BR Investment and Risk

September 2025

Foresight

Introduction

How to manage the issue of suitability when recommending Business Relief ("BR") investments to retail investors

One of the most common reasons advisers cite for not writing BR business is the difficulty in evidencing that a higher risk investment may be in the best interests and suitable for a lower risk investor.

With the introduction of Consumer Duty, a robust approach towards suitability is critical to delivering good outcomes.

What can advisers do to manage this issue of suitability?

The regulator has provided guidance in various forms to help advisers...

Regulatory Risk Review

The regulator states that "although most advisers and investment managers consider a customer's attitude to risk when assessing suitability, many fail to take appropriate account of their capacity for loss."

Advisers need to demonstrate that their client understands the risks of investing in a BR product, taking into consideration the FCA prescribed risks associated with high-risk investments. This understanding could be acknowledged by the client signing a risk declaration and relevant client categorisation statement, and clearly documented in the Adviser's Suitability Assessment. If a client would be materially impacted by a loss of value, they may not be suitable for a BR investment. However, in the right circumstances, those who could suffer a partial/total loss and can benefit from BR might be suitable despite a 'cautious' attitude to risk. There are three circumstances in which the regulator feels it might be appropriate for an investor to hold assets that are not consistent with their stated attitude to risk.

1. The client has a different attitude to risk or needs for certain funds in their portfolio.

The regulator states: "Firms should be aware that customers may have different needs and be willing or able to take a different level of risk to meet these needs. For example, some customers may be willing to take a lower risk with their short term savings needs and a higher risk with their longer-term pension arrangements. "As an adviser, you might observe that some investors will have a higher attitude to risk for assets intended to pass to beneficiaries that would suffer an IHT charge than they do for the pension and investments designed to support them in retirement.

Foresight can provide advisers and paraplanners with draft suitability reports, please contact us on:

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2. A client is unable to meet their stated objective (IHT planning within two years maintaining access and control over funds) within their recorded attitude to risk.

The regulator states: "In circumstances where a customer's needs conflict with the level of risk a firm has established the customer is willing and able to take, we expect the firm to have a detailed discussion with the customer. The firm should draw the customer's attention to any mismatches in their investment objectives, financial circumstances, risk tolerance and capacity for loss. It should also explain the implications for the customer of making alternative trade-off decisions. If the customer is able to sustain greater capital losses and is willing, following discussion, to tolerate a higher level of risk to potentially generate the desired level of return, the firm should document that this is the risk that the customer is willing and able to take, along with the reasons for this."

3. The asset forms part of a broader portfolio that, overall, maintains the investors attitude to risk.

This is likely to mean the higher risk investment forms a small part of the overall portfolio and/or is offset by lower risk assets.

If at least one of the above circumstances applies to your client, advisers must obtain from the customer such information as is necessary to understand the essential facts about them and have a reasonable basis for believing, giving due consideration to the nature and extent of the service provided, that the BR investment is an appropriate recommendation.

Source for Regulatory Risk Review: https://www.fca.org.uk/publication/finalised-guidance/fsa-fg11-05.pdf

Independent Research

It is important that firms consider what due diligence and research they need to undertake to ensure they are familiar with the nature and risks of the products and funds they select for customers. In its thematic review, the regulator highlights examples of good and poor practice in the use of third-party research.

Things to consider when identifying the target market and creating a distribution strategy for BR clients

1. The nature of the investments being offered or recommended and how they fit with clients' needs and risk appetite;
2. The impact of charges on their client;
3. The financial strength of the provider; and
4. Where information is available on the providers processes, how efficiently and reliably the provider will deal with their client at the point of sale or subsequently, such as when complaints arise, claims are made or the investment reaches maturity.

The regulator notes: "Good practice, before advising on a product, a small advisory firm sourced independent reviews of the product and reviewed other similar products to understand for itself how a product compared with others available."
"Poor practice, a firm over-relied on provider information when researching the suitability of a pro duct for its client base. There were gaps in the provider's information and as a result the firm failed to understand the nature of the risks of the product (which contained non-traditional assets). This led the firm to inappropriately rate the product as lower risk."

There are currently three independent research houses that advisers generally use for BR investments reviews:

MICAP Alternative Investment Research

MICAP REVIEWED

TAX EFFICIENT REVIEW

Tax Efficient Review

APEX GROUP

APEX

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Source: Product Intervention and product guidance - PROD Manual of the FCA - 3.3.11
www.handbook.fca.org.uk/handbook/PROD/3/?view=chapter

Other considerations

We have spoken to some of the largest advisory firms in the UK and they have confirmed their suitability approach...

"We conduct a full cash flow analysis for our client, as if the client has given away the money completely. The client's capacity for loss is 100%, there will be no impact on their life if the investment is reduced to zero. We calculate whether the estate can cover any IHT liability without the investment proceeds and if the beneficiaries can inherit the funds without needing to encash the investment. We take the view that different pots of money can be used to invest into different risk rated products i.e. for this part of the client's wealth, even though overall the client is a low risk investor, this money is suitable for a high-risk investment. If the client hasn't done any IHT planning previously, we note gifting and trusts options in the suitability letter. If the client is over 80 years old, we ask the client if they would like a family member or friend present at any meetings."

Risk & Compliance Summary

Establish the client's attitude to risk AND capacity for loss.

If a client would be materially impacted by a loss of value, they may not be suitable for BR investment.

A client can have a different attitude to risk or needs for certain funds in their portfolio.

If a client is unable to meet their stated objective within their recorded attitude to risk, the firm should document that this is the risk that the customer is willing and able to take, along with the reasons for this.

A BR investment can form part of a broader portfolio that, overall, maintains the investor's attitude to risk.

It is important that firms consider and review independent research before making a recommendation.

Foresight Highlights

A leading investment manager in real assets and capital for growth founded in
1984

More than **40,000**
retail investors

Private equity investment team managing over
£1.8 billion
of retail & institutional funds in a portfolio of
250+ companies

£13.2 billion
of assets under management - energy infrastructure and private equity

defaqto Unlisted BR Service 2025 EXPERT RATED

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Growth Investor 2021 Awards – Finalist Best BR Investment Managers (Unlisted)

Growth Investor 2022 Awards – Finalist Best BR Investment Manager (Unlisted)

Growth Investor 2023 Awards – Runner Up Best BR Investment Manager (Unlisted)

Growth Investor 2024 Awards – Winner Best BR Investment Manager (Unlisted)

Growth Investor 2025 Awards – Finalist Best BR Investment Manager - Unlisted

Correct as at 31 March 2025

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