

## **Corn on the COB**

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While Northern Rock, the developments in the sub-prime market and the fall-out of the retail distribution review are all getting good coverage in the papers at the moment, financial advisers need to get to grips with the imminent arrival of the FSA's new conduct of business sourcebook.

As from 1 November the FSA requirements set out in COBS will apply. COBS will replace COB, although we could have done without this poor title distinction. The reasons for the changes are the move to more principles-based regulation, the improvement to the structure and presentation of the rules and the implementation of MiFID. COBS will be less prescriptive, giving advisers greater responsibility, choice and flexibility to deliver the required FSA outcomes for retail customers. MiFID-affected firms will be required to make significant changes to the way they conduct business and non-MiFID firms will see some changes as well.

The changes will include 'customers' becoming 'clients', 'private customers' becoming 'retail clients', 'intermediate customers' becoming 'professional clients' and 'market counterparties' becoming 'eligible counterparties'. Changes have been made to the financial promotions requirements in that the FSA has removed the prescription and you may no longer need to use specified product-specific risk warnings. 'Terms of business' have been replaced with 'client agreements' and there have been significant changes to the use of IDD and the menu. A 'suitability letter' will become a 'suitability report' and COBS has a single suitability standard: you must collect the information necessary to achieve the outcome of a suitable recommendation.

Firms should review COBS and make the necessary changes to their business operations and compliance functions. Assessing suitability is a key area and the drafting of the new 'suitability report' needs to be carefully considered. The FSA has published some useful guidance on its website to work out the impact and to decide on how best to move matters forward.

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