

**Notification and justification for banning platforms from receiving certain payments (or ‘rebates’) and banning certain payments to retail clients buying retail investment products from platforms**

*This notification relates to FCA Handbook text that will come into force on 6 April 2014, as explained in the Financial Conduct Authority’s Policy Statement “PS13/1: Payments to platform service providers and cash rebates from providers to consumers” as well as related rules and any subsequent changes made to those rules which are within the scope of this notification.*

1. In March 2010, we amended our previous notification under Article 4 of Directive 2006/73/EC, in relation to packaged products, as part of our “Retail Distribution Review”<sup>1</sup> (or “RDR”). We explained our revised approach to dealing with the risk of recommendations being biased as a result of the receipt of commission. This included a requirement banning retail investment product providers from offering predetermined amounts of commission to UK adviser firms, in relation to the recommendation of their products.
2. Since then, we have conducted further research and analysis of the UK platform market and are applying requirements in this specific area. ‘Platforms’ are internet-based services used by retail intermediaries and retail clients to view and administer investments. In the UK, as well as acting as distributors of collective investment schemes and other financial instruments<sup>2</sup> (receiving and transmitting orders as well as executing orders on behalf of clients), platforms are also involved in the provision of services for the safekeeping and administration of financial instruments for the account of clients.
3. This notification relates to the introduction of rules restricting platforms from receiving payments (commonly described as ‘rebates’) from product providers as well as payments from platforms to retail clients. This notification focuses on our application of such requirements to platforms in the UK regardless of whether or not advice is provided and is being submitted on a precautionary basis.
4. In the UK, many platforms – including those that are used through intermediaries as well as those that offer their services directly to retail clients (commonly referred to as direct-to-consumer (D2C<sup>3</sup>) platforms) – have been funded by payments from product providers, allowing them to market their services at no explicit cost to the retail client. This has led to some platforms hosting only those products that pay them a rebate, ignoring investments such as low cost, passively managed tracker funds. Our new rules are designed to ensure that all platforms are remunerated through explicit charges payable by

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<sup>1</sup> The amendment to our ‘Notification and justification for amending certain requirements relating to the market for packaged products’ under Article 4 of Directive 2006/73/EC (“Level 2 Directive”) implementing Directive 2004/39/EC (“Level 1 Directive”) is available on the European Commission’s website at [http://ec.europa.eu/internal\\_market/securities/docs/isd/implementation/uk\\_art\\_4\\_4\\_en.pdf](http://ec.europa.eu/internal_market/securities/docs/isd/implementation/uk_art_4_4_en.pdf)

<sup>2</sup> These include various types of collective investment schemes (such as unit trusts, open-ended investment companies, investment trusts and exchange traded funds) as well as equities.

<sup>3</sup> D2C (direct to consumer) platforms enable retail clients to invest directly in a variety of retail investment products on a non-advised basis.

the retail client so that product providers are less able to influence the distribution of retail investment products through platforms. The introduction of rules to cover both circumstances where retail clients invest through an intermediary (on an advised basis) or directly using a D2C platform (on a non-advised basis) is needed to ensure the MiFID client's best interests and inducements rules are implemented fully and appropriately, taking account of the unique role of platforms in the UK market and to support the regulatory changes being introduced in the UK through the RDR.

*Links with the UK's requirements on adviser charging<sup>4</sup> – application to platforms of rules already notified*

5. Our existing notification covers our rules to ban payments from product providers to retail clients that could appear to offset adviser charges<sup>5</sup> and we will be following its rationale to apply the same approach to platforms. This requirement is designed to ban platforms and product providers from paying 'rebates' of product charges in cash to retail clients where this could offset the adviser or platform charges. Without it, firms could continue, in effect, to include commissions for intermediaries or platforms in their charges – paying the money to the retail client rather than to the intermediary or platform directly.
6. Similarly, we have extended the requirement for product providers relating to facilitation<sup>6</sup> of adviser charging (explained in our existing notification) to platforms. Platforms will therefore be required to meet the same standards as product providers when they facilitate adviser charging.

*New restrictions on platforms receiving payments or rebates from product providers where advice is provided*

7. We believe it is clear that the arguments made in our earlier notification<sup>7</sup> under Article 4 can be extended to platforms that are used on an advised basis. Our earlier notification explains our requirement for adviser firms to determine their own adviser charges, along with an equivalent requirement on product providers, which bans retail investment product providers from offering predetermined amounts of commission to UK adviser firms in relation

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<sup>4</sup> Our rules require that all adviser firms should only be paid through 'Adviser Charging' for the advice and related services they provide. This means that adviser firms should be paid by charges that they have set out upfront and agreed with their clients, rather than commissions set by product providers.

