A FIA Comments on specific RDR proposals set out in Chapter 4 (Long term), 24 March 2015

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Proposal A:
Forms of advice (financial planning, up-front product advice, on-going product advice) defined, with related conduct standards.

Comment:
<A>
This is a new approach to an intermediary process that is entrenched in the insurance industry globally. Whilst we can support the principle of separating "advice" from intermediary service and the further sub divisions of “advice” and “intermediary service”, this will set the industry in South Africa apart from its counterparts around the world. It will also be enormously disruptive and will create risk and additional workload and cost in the industry both in its implementation and operation. The rationale of whether this is truly in the clients’ best interests needs to be examined carefully. We support the regulator's intentions to engage in on-going focused working groups and we request that we be included in such workgroups as a key representative stakeholder.

In particular, new definitions need to differentiate between judgemental/personal advice on insurance products (client fee), factual information on specific insurer products (commission) other non-product advice and consulting services such as risk management, legal, value-added products, etc. (client fee) and how these relate to up-front product and on-going product advice.

(Also refer to the general comments under Chapter 4 regarding the expansion of the definition of consulting and client services, especially in the Healthcare arena.)

Questions that need to be asked in the process are:

- Is the current system faulty?
- Is it possible / feasible to split up front and ongoing advice in general and is this a “threat’ to the

FAIS requirements and the 6-step approach?

- Does the extremely wide range of advice in areas that are often unrelated to the sale of any financial product allow for adequate remuneration for such advice and will any fee for this actually act as a perverse incentive for consumers not to seek proper advice?
- Should a currently registered FSP who provides advice only be regulated under this at all and would they be subject to the /FAIS requirements?

Provision needs to be made for the payment of remuneration, for instance where the business is not written but costs are incurred.

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Proposal B:
Standards for "low advice" distribution models.

Comment:
<B>
There is some support amongst FIA members that low advice and no-advice channels are doomed to tar the industry with an unprofessional image. However, it is recognised that these options are necessary in a free market environment.

A clear definition of what is intended by "Low Advice" is required - is it intended for the low-income market, direct marketers or general situations where it is not feasible or necessary to conduct proper needs analysis, e.g. where a client has just bought a new car and needs cover? (It is thought that probably the only feasible basis for ring-fencing no advice is via the registration of particular products which are simply designed, while no advice should apply where such products are being applied in a purely single needs situation.)

"Low touch advice" needs to be clearly defined and criteria set for the minimum level of advice that needs to be provided. For example, in respect of direct marketing, or low touch advice provided via a call centre when a member exits an institutional fund, to encourage preservation as opposed to taking the benefit in cash or, for example, when putting in place a simple single need product such as a basic funeral plan.

Where a single need product is provided a simplified version of the analysis/advice model needs to be introduced.

A further category needs to be considered where sales are based on features and benefits and not on advice and where products can be sold by a third party.

In particular we need to ensure that the thinking of the FAIS Ombud on these matters dovetails with that of the RDR.

This is an administratively-intensive, high cost model and where it is essential that economies of scale be taken into account, i.e. differential in cost base for low and high volumes.

Within these scenarios careful consideration will need to be given as to will guide the higher level product selection to ensure that the most vulnerable do not unwittingly remain victims of the system. As an example, most consumers cannot even differentiate between household contents cover and bond (homeowners') cover, while they could be attracted to allocate hard-earned income to, say, a risky investment product where they may have an even more pressing need for basic funeral cover or motor insurance.

It is thought that the complex nature of medical schemes means that there may not really be a place

for this. </B>

Proposal C: *Standards for “wholesale” financial advice.*
Comment: <D> When setting the conduct standards, it is important to review the arrangement holistically. For example, if an adviser is providing advice to an employer regarding their retirement fund arrangement, the adviser will take the needs of the group as a whole into account, (either the average member, or the needs of clusters of employees). Should an individual member have different needs to the group as a whole, the member will usually be given the option to opt out of the default solution set for the group. Although the default advised on will take the needs of the average member into account, it will not necessarily take each individual’s unique needs into account. The primary client of the adviser is the employer, especially where he is footing the bill and care needs to be taken to address employer affordability to prevent the situation where employers withdraw. However, the end members need to be adequately communicated with to ensure that they understand the nature of the retirement plan structured for the group, and what choices available to him within that arrangement. Members of wholesale advice schemes should be encouraged to holistically review their arrangements with a suitably qualified financial planner, taking the benefits of the wholesale advice products into account. We agree that advisers should always consider the needs of the insured individuals when advising “wholesale clients” such as employers and also should ensure that the affected individuals have a proper understanding of product terms, conditions and benefits thus contributing towards fairer outcomes to all as far as possible. Thus whilst the adviser remains accountable for analysis and advice to the primary client being the employer/fund, there is also a level of accountability to underlying beneficiaries and the adviser must point out main flaws or drawbacks of the broader plan to individual employees. An unfortunate outcome of this process may be that employees could become complacent and not do their own planning. Reference should be made to the earlier comments regarding the “dual client” requirements of medical schemes negotiated through an employer or other body. </C>

Proposal D: *Standards for sales execution, particularly in non-advice distribution models.*
Comment: <D> Refer also to our preamble to comments under Proposal A. This formalises the need to conduct a "financial viability analysis" for each client, which would fall

under the sales process and hence be paid for via commission.

The client should understand that this does not constitute advice as such although there may be an element of guidance.

We understand the need to limit the kinds and complexity of products provided through such channels. Advisers are, however, involved in the low advice and non-advice space with regards to listed securities as well as derivatives of such securities - products that will clearly not fall within the proposed ambit of products to be approved. Early indications have also shown that some sophisticated clients who have limited time available and who have a good idea of what they want to do, opt for these low or even non-advice models to assist them in their product selection. Care should therefore be taken to ensure that this trend and product range is not limited.

Consideration needs to be given to what protection is given for inappropriate selection of product – especially in single need sales.

It is thought that the complex nature of medical schemes means that there may not really be a place for this, although it is accepted that under free market principles consumers should be allowed the option of selecting their own package from a comparison website or similar channels even if this proves to be to their ultimate detriment.

This needs more thought and standards need to be clear but as simple as possible to avoid confusion.

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Proposal E:
Standards for on-going product servicing.

Comment:
<E>
This needs to be split into the annual renewal service and services that may need to be performed during the year. The annual renewal may comprise both commissionable services to the provider and advice to the client. Similarly, services performed during the cover period may be services performed on behalf of the insurer or further advice to the client (such as in the case of a change of personal circumstances).

