FINANCIAL CONDUCT AUTHORITY

Consultation on Investment Platforms Market Study remedies

Including a discussion chapter on Exit Fees

Consultation Paper
CP19/12**

March 2019

How to respond

We are asking for comments on this Consultation Paper (CP) by 14 June 2019

You can send them to us using the form on our website at: www.fca.org.uk/cp19-12-response-form

Or in writing to:
Clive Parker
Financial Conduct Authority
12 Endeavour Square London E20 1JN

Telephone:
020 7066 5140

Email:
cp19-12@fca.org.uk

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1 Summary

Why we are publishing this consultation paper

1.1 This paper proposes changes to the regulation of platform service providers arising from the findings of the Investment Platforms Market Study (IPMS). It also discusses whether and how we might apply some remedies to non-platform firms offering similar services in relation to retail investment products.

1.2 The Final Report of the IPMS is being published at the same time as this consultation paper. The 2 papers should be read in conjunction as this paper does not generally repeat information contained within the Final Report.

1.3 This paper invites input from industry and consumers on our proposed remedies for issues identified in the IPMS. These are summarised in paragraphs 1.9 and 1.10 below.

1.4 This paper reflects work in the remedy phase of our Market Study. These proposed changes are designed to reduce the barriers to effective competition experienced by consumers who use platforms and similar services, as described in the IPMS Final Report.

Who this applies to

1.5 This paper will be of interest to platform service provider firms, and firms offering comparable services as described in paragraph 4.16 of this paper. The consultation on unit class conversions will also be relevant to fund managers and their service providers.

1.6 In view of the discussion and feedback request on wider application of an exit fees remedy, it should also be read by other firms active in the distribution of retail investment products, including:

- fund managers
- wealth managers
- financial advisers
- life companies
- banks

The paper will also be of interest to representative industry bodies and consumer groups. Individual consumers may also find it of interest, and their feedback is welcome.

The wider context of this consultation

1.7 The Financial Conduct Authority (FCA) published its IPMS Interim Report in July 2018. We launched the study in response to potential concerns raised by respondents to our Asset Management Market Study about the way in which competition was working in the investment platforms sector. The Interim Report set out findings which suggested that the market in general works well, but there are areas where it could work better.

1.8 The IPMS Final Report confirms our findings and outlines a package of remedies to address the areas of concern raised in the report. Some of these remedies involve supervisory activity or ongoing monitoring of industry initiatives, others require changes to the Handbook on which we are now consulting.

What we want to change

Making transfers simpler

1.9 The IPMS Final Report explains our concern that consumers (both advised and non-advised) often find it difficult to move from one platform to another, for reasons of time, complexity and cost. In Chapter 3 of this paper, we set out proposals to mitigate one of the causes of this concern. We aim to make it easier for consumers to move their assets to a new platform without unnecessary liquidation of investments. These proposals can be summarised as follows:

- a requirement for platforms to offer consumers the choice to move units in investment funds that are common to both platforms via an 'in-specie[1]' transfer
- a requirement for platforms to request a conversion of unit classes, where this is necessary to enable an 'in-specie' transfer to take place
- a requirement for platforms to ensure that consumers moving onto a new platform are given an option to convert to discounted units, where they are available for investment by the consumer

Exit fees: discussion on the scope of potential remedies

1.10 In the IPMS Final Report, we state our view that a ban on platform exit fees is likely to be appropriate as a measure to reduce consumer harm. The report notes that to achieve our aim, we need to consider the scope of any such remedy, given that platforms compete in a wider retail distribution market. In Chapter 4 of this paper, we are seeking further views on the potential nature and scope of this remedy. This includes the extent to which any intervention should be extended to other types of firm that compete with platforms in the retail distribution market. We are particularly keen to hear from firms that are active in the distribution of retail investment products, but which were outside the initial scope of the Market Study.

1 'In-specie' is a term describing a transfer of assets where units in the fund are re-registered by the fund manager and the consumer remains invested in the fund throughout

Outcome we are seeking

1.11 Our proposals seek to improve consumers' ability to switch between platforms and enable them to benefit from lower costs and/or better functionality that suits their needs. In turn, we expect this (along with the other remedies set out in the Final Report) to improve competition in the sector, including lower prices, increased efficiency and an improvement in the consumer experience. We consider that overall this will help us to deliver public value through a better functioning retail distribution sector.

Next steps

What you need to do

1.12 We welcome comments on the proposed changes to our Handbook and on the questions raised in the discussion chapter below. Please respond to the consultation and discussion questions by 14 June 2019. You can use the online response form on our website or write to us at the address on page 2.

What we will do next

1.13 Following this consultation, we will consider feedback before issuing a Policy Statement and finalising our rules.

1.14 For the discussion on exit fees, we will consider responses to the questions and may issue a formal consultation later in the year.

2 The wider context

The harm we are trying to reduce/prevent

2.1 Investment platforms have become a significant distribution channel for retail investments in the UK, with over £500 billion in assets under administration. The number of consumers using platforms rose by about 2.2 million between 2013 and 2017.

2.2 The aim of the IPMS was to examine how competition is developing in this sector, and to ensure that platforms are competing in consumers' interests. We wanted to assess the extent to which investors and their financial advisers are able to make informed choices between platforms, informed choices between products on the platform and whether platforms help consumers get a better deal.

2.3 Overall, we found that the market is working well in many respects, for both advised and non-advised consumers. Consumers who pay more typically get access to a greater range of non-price features and they are, overall, satisfied with their platform. Platforms also appear to help consumers and financial advisers make informed investment decisions free of investment product bias. This suggests that platforms are competing in the interests of most consumers.

2.4 Despite these positive signs, the Market Study Final Report concludes that it should be easier for consumers to shop around and to transfer their assets more easily to firms that better meet their needs.

2.5 The Final Report outlines our intended response to the areas of weakness that have been identified. These next steps can be summarised as follows:

- this consultation on proposed rules for unit class conversions, and discussion on a potential ban on exit fees both for platform providers and other firms
- monitoring of industry progress in improving the transparency and comparability of charges
- a review of the industry's progress in improving the switching process
- supervisory attention given to firms' treatment of orphan clients (defined as consumers who have discontinued a relationship with a financial adviser)
- a review of the relationship between advice and discretionary services, as part of the RDR/FAMR post-implementation review starting in 2019
- follow-up work to ensure that firms' arrangements comply with competition law

2.6 It is important to consider this consultation and discussion within the context of the overall package of remedies. The proposals on exit fees and unit class conversions are part of a wider suite of work to improve consumers' ability to move from one platform to another.

Scope

2.7 The IPMS Terms of Reference described the scope of the study. It included platforms and other firms such as wealth managers and banks that offer online access to retail investment products. The Interim Report also described the wider value chain within which platforms operate, which includes fund managers and insurance firms.

