Linklaters

FCA announces advice market consolidation review and other key priorities in dear CEO letter

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It has been a while since the FCA last looked in detail at consolidation, but a Dear CEO letter sent to financial advisers and investment intermediaries on 7th October, makes it clear that the topic is again in the spotlight. Noting the uptick in acquisitions of advice firms or their assets over the last 2 years, the FCA used the letter to introduce its plans to undertake multi-firm work to review consolidation within the sector. Where the FCA receive applications for the change in control of regulated firms, it "*will assess and challenge [the applicants] suitability and the financial soundness of the acquisition*" – and we anticipate this means more FCA scrutiny in the future on such applications. Where acquisitions complete without prior regulatory approval, the FCA warns that it will use its enforcement powers to object to the transaction or initiate criminal proceedings.

That's not to say that the FCA views acquisitions in the market as a bad thing – and indeed it flags that consolidation can provide benefits. Rather there is a focus on ensuring that any such acquisitions are undertaken in a prudent manner with effective controls to promote good outcomes.

What does this mean for firms?

First and foremost, we think this serves as a reminder for both sellers and potential acquirers, including financial sponsors, of the importance of investing in regulatory due diligence and in appropriate integration planning.

The FCA also highlights the need for firms to hold adequate financial resources at all times (and where acquisitions are funded by debt, there should be a credible and stress tested plan to service the debt).

Furthermore, and in the wake of the Consumer Duty, firms are reminded of the importance of ensuring that delivery of good outcomes is central to their culture, with effective and adequately resourced leadership, governance, oversight arrangements and controls. This is no doubt something for selling firms to think about too as they prepare for sale. Firms can expect to be questioned about their plan for complying with the Duty as part of the transition process.

As mentioned this is not the first time the FCA has focussed on consolidation, and firms are reminded to take the findings and guidance in the FCA's 2017 supervision review report (which identified a number of issues in the sector) and its 2012 guidance into account.

The FCA hasn't yet set a timeline for its planned multi-firm review, but that should not stop firms from taking steps now to ensure that they are able to meet the FCA's expectations.

What else does the letter cover?

- **Polluter pays** - Again with consumer outcomes front and centre, the FCA flags that it is seeing significant liabilities fall to the FSCS - and it is focussed on ensuring that the firms that create the liabilities are better able to pay them. Firms are reminded of the FCA's expectations of firms selling client banks as set out in its December 2023 publication. Furthermore, the FCA sets out its expectations that firms must not seek to avoid redress liabilities – and firms selling their business or client bank must act to deliver good outcomes. The FCA will be looking to firms to identify and meet any potential liabilities before it will cancel their authorisation (with the FCA looking into past business reviews and deed polls to ensure liabilities to consumers are addressed). Where a firm cannot meet its liabilities, this could impact the FCA's assessment of the fitness and propriety of accountable individuals seeking roles requiring FCA approval elsewhere.
- **Reducing and preventing serious harm in the retirement income advice and ongoing advice services market** – Again the focus is on delivering good outcomes.
- **Monitoring and testing higher industry standards under the Consumer Duty** – Firms should be able to evidence the Duty is implemented and that they are complying on an ongoing basis.
- **Enabling more consumers to pursue their financial objectives through the Advice Guidance Boundary Review** – Firms are encouraged to actively engage with the FCA on its review and to consider the opportunities it may provide to better support their clients.

You can find the Dear CEO letter here