Roliscon LIMITED
Management and Investment Resources
Roliscon Limited
PO Box 62
Chislehurst
Kent, BR7 5YB, UK
Tel: 020-8295-0378
Int: +44-20-8295-0378
Web: www.roliscon.com

Kate Blatchford-Hick
Competition Division
Financial Conduct Authority

Via Email: investmentplatformsmarketstudy@fca.org.uk

11 August 2018

Response to Investment Platforms Market Study Interim Report

Dear Ms Blatchford-Hick,

Here are some comments on the above Report, and answers to the questions posed in the Report.

I write as a retail investor who currently uses four different on-line platforms as well as a more traditional stockbroker. My holdings include those in ISAs, SIPPs and direct holdings including the use of Personal Crest accounts in one case. I have also used Hargreaves Lansdown in the past but transferred to another platform because of their increased charges. That transfer took over 3 months in 2014 which I considered totally unreasonable. Another transfer between different platforms took 3 months in 2015. I wrote on behalf of ShareSoc to the FCA to complain about those and other transfer delays experienced by ShareSoc Members in 2015. Not much seems to have improved so far as transfers are concerned in the last few years so it is good that you have highlighted the delays in transfers in your Report.

As regards the other aspects of your Report, my comments are:

1. It is certainly clear that there is a lack of significant competition in the platform market. Your report highlights that investors don't appear to examine charges very carefully when choosing a platform. That could be for a variety of reasons some of which you mention. Perhaps they have difficulty comparing charges because of the complexity of the different pricing schemes, or perhaps they value the level of service more importantly. They also clearly have difficulty in switching platforms. Because of the time it takes to switch platforms, the cost, and the effort involved most investors will not switch platforms unless they are deeply unhappy with the service.

2. However my experience is that there is little to choose between platforms in terms of service. All of those I use provide efficient administrative services as regards buying and selling shares, investment trusts and funds. Only one of those I use provides a good electronic proxy voting service for nominee accounts. Hence I use that for my ISA accounts and consider it a major differentiator but they do not promote this feature of their service.

Another provides real-time share prices on my portfolio holdings which I consider another positive differentiator, but otherwise I tend to select platforms based on the lowest overall charges given my portfolio size and trading patterns.

However I am aware of other investors experiencing some difficulties in the past, and particularly so when a platform changes its software. This may partly be due to unfamiliarity with the new software imposing a learning obligation on the client, but can also arise when favoured features are dropped for often no apparent reason. Such changes tend to encourage clients to look again at which platform they should be using.

3. But the reason why I still use four different platforms is because I wish to spread the risk of holding all my assets in one or two brokers. The risk of stockbrokers getting into financial difficulties is well known and this was highlighted in the recent Beaufort case. As a result I also tend to pick platform operators that are larger companies and which are publicly listed (so I can monitor their accounts). This aspect of the market is itself anti-competitive because it means smaller entrants are prejudiced against as investors perceive them to be risky. Hence the larger incumbents such as Hargreaves Lansdowne and Barclays tend to preserve their dominance as investors consider them to be "safer" as regards protection of wealth.

4. So apart from the competition issues mentioned in your report I would suggest that the FCA needs also to examine these issues:

   - 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 SIPPs 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). 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. 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 your Report but are major contributors to the current uncompetitive environment for platform operators.

5. 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 to be difficult in my view which is why so few people do it. I suggest 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. At present the systems appear to have been devised for the primary benefit of the platform operators and not their clients, the investors.

6. As regards your comment in the Report about the large amounts of cash held in the accounts of many investors, this might be a temporary phenomenon arising from the very low interest rates currently arising as a result of Government policy. Only one of the platforms I use pays any interest on cash and even there at a trivial rate. Taking the cash out and putting it into a deposit account would hardly be worth the trouble. In the past investors might have chosen to move cash into bonds or bond funds but with interest rates likely to rise investors might prefer to hold cash at present even though there is little return on it.

