

6 February 2020

Dear CEO

Platforms portfolio strategy letter

As set out in our [Approach to Supervision](#), we assign firms to a 'portfolio' based on their primary business model. We regularly analyse each portfolio and agree a strategy to take pre-emptive action on the firms and issues posing the greatest harm.

Your firm has been allocated to the 'platforms' portfolio as it provides a [platform service](#). This letter sets out our key concerns, expectations and reflects our current focus and strategy for supervising platforms. It may also be of interest to other firms that allow customers or their advisers to access retail investment products through an online portal.

The Senior Managers & Certification Regime (SM&CR) was extended to solo-regulated firms, including platforms, from 9 December 2019. We expect you to ensure there is clear accountability within your senior management and for individuals to have a clear understanding of their roles and responsibilities and of the issues set out in this letter.

Key harms and our expectations

The platform sector has grown rapidly, in terms of assets under administration and customers in advised, direct to customer and workplace channels. Customers and advisers rely on the infrastructure, information and services provided by platforms. The sector is likely to continue to grow and play an increasing role in the provision of investment and retirement services to consumers over the course of their lives.

In this context, our supervision strategy is focused on addressing the following key harms:

Technology and operational resilience

Insufficient investment, processes and resources for technology and operations can lead to business continuity issues with services to customers and advisers being unavailable, intermittent or restricted. Poorly planned and executed technology migrations and upgrade programmes exacerbate this issue. Protecting the assets and data of customers from the threat posed by cyber-attacks and financial crime is also a growing concern.

We expect accountable individuals under the SM&CR to be responsible for operational resilience, prioritising plans and investment choices based on their wider potential impact. This should include considering the interests of customers and the importance to market participants of the firm being able to ensure continuity in the performance of its services. Change programmes

should be adequately planned, thoroughly tested, with clear responsibilities defined up front between your firm and any third parties to ensure quick resolution of any issues.

It is important there is clear responsibility at your firm to meet reporting obligations for operational incidents including cyber-attacks to both the FCA and any other relevant regulators or agencies (e.g. the Information Commissioner's Office at www.ico.org.uk). Where appropriate, you should also consider notifying agencies whose role involves combatting cybercrime, such as the National Cyber Security Centre (www.ncsc.gov.uk) or Action Fraud (www.actionfraud.police.uk).

Third-party outsourcing

Inadequate governance and oversight, risk management and clear contractual arrangements with third-party outsourcers raises operational resilience risks to your firm and customers.

SM&CR reinforces that accountability for any outsourced functions sits with your firm and requires individuals to have clear prescribed responsibilities. We expect you to have clear contractual arrangements and plans in place with outsourcers e.g. documenting responsibility and actions for incident management, outages and potential wind down.

As a firm responsible for the services you have chosen to outsource, you should undertake reviews of outsourcing arrangements to ensure the service provider is performing the services to a proper standard and any risks are properly managed. You should also take account of any concentration risk in outsourced providers and the potential impact on business continuity.

Conflicts of interest

If not appropriately identified and managed, conflicts of interest can lead to customers receiving poor value for money and / or products and services that are unsuitable for their needs.

We expect you to identify all potential conflicts of interest and to have processes in place to effectively [manage them](#).

Firms operating Best Buy lists must construct them impartially and manage conflicts e.g. preference for funds offering discounts over formal and objective criteria, lack of independence of research teams and associated governance. Processes for clear selection, monitoring and deselection of funds on lists should be documented, understood and followed.

Investment Platforms Market Study (IPMS)

Following the publication of the [IPMS final report](#) in March 2019, you should be considering if there are any areas where you need to work to implement its findings and recommendations. In particular, you may need to take action on:

Transfers – We expect you to implement and adhere to the new rules to make transfers simpler published in [PS19/29](#) on 13 December 2019. Alongside PS19/29, we also published the [outcome](#) of our review of industry progress to improve the switching process. We encourage firms not already involved in the industry STAR initiative to take part, as a way of improving the switching process and achieving better outcomes for consumers. We will review progress in 2022 and will consider taking forward further action if consumers' experience of the switching process does not continue to improve.

Best execution – We expect you to have effective day-to-day trade execution processes, contingent arrangements for periods of market distress and clear, comprehensive and effective oversight and monitoring. You should consider your own best-execution arrangements, particularly if you rely on a single Retail Service Provider (RSP), and make improvements where necessary.

Information on costs and charges - You should comply with MiFID II (ex-ante and ex-post) and other existing charges disclosure requirements. We also expect platforms to continue to make progress in making it easier for consumers to compare the costs of different options when shopping around.

EU Withdrawal

The UK left the EU with a Withdrawal Agreement on 31 January 2020 and entered a transition period, during which it will negotiate its future relationship with the EU. The transition period is due to operate until 31 December 2020. During this time EU law will continue to apply in the UK and passporting will continue.

As matters develop during the course of this year, you will need to consider how the end of the implementation period will affect you and your customers, and what action you may need to take to be ready for 1 January 2021. For information on Brexit, including what the transition period means, visit our [website](#).

Next steps

You are responsible for ensuring that your firm meets FCA requirements and takes account of the expectations set out above, and should take all necessary action to ensure these are met. We will use the SM&CR to engage directly with accountable individuals on areas of concern.

We will target our supervisory focus on firms where there is evidence the expectations above are not being met. This is in addition to our wider supervision monitoring e.g. ensuring firms are maintaining adequate financial resources and maintaining adequate CASS controls.

If you have any questions please contact your named supervisor, or the Supervision Hub on 0300 500 0597.

We also recognise that there may be times when your firm faces urgent issues of strategic importance. In such significant circumstances, please contact the Head of Department for Pensions and Platforms, Mark Wilson on 0207 066 5856 or at Mark.Wilson@fca.org.uk.

Yours sincerely

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