credit value (one credit represents 10 hours of learning) and a level between Entry Level and Level 8 (showing how difficult it is). For reference, academically Level 3 is 'A' levels; Level 4 is the first year of a bachelor degree, Level 6 is a full honours degree and Level 8 is at doctoral level. Currently advisers need a qualification that meets the ApEx content, at Level 3 Certificate. For example, this is where the CII's CertFP sits.

Learning involved

While the level indicates how academically challenging a qualification is, the size (Award (1-12 credits), Certificate (13-36) or Diploma (37+)) shows approximately how much learning is required. The new minimum size is a Diploma. This requires a minimum of 37 credits. The FSSC ApEx standards then provide the content (such as tax and pensions).

Is it a national system?

The QCF is the framework for England, Wales and Northern Ireland. Scotland has the Scottish Credit & Qualification Framework (SCQF) with 12 levels. The SCQF Level 8 is equivalent to QCF Level 4.



Alternative forms of assessment

The FSA is adamant that a step change in standards will only be achieved if all advisers have to meet the higher qualification standards.

Some advisers have concerns over sitting written examinations. The FSA is now permitting a wider variety of assessment methods, subject to stringent criteria for approval:

- All parts must be assessed at, or above, the equivalent of QCF Level 4.
- The content must meet the FSSC exam standards (current or new).
- The award must be made by an awarding body that is approved by Ofqual or QAA and satisfies their assessment methodology.
- The alternative assessment methods won't be time bound and will be available beyond 2012.

Ofqual is the qualification regulator for academic and vocational qualification and QAA is the regulator for the higher education and university sector.

Legacy list of qualifications and 'gap filling'

In June 2009 the FSA confirmed that both the CII Level 4 Diploma and the ifs Level 4 Diploma could be taken now on a 'no regrets' basis, with any gaps in knowledge compared with the new ApEx met by structured CPD.

The CII Diploma is in the QCF at 40 credits. The ifs Diploma is in an alternative framework (NQF) and if placed in the QCF would probably equate to 31 credits. The CII's Diploma offers a huge range of completion options and, although the size is slightly higher than the FSA (37 credit) minimum, the extent of gap filling could vary significantly between individuals.

The consultation paper also includes a list of 'legacy' qualifications that the FSA may accept in lieu of a new QCF Level 4 Diploma. The list is open for consultation and so it's not final – some qualifications may eventually be removed or added. For example, at least two Level 3 qualifications (including the old MLIA(dip)) appear on the list and it seems unlikely that they'll survive in the final version.

However, the following popular qualifications also appear and are likely to remain: ACII and FCII (Life or Pensions), DipPFS, AFPS, FPFS and FLIA(dip) and ALIA(dip). The list also includes actuarial qualifications (post June 1994 syllabus) and the CFP. However, both accountancy and legal qualifications are excluded.

Whatever qualification is held, every adviser will have to compare their qualification with the new ApEx and identify any knowledge gaps. They'll then need to undertake structured CPD (through, for example, courses and distance learning modules) to fill the gap. All advisers will need to do some gap-filling as no existing qualification exactly matches the new ApEx.

Advisers have until the end of 2012 to complete the gap-filling and we would recommend that advisers undertake the exercise sooner rather than later. Of course, as the QCF level 4 Diploma is a minimum, some advisers may wish to achieve higher qualifications.

Competent advisers and trainees

The FSA has amended the definition of 'existing adviser' to those who were deemed competent at or before 30 June 2009. All existing advisers must meet the new qualification standards by the end of 2012. Other 'trainees' will have longer to complete their training.



The FSA intends that the existing training and competence requirements continue for trainees. So, a trainee would still need to complete a regulatory module before they're able to see a customer under supervision. Equally, the employer will still have to set criteria about the achievement of the remaining modules, including the timeframe and number of attempts. The FSA will address these issues in the general review of the training and competence sourcebook.

Supervisors and circumvention of the rules

The FSA has also confirmed that where a trainee adviser is giving advice but they haven't yet been assessed as competent, their supervisor is also subject to the new Level 4 qualification requirement.

