



Ethical Investment Association

This paper represents the EIA's response to FSA paper CP157 entitled *Examination Framework for Retail Financial Services (Investment Advice Strand 1)*. Given the time constraints, the response will be in the form of bullet points, answering or commenting on issues raised in CP157. Following the order of the original paper, our comments are as follows: -

- 2.1 We agree with your intention not to review the current examination requirement for the activities of Pension Transfer Specialist (i.e. G60) and Broker Fund Manager (i.e. G70).
- 2.2 We agree with your intention not to review the current examination requirement for the activity of Advising on Syndicate Participation at Lloyds.
- 2.3 We agree that modules should be developed for Employee Benefits and Corporate Business. In particular, we would like the content to cover Group Pension Schemes and the requirement for a Statement of Investment Principles. We want advisers to be very well aware that scheme trustees must consider some form of ethical investment or socially responsible investment (as defined below) when deciding how to invest the scheme funds. In order to advise the trustees appropriately, we believe advisers must have a good understanding of ethical / socially responsible investment.
- 3.1 In principal, we approve of the modular approach. We believe the savings and investments module should be 'core' knowledge for advisers of all products (including 'lower risk' products such as CAT marked vehicles). We strongly believe the savings and investments module should include a broad introduction to and understanding of ethical / socially responsible investment. We further believe that the Taxation and Trusts module should be split in two. We feel all advisers dealing in investments should at the very least have a basic understanding of the related taxation, be it in relation to the act of making the investment, funds within the investment, and proceeds in the hands of the investor.
- 4.1 Our overriding concern with regard to learning outcomes is that ethical / socially responsible investment is no longer left out of syllabi or study material. We believe ethical / socially responsible investment now occupies a more mainstream position in the field of retail investment advice, and is less of a niche / specialist area. In addition to the above comments on the Savings and Investments module, we would also like the Advice Skills and Needs Identification module to include an introduction to ethical / socially responsible investment fact-finding. One of the key issues with ethical / socially responsible investment advice is the need to accurately identify the clients ethical profile, that is to say their attitude to certain ethical factors, such as *manufacture of armaments; environmental pollution; oppressive regimes; nuclear power; pornography; tobacco production and sales* etc. Once the ethical profile is established, the adviser then needs to understand how best to match it to a fund that would also satisfy the clients attitude to investment risk. If a perfect match is not achievable, then advisers need to understand how to create an acceptable compromise.
- 4.2 With regard to assessment objectives, we would like modular assessments to test basic understanding / knowledge and also application skills. Knowledge is useless without understanding how to apply it in practical circumstances. The cheapest, fastest and most

efficient method of assessment is multiple choice questions. However, care must be taken in setting the questions to make sure candidates are made to think, and apply their knowledge.

- 4.3 We have no comment on the linking of modules to the National Qualifications Framework.
- 4.4 We have no comment on the linking of designations with the examinations framework.
- 5.1 We have no comment on the proposed transitional arrangements.
- 5.2 An exemption policy should be based on the principle that individuals are deemed exempt from taking these modules if they have demonstrated in the past (i.e. by examination) that they have achieved this higher level of knowledge and application. A typical example here might be AFPC exams. However, AFPC exams are quite specialised, so it may well be that an individual with AFPC would still need to take some of the modules if they are also active in other areas. For example, someone with G10, G20 and G30 would have AFPC. However, they do not hold a higher level of pension / retirement planning qualification.
- 5.3-4 We do believe the existing form of supervisory assessment is satisfactory. Existing Training & Competence requirements are very effective when a firm that practices good business ethics implements them. Supervisory assessment by file checking, observation of meetings, one to one discussions etc are very good. We do not therefore agree with an overly prescriptive approach, where written assessments / tests are carried out say every 3-6 months.

However, we do recognise there may be a less attractive element in our profession that does not practice good business ethics, whose clients would be afforded greater protection if they were given a more prescriptive T&C regime with regular testing. In this respect, a prescriptive approach should not be applied to all firms, but perhaps only to those firms that the FSA has identified as being outside the 'low risk' category.

With regard to 'low risk' firms, FSA could carry out desk based monitoring of their T&C regimes, on an annual basis, with a fairly simple paper or on-line return.

Definitions

"SOCIALY RESPONSIBLE INVESTING (SRI) and ETHICAL INVESTING are terms that refer to the practice of making investment decisions on the basis of both the financial and social performance of a firm, and entering into a dialogue with firms (as shareholders or potential shareholders) to help them improve their social performance. Most retail funds also practice the approach of excluding firms from the list of allowable shares (on the basis of specific negative criteria), and then applying the above approach on the remaining shares."

Modular Study Texts

We are encouraged that more and more syllabi and study texts are seeking to include ethical / socially responsible investment. However, we are very keen to ensure that the study material and examination questions offered to candidates in respect of ethical / socially responsible investments is accurate and correct, and are ready and willing to help with regard to the authorship of the relevant chapters for study texts, and question setting for exams. Please call on us to help in this respect. For your reference, our website address is www.ethicalinvestment.org.uk and the author of this paper is Dr Robin Keyte of Towers of Taunton (Financial Services) Ltd (tel. 01823 324432).

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