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11 June 2019

Via email to [cp19-12@fca.org.uk](mailto:cp19-12@fca.org.uk)

Clive Parker  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

Dear Clive,

**Re: FCA CP19/12 Consultation on Investment Platforms Market Study Remedies**

**This is a joint response from UKSA and ShareSoc on behalf of individual investors.**

UKSA and ShareSoc represent the interests of private investors and shareholders. In addition to our own members, there are 5 million people who own shares and have investment accounts with platforms in the UK. The Office for National Statistics estimates that individual investors own 12% of the UK stock market by value. In addition to this there are many more who have money invested in shares via funds, pensions and savings products such as employee share ownership schemes.

As noted in para 1.6 of CP19/12, *the consultation paper will also be of interest to representative industry bodies and consumer groups. Individual consumers may also find it of interest, and their feedback is welcome. We represent "consumers"<sup>1</sup>, although we prefer the term 'investors'.*

To inform our response, Sharesoc undertook a survey of our members in April-May 2019 on their use of investment platforms. Over 550 responses were received (over 11% response rate), with each commenting on use of up to three platforms. This showed clearly the detriment to individual investors from the current situation. We have included key conclusions from the survey in our responses below. **We believe that the proposed revisions are a sound attempt to make it easier to transfer funds from one platform to another, where a number of platforms have made it very difficult to do so. Below we make seven key points:**

1. We disagree with the conclusion in para 2.3 of your consultation that "the market is working well"<sup>2</sup>. FCA comment in Chapter 6, on page 47: in the 2019 FCA Retail Investments Sector View

<sup>1</sup> We acknowledge your use of consumer in its economics sense, but highlight the more usual colloquial use in the UK today as a consumer is one who does consume, i.e. to destroy or expend by use; use up. to eat or drink up; devour. to destroy, as by decomposition or burning: *Fire consumed the forest.* to spend (money, time, etc.) wastefully. See <https://www.dictionary.com/browse/consume>. Hence, we prefer the term 'investor' which better reflects investors' goals of sustainable growth in their investments, whereas consumer may convey images of destroy or expend by use, etc.

<sup>2</sup> Para 2.3 says: Overall, we found that the market is working well in many respects, for both advised and non- advised consumers. Consumers who pay more typically get access to a greater range of non- price features and they are, overall, satisfied with their platform. Platforms also appear to help consumers and financial advisers make informed investment decisions free of investment product bias. This suggests that platforms are competing in the interests of most consumers.

(Chapter 6) “The main concerns in this sector continue to be unsuitable products and services, high charges, and low quality products and services. These could have knock-on effects for confidence and participation.” The <https://www.fca.org.uk/publication/market-studies/ms17-1-2.pdf> Investment Platforms Market Study was published in July 2018, after the very good and very critical 2016 Asset Management Market Study Interim Report <https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf> . We also note on the FCA website the comment “Since publishing our interim report, we have seen firms and the industry acting to improve the provision of information about costs and charges, helping consumers shop around. As a result, we are not proposing new rules but will review the progress of industry in 2020/21, and consider if further action is necessary.” We think this indicates the FCA is very concerned about the way the market is working. In addition, we are concerned that the market is not working well in enabling individual investors to vote their shares. We discuss this further under point 6 below. In summary, we do not think the market is working well.

2. We therefore welcome para 2.4 that it should be easier for consumers to shop around and to transfer their assets more easily. We agree that there is a detriment to individual investors from the current situation and as the champion of individual investors, we welcome measures to address this. Sharesoc research has found that a significant minority of our members would be charged over £1,000 by their current platform provider to move their portfolio. **However, the key outcome that needs to be sought from these proposals is to improve competition and hence drive down overall costs and improve services for investors. Enabling switching should be seen as primarily a means to this end.**
3. It is important that the proposals are implemented ASAP. The platform providers must not be allowed to drag their heels on this. Then there must be a rapid assessment of the impact on competition, so that, if these measures do not achieve these longer term aims, a more robust regulatory response can be put in place.
4. We think also that direct measures to address our concerns about *unsuitable products and services, high charges, and low quality products and services* should be implemented in parallel with these proposals. We note that ongoing costs and fund performance can be of far more significance than costs and difficulties of transferring funds.
5. Another key problem is the appallingly low level of financial education in the UK. For example, financial knowledge is much higher in the USA and it is in our view no coincidence that fund fees and charges are lower in the USA than in the UK. The financial education problem will take a long time to solve. Given the lack of education, it is unrealistic to expect the wider problems to be fixed by competition following implementation of these measures to make transfers easier and so you need to move on to tougher rules on services and overall costs, etc ASAP
6. If the market was working properly it is likely that we would by now have seen platforms competing to offer better functionality to investors. This might include allowing investors to receive information from the companies in which they have invested and to vote their shares easily at the AGM. Individual investors have been disenfranchised by the nominee system. Lack of competition between platforms has reinforced disenfranchisement. Some platforms make it very difficult to vote one’s shares. Many make it very difficult to transfer one’s shares to a platform offering better services to customers/investors., Platforms have been given great power and have been able to dictate how competition operates in the marketplace. This needs to be reversed. Hence, we very much welcome the reference to The Law Commission Review of Intermediated Securities (in para 4.13 on page 17 of the FCA/FRC DP19/1). **The Law Commission Review must be given high priority.** This could lead to improvements in the nominee system and enable all retail investors to exercise their role as stewards of the companies in which they invest. Retail investors own, on average, 29% of AIM companies and 12% of main market companies. They are an important contributor to investor stewardship but are currently widely prevented from exercising that role.
7. We note the small level of costs shown in para 36 of Annex 2. We agree that the benefits, including the benefits of improved competition in this marketplace are considerable, as has been identified in the FCA interim report on the asset management industry published in 2016. Your cost benefit analysis clearly demonstrates that these proposals should be implemented without delay.

