worthstone
inspiring impact investment

FCA Call for Input: Regulatory Barriers to Social Investments

Worthstone Consultation Response

15th March 2016

Executive Summary

The UK financial services market leads the way in the area of social investment (SI) and Worthstone welcomes the FCA taking a lead and examining where they can bring about valuable changes.

Worthstone exists to help bring SI to maturity amongst the wealth advisor community. Within this review we look to collate information we have gained from:

- our knowledge of the market
- two surveys relating to the Social Investment Academy event on March 2016
- canvassed opinion from a selection of financial advisor firms.

Our quantitative and qualitative research shows:

- a significant proportion of advisors are talking to clients about SI, albeit this appears to be with a limited number of their clients
- there is evidence of growing consumer demand for SI
- a very high proportion of advisors believe that to some extent current regulation is a barrier to recommending SI to an appropriate client
  - Combined with the evidence of the proportion of interested consumers, without further guidance from the FCA this may result in an 'advice gap' in this area
- a continuing theme from advisors is the concern over PI insurance and the Financial Ombudsman Service (FOS) related to SI advice.

From our research and experience, we believe the following five key areas need to be addressed:

1. **Consumer demand for social investment**

There is evidence of interest from the majority of investors when an advisor raises the subject but currently advisors are only speaking to a small proportion of their clients on this topic. It appears concerns related to regulatory matters may contribute.

2. **Clarification and guidance on 'suitability' as it relates to social investment**

This is clearly an area which advisors feel requires clarification because of the potential recalibration of the primary motivation (between financial and social) of investors considering the discrete deployment of capital for SI.

3. **Categorisation of risks under SITR**

There is a distinct difference in the underlying investments of SITR Funds and EIS Funds which may well be relevant in considering risk and in particular predictable exit. Therefore, when considering SITR Fund investments, the focus needs to be more on a client's capacity for loss than their tolerance for risk or appetite for financial reward.

4. Professional Indemnity Insurance (PII) challenges

When obtaining cover for this area of advice, the impact on the advisors premium if this area of advice is deemed to have excessive risk and the potential future re-broking of cover once SI advice has been given are all clearly of major concern for advisors.

5. The need for Accredited education, training and competence assessment

We believe accredited education, training and assessment is one of the key strategies for bringing SI to the mainstream of the RIA market because consumers, PI insurers and regulators can take comfort in knowing advice is being offered by people who have invested in themselves by acquiring qualifications within such a specialist environment.

Recommendations

1. There is a need for clear guidance on suitability in this discrete area.

2. The publication of guidance should converge with the expansion of the SITR scheme to enable the market to fulfil its potential whilst maintaining the appropriate protection of investors.

3. Any guidance should include specific details on how the FCA categorise SITR which will help to provide a framework for PII brokers and underwriters to assess potential risk.

4. The FCA should support the initiative of an accredited training module on SI.

Introduction

Introduction to Worthstone

Worthstone exists to help bring social investment (SI) to maturity amongst the wealth advisor community. We are focused on delivering a service exclusively in the area of SI and exclusively to regulated investment advisors (RIAs) including financial advisors, financial planners and wealth managers. We are a social purpose business ourselves.

Worthstone Knowledge Base

Market Knowledge

We have been delivering services to RIAs as well as carrying out qualitative and quantitative research on the triggers and barriers in this market with in excess of 500 unique RIAs and professional services individuals (lawyers and accountants) over the last 4 years. We have published research commissioned by Big Society Capital, the City of London and Nesta on this market as well as helping Cabinet Office and HM Treasury with our specialist expertise. We have also established the Social Investment Academy, the leading forum for retail social investment advisors, product providers and key market participants.

Social Investment Academy (SIA) 2016 surveys

Live Audience Survey

- Delegates were posed four questions, each with multiple choice answers and were asked to vote on which answer best met their response
- The number of responses for each question varied slightly as delegates took different amounts of time when answering; this averaged out to approximately 70 delegate responses per question[1].

Post-SIA Feedback Survey

- Worthstone carried out a post-event survey of Social Investment Academy delegates
- Within this feedback survey, we included two questions for use in this report
- We included responses within this report only from Financial Advisors/Wealth Managers as they are of most relevance, i.e. 43 (see flowchart in Appendix B for full details on response rate).

Opinion from a selection of financial advisor firms

This comprises responses from Financial Advisors when asked to submit a regulatory question(s) for the FCA on SI (see Appendix A).

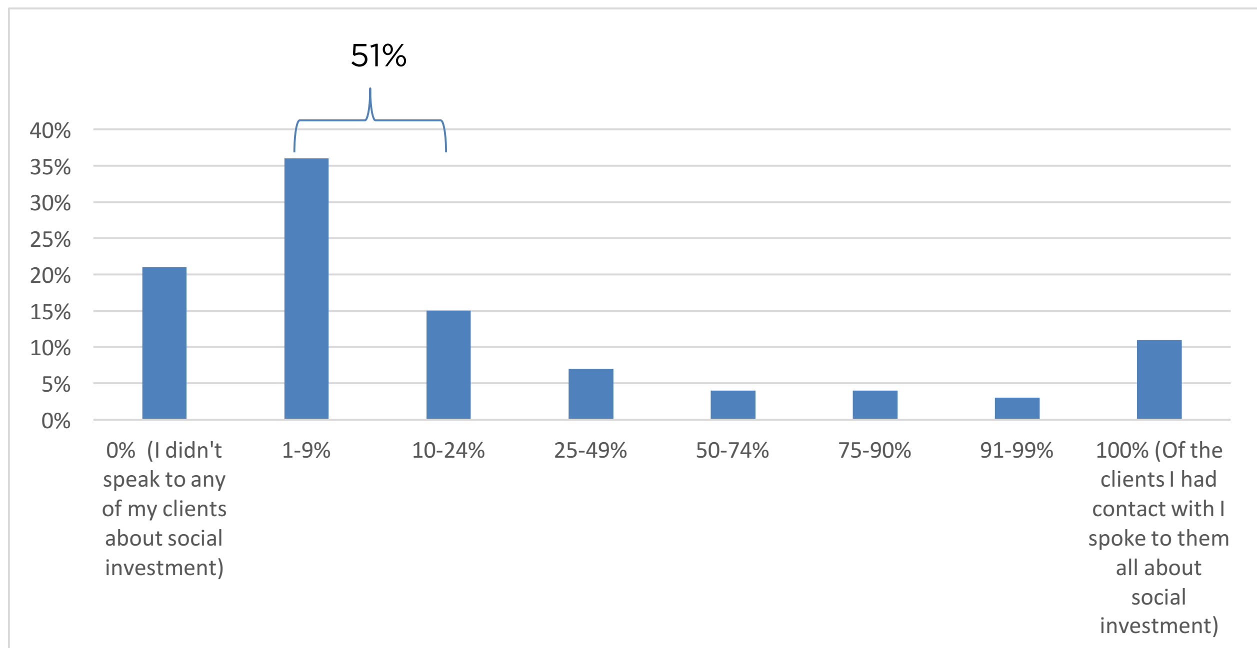
[1] Although this is a relatively small sample from a research perspective, it is a sample of the financial advisors who are likely to be most interested in this area by virtue of the fact that they have committed resource (time and cost) to attend the Social Investment Academy.