2.8 We recognise the interconnectivity of this market, and are mindful that our package of remedies has potential implications for firms outside the original scope of the IPMS. For example, the proposed rules on unit class conversion (see Chapter 3) are likely to affect the fund management industry by increasing the volumes of requested conversions. Further,

the discussion on exit fees (see Chapter 4) is specifically intended to ensure that we take full account of the wider effect of any ban or cap on fees.

How it links to our objectives

2.9 The proposals set out in this consultation and discussion are intended to advance our objectives of securing an appropriate degree of consumer protection and promoting effective competition in the interests of consumers.

2.10 As noted in paragraph 2.6, these proposals are part of a wider package of remedies designed to address the competition concerns identified in the IPMS. The specific issues covered in this paper relate to the IPMS's conclusion that it should be easier for consumers to move their assets from one platform to another. This links to our consumer protection objective by enabling consumers (1) to avoid unnecessary risks or costs from temporary disinvestment when they move between platforms but stay in the same fund, and (2) to make better-informed decisions where a discounted unit class is available. It should also have the effect (particularly in conjunction with other remedies as set out in the Final Report) of promoting effective competition by encouraging consumers to shop around between platform service providers and other competing businesses.

What we are doing

2.11 In Chapter 3 of this document, we are **consulting** on draft rules relating to 'in-specie' transfers and unit class conversions as summarised in paragraph 1.9.

2.12 In Chapter 4, as summarised in paragraph 1.10, we are building on the **discussion** on exit fees in the IPMS. Once this discussion period ends we will consider responses and undertake further analysis. If we decide to proceed with regulatory intervention on exit fees, we will issue a further consultation on draft rules.

Equality and diversity considerations

2.13 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

2.14 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

2.15 In the meantime, we welcome your input to this consultation on this.

3 Making transfers simpler

3.1 The Market Study Final Report identifies concerns about the difficulties encountered by consumers when they want to move to a new platform offering a service that better meets their needs. In this chapter, we are consulting on proposed Handbook changes to implement a remedy to mitigate potential barriers to moving platforms.

What is the issue?

3.2 There are 2 main ways for consumers to move their investments held as units in investment funds to a new platform:

- they can either liquidate their current investment then buy new units via the receiving platform, or
- where the units to be transferred are in a fund available on both platforms, consumers may be able to opt for an 'in-specie' transfer, where the units in the fund are re-registered by the fund manager and the consumer remains invested in the fund throughout

3.3 The IPMS found that most platforms offer consumers the option of an 'in-specie' transfer, but that this does not always occur in practice, nor is it always carried out in the most efficient way. When platforms do not make 'in-specie' transfers available, some consumers are put off switching, in turn weakening competitive pressure on platforms.

3.4 For investment funds, the re-registration of assets can be more complex where there are multiple versions of unit classes within the same fund. A typical scenario is where a platform has negotiated with a fund manager to offer unit classes with a discounted ongoing charge – known as 'superclean' unit classes – which are unique to, and therefore only available through, their platform. While 'superclean' units offer the benefit of lower fund charges, they may cause difficulties when consumers wish to move platform provider, since the particular discounted unit class they hold will not normally be available on the new platform.

3.5 When this happens, we are aware that some ceding platforms (ie the platform that the consumer is leaving) request that the fund manager convert the units into a version which the receiving platform can accept and the re-registration progresses as requested. This is normally the best way for consumers to transfer their investments. However, the IPMS found that some firms are unwilling to request the necessary conversion and do not offer clients the option of an 'in-specie' transfer where there is a unit class mismatch. Clients wishing to transfer are then required to liquidate their units and either transfer across the cash for reinvestment through the new platform ('cash out') or else buy new units in a standard unit class, purchased at a different valuation point, and transfer those units to the new platform ('switch'). In either case the consumer is exposed to potentially adverse market movements, and may crystallise a tax liability.

3.6 Additionally, the IPMS found that there are cases where consumers transferring funds onto a new platform are not given the option to convert their units to a discounted unit class, even though they are eligible to hold these units. If a consumer does not actively request or initiate a conversion they may remain in the more expensive unit class for the duration of their investment with the platform.

What are we proposing?

3.7 In this chapter, we are proposing a requirement that platforms should offer retail clients the option of 'in-specie' transfers of units in investment funds (where the transfer request includes funds that are available on both platforms). We also want platforms to take steps to bring about unit class conversions, where necessary, to ensure that a retail client moving platforms (but wishing to remain in the same fund) is not forced to sell their investment unnecessarily. These proposals would require some platforms to make changes to their transfer application materials, and would also require (for some firms) an increased level of dialogue with the retail client, and between the ceding and receiving platform, during the transfer process.

3.8 We are aware that in most cases, consumers would approach the receiving platform to arrange the transfer but in some cases, they may approach the ceding platform. If the client is looking to move units in a fund that is common to both platforms, we would expect the platform to implement the 'in-specie' transfer and, where necessary, conversion to a discounted unit class. Where it is unable to process an element of the client's instructions, e.g. where the platform is not entitled to request a unit class conversion that is required to enable an 'in specie' transfer, the platform must promptly contact the client for additional instructions.

3.9 The proposed rules would require that:

- the platform must offer consumers the choice of transferring units 'in specie', where the same investment fund is available in both the ceding and receiving platform for investment by the consumer
- if the consumer has chosen an 'in-specie' transfer but their investment is in a unit class which is not available for purchase in the receiving platform, then the ceding platform must request the fund manager to carry out a conversion of the units to a class which the receiving platform can accept as an 'in-specie' transfer (and take any other reasonable steps to bring it about)
- the platform must offer consumers the opportunity, as part of the funds transfer process, to convert units into a discounted unit class, where such unit class is available for investment by the consumer on the receiving platform.

Our approach

3.10 Our proposed rules are intended to ensure that in all cases where it is possible, consumers transferring investment in units from one platform to another are offered the choice of transferring the units 'in specie'. Our expectation is that this will normally be possible where the same investment fund is available on both the ceding and receiving platforms. As noted above, this choice is commonly offered by platforms at present, but nonetheless a rule is considered necessary to ensure consistency across the market and to give effect to the other elements of the rule as described below.

3.11 Where a unit class conversion is required to enable an 'in-specie' transfer (which may be the case where the ceding and receiving platforms hold different unit classes in the same fund), the proposed rules require the platform to take the necessary steps to bring about a conversion, except where it is unable to do so, ie for reasons outside the control of the platform. The right for the holder of units to convert from one class to another has long been established in our Handbook (COLL 6.4.8R). This rule applies to managers of UK authorised funds for retail investors, but without an associated obligation on platforms to request conversions on behalf of the consumer.

3.12 COLL 6.4.8R provides that, where a fund offers more than one unit class for issue or sale, the unitholder has a right to convert from one to the other, provided that doing so would not contravene any provision in the prospectus. If a client requests an 'in-specie' transfer of units of a different unit class than available in the receiving platform, then we expect the transfer to go ahead on that basis with the appropriate unit class conversion, without cashing out or switching.

