

16 September 2021

Dear CEO,

Wealth Management and Stockbroking Supervision Strategy

I am writing to you as we believe your firm is active in the wealth management and stockbroking sector. Following our strategy [letter](#) in June 2019, this letter provides an update of our view of key harms in this sector, our expectations of you and a summary of the work we intend to do.

Our objectives for firms operating in this sector are to ensure: they are not facilitating scams, fraud or market abuse; in the event of failure, they can wind down in an orderly manner with adequate controls to mitigate any potential loss of client assets; and on costs and charges that consumers are fully aware of the overall cost they pay for their investment. The use of high-quality data is fundamental to our regulatory strategy and we expect you to maintain appropriate systems and controls to facilitate the production and reporting of high-quality data on a timely basis.

Culture in financial services is a key root cause of past major conduct failings. We expect firms to foster healthy cultures which prevent harm to consumers and markets. We plan to introduce a new '[Consumer Duty](#)', that would set higher expectations for the standard of care that firms provide to consumers. For many firms, this would require a significant shift in culture and behaviour, where they consistently focus on consumer outcomes, and put customers in a position where they can act and make decisions in their interests. Our [Call for Input](#) on Consumer Investment Markets, additionally looked at areas where the market is not working well for customers and sought views on what changes we can make to improve protections and outcomes. We published Consumer Investments: [Strategy and Feedback Statement](#) on 15 September 2021.

We recognise that the sector has taken some steps forward on diversity and inclusion. But there is much more that needs to be done to create truly diverse and inclusive organisations that meet the diverse needs of those they serve. We are engaging financial firms and other stakeholders in a discussion on how we can accelerate the pace of meaningful change on diversity and inclusion in the sector. In a joint [Discussion Paper](#) with the Prudential Regulation Authority and the Bank of England, we look at what role we can most usefully play to support this change.

Firms included in this sector have a variety of business models. We therefore encourage you to take account of other [communications](#) setting out the key risks and supervisory strategies which may be appropriate to their business model.

Fraud, investments scams and market abuse

Our view of the risks

We continue to see examples where consumers experience loss due to investment fraud or scams. This includes instances of firms knowingly abusing the trust placed in them by customers, investing clients' portfolios into unsuitable investments, investment scams or even being used to conduct market abuse. We have also seen examples where firms have facilitated scams, financial crime and/or market abuse because they have failed to adequately assess the risks faced by the firm and put in place appropriate systems and controls to mitigate those risks.

In addition to the consumer harm caused, other firms are impacted by these unacceptable behaviours. It results in a loss of trust in the sector and causes a financial impact through their funding of FSCS compensation claims. The [Call for Input](#) on Consumer Investment Markets raised the question, *what more can we do to ensure that compensation is paid for fairly by those that cause the loss?*. This is an important area we will continue to focus on.

What we expect you to do

We expect your firm to ensure client portfolios are managed in line with individual client risk profiles and you must ensure overall suitability. Where portfolios include high-risk and/or unregulated investments, this must be fully justified both by the client's risk profile and your due diligence on the investment. You must also ensure that your customers understand the FSCS consumer protection status and associated risks of those investments.

We expect your firm to have robust systems and controls to mitigate the risks of harm arising from financial crime, market abuse, fraud and scams.

We expect you to make us aware if you identify a firm or individual who could be involved in any wrongdoing. This could include authorised firms, but also unauthorised firms or individuals who are operating without the right permissions. You can report concerns to us in several ways: contact our whistleblowing team by emailing whistle@fca.org.uk; or Contact the Supervision Hub by emailing firm.queries@fca.org.uk.

What we will do

We will use the wide range of data sources available to identify firms that we consider present a heightened risk of harm, deliberately or not. If your firm is identified, we will intervene to mitigate the potential harm to consumers and market integrity that your firm poses.

