



ShareSoc

UK Individual Shareholders Society

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Joint Press Release from UKSA and ShareSoc on behalf of individual investors about the FCA Investment Platforms Market Study Interim Report

In a hard hitting response to the Financial Conduct Authority, UKSA-ShareSoc **demand a more fundamental review of how investment ownership is recorded (i.e. share and fund registration systems) needs to be undertaken and legislation put in place to reform it.** The present systems appear to have been devised for the primary benefit of the platform operators and not their clients, the investors.

It is unfortunately the case that the development of on-line platforms and the ISA and SIPP regulations which require the use of nominee accounts have resulted in a very anti-competitive environment. Platform operators have effectively succeeded in locking-in their clients for their own commercial benefit. Although the clients can in theory transfer to other platform operators, in reality this has been deliberately made difficult, in our view, and this is why so few people do it.

UKSA-ShareSoc are representatives of retail investors who currently use many different on-line platforms as well as a more traditional stockbroker. Member holdings include those in GIAs, ISAs, SIPPs and direct holdings including the use of Personal Crest accounts.

The report highlights the differences in portfolios' sizes. **We think the analysis should have been undertaken by portfolio size as many of the issues, remedies and actions needed are heavily dependent on portfolios' size.**

We note that Platforms have approx. £500bn AUM and annual revenues of £1.3bn. The average platform account has about £100,000 of AUM, but the median figure is much less. Average revenue per customer is £260 (26bp).

The FCA report notes the 47 players in the platform market. However their report fails to recognise that they do not all compete head to head. There are various different business strategies and many players focus on particular niche(s). This is obvious when one looks at the following heatmap of platform charges by size of portfolio, such as shown on the Daily Mail's ThisIsMoney website

<https://www.thisismoney.co.uk/money/diyinvesting/article-2564059/How-Sipp-platform-costing-you.html> .

UKSA-ShareSoc say the FCA report should have focussed more on the Gorilla in the midst of this competitive battle. Hargreaves Lansdown has 30% of this market by income (2017 income £386 million versus market size of £1.3billion) and 16% by AUM (£79 bn out of £500 bn.) Its revenue per customer is £405, versus the industry average of £260, HL average AUM of £83k v £100k and charges of 49bp versus average of 26bp.

The issue is whether Hargreaves Lansdown (or others) is/are adopting anti-competitive behaviour. We worry about

- fund charges and discounts. The lack of easily available, clear, transparent data on platform charges is a concern.
- The difficulties and delays in transferring from one platform to another.

The ability of beneficial shareholders who hold their shares in nominee accounts being able to vote their shares easily and at no additional cost is a critical aspect of shareholder rights and shareholder democracy. **It is surprising that this issue did not feature in the FCA consultation on market platforms.** Currently only 6% of retail shareholder vote at AGMs. This is because of the difficulties, for those holding interests in shares via nominees that platforms have created. The platforms are not facilitating shareholders exercising their voting and other rights.

In addition, the shareholder register does not require the name on register of the beneficial owner of the interest in shares held via nominee. Currently, HM Government has no plans to change this, despite it being a clear objective of the EU Shareholder Rights Directive. Being able to communicate with shareholders would allow the registrars to offer an alternative service to platforms.

So, apart from the above and the competition issues mentioned in the report, UKSA-ShareSoc call upon the FCA also to examine these issues:

- **A new “name on register” electronic system** needs to be provided if “dematerialisation” is to fully happen so that investors can buy and sell shares through any broker and not be locked into one broker as happens at present.
- The protection of holdings in nominee accounts by alleged “ring-fencing” of client holding and cash which is totally undermined by the rules in the Special Administration Regime.
- The relatively low protection provided by the Financial Services Compensation Scheme in relation to the amounts likely to be invested in platforms, e.g. in pension SIPP and ISAs.
- The basic poor legal protection offered by nominee accounts and the failure of almost all stockbrokers to offer personal crest accounts (i.e. where your name is on the share register of the company and your holdings therefore clearly legally your own and not the platform operators).
- Similarly the requirement to use nominee accounts for ISAs and SIPPs is deeply uncompetitive because it locks clients into one platform from which they have difficulty withdrawing.

These issues do not seem to be covered by the FCA Report but are major contributors to the current uncompetitive environment for platform operators.

For further information please contact

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Information About ShareSoc and UKSA

ShareSoc, the UK Individual Shareholders Society

ShareSoc is the UK's largest retail shareholder organisation acting in all areas of the UK stock market more than 4,500 members. It is a not for profit company. ShareSoc is dedicated to the support of individual investors (private shareholders as opposed to institutional investors). We aim to make and keep investors better informed to improve their investment skills and protect the value of their investments. We won't shirk from tackling companies, the Government or other institutions if we think individual shareholders are not being treated fairly. See www.sharesoc.org.

UKSA, The UK Shareholders' Association

UKSA is the oldest shareholder campaigning organisation in the UK. UKSA is a not for profit company that represents and supports shareholders who invest in the UK stock market. See www.uksa.org.uk.

Attached is a copy of our full response to the FCA (13 pages).

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