Consumer demand for social investment

Data on advisor engagement with their clients and current investor interest in social investment was gained from responses to the following questions:

Question: Thinking about the calendar year 2015, with what percentage of your clients that you had contact with, did you discuss social investment?

Figure 1. Live audience survey, SIA '16 (approx. 70 Financial advisor/wealth manager responses)



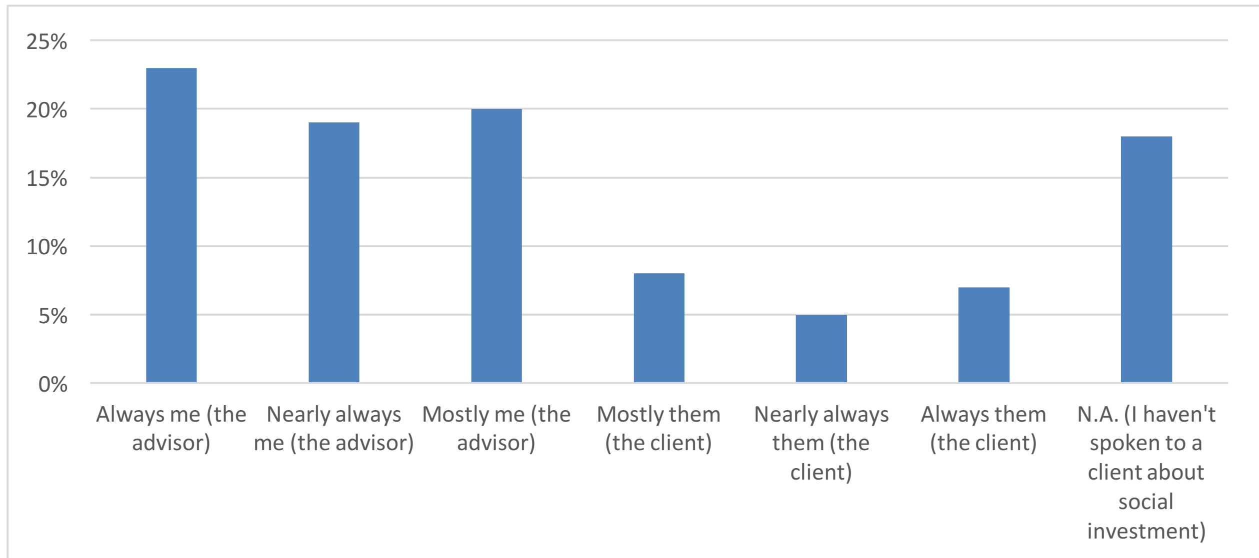
- nearly 80% of respondents are discussing SI with clients they had contact with last year, which is encouraging
- just over a tenth (11%) of advisors discussed SI with 100% of their clients with whom they had contact
- in excess of a third of respondents (36%) indicated that last year they had discussed SI with only 1-9% of their clients with whom they had contact
  - This increases to over half (51%) when looking at 1-24%.

Therefore, although there are many advisors discussing SI, they are only talking to a small number of their clients. This might be expected considering that these investments have previously often been held in wrappers which can be deemed suitable for a small minority of clients.

Question. Thinking about who raised the topic of social investment in those discussions with clients, would you say it was:

a) Always me (the advisor)
b) Nearly always me (the advisor)
c) Mostly me (the advisor)
d) Mostly them (the client)
e) Nearly always them (the client)
f) Always them (the client)

Figure 2. Live audience survey, SIA '16 (approx. 70 Financial advisor/wealth manager responses)[2]