Access to relevant policyholder data needs to be considered in light of generally accepted practice and cost implications.

It must be recognised that the higher the standard set for ongoing product servicing, the level of remuneration will also have to be adjusted in order to maintain the financial soundness and sustainability of the FSP.

In the long term market it is questionable that there is a need to service the product as such separately from changes in client circumstances simply because the product is designed to be long term in nature and there is a need to engage further on this.

The separation in the healthcare market will also be difficult and possibly costly, given the intensive level of ongoing serving within the annual review.

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Proposal F:
Insurance premium collection to be limited to qualifying intermediaries.

Comment:
<F>
We would like a deeper understanding of the prescribed conduct standards envisaged, as well as the operational capacity requirements, remuneration and conflict of interest proposed especially with regard to employee benefit administrators and are unable to comment further on this until any new criteria are communicated.

This does not apply to the healthcare market where premium collection by advisers is not allowed.

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Proposal G:
Revised standards for investment platform administration.

Comment:
<G>
Many platforms are structured in exactly the same manner as investment platforms or LISPs, but as they are incorporated within a life licence they do not fall under or comply with the standards set for LISPs.

It should finally be noted that a large portion of the intended revised standards with regards to investment platforms can be circumvented by creating closed or limited range platforms. On such investment platforms the product range is limited to core funds which include all the platform's own funds. Other funds are severely limited or totally excluded or can only be accessed at an additional cost.

Increasing and improving the standards as it pertains to LISPs without addressing or including these other platforms under the same revised standards will result in yet more product bias.

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Proposal H:
Standards for product aggregation and comparison services.

Comment:
<H>
A distinction needs to be made between the so called "aggregators" and those functions of an adviser where the activities of aggregation and comparison services is part of the day to day functions of the adviser where standards have been established and where TCF and FAIS prevail.

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Proposal I:
Standards for referrals and lead generation.

Comment:
<I>
The provision of leads and where there is no advice or communication between lead provider and client, whether through an aggregator service or not, is a totally separate transaction between a third party and an FSP and the remuneration for this should be left outside of the regulations as a pure “arm’s length” marketing/business transaction which does not impact on the end price to the consumer.

However, we support the proposal to consider the introduction of standards for referrals and lead generation between regulated financial institutions and/or where there is an interface or dialogue between the prospective customer and the lead provider and where the lead provider has exercised any form of product endorsement as set out in the preamble to Proposal I.

Where providers pay fees on top of the advice fee for leads, this could be used to circumvent principles of RDR and equivalence of reward. Care should be taken not to place too high a level of compliance on the lead provider as the adviser will already carry all the advice risk. We therefore question the need for additional fit and proper requirements.

Further debate is needed around this issue.

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Proposal J:
Outsourced services on behalf of product suppliers to be more clearly identified and regulated.

Comment:
<J>
It is our understanding that many of the points listed have been covered by the binder and outsourcing regulations, however additional clarity in respect of the outsourcing and intermediary services would be useful, especially if it is the intention to expand this to binder arrangements in, say, the employee benefit space. (This would have to be applied in the context of the binder regulation agreements.)

With the activities of the healthcare adviser being strictly controlled further clarity will be required as to the intention of this in that field.

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Proposal K:
Types of adviser defined: Independent (IFA), multi-tied or tied.

Comment:
<K>
The present status in the market needs to be debated to assess and understand the regulator’s view on how advisers would be classified. Currently for an adviser to deal with an insurer there needs to be an "Intermediary Agreement" in place – this includes the corporates or so-called independents. We do not believe that this implies an "allegiance" and "not free of influence".

Clients approach and use an adviser specifically for his / her ability to provide advice and to be able to select from the wider market, appropriate products and services. The connotation of having to deal with a "Multi-tied" adviser (multi-tied implying an allegiance to THOSE insurer/s) poses a negative threat to the functions and sustainability of the adviser, whose primary function is to represent the client.

It is unclear as to who (especially in the short-term sector) would be regarded as an independent as there are no brokerages who do not at least earn commission or act in some way on behalf of the insurer. The standards to be regarded as Independent are unreasonable and they seem to be almost as regulated as the multi-tied advisers anyway.

Confusion will undoubtedly prevail in the minds of a client who may have, for example, both a personal lines and commercial portfolio with a broker who will declare being multi-tied for one and independent for other (let alone the additional costs of administering this internally).

Advisers will be required to be either tied, multi-tied or independent. Consideration to be given to the broker firms and in particular the banks who will operate in all three categories, This so called “hybrid” model is well established through the short term insurance industry in particular and even if it is agreed that an intermediary agreement does not rank as an agreement that prohibits such intermediaries from operating as “independent brokers” (ref. first paragraph above) the incorporation of binders on a single or multiple insurer basis should not prevent such advisers from advising the same or other clients on an independent basis. Agreement on this point will then facilitate further detailed discussion on the model.

There is also a general feeling that the terms “tied” and “multi-tied” may be misleading and that consideration should be given to alternative terminology such as “single contract” and multiple contracts”.

Contracts between intermediary and product house are mostly “normal” and “standard” but problems may occur with individual “aberrations”.

A clear split will be needed between financial planning, financial advice and other services (product related) and this may be difficult to achieve.

What are the implications of tied agents performing a true advice function? (IFAs with restricted product access disclosure?)

There are some dangers in basing IFA status on range of available products rather than actual allocation of business? (Both have potential conflict implications.)

Some planners may specialise in one or more areas only. Would they then be debarred from being called financial planners?

The number of providers that a multi-tied adviser has access to may have some relevance but it is doubtful that the consumer would be able to evaluate the real benefit of more choice (beyond, perhaps, two or three) while in some cases it may be of no real significance. (In reality three this could simply result in confusion.)

It may be better to dispense with the idea of categories or types of advisers and push for proper disclosure of their “range” e.g. “I am an adviser who is able to offer the products of the following providers” with further disclosure of any shareholdings, influences, etc.

Some advisers may well be able to claim to be “professional financial planners” whether they have some form of restricted product access or not. In any event, the terms “tied” “multi-tied” and “independent” are thought to be unhelpful.

Disclosure to clients of the actual % business placed with various providers over the last 3 or 6 months may well be relevant or irrelevant depending on the reason for any apparent “bias”.