3.13 We are also proposing a rule to address an IPMS finding that discounted units, where available to new customers, are not routinely offered to transferring customers during the transfer process. We propose to require that the platform gives consumers the option, as part of the transfer process, to convert their units to the discounted class, where it is available to the client at the receiving platform

3.14 Overall, we expect that these Handbook changes will help consumers who move platforms avoid being out of the market or crystallising tax liabilities unnecessarily. Further, the proposed changes will help to reduce the barriers to switching platforms, so helping competition to work better across the sector.

Q1: *Are you aware of any material obstacles firms may face in implementing the proposed requirement that consumers moving investments in units in funds common to the ceding and receiving platforms should be given the option of an 'in-specie' transfer (in addition to other options the platform may offer)?*

Q2: *Are you aware of any material obstacles firms may face in implementing the proposed requirement that ceding platforms should request conversions on behalf of consumers, where this is necessary to support the consumer's request to transfer their units to a new platform on an 'in-specie' basis?*

Q3: *Are there any circumstances where platforms would not be able to take the necessary steps to bring about the conversion of unit classes to enable an 'in-specie' transfer? For example, would our rule need to apply to other firms that may be involved in the process?*

Q4: *Do you agree that receiving platforms, as part of the transfer process, should give consumers the option to request conversion of their units into a discounted unit class, where this is available to them at the receiving platform? If not, why?*

Next steps

3.15 Subject to the outcome of this consultation, we expect that this rule would come into effect from 31 July 2020. We believe this would give firms adequate time to plan and implement any required changes to their processes.

Q5: *Do you agree with the planned implementation date of 31 July 2020? If not, why not, and what alternative timeframe would you suggest?*

4 For discussion: exit fees

4.1 The IPMS Final Report (Chapter 4), sets out the study's findings on exit charges, and concludes as follows:

- Exit fees are one of the 3 main barriers that prevent consumers from switching platforms. Along with other barriers to switching set out in the Final Report, exit fees are likely to reduce firm incentives to deliver better services for all consumers.
- In addition, exit fees add complexity to platform charges, making it more difficult for consumers to assess and compare different platforms.

4.2 The Final Report concludes that there is a strong case for addressing platform exit fees, and sets out our view that a ban applying to new business going forward is likely to be more effective than a cap in removing this barrier to switching and increasing firm incentives to deliver better services. It recognises that there are transactional costs associated with consumers who move platforms, but notes that many firms already recover these costs via the general platform fee. This ensures that additional fees do not create a barrier to switching or add unnecessary complexity to their charging structures.

4.3 By addressing a main barrier to switching, consumers who have been put off switching may switch to a firm that is better able to meet their needs, barriers to customer acquisition would be reduced and we would expect an increase in competition and positive outcomes for consumers.

4.4 In response to the consultation questions set out in the Interim Report, respondents provided a range of views on the form that this intervention should take and its scope of application. A common view (given by almost half of respondents) was that any remedy should apply more widely than to platforms' exit fees. This was most widely defined by respondents as 'all firms holding client assets' – including fund managers, wealth managers, life assurers, employee benefits companies and platforms.

4.5 We propose that the exit fees remedy should apply to platforms as well as to firms offering retail distribution services that are comparable in many respects to those offered by platforms. The population of firms we have in mind are those that deal, arrange deals or manage investments for or on behalf of retail customers, where their services include the safeguarding and administration of investments (whether they perform these roles themselves or outsource them). As explained below, we are not proposing here to introduce a ban on exit fees embedded in products. So, fund managers would only be in scope of the proposed remedy for their retail distribution activities.

4.6 We want to ensure the remedy achieves our aim of removing a significant barrier to switching and, in turn, strengthens competition between platforms and other distributor firms that compete alongside them. Our current view is that this remedy should apply to all firms that carry out the activities set out in paragraph 4.16 below and to all charges associated with consumers' exit from these services.

4.7 We recognise that the potential range of firms affected by this remedy is considerably wider than investment platforms, which were the main focus of the IPMS. So, we have

decided to collect more evidence from firms. In particular, we are seeking views from firms in the wider scope that may be affected by this remedy but may not have responded to the questions in the IPMS. We also welcome further comments from those who did respond to the IPMS, as the focus of the questions in this paper is slightly different.

4.8 We are inviting views in 3 areas relating to exit fees:

- How an exit fee should be defined.
- The scope of the intervention, ie the types of firm/service that the intervention should apply to.
- Whether the intervention should be a ban or a cap on such fees.

Exit fee definition

4.9 In the context of the IPMS, exit fees are charges that are imposed by platforms and comparable firms on consumers following a request to disinvest or to transfer their assets to a new service provider. Typically, these fees take the form of a fixed cash amount or a percentage of each holding (commonly referred to as 'line of stock') to be encashed or transferred away from the platform or other service. In addition to exit fees of this type, we have found that some firms apply other charges associated with exit, including, for example, account closure fees, withdrawal fees and 'in-specie' transfer fees.

4.10 In our view, the scope of a ban or cap on exit fees should include all charges related to exit from the service, regardless of their description. This would ensure that such a ban cannot be circumvented by applying an exit fee under a different description. It would also include any fees imposed by firms in relation to the proposed new rules on unit class conversions, as set out in Chapter 3 above.

4.11 We propose that for the purposes of this remedy, an exit fee should be taken to mean a fee or charge imposed on a client in connection with a request to exit the service or transfer to another service provider, with the exception of any charge for advice provided in connection with the exit or transfer.

Q6: **Do you agree that an exit fee should be defined as in paragraphs 4.10-11 above, and should include all charges associated with consumers' exit from the service?**

Q7: **If you do not agree with our proposed definition, what charges should be excluded and how should exit fees be defined?**

Scope

4.12 When we asked for views in the Interim Report on a possible ban on exit fees, almost half of respondents noted that any remedy should apply to a broader range of firms than platforms. This would avoid an inequitable application of rules across competing markets and firm types. Respondents' views are covered in more detail in Chapter 4 of the IPMS Final Report.

4.13 We define a 'platform service' in our Handbook as:

"a service which:

***(a)** involves arranging and safeguarding and administering investments; and*

(b) *distributes retail investment products which are offered to retail clients by more than one product provider;*

but is neither:

(c) *solely paid for by adviser charges; nor*
(d) *ancillary to the activity of managing investments for the retail client.*

4.14 We are aware that there are various other types of comparable firm that compete with platforms in the distribution of retail investment products, and who may impose similar types of exit fees. These firms provide distribution services to retail investors which are similar to those offered by platforms, although they do not necessarily provide access to third party investment products.

4.15 Some of these firm types (eg wealth managers) have been included in the IPMS's analysis, so we have been able to determine that exit fees exist in these markets. We want to ensure that any ban or cap is applied appropriately to firms that compete with platforms, including those that do not necessarily operate via an online portal (which were thereby excluded from the scope of the IPMS). This would make it easier for consumers to compare and switch between services, while allowing platforms to compete on a level playing field with other firms. This is particularly important as consumers do not necessarily differentiate between platforms and non-platforms when shopping around for services.