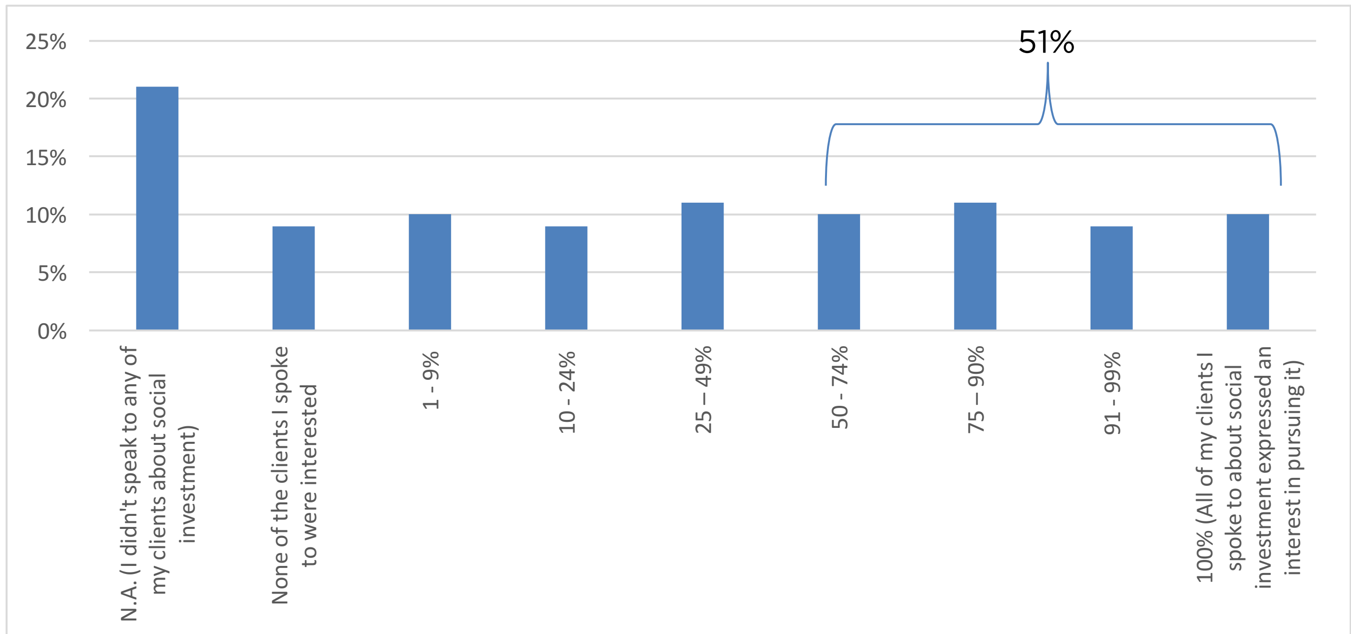
- the largest percentages, (23%, 19% and 20%, respectively), were seen for "Always me (the advisor)", "Nearly always me (the advisor)" and "Mostly me (the advisor)".

As a greater likelihood of raising the topic appears to be with the advisor, this poses the question: are clients not instigating this conversation because of a lack of awareness or because of their belief that their advisor wouldn't ordinarily advise in this area?

[2] NB. Just under a fifth (18%) of respondents in this question answered that they have yet to speak to a client about SI, thereby corroborating the 21% who answered to this effect in the previous question.

Question. Of those you spoke to, what percentage expressed an interest in pursuing the area of social investment?

Figure 3. Live audience survey, SIA '16 (approx. 70 Financial advisor/wealth manager responses)[3]



- respondent percentages were roughly equal across all answers
- when looking at only those who did speak to their clients, it is reassuring to see that over half (51%) found that 50% or more of their clients expressed an interest in pursuing the area of SI.

Conclusion

The key point here is that 89% of respondents who spoke to their clients last year say there is an interest from the clients in pursuing the area of SI. However, the number of advisors having those discussions is low, which indicates a potential advice gap for investors with objectives in this area who are not introduced to the opportunity to deploy wealth in this way.

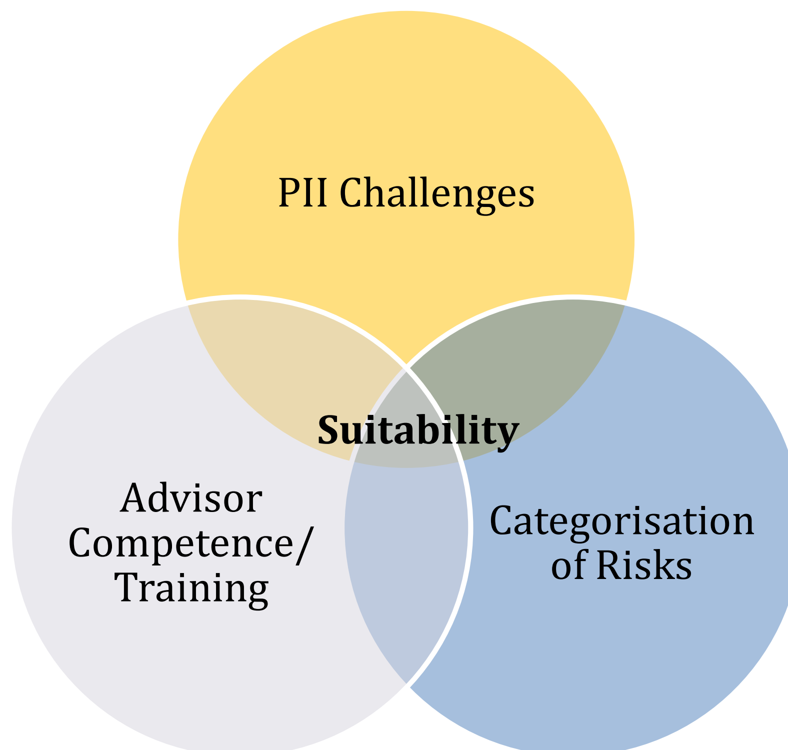
[3] Roughly a fifth of respondents (21%) replied that they had not yet spoken to a client on this topic again corroborating these statistics from the previous questions.

Clarification on 'suitability'

Regulation is seen by many industry participants as a barrier to SI (see Figure 5). At the heart of remedying this, is ensuring provision of comprehensive information relating to suitability, which we believe overarches three key interrelated issues we go onto discuss later in this document (see Figure 4):

1. **Categorisation of risks** by the FCA will assist advisors in establishing suitability and PII in assessing the risks of claims
2. Advisor **Accredited competence training** and assessment will help consumers, regulator, compliance officers and firms build confidence in the suitability process
3. **PII challenges** will be met via a combination of FCA guidance and advisor competence (proven by assessment)