**Our answers to the specific questions in this paper are as follows:**

**Q1:** Are you aware of any material obstacles firms may face in implementing the proposed requirement that consumers moving investments in units in funds common to the ceding and receiving platforms should be given the option of an 'in-specie' transfer (in addition to other options the platform may offer)?

No.

**Q2:** Are you aware of any material obstacles firms may face in implementing the proposed requirement that ceding platforms should request conversions on behalf of consumers, where this is necessary to support the consumer's request to transfer their units to a new platform on an 'in-specie' basis?

We consider that it is realistic to assume that the industry could make use of technological solutions to significantly reduce the costs of processing. During your market study, firms said that the sector has sought to improve conversion efficiency by working towards standardisation and automation of unit class conversions, but such practices are still not widespread. We consider that by making it a requirement to facilitate conversions, this will help foster the adoption of technology in this area, particularly if firms are not able to pass on their in-house costs of processing conversions to consumers (in line with the discussion on exit fees in the paper).

**Q3:** Are there any circumstances where platforms would not be able to take the necessary steps to bring about the conversion of unit classes to enable an 'in-specie' transfer? For example, would our rule need to apply to other firms that may be involved in the process?

Not to our knowledge.

**Q4:** Do you agree that receiving platforms, as part of the transfer process, should give consumers the option to request conversion of their units into a discounted unit class, where this is available to them at the receiving platform? If not, why?

Yes.

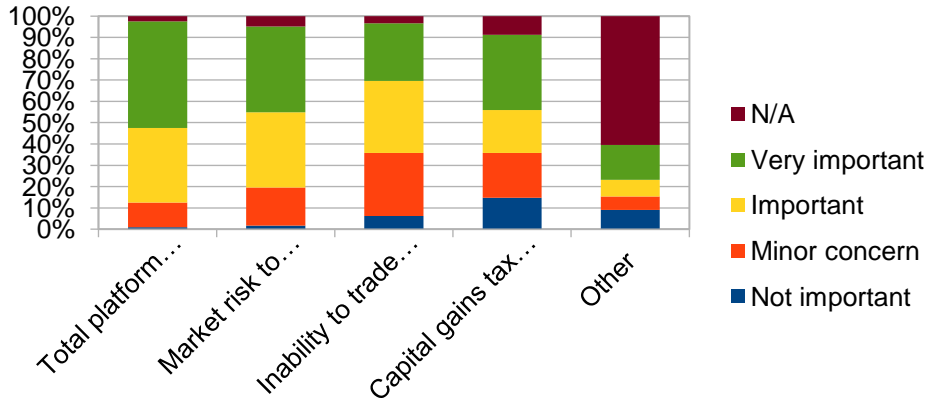
**Q5:** Do you agree with the planned implementation date of 31 July 2020? If not, why not, and what alternative timeframe would you suggest?

The earlier the better. This could have been done years ago and should not be delayed beyond your proposed date.

There is latent demand for switching (our members tell us this), but the current difficulties and the long time delays (and in some cases costs) have made it very unattractive to switch platforms. Chart 1 shows the importance to our members of different factors affecting their willingness to switch platforms.

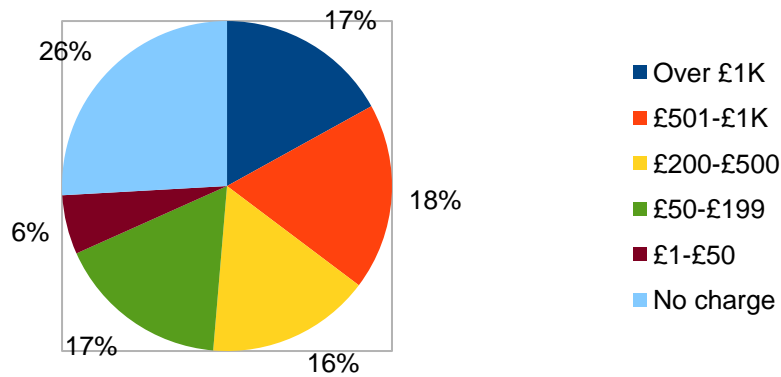
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Chart 1: Factors affecting Willingness to Move Platform



For a significant proportion of our members, the current costs of switching are considerable. Chart 2 shows the costs they report that their current platform provider would charge them to switch their portfolio and cash where these were known (ie. in 224 responses, 30% of total). Where responses were given about multiple platforms, the response for each platform is included separately. It is perhaps indicative of the complexity of current charges that 70% (523 responses) said they were not aware of what that platform would charge them to switch.

