

REGULATION

The innocent requirement to validate customer adviser charging instructions and be able to stop them when requested is also more challenging than it seems.

Platforms under pressure

The Financial Services Authority (FSA)'s discussion paper (DP10/2) on platforms and the Retail Distribution Review (RDR) makes interesting reading for platform operators and advisers alike.

Platform operators will no doubt be pleased to hear that the FSA sees the RDR accelerating the adoption of their services, but the good news ends there. This may only be a discussion paper but there are already plenty of worrying signs for most of the platform industry.

First up is the headline preference for stopping all payments from product providers to platforms. As the RDR has so far been targeted only at new business, it could be assumed that this blunt instrument will not extend to existing business. This leaves platform operators with the practical challenge of how to distinguish assets and instructions that are existing arrangements within an aggregated nominee structure.

More fundamentally, some operators may wonder about the whole commercial basis for their aggregation business model in the light of the discussion paper. With no rebate income and no realistic prospect of a stream of new share classes to differentiate themselves, it is hard to see where the payback is for administering an entire sub-register on behalf of the fund manager. While it is unlikely that any current operators would unpick their complex systems, it's hard to see why a new entrant wouldn't simply pass on individual deals and leave it to the fund manager to sort out.

The innocent requirement to validate customer adviser charging instructions and be able to stop them when requested is also more challenging than it seems. Charge schedules will need to be carefully synchronised between adviser and platform, new secure client authorisation mechanisms will have to be developed and there are no clever electronic message standards for any of this yet. On top of this, the paper hints at new obligations for platforms to warn clients of potential tax consequences of some charging scenarios and to report charging levels to the FSA.

The section on independence does appear to put paid to any lingering hopes of a single-platform nirvana for independent advisers looking to consolidate their back-office operations. It dismisses the idea of platforms having benign wrappers and reiterates that independent advisers have to select a product from all those available in the market for each piece of advice, so it will be interesting to see whether any of the big adviser firms with a significant investment in platforms decide to opt for the restricted advice label instead.

The FSA makes clear that re-registration will become mandatory for platforms and be delivered by 31 December 2012 even though there is no silver bullet on the horizon. Talk of an industry-wide utility service to deliver this is a bit naive both technically and commercially. Platform operators will view their offering in this area as a service differentiator and will look to technology for a competitive edge rather than using a centralised service.

It may only be a discussion paper, but DP10/2 looks like it might ruffle quite a few platform feathers.

www.fsa.gov.uk/pubs/discussion/dp10_02.pdf

INVESTMENT

Permanent Interest Bearing Shares: are they for you?

Permanent Interest Bearing Shares (PIBS) can yield good income. But they are far from risk free.

PIBS are special shares sold by building societies. The equivalent from demutualised building societies and banks are known as Perpetual Subordinated