7. I encourage the FCA to take strong and vigorous steps to ensure that transfers are done more promptly by imposing financial penalties on operators who do not meet specific timescales – see my answer to Question 17 below. There should be a clear objective to reduce transfer times to under ten days within the next 2 years. Currently there is a lot of talk but little action in actually improving matters because platform operators seem to have little incentive to make it a priority. The slowness of transfers at present contributes to an uncompetitive market for platform services.

8. Outlawing transfer charges and other penalties of all kinds would encourage a more competitive market place as it would ensure that investors were not discouraged from switching by such charges.

As regards the specific questions posed in your Report, I provide the answers in detail in the Appendix to this letter which is attached.

You are welcome to contact me if you have any questions on my comments in this note.

Yours sincerely

Roger W. Lawson
Managing Director

Appendix – Answers to Questions

Q1: Are you aware of specific innovations that display costs and charging information in a way which facilitates consumers making informed investment decisions?

Answer: I understand there are a couple of on-line services that provide likely charges based on different portfolio and trading patterns but will investors likely search for those? In reality these projections might become rapidly out of date as investors portfolios change and the prices on platforms change (the charges of platform operators are frequently revised so choosing a platform based on their immediate pricing may be a mistake – this is another reason why investors might be less concerned about charges).

Q2: Bearing in mind the existing costs and charges disclosure requirements found in, for example, COBS 2.2.1R and COBS 6.1.9R (for non-MiFID business) and COBS 2.2A.2R, 6.1ZA.11R and COBS 6.1ZA.12R (for MiFID business), do you think additional disclosure remedies are required to ensure that consumers are able to compare platform charges? If yes, what should those further requirements be and why do existing disclosure requirements not go far enough?

Answer: I have no difficulty in comparing charges although the differences in presentation of charges might confuse some. I am not sure that additional disclosure is required.

Q3: Are there any practical challenges, negative effects or limitations of innovations to enhance the comparability of charges and, if so, are there ways in which these could be overcome?

Answer: One way to improve comparability would be to show the charges on several "model" portfolios and trading patterns that approximate to many investors profiles.

Q4: Do you think that:

a. third party intermediaries currently face barriers to placing competitive pressure on platforms?
b. the role of third party intermediaries should be enhanced in an effort to improve competitive pressures on platforms and, if so, how?
c. a requirement on platforms to provide third party intermediaries with more data or open data solutions is a good way to enhance their role in an effort to increase competitive pressures on platforms?
d. there are practical challenges or negative effects of enhancing the role of third party intermediaries through introducing a requirement on platforms to provide them with more data or open data solutions. If so, how could these be overcome?

Answer: I presume you mean by "third-party intermediaries" you are referring to price comparison web site operators. Certainly there is a dearth of information on the facilities and charges of investment platforms on such web sites. Whether there is insufficient demand for such services, or they do not have access to charging information, or there are other reasons I do not know. If the reason is lack of data or there are other anti-competitive practices being followed by platform operators then it would certainly help to tackle those issues.

Q5: Are there any alternative ways to enhance the comparability of charges investors incur when investing through a platform?

Answer: Imposing a requirement for platforms to report the total charges paid by clients as a percentage of asset values held in bands of portfolio sizes would enable a simple comparison of their overall charge levels.

Q6: Are you aware of specific innovations that display costs and charging information in a way which facilitates consumers making informed choices between investment funds?

Answer: There is lots of information available on the costs of different funds, but unfortunately the investors tend not to either look at the data or consider fund performance to be more important than charges. The requirement to publish KIDs was one attempt to tackle this problem but was poorly executed as it seems to have been devised by EU bureaucrats who had little understanding of the investment world.

Q7: Do you think additional disclosure remedies are required to ensure that consumers are able to compare fund charges on a platform? If yes, what should those further requirements be and why do existing disclosure requirements not go far enough?

Answer: I believe the disclosure requirements are adequate at present. What is lacking is the education of investors so that they understand and pay attention to the disclosures.

Q8: Are there any practical challenges, negative effects or limitations of innovations to enhance the comparability of fund charges on a platform, if so, are there ways in which these could be overcome?

