

As SIPP providers get to grips with the new regulatory regime John Moret takes a look at their changing responsibilities



John Moret

Change your ways

As the dust settles on the new regulatory framework for SIPPs some of the implications are starting to emerge. It now appears that only a very small number of firms have not sought authorisation. Of the rest those that were not already authorised will have been through an extensive application process.

This process alone is likely to have taken up a considerable amount of management time.

In future SIPP operators will be subject to a regulatory framework which in most cases will be set out in Chapter 5 of IPRU (INV). However, there will be several other parts of the FSA handbook that may be relevant including:

There are many ongoing requirements which will continue to demand not only senior management oversight but also further financial investment. Some of these issues will include:

- The need for documented processes which are regularly reviewed
- Maintaining adequate systems and controls including the provision of management information.
- Capital adequacy/total capital

requirements – these will need careful monitoring and regular reporting to the FSA.

- The demands of reconciliations of client assets will be onerous and without good systems may become very problematic
- Outsourcing – management will have to look carefully at their business processes particularly where certain functions are outsourced e.g. custody of assets, and decide what steps they need to take to ensure that they adequately monitor and control the third parties involved
- Risk management – this is clearly a very important part of regulated business and a disciplined approach with regular reviews will be essential

Areas for consideration

As mentioned earlier the client money and client asset requirements are an area which all operators are going to have to consider very carefully. The need to carry out regular client asset reconciliations will depend on whether the SIPP operator/trustee is carrying on the regulated activity of safeguarding and administering investments in respect of the SIPP assets. FSA Pen-

rometer Guidance 10.3 question 23 suggests that a trustee is likely to be responsible for arranging safeguarding and administration of assets. These are potentially regulated activities.

This area is a potential minefield and firms would be well advised to seek advice if they have not already done so. The implications of the client money and asset requirements are very significant. Firms are required to reconcile all client money within ten business days of the reconciliation date and within twenty five days in the case of most other assets. Compliance with these requirements will be a heavy additional overhead for many SIPP operators.

SIPP operators also need to take into account the FSA regulatory reporting requirements that are set out in PS07/1 Chapter 4. These include the provision of annual accounts, product sales data and complaints returns. There are transitional arrangements for newly authorised firms which are set out in PS07/1.

Scheme administrator duties

However it is not just the FSA requirements that are placing an extra

overhead on SIPP operators. Many operators will also be the scheme administrator for HMRC purposes. Since 6th April 2006 a scheme administrator has had a number of new obligations to HMRC including the provision of an annual event report which must be submitted by 31 January following the tax year to which it relates

Potentially of even more significance is the Annual Registered Pension Scheme Return which is only required following written notice by HMRC. This is effectively an income and expenditure statement and balance sheet for the scheme plus additional information. In particular is the requirement to report on all “connected persons” transactions concerning property, loans, stocks and shares etc. The administrative burden and systems requirements to ensure all relevant information is captured are substantial.

What is very clear is that the onus on operators in the new regulated world of SIPP is very significant. I remain convinced that consolidation is inevitable and that profit margins may be eroded. Whether ultimately this is of benefit to investors remains to be seen.

John Moret is director of sales and marketing at Suffolk Life