

29 March 2006

Michael Lord  
Small Firms Division  
The Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

Copy to: *Stephen Bland – Director of Small Firms Division ; Mandy Spink – Retail Intermediaries Sector;  
Toby Wallis – Consumer Sector; Sue Burness – Consumer Panel*

Dear Michael,

### **Investing Responsibly**

Thank you for your letter dated 8 December 2005. I am now in a position to respond on behalf of the Ethical Investment Association and believe Penny Shepherd of UKSIF will be writing to you separately with their comments.

### **Occasional Papers**

Thank you for your comments on Occasional Papers that you say must make a substantial contribution to knowledge and understanding in the area of financial regulation. Indeed, you comment that in the past Occasional Papers have covered amongst other things the structure and development of the financial services industry.

Having consulted the FSA library it strikes me that a number of the Occasional Papers published to date do not have a sole focus on the area of financial regulation, and indeed are aimed at a wider audience including intermediary firms and even consumers. I refer specifically to the following:

<b>Occasional Paper Number</b>	<b>Occasional Paper Title</b>
OP8	Saving for retirement: how taxes and charges affect choice.
OP9	Past imperfect? The performance of UK equity managed funds.
OP13	Paying for pensions.
OP18	To switch or not to switch, that's the question. An analysis of the potential gains from switching pension provider.
OP19	Losing interest: how much can consumers save by shopping around for financial products?
OP21	Stopping short: why do so many consumers stop contributing to long-term saving policies?

You are concerned that if you take a positive stance, you might be seen as endorsing particular investments and interfering with the market.

We have not asked FSA to do this in our submission and do not wish for you to interfere with the market in such a way.

You mention that it is not your function to comment on the particular merits of certain funds.

Again, we have not asked FSA to do this in our submission and do not wish for you to do so.

Our aim is to raise awareness amongst advisers of the differences between funds that could be described as “investing responsibly” and funds that do not. Whether these differences are regarded as merits depends entirely on the viewpoint of the reader, we are not seeking for the Occasional Paper to present the differences as merits.

You might say such differences are akin to those between actively managed funds and passively managed funds. Neither route is clearly better, but advisers should have a good awareness of both.

Our experience to date in dealing with the FSA and also FOS has been that there is generally a low level of awareness of socially responsible investment and all that is involved with it. This would be understandable if FSA and FOS recruit mostly from the financial services industry, where there is a correspondingly low awareness of socially responsible investment.

An Occasional Paper on socially responsible investment would be very helpful in raising the awareness of FSA employees to this area. At the same time, the paper could raise awareness of intermediaries to this area which in our view would make a substantial contribution to financial regulation.

The Occasional Paper we propose might be titled “Structure and development of socially responsible investing”. It could cover:

- a review of the history of socially responsible investment to date
- a summary of the current offerings under socially responsible investment (this need not list all related product providers or funds, but could deal with matters mostly generically)
- a projection of the potential future demand for socially responsible investment as consumer awareness to environmental and other issues increases and consumers seek ways to align their investments with their personal values
- advice related issues, how to factfind a client on ethical criteria and ways that funds might be identified that match those criteria

## **Education**

We welcome your comments that ethical investment funds are included in your consumer leaflets and on your consumer website.

However, we wish to discuss further your comments that “if a firm does not have a specific ethical investment question in the factfind we would expect financial advisers to be able to discuss it if raised by a client”.

Regrettably it is our view that the majority of financial advisers would not be able to discuss it in a competent manner if raised by a client as:

- the majority of financial advisers are FPC qualified and hence did not cover socially responsible investment during their studies
- the majority of financial advisers do not have socially responsible investment listed as a training need under their Continuous Professional Development Training Needs Analysis.

So, whilst the FSA might “expect financial advisers to be able to discuss it if raised by a client”, the reality is that in most cases they are not able to do so in a competent manner.

Given the above, placing the onus on the consumer to raise / volunteer the issue of socially responsible investment would require the consumer to have a greater degree of financial capability than the adviser on the subject of socially responsible investment. Is that reasonable?

Your consumer literature and website only reaches a very limited audience. Similarly, the efforts of the EIA and UKSIF only reach a limited audience. It is only the very small minority of consumers that are going to know all about socially responsible investment before they go to see an IFA.

Also, what about circumstances where there is mutual ignorance of socially responsible investment, where the awareness of the adviser is too low, and the consumer does not know it is even available?

Let us look at Quakers for a moment, who generally have firm views on non-violence, disarmament, communities, human rights, education. How many Quakers realise that socially responsible investment funds are available to them? For those that do not, does the FSA believe it is acceptable for an IFA to act in ignorance of socially responsible investment and recommend investments that are totally at odds with their client’s beliefs. This does not seem to fit with Treating Customers Fairly.

Members of the Ethical Investment Association are often the 2<sup>nd</sup> or 3<sup>rd</sup> IFA that clients have tried, and their reason for coming to our members is primarily because we offer advice on socially responsible investment, and given the choice, they would like to align their investments with their personal values.

Indeed, this is one example of consumer detriment, had clients of EIA members received the right advice first time around which took account of their concerns on social, ethical and environmental issues, they would not have to pay our members for further advice later to sort it all out.

We have asked our members to start gathering data on this so we can provide you with hard evidence of consumer detriment.

### **Treating Customers Fairly**

You have not commented on the part of our submission relating to Treating Customers Fairly. We believe that for IFAs to treat their customers fairly, they should at least be asking the ‘ethical question’.

On the case of IFAs that do not ask the 'ethical question', or do not have socially responsible investment listed in their Training Needs Analysis, they should openly declare to their clients (perhaps in their Key Facts documents) that their advice service does not cover this area.

Our overriding impression is that the current situation is very unsatisfactory. We would welcome the opportunity to meet with you and your colleagues to discuss ways in which the situation might be improved and are willing to help in any way we can.

If you have any queries, please do not hesitate to contact me on 01823 324432, or by e-mail on [robin@towersoftaunton.co.uk](mailto:robin@towersoftaunton.co.uk)

Yours sincerely,

Dr R W Keyte APFS

On behalf of the ETHICAL INVESTMENT ASSOCIATION