22 City Road
Finsbury Square
London EC1Y 2AJ

Tel: +44 (0) 20 7448 7100
Email: info@pimfa.co.uk
Website: www.pimfa.co.uk

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Kate Blatchford
Competition & Economics Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS
investmentplatformsmarketstudy@fca.org.uk

Dear Ms Blatchford

MS17/1.1 – Investment Platforms Market Study Terms of Reference

Representing investment managers and financial advisers across the retail investment market, PIMFA welcomes the opportunity to comment on the terms of reference for the Investment Platforms Market Study (IPMS). Our members are significant participants in the UK platform market – as well as firms that fall squarely within the FCA's "platform service provider" definition, the PIMFA membership includes firms that provide their clients with online access to retail investment products and services and firms that use platforms widely to access products and services on behalf of their clients, to distribute their own in-house products and to make their services available to intermediated clients, often in the form of model portfolios.

As well as providing feedback on the Terms of Reference, we would also like to comment on the FCA's pilot Request for Information process. Before doing so, however, we should make clear that the latter has given rise to considerable disquiet amongst firms.

PIMFA members who have received pilot RFIs (particularly the platform questionnaire) have expressed concern and, indeed, disbelief that the FCA should embark on a data collection exercise of this scale and scope at a time when firms are under huge pressure to meet urgent regulatory deadlines. It has also been suggested that, because the FCA is not obliged to subject market study data requests to any form of cost-benefit analysis, it does not appreciate quite how expensive it will be for firms to complete a RFI of the type proposed, not only in terms of the staff/management time involved but also because firms will have to develop/commission specific programmes to extract the necessary data from their systems in the formats required.

Comments on the Terms of Reference

Scope

While mindful of the already broad scope of the IPMS and the need to ensure that the project remains within practicable bounds, we query why a study covering the wider retail distribution landscape within which platforms operate is only concerned with (a) retail investment products, with no reference to the fact that many platforms are also involved in the distribution of direct investments such as securities and bonds; and (b) online services, even though offerings that are platform-like in terms of their outcomes for clients and the regulatory activities involved operate in other ways. We are not suggesting that the scope of the IPMS should be extended but we believe that it would be useful if the FCA were to provide an explanation as to why some elements of the platform environment are covered while others are not.

Model portfolios

We appreciate that, while model portfolios are not RIPs, they are presented to consumers alongside (and as alternatives to) other investment products and solutions made available by platforms and that this makes them a legitimate area of interest for the market study. However, while the model portfolios that platform service providers design/manage themselves are clearly within scope of the study, it is less clear whether the FCA's interest also extends to (a) model portfolios designed/managed by third parties (including many PIMFA firms) that are made available via platforms or (b) model portfolios that investment managers create for their own client bases with a view to servicing smaller discretionary portfolios in an economic way. We assume that (a) are within scope of the study while (b) are not but would welcome the FCA's confirmation on this point.

In relation to model portfolios offered by and via platforms, the focus of the study seems to be on whether they provide value for money and meet investor's expectations as to performance and how investors are assigned to a particular model from the range that the platform makes available. We believe the FCA's consideration of model portfolios should also cover the regulatory obligations that attach to the different parties who may be involved in the provision of a model portfolio to a client, i.e. in scenarios where a financial adviser recommends that a client should invest in a model portfolio managed by a discretionary manager that is made available through and administered by a platform. The contractual relationships around such arrangements vary from one platform to another as do views about which parties are responsible for which regulatory obligations. As well as there being some degree of confusion about the expected extent of each party's due diligence obligations, questions arise about who is responsible for suitability, client reporting and notifications, the quality of trade execution, reconciliations etc. In scenarios where the investment manager whose model is purchased by a client has no direct relationship/contact with that client, who is actually exercising discretion? Given the potential that these issues have for impacting on client outcomes both in terms of investment performance and cost, we believe that they are worthy of the FCA's attention.

The complexity of retail investment charges

The ToR makes several references to Asset Management Market Study respondents raising concerns that investment fund charges "are unnecessarily complex, making it difficult for consumers to make informed investment decisions". While this may well be the case, large swathes of the retail investment industry are currently in the process of implementing PRIIP and MiFID II requirements that are aimed at ameliorating this situation, with the PRIIPs KID presenting product charges in a standardised, readily comparable format and MiFID costs and charges disclosures requiring product costs to be identified within the context of the overall costs that a client pays. Rather than assuming that more needs to be done on charges disclosure in the near-term, we believe that the FCA should instead commit to reviewing the effectiveness of the new measures over a reasonable post-implementation period, only then determining whether any further improvements are needed.

"Platform service provider" definition

The study is clearly interested in the activities of non-platform firms that compete with platforms by offering similar services. Given this, is it reasonable to assume that amendment of the "platform service provider" definition might be one possible outcome of the IPMS? When the definition was proposed in CP10/29, PIMFA (then APCIMS) suggested that it was far too wide-ranging and would end up capturing every execution-only stockbroker that also offered custody services (at that point, around 70 of APCIMS' 116 members), a far wider field than the 19 platform operators upon whom the then-FSA had based the cost-benefit analysis supporting its consultation.

Our view was (and remains) that, while there are undoubtedly PIMFA members that fall squarely within the platform market (i.e. using technology to deliver fast, efficient, low-cost execution services direct to consumers combined with various complementary facilities), many of the firms caught by the definition are completely unlike platforms in both the scale and focus of their business. If the IPMS were to result in a more focussed and explicit platform service provider definition, this is something that we would be likely to welcome.

