



Newgate News

Dear CEO Letter to Wealth Managers and Stockbrokers

On the 16th of September, the Financial Conduct Authority (FCA) issued a 'Dear CEO' letter to regulated firms in the wealth management and stockbroking sectors. This follows as an update to the FCA's strategy letter of 2019. **Matthew Hazell** and **Alex Hurt** summarise the key impact for firms in the Dear CEO letter.

The FCA's objectives for firms operating in this sector are: firms are not facilitating scams or market abuse via these services provided; in the event of failure, regulated firms are enabled to orderly wind down with adequate systems and controls to mitigate losses to clients; and clients are aware of duly notified of all costs and charges associated with investments/services.

Fraud, investment scams and market abuse – The FCA continue to see customers falling victim to investment fraud or scams where more recently, regulated firms are knowingly abusing the trust placed in them by clients, investing their portfolios in unsuitable or risky investments.

IMPACT FOR FIRMS:

- Ensure that client mandates/portfolios are managed in line with the client's individual risk profile and overall suitability.
- Where portfolios include high(er)-risk and/or unregulated investments, this must be fully justified by both clients and the firm's due diligence of the investment. Firms should make customers aware of the FSCS consumer protection rights and risks of investments.
- Ensure robust systems and controls are in place to mitigate the risks of harm arising from financial crime, market abuse, fraud and scams.
- Amend or vary your firm's FCA permissions where they are currently not being used.
- Expect increased FCA intervention against firms where they detect a heightened risk of harm.

How Newgate can help: We can help your firm implement appropriate policies and risk frameworks for your firm (e.g., Market Abuse Policy and Market Abuse Risk Assessment). We can perform independent client file reviews and audits as additional quality assurance.

Financial resilience and disorderly firm failure – Brexit and Covid-19 have increased market volatility in recent years. This puts the sector in a tougher financial position in terms of both their financial position and poses greater risk for firm failure with the resulting impact and harm to consumers such as access to client assets. Firms should be periodically assessing the adequacy of their financial resources including their liquidity pursuant to guidance set out in **FG20/1**.

With the upcoming Investment Firms Prudential Regime (“IFPR”) firms should be proactively managing the potential harm of a regulatory capital breach and to be notifying the FCA of any failures or breaches. Firms holding client assets should regularly review its arrangements to ensure consumers money and custody assets are protected.

IMPACT FOR FIRMS

- Firms should be preparing for the new IFPR requirements due to be implemented in January 2022.
- The FCA will be **engaging firms in autumn** via a survey to understand firm’s expected classification under the new rules, investment firm group/composition and ICARA reporting dates.

How Newgate can help: We can help firms prepare for the new prudential regime and upcoming FCA survey. Book a free consultation regarding our IFPR Readiness Assessment which provides a gap analysis of your firm’s existing prudential framework against the FCA’s new rules.

Costs and Charges – Under MiFID II, firms are required to ensure that clients receive clear and concise information on the services they receive. Despite the increased transparency, the FCA do not consider consumers to be fully aware of it are aware of the overall cost the pay for their investment.

IMPACT ON FIRMS

- Firms must have clear systems and processes for collecting and aggregating the associated costs and charges of services, both ex-ante and ex-post.
- Firms should continually monitor how these charges and costs are communicated to clients. This can be carried out by the firm’s compliance monitoring programme, or audit function.

How Newgate can help: We can help firms implement appropriate product governance frameworks and review your disclosures to ensure it meets FCA requirements. Contact us for an easy-to-follow MIFID II product governance checklist. Our online compliance tool (the **Gateway**) automates and streamlines your firm’s compliance monitoring programme. Contact us for a **free demo**.

NEXT STEPS

Firms should take necessary steps to ensure the obligations and expectations set out in the Dear CEO letter are met. The FCA notes that firms must foster healthy compliance cultures which prevent harm. Firms are also encouraged to do more on promoting diversity and inclusion within their organisations.

The FCA are having a more hands on approach to how they supervise firms and will be using the full regulatory force of their supervisory powers to protect the integrity of the UK financial market.

Newgate can help firms prepare and implement appropriate policies, systems and controls and risk frameworks to ensure firms meets its increasing regulatory obligations.



Matthew Hazell

Managing Director

E matthewhazell@newgatecompliance.com

T +44 (0) 20 3696 8753



Alex Hurt

Junior Consultant

E alexhurt@newgatecompliance.com

T +44 (0) 20 3696 8743

About Newgate Compliance

Newgate Compliance is a compliance consultancy offering a modern solution to implement your compliance function using an innovative compliance software solution called **The GATEway**.

Newgate has an unrivalled combination of experienced professionals, many of whom are ex-regulators.

Our customer focused approach seeks to provide appropriate, pragmatic and flexible solutions to our clients helping them to meet both the regulator's rules but also the spirit, principles and culture of the regulatory regime.

We look to build long-term relationships with our customers helping to encourage business growth, productivity and innovation. Our proactive approach is tailored to each customer's needs changing to meet those needs as the customer progresses and develops.

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