The possible unintended consequence of a consumer deciding to go for a product that has been “de-

loaded" for the distribution channel costs without having sought advice need to be considered. Strong concerns exist over the requirement that tied and multi-tied advisers can only advise on products that they are accredited to sell and it is believed that this needs to be debated further. Different levels of "full" financial planning exist - general advice only or general advice along with some suggested product categories and it will be difficult to differentiate these. The general issue of the legal status of multi-tied intermediaries in terms of the law of agency and contract law needs to be examined further. There is some ambivalence on the issue as to whether the fee earning capability level should be defined by set criteria e.g. classification type, qualifications or left to market forces. Is there really a need for ongoing advice as a category (see input on this elsewhere in this submission)? There are possible unintended consequences of a client paying for advice upfront but then not implementing later steps. FAIS implications need to be considered too. The healthcare market sees this as being a "foreign' concept that would cause all sorts of confusion and add little benefit. Further discussion is needed on this critical proposal. **</K>**

Proposal L: *An IFA may advise on certain products on a multi-tied basis.*
Comment: **<L>** It is presumed that this proposal applies only where the IFA principle role is that of an IFA for investment products in which case it does not affect the short-term industry. There is a concern about the possibility of a "full advice" intermediary being asked to give advice on an already instituted low advice product and the implications of this. This needs to form part of the further discussions suggested under proposal K. **</L>**

Proposal M: *Further input required on criteria for IFAs to offer sufficient product and product supplier choice.*
Comment: **<M>** The experienced adviser has over a period of time developed a comprehensive underlying knowledge of the market including insurer preferences and appetites for different types of risks and their product differentiators, strengths and price structures. It follows that when the adviser understands a client's risk transfer needs, it will only approach that section of the market most appropriate to provide a solution to those needs. It is also contended that when an adviser selects an insurer for a binder, this

selection process takes place at product level – but nevertheless does take place and should be fairly remunerated – i.e. as a component of a client fee.

A typical short-term personal lines portfolio could consist of one insurer for the home contents, the "bond holder" nominated insurer for the property and a specialist insurer for the motor section. The same principle will apply to commercial business.

For personal lines business, where high unit numbers are involved, it is usual that the adviser will select one or maybe two or three insurers who provide a comprehensive product offering.

The commercial adviser needs to play the markets from the general insurer to niche and specialist underwriters as the business case demands.

The FAIS Act already requires all the relevant disclosures of markets canvassed and reason for insurer recommendation.

The criteria for a short-term independent adviser or multi-tied adviser are no different in terms of the scope of activities and skills sets as all deal with every class of business. In most cases it is only the size and complexity of the risks that may differ but the duties and obligations to the client are all relative.

There are many who specialise and only offer one type of product offering in a specialist field, e.g. aviation insurance. This should not make them "tied"? (This needs to be born in mind when responding to the call for information in terms of the bullet points.)

We would want to debate the rationale behind the categorisation of independents and multi-tied advisers.

The FAIS Act and TCF clearly and adequately set out the rules of engagement.

Serious concerns exist around the micro-management of criteria to define the number of product providers and the range of advice especially across long term, investments, health, short term, etc.

The “Certified” title requirement for independents needs to be debated if it is to extend beyond simple disclosure. (Is the definition of an IFA not too restrictive so that there will be very few? If “whole of market” is not possible is there any point in this category? What if the adviser has arrangements with, say, 30 product providers, but effectively only support three due to the practicalities of servicing this number?

Will the definition allow for specialisation, for example an estate planning specialist adviser or investment specialist adviser?

There is a question regarding the applicability of this to the healthcare market, especially given that commission and adviser costs are generally lumped together with other marketing and distribution costs.

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Proposal N:
Criteria for IFAs to be free of product supplier influence.

Comment:
<N>
In terms of the criteria set out we cannot see that there will be many independents in the industry.

This notion goes to the heart of the traditional short-term intermediary model and needs clarification and further consideration.

We disagree that an intermediary agreement or a binder agreement creates supplier influence per se. In instances where it could create conflict of interest, such circumstances should be managed through appropriate disclosures and other regulatory controls.

The question arises as to whether an IFA can ever really be free of influence (unless perhaps not selling any product but purely offering "generic" planning advice?). Even here the adviser may make an arrangement to "sell" the "lead" to a particular provider for completion, thereby introducing "conflict").

All "quota" requirements by providers would have to be dropped but in reality these will always exist in some form.

While the existing controls on advisers in the healthcare market limit this, there are examples of some administrators who have worked a way to favour their own particular adviser channels. The practice of the cancellation of adviser contracts if certain production targets are not achieved is another form of "influence".

Advisers dealing with collective investment schemes / unit trusts must be able to demonstrate that they have access to multiple CIS funds through at least one LISP and that his/her fund selection process is independent or, if they elect to use the services of a category II investment manager, that the process of product selection of the Category II investment manager is independent and free of product supplier influence.

If a Category I IFA elects to use the services of a CAT II FSP it should not affect the IFA's independence. If a Cat II enters into an agreement with another CAT II for the sake of contingency, it should not affect their independence. Product selection must meet the suitability test and the selection of the underlying managers must be free of product supplier influence. (It must be remembered that a number of IFAs have entered into agreements with other providers for the sake of contingency and the mere fact that they are representatives on the license of another FSP for purposes of the ongoing management and administration of those funds (intermediary services) it may not affect their advice or the selection of underlying managers.)

</N>

Proposal O:
Status disclosures to be made by IFAs.

Comment:
<O>
Micro-management is a concern.

The disclosures are onerous and we question the rationale behind these requirements which appear impractical and unnecessary and are likely to result in customer benefit / confusion?

The requirement to have to "prove" independent status every six months or so will be onerous but probably necessary if this route is adopted.

This needs further debate.

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Proposal P:
Criteria for multi-tied advisers.

Comment:
<P>
The requirement of a motivation to the Regulator for the preference of one product provider over the other is unnecessary and perceived as being against the principles of free market enterprise. Commissions are capped and the definition of commission is very specific, so we question how favouring one provider over another could influence any conflict of interest to, or be to the detriment of the client.

Many different factors could impact on the ultimate decision as to where the business is placed, for example personalities.

We cannot accept that the Regulator will have the power to “direct that the adviser either change its relationship with the product providers…” The FAIS General Code of Conduct gives the Regulator the power to Act in the event of there being improper practice or a breach of the Code / Act.

The criteria could be complex which would result in clients being confused while implementing controls could be difficult / costly.

Advice and factual product information need to be clearly separated.

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Proposal Q:
Status disclosures to be made by multi-tied advisers.

Comment:
<Q>
The requirements of this proposal are onerous and create a further level of costly disclosure and administration. We question the benefit that it will have on the client and in particular the personal lines client when making a decision as to what insurance product to purchase.

