

31<sup>st</sup> March 2020

## Dear CEO letter for firms providing services to retail investors regarding Covid-19

The Financial Conduct Authority (FCA) has published a Dear CEO Letter outlining certain changes to firms' obligations until the 1<sup>st</sup> October 2020 to reduce regulatory burden at this time of stress.

Key changes of relevance to Newgate's clients are:

- 1. Client identity verification must continue to satisfy AML onboarding requirements, but firms have access to flexibility within FCA rules - e.g. making use of 'selfies' or video conferencing.**
- 2. Supervisory flexibility over best execution until the end of June** - Firms are expected to continue to meet their obligations to take adequate measures to obtain the best possible for clients including their obligations on client order handling. Due to the difficulties some firms may have in preparing their annual RTS28 disclosure due to the pandemic, firms have been given special dispensation to delay publication of such reports until 30<sup>th</sup> June 2020.
- 3. Supervisory flexibility over 10% depreciation notifications until the end of September 2020** - Firms will still be required to notify retail clients when their portfolio has decreased in value by at least 10% within a current reporting period. Subsequent notifications of further 10% depreciations will not be required so long as firms provide general updates (through its website, social media etc). Communications should update clients on market conditions, explain how clients can check their portfolio value and invite clients to contact the firm if they wish. Firms can choose to cease providing 10% depreciation reports for any professional clients.
- 4. FCA Policy and implementation** - There has been a pause on implementation of investment pathways and other measures.



**Financial resilience** - Newgate's recent Newsletter highlighted the FCA's concerns over how firms were meeting their capital and liquidity requirements during the crisis. The Dear CEO letter explains that firms can use government schemes to remain solvent during the period but this scheme **cannot** be used to meet capital adequacy requirements, as they do not meet the definition of capital.

**Impact for firms:** The Dear CEO letter is positive for firms by allowing them to concentrate on ensuring operational and financial resilience during this crisis, rather than addressing some onerous regulatory requirements that could hamper managing the situation and not be in the best interest of customers. Please contact Newgate for more information as to how these temporary measures might affect you.

Access the Dear CEO letter here: <https://fca.org.uk/publication/correspondence/dear-ceo-letter-coronavirus-update-firms-providing-services-retail-investors.pdf>