

FCA Focus on Stockbrokers

s166 Skilled Person Reflections



Executive Summary

Over the last six months, we have seen several Stockbrokers and Investment Managers being issued with S166 Requirement Notices, mandating the appointment of a Skilled Person. It's clear that the Financial Conduct Authority (FCA) has the sector firmly in focus.

We have recently completed four financial crime Skilled Person reviews in this sector, and as a result we have unparalleled insight into these Firms' current financial crime compliance challenges. More importantly, we understand what the FCA's expectations are for Firms in this sector to mitigate financial crime risk, whilst delivering good customer outcomes.

Our reviews have highlighted that many Firms are still getting the basics wrong:

- » Organisations have longstanding financial crime framework deficiencies which have not been addressed. In general, the s166 process has brought these issues to the forefront rather than Firms self-identifying them.
- » Senior management either doesn't have sufficient oversight of risks and control weaknesses, or where there is oversight, it's not properly evidenced / documented.
- » Firms are not documenting their policies and procedures and the monitoring of those policies and procedures as well as they should be.

We want to share these observations with you as our experience shows that the most effective leaders adopt a proactive approach to compliance and that such an approach presents a range of commercial and compliance advantages.

Background

Perhaps the first clue that the sector was under scrutiny came in 2024 when the FCA called out Wealth Management and Stockbroking Firms for not delivering good customer outcomes under the regulator's Consumer Duty "spotlight" ([Our Consumer Duty focus areas | FCA](#)). Under the Consumer Duty, all parties in the distribution chain have an obligation to protect consumers whilst supporting their financial objectives – customers must understand the products. Firms must fully understand their target market, and any inherent characteristics of vulnerability. The FCA has highlighted that Firms are not being transparent about product risks, suggesting some bad actors are taking advantage of existing relationships and leveraging trust to push overly complex and unsuitable products to their target markets. Firms need to be alive to this if there are third parties involved in the customer relationship.

The genesis of the four reviews we conducted were visits from the FCA for different reasons. For example; triggered by responses to surveys or data returns, a regular visit, or known exposure to a third party (intermediary / custodian) in common. In each case, the visit prompted further questions from the FCA. A Firm's approach to engaging with the FCA – either when providing information and documentation during a visit or more generally the tone of communications – can be its first point of failure. For example, the Firm might have huge confidence in the effectiveness of its

framework because the MLRO or Head of Compliance has given assurances that it's great, but if staff aren't prepared, and the Firm can't provide evidence demonstrating how it has got comfortable other than "because they said so", it's already behind. Or, whilst a Firm may not want (or agree) with the level of regulatory scrutiny it's getting, the way this is communicated to the FCA can make all the difference. Being cooperative and forthcoming throughout the process will stand you in better stead than being defensive and argumentative. It may even help you to avoid a S166 altogether.

Across the Firms we reviewed, the FCA had identified issues which were deemed so severe (because they had taken so long to be identified or addressed) that all four Firms were invited to apply Voluntary Requirements (VREQ) prior to the issuance of a S166 Draft Requirement Notice (DRN). The impact of a VREQ can't be underestimated; it will hurt a Firm's bottom line and damage its reputation. Furthermore, it can be imposed prior to a Skilled Person review, meaning it will remain in place at least until the review is complete and possibly for much longer.

Below we have explored the triggers of the four reviews and the areas the FCA are particularly interested in. We've also highlighted some key questions to ask yourselves to help you get on the front foot to be ready if (or when) the regulator comes knocking.

VREQS are regulatory tools used by the FCA where firms voluntarily agreed to specific conditions imposed by the regulator. VREQs are negotiated between the firm and the Regulator to address operational issues that could harm consumer or the financial system. By agreeing to VREQs, firms can show a proactive approach to compliance by taking corrective actions without facing enforcement.

Route to a s166 Skilled Person Review

A site visit from the FCA

Are you ready for a visit?

Will staff be available and ready to answer questions?

