

29 October 2009

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The logo for UKSIF (UK Sustainable Investment and Finance) is displayed in white, bold, uppercase letters within a grey rectangular box.

Dear Dr Jones

Response to FSA Consultation Paper CP09/18 Distribution of retail investments: Delivering the RDR

Thank you for the opportunity to respond to this consultation.

The Role of the Retail Distribution Review in supporting Sustainable and Responsible Investing and Responsible Ownership of Assets

UKSIF warmly welcomes the overall focus of the Retail Distribution Review on improving professional advice on and distribution of retail investment products. We believe that this is in the interest of consumers wishing both to make money and to make a difference from their investment choices.

We hope that the outcome of the Retail Distribution Review, combined with wider societal trends, will make a major contribution towards our overall vision that sustainable and responsible investing (including responsible ownership of assets) is widely accepted as an option for all investors not just for the deeply committed.

This vision looks to the success of Fairtrade which was formerly seen as a narrow and limited option but is now regularly chosen by a very wide range of consumers. Mirroring the contribution of Fairtrade Fortnight to the growth of Fairtrade, we support this vision through our annual National Ethical Investment Week campaign (see www.neiw.org) as well as through adviser training and other activities.

Specific Question Addressed

Our detailed comments address:

Question 2: *“Do you agree with our proposals for a new standard for independence that requires firms providing independent advice to make recommendations based on a comprehensive and fair analysis of the relevant market, and to provide unbiased and unrestricted advice?”*

and specifically the references to “ethical and socially responsible investments” in Chapter 2, Paragraph 2.14 in the main body of the report and in Paragraph 6.2A.4 G (2) on Page 17 of Appendix A.

About UKSIF

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. Our overall strategic objective is to ensure that the UK finance sector is the world leader in advancing sustainable development through financial services.

UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 200+ members and affiliates

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include independent financial advisers, banks and building societies, retail and institutional fund managers, pension funds, investment banks, research providers, consultants, trade unions and non-governmental organisations. For more information, please visit www.uksif.org.

UKSIF supports the Ethical Investment Association (EIA) as a financial adviser chapter within its membership. Founded by financial advisers in 1998, the EIA is an association of financial advisers from around the UK, dedicated to the promotion of green and ethical investment. Members are committed to increasing access to green and ethical investment advice for individuals, businesses and charities, and to increasing and improving their own professional knowledge. Members agree to abide by a code of conduct and to engage in a continued programme of training and development in the field of green and ethical investment and financial planning.

Question 2 – Ethical and Socially Responsible Investments

UKSIF welcomes the FSA's proposals that specialist financial advisers should be able to continue to provide independent advice only to those clients who wish to take their personal values into account in all their investments ("values-based clients" or "ethical clients").

However, in our view, your detailed drafting is likely to perpetuate out of date stereotypes and inhibit the development of the sustainable and responsible investing field by communicating an incorrect description of this investment philosophy. We believe that this would be to the detriment of consumers, of market confidence and of the transition to the low carbon economy that is needed to underpin financial stability.

Ethical and socially responsible investment (or sustainable and responsible investing, or green and ethical investing as it is often described in the retail space) is an investment philosophy not a set of investment products. As such, it is not a "narrow and defined field" but rather a "wide field with ill defined boundaries". Specialist financial advisers focusing only on this area do not advise on a narrow range of investments – instead, they advise a (relatively) narrow range of clients. They search the whole of the market to identify those investments suitable for their clients' values as well as their financial needs.

More generally, sustainable and responsible investing is an investment philosophy that uses social, environmental, governance and/or ethical criteria in addition to conventional financial criteria. It encompasses any investment suitable for a consumer that wishes to take these criteria into account in their investment decisions for either financial or non-financial reasons.

These investments may include say forestry products, thematic water funds or unscreened funds from product providers who engage with companies on environmental and social issues on behalf of all assets held (sometimes known as "engagement only" funds). With a growing focus on the importance of active ownership by institutional investors and as the transition to a low carbon economy accelerates, the range of such investments is likely to expand dramatically in number. Many will probably not be marketed as "ethical investments" but will be considered by specialist advisers because they may be suitable for clients who wish to take their personal values into account in their investments.

If a client chooses to invest part or all of their portfolio in investments that do not have strategies to address the social, environmental, governance and/or ethical issues that concern them then an "ethical investment only" adviser will refer them elsewhere, as they chose to advise only clients that wish to invest "100% ethically".

The overwhelming majority of advisers specialising in green and ethical investment advice are not "ethical investment only" advisers. Instead, they will provide whole of market advice to clients that wish to take their values into account only for a proportion of their portfolio, to clients with only financially motivated interest in green and ethical investing and to clients with no interest in green and ethical investing at all as well as to "100% values-based" clients.

In our view, the "ethical investment only" advisers provide an important service and so we would urge you to retain the reference to them. However, we would ask you to clarify your handbook text to make clear that they are (to modify 6.2A.4) "Greenfield – providing independent advice to ethical clients" not "independent advice on ethical products".

Suggested Textual Changes

To address the points raised above, we would suggest the following changes to the wording in consultation paper CP09/18:

Chapter 2, Paragraph 2.14

Replace

“independent firms will still be able to opt to provide independent advice on a specialist relevant market – for example, on ethically and socially responsible investments. Firms that do so will need to make this clear to their clients to ensure that those clients are not left with the impression that they are receiving independent financial advice on all retail investment products.”

by

“independent firms will still be able to opt to provide independent advice on a specialist relevant market (for example, specialist Islamic finance products) or to a specific consumer group (for example, clients choosing to use only green and ethical investing strategies). Firms that advise on a specialist relevant market will need to make this clear to their clients to ensure that those clients are not left with the impression that they are receiving independent financial advice on all retail investment products. Similarly, firms that advise only clients meeting certain characteristics (for example, only clients who wish to take their personal values into account in all their investments) will need to make this clear.”

Appendix A, Paragraph 6.2A.4 G (2)

Replace

“A firm whose relevant market is relatively narrow should not hold itself out as acting independently in a broader sense. For example, a *firm* ‘Greenfield’, which specialises in ethical and socially responsible investments could not hold itself out as “Greenfield Independent Financial Advisers”. “Greenfield – providing independent advice on ethical products” may be acceptable.”

by

“A firm whose relevant market is relatively narrow should not hold itself out as acting independently in a broader sense. For example, a *firm* “Sharia Specialists”, which advises only on specialist Islamic finance products could not hold itself out as “Sharia Specialists - Independent Financial Advisers”. “Sharia Specialists – providing independent advice on Islamic finance products” may be acceptable. Similarly, a firm which advises only clients meeting certain characteristics (for example, only clients who wish to take their personal values into account in all their investments) should make this clear.”

Appendix A, Keyfacts, Note A (Page 44)

Replace

“For example, if a *firm* only considers ethical and socially responsible investments, this should be explained here.”

by

“For example, if a *firm* asks a client about their personal values and then considers only those investments that may be suitable for some or all of these values, this should be explained here.”

We would, of course, be delighted to discuss this response further with you, to provide any clarification or background information or to comment on any revised text.

With best wishes



Penny Shepherd MBE

Chief Executive

UKSIF – the sustainable investment and finance association