

What is Independent Advice?

For financial adviser use only. It should not be distributed to, or relied upon by, retail clients.

The Retail Distribution Review (RDR) means that financial advice is now categorised by the Financial Services Authority (FSA) as either “Independent” or “Restricted” within the retail investment market. To help you decide which financial advice model is best for you, we’ve created simple aids to help you understand exactly what “Independent Advice” and “Restricted Advice” mean, the implications for your business and the key considerations that you need to address to develop your business plan.

If you’re describing your services as Independent, one of the main changes for you will relate to the wider range of investment ‘products’ that you will have to be able to analyse when you consider suitable solutions for your clients.

The FSA will expect you to be able to provide a recommendation which is “**unbiased and unrestricted**, based on a **comprehensive and fair analysis** of the **relevant market of retail investment products (RIPs)**”.

THIS LEAVES US WITH SEVERAL QUESTIONS?

WHAT IS A ‘RELEVANT MARKET’?

WHAT IS A ‘COMPREHENSIVE MARKET’?

WHAT IS ‘UNBIASED AND UNRESTRICTED’?

WHAT ARE ‘RETAIL INVESTMENT PRODUCTS’?

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WHAT IS A RELEVANT MARKET?

A relevant market includes all RIPs which are capable of meeting a client's investment needs and objectives.

So say a client only wishes to consider investments which meet specific ethical or religious beliefs, only those investments that meet the client's requirements will be in the relevant market. However, if the client doesn't place any such restrictions on the scope of the market, you will be expected to consider all RIPs capable of meeting the client's needs and objectives.

WHAT REPRESENTS A COMPREHENSIVE AND FAIR ANALYSIS?

You will need to be able to demonstrate that:

- the adviser providing the advice has the competence to be able to understand the risks associated with a particular RIP; and,
- your business has the capability and capacity to be able to access and recommend it to the client

WHAT IS UNBIASED AND UNRESTRICTED?

You will need to understand and consider how a comprehensive and fair analysis can be done on a consistent basis. Your business shouldn't have any contractual obligations to any provider or platform operator, nor advisers have any restrictions placed on them. If your business has a default investment solution, such as discretionary investment management or your own funds, then these will need to be considered alongside the other solutions which may be suitable for the client.

WHAT ARE RETAIL INVESTMENT PRODUCTS (RIPS)?

A RIP is defined by the FSA as:

- a life policy – for example an investment bond;
- a unit;
- a stakeholder pension scheme;
- a personal pension scheme;
- an interest in an investment trust savings scheme;
- a security in an investment trust;
- any other designated investment which offers exposure to underlying financial assets, in a packaged form, which modifies that exposure when compared with a direct holding in the financial asset; or,
- a structured capital-at-risk product

whether or not held within an ISA or Child Trust Fund.