<sup>5</sup> Paragraph 36 of the amendment to our existing notification (see footnote 1) explained that in order to make sure that particular practices do not undermine our new approach to adviser charging, we would also introduce a number of supplementary rules ("requirements relating to the practical application of adviser charging") – in particular, the final bullet point under paragraph 36 makes clear that product providers must not "defer, discount or rebate their product charges in a way that may appear to offset any adviser charges that are payable".

<sup>6</sup> The second bullet of paragraph 36 of the amendment to our existing notification (see footnote 1) sets out that where a product provider firm is collecting adviser charges from investments to pass on to an adviser firm, it must validate the instructions it receives to pay the adviser charge and offer sufficient flexibility in terms of the adviser charges it facilitates. Also, the product provider firm must not pay out the adviser charges over a materially different time period or basis to that in which it recovers the adviser charge from the retail client.

<sup>7</sup> See footnote 1.

to recommending their products. Following the logic of our existing notification, we feel it necessary to apply an equivalent restriction on platforms receiving payments from product providers.

8. From April 2014, equivalent requirements will apply to UK platforms used via an advice process as to product providers and advisers, following the same rationale as set out in our earlier notification. Just as payments made between product providers and intermediaries may bias advice, payments between platforms and other parties can have the same effect. We believe that these payments operate in the same way as commission payments from product providers to intermediaries and so are incompatible with our implementation of the client's best interests and inducements rules under MiFID, for the reasons already stated in our existing notification.
9. In order to clarify and give full meaning to the policy intent outlined in our earlier notification, we are introducing a rule such that platforms must be remunerated through an explicit platform charge payable by the retail client and platforms providing services to these retail clients are restricted from receiving payments from product providers in situations where advice is provided. In this regard, we are submitting a new notification under Article 4, on a precautionary basis, for this limited additional requirement.

*New restrictions on platforms receiving payments or rebates from product providers and cash payments to retail clients where no advice is provided*

10. Since our previous notification focused on advised situations, we have not previously notified equivalent requirements for non-advised transactions through platforms (D2C platforms), where D2C platforms receive rebates from product providers and where product charges could be similarly maintained at inflated levels in order to ensure that a commission for the platform can be paid out of a cash rebate offered to the retail client.
11. Our rules banning the receipt of payments by platforms from product providers as well as rebates of product charges in cash to retail clients where this could offset any adviser or platform charges, will apply to all types of platform services in the UK market, regardless of whether or not advice is provided. We are making clear that in both the advised and non-advised platform market this ban on rebates of product charges in cash to retail clients would not prevent retail clients from being able to receive cash rebates which, for example, have a minimal value as this would be unlikely to offset any adviser or platform charges. Similarly, our rule banning rebates of product charges in cash to retail clients where this could offset charges, would not prevent a platform from receiving a rebate of the product charge from a fund manager in cash, provided this is passed on in full to the consumer in additional units.
12. We are therefore including in our new notification under Article 4, on a precautionary basis, these additional requirements to apply to situations where no advice is provided.

13. In order to ensure a level playing field between platforms used via an advice process and D2C platforms, we consider it necessary to ensure that these rules equally apply to D2C platforms. If we excluded D2C platforms from the scope of our rules, product providers looking for ways to circumvent our earlier reforms may seek to 'buy' distribution from platforms in lieu of being able to secure distribution from advisers by offering commissions. This reflects the fact that, under the UK RDR rules, product providers will not be able to offer amounts of commission to adviser firms for selling their products.

## **1. Background description of the relevant UK market and risks**

### **Key characteristics of platforms**

14. Platforms are internet-based services used by advisers and retail clients to manage and administer investments online, offering a single view of the retail client's invested portfolio. They are normally investment firms and comprise a web based portal which can be accessed by either retail clients or advisers to execute investment transactions. Platforms are seen as a convenient channel through which investments can be arranged and then held in one place (for example to provide a single valuation for an entire portfolio).
15. The general characteristics usually associated with platforms that exist in the UK include the following:
- As well as receiving and transmitting orders and executing orders on behalf of clients, platforms also provide safekeeping and administration of clients' assets for retail clients.
  - Platforms host and allow clients to purchase a wide variety of retail investment products<sup>8</sup>, including both products that are subject to MiFID and others such as insurance-based investment wrappers.
  - Platforms can also provide investment planning tools and other services for adviser firms.
  - For product providers, platforms provide a means of distributing their products and some administrative services.
16. In the UK, platforms have in the past generally been funded by payments from product providers. These payments, commonly referred to as 'rebates' in the UK, are a proportion of the fund manager's annual management charge (AMC) paid by the retail client. As a result, many platforms (including those used via an advice process as well as D2C platforms) have been able to market their services at no explicit cost to the retail client. In contrast, some other

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<sup>8</sup> Typically, MiFID products include: collective investment schemes such as unit trusts, OEICs, investment trusts and exchange traded funds (ETFs). Non-MiFID products typically include personal pensions, individual savings accounts (ISAs) and insurance bonds.

types of platforms charge retail clients a separate fee for their services and any cash rebate is generally paid into the retail client's cash account<sup>9</sup>.

17. In recent years, there has been a significant increase in business transacted through platforms in the UK and this is expected to continue. The UK platforms market is the largest in Europe in terms of assets under administration (AuA)<sup>10</sup>. According to recent research<sup>11</sup> conducted on the UK platforms market, £229 billion of assets representing about 16% of total assets in the UK are currently held on platforms. The rate of growth of AuA on platforms in recent years has been significant, showing a compound annual growth rate of 16% between 2003 and 2011<sup>11</sup>. It is our understanding that in the UK, retail clients are more willing to make use of online or internet channels provided by platforms as a means of investing, whereas other markets with platforms appear to have a greater institutional focus.
18. The predicted growth in assets under management in the UK platforms industry together with the increasing usage of platforms by retail and professional clients in the UK underscores the importance of these services to the UK market.
19. Platforms are a key channel with respect to new business sales<sup>12</sup> in the UK retail investment market. Platforms are centrally positioned within the retail investment supply chain and, even where an adviser firm is also involved in a sale, provide services to and interface with retail clients, as well as advisers and product providers. There is significant potential for future growth in the UK platforms industry as a growing proportion of both new and legacy assets are migrated on to platforms. In this regard, the increasing need to ensure that both advised (where retail clients invest on a platform via an adviser) and direct channels (where retail clients invest without advice using D2C platforms) are brought in line with the client's best interests and inducements rules under MiFID, is demonstrated by their growing usage in the retail market in the UK. Consequently, we are concerned that the absence of equivalent rules restricting rebates in the platforms market could have the potential to pose significant risks to investor protection in relation to retail clients in the UK.

## **2. Requirements covered by this notification**

### **A – Requirement on platforms (both in advised and non-advised situations) to charge retail clients for their services (rather than accepting payments from third parties)**

20. Our new rules are designed to ensure that the platform is only remunerated through an explicit platform charge payable by the retail client for its platform service or any other related services. This will mean that the platform (and

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<sup>9</sup> Wrap platforms operate an account for the receipt of investments/premiums and investment income and to take fund discounts and platform charges and in future adviser charges.

<sup>10</sup> 'The European Platform Guide', The Platform, March 2012.

<sup>11</sup> 'Analysis of the introduction of rebate bans on the platforms market', by Deloitte, February 2012.

<sup>12</sup> Represented 41% of the total gross retail sales in Q3 2011, *Analysis of the introduction of rebate bans on the platforms market*, by Deloitte, February 2012.

any of its associates) will be prevented from accepting as remuneration a share of the AMC from the product provider. In this way, product providers will be less able to influence the distribution of retail investment products through platforms. A platform will be banned from receiving any remuneration other than platform charges payable by the retail client for its platform service<sup>13</sup>.

21. The need for this requirement is supported by our experience in the UK of platforms, which have been funded by rebates from product providers, tending to host only those retail investment products that pay a rebate. Other types of platforms tend to provide access to a wider range of investments (such as low cost, passively managed tracker funds) since they rely on explicit charges from the customer as their main source of revenue.

*Additional supporting requirements*

22. In order to achieve effective delivery of our policy, we are also introducing a number of supplementary rules on adviser firms and platforms. These are included in the notification for completeness but relate to the requirements discussed above.
23. We are introducing rules to ensure that an adviser firm cannot make a personal recommendation to a retail client in relation to a retail investment product if it knows or ought to know that the product charges offset its adviser charges (covered in our existing notification<sup>14</sup> to the Commission) and we are extending this to also cover the platform's charges. This would mean that an adviser firm in the UK is prohibited from making a personal recommendation in relation to a retail investment product if:
  - it knows or ought to know that the platform charges are presented in a way which offsets its adviser charges; and/or
  - the retail investment product charges are presented in a way that would offset the platform charges.
24. Also, in order to prevent firms circumventing our policy approach, we will ensure that an adviser firm cannot use a platform service provider in relation to a personal recommendation to a retail client unless it has satisfied itself that the relationship with the platform allows it to comply with requirements applicable to the adviser firm in the UK (i.e. the platform and its associates only receive remuneration for business carried on in the UK in line with these rules). This further strengthens the rules<sup>15</sup> we have introduced for adviser firms whereby adviser firms using platforms must take steps to ensure that this does not bias their selection of products for retail clients.

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<sup>13</sup> Our proposed rules will still allow platforms to charge product providers for a limited range of services that do not form part of the platform service to the retail client. These include rectifying pricing errors made by the fund managers, communications on corporate actions and the provision of management information to product providers.

<sup>14</sup> See footnote 1.

<sup>15</sup> According to this requirement, if an adviser firm uses a platform to arrange or make a personal recommendation to a retail client, it must take reasonable steps to ensure that it uses a platform service which presents its retail investment products without bias, in line with the client's best interest rule.

25. To reinforce the additional measures we are introducing for advisers in this area (mentioned above), we will also ensure that platforms are prevented from presenting their platform charges in a way that offsets any adviser charges which are payable by the retail client.
26. Given the increasing demand for explicit pricing models in the UK market, together with the availability of the 'clean'<sup>16</sup> or institutional share class by fund managers, we expect that UK adviser firms will be able to acquire this share class with relative ease from platforms, regardless of their geographical location, in order to comply with rules imposed on them in the UK.

**B – Prohibition on transactions where product charges are maintained at a level that could offset platform charges (in situations where no advice is provided), allowing a cash rebate to be paid**

27. Our new rules are designed to ensure that the platform's charges are not hidden or obscured by the rebates that platforms receive from product providers or other payments being made to retail clients. To deliver this, we are introducing an equivalent rule to prevent D2C platforms (where retail clients invest directly via a platform without using an adviser) from arranging for a retail client to buy a retail investment product where the product charges may appear to offset any platform charges that are payable. This means that we will stop D2C platforms from selling products where product charges or other payments are maintained at a level such that a cash rebate is payable to the retail client. Our rules will not prevent platforms from passing on discounts from product providers to retail clients in the form of additional units.
28. The way that retail clients generally pay for platforms indirectly through the product charge causes confusion over costs and hinders competition in the market. Since the retail client is unaware of the amount of money being paid or rebated to the platform by the product provider on their behalf, retail clients are unable to make a reasoned judgement about whether the platform is providing good value for money. Disclosure of rebates would not fully address these issues as it would not tackle the further problem of product bias whereby platforms are incentivised to offer, or promote in particular, those products that pay a rebate. This outcome is not in the best interests of retail clients as they face difficulty obtaining access to those products that do not pay rebates to platforms.

*In what way would the amended requirements be additional to those in the Level 2 Directive?*

29. The bans on platforms receiving payments from product providers (used on both an advised and non-advised basis) and rebates of product charges in cash to retail clients of D2C platforms are intended to amplify the MiFID requirements on client's best interests and inducements as set out in Article 19

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<sup>16</sup> The clean share price refers to those shares with no commission or rebate factored in, typically priced at 75bp in contrast to the retail share price of 150bp (which has adviser commission and the platform rebate built in).

of the Level 1 Directive and Article 26 of the Level 2 Directive respectively. These payments in their current form are not consistent with the intention of the inducement rules in the MiFID Level 2 Directive and can impair the ability of the platform to act in the best interests of its clients as provided in the MiFID Level 1 Directive.

30. Commission-type payments received by platforms have the potential to create product bias in the retail investment market. We are concerned that this potential for product bias will be amplified as both the intermediated and direct platform channels, which currently constitute an important route to market, continue to grow in significance for retail investors. It is important that we stop inappropriate inducements in this market.
31. Our policy of banning the receipt of rebates from product providers in the platform sector and rebates of product charges in cash to retail clients where these could be used to disguise the platform charge is needed to help secure the appropriate degree of protection for retail clients by helping to ensure that the client's best interest rule and the inducements rules under MiFID are met. This will help in ensuring that product providers are less able to influence distribution through platforms on both an advised and non-advised basis. To be clear, our rules would not prevent platforms from receiving a share of the product charge from a fund manager so long as the platform passes it on to the retail client in the form of additional units in the fund or in cash, provided that this does not appear to offset the adviser or platform charges.

*Specific risks to investor protection not adequately addressed by the Level 2 Directive*

32. Rebates in the platform market have the potential to obscure charges and maintain the potential for bias, restricting access and competition in the UK retail investment market. As a result, the way in which platforms are currently remunerated through rebates from product providers has the potential to restrict choice and influence the prominence of different products on a platform.
33. By allowing the industry practice of rebates to continue, product bias is likely to persist in the UK market, due to the continued ability of product providers to influence distribution by offering payments to platforms and rebate of product charges in cash to retail clients which can ultimately be used to pay for the charges of platforms. As a consequence, risks to investor protection are likely to arise.
34. The receipt of rebates by platforms from product providers and rebates of product charges in cash to retail clients can severely restrict market access to low cost investments that do not pay a rebate to the platform. Retail clients using platforms funded through payments from product providers have limited access to sometimes cheaper products that do not involve a rebate to the platform (such as passive low cost tracker funds and some investment trusts). Discussions we have conducted with UK fund managers confirm that those offering low cost funds without a rebate have difficulty or are unable to get access to platforms that are funded by rebates, in the case of both intermediated and D2C platforms. These payments therefore create barriers to

the distribution of low cost funds that do not pay rebates to the platform. Also, rebates in the platform market make it difficult for retail clients and their advisers to identify what services are being paid for and restrict the ability to compare different platforms.

35. Recent research<sup>11</sup> conducted into the platform market indicates that the typical customer AuA for intermediated platforms (where advice is provided) and D2C platforms (where no advice is provided) is approximately £38,000 and £32,000 respectively, which suggests that smaller investors (who might be expected to require access to low cost funds as part of their investment portfolio) use platforms as a route to market.
36. Given the predicted level of growth both in the advised and D2C platform market, together with the increasing reliance of UK retail clients on platforms, our rules in this area seek to address these specific risks relating to investor protection and market integrity as explained above.

*In what way are the risks of particular importance in the circumstances of the market structure in the UK?*

37. The increasing reliance of retail clients on platforms used via an advice process and D2C platforms in managing their investments is an important feature of the UK market structure. In this regard, the research on the UK platforms market suggests that rapid growth of AuA on platforms is likely to continue in the short to medium term. In the coming years, platforms are expected to be seen as an attractive channel through which retail clients can buy and manage retail investments both on an advised and non-advised basis. In the UK, the volumes of retail clients' AuA are concentrated on those platforms that are funded through payments from providers. Most assets are currently placed on platforms through adviser-led distribution. In Q2 2012, £190bn<sup>17</sup> of assets were held on advised platforms. Research reveals that platform penetration has grown, with approximately 80% to 85% of advisers now regularly using platforms. In Q3 2011 the AuA on D2C platforms was estimated to be approximately £73.2bn<sup>18</sup>.
38. In terms of the predicted industry growth, research<sup>11</sup> indicates that the AuA on advised platforms is expected to grow at a compound annual growth rate (CAGR) of 21% from 2011 to 2014. For the D2C platform sector, research indicates that the AuA is expected to grow at a CAGR of 71% from 2011 to 2014, over three times the rate of growth assumed for platforms used on an advised basis.
39. It is possible that the reforms introduced under the RDR have had some impact in encouraging the growth of the platforms market in the UK, as consumers become more aware of the cost of advice and the options that they face in either paying for advisory services or accessing investment products and services directly. The introduction of adviser charging is also expected to encourage retail investment business to be conducted through platforms

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<sup>17</sup> *The Adviser Platform Guide*, the Platorum, August 2012.

<sup>18</sup> *The Direct Platform Guide*, the Platorum, February 2012

because platforms can facilitate the collection and payment of adviser charges for clients. Consequently, we expect to see a strong trend towards both platforms used via an advice process and D2C platforms, as indicated by the research<sup>11</sup> into the platform market.

40. Platform services are a relatively new type of service that have recently emerged<sup>19</sup> on the UK retail investment landscape. Platforms used via an advice process which are funded through rebates continue to dominate the market and generally administer few non-commission generating products. As a consequence, there is no incentive for the platform to hold funds or other investments which do not, or cannot, pay them a fee.
41. The research<sup>20</sup> conducted into the interaction of retail clients with platforms indicates that retail clients are generally not aware of the costs or charges in relation to platform use. It found that few retail clients had a good understanding of how platforms are financed and the relationships between fund managers, platforms and advisers. It found that consumer understanding of charges was poor and few knew what the platform charge was. The research also found that retail clients using platforms on an advised basis are particularly lacking in awareness of the system of rebates from product providers to platforms and cash rebates to clients, with some expressing concerns about complexity and hidden charges. The research also found that some D2C platform clients believed that it was a free service.
42. These payments or rebates consequently result in a marketplace where retail clients cannot easily make price comparisons on charges levied between different platforms or between those products that are available on those platforms. This lack of comparability in turn hinders effective competition in the UK platform market. As a result, there appear to be limits on the extent to which retail clients are currently able to exercise informed choice, due to the industry practice of rebates.
43. In relation to the payment of cash rebates to retail clients using D2C platforms, the research suggests that the way in which retail clients habitually pay for D2C platforms (i.e. indirectly through the product charge rather than an explicit platform fee), hinders effective competition in the D2C platform market. Research<sup>11</sup> on platforms' business models indicates that D2C platforms have the highest effective charges per customer and that the implied costs associated with D2C platforms are substantially higher than platforms in the advised market. The research suggests that if retail clients pay an explicit fee, it is likely to lead to better engagement between the platform and the retail client, and as a result exert greater competitive pricing pressure on platforms (both in the advised and D2C market) to the benefit of the retail client.
44. D2C platforms provide a route for retail clients to directly access the retail investment market on a non-advised basis. Although retail clients are not

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<sup>19</sup> The first platform was introduced in the UK in 2000. Since then assets under administration (AuA) have grown substantially.

<sup>20</sup> *The platforms market: consumer interaction: Qualitative research to investigate consumer use and knowledge of platforms* by NMG, January 2012.

technically receiving advice when investing through a D2C platform, their decisions do tend to be influenced by the investment information provided by the platform. The consumer research conducted on retail clients' interaction with platforms indicates that retail clients make use of (and in some cases rely on) the fund and investment information, tools, research, hints and tips provided by the D2C platform for its clients. The consumer research also revealed that some D2C platform customers perceive that an additional layer of investment management is carried out by the platform, such as identifying best funds and providing investment expertise. So, whilst retail clients decide for themselves what funds to invest in, they can still be influenced by the manner in which the D2C platform presents and markets the funds available on the platform.

45. Within this context, the potential impact of product providers influencing distribution through platforms through the rebates received by platforms and retail clients is significant. Given the increasing role that both platforms used via an advice process and D2C platforms will continue to play in the retail distribution chain, it is essential that the client's best interest rule and inducements rules under MiFID are applied effectively in this market.

*Why is this approach proportionate?*

46. This approach recognises the concern that rebates received by platforms from product providers and rebates of the product charges in cash to retail clients using D2C platforms have the potential to obscure charges and distort retail clients' outcomes.
47. Disclosure would not adequately address the failures identified in relation to the platform market in the UK. This is because disclosure of rebates would not sufficiently tackle the problem of product bias in this market, as it does not solve the problem of access to products that do not pay a rebate to the platform. Disclosure alone is likely to be ineffective in bringing about the necessary changes in behaviour in the platform market.
48. We feel that our new rules are proportionate, as we have taken into consideration the nature of the UK platform market. Based on the findings of the research carried out into the platform market, we intend to give platforms sufficient time (approximately one year) to implement the changes to their business models for banning the receipt of rebates. In the case of D2C platforms, the research indicates that they appear to be able to bear the costs associated with the bans and currently have strong profitability, with some operating margins in excess of 50%.
49. Furthermore, the platform industry, including both intermediated and D2C platforms, already appears to be moving in the direction of our proposals, in preparation of our policy approach on rebates. Some platforms are introducing an explicit charging structure and are now featuring some low-cost tracker funds that do not pay rebates. The research<sup>11</sup> indicates that platforms are already making many of the changes that would be required by these proposals and any additional changes are manageable for firms. Our requirements in this area would therefore have the effect of catalysing the market in this direction.

This is supported by research findings which found that platforms were already making many of the changes required by this policy.

*Do the requirements restrict or otherwise affect the rights of investment firms under Articles 31 and 32 of Directive 2004/39/EC?*

50. As with our current notification under Article 4, these requirements would not restrict or otherwise affect the rights of investment firms under Articles 31 and 32 of the Level 1 Directive. This is because the FCA will not apply them to firms exercising rights under Article 31 and will only apply them to firms exercising rights under Article 32 in the circumstances contemplated in Article 32(7).