TRULY INDEPENDENT
Financial Advice for Everyone

SALE OR SUCCESSION

Your IFA Business

FCA Activity to Consider

The process, effort and disruption of selling an IFA practice to a third party is greatly underestimated.

Most financial advisers are able to build good client relationships which turn into good business.

Plenty of new business produces plenty of ongoing business too. But what happens when you decide to retire and sell your practice?

Very few firms who expand by acquisition will want your company as a whole because of the unpredictability of long term complaints that would be included in such a purchase. Instead, a buyer would probably only be interested in your clients and their revenue.

Most practice acquisitions that exist today are done on the basis of client acquisition only which ultimately leaves the seller with a vacuous firm and all the liability; hence the firm closes.

When you look closely at the process and all the activities needed to sell to a third party 'properly' and as guided by the FCA, then the sale becomes less attractive over succession.

Succession as we see it, is the process of passing your business on within the firm. Clients will experience:

- minimal disruption,
- the firm does not need to close
- very little changes, other than the adviser who retires.

It is the simplest and best solution and implemented properly, with the right agreements in pace, it can be legally binding too.

Who Should be Concerned?

- Directly Authorised Firms (DA)
- Appointed Representatives (AR) who are part of a network
- Any financial adviser who has no plans at all
- Registered Individuals (RI) of national firms who have no succession plan in place
- Restricted financial advisers who put money on a platform that is not transferable
- Financial adviser's whose business model focuses too much on high level spending

FCA Report (Feb 2017)

The FCA report (Supervision review report: Acquiring clients from other firms) dated Feb 2017, presents the findings of a recent review of investment advisory firms' practices when acquiring clients from other firms.

The report is relevant to all advisory firms acquiring new clients from other advisory firms. This includes clients acquired from the client banks of individual advisers or other firms and those firms purchasing a whole legal entity.


Financial Conduct Authority

FCA

Supervision review report: Acquiring clients from other firms

February 2017

It focused on:

- Communications provided to clients at the point of acquisition
- Integration of clients into the new service proposition
- Suitability of replacement business recommendations

The FCA Key Findings:

- None of the firms assessed were able to consistently show that clients' needs were suitably considered
- They found that, while firms focused on the commercial benefits, they did not focus enough on how clients were impacted by the acquisition
- Where firms had clearly considered potential disadvantages to clients and designed their practices to mitigate these, this approach was not consistent across all aspects the FCA assessed. This resulted in a potential detriment for clients whose needs had not been appropriately considered
- Outcomes testing of replacement business did not indicate widespread common themes of unsuitability. However, the FCA did identify individual areas requiring improvement for many of the firms assessed.

FCA Required Action for Third Party Acquisition of Practices or Clients

The following 7 key points are taken directly from the report and summarised in a listed format for ease of identification:

1. Communications to Clients:

A firm will provide enough information to meet the FCA requirements to treat their clients fairly, pay due regard to their information needs and communicate information to them in a way which is clear, fair and not misleading. Hence, at the start of the relationship, clients should be:

- Informed of the services offered by the acquisition firm/adviser and the associated level of charges
- Told of any differences between the services offered by the new firm/adviser and that provided by the previous firm/adviser
- Told of any difference to the tax (VAT) status of the ongoing service charge
- Offered the chance to opt-out of any ongoing service that the new firm intend to provide
- Informed if historic advice responsibility was not taken over by the new firm/adviser
- Told how they could complain about advice given by the original firm

2. Client Agreements:

The new firm/adviser must recognise where the contract between the original firm and the client does not allow ongoing services to be transferred to the acquiring firm.

- Acquiring firms must obtain the client's agreement before providing and charging for their services
- Firms must ensure they comply with their legal obligations under the contract and relevant unfair terms legislation
- Where a new agreement is required, firms must always ensure they have the client's authority before arranging for facilitated adviser charges to be redirected to their own bank accounts
- The new firm cannot rely on the disclosure provided by the original firm and must adhere to the requirements placed on them by the adviser charge disclosure rules
- Adviser charge requirements must provide information to include details of the services the new firm provides, the specific monetary amount of the ongoing charge to the client and, where applicable, how this charge may change if it was calculated as a percentage of invested assets

3. Provide Facilitation of Adviser Charges

Rules require retail investment providers and platform service providers to obtain and validate instructions from a retail client, in relation to an adviser charge they offer to facilitate. Hence, where the acquiring advisory firm has not established the client's agreement to the adviser charge, the provider firm cannot validate the client instructions.

- Providers and platforms are reminded of the requirement in COBS 6.1B.9R(1) for a client's instructions to be obtained and validated before facilitating the payment of adviser charges
- Where a facilitated payment will be redirected to a different advisory firm the FCA expect firms to ensure instructions have been obtained and validated from the client

4. Conflicts of Interest

The rules of inducement require firms to consider if advanced payment as part of acquisition creates bias towards particular investments, putting them in breach of the adviser charging rules.

- Adviser remuneration cannot be structures to incentivise personal recommendations to a firm's clients to take a particular course of action; it is a conflict of interest
- Valuation and therefore the adviser remuneration should be calculated to encourage or be in line with the level of initial adviser charges generated for replacement business
- Firms should have appropriate systems and controls in place to ensure advisers act in the best interests of the client

5. Service Integration and Suitable Data

Where firms have a strategy for acquisitions, the FCA expect this to be clear and well defined. To deliver a robust quality of service to their clients, this strategy should fit the firm's capabilities in the short term when first integrating clients, and also for the longer term service they offer.