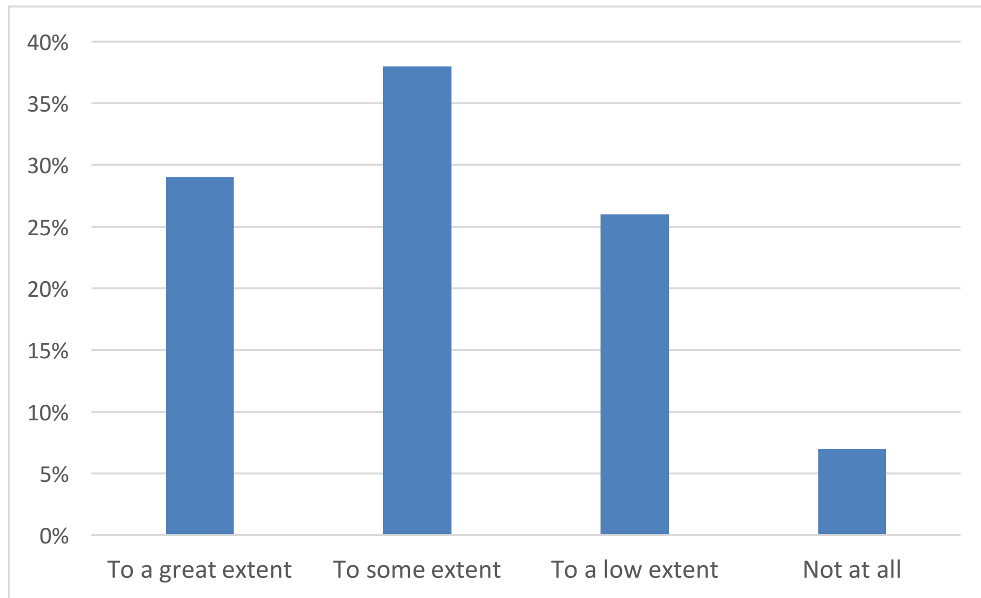
Figure 4. The suitability 'kaleidoscope'



From our research we see, there is significant evidence to back up a call for clear guidance in this area (see Figure 6).

Question. To what extent do you believe that current regulation is a barrier to recommending social investment to an appropriate client?

Figure 5. Live audience survey, SIA '16 (approx. 70 Financial advisor/wealth manager responses)

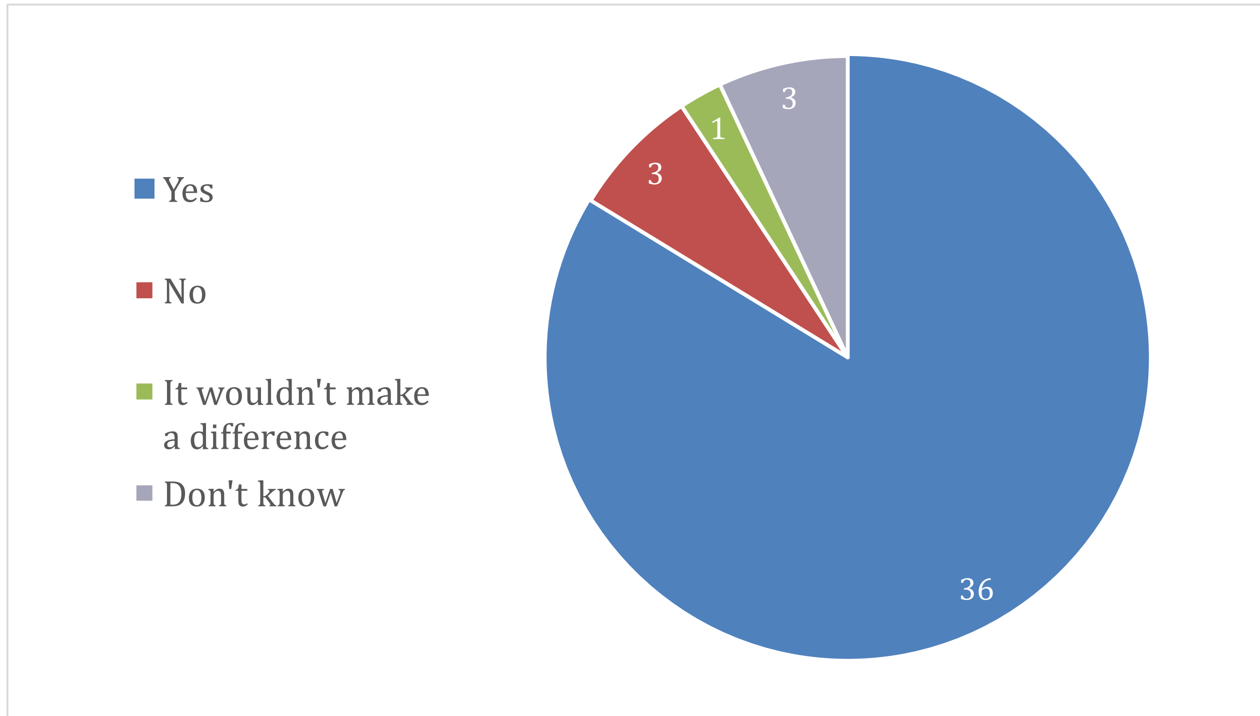


- just over a third (38%) of respondents believe that current regulation is "To some extent" a barrier to recommending SI to an appropriate client
- when combined with "To a great extent" this increases to over two-thirds (67%)
- when combined with both "To a great extent" and "To a low extent" this reaches a majority of 93% of delegates.

It is clear, therefore, that very nearly all delegates believe that current regulation is a barrier and for two-thirds of respondents this is in the realm of being a concerning issue.

Question. If the FCA produced clear guidance (inc. examples of good and bad practice), would you feel more confident about making a decision regarding which of your clients would be suitable for an SITR-qualifying investment?

Figure 6. Post SIA Feedback Survey. (43 Financial advisor/wealth manager responses)



- the majority (84%) of responders would feel more confident about making a decision regarding client suitability for SITR-qualifying investments were the FCA able to produce clear guidelines on this issue.

It is possible there is a link between this need for clearer guidance and the responses we received in the live audience survey where it was seen that many advisors were talking to their clients about SI but to only a small proportion of them. This may increase were advisors to feel more confident in understanding client suitability. Furthermore, were sufficient guidance published, the hope is that more clients would hear about SI which would help to fill the advice gap.

When gaining opinion from a selection of financial advisor firms we asked them the following question:

"Please can you provide us with a question to raise at the SIA with the FCA on the regulatory panel. We're trying to get to the core of what's the burning regulatory question for the FCA on social investment and then get the answer to it so you can have confidence to advise."