The word "tied" (relationship) infers that because the multi-tied adviser sells an insurer's product that the multi-tied adviser has an allegiance to that entity and which will predominate over that of the clients interest? This is not necessarily so.

See our earlier comments on the proposed types of advisers. Will “proper” disclosure not in any event force the demise of some of the proposed types?

It seems that the trend is towards using quantitative rather than qualitative standards which will not work in the arena of advice.

</Q>

Proposal R:
Criteria for tied advisers.

Comment: <R> It is likely that this could support further growth of the tied adviser outside of the long term market which will necessitate equivalence of reward. Caution should be exercised where two entities in the same group operate at arm's length from and compete with each other. Should the tied adviser be allowed to operate across the group in such instance? Limiting tied advisers to dealing only with products that they are accredited to sell is a major problem as there are many "simple" products which do not need advanced knowledge to assess. (In fact, this would severely restrict the tied adviser's ability to advise any client who has existing products, with the only logical outcome being product replacement.) Further detail is needed. </R>

Proposal S: *Status disclosures to be made by tied advisers.*
Comment: <S> There is the possibility of "abuse" of tied advisers if we move to two categories only. This needs to be brought into disclosure where timing of is essential – up front and not as per the current FAIS requirements? However, in general this is probably more just a matter of enforcement of the disclosure requirements that already exist. Disclosure could be quite complex, for example where a group is involved, while it may sometimes be necessary to spell out what is meant by financial planning/advice, etc. </S>

Proposal T: *Criteria for financial planners.*
Comment: <T> See earlier comments on this topic. We support this proposal and we recommend the term Financial Planner Professional or Professional Financial Planner. Must include minimum qualifications (but not necessarily CFP only). Should be subject to CPD.

Membership of a professional body / industry body should be a requirement. Must not rely on type of adviser or products in any way. The requirement for a compulsory annual review of financial planning status, while somewhat onerous, should be enforced. </T>

Proposal U: *Status disclosures to be made by financial planners.*
Comment: <U> See earlier comments on this topic. Hybrids are generally a problem and need to be discussed further. No performance incentives or quotas should be allowed. (This is probably impossible to achieve in reality and thus full disclosure may have to be relied upon.) </U>

Proposal V: *Insurer tied advisers may no longer provide advice or services in relation to another insurer's products.*
Comment: <V> There are concerns about tied or multi-tied advisers not being able to offer any guidance on products that they are not accredited to sell as mentioned earlier on. This does not currently affect the healthcare market. </V>

Proposal W: *"Juristic representatives" to be disallowed from providing financial advice.*
Comment: <W> We do not support this proposal for the following reasons: (i) It will prevent individuals from starting new businesses as it sometimes takes months for the FSB to issue new licenses. The industry needs a mechanism whereby a business can start operating with its own brand under another entity's license whilst it awaits FSB approval. This promotes entrepreneurship and job creation. (ii) Franchises create business opportunities in our industry and through proper disclosures juristic

representatives can work. Certain standards should be set and guidelines should be published pertaining to these structures. Then it needs to be properly monitored by compliance officers and the FSB Supervision Department. It can work within a properly defined framework.

(ii) Existing contractual arrangements with clients will be disrupted. As an example: An adviser joined a product supplier two years ago, but agreed that her existing client base will not be moved to the product supplier's platform because her clients were happy with their existing investments and ongoing service model. The only way this could be arranged was to ring-fence her existing clients through a juristic representative structure, with the permission of the product supplier. If this structure would no longer be allowed, the effect of that would be that the adviser would be forced to move her clients onto the product supplier's platform, which will discontinue the customers' existing ongoing service model that they got used to over the last six years, simply because the product supplier does not provide that service.

There appear to be numerous different models in play and a focussed conversation with all interested parties on this subject so as to better understand and be better informed.

Two new terms are introduced in this section “Juristic intermediary”(adviser firm) and “Juristic entity” (in respect of a product supplier) that both look to the common use of the words which in addition to “Juristic representative” (that has a specific meaning within the regulations) have caused some confusion and uncertainty

It could well be, for example, that an FSP employs the services of an outbound call centre as a non-advice selling model, which is aligned to it as a “juristic representative” (JR) to sell on its behalf but with the sale detail being “factual information and script based” where there is no interaction with regard to advice. There would be no conflict of interest in this model which should be allowed.

Likewise the JR that does pure administration, policy issuance and accounting/premium collection on behalf of the FSP and/or other FSPs should be allowed. (We understand this to be the intention.)

If any change is to be implemented we would at least recommend that a reasonable timeline be given for “conversion” and client education to the principle FSP.

There could be some general branding problems with genuine franchise / structures.

Is this not purely a disclosure issue which could then be retained with properly enforced controls?

Doing business within a company structure is well established and using separate companies for individual branches makes economic sense. Where an FSP has different offices or branches operating under the same name, but with different shareholders in each office/branch, the company structure as juristic representative for each office works exceptionally well. Not only is it possible to determine exactly who earns what, but it also improves the continuation and saleability of the practice.

For example, consideration could be given to perhaps look to limit a juristic rep. to representing only one FSP. This together with a prohibition that the juristic representative may not have or act under a different corporate identity than the FSP as well as the requirements placed on key individuals and compliance officers will to our mind address the concerns completely.

Terminology will need special attention and further discussions are necessary.

</W>

Proposal X:
Standards for juristic intermediaries (adviser firms).

Comment: <X> Our contention that the choice of being “one and one only” adviser type should not apply to intermediaries in the short-term segment as has been set out in K above. Furthermore, if it is envisaged that individual advisers, as members of a juristic intermediary that is an independent insurance adviser, can under some circumstances be multi-tied advisers provided appropriate client disclosures are made, then we further contend that the same disclosure principles should be applied but without the need for selection of adviser type by the adviser firm. We believe the requirements in place under the FAIS Act already provide for this and need to be reinforced. The final paragraph of proposal X notes that *“an individual adviser acting as a representative of either an independent or a multi-tied advice firm may not be limited to the products of one product supplier...”* Dependent upon a clearer understanding of the Regulator’s intentions and clarity of the practical implications of the proposed definitions, this would seriously frustrate elements of short-term business. By way of example, it is not uncommon for a broker to offer specialist/niche products, e.g. Environmental Impairment Liability, amongst a wide range of other cover types where there is a single market available for this type of cover. By placing cover with this single market, it could be held that the employed adviser is “tied” to that market – but (even if it could be motivated as being “tied” for that product) it should not affect the independence (or multi-tied relationships) of the adviser firm for all types of business. In this example the skills required are of a specialist nature and could well be that only one representative has same – this individual representative should not be precluded from acting on behalf of the firm for other cover types. There are many such “product specialists” across the spectrum of short-term commercial and corporate lines. We agree that should an adviser firm not have these skills amongst its employed advisers and brings in a third party adviser firm to provide advice on that specialist product such advice should be under that separate adviser’s licence. Controls could be onerous leading to micro-management. </X>