4.16 Our view is that this remedy should apply to firms as follows:

(a) Platform service providers; and
(b) Firms offering a **comparable service** to retail clients. We are currently minded to define this as a service comprising any one or more of the following:

i. dealing and arranging activities;
ii. managing investments; or
iii. sending dematerialised instructions (or causing such instructions to be sent),

provided that the service also includes:

i. the administration and safeguarding of assets; or
ii. arranging for one or more persons to carry on the safeguarding of assets and the administration of assets

4.17 In Question 9, we are seeking views on whether this proposed definition will capture all the firms to whom the remedy should apply so as to minimise any competitive distortion between firms offering comparable services.

4.18 We are aware that some firms (including vertically-integrated firms) have the ability to apply exit charges within their products and/or wrappers as opposed to the distribution service itself. In the context of the IPMS, and as outlined in the Final Report, we are not at this stage intending to extend the proposal of a ban to product-related exit fees. This is because competition between retail investment product providers was not the focus of this project and we did not seek information on product-related exit fees and their effects on competition. Nonetheless, we want to ensure that any ban on service-related exit fees does not lead to a 'waterbed effect' where new exit fees are imposed

in their place as product or wrapper fees, which would reintroduce the barriers to switching that we are trying to remove. We are interested in industry views on this.

Q8: **To what extent would the banning of exit fees mitigate barriers to switching in relation to platforms and firms offering comparable services?**

Q9: **If we introduce a ban or cap on exit fees, should it apply to firms offering comparable services as scoped in paragraph 4.16? If not, what are the reasons why a ban/cap should or should not apply to particular types of firm or service?**

Q10: **If your firm is in the wider scope of firms offering comparable services as described in paragraph 4.16, do you currently apply any exit fees associated with these services? If so, please describe the nature of these fees.**

Q11: **If your firm currently charges exit fees (as defined in paragraphs 4.10-11), what would be the impact of a ban on these fees? For example, do you envisage that other charges would be implemented or raised to compensate for the loss of income?**

Q12: **If your firm is a product manufacturer as well as a distributor as defined, what exit fees are applied within the products and services you offer to clients? If these fees exist, please provide a rationale for this charging model.**

Q13: **How might a ban on exit fees be defined in such a way as to avoid a 'waterbed effect' where firms are able to replace them with new product/wrapper-related exit charges?**

Q14: **How prevalent are cases where product-related exit fees pose a similar or greater barrier to switching in the investment platforms and comparable services market?**

Nature of intervention – ban or price cap?

4.19 A number of respondents to the Market Study Interim Report suggested that a price cap on exit fees would be fairer than an outright ban. This was on the basis that a ban on exit fees would prevent firms from recovering legitimate costs incurred in the switching process. The Market Study Final Report covers this in more detail (Chapter 4, paragraphs 21-40). It concludes that an outright ban is more likely to have a positive effect on competition across the market, and be more effective in increasing firms' incentives to deliver better services.

4.20 The proposed ban as set out above would not prevent firms from recovering reasonably incurred third party costs. The intervention, if implemented, should not in and of itself alter firms' revenues, as firms are not prevented from adjusting their general platform fees, within reason. These fees are more transparent to consumers and enable easier comparison between platforms and similar offerings, without amounting to a barrier to switching.

4.21 In view of the proposals set out in this chapter to widen the scope of the ban or cap, it is appropriate for us to give firms in the wider market an opportunity to submit their views on this.

Q15: **What is your view on the IPMS Final Report's conclusion that a ban on exit fees would be more appropriate than a cap? If you disagree with the proposal, please provide your reasons.**

Q16: **What is your view on the reasonableness of allowing the recovery of third party costs?**

Annex 1
Questions in this paper

Q1: Are you aware of any material obstacles firms may face in implementing the proposed requirement that consumers moving investments in units in funds common to the ceding and receiving platforms should be given the option of an 'in-specie' transfer (in addition to other options the platform may offer)?

Q2: Are you aware of any material obstacles firms may face in implementing the proposed requirement that ceding platforms should request conversions on behalf of consumers, where this is necessary to support the consumer's request to transfer their units to a new platform on an 'in-specie' basis?

Q3: Are there any circumstances where platforms would not be able to take the necessary steps to bring about the conversion of unit classes to enable an 'in-specie' transfer? For example, would our rule need to apply to other firms that may be involved in the process?

Q4: Do you agree that receiving platforms, as part of the transfer process, should give consumers the option to request conversion of their units into a discounted unit class, where this is available to them at the receiving platform? If not, why?

Q5: Do you agree with the planned implementation date of 31 July 2020? If not, why not, and what alternative timeframe would you suggest?

Q6: Do you agree that an exit fee should be defined as in paragraphs 4.10-4.11 above, and should include all charges associated with consumers' exit from the service?

Q7: If you do not agree with our proposed definition, what charges should be excluded and how should exit fees be defined?

Q8: To what extent would the banning of exit fees mitigate barriers to switching in relation to platforms and firms offering comparable services?

Q9: If we introduce a ban or cap on exit fees, should it apply to firms offering comparable services as scoped in paragraph 4.16? If not, what are the reasons why a ban/cap should or should not apply to particular types of firm or service?

Q10: If your firm is in the wider scope of comparable firms as described in paragraph 4.16, do you currently apply any exit fees associated with these services? If so, please describe the nature of these fees.

Q11: If your firm currently charges exit fees (as defined in paragraphs 4.10-4.11), what would be the impact of a ban on these fees? For example, do you envisage that other charges would be implemented or raised to compensate for the loss of income?

Q12: If your firm is a product manufacturer as well as a distributor as defined, what exit fees are applied within the products and services you offer to clients? If such fees exist, please provide a rationale for this charging model.

Q13: How might a ban on exit fees be defined in such a way as to avoid a 'waterbed effect' whereby firms are able to replace them with new product/wrapper-related exit charges?

Q14: How prevalent are cases where product-related exit fees pose a similar or greater barrier to switching in the investment platforms and comparable services market?

Q15: What is your view on the IPMS Final Report's conclusion that a ban on exit fees would be more appropriate than a cap? If you disagree with the proposal, please provide your reasons.

Q16: What is your view on the reasonableness of allowing the recovery of third party costs?

Q17: Do you agree with our Cost Benefit Analysis? If not, please explain why and provide details.

Annex 2
Cost benefit analysis

Introduction

1. FSMA (as amended by the Financial Services Act 2012) specifically, section 138I, requires us to publish a cost benefit analysis (CBA) of our proposed rules. CBA means 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made' and, subject to certain exemptions, 'an estimate of those costs and of those benefits'.

2. This analysis presents estimates of the significant impacts of our proposals. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For other impacts, we provide qualitative estimates of outcome. Our proposals are based on carefully weighing up these multiple factors and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

Problem and rationale for the intervention

3. The IPMS Final Report explains our concern that consumers often find it difficult to move from one platform to another. Our proposals (along with the package of other remedies set out in the Final Report) seek to improve consumers' ability to move between platforms, enabling them to benefit from lower costs and/or services that better suit their needs.

