

FCA publishes Dear CEO letter setting out expectations for financial advisers and investment intermediaries

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On 7 October 2024, the FCA issued a “Dear CEO letter” (“**Letter**”) to firms whose primary business is financial advice or investment intermediation. The Letter contains a summary of the FCA’s priorities and expectations of firms in this sector.

Priorities

The FCA’s priorities over the next two years are:

1. to reduce and prevent serious harm (with a focus on retirement income advice, ongoing advice services, ensuring the “polluter pays” and consolidation (please see further details below));
2. to monitor and test higher industry standards under the Consumer Duty; and
3. to enable more consumers to pursue their financial objectives through the Advice Guidance Boundary Review.

The Letter highlights that the above priorities will be underpinned by increased industry engagement and collaboration a forward-looking, data-led approach.

A focus on consolidation...

As noted above, the FCA are focused on certain regulatory issues that it considers to be particularly relevant to reducing and preventing serious harm to consumers. This includes a particular focus on consolidation including (amongst other things):

1. a focus on FCA notifications and regulatory change in control approval to acquire or increase control (backed up by warning that where acquisitions complete without prior regulatory approval, the FCA may use its enforcement powers to object to the transaction or initiate criminal proceedings);
2. ensuring that delivery of good outcomes is central to firms' culture;
3. taking into account the FCA’s supervision review report and guidance;

4. ensuring that adequate due diligence is taken;
5. ensuring that adequate financial resources are held at all times. Where acquisitions are funded by debt, the FCA has reiterated that there should be credible plans to service the debt and that this should be supported by realistic and stress-tested financial projections. Investment firm groups must fully comply with the FCA's prudential consolidation rules – this has very much been a focus of the regulator on recent transactions in this sector.

Ongoing advice

The Letter also reiterates the FCA's focus on ongoing advice services, with the FCA noting that its analysis shows 90% of new clients are placed into arrangements for ongoing advice. The FCA highlights again that it has concerns firms may not be adequately considering the relevance and costs of these services for all clients and that some clients are being charged for services that are not delivered – particularly given the FCA's focus on "fair value" in line with the Consumer Duty. The FCA reminds firms that they should clearly confirm the details of the ongoing service to clients, associated charges and how clients can cancel the service should they wish. Firms should not charge clients for services that are not delivered and adequate records and monitoring should be in place to demonstrate firms are delivering good outcomes. The FCA will provide a further update later this year on its findings and next steps in this regard.

Firms in this sector and any investors with a focus on this sector should consider the points made in the Letter, which are a reiteration of matters that the FCA has demonstrated a clear focus on to date, and keep informed of further developments in respect of the same.

For further information, please reach out to UKRegulatory@proskauer.com.

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