SIPP Thematic Review Pilot Exercise and Final Guidance

Q: What is the underlying reason behind the latest thematic review which follows two previous reviews?

We stated in our original Guidance in Oct 2012 that “we expect to undertake more supervisory work” so hopefully this should not be a big surprise that we are now looking at how firms have implemented our Guidance and now expect all SIPP operators to demonstrate that they are meeting our requirements. We believe undertaking this work is necessary as we continue to uncover evidence of firms breaching our rules and their responsibilities, to the detriment to consumers.

Q: The pilot exercise requests information on standard investments? Has the FCA determined its own definition? What about grey areas? Does an ETF get classified as a fund or an equity? What about corporate bonds, NS&I products or property funds to name a few? Why are some of these grouped as other standard investments?

The asset groupings for the data request follow recognised asset classes and align to a degree with those the FSA consulted on as ‘standard’ for capital adequacy requirements in CP12/33. The Guide highlights that the ‘Other Standard Investments’ category is to capture those assets classes that don’t fit naturally within other groups e.g. Exchange Traded Products (including ETF’s) and Structured Products. Though, the Guide is being updated for the full roll out of the project to show that Corporate Bonds should be categorised under ‘Fixed Interest’, not ‘Other Standard Investments’. In respect of NS&I products, it will depend on what the underlying product/structure is as to where these should be captured e.g. bonds would be placed under Fixed Interest. Property funds would be captured under Unit Trusts / OEIC’s as this is the asset structure, though we recognise the underlying holdings are property.

Q: The thematic guide refers to gold bullion as non-mainstream however this is easily priced, easily traded and highly liquid. Why is it classified as non-mainstream in the SIPP context?

As outlined above, the asset groupings for the thematic data request follow to a degree those the FSA consulted on as ‘standard’ for capital adequacy requirements in CP12/33 and as such gold bullion is not classified as a standard asset. However we recognise that there are some circumstances where gold bullion could potentially meet the criteria for a standard asset in CP12/33 in that it;

"must be capable of being accurately and fairly valued on an on-going basis, readily realised whenever required (up to a maximum of 30 days), and for an amount that can be reconciled with the previous valuation.”

Going forward, we are open to consideration that Gold Bullion could be considered as a standard asset, though for the purposes of this thematic review your members should still categorise it under ‘Other non-mainstream assets’.  We do not believe this will affect the analysis being undertaken for this thematic review.

Q: Would the frequency of valuation persuade you that an investment could be classified as standard rather than non-mainstream?

We do not have a set frequency of valuation for when an asset is classified as standard. As per the standard assets criteria above in the capital proposals we are of the opinion standard assets must be capable of being accurately and fairly valued on an *on-going* basis.

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Q: What is the relevance of the interest rate on cash being provided to clients?

Although SIPP Operators are now required to disclose the interest rates on cash provided to clients and the rate that is being retained, the SIPP thematic review is requesting both the current rate on the cash account  provided to the client (i.e. the default account) and the *average* rate that is retained.  This is allowing us to form a view on how often clients/ consumers are receiving the full rate provided by the Bank, but also allowing us to determine the an average amount of money a SIPP Operator might be deriving from retained interest. This is in line with the FCA’s approach to understanding how firms make their money to better understand the business models of firms.

Q: Data on pension transfers has been requested. Is this required for all pension transfers or just those from occupational schemes?

This is required for all pension transfers both personal and occupational.

Q: Many SIPP operators use the services of a Discretionary Fund Manager (DFM). They presumably have reporting requirements to the FCA and yet SIPP operators are being asked to supply similar information. Is there a danger of reporting overload and double counting?

Discretionary Fund Manager’s do not provide breakdowns of their assets classes to the FCA at an individual client level. This request is therefore not double counting from regulatory reporting or from any previous information request to DFM’s. Our understanding is that SIPP Operators and the Trustees (as the legal owners of the assets held within their schemes), should know what assets are held within their schemes on behalf of their members.