4. In particular, our proposals are designed to reduce barriers to moving between platforms where firms hold unit classes which are specific to their platform, resulting in a mis-match between the unit classes held by receiving and ceding platforms in a transfer. Such platform-specific unit classes can occur where a platform has negotiated with a fund manager to offer unit classes with a discounted ongoing charge. The IPMS found that in this situation, some firms often liquidate the assets and transfer across the cash. However, this means that the consumer is out of the market for a period and a tax liability may be created.

5. Additionally, the IPMS found that transferring-in consumers are not always given the option to convert to a discounted unit class, even where the consumer is eligible to hold these units. The consumer may then remain in the more expensive unit class for the duration of their investment with the platform.

Our intervention

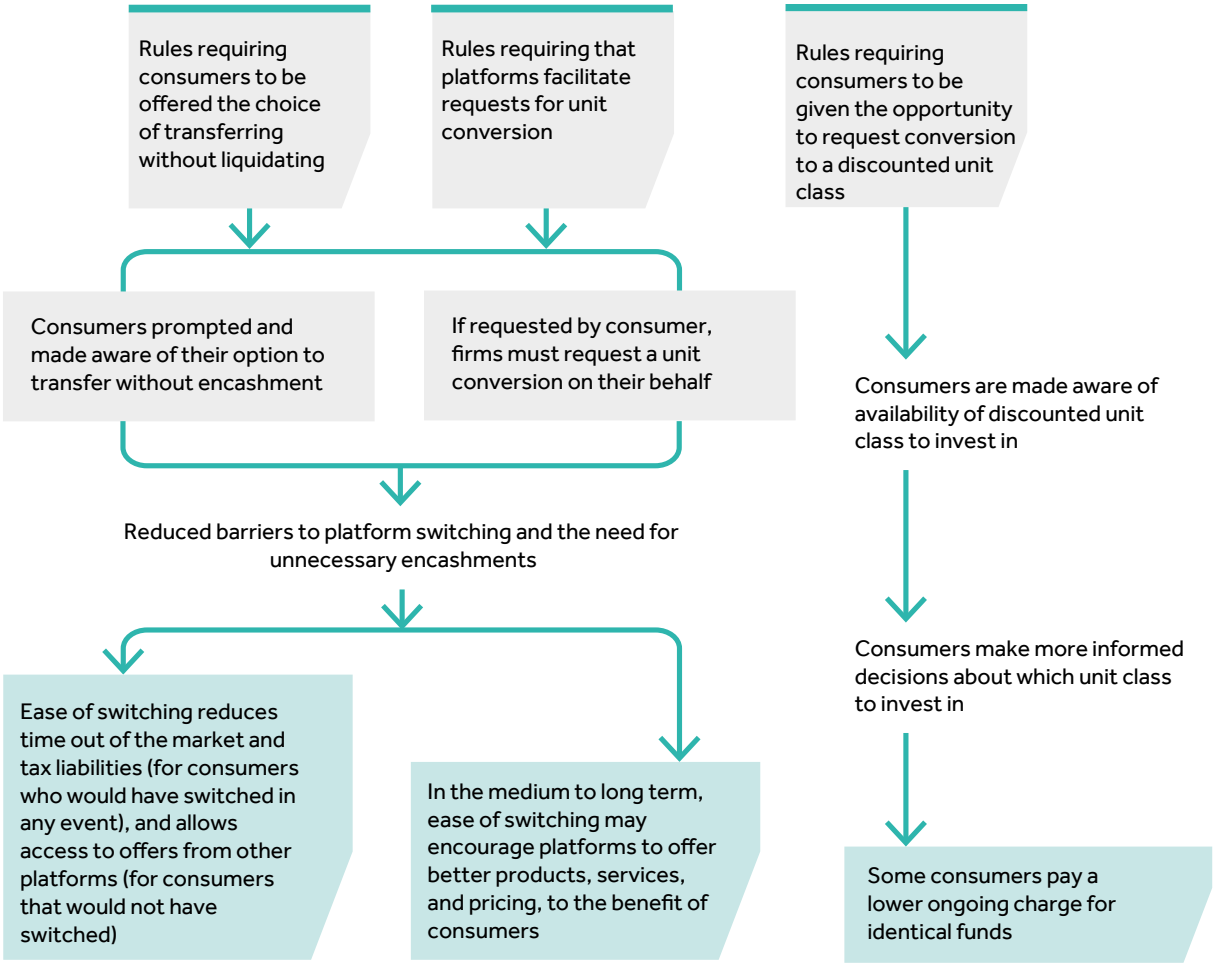
6. In Chapter 3 of this document we set out our proposals to require:

a. the platform to offer consumers:
- the choice of transferring units without liquidating (in-specie), where the same investment fund is available in both the ceding and receiving platform for investment by the consumer
- the opportunity convert units to a discounted unit class as part of the transfer process, where such a unit class is available for investment by the consumer on the receiving platform

b. If the consumer has chosen an 'in-specie' transfer, but their investment is in a unit class which is not available on the receiving platform, then the ceding platform must request the fund manager carry out the conversion to a unit class which the receiving platform can accept for an 'in-specie' transfer. Where this is not possible for reasons out of their control, the platform must promptly contact the consumer.

7. Figure A below illustrates the causal links between the intervention described above and the harm we are trying to address.

Figure A: Causal Chain



Source: FCA Analysis

Baseline and key assumptions

8. For the purposes of this CBA, we assess the costs and benefits of the interventions proposed in this CP against a scenario where there is no change to the existing services offered by investment platforms or to current investor behaviour.

9. Chapter 4 asks for input on introducing a cap or ban on platform exit fees to address identified barriers to consumers switching platforms. The costs and benefits of our proposed requirements have been estimated against a baseline where there is no cap or ban on exit fees. However, we have indicated below where the impacts may differ, should this intervention be introduced.

Costs

Costs to the FCA

10. We do not consider that these requirements will cause additional costs to the FCA as supervision of them will be incorporated within normal business-as-usual activities.

Compliance costs to firms

11. We have set out our analysis of the likely compliance costs arising from our proposals below.

Updating application materials

12. The proposed requirement to offer consumers the choice of transferring units 'in-specie' referred to in paragraph 6a above may require a minority of firms to make some changes to their application materials. Our research suggests that most, but not all, platform service providers currently offer consumers the choice of cashing out or re-registering in their application material. For example, we found that platforms representing at least 75% of D2C platform funds investment (as identified in the IPMS) prompted the consumer in their application material. In respect of the proposal in paragraph 6b above, we are aware that not all firms offer the opportunity for incoming consumers to convert to a discounted unit class which may be available to them.

13. We have not estimated the costs here since we do not consider that these costs to industry are likely to be significant for a number of reasons. For both of these requirements, given the length of transitional period given to platforms (until July 2020) and our understanding of firms' point of sale review procedures, we consider that these updates to their application materials could potentially be undertaken alongside other changes firms may need to make over the period and hence not give rise to significant costs. In addition, these materials are often (but not always[2]) online and so potentially less costly to update than paper based. Furthermore, we are not prescribing the way in which consumers are offered the options which we consider will also minimise the costs incurred by firms.

