

8 November 2023

Dear Chief Executive,

**ACTION REQUIRED:
FCA EXPECTATIONS FOR WEALTH MANAGEMENT & STOCKBROKING FIRMS**

This letter sets out our assessment of this sector's key harms and our updated supervisory priorities: preventing financial crime and meeting Consumer Duty outcomes. You are receiving it because you are accountable for ensuring your firm meets FCA requirements and expectations in full and at all times.

We recognise the role that wealth managers and stockbrokers often play in helping consumers manage, buy and safeguard their assets to meet their financial goals. This sector can provide real value, particularly in navigating clients through uncertain economic and geopolitical times. However, firms in your sector have also:

- lost consumers significant sums to scams and fraud, and have enabled money laundering, causing significant negative economic, market and social damage
- exposed consumers to inappropriately high-risk or complex investments and provided consumers with poor value products and services

The scale of consumers in the sector is significant, with 1.8m portfolios and 14.3m stockbroking accounts. The level of assets under management, combined with the seriousness of these key harms, make this one of the higher risk sectors of financial service firms in our jurisdiction.

We appreciate this is a time of significant regulatory change. By working jointly on these issues, we hope to reduce harm, increase standards and improve the sector's reputation, which is in all our interests. We know that we are always stronger when working together and will use our successful public and private partnerships, particularly when it comes to fighting financial crime.

Therefore, you and your leadership team should fully understand the level of exposure your firm has to the risks and harms set out in this letter and invest significant time and energy (and if necessary, capital) to manage them. This also requires resolving the root cause of these harms. In our experience, they often arise from ineffective and/or conflicted leadership and governance, combined with ineffective systems and controls.

In tandem, while our supervision will remain holistic of all harms, we are particularly focused on ensuring you prevent financial crime and meet your Consumer Duty outcomes. Our supervision is shifting to become more assertive, intrusive, proactive and data driven. We are conducting more short notice and unannounced visits where we deem it appropriate. And we are significantly increasing the use of our formal intervention powers for the worst cases.

Our Financial Crime expectations

This is an inherently high-risk sector for enabling and/or participating in financial crime. We have seen firms launder the assets of illegitimate clients through greed or incompetence and others squander or even steal the assets of legitimate clients through frauds and scams.

Both aspects of financial crime have damaging impacts on consumers, markets, and wider society, whilst harming the reputation and long-term profitability of the industry. Worse, they can have more sinister roots in human trafficking, terrorism and child exploitation.

We expect your firm to:

- not knowingly or otherwise engage or facilitate frauds, scams, or money laundering
- understand your financial crime risks by identifying who your clients are, including their expected transaction patterns and corporate structure
- not carry out tick box compliance exercises or outsource responsibility to third parties
- ensure you have robust and effective systems and controls to counter financial crime and money laundering in a proportionate and risk-based way
- ensure your SMF 16/17 holders have the [required experience, skills, and independence](#)
- share and report information about wrongdoing with us or relevant law enforcement agencies immediately
- read and fully implement our [Financial Crime Guide: A firm's guide to countering financial crime risks \(FCG\)](#) and Financial Crime Thematic Reviews (FCTR), which outline the steps firms must take to defend against financial crime

Our Consumer Duty expectations

We expect you to have implemented the [Consumer Duty](#) in full, which requires you to put the needs of your consumers first. This work will have resulted in meaningful changes to your business, service and proposition to further drive good consumer outcomes, which you should be able to demonstrate to us if asked.

Unfortunately, we have seen many wealth managers and stockbrokers failing to meet their obligations to provide a service that delivers good consumer outcomes. We have seen failings in the following areas:

Products & Services and Consumer Understanding

Your firms are often entrusted with wealth acquired through decades of prudent investment and hard work. Yet many firms undermine this trust by pushing products or services that are too high-risk and/or too complex for most consumers.

In particular, we have seen where portfolio managers have taken advantage of their established relationships with clients to obscure the risks of unsuitable portfolios which are not aligned to their client's risk profile. Execution-only stockbrokers have promoted products that are too complex to understand. Communications must be clear, fair, and not misleading and you must take steps to test consumer understanding.

These products and services, which can be highly profitable for firms, are often loss-making for consumers themselves. In the long run, these practices not only damage the firms that do this but also can unfairly discredit the industry as a whole.

We expect your firm to:

- have a clear focus of the needs and objectives of your target market
- ensure your products and services remain aligned to your consumer's needs, risk profile and circumstances
- reassess the vulnerability status of your consumers based on our [guidance](#), particularly the 49% of portfolio managers and 69% of stockbrokers from the wealth data survey who identified no vulnerable consumers, even though 50% of us will be classified as vulnerable over our lifetime
- ensure your consumers fully understand all aspects of their investment products and services, and that your firm does not exploit limited understanding

- not uprate consumers from retail to professional unless this is supported by robust systems and controls, given the loss of protections. 14% of firms uprated consumers in the last 12 months
- fully justify any complex and/or unregulated investments your firm offers, with a clear view of the suitability or appropriateness for the consumer
- ensure your consumers understand any limitations to the Financial Ombudsman/FSCS consumer protection status and associated risks of investments

Price and Value

A product or service provides fair value where the amount paid for it is reasonable relative to the benefits the retail consumer can reasonably expect to receive.