Proposal Y: *Advisers may not act as representatives of more than one juristic intermediary (adviser firm).*
Comment: <Y> See earlier comments on this topic above. As indicated above, we interpret this proposal to apply to advice only and that this does not affect representatives who act on more than one license for purposes of intermediary services. If this is not the case, industry must be consulted further. This proposal is problematic and we do not support it as it stands for the following reasons: Whilst we understand that this structure has been abused by certain FSPs in the past, it can be rectified. Being a representative on more than one license may be the only way for an adviser to gain experience under supervision in a second, third or fourth discipline, e.g. Long-term, Short-term, health care and/or investments. Individuals should not be limited in their desire to improve themselves in the

financial services industry and as a result, this problem can and should be addressed in other ways, such as proper standards of disclosures and proper monitoring by compliance officers and disclosures. The FSB can and should issue guidelines with regards to disclosures to customers to further strengthen the disclosure provisions already contained in sections 4 and 5 of the General Code of Conduct. In addition, and with much respect to the FSB Supervision Department, much can be done through proper supervision to avoid non-disclosure or abuse by FSPs.

Advisers may have to be licensed as a representative on more than one license in a bigger group of companies, simply because the group has more than one license. FSPs should not be limited to structure their businesses to limit their advice risks across the various disciplines or if they have different shareholders in the different disciplines. Sometimes companies need more than one license in order to accommodate different shareholdings in different disciplines and companies should not be disallowed to register more than one company FSP in the same group. However, a level playing field is required for all stakeholders in the financial services industry, big or small.

We need clarity on the definition of “adviser firm” as, for example, within banking organisations where they may have different operating divisions all of whom operate independently of each other and all of whom could have JR’s each involved with their own product range and then also cross selling. Does the name of the Bank count as the “firm”?

There is also the case in which there are two FSPs offering a different range of products (e.g. long-term and short-term) in one group. Should a representative of one FSP, being correctly qualified and licensed, not also be able to be a representative of the other?

This could create additional problems with career development and also business continuity.

The issue is really one of failed action by the regulator.

It is not clear whether this includes key individuals as well. (In our view this proposal only refers to representatives.)

Given the situation with proposal K an adviser who advises on an investment in a multi-tied basis while advising on health on an IFA basis might well want to split the businesses in order to retain his health IFA status.

In addition, key individuals are often used across FSPs within a group due to limited skill sets, but also due to continuation risk management reasons. At the minimum it is recommended that representatives and especially key individuals can be representing more than one FSP within a larger group.

(If it is allowed within one larger group it should be allowed elsewhere as well. There must be a level playing field for all the players in the financial services industry.)

In addition it is extremely difficult for a key individual or representative to acquire skills under supervision if such skills are not already available within the FSP. For such reasons it is quite often required for key individuals to take on the responsibility for a specific product within a second FSP, or to have those FSP's representatives being registers as representatives under his FSP's licence as well. Proposal Y should therefore make provision for supervision and the way to handle it.

Further discussions are needed as to the actual problem that is to be addressed?

</Y>

Proposal Z:

Restricted outsourcing to financial advisers.

Comment:
<Z>
It is assumed that long term advisers can get paid for outsourced services such as policy capture and issue provided controls are in pace along the lines of the short term binder and out sourcing parameters.

Further clarity is needed as to the intention of this as it applies to healthcare advisers, where certain “unique” services are sometimes performed.

</Z>

Proposal AA:
Certain functions permitted to be outsourced to financial advisers.

Comment:
<AA>
It must be noted that in order for a broker to issue a policy they need to have an IT platform to capture and manage the data the end result being the dispatch of policy wordings, etc.

The activity could also include the ongoing service related administration and schedules as well as an adviser doing data capture without any discretionary mandate directly onto insurer system which would ordinarily have had to be done by the insurer.

The meaning of “broker consulting services” needs further clarification, especially within the healthcare sector.

Also see comments under Z.

</AA>

Proposal BB:
Product supplier responsibility for tied advisers.

Comment:
<BB>
It is thought that this would have to be in line with the current status quo which includes TCF controls - full control needed.

</BB>

Proposal CC:
Product supplier responsibility for multi-tied advisers.

Comment:
<CC>
This assumes that the product providers have the necessary skills and experience to have oversight of the multi-tied adviser activities.

It will be essential to segment advice into, judgemental/personal (part of client advice and services) to that of product information where the product provider should be expected to exercise some level of control.

It would be unreasonable and very difficult for a product provider to have oversight of a multi-tied adviser's "judgemental" advice. By monitoring this, the insurer may get an unfair insight into the multi-tied adviser's value proposition, its competitive edge and competitor solutions. This could create an untenable anti-competitive and conflicted situation.

The extensive monitoring or "policing" required of the product provider over the broker may infringe the broker's freedom to trade and in effect have the effect of influencing the broker.

In addition, where the broker has an appointed Compliance Officer, why the need for further monitoring and micro-managing by the product provider?

The TCF regulation should influence this and should be allowed to bed down rather than creating of additional and costly infrastructures.

What is the value add to the client?

Product suppliers should take responsibility for the 6 TCF outcomes. However, the suitability of the product advice should always be the responsibility of the adviser in the independent and "multi-tied" space. We will not support another layer of scrutiny over and above that of a compliance officer and FSB supervision by product suppliers. The advice process, product selection (suitability) and record-keeping of the advice is the IP and responsibility of the adviser and product suppliers should not have the obligation or authority to investigate or monitor advisers' advice.

Product suppliers should, however, train and accredit financial services providers who market their products and they have to meet the product disclosure requirements as set out in section 7 of the FAIS General Code of Conduct and in accordance with the Key Information Documents (KIDs) as proposed in terms of the FSB's TCF initiatives. The integrity of the product, product training and product disclosures are the main responsibilities product suppliers should accept.

Non product related advice, however, cannot be the responsibility of the product provider.

It is thought that product providers would be loath to accept these additional onerous responsibilities.

</CC>

Proposal DD:
Product supplier responsibility for IFAs.