2 For example some firms may operate primarily over the telephone.

Supporting 'in-specie' transfers and unit class conversions

14. Platforms may need to process more 'in-specie' transfers as a result of our proposals, although most firms already undertake these (where unit class conversions are not required) and have systems and processes in place. We therefore do not expect the additional marginal costs to be significant. However not all platforms are consistently facilitating unit class conversions currently. This includes conversions for the purposes of the client avoiding having to cash out, and also to allow the client to be invested in a discounted unit class when transferring to the receiving platform. For the purposes of our CBA, therefore, we estimate that some platform providers will incur some additional compliance costs from this proposal, with the majority of the costs likely to be incurred by larger platforms since they are more likely to offer discounted, platform-specific unit classes[3].

15. We understand that unit class conversions which may be required to fulfil the client's request to transfer 'in specie' are more time-consuming and complex for firms to undertake. There may be time spent by the platform in liaising with the client, other platform and transfer agent[4] to request the conversion and also subsequent checking and reconciliation of individual consumer accounts.

16. Based on our discussions with firms, we have estimated that platform service providers will need to spend between approximately 30 minutes to 2 hours to process conversions for a client, with a similar length of time being spent by the transfer agent. At an hourly cost of £20-£25,[5] the additional cost per conversion is estimated to be £20-£100. Assuming that the proposed changes would lead to an additional 10,000–20,000 conversions per year, the compliance cost for supporting unit class conversions for the industry would be in the range of **£200k-£2m per year.**[6]

17. We also expect that platforms would have to process additional conversions as a result of transferring-in consumers who request a discounted unit class. We consider that these are likely to take significantly less time to process since, for example, they do not involve liaison with another platform service provider. The cost per conversion (£20-£100) set out in the previous paragraph would therefore be an upper bound for this proposal and would be additional to the main conversion costs outlined above.

18. We consider that it is not unrealistic that the industry could make use of technological solutions to significantly reduce the costs of processing. During our market study, firms told us that the sector has sought to improve conversion efficiency by working towards standardisation and automation of unit class conversions, but such practices are still not widespread. We consider that by making it a requirement to facilitate conversions, this will help foster the adoption of technology in this area, particularly if firms are not able to pass on their in-house costs of processing conversions to consumers (in line with the discussion on exit fees in this paper).

3 Larger platforms are able to secure preferential unit classes for their customers due to their scale. See paragraph 1.49 IPMS Final Report www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

4 We are aware that most fund managers appoint third-party transfer agents to handle relationships with consumers and platforms.

5 Figures based on the 2016 Willis Towers Watson UK Financial Services Report, for 'business support' roles. Salaries are inflated by 4% to account for wage inflation since 2016.

6 This range of costs is based on our assumption set out in paragraph 27 below that up to around 10,00-20,000 consumers pa who reported that they tried to move platform, but failed to complete their platform transfer now complete the move following the introduction of the requirements proposed in this CP.

Familiarisation costs

19. We expect firms affected by our intervention will read the proposals in this CP and familiarise themselves with the detailed requirements. We have estimated the costs of this to firms using assumptions on the time taken to read Chapter 3 within this CP, which is around approximately 3 pages, plus 3 pages in respect of the instrument.

20. We assume that there are 300 words per page and reading speed is 100 words per minute. It is also assumed that 6 compliance staff at large firms and 3 compliance staff at small/medium firms read the document. The hourly compliance staff cost is assumed to be £57 at large firms and up to £61 at small/medium firms.[7] We assume that these costs primarily apply to the 43 platform service providers identified by the IPMS,[8] as well as around 110 other firms which are also caught by the Handbook definition (eg execution-only brokers who offer custodian services).

21. Under these assumptions, the **one-off** industry costs of familiarisation are estimated to be around £12,000 for the industry.

Additional costs for fund managers

22. We recognise that if platforms take steps to bring about more unit class conversions, then this may impact fund managers by increasing the volumes of requested conversions they need to deal with. However, given unit holders have had this long-standing right since before 2004, fund managers should already have systems in place to process unit class conversions and the additional costs are not expected to be significant.

Indirect costs to consumers

23. It is possible that firms may seek to recover some or all of the compliance costs from consumers who request a unit conversion. If they do, some of the costs listed above may be passed through to consumers. Consumers may decide (together with their adviser if relevant) based on their own circumstances whether the benefits gained by converting are offset by any costs.

24. In this CP we are seeking feedback on measures to prevent platforms from charging exit fees (which would include charges for conversion) to consumers who are moving away. If this intervention is implemented then this will result in more of the costs falling to firms than consumers. It will also act as an incentive for firms to find efficiencies in the way that they process unit conversions.

25. We do not consider that these proposals will generate other significant indirect costs. For example, we do not consider that the costs associated with conversions would deter larger platforms, who are generally more likely to be able to negotiate discounts with fund managers due to their scale, from doing so. As highlighted in the IPMS Final Report,[9] platforms' main financial incentive is to promote investment products with the expectation that promotions will drive flows onto the platform, which will increase their revenue from platform fees. It also notes how competitive pressure on platforms to negotiate with fund managers may grow as consumers access information about the total cost of investment under MiFID II.[10] Furthermore, these rule changes should be taken in the context of the wider package of remedies which are designed to improve competition between platform providers in the sector.

7 This results in costs of approximately £100 for large firms and £55 for smaller/medium firms

8 See paragraph 9 of Annex 1, IPMS Interim Report. www.fca.org.uk/publication/market-studies/ms17-1-2-annex-1.pdf

9 See paragraph 6.13 IPMS Final report. www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

10 See paragraph 1.49, IPMS Final Report. www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

Benefits

Benefits to consumers

26. We expect benefits to arise to two separate groups of consumers.

27. The first group comprises those who have been deterred from moving platforms due to concern around how their holdings will move across. Our consumer research[11] showed that 7% of non-advised platform consumers (equating to approximately 300,000 consumers[12]) reported that they had tried to move platforms in the previous three years, but had not been able to do so for a range of reasons. Of these, 10% cited time being out of the market as a barrier to moving and 21% noted 'other' barriers such as the need to sell and repurchase their holdings, the new platform only accepting cash rather than transfers of the fund, and also the tax implications from selling units.[13] We therefore expect that at least around 10,000-20,000 consumers a year may potentially benefit from our proposals.[14] We consider that the benefits of switching for these consumers cannot be reasonably estimated because of the number of different dependent variables (which means the benefit will be specific to the individual's particular circumstances). Additionally, some of these factors are not practicable to quantify e.g. psychological impact of being out of the market.

