

Hargreaves Lansdown Client Guide to the Platform Paper

The Financial Conduct Authority has today published their long awaited Platform Policy Statement containing the final rules that will apply to all investment platforms, such as the Vantage Service, and other nominee services from 6 April 2014.

At first sight they are exactly what we expected and have planned for. We are confident they will allow us to continue providing you with exceptional service, information and highly competitive pricing now and in the future.

What is the Retail Distribution Review?

The Platform Paper is part of the Retail Distribution Review (RDR), an industry wide regulatory initiative from the Financial Conduct Authority (FCA), the UK's regulator of financial services. The first part of this review related to financial advice and came into force on 31st December 2012. This required financial advisers to have better qualifications, and for a fee to be paid for advice – no commission. The second part of RDR comes into force on 6 April 2014.

We support the aims of the RDR. Hargreaves Lansdown has treated its clients well and acts in an unbiased fashion, but some other financial services companies have not. We agree the existence of commission has been a contributory factor to bad advice by others. We therefore support the removal of commission for financial advice.

What is “commission”?

Some financial products pay commission to companies to help fund the service they provide to clients. Hargreaves Lansdown uses some of this money to help maintain the Vantage Service and returns the rest to our clients through our Loyalty Bonus.

What is the Platform Paper?

The Platform Paper is the second part of the RDR. It extends the same “no commission” principle to non-advised investment platforms like the HL Vantage Service. The FCA perceives that it may be more consistent and transparent if the rules on commission were the same.

How does Vantage work at the moment?

A typical Annual Management Charge (AMC) on a fund available to retail investors might be 1.5%. The fund management company keeps some of the AMC to pay for its investment management work. It passes the rest as commission to discount brokers and/or a platform to pay for the services provided to the client.

Hargreaves Lansdown's Vantage model has been built on creating advantages for clients from this system. We receive commission payments from most fund companies out of the AMC and on most funds can give some back to investors as a Loyalty Bonus. As a result, investing through Hargreaves Lansdown can save substantial money compared to investing directly with a fund company or a financial adviser as we return commission of up to 0.5%. The money we keep pays for free fund dealing, information and the ability for clients to hold funds securely and at no charge.

How will these new rules affect Vantage in future?

From 6 April 2014 Fund Managers will be unable to pay commission to companies like Hargreaves Lansdown for any new funds purchased.

As a result of these new rules Fund Groups are gradually launching new versions of their funds that have a lower headline AMC, often around 0.75%-1%. This AMC covers just fund management. No commission is paid.

In due course we will offer clients the ability to buy “new” funds with no commission attached – once we have obtained terms on these new units that are best value for clients.

As we have always done, we will use our buying power to negotiate the best deals we can for our clients. The Vantage Service is the UK's largest direct investment platform by a significant margin, so we are in an excellent negotiating position on these commission free funds for clients. We intend to conclude these negotiations promptly so that later this year we can publish final details of funds available and the charging structure for holding them on Vantage.

The way your Vantage Service works day to day will not be affected: you will continue to have access to the same accounts and the same range of investments, information and services as now.



Will there be charges to hold these new funds in the Vantage Service?

In order to offer these new funds Hargreaves Lansdown will need to charge clients a fee for holding these funds, as there is no commission on them to fund the Vantage Service. The nature of any fee is yet to be announced but it will be highly competitive. We expect the total cost of investing to be lower or the same for most clients.

The FCA has given 12 months to implement these new rules, although we have been working on many of the necessary changes already and we expect to be in a position to implement them sooner.

If you have any further queries please call our helpdesk, or you may write to Nigel Bence, Chief Operating Officer at Hargreaves Lansdown.

Am I losing out by not being able to buy these units at the moment?

Whilst obviously an AMC of 0.75% or 1% is cheaper than an AMC of 1.5%, the total cost of investing may not be lower when buying commission free funds. It is important that investors focus on the total cost of investing rather than just on the AMC of a fund. Any platform offering these new units has to make additional charges to make up for the fact they no longer receive commission. This can result in the total overall cost being greater, although it depends on the charges levied by platforms, the advice where applicable, and importantly the AMC on the new fund.

As we state above we will offer these units in due course, after we have been through a controlled process to put these units on Vantage at best possible price for clients. Getting the best AMC for clients is very important to maximise client returns in the long run.

We would encourage anyone who likes the Vantage Service and wants access to these units to wait the relatively short time it will take for us to obtain the best prices for you and make these units available.

When will these new fund units be available?

Now the rules have been released we expect to be able to communicate with clients later this year about how the future availability of different types of fund unit will work, what the charging structure will be for holding such units on Vantage, the status of existing units and any changes to charges which will apply.

Do I need to do anything now?

No. Hargreaves Lansdown will always seek to offer the best service, and that includes making sure clients are well served when new options for investing become available. We will, of course, do that in the controlled and sensible manner you would expect of this company and we will write to our clients once we have final details. We expect this to be later this year. In the meantime, the existing excellent value service and investment choices remain.