Comment:
<DD>
Again, product suppliers should take responsibility for the six TCF outcomes. However, the suitability of the product advice should always be the responsibility of the adviser in the independent and "multi-tied" space. We will not support another layer of scrutiny over and above that of a compliance officer and FSB supervision by product suppliers. The advice process, product selection (suitability) and record-keeping of the advice is the IP and responsibility of the adviser and product suppliers should not have the obligation or authority to investigate or monitor advisers' advice.

Product suppliers should, however, train and accredit financial services providers who market their products and they have to meet the product disclosure requirements as set out in section 7 of the

FAIS General Code of Conduct and in accordance with the Key Information Documents as proposed in terms of the FSB's TCF initiatives. The integrity of the product, product training and product disclosures are the main responsibilities product suppliers should accept. The IP of the IFA needs to be protected. **</DD>**

Proposal EE: *Product supplier responsibility for non-advice sales execution.*
Comment: **<EE>** We welcome this, although the conduct standards will need to be spelt out clearly. However, it could be a dangerous and unnecessary intrusion given the requirements of FAIS and professionalism. The unintended consequences of certain "sticky" products sold under this channel that cannot be changed by a proper adviser need to be considered. **</EE>**

Proposal FF: *General product supplier responsibilities in relation to receiving and providing customer related data.*
Comment: **<FF>** We support the principle of protection of client information and the sharing of material data with the insurer/s as it pertains to the contract of insurance. The Binder Regulations and Outsource Agreements clearly note the data sharing requirements on brokers. We are concerned about the low requirements placed on product providers when it comes to information. As has been indicated earlier, the level of cost and fee declaration to clients and advisers on existing products are low to non-existent. Allowing providers the right to withhold information because in their opinion the adviser does not have the necessary knowledge about their products will make it extremely difficult for advisers to do their work. While it is mentioned that in such cases providers will have to provide the information to the client directly, we have experience of providers taking weeks to provide clients with such information and when it comes to fee calculations recent experience with three providers took more than six months. It is furthermore understandable that providers that provide a risk underwriting service need to have the client's data available in order to do a proper assessment of the risk underwritten. We can see no reason why a provider for investment products should have access to all of the client's information. Recent experience has proved that when an investment is moved by the adviser from a provider to another, the original provider will invariably 'phone the client and try and persuade him to stay, even if it is the same adviser who initially invested with the said provider. This is one of the main reasons why so many FSPs have started their own Lisps. Care should therefore be taken not to place advisers in a worse position as providers, something which the

proposal at this stage looks at doing.

Section 3(1)(d) of the FAIS General Code of Conduct states that a provider's service must be rendered in accordance with the contractual relationship between the parties, reasonable request or instruction of the client. In the event that a client requests or instructs a provider in writing to obtain information from a third party financial institution to render advisory agreed and/or intermediary services, the provider will be in breach of the provisions of the General Code of Conduct. A written client request and authorisation given to a provider to obtain information should be respected by all stakeholders. If we say we want fair outcomes to the customer, how can product suppliers refuse the client's written request and authorisation?

Further clarity is required on the conduct standards with reference to the POPI requirements (especially in the healthcare market).

</FF>

Proposal GG: *Ownership structures to be reviewed to assess conflicts of interest.*
Comment: **<GG>** In general, we believe that greater clarity in respect of the activities which make up advice is beneficial, as it will assist consumers to understand the valuable role that advice plays in their planning program. The broad principles for intermediary remuneration are reasonable. However we need to ensure that the actual framework set has the ultimate desired outcome. We would be happy to further liaise with the regulator in respect of the remuneration framework. It is important to recognise that there must be a level playing field when it comes to ownership structures. It is logical that a big corporate will design investment product solutions, have its own administration business and distribution force to market its products. We do understand, and support the principle that an independent or "multi-tied" adviser should not receive a 'kick-back' from a product supplier if he/she places business with the product supplier, because that is clearly a conflict of interest. However, if an FSP holds an ownership interest in a Category II provider and fully discloses that to his/her client, that is the same as an adviser in a big corporate holding a share in its own FSP Holding company. If we analyse activity based remuneration we see that Cat I advisers could be involved in the ongoing advice and management of clients' investment portfolios, even though the portfolios may be managed by a separate CAT II provider, especially if they are responsible and held accountable for the ongoing suitability of investment products. There is a difference between investment advice and investment management, but an adviser could perform certain functions as part of the investment management. As a result, an FSP should in certain instances be permitted to be a shareholder in another provider, subject to strict disclosure to customers. At the same time a CAT II license holder, who now has to have two licenses if he/she is providing advice and rendering investment services in their own co-branded funds, should be allowed to hold an interest in both businesses. There are a number of Category II FSPs who have managed model portfolios in the past, for which they have charged a fee. However, they have now realised that a fund of fund structure is far more effective and poses far less risk for the customer from an administrative point of view. Our discussions with leading Linked Investment Services Providers (LISPS) have revealed that a fund of fund structure is far more effective and efficient than managing model portfolios. For such FSPs they would have to license a Cat 1 license for purposes of advice and certain intermediary services plus a Cat II license for investment management. From both a practical and business perspective they would have to have an interest in their own Cat I and Cat II FSPs,

simply because they have to meet all the FAIS requirements with specific reference to the Financial soundness and liquidity requirements. It is important that business structures make sense, are sustainable for all its stakeholders and that ownership principles set a level playing field for all stakeholders. Much can be accomplished through proper disclosure. **</GG>**

Proposal HH: *General disclosure standards in relation to fees or other remuneration.*
Comment: **<HH>** As per the comments above, the broad principle of general disclosures in relation to remuneration is useful. As with most things, it is the practical details of these standards that need to be carefully reviewed. However, there is also a concern already raised about any fee guidelines or benchmarks set by the regulator. We do not have a problem with the Regulator publishing in the media what it believes fees should be, but we do not believe advisers should be forced to comply with any such guidelines or benchmarks or providers should be required to enforce them. Further debate is needed on this complex issue and we would be very happy to further discuss the specific proposals. (It is thought that the healthcare market is probably not affected by this due to the current controls.) **</HH>**

Proposal II: *Standards for financial planning / risk planning fees.*
Comment: **<II>** We support the view that consent to any fee and or any charges must be obtained from the client. However, in the short-term environment, it may not always be possible to establish the final quantum of any such fee until the costs of the product being sourced are finalised. Caution needs to be exercised in trying to tar the varied scope of fees with the same brush by issuing guidelines. (This is especially true given that a major factor in setting the level of the fee could be considerations around the certainty that they will indeed be paid, given the fact that consumers are likely to be allowed to exercise choice in this regard.) What methodology will inform these guidelines? The fee has to be negotiated and accepted by the client - why then the need to place further oversight on this issue? It is acknowledged that in a framework which differentiates the between tied agents, multi tied advisers and IFAs that there could be different levels of planning advice provided by different types of planners. Based on this, adequate disclosure to a client regarding the ‘type” of adviser, and the range of planning services that they can provide should be sufficient to reach agreement with the client as to the remuneration.