Do staff know what to expect?

Follow up information requests submitted under s165 of the Financial Services and Markets Act (FSMA)

How quickly can you retrieve customer files?

Are your financial crime framework documents, including risk assessments, policies and procedures, up to date?

Written feedback setting out inadequacies across a Firm's financial crime systems and controls

Do you understand the feedback?

Who needs to contribute to the response?

Are there any areas you feel have been misrepresented?

How quickly can you devise a remediation plan?

Invitation to enter into a VREQ

How will a restriction impact your customers, staff, and business?

How will a restriction damage your Firm's reputation?

Are you confident that you can remediate quickly and effectively in order to lift the VREQ?

If you decline, what's your plan to satisfy the FCA's concerns?

Issuance of the s166 DRN

How quickly can you respond?

Do you understand what's involved and the impact to your Firm?

Are you aware of the possible outcomes and consequences?

Areas of focus



Each Requirement Notice stipulated a multi-phase review by the Skilled Person:

- » Phase One: A report on a Review and Recommend basis; and
- » Phase Two: A Reasonable Assurance Opinion as to whether the Firm's financial crime framework (post remediation of any findings identified in Phase One) is effective and sustainable.

Although the four reviews were structured in the same manner, the scope of each was tailored to the specific nuances of each Firm. Examples of this included:



In three out of four RNs a review of the adequacy of governance and oversight arrangements was required.



In all four firms, issues were identified by the FCA in relation to the CRA process, and CDD requirements (including PEP, Sanctions, and high risk third country screening) and were therefore in scope."



In three out of four reviews, the adequacy of the Firms' SAR procedures and SAR decision making was in scope.



In two reviews, ongoing monitoring and testing of the framework was an area of focus.



In two reviews an assessment of training adequacy and frequency was in scope, along with an assessment of financial crime knowledge and awareness among relevant staff.



In one instance, anti-bribery and corruption was in scope, including a review of gifts and hospitality controls and thresholds in place.



All reviews required the Skilled Person to assess the suitability of the Firms' proposed remediation plan between Phase One and Phase Two.

Despite the high level of confidence in the individual frameworks, across the four Firms we found:

Utilisation of third-party relationships such as intermediaries or introducers adds another layer to the relationship. In some of the Firms we reviewed, where the customer relationship was indirect, responses to clarificatory questions from Firms about activity were vague. To a Skilled Person or other external party, it looks like the Firm gained comfort about potentially suspicious activity with very little information.