We have categorised the concerns under the following headings:

1. Advisor Competence and assessment by qualification
2. Advisor permissions
3. Categorisation of risks
4. Due diligence
5. Economics of advice
6. FOS
7. Investor motivations
8. PII

(For full responses, see Appendix A.)

Additional research undertaken through our post-SIA feedback survey furthered our findings in this area leading us to examine not only the core challenge but how these areas relate to each other.

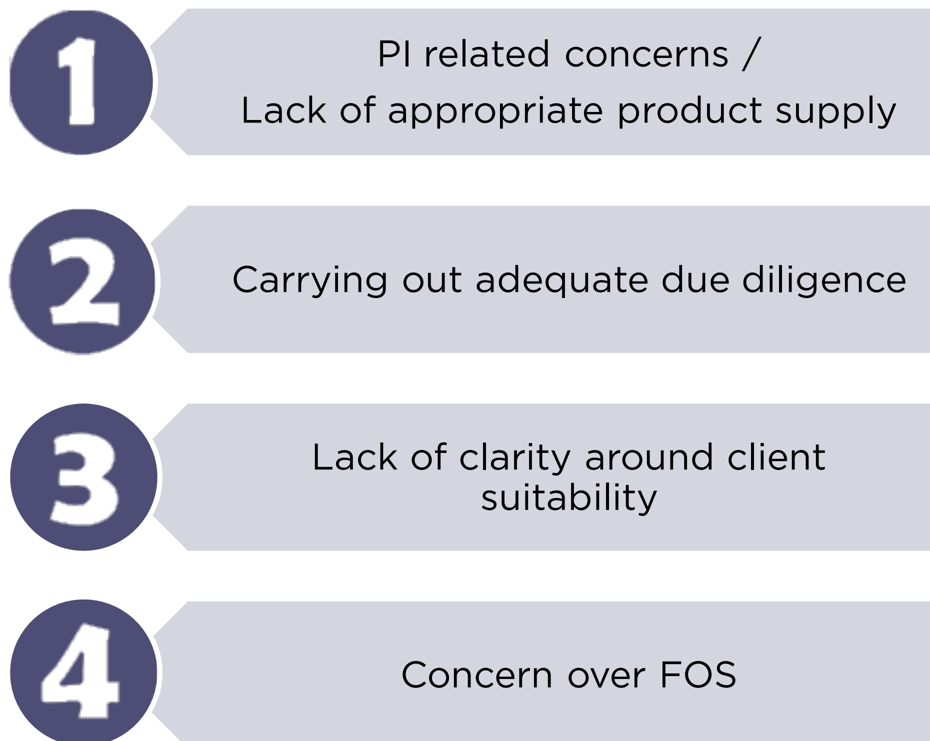
Question. Where 1 = 'greatest barrier' and 5 = 'smallest barrier', in what order would you rank the below as barriers when considering offering social investment advice?

- When examining simply the response totals (see Table 1), the second greatest barrier is clearly that of a lack of clarity around client suitability, thereby highlighting this area as a significant issue and in need of attention
- When looking at the averages across all five areas, you can see below (Figure 7) that PI related concerns ranks as the greatest barrier.

Table 1. Response matrix of post-SIA Feedback Survey (38[4] Financial advisor/wealth manager responses)

	Barrier Rating				
	1 (Greatest)	2	3	4	5 (Smallest)
PI related concerns	11	8	6	4	9
Carrying out adequate due diligence	7	10	7	9	5
Lack of clarity around client suitability	3	11	6	10	8
Lack of appropriate product supply	11	4	10	6	7
Concern over FOS	6	5	9	9	9

Figure 7. Post SIA Feedback Survey. (38 Financial advisor/wealth manager responses)



[4] We had only 38 full responses due to incomplete data sets.

- as can be seen in the response totals (Table 1) and the averages (Figure 7), a lack of appropriate product supply is of concern to those surveyed
- with expansion of the SITR scheme we would expect to see increased product flow from the mainstream providers thereby reducing this issue
    - A number of EIS Fund Managers have indicated to us their interest in launching products when the current SITR investment limits increase
- in preparation for this, we need to ensure that advisors are comfortable with suitability in this discrete area
- this would also have the effect of providing PI underwriters with a better understanding with which to assess the risk inherent in any particular advisory firm's process in offering SI advice to clients
- although concern over the FOS was considered the smallest barriers on average, this issue was raised multiple times via the canvassed opinion from a selection of advisory firms so should not be underestimated.

Conclusion

There continue to be specific concerns over how the regulator might interpret the concept of suitability as it applies to a social investment where an investor may have mixed motives and may not be primarily seeking to maximise the financial return for each unit of risk. This is expressed in different ways and leads to a number of potential consequences which require further clarity in order to overcome the current barrier.

We will now look in more detail at the other three interrelated key elements:

- Categorisation of risks under SITR
- PII Challenges
- Advisor competence/training

Categorisation of risks under SITR

SITR Funds, as a result of the constitutional framework of the underlying investees (for which equity investment is, in many cases, either difficult or impossible) allow investment to be made through debt securities (providing the instrument is unsecured, subordinate on a winding up to all other debt and ranks on a winding up equal with the lowest class of share). It is anticipated that, most if not all, investments by these SITR Funds will be primarily focused on debt. This should also facilitate a more manageable and predictable investor exit. It therefore means that the risk of liquidity at maturity could be lower than for an EIS – which generally have to consider a range of exit options including trade sales.

When we talk of risk we should look at two factors that increase, or decrease, that risk:

1. The nature of the investment i.e. the different characteristics of an investment into equity, as opposed to a loan, and
2. The nature of the investee businesses i.e. the way in which private limited companies behave as opposed to social enterprises.

The nature of the investment

The key differences, between an equity investment under EIS, and a debt investment under SITR, (from our experience in reviewing each of the SITR Funds launched to date) are:

Income: Debt provides a regular, and quantified income stream (i.e. interest). The amount and timing of the payments are fixed at the outset by agreement between investor and borrower. But equity investments in EIS companies do not provide this, as the company is never bound to distribute reserves and, if it does, the amount and the timing of the dividend payment is within the control of the Board of directors, not the shares holders. Obviously, the ability to make such payments is not guaranteed under either scheme.

