

Review of research and due diligence of products and services

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

When advising customers, firms regulated by the FCA must undertake appropriate research and due diligence to ensure that the products they recommend are appropriate to each customer. During 2015-16, the FCA undertook a review of the quality of such research, prompted by reported instances of “customer harm” following poorly researched advice.

The FCA acknowledges that ‘reasonable’ levels of research and due diligence will differ among advisory firms and depend on the client’s needs and the adviser’s specific recommendations. Nevertheless, the FCA explains that the objectives of conducting research and due diligence are, in theory, the same across different investments, services and providers.

Impacts of the measure

The FCA assessed a sample of 13 of the 6,000 firms affected by the review. The review found varying quality of practice in respect of research and due diligence. Weaker performance was found amongst firms with poor corporate governance cultures, especially in relation to challenge on ground of due diligence and research. Based on its conversations with firms during the review the FCA has concluded that all 6,000 firms would find it helpful to familiarise themselves with the 6 page review at a total cost of £288,000. This would include reading, digesting and disseminating to relevant staff and any necessary updates to relevant procedures. Some firms may also find it necessary to complete a gap analysis and to alter procedures as a result of the review; the FCA argues that this will have minimal impact on compliant firms, as the report only identifies weaknesses in complying with existing standards.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.0 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

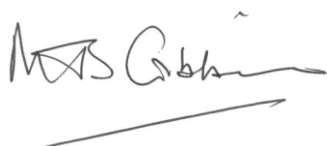
The FCA has provided sufficient evidence to support its estimate of the impact of the measure. The assessment refers to conversations between the FCA and firms to support the estimates. The assessment would have benefited from a summary of these discussions and an argument as to why the sample was proportionate and representative.

Regulator assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£0.0 million
Business net present value	£0.0 million

RPC assessment

Classification	Qualifying regulatory provision
EANDCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.
