

## March 2020 - Issue Highlights

- Statement on Covid-19 (coronavirus)
- FCA's expectation on financial resilience
- FCA encourages firms to develop purposeful cultures
- Open-ended funds investing in less liquid assets
- FCA review on data
- FCA's approach to ensuring firms treat vulnerable customers fairly



## Important information for all firms: Statement on Covid-19 (coronavirus)

04/03/2020

During the current crisis it goes without saying that the Financial Conduct Authority (FCA) are expecting firms to take all reasonable steps to meet their regulatory obligations when enacting their business continuity arrangements. This includes timely entries of orders and transactions into the relevant systems, use of recorded lines when trading and giving staff access to the compliance support they need.

**Advice for firms:** Newgate sends its best wishes to all clients and hopes that your respective teams and their families remain in good health at this time. Newgate staff are operating a full service remotely and are available to assist with any ongoing compliance queries you may have. Please email or call your usual point of contact if you require assistance.

<https://www.fca.org.uk/news/statements/covid-19-coronavirus>

## Important information for all firms: FCA's expectation on financial resilience

26/03/2020

The FCA has stressed the importance for firms to continue operating in this challenging period and, where possible, will provide flexibility to regulated firms to ensure this. The FCA's advice to firms includes:

- Firms who have been set buffers can use them to support the continuation of the firm's activities.
- Firms should be planning and ensuring sound management of their financial resources. For those firms that need to exit the market, they should consider how this can be done in an orderly way while taking steps to reduce the harm to consumers and the markets.
- If a firm is concerned it will not be able to meet its capital requirements, or its debts as they fall due, they should contact their FCA supervisor with its plan for the immediate period ahead.
- Firms should keep the FCA notified of any significant developments.

**Advice for firms:** The current events stress the importance of embedding risk-based capital and liquidity assessments within your governance framework. Please get in touch with Newgate if you require assistance in managing notifications to the FCA or would like to take the chance to review your Internal Capital Adequacy or Liquidity Assessments.

<https://www.fca.org.uk/news/statements/fca-expectations-financial-resilience-fca-solo-regulated-firms>

## Important information for all firms: FCA encourages firms to develop purposeful cultures

05/03/2020

The FCA have published a discussion paper on driving purposeful cultures, presenting a range of views from industry leaders, professional bodies and culture experts to help firms embed purposeful cultures.

The FCA describes purpose as: 'what a firm and its employees are trying to achieve and indeed their definition of what constitutes success'. Action by the FCA includes making diversity and inclusion the norm and eliminating sexual harassment and other unhealthy practices from the workplace.

The FCA deems a firm's individual purpose as their own responsibility and, as with culture, the FCA does not prescribe what this should be. However, the FCA have outlined the key elements of a healthy culture:

- A meaningful purpose;
- An inclusive environment where it is safe to speak up;
- Effective leadership and governance;
- Employees that have the necessary capabilities and are motivated by appropriate incentives.

<https://www.fca.org.uk/news/news-stories/fca-encourages-firms-develop-purposeful-cultures>

**Advice for firms:** Firms should note the FCA's continued focus on governance and culture issues now that the requirements of the Senior Managers and Certification Regime have been implemented.

## Important information for fund managers: Open-ended funds investing in less liquid assets

19/03/2020

In a speech delivered by Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, potential changes in liquidity management tools for open-ended investment funds that invest in illiquid assets were explored. The FCA invites industry feedback on their current review of the best mix of tools to ensure open ended funds appropriately manage liquidity risks while enabling investments that can benefit fund holders and the wider economy.

The FCA is seeking to address the key risks associated with asset-liability mismatch in open-ended funds. This includes the risks to the funds' own investors from 'fire sales' of fund assets to meet redemption requests quickly (thereby achieving lower values than a slower sell off would achieve and systemic risks for other funds through the impact of asset prices etc).

Tools, other than fund suspensions, which the FCA has mooted as helping to protect fund investors and reduce risks to the wider financial system when there is pressure to sell fund assets to meet redemptions requests include:

- **Swing Pricing:** the use of swing or dual pricing adjustments with the aim of protecting longer-term shareholders from having the value of their portfolio eroded by transactional activity of others in the same fund.
- **Notice periods:** implementing a gap (weeks or months) between the point at which a redeeming investor submits a redemption request and the subsequent pricing and execution of that transaction.

Mr Larter concluded by adding that now is the time for the FCA, in collaboration with firms, to make progress on embedding the right structures for open-ended funds investing in assets.

**Advice for firms:** Please do feel free to contact the FCA if you would like to provide comments on the mix of tools their proposals consist of. With the unprecedented difficult time for funds at this time and in the wake of the suspension and collapse of the Woodford Fund, the FCA is focusing on the importance of effective liquidity management in open-ended funds. Clients are recommended to review their liquidity management policies for funds, including stress testing, at least annually. Do not hesitate to contact your Newgate consultant if you require assistance in this review.

<https://www.fca.org.uk/news/speeches/open-ended-funds-investing-less-liquid-assets>

## Important information for buyers and users of data and related product and services in Wholesale Markets: FCA review on data

March 2020

The FCA has begun a review into the use and value of data and advanced analytics in wholesale financial markets, both now and in the future. The Call for Input (CFI) is focusing on the supply and use of data and analytics relating to trading data, benchmarks and market vendor services. The FCA wants to establish whether users of these services have concerns with the way trading data, benchmarks and vendor services are priced and sold. This will help to assess what the implications are for competition and market integrity in wholesale financial markets, now and in the future.

The CFI is open for feedback until 1<sup>st</sup> May 2020. A Feedback Statement will be published in Autumn 2020, which will set out the findings and any next steps.

**Advice for firms:** For your opportunity to contribute to the CFI see the following link:

<https://www.fca.org.uk/publication/call-for-input/call-for-input-accessing-and-using-wholesale-data.pdf>

## Important information for firms serving Retail Clients: FCA's approach to ensuring firms treat vulnerable customers fairly

05/03/2020

Nisha Arora, Director of Consumer and Retail Policy at the FCA, delivered a speech at the TISA Vulnerability Conference and outlined forthcoming FCA Guidance which seeks to give firms greater clarity and explain what firms need to do to ensure that vulnerable consumers are treated fairly. The FCA's Financial Lives Survey 2017 found that 50% of UK adults display one or more indicators of being vulnerable: physical and mental health; life events; financial capability and financial resilience. In July 2019, the FCA's 'Guidance for firms on the fair treatment of vulnerable customers' outlined four key areas that firms should consider in their own approach to vulnerability:

- Understanding vulnerability;
- The skills and capability of staff;
- Taking practical action (through product and service design, communications, customer service); and
- Monitoring and evaluation.

The guidance provided by the FCA is not a one-off process and Ms Arora recommended that firms embed vulnerability into every aspect of their work including monitoring and evaluating the impacts of any action they take.

Further guidance is set to be published in Spring 2020 and the FCA will continue to monitor firms' responses and, where necessary, will use supervision and enforcement tools to ensure that firms are treating their vulnerable customers fairly and delivering the right outcomes.

**Advice for firms:** Newgate is working on a training module for the GATEway training centre that factors Vulnerable Customer issues into the wider Treating Customer Fairly framework. Newgate is also in the process of drafting a Vulnerable Customers Policy that will be available to relevant clients. Please contact your Newgate consultant if you require further details.

<https://www.fca.org.uk/news/speeches/our-approach-ensuring-firms-treat-vulnerable-customers-fairly>