Exit: Debt investors under SITR have three advantages over an equity investor under EIS:

Certainty: Debt will have a fixed maturity date, set at the outset by agreement between investor and borrower. Equity investors do not, partly because the EIS rules prohibit any pre-arranged exit and partly because the nature of equity is that there can ever be a guarantee of a trade sale at all, nor any comfort as to the timing of that exit.

Amount: Debt will have a fixed return, set at the outset by agreement between investor and borrower. Equity investors do not, partly because the EIS rules prohibit any protection against risk and partly because the nature of equity is that there can ever be a guarantee of the price at which a buyer might eventually be willing to buy the company.

Default rights: If a company in which individuals have subscribed for equity cannot achieve a trade sale at a satisfactory return, the investors can do nothing about it. They are dependent entirely on the ability to find a willing buyer, and persuade that buyer to pay a good price. But they, as shareholders, can do little or nothing about it. However, under a loan agreement, if the company defaults in repayment – even where the debt is unsecured the lender has contractual rights to demand repayment which can be enforced in the courts. In practice it's unlikely they'd do that given the nature of the borrower, but nevertheless it gives them a lever with which they can compel the borrower to take action to procure repayment.

So SITR investors have greater certainty as to the amount and timing of income distributions whilst they hold their investment, and when they come to cash in their investment they have greater certainty that a realisation will occur, greater certainty as to the date on which that realisation will occur and greater certainty as to the amount they'll receive when the realisation completes.

And if no realisation occurs as envisaged in the investment documents, they have contractual rights to sue.

So an SITR lender's sole risk is insolvency of the investee social enterprise – whereas EIS investors depend on the company achieving growth, and then finding a willing buyer offering a good price.

The nature of the investee businesses

Private trading companies tend to take a lot more risks than a charity or social enterprise ever would, because the risk may well be met with a greater financial reward. If your sole aim is financial gain, you take greater risks as the potential rewards are that much greater.

But this is not how charities, or many social enterprises operate. They are not striving to make equity values grow to the exclusion of all else. The desire for growth is matched by the importance of achieving the social aims. So social enterprises (particularly charities) tend to take a more cautious, prudent approach to taking risk. Their owners accept that social enterprises will take less risk to preserve the social mission, albeit that this will mean less likelihood of big financial returns for members.

Meaning that SITR investee enterprises are unlikely to become the next Facebook. But they are equally unlikely to become the next Enron.

Conclusion

The risk profile of an SITR investment in debt is different to an EIS investment in equity, but not necessarily greater. We therefore believe that, when considering SITR Fund investments, the focus needs to be more on a client's capacity for loss than their tolerance for risk or appetite for financial reward.

PII challenges

PI insurers are experts in the area of the risk of claims and not investment experts. The absence of a track record of complaints or claims in this area may present a challenge. Clarity in regard to how the FCA categorises social investments, particularly SITR Funds, would assist in the education of the PII brokers and underwriters as well as providing them with a framework within which to assess the potential risk of firms offering this area of advice.

Advisor competence/ training

As with any newly emerging area of financial advice, SI is attracting attention. It is our belief that the development of training materials about SI for the wealth advisor and the introduction of a relevant qualification will have multiple benefits in that they will both promote and protect the sector, as the level of attention begins to grow.

Promote

Social Investing will interest those advisors who service their clients from a goals based perspective. Knowing their clients well and understanding their motivations is

at the heart of their process; so they will realise that an innovative solution such as SI will appeal to certain of their clients.

Such advisors will also wish to understand the product and all its implications – from risk, compliance and technical (including taxation) perspectives. The strong culture of professional development within this stream of advisors will prompt a desire to learn by undergoing training, and demonstrate proof of learning through exam accreditation. This process gives the advisor the competence and confidence to address a new area of work with their clients, whilst affording compliance departments and PI insurers reassurance that the perceived risk which is intrinsic to innovation is being appropriately and responsibly managed.

Protect

Social Investment, with the advent of SITR, will also attract the attention of those product providers and advisors who detect a potential commercial opportunity. Product design has a history of innovation to exploit newly introduced tax benefits, the design being driven by the shape and scale of the benefit rather than the reason for its emergence. SI will be no different in this regard. SITR has been introduced, with a likely increase to its ceiling in 2016. There will be implications.

Likewise, there are advisors who will be attracted to high potential returns and generous tax relief – the financial return, with little regard, if any, to the target social outcomes - the social return.

The spirit of this relief, which is to encourage an attractive financial return in exchange for a preparedness to take significant risk upon the success or otherwise of a project in delivering its target outcomes, could easily be overlooked during the "sales process".

The financial services market has a poor track record when it comes to the introduction of innovative products. The Government's determination to see the SI sector become an established part of the fabric of life in the UK makes it even more important that any measures that can be introduced as a means to both promote and protect during these early years, should be implemented as soon as possible.

Conclusion

By the regulator making advising on SI one of the areas requiring special permissions, possibly with a requirement for study and qualification. This would significantly reduce the risk of mis-selling. It cannot be removed completely, but it is to be hoped that such a "hurdle" would provide a positive filter, increasing the quality of advice offered to clients about SI and thereby protecting the sector.

Conclusion

Key Findings

1. There is evidence of interest from investors in pursuing the area of SI, however, the number of advisors having those discussions is low which indicates a potential advice gap.

2. There are specific advisor concerns over how the regulator might interpret the concept of suitability as it applies to a social investment.

3. When considering SITR Fund investments, the focus needs to be more on a client's capacity for loss than their tolerance for risk or appetite for financial reward.

4. Clarity in regard to how the FCA categorises social investments and providing a framework within which to assess risk would assist in the education of advisors, their PII brokers and underwriters.

5. The development of training materials about SI for the wealth advisor and the introduction of a relevant qualification will have multiple benefits.

Recommendations

1. In order to reduce this advice gap, the FCA would need to provide clear guidance on client suitability so that advisor discussions with their clients would increase.