In our view, should this disclosure be adequately discharged, and agreement with the client reached in respect of both the scope of the planning exercise (which may be very broad or very narrow) and the applicable remuneration, there is no need for further monitoring in this regard.

Caution needs to be exercised in trying to tar the varied scope of fees with the same brush by issuing guidelines. In general it could be said that the total fee represents the adviser's overall view with the component parts needing to fit together and it will not be possible to "unbundle" this into component parts.

What methodology will inform these guidelines?

(Probably not relevant to the healthcare market.)

</II>

Proposal JJ:
Standards for up-front and ongoing product advice fees.

Comment:
<JJ>
The challenge will be to properly define generic product type advice that is an integral part of judgmental advice, provided before insurer selection and engagement, from factual supplier product information.

Limitations on the extent to which advice fees may vary between product types should not be prescribed as the coverage, risk profiling and fulfilment may be very different.

Insurers should not be required to monitor "advice" but only factual product information provided about their products hence insurers should not be required to monitor advice fees - also refer to comments in CC.

The range and diversity of products and advice will be vast and we would suggest caution in trying to prescribe such "safe haven" parameters or benchmarks/guidelines in relation to advice fees. There is also the danger that fees will be charged up to these levels without proper substantiation.

One of the risks that the broker carries is where the advice fee is agreed up front with the prospective client and where the broker is not appointed, but its' IP is used and where the client then refuses to pay the fee.

Our view is thus once again that there should not be prescribed fees in respect of either the upfront nor ongoing fees, and that the product supplier pay facilitate the payment of the fee. The details of the conduct standards need to be carefully debated.

We are not in agreement that a product provider needs to monitor fees charged by multi tied advisers, or IFAs where the provider facilitates the payment, as the manner of payment chosen, should in no way impact on the liability of the insurer, nor the adviser's discretion in respect of the range of services, or remuneration agreed with their client.

It is also not practical to seek to regulate advice fees per product type, as stated above, the scope of services, and commensurate remuneration needs to be agreed to by the client and his adviser.

(Probably not relevant to the healthcare market.)

</JJ>

Proposal KK: *Additional standards for ongoing advice fees.*
Comment: <KK> It is agreed that the ongoing advice and appropriate remuneration needs to be agreed to upfront, and that either party can provide reasonable notice to cease this ongoing element. We support the concept but separation will be extremely difficult. In the event that commissions are changed to fees, it must be remembered that fee income does not allow representatives to deduct expenses from their income in the same way that commission allows under the Income Tax Act. This will have a significant effect on the after-taxed position of representatives. It is proposed that the FSB seeks clarity from SARS to confirm this position and seeks a directive or an agreement with SARS on behalf of financial services providers that fee-based commission be deemed commission and expenses be allowed as a deduction. The effect of changing commission to fees from an income tax point of view should not be underestimated. It is our plea that the FSB considers its implications carefully. This needs further discussion, especially as we have no global models to guide us in this. The Medical Schemes Act and CMS Circular 20 of 2010 spell out the situation in the healthcare market. </KK>

Proposal LL: *Product suppliers to facilitate advice fees.*
Comment: <LL> Product providers facilitating the payment of fees for all types of advisers, is welcomed. However this should not provide a “fee overview” responsibility on the product provider, they are merely a conduit for the payment of fees, emanating from an agreement between the client and their adviser. It should be noted that currently certain providers are looking to limit adviser fees to enhance the attractiveness of their products without considering the quality of the advice given. This is already in place in the healthcare market. </LL>

Proposal MM: *Remuneration for selling and servicing investment products.*
Comment: <MM>

If it is accepted in principle that product providers should pay intermediaries a commission for bringing the business onto the books (and retaining it) then this should also apply to investment products, although the quantum of the commission would have to be “realistic”.
It is unacceptable that providers should expect advisers to bring them business for no remuneration – a situation that could lead to all sorts of unintended consequences – especially given that the adviser is open to various “risks” in the process.

The intention from the paper is to separate the product fee from the advice fee and that these two elements be separately disclosed. The intention is that the client fully understands the cost of the product and the cost of the advice that they are receiving. However, could the same result not be achieved by setting out required disclosures in respect of the makeup of the total fee, i.e. still charge a total fee, and specifically set out the product fee element, and the advice fee element, to which the client would need to agree?

There is a huge variance in amount of effort required from advisers to implement different investments, including a fundamental difference between investments and savings products.

</MM>

Proposal NN:
Remuneration for selling and servicing life risk policies – mix of up-front commission and as-and-when service fees.

Comment:
<NN>
Depending on the nature of the advisory business, advisers may prefer a flexible remuneration structure, i.e. a maximum of 40% upfront, with the balance paid on an ongoing basis, which would provide advisers with the option of receiving a greater proportion on an ongoing basis.

The quantum of the proposed regulated caps needs to be carefully debated. We are broadly in agreement that the fees associated with ongoing servicing and product maintenance needs to be commensurate with the services provided, but disagree that the onus should be on the insurer to monitor the service delivery by the adviser to the client.

We believe that it will be necessary for the proposed reduction in up front commission to be phased in over a period of years to avoid mass closing of independent intermediaries who cannot adjust their cash flow situation.

</NN>

Proposal OO:
Product supplier commission prohibited on replacement life risk policies.

Comment:
<OO>
A definition of replacement policy is required.

This proposal may stop churning, but it will also prevent advisers from offering better products to clients, unless they charge the client a fee. We do not believe that customers are generally willing to pay fees to advisers.

However, it could be that clients end up continuing to pay premiums under polices which no longer really add value to their circumstances as intermediaries may be hesitant to cancel these (and lose the ongoing income).

There are often valid reasons for replacements and this proposal will prevent advisers from serving customers interests when there are better products in the market than the existing ones.

If it is accepted in principle that product providers should pay intermediaries a commission for bringing the business onto the books (and retaining it) then this should also apply to replacement products. It is unacceptable that providers should expect advisers to bring them business for no remuneration whatever the cause/source of that business especially given that the adviser is open to various "risks" in the process.