Answer: There are practical difficulties arising from the payment of performance fees which are both unpredictable and can vary from year to year because of the different ways that they can be calculated. Indeed some of the calculations are very poorly documented and not necessarily disclosed in full. For example with investment trusts the actually contractual agreement with the fund manager is not disclosed, but only a short summary which can often be misleading. Standardising such contracts in how performance fees are calculated would assist because there are not only too many variations at present but sometimes the result is ambiguous or incomprehensible even to the managers and directors responsible for them.

There are additional problems in that not all costs incurred by fund managers are disclosed – for example investment switching costs from broker fees. Not all costs that reduce fund investment performance are disclosed.

Q9: What impact do the commercial arrangements we have identified have on fund managers' incentives, on consumers and on competition?

Answers: The commercial arrangements of platform operators certainly prejudice consumers and limit competition. For example most platforms promote "funds" (e.g. OEICs) rather than "investment trusts" because they appear to have financial or other incentives to promote the former rather than the latter even though investment trusts are often lower cost than equivalent OEICSs. That is particularly so where platforms are offering their own funds. I suggest the platform operators should be banned from managing funds. In addition the choice of which independent funds are promoted by companies such as Hargreaves Lansdown does not seem to be based on any rational criteria that relates to their merits so far as the investors are concerned. This is an area that requires more research and regulation.

Q10: What are the reasons why D2C consumers have significantly higher cash balances than advised consumers?

Answer: Probably because advisors find it easier to justify charges based on their investment activity.

Q11: How are cash balances held, ie does it tend to be in a wrapper or for certain products, and how long does it stay uninvested for?

Answer: Best for platform operators to answer this question, but I suspect the answer will be that it is simply held as a deposit account with the platform operator. Platform operators have a strong incentive to encourage large cash balances as traditionally they made a substantial proportion of their overall operating profits from the interest they can obtain on client deposits above that they pay to clients. It is for this reason that they do not promote the fact that zero interest is currently paid on client deposits by most operators.

Q12: Are certain types of consumers more likely than others to hold large cash balances and, if so, why?

Answer: I do not know the answer to that question.

Q13: What determines how the level of interest rates on cash balances paid to customers is set?

Answer: Clearly the interest rate is set by market interest rates which platforms can obtain on client deposits which follow bank base rates. Interest rates offered to clients will be substantially less because platforms desire to make significant profits on the difference.

Q14: What reasons are there for platforms to charge a platform fee on cash and what are the costs for a platform associated with holding consumers' cash?

Answer: Platform fees relate to the recouping of overall overheads in the platform operator's business. That is the reason why there is no differentiation between investments in shares, funds, or cash. It relates to the maintenance of client info, reporting to them, etc. It is not unreasonable to charge a platform fee on cash held.

Q15: How much cash should consumers reasonably hold, and for how long?

Answer: Impossible to answer this question – it depends on client circumstances, current interest rates, future expectations of interest rates, etc.

Q16: As set out in paragraph 9.18 there are a number of existing rules which require platforms to disclose information that is relevant to a consumer holding a cash balance. Given the high proportion of cash balances:
a. how could the relevant disclosure requirements be made more effective at warning consumers of the costs and charges associated with holding cash balances?
b. do you think there are better alternative options which could make consumers aware they are holding cash balances and the charges associated with doing so?
Measures to make it easier for investors and advisers to switch platforms

Answer: A specific warning, sent via email to the client with wording mandated by the FCA, if a cash balance rose above £10,000 on smaller portfolios, or above £20,000 on large portfolios would be advantageous in bringing this to the attention of a client. A reminder once per year if the situation persisted would also be helpful (which could be included in the annual statements that most platform operators provide to clients).

Q17: Is there a role for the FCA in reinforcing the industry initiative to improve transfer times and, if so, what should this role be?

Answer: The FCA should mandate a maximum transfer time of 10 days. Any transfer not completed by that time should cause a compensation payment of a fixed, and rising, amount to be paid to the client affected.