28. We are mindful that mitigating the perceived barriers around converting unit classes may not be sufficient in itself to nudge significant numbers of consumers to move platforms. However, when taken together with the other wide-ranging remedies set out in the Final Report such as our reviews of industry improvements of charges transparency and switching processes, we expect that this could lead more consumers to move to new platforms to the extent that charges become easier to compare and barriers to switching are reduced. It is important to note that it is not necessary for a majority of consumers to move platforms in order to provide competitive pressure, as a significant minority could be sufficient to drive positive outcomes for all consumers of platforms.

29. In turn, improvements in competition among platforms could lead to lower platform prices and improved service features in the future. If consumers are exerting greater competitive pressure on platforms because it is easier for them to move elsewhere, platforms may be further incentivised to negotiate lower ongoing fund charges with asset managers in order to attract new consumers to their platform. This too could create significant savings for consumers over time.

30. The second group of consumers who may benefit are those who would have moved platform anyway but may have had their holdings cashed out, either because they did not request re-registration or because their platform did not bring about a unit class conversion when this would have been appropriate. For purely illustrative purposes, we might assume that with around 200,000[15] consumers switching platforms per annum, potentially around 500 – 2,000 may have been 'cashed out' instead of their unit classes being converted.

31. The benefits to these consumers may accrue in a number of ways. First, by ensuring that the platform offers the option to convert, fewer consumers may generate tax liabilities. The tax

11 See paragraph 3.68 of Interim Report www.fca.org.uk/publication/market-studies/ms17-1-2.pdf

12 Total platforms consumers (non-advised) estimated at approximately 4.2m (See Interim Report, Annex 1, Figure 1.5) www.fca.org.uk/publication/market-studies/ms17-1-2-annex-1.pdf. 7% of 4.2m consumers equates to approximately 300,000 consumers.

13 See paragraph 4.45 IPMS Final Report. www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

14 Approximately up to 20% of 300k non-advised consumers over 3 years who cited reasons including those relating to our proposals to make conversions easier equates to an upper bound of approximately 20,000 per annum who may benefit. In addition, consumers with advisers may also benefit. Recognising that not all such consumers would necessarily switch, we provide a conservative range of 10,000 – 20,000 per annum.

15 See page 9 of the Interim Report www.fca.org.uk/publication/market-studies/ms17-1-2-annex-2.pdf (3% of 7.3m consumers p.a.)

payable can be significant. For example, a consumer with a typical General Investment Account holding of approximately £37,500 could save hundreds of pounds in capital gains tax (CGT) by not encashing.[16] Second, consumers may benefit from not being out of the market for a significant length of time (typically ranging from a few days up to 2-4 weeks). It is not reasonably practicable to estimate the benefits to consumers from not having to disinvest as it depends on the particular market movements during the time period. However, in a market of general incline over the long term, it could lead to some loss associated from being out of the market and the possible psychological impact and worry which may result.

32. A further way these consumers may benefit is by being invested in a discounted unit class on the new platform. The potential savings could vary widely, however, because the difference in annual charges between standard and discounted unit classes can be significant. For example, at the upper end of the scale, we are aware of discounted unit classes with ongoing charges that are up to 38 basis points lower than the standard class's charge.[17] A more typical differential could amount to around 8 basis points per annum.[18]

33. Finally, by confirming our expectations of firms in these matters, we consider that there may be minor benefits to firms by providing certainty. This may reduce time spent by firms considering whether or not they are meeting regulatory standards.

Distributional impact

34. Capital gains tax is a tax on the profit when an asset, which has risen in value, is sold. By facilitating conversion services to investors that would otherwise cash out and incur CGT, there may be fewer transfers of benefits in the shorter term from some consumers (who pay the CGT) to wider societal groups (who benefit from increases in government tax revenue).

35. We expect that these proposals will prevent consumers who are not necessarily intending to sell their holdings (and generate a tax liability) when switching platform providers from having to do so.

16 As a purely indicative example, if we assume a holding of £37,500 of which £15,000 was due to growth, a Capital Gains Tax Annual Exempt Amount of £11,700 and the consumer is a higher rate tax payer, then tax of around £700 could be due.

17 See paragraph 1.49 IPMS Final report. www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

18 See paragraph 1.49 IPMS Final report. www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

Summary

36. The tables below summarise the costs and benefits of the proposed interventions:

Cost type	Affected parties	Description
Familiarisation of new requirements	All platforms	Total one-off cost of £12,000.
Conversion costs	Platforms and/or consumers	Total on-going cost of £200k - £2m per year plus on-going costs for converting investors to a cheaper unit class once on the platform.

Benefit type	Affected parties	Description
Additional switching due to ease of conversion	Investors who would not otherwise have switched	Additional 10,000–20,000 switching a year due to improved ease of conversion.
Cost saving from switching	Investors who would have switched in any case	Illustrative saving of around £700 in CGT per conversion, and the benefit of remaining in the market during conversion.[19]
Access to discounted unit classes	Investors who switch	Potential saving of around 8 basis points for investments in funds where discounted unit classes exists.[20]
Improvement in competition	All investors	Improved ease of switching (via conversion) could lead to greater competitive pressure among investment platforms, resulting in improved services and pricing.[21]

37. We recognise that some firms will need to make changes in order to meet our expectations and will incur some compliance costs. The costs arising from making required changes to application materials are expected to be minor whereas the costs relating to bringing about conversions will be more significant (particularly for larger platform providers), although technological solutions may help reduce firms' costs and firms may seek to pass on the costs to consumers. Depending on feedback received, we are minded to introduce a ban or cap for exit fees (including charges for conversion) which would prevent firms from passing on all the costs of conversion to consumers and provide an incentive for firms to process them efficiently.

38. Overall, while not all the benefits are readily quantifiable (for example, the benefit to consumers of not being out of the market), we consider that benefits of these proposals over time could be significant for consumers, particularly in the context of the overall package of measures in the IPMS Final Report, to drive improved competition in the sector.

Q16: Do you agree with our Cost Benefit Analysis? If not, please explain why and provide details.

19 Savings from CGT has a wider distributional effect on tax collected. See discussion on 'Distributional Impact'.

20 Savings from investing in discounted unit classes is a transfer from asset managers (in the form of loss of revenue) to investors.

21 Such benefits to consumers may come at a cost to firms. For example, the lowering of platform fees due to more intense competition is a benefit to consumers and a loss of profits to firms.

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4) FSMA). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. Our proposals are intended to mitigate barriers for consumers wishing to switch investment platforms identified in the Investment Platform Market Study. We believe they will contribute to the FCA's strategic objective of ensuring the relevant markets function well, while advancing the FCA's operational objective of promoting effective competition in the interest of consumers. The FCA's consumer protection objective is also engaged. As these proposals are principally focused on the FCA's competition objective, the duty in s. 1B(4) FSMA is not relevant.

8. We consider that, by mitigating the barriers to switching, our proposals would improve competition amongst platform providers, potentially resulting in lower platform prices and improved service features in the future. They may also incentivise providers to negotiate better deals with asset managers in order to attract or retain clients. The combined impacts of these effects could create significant savings for consumers over time.

