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28 September 2023

Dear Chief Executive Officer

Our Platforms Portfolio Supervision Strategy

Under our [Approach to Supervision](#), we allocate and supervise most firms as members of a portfolio, based on their primary business model. We are writing to you because your firm is allocated to our Platforms portfolio¹ as it provides a [platform service](#). Following our [strategy letter of February 2020](#) and [strategy update letter of July 2021](#), this letter provides an update of our view of the key harms in this sector, our expectations of you and a summary of the work we intend to do.

The Platforms portfolio is an important supervisory portfolio given it holds over £800 billion of investment assets for 8.2 million customers. Your business performs a key function within the retail investment value chain as a gate keeper to multiple funds and shares for advisers and consumers. As such, this portfolio is one that we want to ensure delivers the highest of standards for its consumers. We want Platform firms to help consumers invest with confidence, understand the risks they are taking, and the regulatory protections provided. We expect Platform firms to consider how the economic environment, including rising interest rates, could impact the outcomes consumers get from their services. We also expect Platform firms to consider whether their service is contributing to the key outcomes sought by our FCA strategy.

On 27 July 2022, we published the new Consumer Duty [Policy Statement \(PS22/9\) and Finalised Guidance \(FG22/5\)](#). This set out the final rules and guidance that set higher and clearer standards of consumer protection across financial services and requires firms to act to deliver good outcomes for retail customers². We expect you to have implemented the Duty now and embed this fully across your business.

We always expect good governance, and it is particularly important during changing economic circumstances. Your governing bodies should be composed of members with diverse thoughts and expertise. They should have appropriate independent representation, receive timely and appropriate management information about risks, and effectively and rigorously oversee issues within your firm. We also expect a strong commitment to ensuring a culture that roots out and takes strong action in relation to inappropriate conduct at all levels, including bullying, abusive language and behaviour, discrimination and any other non-financial misconduct.

You and your leadership team should fully understand the level of exposure your firm has to the risks set out in this letter and adopt strategies for mitigating them. In any future supervisory

¹ If you consider that your firm does not fit our definition of a platform service provider and, does not allow customers or advisers to access and transact in multiple retail investment products through an online portal, you may advise us through the channels on our [contact page](#), if you do not have a named supervisor.

² In January 2023 we sent a [letter](#) to firms in the Consumer Investment sector to help them implement and embed the Consumer Duty effectively, which references areas of specific focus in the Platforms portfolio.

engagement with you, we will consider whether you have taken appropriate action to ensure that consumers and markets are adequately protected from these harms.

Key Harms

Our concerns about harm in this portfolio include the following:

- Fees and charges may not represent fair value, especially when looking at customers with different size investment pots and taking into regard platforms' role in the distribution chain. Platform fees are also not properly disclosed, making it difficult for customers to have a clear understanding of what they are being charged. This also makes it harder for customers to make judgements on the value of the products and services they are paying for.
- Platform firms do not have sufficiently robust systems and controls to protect customers from loss of investment savings or personal data due to fraud and/or cyber-attacks.
- The average time it takes customers to transfer their investments and savings between platforms has improved for some firms in the portfolio, but more needs to be done to ensure average transfer times are shorter for all customers.
- Platform firms' historic failure to conduct proper due diligence of non-standard assets (NSAs) has led to customers holding unsuitable high-risk investments. We are concerned that firms are not properly acknowledging or accurately calculating their liabilities relating to NSAs, which could lead to delays in customer redress payments and increase the potential for firm failure.
- Customers lose access to platform services due to system outages or other operational resilience failures. This is of particular concern when platforms are undergoing significant IT upgrades or conducting re-platforming exercises.

Emerging Risks of Harm

- Where interest payments are accrued on customers' cash balances held by firms, this should be carefully considered as part of fair value assessments and to ensure appropriate disclosure, especially in the current economic environment of higher interest rates. Our expectation is that firms deliver fair value to customers and support consumer understanding in line with the requirements of the Consumer Duty.
- The emerging trends in the market for executing investment transactions online by retail customers have seen the growth of online trading applications platforms (Trading Apps). Our recent focused studies found business practices akin to 'gamification', that overly encourage risky short term trading including brokerage deals that fail to deliver best value for customers. Our expectation is that firms should maintain controls and capabilities to understand and effectively monitor customers' trading activities, ensure customers are adequately informed of relevant risks and protect customers from reckless trading and scams.

Our view of the key risks in the portfolio is driven by our data led supervision of the portfolio and supported by a range of information gathered from, but not limited to firm authorisations, external data, and our interactions with platforms industry associations.

We are focused on these areas as the primary means of mitigating these key harms.