We continue to see firms charging for services which are not delivered (such as ongoing advice), overtrading on portfolios to generate high transaction fees and providing a product or service which does not align with the needs of consumers (such as an expensive discretionary offering for a low-risk consumer).

We are also concerned that firms are not consistently providing clear disclosures on their fees or charging structures. As a result, consumers can be unaware of high fees that significantly reduce their investment returns. In particular, we have seen firms charge high average fees and charge particular individuals very high fees. We will challenge firms to justify such high charges.

Firms must also consider the value of their products and services. Too many firms are not considering all revenue streams from consumers across all aspects of the value chain. Many firms are not passing on fair interest on client money balances, despite interest rates having risen. In some instances, they also charge a fee for holding these funds which can further erode value and returns.

It is also often unclear that consumers are being rewarded fairly when they are exposed to risk. For example, many firms are not providing a fair share of revenue from securities lending, despite exposing consumers to risks.

We expect your firm to change these practices if they exist and to:

- regularly assess the overall cost and value for money of your products and services
- make changes when poor value is identified

As well as the issues identified above, you should have familiarised yourself with all aspects of the Consumer Duty, including for consumer support. Embedding the Consumer Duty into the day-to-day culture and running of your firm must remain a key focus.

Our Wider Expectations

To be clear, while we call out two key priority harms, this is by no means a complete list.

Among other things, you should remind yourself of all regulatory obligations, for example, operational resilience, following rules set out in the [Clients Asset Sourcebook](#) when you hold or control client money, prevent market abuse, have regard to ESG, improve diversity, equity and inclusion and make sure there is no place for non-financial misconduct. Indeed, our [DEI consultation paper](#) proposes new rules and guidance to help ensure firms can take decisive and appropriate action against discrimination, bullying and sexual harassment.

What you can expect from us

As we have set out above, we are implementing and operating a data led approach to identify outliers and problem firms in this sector. This allows us to target the firms in our supervision who require greatest oversight and who may be causing greatest harm.

We welcome the 99% response rate last year to our data survey. This resulted in a number of interventions, skilled person reviews and improvements to systems and controls, governance, leadership and products and services. We will build on this by sending all firms a further survey in December 2023, which will be tailored to risks posed by your firm's business model.

Our supervision will become more targeted, intrusive and assertive. Our new, dedicated financial crime function for consumer investments will focus solely on identifying firms with key fraud, scams or money laundering indicators. We will increase engagement with you on non-financial misconduct, with anecdotal evidence supported by recent cases reported to us and public negative press articles. We have already started a major drive with short notice and unannounced visits, particularly for financial crime. And we are increasing the use of our supervisory tools and powers. We will use the Consumer Duty to intervene quickly against potential or actual consumers harms, on an individual or multi firm level.

We will consider in future engagement whether you have taken appropriate action to rectify the root cause of any issues, which is often poor and ineffective leadership, governance, systems and controls and conflicts of interest management. We will take action if you have not.

These are strong messages precisely because firms in this sector have an important role to play, given the trust that they are afforded by consumers to grow and look after their investments and support them through key life events. We know that many firms strive to achieve and succeed in promoting good consumer outcomes. We also know that the harm caused by bad actors in this sector unfairly tarnish the reputation of all. So we want to work with you to pursue bad actors and poor practices, which in turn will benefit consumers, raise standards and help good firms prosper.

How to communicate with us

We expect you to proactively tell us if work done on the above points result in remedial action or identifies harm. We remind you of your ongoing obligations to notify the regulator of any issue that should be shared with us under [Principle 11](#) immediately.

Please contact your usual FCA supervisor if you have one, or otherwise use the channels on our [contact page](#) including the Supervision Hub on 0300 500 0597.

If your firm faces urgent issues of strategic importance, please contact Nick Hulme, the Head of Advisers, Wealth and Pensions at nick.hulme@fca.org.uk.

This letter is intended for firms that typically manage portfolios or provide retail focused stockbroking services or operate as a private bank or provide outsourced services to wealth managers. If your firm does not undertake these activities or you are no longer using your permissions, please visit our [use it or lose it](#) pages and queries can be sent to firm.queries@fca.org.uk

Yours faithfully,

Lucy Castledine
Director for Consumer Investments

Wealth Managers and Stockbrokers



Fight Financial Crime



Embed Consumer Duty

Harms



Money laundering
Investment scams and fraud

Unsuitably risky and complex products
Low value services

Root Causes



Leadership, governance, systems & controls and conflicts of interest

Expectations



Prevent financial crime
Enhance KYC
Train staff to identify & report
Improve systems & controls
Recruit experienced & independent SMF 16/17s

Align to customer needs
Assess vulnerability
Ensure customer understanding
Justify complex or risky investments
Regularly assess charges & change when poor value

Other Priorities Include



Operational Resilience, CASS, ESG, DEI, Non-Financial Misconduct, Market Abuse

Supervisory Changes



Financial crime function
Short-notice and unannounced visits

Targeted engagement with data strategy
Stronger interventions