Chart 2: Charges from Current Platform Provider to Switch



Prompt implementation is therefore needed both to deliver direct investor benefits when switching and to start to stimulate other cost and service improvements to attract or retain these clients.

**Q6:** Do you agree that an exit fee should be defined as in paragraphs 4.10-4.11 above, and should include all charges associated with consumers' exit from the service?

Yes.

**Q7:** If you do not agree with our proposed definition, what charges should be excluded and how should exit fees be defined?

We agree.

**Q8:** To what extent would the banning of exit fees mitigate barriers to switching in relation to platforms and firms offering comparable services?

It should help greatly.

**Q9:** If we introduce a ban or cap on exit fees, should it apply to firms offering comparable services as scoped in paragraph 4.16? If not, what are the reasons why a ban/cap should or should not apply to particular types of firm or service?

Yes, it should.

We have no comments to make on Questions 10 to 14.

**Q10:** If your firm is in the wider scope of comparable firms as described in paragraph 4.16, do you currently apply any exit fees associated with these services? If so, please describe the nature of these fees.

**Q11:** If your firm currently charges exit fees (as defined in paragraphs 4.10-4.11), what would be the impact of a ban on these fees? For example, do you envisage that other charges would be implemented or raised to compensate for the loss of income?

**Q12:** If your firm is a product manufacturer as well as a distributor as defined, what exit fees are applied within the products and services you offer to clients? If such fees exist, please provide a rationale for this charging model.

**Q13:** How might a ban on exit fees be defined in such a way as to avoid a 'waterbed effect' whereby firms are able to replace them with new product/wrapper-related exit charges?

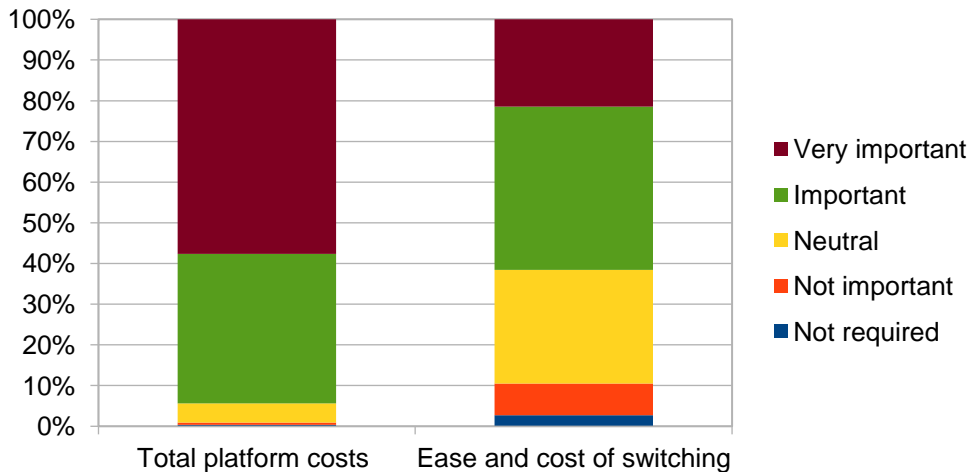
**Q14:** How prevalent are cases where product-related exit fees pose a similar or greater barrier to switching in the investment platforms and comparable services market?

**Q15:** What is your view on the IPMS Final Report's conclusion that a ban on exit fees would be more appropriate than a cap? If you disagree with the proposal, please provide your reasons.

We are ambivalent. The costs of exit fees will be recouped from other customers in the long run (or shareholders profits will reduce) although those customers should also benefit from improved competition.

As Chart 3 demonstrates, our members are concerned about both the cost and ease of moving platform and the total fees for continuing platform use.

Chart 3: Importance of Specific Platform Features



It is important that all charges are clearly and consistently presented in a way that enables comparison between providers. This would reduce the risk that the banning or capping exit fees results in disproportionate increases in other platform fees.

Q16: What is your view on the reasonableness of allowing the recovery of third party costs?

No comment.

Q17: Do you agree with our Cost Benefit Analysis? If not, please explain why and provide details.

We broadly agree.

We note the small level of costs shown in para 36 of Annex 2. We agree that the benefits, including the benefits of improved competition in this marketplace are considerable, as has been identified in the FCA interim report on the asset management industry published in 2016.

We would be happy to meet to discuss our response in detail.

Yours faithfully,

**Peter Parry – Policy Director – UK Shareholders’ Association**

**Cliff Weight – Policy Director – ShareSoc, the UK Individual Shareholders Society**

**Penny Shepherd MBE – Director – ShareSoc, the UK Individual Shareholders Society**