Consumer Duty, Fee Transparency and Fair value

Price and Value is one of the four key outcomes that firms need to assess under the Consumer Duty. It is based on ensuring the price the customer pays for a product or service is reasonable

compared to the overall benefits. It is vital that manufacturers and distributors, including platforms, assess fair value and total costs across the whole value chain to understand how the fee they charge fits into the wider picture from a customer's perspective and whether it is proportionate to the service they are providing. Platform firms have a significant responsibility in this regard given their position, often at the end of the distribution chain. Complex charging structures may carry greater risk of poor outcomes especially if they are poorly understood.

A key risk for this portfolio is that the quality and value of product offerings or, the quality of communications with customers, do not deliver good outcomes for consumers or meet their needs. This could be for a range of reasons, for example, because the product carries excessive costs and charges, charges are not clear enough for customers to evaluate for comparisons, not designed with the target audience in mind, or not suitably marketed to the right target market.

[MS17/1: Investment platforms market study](#) found modest improvements in disclosures since 2018 but, called out greater harm in direct-to-customer platforms due to absence of charges clarification via advice. Subsequent findings from our [Investment Platforms Cost and Charges review](#) published in May 2022, reveal examples of good and poor practices.

As noted, the Duty is now in force and it requires that firms' communications provide the information retail customers need, at the right time and are presented in the way customers can understand with the appropriate disclosures and labels. Platform firms need to evolve operationally on an ongoing basis to meet the needs of their customers. This requires careful consideration of product offerings and the risks they present to consumers, ensuring they are kept under regular review so swift action can be taken where appropriate.

What we expect of you:

- Findings from our recently published [review of firms' fair value frameworks](#) for the Duty suggest that some firms' fair value frameworks may not prove effective in practice. We expect you to take on board this feedback and ensure your fair value frameworks and subsequent assessments are thorough and effective.
- Our expectation is that firms meet the new requirements when they determine they have a material influence on retail customer outcomes. This requires you to consider your responsibilities under the Duty, to ensure you are appropriately prepared and have made any changes needed to governance and controls to incorporate the requirements of the Duty. As the Duty is now in force, we expect this to manifest into positive changes in firms' fees and charges, including clear disclosures to ensure fair value and transparency, and to promote and support customer understanding.

What we will do:

The Consumer Duty is core to our proactive supervision. We will ensure firms are implementing it and will not hesitate to engage with outlier firms and take further action if required. To this end, we will be undertaking proactive work on fair value and transparency of costs and charges, with an immediate focus on retention of accrued interest payments on customers' cash balances.

Non-Standard Assets (NSAs)

Some firms in the portfolio have taken on high-risk NSAs. Many of these NSAs have turned out to be scams and consumers have lost significant amounts of money investing in them. Where platforms did not carry out adequate due diligence on the NSAs they took on, they could be liable for the losses consumers have suffered. We have seen firms use unrealistic assumptions when producing liability modelling, such as assuming that no liability can be apportioned to them because other authorised firms were involved in the distribution chain. If firms do not have sufficient financial resources to cover their potential NSA liabilities, this could lead to firm failure.

We published guidance in [FG 20/1 Our framework: assessing adequate financial resources](#) on how firms should assess their financial resources, which includes looking proportionately at the

risks to which a firm is exposed. This key risk is shared with firms in the SIPP Operators portfolio. In May 2023, we sent our most recent [SIPP Operators portfolio letter](#). The letter covers this risk in greater detail and is recommended reading for all firms with NSA liabilities.

Since our previous Platforms portfolio letter, we have increased monitoring of Platform firms' and Asset Managers' prudential health and implemented the [Investment Firms Prudential Regime](#) (IFPR) for in-scope firms. Over the cycle, we have seen few platform firms fail. However, disorderly firm failure has the potential to cause significant material detriment to consumers and markets.

What we expect of you:

- We expect all firms to know whether they took on NSAs and have accurate records on them, including up-to-date valuations. Firms should be able to readily send us this information if we request it from them.
- We expect firms' boards to seek appropriate assurance on the level of due diligence their firms carried out when they took on NSAs.
- If firms find that their due diligence was not adequate, they should assess whether this has led to consumer harm and the extent of their potential liability for that harm.
- Where firms find that they have potential liabilities, they should ensure that they have adequate financial resources to cover this and that, these have been accounted for in their Internal Capital Adequacy and Risk Assessment (ICARA).
- Firms should also carefully consider whether they should carry out a remediation programme with consumers who have suffered losses that may have been caused by due diligence failings.
- Under the Consumer Duty, firms must act to deliver good outcomes for retail customers and avoid causing foreseeable harm to them – this goes further than paying due regard to their interests and treating them fairly, as required by Principle 6. As such, continuing to undertake appropriate robust due diligence to achieve good consumer outcomes will, therefore, be key for Platforms when complying with the Duty.
- You should ensure your firm's wind down plan is kept up to date (including by considering our [Wind Down Planning Guide](#) and [our observations on wind-down planning: liquidity, triggers & intragroup dependencies](#)) and notify the FCA immediately if you conclude that you are not holding adequate financial resources or are concerned about your firm's ability to meet its debts as they fall due.

