FCA Practitioner Panel

Advisors, Wealth and Pensions
Consumer Investments Directorate
FCA,
12 Endeavour Square
London E20 1JN

By email

12 March 2024

Dear Sir/Madam,

CP23/24: Capital deduction for redress: Personal investment firms (PIFs)

The Panel is very supportive of the strategic aims of the proposals, and the 'polluter pays' concept. Our comments focus on the importance of further testing as part of a phased implementation to ensure the policy achieves its intended outcomes.

We agree with the proposal to introduce additional data point requirements in Retail Mediation Activities Returns and would support exploration of whether asking for more than 6 data fields may be helpful and achievable, without placing disproportionate burden on firms. It will be important that the regulatory reporting provides the right range of data to help the FCA to identify discrepancies at an early stage and enable it to target those firms returning erroneous/ wrong information which may be indicative of a deeper problem. We would encourage the FCA to explore and test this during the pilot stage.

While we do not have any specific comments on the proposed process for firms to identify potential redress liabilities and quantify redress amount, we would encourage a phased approach to implementation to allow for firms to build up enough capital to meet the requirements. It would also be helpful to provide a mechanism for firms to feedback any identified issues with the approach and allow for adjustments to be made if needed.

Care will need to be taken to align these proposals with the development of the Advice Guidance Boundary Review framework. It is likely many firms will re-evaluate the products they offer looking at where losses have occurred and potential liabilities. This could lead to unintended consequences such as possible product bias and/or the retraction of some types of advice, or increased cost.

We are supportive of the proposal in the discussion chapter to move towards a more comprehensive prudential regime for PIFs to increase minimal capital requirements. However, a proportionate approach will be needed as allowing for the accrual of too much capital poses its own risks, including the potential for more insolvencies and consolidations. Robust modelling will be needed to avoid undue impact on small to mid-tier advisers many of which operate on slim capital.

We would be happy to discuss these points further if required.

Yours faithfully,

[signed]

Matt Hammerstein
Chair, FCA Practitioner Panel