

FCA warns wealth managers and stockbrokers

AT A GLANCE

November 2023

What's new?

- The FCA issued a [Dear CEO letter](#) on 8 November 2023 to wealth management and stockbroking firms setting out its assessment of key harms and supervisory priorities for the wide-ranging 'Consumer Investments' sector.
- It particularly focuses on financial crime and Consumer Duty compliance as significant areas of concern, and expects firms to invest time, energy and capital to manage these risks.
- The regulator will take an assertive, intrusive, proactive and data-driven approach to supervision across the sector, and will intervene quickly where it identifies actual or potential harm, including unannounced visits.

What does this mean?

- The FCA's robust focus on two main areas should catch the attention of firms.
- It identifies that the root causes of harm in the sector often arise from ineffective and/or conflicted leadership and governance, and poor systems and controls.
- It will focus (but not limit) its supervisory attention going forwards on financial crime prevention and Consumer Duty compliance.
- The FCA states that the sector carries an inherently high-risk of enabling and/or participating in financial crime. As such, it reiterates its expectations on firms, including ensuring that firms:
 - have robust and effective systems and controls
 - relevant SMF holders have required experience, skills, and independence.
- The FCA found that many wealth managers and stockbrokers fail to deliver good consumer outcomes, as expected by the Consumer Duty.
- This includes portfolio managers obscuring risks of unsuitable portfolios which are not aligned to a client's risk profile, or execution-only stockbrokers promoting products that are too complex.
- Firms must meet their obligations under the Consumer Duty, including ensuring products and services align to customer needs and circumstances, and customers understand all aspect of investment products. Firms are expected to take steps to test consumer understanding.
- The FCA also notes concern with firms' declaring to have no vulnerable customers. Firms are expected to reassess the
 - understand financial crime risks by identifying who their clients are, including expected transaction patterns and corporate structure
 - do not adopt a tick box compliance approach and outsource responsibility to third parties

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vulnerability status of their customers and are reminded not to uprate consumers from retail to professional unless this is supported by robust systems and controls.

- The FCA adds that it finds issue with firms' compliance with the Consumer Duty's price and value outcome. In particular, it notes concern where firms charge for services not delivered, overtrade to generate high transaction fees, and are not providing clear disclosures on fees or charging structures.
- In addition, the regulator highlights that too many firms are not considering all revenue streams from consumers across all aspects of the value chain, and it is unclear that some consumers are being rewarded fairly when exposed to risk.
- The FCA reminds firms of their other ongoing obligations, including to operational resilience requirements, rules set out in the Client Asset Sourcebook, market abuse requirements and ESG and diversity, equity and inclusion considerations.
- The FCA states that it will adopt a more assertive, intrusive, proactive and data driven approach to supervision, including having a new, dedicated financial crime function for consumer investments focus solely on identifying firms with key fraud, scams and money laundering indicators.
- It also plans to increase its engagement with the sector on non-financial misconduct, and will be conducting more short notice and unannounced visits.

What do firms need to do?

- The tone of the letter is noticeably more assertive than previous iterations. While firms have seen limited 'new' obligations in financial crime, the wide ranging nature of the FCA's findings and identified harms is a blunt wake-up call for some firms.
- Firms must consider each aspect of the letter, assessing and addressing each potential harm in the context of their own business. This requires boards and senior management oversight and engagement.
- Remedial action will need to be taken in many instances.
- While firms should have implemented the Consumer Duty for new products, this (and previous correspondence) shows the importance of this not being a static one-off process; firms must continue to evolve and challenge their approaches.
- In particular, firms should interrogate how they are delivering fair value to their customers and promptly take action to remedy where poor value is identified.
- While the letter focuses on two main areas, firms must also consider the wider harms and regulatory agenda.

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Next steps

The FCA plans to send a further data survey to firms in the sector in December 2023. This will be tailored to the risks posed by a firm's business model.



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