- Firms must have adequate planning and resources to avoid possible difficulties to meet the increased service standards for acquired clients
- The new firm should not accept ongoing charges for acquired clients where the new firm has no contact details for them; has incorrect details of the client; or the clients were unresponsive to offered services
- Ongoing adviser charges can only be received by a firm that is providing ongoing service to a client. This means that, where a firm is unaware that the ongoing service is not, or cannot be provided to an individual client, it should ensure that the ongoing charges are stopped and, where appropriate, refunds made. Where possible, the firm should let the client know when it plans to take any of these actions.

6. Appropriate charging structures

A firm must determine and use an appropriate charging structure for calculating its adviser charge for each retail client. It must disclose its charging structure to a retail client in writing in good time before making a personal recommendation (or providing related services).

- A firm's charging schedule should reflect, as closely as practicable, the total adviser charge to be paid. For example, a wide range of charges should not be used.
- Firms cannot allow advisers discretion when applying discounts. This means that, the firm's schedule of fees may no longer be representative of the actual charges incurred by clients.
- Firms must have a clear policy of charging for replacement business, with no decisions being left to individual advisers.

7. Suitability of Replacement Business

To ensure it is acting with the client's best interests, where a firm's advice is to switch or transfer an existing investment to a new investment, The FCA expect it to carry out a cost comparison between the two solutions. One cost a client may incur is a contingent initial adviser charge, levied if the client goes ahead with the new recommendation.

- Firms must always be considering the impact of contingent initial adviser charges on the future value of the client investments, as a consequence of sale.
- The FCA expect all relevant costs incurred by the client to be considered in determining the suitability of the recommendation to switch or transfer investment business (see COBS 6.1A.16G).

Adviser Succession Practice Buy-Out

The main points and sub-sections as identified throughout this report are just a few demanding tasks The FCA expect the buyer and seller to undertake when acquiring clients from a third party, and all due to the new way of working following the implementation of RDR.

No one really wants to buy a firm because of the potential client liabilities and providers or firms that have interest in client funds under management, just want the client assets.

However, our succession is a simple alternative:

Our Approach

The firm, Truly Independent Ltd remains in place so there is no transfer of servicing, no change of client agreements, no sale to providers to consider, a consistent service remains and client web portals do not change. There is no conflict of interest, all charges and charging structures remain without change and any suitability for future replacement business is not a consideration in sale of acquisition.

Simple

The only change is the servicing adviser to the clients of the firm. As one adviser retires, another buys his practice. Official and legal documentation is in place to ensure an internal ‘adviser agency’ acquisition takes place with minimal disruption to the clients.

- They only need to be informed of an impending adviser change
- No other activity is needed

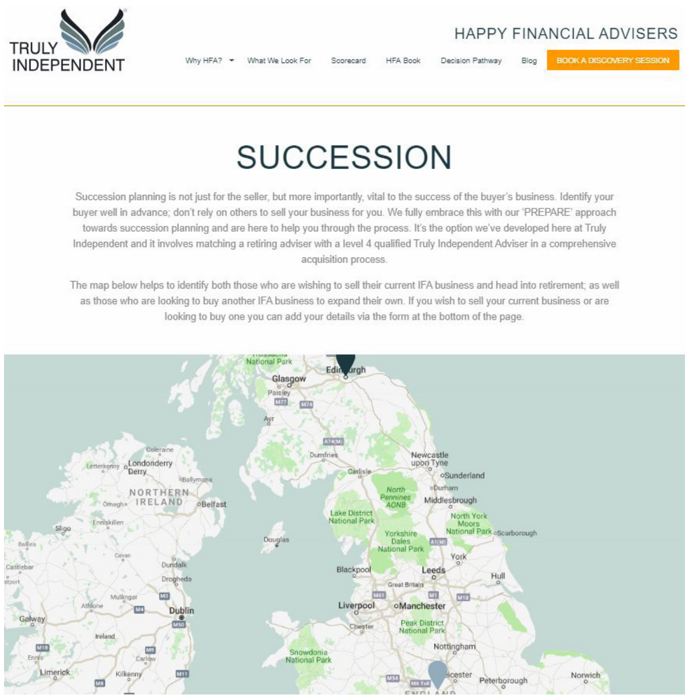
Next Steps

For more information on our approach to your retirement and our succession, request a brochure or go to our Happy Financial Adviser website and request a Discovery Session.

Buy or Sell

We set up a ‘PREPARE’ approach towards succession planning and are here to help you through the process. It’s the option we’ve developed and it involves matching a retiring adviser with a level 4 qualified Truly Independent Adviser in an acquisition process.

The map identifies both those who are wishing to sell their IFA business and head into retirement; as well as those looking to buy another IFA business to expand their own.



Time for Action?

Succession takes preparation so take action now and contact us if:

- you are relying on others to sell your business for you
- don’t have a fully worked out plan
- don’t know who will buy your business, when or how
- have not got a list of potential buyers
- don’t possess a detailed prospectus of your business
- lack confidence in existing buy-out propositions
- have a business strategy with no exit plan

For further information:
info@trulyonline.co.uk
www.happyfinancialadvisers.co.uk