

The Retail Distribution Review (RDR)

Initial thoughts on how it affects Hargreaves Lansdown

Overview

1. Draft rules have now been published by the FSA to take effect from December 2012.
2. We can see nothing in the draft rules that will be overtly damaging to the HL business model. We can see no significant threats or costs to HL resulting from the proposals.
3. There will be no retrospective changes to existing business in 2012.

What are the key rule changes proposed?

In a nutshell, there are five key changes that we were expecting

1. There will essentially be two key classes of adviser – ‘independent and ‘restricted’.
2. Independent advisers must advise on the whole of the market
3. ‘Restricted advisers’ will be able to limit the range of products they advise on to either the products of one firm (like today’s tied advisers) or the products of a number of firms.
4. As expected, the FSA are banning the ability for product providers to pay commission to advisers from 2012. Instead, advisers will need to agree their charges for their advice up front with clients. Those charges can then be paid by the client by cheque or by deducting the charge from the underlying products recommended. The big difference will be that the product providers will not be setting commission levels. The product providers will only be able to deduct the fees that the adviser has agreed with the client up front.
5. All advisers (both independent and restricted) will need to be more qualified in future.

Impact of the rules on Vantage

The bulk of Hargreaves Lansdown’s Vantage business is execution only. The FSA are **currently** only planning on applying their new rules to **advised** sales of products. The draft rules do not currently apply to execution only business. This means that the bulk of our Vantage business will be able to continue unaffected by the new rules.

In the second half of 2009 the FSA will be conducting a ‘thematic review’ of the fund supermarket/platform marketplace to determine whether to change from today’s position and include Platforms in the new rules.

Impact of rules on our Discretionary Management division

The FSA have confirmed that firms offering services like the HL Portfolio Management Service (PMS) will still be able to call themselves ‘independent’ providing advisers can offer advice on other investments as well. Hargreaves Lansdown already does this.

Impact of the rules on Hargreaves Lansdown’s advisory divisions

Much of our advisory work is already fee based

Most of our advisors already have the QCA level four qualification or are on track to get it.

How will product providers deduct ‘advice charges’ from their products to pay to advisers?

There is still uncertainty about how this will work in practice.

Investment groups will probably create several different unit classes to accommodate different levels of adviser charging

The FSA suggest that fund managers may increasingly rely on platforms to help collect adviser charges. This could be an opportunity.