If you are not using all your regulated activity permissions, we expect you to cancel or vary them. If you do not, we will consider using our own initiative powers to do so. Further details can be found on our website: <https://www.fca.org.uk/news/press-releases/fca-clamps-down-consumer-investment-harm>

Financial resilience and disorderly firm failure

Our view of the risks

Brexit and the Covid-19 pandemic have increased market volatility in the past two years. While many firms have weathered the resulting revenue fluctuations, there has been an increase in the number of firms making a loss. This has resulted in an increased number of firms with a weaker financial position and an increase in firm failures. We are concerned that in the event of disorderly firm failure, there is a risk of harm to consumers. This includes through the loss of, or disruption to access to, client assets.

What we expect you to do

Your firm must have a good understanding of its regulatory capital and reporting requirements. Our guidance [FG20/1: Assessing adequate financial resources](#) sets out our approach to the assessment of financial resources. Your firm should undertake regular reviews of the adequacy of its capital and liquidity to ensure that it maintains adequate resources for its future needs.

We consulted in CP21/7 on proposed rules to introduce the Investment Firm Prudential Regime (IFPR). IFPR is a new prudential regime for UK firms authorised under the Markets in Financial Instruments Directive (MiFID). Its aim is to streamline and simplify the prudential requirements for MiFID investment firms that are prudentially regulated by the FCA in the UK. In line with our objectives and Mission, it will refocus prudential requirements and expectations away from the risks the firm faces, to also consider and look to manage the potential harm the firm itself can pose to consumers and markets. You should ensure your firm understands the impact of the proposed new regime so that it can comply with the new rules that result from the consultation.

If your firm identifies emerging liquidity or capital risks in its business, we expect to be proactively notified at an early stage so that we can work with you to minimise consumer harm. We also expect your firm to have a winddown plan that is credible, includes appropriate and timely triggers for implementation, together with a realistic timeframe and cost estimate for achieving the wind down. Please refer to our [Wind-Down Planning Guide](#) for further details.

If your firm has permissions to hold client money and/or custody assets, your firm must follow the rules set out in the Client Assets Sourcebook. You should ensure your firm regularly reviews its client asset arrangements to ensure consumer's money and custody assets are protected.

What we will do

As the Chief Executive, we will hold you and the other senior management function holders accountable for your firm's actions when our expectations are not met.

Our identification process will involve an increased use of data that we will gather directly from firms and a range of other sources available to us. We may engage with you to understand the risk of harm from your firm's business model and any planned changes to it.

Costs and charges

Our view of the risks

The introduction of MiFID II in January 2018 brought new requirements for the disclosure of costs and charges. This is to ensure that all consumers receive clear, comprehensive information about the costs they would pay both at point of sale and on an ongoing basis. Despite this increased transparency, we do not consider that consumers are fully aware of the overall cost they pay for their investment.

What we expect you to do

We expect your firm to have clear systems and processes for collecting and aggregating all the data that is relevant to both ex-ante and ex-post costs and charges disclosures. We also expect you to have considered and continue to monitor how these disclosures are provided to consumers, both in terms of timing and content. Your compliance and/or internal audit functions should also have conducted reviews of how these disclosures are being made.

We expect that the outputs from the ex-post costs and charges disclosures will have informed your firm's consideration of value-for-money, TCF and product governance reviews.

What we will do

We will consider undertaking thematic work, both around the disclosures themselves and how they have contributed to firms' consideration of consumer outcomes.

Brexit

The EU withdrawal transition period came to an end on 31 December 2020. We expect you to have considered how this affects you and your customers and taken any required actions. We also expect you to have considered the changes made to the FCA Handbook to reflect the UK's exit, and the FCA's approach to using the [temporary transitional power](#) (TTP). The TTP came into effect at the end of the transition period and ends on 31 March 2022. For more information visit our [Brexit website](#) and [insurer specific website](#).

Next steps

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

Should you have any queries please contact our Supervision Hub on 0300 500 0597. This is the primary point of contact for your firm's day-to-day interactions with the FCA, and further details of how we can be reached are available on our website.

We also recognise that there may be times when your firm faces urgent issues of strategic importance. In such significant circumstances, please contact the Head of Department for Investment Intermediaries and Scams, Nick McGruer at Nick.McGruer@fca.org.uk.

Yours sincerely,

Debbie Gupta
Director of Consumer Investments Supervision