That payment should be made by both the transferring platform and the receiving platform as in my experience they both blame the other for any delays and it would encourage the platform industry to put in place systems that ensured that the mandated timescale was met. The size of such payments should be sufficient to adequately compensate the client for the delays and incentivise the platforms – I would suggest 5% of the portfolio value for any delay over ten days rising to 10% after 30 days and 20% after 90 days, if not all portfolio assets had been transferred. Where the delays were outside the control of the platform, e.g. arising from delays in fund or share registration organisations then they would have the ability to pass on those charges to the organisations at fault. Such financial penalties would ensure that platform operators were strongly motivated to resolve any delays by adequate communication and ensure that they put in place good progress monitoring and chasing systems where the delays seem mainly to arise at present.

The FCA should also mandate participation in TEX and conformance with TRIG recommendations. I understand the former is an organisation with voluntary membership at present and in which many platforms do not participate.

Q18: What is the likely effectiveness and proportionality of:
a. The possible remedies outlined in this section which are intended to make switching easier and increase the competitive pressures operating in the platform market?
b. FCA measures that are intended to improve the switching times and processes by, for example, introducing remedies to shine a light on firms' switching times or setting minimum standards for transfer times?

Answer: See answer above regarding improving transfer times. Setting minimum standards for transfer times is essential. As regards publishing transfer times, I am not convinced that would significantly assist at present. Banning exit fees would certainly assist and I strongly recommend that be introduced as soon as possible – see comments in answer to Question 19 below also.

Q19: What should be the scope of a remedy to ban exit fees (ie should the ban apply to platform fees only, or also eg product-specific fees)?

Answer: The ban should apply to both platform fees and product specific fees. If platforms found that some funds were particularly lethargic or difficult to deal with then they would have the option of course of not offering those funds on their platform.

Q20: Would there be any unintended consequences associated with any of the possible remedies outlined in this section which aim to make switching easier? If so, how could these be overcome?

Answer: None that I can think of.

Q21: What costs do advisers incur when reviewing whether they should switch their clients to an alternative platform and then executing a switch?

Answer: No comment as I cannot answer this question.

Q22: Would guidance on our expectations for adviser switching be useful? If so, what do you think this should cover? If not, what alternative remedies could achieve our aim of ensuring the costs of switching adviser platform are proportionate?

Answer: No comment.

Q23: What is the likely effectiveness, proportionality and unintended consequences of the remedies listed above (A-C)?

Answer: No comment.

Q24: Should remedies A-C apply to orphan clients only or other groups of consumers?

Answer: No comment.

Q25: Would platforms face any practical challenges in introducing remedies A-C above?

Answer: No comment.

Q26: We welcome views on whether the issues we have identified with in-house model portfolios are likely to apply across all types of model portfolios and also exist in model portfolios offered by wealth or asset managers.

Answer: Model portfolios seem to be a way for platforms to sell solutions to clients who do not wish to take the effort to educate themselves about investment and how portfolios should be constructed to meet their needs, or otherwise using an advisor to select investments. They are therefore likely to be more "marketing" focussed than investment focussed. In essence they are likely to be a dubious proposition particularly bearing in mind the poor definition of the meaning of terms used to describe these portfolios. Having standardised definitions of those terms would be helpful though.

Q27: What is the likely effectiveness, proportionality and unintended consequences of the remedies that would:
a. apply current performance and risk disclosure obligations for funds onto model portfolios?
b. require firms to use standardised terminology to describe their strategy and asset allocation, including formalising definitions such as cautious, balanced and adventurous?

Answer: I doubt providing performance and risk disclosure on model portfolios would assist because the clients who choose such portfolios are those who are both unlikely to pay attention to the data or even if they do may not understand what they are looking at. I suggest a more general health warning about the use of model portfolios would be advisable.

Q28: To what extent do existing rules go far enough in making platforms' trading practices transparent to retail investors?

Answer: Retail clients are unlikely to be aware that best execution obligations are not being adhered to and providing more information on where orders have been entered may not help much. This does not appear to be a matter of great importance at present.

<END>