What we will do:

We will proactively engage with firms that hold NSAs to evaluate their assessment of their potential liabilities and whether they are taking appropriate steps to address them. We will not hesitate to require further capital injection if we consider there is a funding gap to meet those liabilities.

Operational Resilience

Under-investment in operational infrastructure can lead to service disruption or failure, with consequential loss to investors and detriment to markets. It can also hamper innovation, increase operational costs and, may lead to vulnerabilities that can be exploited to control enterprise systems or gain unauthorised access to customer information.

Where investments in systems, dependencies and service enablers do not keep pace with business growth, this can leave firms susceptible to severe outages and service degradation incidents due to surges in service demands and retail investor activities.

Poorly planned and executed technology migrations and upgrade programmes exacerbate this issue. We have seen examples where the lack of thorough analysis and testing prior to and, in the aftermath of IT upgrades and migration, have led to severe incidents and outages that caused harm to customers.

The inherent risk of cyber intrusion (by external and internal actors) always persists, and firms are susceptible where they fail to maintain adequate preventative and detective controls to protect information assets and sensitive customer data.

What we expect of you:

- Your firm's resources including people, processes, technology, systems, and controls should be commensurate to the scale and nature of your business operations at all times.
- You must have contingency plans in place to deal with operational disruptions and ensure that the plans are routinely tested.
- If you rely on (intra-group or external) third parties to deliver services, you should ensure you have adequate oversight, skills, and knowledge to make sure that third parties will continually deliver a service which allows you to meet your regulatory obligations.
- These actions will also help to meet the requirements of the Consumer Duty. Firms should always seek to avoid causing foreseeable harm and, deliver support that ensures customers can utilise their services as reasonably anticipated.

Our previous portfolio letter outlined our expectations for firms' compliance with [Policy Statement PS21/3 Building Operational Resilience](#). These expectations still stand.

What we will do:

We have been asking Platform firms for specific data about service outcomes and disruptions on a quarterly basis, which has enabled us to identify outliers and take assertive action and we will continue to do so.

By Q4 2023 we will request data to monitor and test Platform firms' ability to meet Policy Statement PS21/3. These include how you are advancing your testing and recovery approaches to account for emerging risks, and progress on your vulnerabilities' remediation and investment plans.

We may select firms for further review, including through utilising our cyber and operational resilience self-assessment tool (ORQuest) and our intelligence-led penetration testing scheme (CBEST).

Fraud controls

Some of the functionalities that platforms offer can be abused. We have seen examples in our supervisory work where, the adviser charging function has been mis-used by rogue advisers to defraud consumers of significant amounts of money. With Direct-to-Customer platforms, we have seen issues where those acting on behalf of vulnerable clients may not have been acting in their best interests.

What we expect of you:

- We expect firms who facilitate adviser charging to rigorously monitor the use of this functionality and assess whether advisers are using it appropriately. In instances where adviser overcharging or misuse of adviser charging facilities are identified, we expect platforms to intervene and protect consumer interests.

- We expect platform firms to be aware of the potential for their services and functionalities to be exploited by fraudsters in a way that could lead to consumers suffering monetary loss. Platform firms must have appropriate systems and controls to mitigate such potential harm.
- Firms should have robust processes in place to review fraud controls on an ongoing basis and update them where necessary. This approach should be guided by appropriate levels of MI and carried out with executive oversight. We expect firms to consider the Consumer Duty as part of this, to ensure they are acting to avoid causing foreseeable harm to retail customers.
- Where platform firms are unable to evidence that they have carried out these steps, and where consumers have suffered a loss because of firms not taking appropriate mitigating steps, we will take robust action.

What we will do:

In 2023/24 we will be selecting a sample of firms in the platform portfolio that facilitate adviser charging alongside firms in other portfolios offering similar services. This sample of firms will be asked to complete a questionnaire and we will use the responses to assess the effectiveness of the systems and controls that firms have in place to ensure that advisers are charging their customers appropriately. We will feedback the findings from our review to firms in due course.