2. This guidance is published within the next six months so that when expansion of this area occurs following legislation changes, the market is prepared to reach its potential.

3. The FCA to provide specific details on how they categorise SITR investments, which will help to provide a framework for PII brokers and underwriters to assess potential risk.

4. The FCA to engage with FOS in order to involve them in the dialogue at this stage in the development of the market.

5. We would recommend the FCA support the initiative of an accredited training module on SI.

Appendix A

Responses from financial advisors[5] when asked to submit regulatory question(s) for the FCA on SI: "Please can you provide us with a question to raise at the SIA with the FCA on the regulatory panel. We're trying to get to the core of what's the burning regulatory question for the FCA on social investment and then get the answer to it so you can have confidence to advise."

Theme	Question / Issue	Company
Suitability	Naturally, when recommending investment solutions to clients we are looking to maximise the return for each unit of risk. In the SITR context this is not necessarily the same as a client may be more motivated by the cause rather than the return. How should that be addressed in such a way that we can be protected from a future claim but also how can that be promoted effectively?	Kingsfleet Wealth Colin Low (MD, Chartered Financial Planner)
Suitability	At successive SIA [Social Investment Academy] events I (and others) have raised the question to FCA about investment suitability as a barrier to retail clients investing in SITR-qualifying structures. Our compliance department views these as UCIS/NMPI products, severely restricting access to capital for investee enterprises and client desires to meet their social aims. Impact investment does not sit well within the current regulatory framework; does the FCA plan to ease this burden of compliance - or at least give specific guidance on compliance, where the existing understanding is poor? Follow-up: In the past, FCA has referred back to its principle-based regulation, citing that the framework exists and that it does not provide specific guidance. This is incorrect as they are quick to do so in relation to regulatory breaches, but not in relation to regulatory guidance.	Almus Wealth Chris Holmes (Chartered Financial Planner)
Investor motivations/ Suitability	Having heard the FCA speak on this before I think I understand their position and so no questions come to mind if I am honest. I guess the only thing that would concern me is doing SII for a client who had not first achieved financial independence but was pretty insistent on doing some good with some of their money from a moral point of view.	BPH Wealth Management llp Simon Brown (Partner)

[5] Responses are from 15 regulated firms of various sizes and service offering from sole principal financial planners to a large network and a private bank.

Investor motivations/ Suitability	Why does the regulator assume HNWs require liquidity when in fact they may prefer their investments to express their philanthropic values? Further input from Philip Trevett: The suitability rules/ requirements take no notice of those who may choose to invest their money in a way which neither maximises potential income for themselves or capital preservation, but instead focuses on creating better outcomes for others (either this generation or ones to come, depending on the investment). Would it benefit from the inclusion of the word "philanthropic" ahead of values, to really make the point that this is not about benefitting oneself?	C. Hoare & Co. Alexander Hoare (Partner) Philip Trevett (SMF16 Compliance Oversight Function)
Suitability/ Categorisation of risks	I would ask the FCA where they see social investments being suitable in relation to a client's risk profile and objectives. So, would they expect these schemes ONLY being recommended to clients who would be making charitable donations in any event, or would it be reasonable to include them within a portfolio of investments that may also include EIS, SEIS, VCTs etc.?	Helm Godfrey Graham Cross (MD)
Suitability/ Categorisation of risks	I think the issue relates to how the FCA view the suitability requirements for SITR. Of course each and every recommendation must be appropriate and specific for each client - but are they viewing SITR as high risk and as such requiring a higher threshold for compliance as in Professional investor/High net worth?	London Wealth Management Paul Hoban (MD)
Categorisation of risks	Could the FCA confirm that if we treat the sale/advice of Social Investments with the same regulatory risk warnings as those which currently appertain to collective investment schemes as well as the additional risk warnings that apply to VCT and EIS investments (lack of liquidity/difficult to ascertain true price etc.) and confirm whether we should also consider using the risk warnings attaching to UCIS (Unregulated Collective Investment Schemes), is this sufficient? I suppose the other way of asking the question is simply to ask the FCA what risk warnings are appropriate to this type of investment.	LJ Financial Planning Stephen Jackson (Chartered Financial Planner)

Categorisation of risks/ PII	The key questions for me are around the following: · Does the regulator lump social investment in with all other esoteric investments or do they recognise that having satisfied their own needs some clients are motivated to invest for a social return and that their desire to achieve this social return trumps the greater risk to their capital/income? · If so, how can we as advisers document this in a way which doesn't bring us under closer regulatory scrutiny? · What proportion of our business in this area would be acceptable in the eyes of the regulator? Related question re PI insurance which I think is a greater threat to SI than the regulator: The PI market is hardening (I think that there are now only 5 or 6 providers offering PI to IFA firms) making it much more difficult to get and particularly difficult if an IFA firm has advised on any esoteric investments at all let alone a small proportion. Is the FCA concerned about the contraction of the PI market? Does it see this as a threat to the IFA sector as a whole? This also makes the FCA's categorisation of the risks of SI really important. These are of course typically highly concentrated, low liquidity investments with risk to capital/income but if appropriate to a client and documented correctly I would contend that the risk of a client complaining is relatively low. Is this the FCA's view, or as asked in my earlier question do they regard SIA as being in the same category as other esoteric investments?	Flowers McEwan Ltd. Murray McEwan (Director)

<table>
<tr><td>Categorisation of risks/ Advisor competence and assessment by qualification</td><td>I think the honest answer (as with mainstream) is that we want FCA to give us a list of do's & don'ts - but they won't do that - it's all about principles and guidance.

But I think the questions are around the issues of:
Product types + client suitability
Competence – what would they like to see to demonstrate that adviser has sufficient competence to advice on a product e.g. an SITR fund or a social impact charity bond etc.
Client knowledge – requirements for evidence of know your customer (I think you've [Worthstone] already gone a long way down this particular road)
How do we deal with broad product descriptions – is a share in and non-regulated (but authorised) IPS such as Oikocredit – a capital at risk product, a UCITs, a share – how can we advise when we don't have suitable guidance?</td><td>Ethical Futures llp

Julian Parrott (Partner)</td></tr>
<tr><td>Categorisation of risks/ Advisor competence and assessment by qualification</td><td>Does the regulator view social impact investing as higher risk? … higher or lower than UCIS?