Powers

In the section of the Terms of Reference setting out the powers that the FCA will use to conduct the IPMS, reference is made to the process of gathering information from stakeholders. No indication is given as to whether the information will be requested on an informal basis or as a matter of requirement under FSMA section 165(1) – judging from the pilot RFIs, we assume that the data requests will be a matter of requirement which, vis-à-vis our comments on MiFID II below, underlines the importance of the FCA ensuring that the RFIs are issued at a time and with a response deadline that are reasonable in the context of firms' other obligations.

In addition, the Terms of Reference give no indication as to whether information requests will be subject to any other conditions – we have been told that previous market study data requests have been designated as "market sensitive" and we note that the pilot RFI for platform service providers is marked "Not to be shared outside

your organisation and advisers". While firms are unlikely to want to share detailed business information with external parties, we can think of several instances in which it might be necessary/helpful for firms to be able to consult each other. For example, given the extent to which many adviser firms rely on the administrative, record-keeping and reporting facilities provided by platforms, we think it is highly likely that they will need to refer specific elements of the data request to them to obtain the necessary feedback. In addition, where platforms operate substantially similar business models, it may be beneficial in terms of the quality of the data provided to the FCA if they are able to confer with their peers to establish whether they have a common understanding of what is actually required.

Comments on the RFI process

We are aware of two types of RFI having been circulated to firms for comment, one addressed to advisers and the other to platform service providers. As mentioned above, firms have been taken aback by the sheer scale of the data sought (particularly the platform RFI). Nevertheless, firms welcome the opportunity to comment on the draft questionnaires and hope that their comments, both about the detailed content requirements of the RFIs and about the demanding nature of the business/regulatory environment in which they will be completing them, will result in requests that are as appropriate, proportionate and straightforward to respond to as possible.

Meaningful feedback on individual aspects of the data sought by the RFI can only be provided by those actively involved in firms' platform-related business. PIMFA's comments below are limited to more general matters, reflecting the key concerns that firms have raised with us so far:

MiFID II and PRIIPs

Firms believe that RFIs of the scale proposed will divert valuable resources from their work in preparation for the implementation of MiFID II and the PRIIPs Regulation, both effective from the beginning of 2018. With the detailed requirements underpinning these regimes only recently finalised, the coming months are critical for firms in terms of completing the changes to systems, procedures, documentation and governance arrangements that are required to ensure their compliance. Firms are concerned that having to divert business, back office and IT development/analysis staff away from these projects (and, indeed, others following closely behind such as IDD and GDPR implementation) to spend significant amounts of time on the IPMS data requests could jeopardise the success of their project implementation plans and, as a result, lead not only to future supervisory issues but, more importantly, to potential consumer detriment.

Given this, we strongly believe that the IPMS data request should be put on hold until Q1 2018 at the earliest. Referring to FG15/9, we note that, although it is generally expected that market studies should be completed from launch to report within one year, "*there are no statutory deadlines within which a FSMA market study must be completed*" and that market study timescales "*may vary depending on the specific circumstances of the study*". Given the scale of the regulatory burden that firms are currently facing and the importance of their meeting imminent legislative deadlines,

we believe that flexibility around the market study timetable in this case is both reasonable and required.

Time periods for RFI responses

Feedback received from PIMFA members indicates that the proposed timescales for completion of the RFIs – 4 weeks for the adviser request and 7 weeks for the platform document – would be extremely challenging at any time but that, in the present environment, they are completely impracticable. Even if the data request process is held over until early 2018, firms in receipt of the platform RFI have suggested that a 10-12 week response period would be more realistic given the scale and depth of the data sought. Similarly, it has been suggested that 6 weeks would be more realistic for the adviser request, especially given that these firms may have to rely on the platforms they use to provide them with some of the data sought.

Historical data

Much of the data sought by both RFIs covers extended periods of time – for advisers, most of the RFI questions cover a period from 1 January 2014 to the end of H1 2017 and, for platforms, the period is even longer, beginning 1 January 2012. Firms have indicated that, while gathering and shaping current data into the formats required by the FCA's questions is relatively straightforward, doing the same for historic data is considerably more difficult and may, in some cases, not be possible at all.

For data requests extending over multiple years, the FCA must bear in mind that:

- where the data sought has not been the subject of regulatory record-keeping requirements or has not been deemed necessary for ongoing business/MI purposes, firms may simply not have it;
- even where the data is held in firms' systems, the process of extracting, collating and shaping it in conformity with FCA requests is likely to be time-consuming;
- changes of systems and systems providers will impact on firms' ability to access historic data – in the periods under review, platforms may have switched from proprietary to outsourced technology or have moved between third party technology providers while advisers may have changed back office technology providers, switched client assets between platforms or extended the range of platforms they use; and
- even where data from existing and legacy systems is available, firms will need to undertake detailed reconciliation exercises in order to ensure the consistency of the material provided.

Definitions and data consistency

While the Glossary provided in Annex 1 to the platform RFI provides a useful basis for common understanding among respondents, firms have expressed concerns about areas where the FCA's questions may be open to different interpretations and about the impact this could potentially have on the consistency and comparability of data provided by different firms. One instance that has been mentioned to us by several firms is the Appendix I question asking firms to identify share classes "promoted by"

their platforms – what does “promotion” consist of for this purpose? Does it involve some element of selection on the part of the firm, e.g. inclusion in a “best buy list”?

We hope the comments provided above are of assistance to the FCA in finalising the scope of the market study and in determining its approach to the related data collection exercise. If we can provide any further input, please do not hesitate to contact us.

Yours sincerely

Sarah McGuffick
Regulatory Consultant