It is proposed that if a policy is replaced, consideration should be given to allow for as-and-when commission paid only. This will remove the upfront incentives and offer an annual annuity income, subject to the rendering of ongoing services to the customer. Upfront commission is an immediate incentive to churn, but we believe that an as-and-when commission will reduce premiums whilst forcing providers to change and improve their ongoing service models to customers.

If insurers pass on the savings it is logical that "churns" must result in order for consumers to enjoy the lower premium rates.

Otherwise this provision could be interpreted as a measure to protect uncompetitive insurers, especially where products have been purchased under a low- or no-advice model.

</OO>

Proposal PP:
Commission regulation anomalies on "legacy" insurance policies to be addressed.

Comment:
</PP>
A standardised environment between legacy and non-legacy environments is welcomed, as are the proposals to reduce the unreasonable penalties on termination. However, the possibility of retroactive action on existing/past agreements is strongly resisted.

However, there is a question as to whether it is right for the regulator to tamper with existing structures that have been incorporated into commercial contracts between insurers and intermediaries and which may have played a major role in the setting of the price of a brokerage business that has been on sold. In particular the retroactive changing of policy conditions and the terms of existing legal contracts is strongly resisted.

It may be that the limitations on remuneration on automatic premium escalations may have to be applied only where the rate of escalation is being increased (or there is an additional voluntary increase).

</PP>

Proposal QQ:
Conflicted remuneration on retirement annuity policies to be addressed.

Comment:
<QQ>

The details in respect of the proposed conduct standards need to be fully understood.

Much of the problems exist because of hidden fees and questionable investment performance.

It must be remembered that clients' needs and objectives can change and their "old school" retirement products are no longer aligned with their current and future objectives. Much could be solved through proper disclosures and clear instructions from customers. There are cases where these changes are absolutely justified and advisers should be remunerated on these investments.

The tax implications on the consumers in splitting out of advice fees from the premium need to be taken into account.

</QQ>

Proposal RR:
Equivalence of reward to be reviewed.

Comment:
<RR>
We support the principle that this should be investigated in the short-term, health care and employee benefits sectors as it relates to the tied agent.

The debate regarding equivalence of reward is complex, but it is felt that this needs to be further explored in relation to tied agents.

It may be that under full disclosure “tied” advisers’ remuneration should be considered based on criteria like education and CPD and we also need to consider the possible impact of this on bringing new advisers into the industry.

</RR>

Proposal SS:
Standards for remuneration arrangements between juristic intermediaries (adviser firms) and their individual advisers.

Comment:
<SS>
Discussions relating to remuneration between advisers and the adviser firms are complex and need to be further explored in relation to the perceived differential between larger and smaller practices.

</SS>

Proposal TT:
Special remuneration dispensation for the low income market.

Comment:
<TT>
This is generally not a market in which the broker plays due to the very low level of premium and complexities around premium collection and will need to be given further thought.

It makes sense to support this but it should be noted that it would not necessarily help with bringing new people into the financial planning space as in many cases potential FPs would not have any affinity with this market.

The danger is that this will effectively prejudice the most vulnerable/worst off?

Challenges lie in the details of how to define the market – probably the solution lies not in the numbers but in the classification of either the intermediary or the product(s) or both but this would add more complexity.

</TT>

Proposal UU:
Remuneration for selling and servicing short-term insurance policies.

Comment:
<UU>
N/A to long term.

</UU>

Proposal VV:
Conditions for short-term insurance cover cancellations.

Comment:
<VV>
N/A to long term.

</VV>

Proposal WW:
Remuneration for direct non-advice sales execution.

Comment:
<WW>
The criteria should be debated and must be clear, simple and “tight”.

</WW>

Proposal XX:
Remuneration for referrals, leads and product aggregation and comparison services.

Comment:
<XX>
Refer to the comments made in Proposal I.

Cognisance must be taken of the practice mainly in the "specialist classes" (e.g. aviation) where a general broker may "employ" the services of a specialist broker to say place an aviation portfolio and there is a sharing of the commission within the maximums as allowed by the Act. **</XX>**

Proposal YY: *Remuneration for investment platform administration.*
Comment: **<YY>** We would again point out that there are different investment platform structures that need to be co-ordinated. **</YY>**

Proposal ZZ: *Binder fees payable to multi-tied intermediaries to be capped.*
Comment: **<ZZ>** We are not in favour of capping binder fees in principle, as the services differ per binder agreement, and would motivate that the fees be agreed between the parties, based on the nature of the services. **</ZZ>**

Proposal AAA: *Commission cap for credit life insurance schemes “with administrative work” to be removed.*
Comment: **<AAA>** See the “no capping” principle above. **</AAA>**

Proposal BBB: *Outsourcing fees for issuing insurance policy documents.*
Comment: **<BBB>** The costs of the issuing of policy documents depend on the nature and complexity of the policy and vary considerably so they should be agreed between the intermediary and the provider. **</BBB>**

Proposal CCC: *General standard: No financial interests may be provided by product suppliers to intermediaries unless specifically provided for in the regulatory framework.*
Comment: **<CCC>** Given that the wording is broad and seems to restrict the income sources of advisers to products/services regulated by the financial markets regulator, there are considerable concerns around the limiting of freedom of choice. While we understand what is driving this proposal we have several concerns: a) We do not believe that it is correct to word the limitation by banning all forms of remuneration unless specifically catered for. b) We believe that there are “add-ons” that should be allowed to attract reasonable remuneration. c) We do not think that the regulator should attempt to interfere with issues that may not relate to pure financial service products. Thus we believe that further discussions around this proposal are necessary. Free market principles should be left to act wherever this is not to the detriment of the client i.e. where the overall costs are not affected adversely. Does this address what they are trying to address? Further discussion is needed as to the nature of the perceived problem to be addressed and alternative methods of going about this. For example, we would request a grandfathering clause with regards to funds with all-in fees. A substantial portion of investments have been developed in such a way that both the platform fee and the adviser fee has been built into the cost of the investment. Not only does this provide benefits from a CGT perspective in that no units need to be sold to cover expenses on the portfolio, but it also prevents such units to be sold when the market is down. As no fees are negotiated outside of these funds all these investments would have to be renegotiated. In addition it is very easy to ring-fence these funds by placing a soft close on the funds whereby no new investments could be made into such funds and to have such funds close down over a five to 10 year period. In any event this could be circumvented by forming “partnerships” with people providing these services in return for an introductory commission. Since these products are not regulated, this could simply result in increased costs to the customer. We would welcome further discussions on this proposal. **</CCC>**