Themes identified	Root causes	Self-assessment questions
<p>Governance and oversight:</p> <p>Poorly documented compliance monitoring plans, unclear governance structures and undocumented roles and responsibilities, as well as inconsistent or inadequate coverage of relevant financial crime topics (i.e. third-party risk) in governance fora.</p>	<ul style="list-style-type: none"> » Disjointed framework, resulting in uninformed compliance monitoring plans. » Unclear segregation of duties (either between first and second lines of defence, or between the Firm and third parties), muddying decision making and risk ownership. » Informal governance structures and unclear paths for escalation or issues tracking. » Lack of appreciation of the need for demonstrable compliance. 	<ul style="list-style-type: none"> » How well documented are committee minutes? Will these demonstrate robust challenge and debate from senior management? How will you look to the regulator when they read the minutes? » How do you ensure that formal reliance agreements are in place with third parties and that expectations / minimum standards are agreed and understood? » How do you oversee intermediaries, introducers or other third parties to gain comfort that they understand their customers' needs, have integrity, promote appropriate products and are incentivised accordingly? » How do you get comfortable that Governance structures are clearly defined and proportionate? » Are roles and responsibilities documented and understood? How do you maintain this? » What MI is produced and what's its purpose? How do you know if it's effective? » Do you maintain records / minutes of meetings? Do you track resulting actions? » How does your business model enable you to maintain adequate oversight / awareness of your risk exposure?
<p>Risk appetite statement (RAS) and Business Wide Risk Assessment (BWRA):</p> <p>Ineffective utilisation of the BWRA to inform and enhance Firms' financial crime framework and identify pertinent risks. Lack of coverage of financial crime risks, including proliferation financing.</p>	<ul style="list-style-type: none"> » RAS not informed by/linked to business strategy. » Binary statements of zero tolerance to financial crime risk. » BWRA seen as a tick box exercise. » Lack of consideration of truly pertinent risks. 	<ul style="list-style-type: none"> » How is your RAS documented and disseminated? » Does the RAS quantify what level of risk you are willing to tolerate and explain what this means for the organisation? » Are you able to measure and monitor whether you are in or outside of risk appetite? » How do you get comfortable that your BWRA tool, methodology and procedures are fit for purpose and repeatable? » How often is the BWRA methodology reviewed, including and assessment of the key risks and typologies relevant to your business?
<p>Customer Risk Assessment:</p> <p>Inconsistent quality and application of risk assessments – often lacking quantitative elements and supporting rationale.</p>	<ul style="list-style-type: none"> » Lack of consideration of third-party risk. » Informal reliance agreements in place. » Inadequate documentation of assessment or decision-making rationale. 	<ul style="list-style-type: none"> » How do you get comfortable that your CRA tool, methodology and procedures are fit for purpose and repeatable? » Does your CRA include coverage of the right typologies and drive the right actions? How do you test this? » Do customers undergo a thorough and holistic risk assessment both at onboarding and throughout the relationship? How do you gain comfort that the process enables risk identification? » How has the CRA been designed to inform the frequency and extent of CDD at onboarding and on an ongoing basis?
<p>Screening and Monitoring:</p> <p>Issues with customer screening processes, including inadequate calibration of systems, inconsistent approaches to adverse media screening and insufficient ongoing monitoring.</p>	<ul style="list-style-type: none"> » Lack of knowledge of the customer (sometimes due to indirect relationships) resulting in limited screening being conducted. » Reliance on 'off the shelf' calibration of screening tools. » Fuzzy logic parameters not considered, resulting in reliance on 100% name matching. 	<ul style="list-style-type: none"> » How effective is your customer outreach process to ensure you get the information you need to assess alerts? » What QA processes are in place to ensure adequate review and adjudication / escalation? How often are these processes reviewed? How do you know they are effective? » How do you assess whether staff equipped to execute internal controls? » How do you know whether your screening tool is fit for purpose and operating as intended? How and when did you last test this?
<p>Record Keeping:</p> <p>Incomplete or missing documentation including in customer risk assessments, customer due diligence (CDD) files, and policies and procedures. Notable gaps in relation to the rationale for decisions being made both at a customer level (risk acceptance) and framework level (changes made to processes and their triggers).</p>	<ul style="list-style-type: none"> » Failure to document processes because "they're understood across the business". » Not needing to document customer information "because we know it". 	<ul style="list-style-type: none"> » How do CDD processes facilitate the capturing and maintenance of relevant information? » When were your key framework documents last reviewed? Is there clear version control? » How are required updates identified, agreed and monitored to ensure they are effective and compliant?

How we can help

Proactive Compliance

If all four of the Firms we reviewed had adopted a more proactive approach to compliance, they would have not only saved time and money, but they would have likely avoided a s166 and VREQ altogether. The most successful business leaders we work with understand the importance of compliance and engage us to help them get ahead of the curve.

Who we are

Avyse Partners are specialists in supporting you to not only achieve compliance across your entire business, but doing it in a way that minimises disruption and is, quite frankly, less painful. We provide quality advice across the breadth of compliance and work with you to get to the right outcome for your business.

So, whether you're expecting a visit from the FCA, you're responding to a feedback letter, you've received a DRN, or if you want to get the front foot – we're here to help.

Get in touch: Contact@avyse.co.uk

Useful links

[Money Laundering Through Capital Markets Gap Analysis Template](#)

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