Would it be advisable to only permit those with relevant qualifications and permissions to arrange social impact investments?</td><td>Solomons IFA

Dominic Thomas (Founder and Principal)</td></tr>
<tr><td>Economics of advice</td><td>My big issue is that the reality of the current rules is that the market is restricted to high net worth or ultra-high net worth individuals. I think the FCA need to apply the same sort of thinking that they do for Peer-2-peer lending for smaller social impact investments.

What are the FCA going to do to enable small retail investors to invest in social investments, when most(?) social investments are in the form of a UCIS or other non-main stream pooled investment?

It all adds up to the cost of giving the advice being more than the amount of the investment!

So given that the amounts to be investment are likely to be quite small for all but UHNWIs and of a similar amount to the donations that these clients would give away to charity (a 100% loss), why can't the FCA bring in a de minimis limit of say £5,000 and exempt the onerous regulations for investments under than level?</td><td>Page Russell

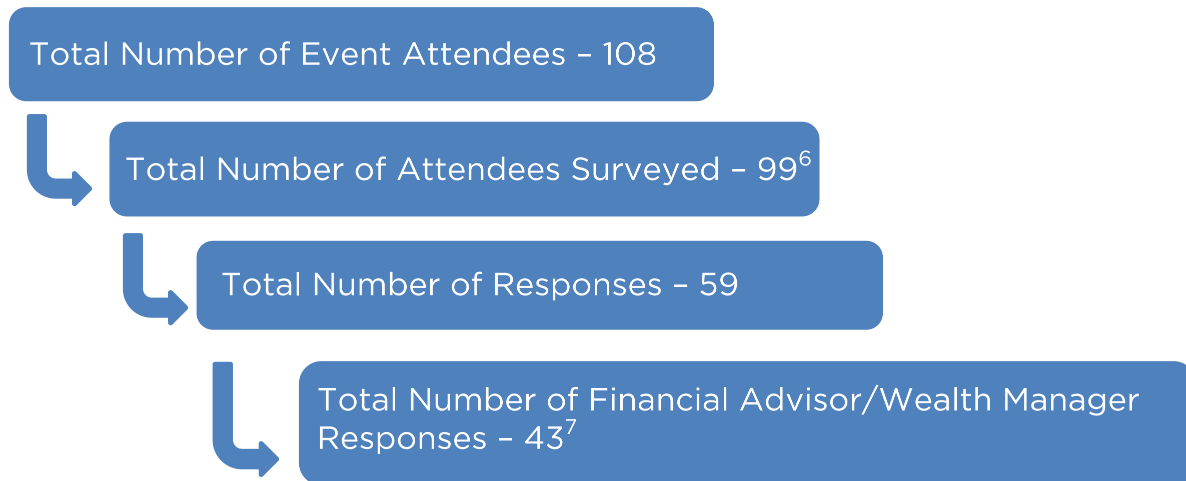
Tim Page (Director)</td></tr>
</table>

Economics of advice/ FOS	The issue is more to do with FOS than the FCA as I would expect a traditional balanced risk client (the majority) who had invested in some form of social investment and had experienced loss to have a successful claim against their adviser if they took their case to the Ombudsman. FOS would see a mismatch between stated attitude to risk and ultimate recommendation - even if the report was full of caveats and disclaimers! FOS (and PII underwriters too) still look at social investments through the same lens as traditional asset classes and would classify them as being very high risk (small, illiquid, concentrated risk, UCIS etc.) - and so only relevant for those who are off the scale in terms of attitude to risk. Also, my view is that any small IFA business (less than £10m turnover so 95% of the, market) would struggle to justify the research and due diligence budget necessary to undertake the same level of research they do (or at least we do) for traditional funds and asset classes - across the social investment spectrum from debt to equity, collectives, partnerships and so on. They cannot rely on the prospectus and what it says on the glossy brochure. So the attraction of SI is its downfall currently as it sits between traditional investments and pure philanthropy so is neither one thing or another and we are all trying to shoe horn it into a regulated fund environment and all the checks and measures and indeed risks to the firm that entails.	Capital Asset Management Alan Smith (CEO)
Advisor permissions/ PII	I think my question reverts back my original query for us as Retail Investment Advisers being "allowed" to advise suitable clients to invest in social investment that a) does not break FCA permissions (e.g. becomes another 'miss-selling' scandal) b) we can get PI cover for such advice c) we have proper guidance on how to advise clients in this area that will ensure we do not end up in court if an investment fails.	King's Court Financial Planning llp Mark Crofts (Financial Planning Partner)

Due diligence	I think a question relating to research and due diligence would be very topical. Given that TR16/1 states that firms can rely on factual information provided by regulated firms as part of their due diligence process but not on provider's opinion, and most independent assessment tools for investment products are based at some level on opinion when it comes to risk assessment, what examples of good practice has the Regulator seen that advisers can model to ensure they are completing adequate due diligence research? Extract from TR16/1: Firms can rely on factual information provided by other EEA-regulated firms as part of their research and due diligence process, for example, the asset allocation. However, they should not rely on the provider's opinion, for example, on the investment's risk level.	Sense Network Adam Owen
Due diligence	Financial advisers greatest concern in the area of alternative investments is that of collating and assessing adequate due diligence. For life assurance, pensions, and retail investments, we are generally comfortable with the process, though for alternatives - EIS, VCT and social investment, significantly less so. What is an acceptable approach to due diligence, and what is considered as an adequate demonstration of this for the compliance file.	Holden and Partners Mark Dodd

Appendix B

Flowchart outlining full details on response rate for the Social Investment Academy post-event feedback survey.



[6] 9 removed due to being ineligible e.g. government minister, those who did not attend the whole day etc.

[7] For the question on clear guidance we had a full dataset of 43. For the question on ranking the barriers to advising, we had only 38 full responses due to incomplete data sets.