In addition, the FSA has laid down a clear marker that it is both the spirit and the actual requirements that must be met. As it states in the paper (2.99) 'We have been very clear that all advisers must be qualified to at least Level 4 and we will take serious action if we find advisers operating without the appropriate qualifications, for example by attempting to circumvent the requirement by operating under supervision. This is not in the spirit of the raising of professional standards and we take a very dim view of any such behaviour.'

Professional Standards Board

The FSA wants to see a system operate where individual advisers are members of a professional body that maintains a strict code of ethics (and conduct). Because of the large number of competing (but also often complementary) professional bodies (PBs), there is also a need for an overarching 'Board' to monitor and police the standards of the PBs, so that whichever PB an adviser belongs to, standards are consistent.

Originally the FSA had hoped that an *independent* Professional Standards Board could be established to monitor the PBs. However, having carried out a detailed review of the options, it has now concluded that the most cost-effective and efficient option is to establish the Professional Standard Board as part of the FSA.

We have always supported the creation of an independent body. However, we're aware that not all the professional bodies or all sections of the industry were convinced that such a body was desirable or necessary. This lack of industry unity, together with the structural changes that the FSA will face in the next few years (whichever party forms the new government), has made the decision to keep it 'in house' inevitable. One advantage of the proposal is that the FSA already has powers to establish this under the Financial Services and Marketing Act 2000. This should make sure it's set up quickly and that the FSA can effectively police both firms (directly) and individuals, via the PBs. We'll campaign for the 'Board' to be consumer centric and for a periodic review (initially after five years) to reconsider the independence option.

Membership of a PB won't be compulsory, but is the FSA's preferred option. Advisers who aren't members will be directly monitored by the FSA and this will be no less rigorous or costly.

Not all current PBs will want to be 'recognised' in this regime. Some may prefer to concentrate on their awarding body activities and qualifications. In addition, some may find it difficult to meet the criteria the FSA has set out for 'recognised professional body' status.

Code of ethics and responsibilities for advice

The FSA (in conjunction with the industry) has developed an overarching code of conduct. All recognised PBs will have to make sure that their codes are comparable and all advisers will be subject to the code. PBs will be expected to monitor and police their members, dealing with breaches. Ultimately, the FSA can also take regulatory action. As now, firms will still have responsibility for the advice given by their advisers.



Register of authorised investment advisers

The FSA already has a register of advisers that can be accessed by the public, but it only provides limited information. The FSA intends to upgrade the registry to adopt the best practices from other professions and to give the consumer one central reference point. Each adviser will have a unique reference number and, in addition to the date they were approved, (FSA) disciplinary history and (relevant) employment history, the register will also list the adviser's qualifications and membership of any professional body. In keeping with other professions, the FSA has also proposed that advisers will in future have to hold (and display) a practising certificate.

Conclusions

The professionalism strand of the RDR is now much clearer, and individuals and firms no longer have any reason for delaying action. If investment advisers don't hold one of the legacy or current Level 4 qualifications, they need to complete a Level 4 qualification of sufficient size. Even those with an appropriate qualification should be looking at the knowledge gap that they'll have and be planning what CPD they'll need to undertake before the end of 2012. Clearly there are a number of options. Advisers and firms should look at the various awarding bodies and decide which qualification is suitable for their needs.

As yet, no awarding body has publicly stated that they'll offer an alternative form of assessment at Level 4. We're aware that the CII/PFS has undertaken some preliminary work in this area and we'll be encouraging them to go on to offer such assessment. However, alternatives are unlikely to be either easier or cheaper.

Those recruiting new trainees will have to make a choice. Do they immediately put them forward for the CII's CertFP (or equivalent) so that they can quickly meet the requirement to hold a regulatory module, or do they wait until the new Level 4 ApEx qualification is available in the summer? Any trainees taking an existing Level 3 qualification or module will still need to 'top up' to Level 4. Obviously the closer the joining date is to the introduction of the new Level 4 requirements, the more attractive taking one of the new Diplomas becomes.

Overall, this consultation paper offers a substantial step forward and we welcome the professionalism aspects of it.

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