

# RDR:

**"The biggest shake-up  
in financial services in  
my career"**

In the run up to the end of the year you are probably going to hear a lot about **RDR**. This stands for the **Retail Distribution Review**, which is set to raise standards within the financial services industry. From 31 December 2012, under new regulations, consumers will receive a fairer, more transparent, more informed service from all professionals offering financial advice to individuals, and as far as we are concerned, this is a good thing.

**In a nutshell, standards are being raised in three areas: the minimum qualifications that financial advisers or planners must have to allow them to practice are being raised; product-based commission will be replaced by advisory fees, or what will be referred to as Customer Agreed Remuneration (CAR); and firms will have to decide whether they offer 'Independent' or 'Restricted' advice and confirm this to their clients.**

**As a client of Carbon Financial Partners you can be confident that for you, nothing is going to change. Carbon's ethos and business practices have long been in line with the new rulings – we began this journey five years ago – and we will continue to provide you with the high quality and independent advice you have come to expect.**

The key change is that whereas in the past, advisers agreed with product providers a rate of commission payable on arrangement of a product before it was sold, from 31st December 2012, advisers will have to agree with you, the customer, in advance, the level of fee (CAR) to be paid should you choose to go ahead and purchase the product.

Not all firms will welcome the changes. There will be winners and losers, and firms which fail to shape up will have to ship out. Thousands of financial advisers are currently scrambling around trying to get the required exam passes to continue to

advise, and it will be a tough winter for many as they try to move their businesses from being product-selling commission-based businesses, to fee-charging advice businesses. It has recently been predicted that 3,000 firms will fail as a result of RDR.

All of Carbon's advisers are qualified to the required level and most have qualifications way in excess of the minimum. Five of Carbon's team of financial planners are Chartered and Certified, putting them in the top 1% in the UK. Since its inception, Carbon has advised its clients of all costs, and has operated a fee-based advice service, with all fees being agreed in advance of any work being done.

Carbon is fiercely 'Independent' in every sense of the word. Unlike much of the industry, we will not be going down the 'Restricted' advice route.

RDR is very welcome – indeed, it is long overdue.



A handwritten signature in black ink, appearing to read 'Gordon Wilson'.

**Gordon Wilson,  
Managing Director**

**Why has RDR come about?**

For too long financial advisers have been rewarded by commission for selling products. This created a potential conflict between what is in the best interest for the investor and what is in the best (financial) interest for the adviser. As a result, sadly, many have abused the system. The use of product-related commission has also obscured the true costs of investing, giving the impression to the investing public that financial advice is free. Advice, of course, is not free. The cost is recouped through high product charges. If an adviser is only going to be paid when a product is sold, then an environment of high pressure sales inevitably results.

Too often in the past an adviser's interest, or the company interest, has been put ahead of client interest, meaning that clients have been given a bad deal. Fines and censures for bad advice have now become common place, and trust in financial services is at a very low ebb.

**Who is bringing in RDR, and what does it hope to achieve?**

The RDR is the brainchild of the Financial Services Authority (FSA) and there are three clear objectives:

- To make sure that advisers offer transparency and fair charging for the advice they give.
- To make sure that investors have a clearer understanding of the products and services they sign up to.
- To make sure that the advice investors receive comes only from highly respected and qualified professionals.

**How will RDR achieve these aims?**

- Firms that offer financial advice must explicitly disclose and separately charge clients for their services.
- Firms must accurately and clearly describe the advice and services they offer as either 'Independent' or 'Restricted'.

- Individual advisers must adhere to consistent – and raised – professional standards, including signing up to a code of ethics.

**How will the RDR benefit investors?**

- Increased confidence and trust in the advice investors receive.
- Investors will know from the outset exactly what they are paying for.
- Investors should benefit from a higher level of technical expertise.

**To whom do the new rules apply?**

The new rules will apply to all advisers who give individual clients investment advice, regardless of the type of firm they work for. This means that banks, product providers, independent financial advisers, wealth managers and stockbrokers are all affected and must adhere to the same set of rules.

**'Independent' or 'Restricted' advice?**

From 31 December 2012, if an adviser describes their service as 'Independent' this will mean that they are able to provide advice without restriction, on all retail investment products, from any company. An independent adviser will therefore be able to act in the client's best interests without any restrictive parameters.

Too often in the past an adviser's interest, or the company interest, has been put ahead of client interest.

If, however, a firm describes its services as 'Restricted', it will not be able to offer the full range of retail investment products, only those investment products offered by a limited number of providers. These firms will not be able to comply with the requirement to make recommendations

based on a comprehensive and fair analysis of the relevant market, and provide unbiased and unrestricted advice – this being the definition of independent advice.

A lack of breadth of knowledge is one reason why firms may choose to opt for the 'Restricted' advice route which is likely to result in Independent firms being in the minority after the 31st December. It is also much easier and cheaper to offer advice on only a limited range of products.

**Carbon will continue to offer Independent advice. We do not believe that we can offer our clients the level of specialised advice that their often complex financial circumstances require, by using a restricted approach.**

**Professional Qualifications for Financial Advisers**

At the moment all advisers are required to have qualifications allowing them to give financial advice but the changes being implemented aim to promote higher standards across the board. The FSA requires that:

- All advisers subscribe to a code of ethics
- All advisers are qualified with a Level 4 Diploma such as the Diploma in Financial Planning, or the Advanced Financial Planning Certificate. The adviser must have received this qualification from an accredited professional body such as the Personal Finance Society (PFS), or the Institute of Financial Planning (IFP).
- Advisers must carry-out at least 35 hours of continuing professional development a year, via training courses, seminars, or further appropriate study.
- Advisers must hold a statement of professional standing from an accredited body.

## RDR Qualifications:

In terms of qualifications, all of Carbon's advisers are already qualified to the minimum standards. Many have qualifications well in advance of the minimums. In our team of 10 financial planners we have five who are Chartered Financial Planners, six who are Certified Financial Planners and five who are both Chartered and Certified, putting these advisers in the top 1% in the UK. Three of our team are Fellows of the Personal Finance Society, one of whom is also a Fellow of the Institute of Financial Planning.

The level 4 Diploma which will become industry standard for advisers is Carbon's minimum standard for the paraplanners who provide support to the financial planners.

If measured on qualifications against any firm in the UK, Carbon would fare extremely well.

---

### Carbon Financial Partners Limited

7 Queens Gardens  
Aberdeen AB15 4YD

61 Manor Place  
Edinburgh EH3 7EG

3 Atholl Place  
Perth PH1 5ND

T 01224 619215  
F 01224 626227

T 0131 220 0000  
F 0131 625 9161

T 01738 443111  
F 01738 447666

[www.carbonfinancial.co.uk](http://www.carbonfinancial.co.uk)