

FCA Sets Out Key Risks and Priority Areas of Focus in Asset Management Sector

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On 20th January the FCA published two Dear CEO letters for asset managers, demonstrating the regulator's increased focus on this sector. The letters reveal that standards fall below the FCA's expectations, so relevant firms should consider the priority areas and take action to resolve any issues.

[Dear CEO letter in relation to the FCA's Alternatives Supervision Strategy:](#)

The FCA outlined its view of the key risks of harm that alternative investment firms (which include AIFMs and portfolio managers) pose to their customers or the markets in which they operate. The FCA set out its strategy to deal with these key issues and inform its supervisory priorities, as follows:

- **Investor exposure to inappropriate products or levels of investment risk:** Firms offering products and managing investments with exposure to alternative assets and strategies must consider the appropriateness or suitability for their target investors. In particular, the FCA intends to review retail investor exposure to alternative investment products offered by alternatives firms and will test that firms are aware of who their customers are and their best interests.
- **Client money and custody asset controls:** The FCA will test whether firms with permission to hold client money and safeguard custody assets are doing so in compliance with CASS.
- **Market abuse:** Firms must fully comply with their obligations under the Market Abuse Regulation (596/2014) and the FCA will consider enforcement action where this is not the case.
- **Market integrity and disruption:** Where firms adopt very high-risk investment strategies, particularly where significant leverage is employed, the FCA expects commensurately high-quality risk management controls. It may undertake in-depth assessments of firms' controls.
- **Anti-money laundering and anti-bribery and corruption:** The FCA intends to review firms' systems and controls to mitigate the risk of them being used to

facilitate money laundering and terrorist financing.

- **Brexit:** Firms must consider how the end of the implementation period on 31 December 2020 will affect them and their customers, and what action they may need to take to be ready for 1 January 2021.

Dear CEO letter in relation to the FCA's Asset Management Supervision

Strategy:

The FCA outlined its view of the key risks of harm posed by asset managers to their customers or the markets in which they operate. Again, the FCA set out its strategy to deal with these key issues, as follows:

- **Liquidity management:** Where the FCA identifies potential liquidity issues with UK authorised funds it will ensure authorised fund managers take prompt action to mitigate or resolve them.
- **Firms' governance:** In the first half of 2020, the FCA will carry out work to evaluate the effectiveness of governance across the sector. In particular, the FCA will focus on firms' efforts to implement the senior managers and certification regime.
- **Asset management market study (AMMS) remedies:** The FCA will carry out work in the first half of 2020 to understand how effectively firms have undertaken value assessments on their authorised funds. It expects to do more work in the future to evaluate the effectiveness of the AMMS reforms.
- **Product governance:** The FCA is reviewing how effectively new product governance requirements have been implemented across the sector and how effectively "host" authorised corporate directors undertake their responsibilities. It expects to complete this work in early 2020.
- **LIBOR transition:** The FCA is gathering data from some asset management firms to enhance its understanding of their business models, including exposure to LIBOR risk.
- **Operational resilience:** Firms that suffer material technological failures or cyber-attacks must contact the FCA promptly under Principle 11. The FCA expects to undertake further proactive work on this in the near future.
- **Brexit:** Firms must consider how the end of the implementation period on 31 December 2020 will affect them and their customers, and what action they may need to take to be ready for 1 January 2021.

- **John Verwey**

Partner