Transfer times

This remains an area of concern for us. It is important, especially in the light of the current economic environment, that retail investors are not hampered from making good and timely investment decisions and are able to act quickly. Our most recent consumer survey in 2022 reveals a significant rise in the number of consumers who lose time out of the market while investments are moved across platforms. A proportion of customers report not being able to find the right information to compare platforms and our desk-based review of Platforms' websites also showed absence of clear transfer time data signposted to consumers.

Ultimately, unreasonable transfer times may be detrimental to consumers, discourage transfers, and may also hamper competition.

Since the time of our last portfolio letter, we have been gathering information on platform transfer times in our platforms data request. We have used this information to compare firms against their peers in like-for-like transfer categories as part of our data led regulatory engagement.

Where we have identified outlier firms, we have engaged with them to improve their transfer times, using a range of supervisory tools we have available. We have been encouraged by the improvements made by many of these firms, especially where sufficient resources have been committed.

However, our analysis of the most recent data request indicates there is still further potential for improvement of transfer times by firms. In light of the higher standards required under the Consumer Duty, this area is key to achieving good outcomes for consumers.

What we expect of you:

- As a vehicle to standardise and demonstrate reasonable industry transfer times, we expect firms to engage with, (if not already) and continue to, support the principles and actions endorsed by STAR initiative. Where firms are reporting poor transfer times in comparison with peers and do not already engage with STAR, we will be enquiring about their justification for non-engagement and will act in the absence of progress on transfer times.

- The types of improvement we have seen firms make on transfer times include allocating greater resource to transfer requests; greater automation of transfer requests; streamlining the processes involved; better chasing of third parties involved in the transfer process; and better MI and oversight, including by the board.
- Where firms have not considered such actions to improve their transfer times, we are now looking to them to do so. Firms should not assume that because we have not recently engaged with them specifically, their transfer times processes do not need to be reviewed.
- Under the Consumer Duty, we expect firms to enable and support their retail customers to pursue their financial objectives. This includes acting to empower customers, so they do not face unreasonable barriers or delay to transfer requests as well as more broadly ensuring platforms operationally evolve to support good customer outcomes, as appropriate.

What we will do:

In the light of the Consumer Duty, we will be using the next iteration of our data request to continue to monitor and ensure sustained and significant improvements in transfer times across the sector, taking further action against outliers. We will continue to proactively and assertively engage with firms where our data indicates they could improve their service. We will use the information we have gathered to inform our future engagement and seek to set out clearly our expectations of what reasonable transfer times are.

Consumer Duty

We have set out above how the Consumer Duty strengthens the obligations on firms in several of our key areas of focus for Platform firms.

We wrote to firms on 30 January 2023 about implementing the Consumer Duty in the Consumer Investments sector. Since then, we have reviewed implementation plans from firms across the Platform portfolio.

Whilst the plans we reviewed showed that firms understand the shift to consumer outcomes, the plans have often been very high level. As mentioned, our January 2023 letter highlighted the importance of firms engaging with the substantive requirements of the Duty. Our review of Platform firms' plans suggests some firms may have been slow to do this. This brings a risk that firms have not embedded the Duty effectively throughout their business. We found that in some firms:

- Efforts to prepare for the Duty appeared superficial, while other firms were overconfident that their existing systems or approaches would be sufficient.
- Many lacked sufficient focus on the preparedness of third parties which we found concerning given the integral nature of third parties to many platforms' business models.
- Articulation of firms' Consumer Duty data strategy was in most places too high-level and not advanced enough.

What we expect of you

- We urge you to continue to carefully consider the substantive elements of the Duty on an ongoing basis to identify further changes that may be required.
- You should contact us as soon as possible if you have any concerns about implementation.
- If you consider that specific rules do not apply to your business, we will expect you to provide clear evidence of the reason for this.

The [Consumer Duty](#) section of our webpage provides a range of information, from FCA publications, speeches, and podcasts, to enable firms to engage with the substantive requirements.

Next steps

You are responsible for ensuring that your firm meets FCA requirements including the obligations and expectations set out above. You should take all necessary action to ensure these are met. We will use the Senior Managers & Certification Regime to engage directly with accountable individuals on areas of concern.

We will target our supervisory focus over the next year and, going forward, on firms where there are indicators and/or evidence of failings relating to the obligations and expectations above. You can expect to be asked to demonstrate how you have taken this letter into account in your firm's work plan. We also expect to be informed proactively by you if work done on the above points result in remedial action or identification of harm.

Contacts

Should you have any queries, please contact your usual FCA supervisor or use the channels on our [contact page](#) if you do not have a named supervisor. For those of you with dedicated supervisors, this letter is an addition to your Firm Evaluation letter.

Yours sincerely,

Lucy Castledine

Director of Consumer Investments