9. By requiring platform providers to offer consumers the choice of transferring units 'in-specie' and to take the necessary steps to bring about a unit conversion if required, our proposals would also help consumers avoid the risk of potentially adverse market movements during the transfer process and to avoid the unintended crystallisation of tax liabilities.

10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

11. In formulating our remedies, we have welcomed the use of industry initiatives where appropriate. This means that in this CP we have been able to prioritise and target those areas where Handbook changes are required and where we believe it would work most efficiently. Our proposals are not expected to have any additional ongoing costs or impact on the way the FCA regulates.

The principle that a burden or restriction should be proportionate to the benefits

12. We have undertaken a CBA in Annex 2 of this CP. We consider that the costs of our proposals are proportionate to the benefits.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

13. By increasing the competitiveness of the UK investment platforms market (which has over £500 billion of assets under administration), our proposals should contribute towards sustainable UK economic growth in the medium/long term.

The general principle that consumers should take responsibility for their decisions

14. The proposals in this CP should facilitate better informed decisions by investors in choosing whether and how to move their assets to a different investment platform.

The principle that we should exercise of our functions as transparently as possible

15. We have engaged with trade associations, consumer bodies, firms and other stakeholders throughout the process of conducting the Investment Platforms Market Study. We will continue to engage with stakeholders throughout this consultation process prior to making any rules.

Financial Crime

16. We consider that the proposals in this CP are not relevant to efforts to minimise the extent to which it is possible for a firm to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Expected effect on mutual societies

17. Mutual societies are not within the scope of this consultation, and we therefore do not expect them to be impacted by the proposals in this paper.

Equality and diversity

18. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

19. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 2.13 to 2.15 of this Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

20. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that we have been mindful of industry initiatives where appropriate, so targeting our proposals at areas where Handbook changes are likely to work most efficiently. Our approach is also proportionate in seeking to achieve an appropriate level of consumer protection, when balanced with impacts on firms and competition. Our proposals also aim to ensure we set consistent expectations on firms across the sector.

21. We have also had regard to the relevant parts of the Regulator's Code for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals support authorised firms to comply and grow by allowing some flexibility for firms in how they comply with them. Our approach is risk based since the IPMS identified specific risks to the functioning of this market and we have targeted our remedies to the harm identified.

22. This consultation paper provides information on compliance with our proposals and so may help authorised firms meet their responsibilities to comply. It also forms part of an established, transparent consultation process during which are seeking feedback on whether stakeholders agree with our proposed approach. We also engaged with firms throughout the course of the IPMS.

Treasury recommendations about economic policy

23. Our proposals are consistent with Treasury's recommendations[22] under section 1JA FSMA as they aim to improve outcomes for consumers while supporting competition between providers operating in this market.

22 www.gov.uk/government/publications/recommendations-for-the-financial-conduct-authority-spring-budget-2017

Annex 4
Abbreviations used in this paper

CBA	Cost Benefit Analysis
COBS	the Conduct of Business Sourcebook
COLL	the Collective Investment Schemes sourcebook
CP	Consultation Paper
D2C	Direct to consumer
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSMA	the Financial Services and Markets Act 2000
IPMS	Investment Platforms Market Study
LRRA	the Legislative and Regulatory Reform Act 2006
RDR	Retail Distribution Review

Appendix 1
Draft Handbook text

CONDUCT OF BUSINESS SOURCEBOOK (PLATFORM SWITCHING) INSTRUMENT 2019

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions of the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rule-making power); and
(2) section 137T (General supplementary powers).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Conduct of Business sourcebook (COBS) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Conduct of Business Sourcebook (Platform Switching) Instrument 2019.

By order of the Board
[*date*]

Annex

Amendments to the Conduct of Business sourcebook (COBS)

Insert the following new section, COBS 6.1H, after COBS 6.1G (Re-registration of title to retail investment products). The text is not underlined.

6 Information about the firm, its services and remuneration

…

6.1H Platform switching

Application

6.1H.1 R This section applies to a *platform service provider* in relation to the transfer, or potential transfer, of a *retail client*'s *units*.

Definitions

6.1H.2 R In this section:

(1) "transfer" means the process of transferring a *client*'s *investment* from existing arrangements with a *platform service provider* ("ceding platform") to separate arrangements with another *platform service provider* ("receiving platform"), irrespective of whether the assets, rights or interests comprising the *investment* are themselves transferred, or whether any of them are converted, exchanged, sold and replaced by equivalent assets, rights or interests, or realised as part of the process;

(2) "available scheme" is a *fund* in which *units* are available for investment by the *client* via both the ceding and the receiving platforms;

(3) "discounted *unit* class" is a *unit* class of an available scheme in respect of which the *fund* manager is remunerated by a lower level of charges than would otherwise apply to the *client*'s investment in the available scheme;

(4) "in-specie transfer" refers to a transfer of the *client*'s *units* which is given effect via re-registration of the ownership of the *units*, whether or not the transfer also involves a *unit* class conversion but in any event without the *fund* manager redeeming the existing *units*;

(5) "*fund* manager" is the *operator*, or, to the extent not covered by that term, the *AIFM* of the available scheme; and

(6) "*unit*" includes any right to or interest in a *unit*.

In-specie transfers and unit class conversions

6.1H.3 R Where a *client* contacts a *platform service provider* in connection with a potential transfer of their *investment* which is, or includes, *units*, the *platform service provider* must provide the *client* with:

(1) the option of an in-specie transfer of *units* in an available scheme, provided there are no circumstances outside the control of either the ceding or the receiving platform which would prevent such transfer;

(2) the option of, as part of the transfer, converting the *units* in an available scheme into *units* of a discounted *unit* class, provided *units* in such class are available for *investment* by the *client* via the receiving platform; and

(3) sufficient information in good time about the options above, where they are applicable, to enable the *client* to make an informed decision about what transfer instructions to give.

6.1H.4 R If the *client* instructs the *platform service provider* to proceed with a transfer of *units*, then:

(1) the ceding and receiving platforms must take all reasonable steps to give effect to the *client*'s transfer instructions efficiently and within a reasonable time, including cooperating with and promptly providing each other with information as necessary;

(2) if the *client* has chosen an in-specie transfer in accordance with *COBS* 6.1H.3R(1) and a *unit* class conversion is required to enable or facilitate such transfer, the ceding platform must request the *fund* manager to carry out the relevant *unit* class conversion, and take any other reasonable steps to bring it about; and

(3) if the *client* has chosen a discounted *unit* class in accordance with *COBS* 6.1H.3R(2), the receiving platform must request the *fund* manager to carry out, and take any other reasonable steps to bring about, the conversion of the *units* into the appropriate discounted *unit* class.

6.1H.5 R The obligation to request a *unit* class conversion in *COBS* 6.1H.4R(2) and (3) only applies to the extent the *platform service provider* is entitled to request it.

6.1H.6 R If a *platform service provider* is unable to give effect to all or part of a *client*'s transfer instructions, it must contact the *client* at the earliest opportunity to request further instructions.

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12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk