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The UK Regulator Writes to Asset Manager CEOs

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The UK's Financial Conduct Authority ("FCA") has issued a 'Dear CEO' letter to asset managers updating its approach over the coming year to areas of regulatory focus in the light of recent changes in the external risk environment following the market shocks of 2023, as well as the outcome of certain FCA review work.

Themes

Along with discussions on the promotion of innovation and projects involving international engagement, the letter focuses on:

1. *Assessments of Value and Consumer Duty*: The FCA continues to monitor how managers of authorised funds are performing the required Assessments of Value of the funds they offer, and is finding that customer outcomes remain variable. 2024 will see the FCA also building in the features of the Consumer Duty that require asset managers to consider price and value as well as services provided when dealing with retail customers.
2. *Change Management*: Topics covered here include requirements to build operational resilience that will see in-scope firms obligated to have mapped and tested impact tolerances for each important business service by 31 March 2025, and to have made any necessary changes and investments to ensure that they remain within those tolerance parameters. Firms' progress in embeddding the FCA's Guiding Principles for ESG and sustainable investment funds is also under the microscope, as is progress on implementation of the Sustainability Disclosure Requirements ("SDR") and investment labelling requirements much of which will be in force this year. SDR and the labelling regime include requirements for firms that promote their ESG credentials to structure their board and governance arrangements to oversee and review management information on ESG, third-party ESG information providers used and the claims their firms make about ESG, and the FCA will be looking to firms to make sure that these requirements are met and adequately resourced.

3. *Valuation Practices for Private Assets*: Building on its recent communications on liquidity management, and in the light of an ever-increasing proportion of fund assets held in private assets, the FCA is keen to stress that valuations in this less transparent asset class are robust and reliable, and will be conducting a review looking at valuation practices for private assets, again including board oversight and accountability.
4. *Market Integrity and Disruption*: Along with other international supervisory authorities, the FCA will continue to look at ways to improve money market funds' resilience, funds with significant liquidity mismatches and the transfer of risk from the non-bank financial sector to the rest of the financial markets. In particular, the FCA will be looking at large, concentrated and highly leveraged positions, and will want to see appropriate risk management processes in place to mitigate market impacts.

Next Steps

The FCA is clear that the letter is to be discussed at Board level, and if necessary, action taken. It is also clear that the FCA will continue to focus on the effectiveness of governance arrangements in making sure that there is senior management accountability for risk management, oversight and appropriate management information flow to enable good decision making.