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Confusion surrounds adviser charging rules for platforms

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The FSA remains undecided over how to apply its adviser charging rules to platforms less than three months before a planned Policy Statement and amid growing calls for the total unbundling of costs.

According to sources invited by the regulator to discuss platform charges, the FSA is concerned by what it calls the "significant variation in the nature and transparency of platform charges".

However, it appears unsure how to address the issue despite many in the platform industry believing unbundling of charges is the likely outcome.

A Policy Statement on adviser charging - designed to remove the potential for product or provider bias from the advice process and a central tenet of the RDR - is due for publication before the end of March.

According to a study conducted by financial consultancy CWC Research, advisers are in favour of overt platform charges.

However, some question whether a detailed costs breakdown would be beneficial to consumers.

Pete Chadborn, who runs CBK Colchester, says: "There are two sides to this: Yes, platform charges should be as transparent as possible, because that is what advisers and their clients will expect.

"But they also need to be easy to understand. If platforms are forced to unbundle every cost, it will simply add another tier of complexity to the advice process."

David Norman, founder of TCF Fund Managers, says mutual funds' portfolio transaction costs are an example of charges often "hidden" from the end consumer.

In its first RDR paper, published in June 2007, the FSA announced one of its key objectives would be to "reduce the conflicts of interest inherent in remuneration practices and improve transparency of the cost of all advisory services".

It said although some platforms charge investors an explicit fee, later passing on any product discounts or rebates, others operate a bundled, or ‘supermarket-style', pricing system. In the latter case, it said, the share of product charges paid to the platform provider is "not generally visible" to advisers or their customers.

Malcolm Murray, marketing director at platform Transact, says: "In our view it [platform costs] must be unbundled. If the charges aren't completely transparent, it can take five or 10 years for the client to discover what the true cost to them has been."

But Clive Waller, founder of CWC Research, says there is a "genuine argument" for having bundled costs.

"If you told clients every single cost behind an investment sale they will have an overload of information," he says. "But what they have to know is the total cost - how much of their investment is actually invested."

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