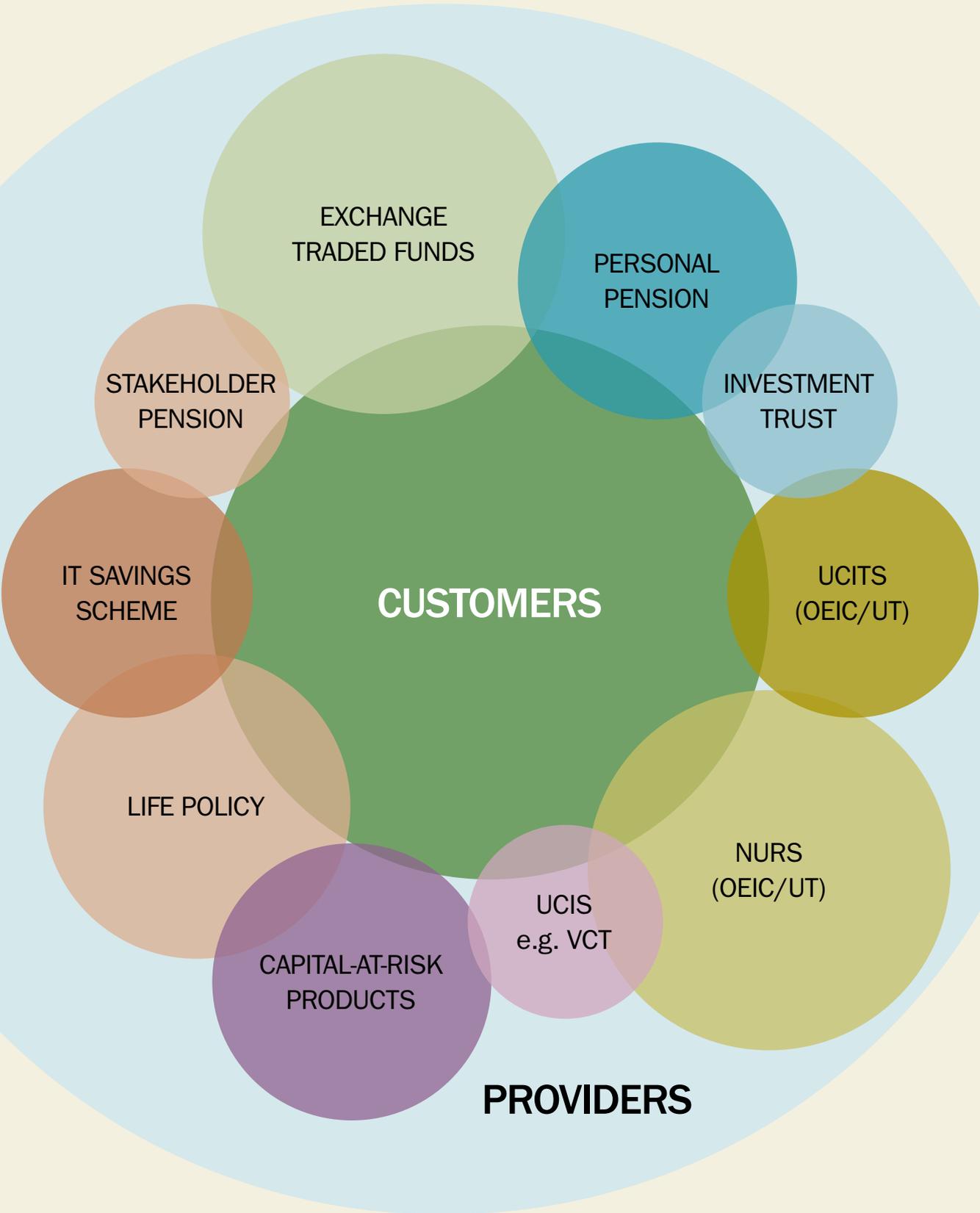
The Retail Investment Product universe

At first glance the new definition appears to be similar to the current definition of packaged products. However, the new definition has the potential to bring a wide range of collective investments into consideration. For example, designated investments cover assets such as futures, contracts for differences, shares and government security.

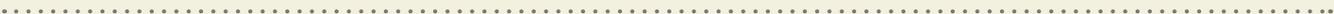
So, any form of collective investment (whether authorised or unauthorised) which is available for distribution in the UK retail market will need to be considered as part of your business's investment process.

Another way of thinking about it is if you are not able to understand the risks associated with and access all of the RIPs, from all of the providers as per the diagram opposite, then the personal recommendation is unlikely to meet the new definition of independence.

The Retail Investment Product universe /



In addition, the FSA will expect other types of investment such as national savings, and deposit based contracts to be considered where they are capable of meeting the client's needs and objectives.



We can support you, whatever route you are taking

To speak to our experts about Independent Advice models:

contact your AXA Wealth Business Development Manager
or call 0845 129 9993

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www.axawealth.co.uk/adviser/business-support/the-future-of-financial-advice

AXA Wealth, Winterthur Way, Basingstoke RG21 6SZ. Telephone number: 01256 470707. As part of our commitment to quality service and security, telephone calls may be recorded.

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