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Dear CEO

Wealth Management and Stockbroking Supervision Strategy

This letter sets out our view of the key risks of harm that Wealth Management and Stockbroking firms pose to their customers or the markets in which they operate. You should consider whether your firm presents these risks and consider your strategies for mitigating them.

Our Wealth Management and Stockbroking supervision strategy covers a 2-year period, which began in April 2019. This strategy includes further work to identify, diagnose and remedy the harm that Wealth Managers and Stockbrokers may cause.

We will communicate as appropriate during the strategy period. At the end of this period we will write to you with our updated view of the key sector risks and our updated supervisory focus.

Our view of the key types of harm

We see 4 key ways in which customers may be harmed in this sector:

- by having reduced levels of savings and investments due to fraud, investment scams and inadequate client money, or assets controls
- by losing confidence in the industry's ability to deliver their financial objectives due to mismanagement of conflicts of interest and market abuse
- through reduced levels of savings and investments due to order handling procedures and execution processes that do not deliver best outcomes
- by being unable to understand the costs of services provided by firms, due to insufficient or inaccurate disclosure of costs and charges

Our areas of focus

Our supervision strategy is focused on the following areas:

Fraud, investment scams and market abuse: Customers place a great deal of trust in their Wealth Managers and Stockbrokers. In recent years, we have identified, and taken action against, a number of firms which have abused that trust. Many of them have used their clients' portfolios in investment scams or other highly unsuitable investments or to conduct market abuse.

Client portfolios must be aligned and managed to the risk profile of the client. We expect firms to ensure suitability and not include high risk investments inappropriately.

This remains a priority area for us. We will use a range of data to identify the small number of firms who cause issues, deliberately or not. These firms have a disproportionate impact on trust in the market, creating costs for the industry and for consumers. Once identified, we will take appropriate action with these firms. This work has started and will progress through 2019 and 2020.

Firms themselves play an important role in helping identify those involved in scams. If you think a firm or an individual is involved in wrongdoing, you can report it confidentially to our whistleblowing team:

- Call +44 (0)20 7066 9200 during office hours or leave a message
- Email: whistle@fca.org.uk
- Write to: Intelligence Department (Ref PIDA), Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Best Execution: Firms must endeavour to obtain the best possible result for their clients when executing client orders or passing them to other firms for execution.

Our Investment Platforms Market Study (published in March 2019) highlighted specific issues and weaknesses in platform service provider firms' order handling procedures and best execution evaluations. These included limitations with how the Retail Service Provider (RSP) trade execution system is used.

When compared with the best prices from all available UK trading venues, the RSP trading data highlighted only 80% of orders receive a price at least as good as the best available.

The RSP system is widely used across the Wealth Management and Stockbroking industry. Our website provides more information on this specific issue within the wider [Investment Platform Market Study](#).

We expect firms to have:

- effective day to day execution processes
- contingent arrangements for periods of market distress
- clear, comprehensive and effective oversight and monitoring arrangements

You should consider your own best-execution arrangements, particularly if you rely on a single RSP, and make improvements where necessary in the light of our findings.

We may consider supervision work in this area.

Costs and charges disclosures: MiFID II introduced new and revised requirements for disclosing costs. This is so that clients, including professional clients, receive more comprehensive information about the costs and charges they pay, both at point-of-sale and post-sale. In turn, this should help them make informed decisions about their choice of product and service providers.

As part of our supervision work, we have already looked at the ex-ante costs and charges disclosures of a sample of 50 firms authorised as MiFID investment firms in the retail investments sector.

We found that these firms knew about their obligations to disclose costs and charges, but interpreted the rules in a variety of ways. They were better at disclosing the costs of their own services than at disclosing relevant third-party costs and charges.

We found evidence that firms were not sharing their costs and charges with each other to meet their obligations to provide aggregated figures to clients. Our website provides [more detail and examples of good practice and areas for improvement](#).

We expect you to review your own costs and charges disclosures to ensure they are satisfying all relevant requirements, including for both ex-ante and ex-post costs and charges disclosures.

You should be particularly alert to the need to disclose all transaction and incidental costs and charges to customers. These include implicit transaction costs and performance fees. We also remind you that all communications to customers about their MiFID business must be fair, clear and not misleading.

We may conduct further work to assess how firms are implementing ex-post costs and charges disclosure.

The Senior Managers and Certification Regime (SM&CR): The regime is to be extended to FCA solo regulated firms from 9 December 2019. The aim of this is to reduce harm to consumers and strengthening market integrity.

For firms outside the banking and insurance sectors, the SM&CR sets a new standard of personal conduct for everyone working in financial services. It will also encourage the positive transformation of culture across the industry.

Our website provides support [information](#) and [guidance](#) on implementation for Core, Enhanced and Limited scope firms. It includes details of forms that all firms may need to submit in certain circumstances. Enhanced firms are required to submit details of all approved persons converting to Senior Manager Functions, Statements of Responsibilities and Responsibilities Maps.

We may undertake a number of assessments of these submissions after implementation.

EU Withdrawal: Where EU withdrawal may impact customer relationships (eg for customers based in the EEA) we expect firms to act in their customers' best interests and maintain clear communications throughout.

If you have customers in the EEA, you must decide on your approach to servicing your existing contracts with them. You should take steps available to you to continue to service customers in accordance with local law and national regulators' expectations. [Our Brexit dedicated website](#) provides further information to support your preparations.

Other areas of interest

Investment Platform Market Study: Finally, we wanted to emphasise that improving the switching process remains a priority for us. This includes communicating clearly to customers who are switching their investments.

We welcome the progress industry is making to improve the switching process. Most recently the STAR initiative has aimed to improve the efficiency of the transfer process across the retail investment and pensions sectors.

We encourage firms not already involved in this initiative to consider taking part as one way of improving the switching process and achieving better outcomes for consumers.

We will review progress made by firms, and the industry, to improve the switching process later this year, and again in 2020, if needed. We will consider further regulatory action if the efficiency of the switching process does not improve.

Next steps

If you have any questions please contact your normal supervisory contact 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](#).

However, we recognise that there may be occasions in which your firm faces urgent issues of strategic importance. In such circumstances, please contact Chris McGrath on 020 7066 7818 or at chris.mcgrath2@fca.org.uk.

Yours sincerely

A handwritten signature in black ink that reads "Debbie Gupta". The signature is written in a cursive, flowing style.

Debbie Gupta
Director
Life Insurance and Financial Advice