

Use of dealing commission; best execution arrangements in investment managers; implementation of the enforcement review and HBOS Report

Financial Conduct Authority

RPC rating: **validated**

This opinion covers three small measures; for each, a brief description of the change, its impacts and the quality of the submission is given in the table below. The equivalent annual net direct cost to business (EANDCB) of each measure is listed underneath.

Measure	Description	Impact	Quality of submission
Use of dealing commission – multi-firm feedback (March 2017)	The FCA’s review assessed how investment management firms were spending their customers’ commission, and if these funds were being used with as much care as if they were the firms’ own resources.	The assessment explains that the review covered approximately 1,000 investment management firms. A member of compliance staff from each of these businesses is assumed to have read the publication, in order to determine whether their current spending behaviour was compliant with the FCA’s dealing commission rules. Based on a wage rate of £48 an hour (estimated using 2016 Robert Half salary guidelines) and a document length of 1,600 words, a one-off familiarisation cost of £48,000 is calculated. This includes the cost of reading, understanding and disseminating the	The regulator has provided a sufficient level of evidence for the RPC to be able to validate an EANDCB of zero. The assessment recognises that any further costs incurred by businesses in bringing themselves to a compliant standard should not be included in the EANDCB, as these relate to existing rules and obligations.

		review, which sets out examples of good practices that businesses should demonstrate.	
Best execution arrangements in investment managers – multi-firm feedback (March 2017)	In July 2014 the FCA conducted a review of whether firms were providing customers with best execution on a consistent basis. In March 2017, the regulator published an article that assessed what impact this review had had on buy-side firms.	The assessment explains that the 2017 publication covered all investment management firms that execute trades, equivalent to approximately 3,000 businesses. It is assumed that an experienced member of compliance staff in each business would take 45 minutes to read the article, in order to determine whether their practices were conducive to best execution. Based on a wage rate of £48 an hour and an article length of 870 words, the assessment estimates a one-off familiarisation cost of £108,000. This translates into an EANDCB of zero.	The regulator has provided a sufficient level of evidence for the RPC to be able to validate the EANDCB. The assessment correctly excludes any ongoing costs incurred as a result of the publication, as the expectations set out in it are inherent within the FCA’s existing rules.
PS17/1 Implementation of the Enforcement Review and HBOS Report (March 2017)	The FCA made amendments to its Decision Procedure and Penalties Manual (DEPP) and its Enforcement Guide (EG), which both set out the FCA’s approach to exercising its enforcement powers.	The assessment explains that businesses affected by the guidance changes would be those that undergo disciplinary enforcement action by the FCA. While the number of these businesses is difficult to predict, illustrative figures provided in the assessment show that 41 enforcement cases were opened against firms in the financial year 2015/2016. As firms are only assumed to read guidance on the enforcement process if they become subject to a compliance investigation, the	The FCA has explained the amendments to its guidance in detail, and has sufficiently justified an estimated EANDCB of zero. While the impacts are assumed to fall largely on non-compliant businesses, and are correctly excluded from the BIT score on this basis, the assessment would benefit from

	<p>These changes were designed to implement the recommendations of the HBOS Report and the Treasury's review of enforcement decision-making within the financial services regulators.</p>	<p>regulator has not estimated familiarisation costs arising from these amendments. The assessment also explains that the updated guidance will provide subjects with more information when deciding whether to extend the time they can respond in an investigation. The regulator has not monetised the time savings this may generate, though these would primarily be experienced by non-compliant businesses.</p>	<p>considering how many of these firms were proven compliant following enforcement action. As only a small number of businesses are involved in this disciplinary process per year, the RPC is satisfied that these impacts would not materially affect the EANDCB.</p>
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Departmental assessment

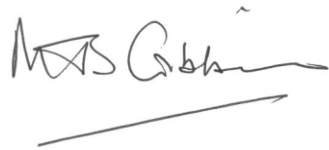
Classification	All qualifying regulatory provisions
Equivalent annual net direct cost to business (EANDCB)	All zero
Business net present value	<p>-£0.05 million (RPC-3999) -£0.11 million (RPC-4000) £0.0 million (RPC-4001)</p>

RPC assessment

Classification	All qualifying regulatory provisions
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Opinion: EANDCB validation
Origin: domestic
RPC reference number: RPC17-FCA-3999/4000/4001
Date of implementation: see table

EANCB – RPC validated ¹	All zero
Business Impact Target (BIT) Score ¹	All zero



Michael Gibbons CBE, Chairman

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