FCA GUIDANCE
ON PENSION TRANSFER ADVICE

Following a consultation paper issued in June 2017 and subsequent feedback from industry stakeholders, the FCA has published its latest guidance and expectations around pension transfer advice. The paper – Policy Statement 18/6 https://www.fca.org.uk/publication/policy/ps18-06.pdf clarifies a number of key issues which are summarised below:-

Starting point for advice – Contrary to the consultation paper, the starting assumption that a transfer of safeguarded benefits will be unsuitable for the client remains in place. The FCA believes this will provide additional safeguards at a time where it consults on adviser remuneration models and contingent charging in particular.

Requirement for a personal recommendation – All advice on the transfer and conversion of safeguarded benefits must include a personal recommendation to either transfer or remain in the current scheme. The FCA believes this will provide greater protection for the consumer.

Role of the Pension Transfer Specialist – The FCA's existing rules mean that only a Pension Transfer Specialist (PTS) can give or check advice on pension transfers. However, the FCA is concerned that in some cases the PTS's involvement has been cursory or limited to certain technical specifics. The new guidance states that the PTS must:

- Check the entirety of the advice process, not just the numerical analysis, and consider whether the advice is sufficiently complete
- Confirm that the personal recommendation is suitable
- Inform the firm in writing that they agree with the advice, including any recommendation, before the report is given to the client

Qualifications of a Pension Transfer Specialist – The qualifications required to be a PTS are subject to discussion in a new consultation paper CP18/7 https://www.fca.org.uk/publications/consultation-papers/cp18-7-improving-quality-pension-transfer-advice

The FCA has suggested that a PTS should also be equipped to give investment advice. Especially as the investment proposal plays a key role in assessing the viability of any pension transfer.

Appropriate Pension Transfer Analysis (APTA) – The current Transfer Value Analysis (TVAS) requirement is to be replaced with the requirement to provide an APTA. The APTA will take into account the client's future cash flows and income needs and the role of both the ceding and replacement scheme in meeting those needs.

The APTA must also include a **Transfer Value Comparator (TVC)**. This is in a prescribed format and will illustrate the cost of replacing the safeguarded pension benefits in a defined contribution environment.

Overseas Transfers – The policy statement confirmed that the APTA can be utilised equally for transfers to QROPS and the FCA commented as follows:-

"We consider that our approach can accommodate overseas transfers. It is clear that overseas transfers are often complex, that advice needs to be detailed and that it will often involve working with an overseas adviser. A model involving two advisers is already common for DB transfers and we consider that this approach can be adapted for overseas transfers, while recognising that there are additional complexities."

The FCA confirmed that the local characteristics of the overseas transfer should be incorporated into the APTA and that any limitations of the advice must be made clear. Due consideration must also be given to other factors such as any tax bill created by the overseas transfer.

On the subject of commissions the FCA stated that *"we already expect advisers to disclose any commissions payable on overseas investment"*.

When do the new rules take effect?

The majority of the new rules came into force on 1st April 2018. The Appropriate Pension Transfer Analysis and Transfer Value Comparator will be required from 1st October 2018.

Summary

The final guidance generally follows the proposals set out in the original consultation paper meaning there are few surprises. The policy statement provides welcome confirmation that overseas advisers may continue to work alongside their UK counterparts to ensure full breadth of advice.

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