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Dear Chief Executive Officer,

## **The retention of interest earned on customers' cash balances**

Investment platforms and SIPP operators earn interest on the cash balances they hold for their customers. The amount of interest earned on customers' cash balances has increased substantially in the last 18 to 24 months because of rises in the Bank of England base rate. In the month of June 2023 alone, the 42 firms we recently surveyed who retain interest collectively earned £74.3m in revenue from this practice.

Firms are expected to have fully implemented the Consumer Duty (the Duty). They should do this by demonstrating adherence to the cross-cutting rules by acting in good faith, avoiding causing foreseeable harm, and enabling and supporting retail customers to pursue their financial objectives. Firms should also demonstrate that they are meeting the four outcomes of products and services that are fit for purpose, price and value, consumer understanding and consumer support. Based on the information we received in July 2023 from a sample of 42 investment platforms and SIPP operators, we are concerned that some firms' treatment of the interest earned on their customers' cash balances may not be in line with the Duty. We have set out below steps that firms need to take to ensure that firms' actions meet our expectations under the Duty. These steps are particularly important given the current interest rate environment.

Where we refer in this letter to cash balances, this includes client money balances for which firms have given their clients written notice to retain interest under CASS 7.11.32R as well as balances held on deposit via mandates and contractual arrangements<sup>1</sup>.

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<sup>1</sup> The concerns identified in this letter relate only to firms' treatment of cash balances held for retail clients and not to firms' arrangements with institutional or professional clients. This letter is also generally not relevant to ad-hoc arrangements concerning interest (for example, with ultra-high net worth customers).

## Our review

Based on the responses to our information request and ongoing engagement with firms, we have found that:

- The majority (71%) of our 42 sampled firms retain at least some of the interest they earn on customers' cash balances, between a range of 10% to 100%. On average they retain 50% of it.
- Of the platforms which retain interest, 61% also charge a platform fee on the customer cash they hold.
- There is a high degree of variance in the quality of disclosures made to consumers on the retention of interest: we found that information on this can be both difficult to find and difficult to understand.
- Firms offered several different justifications for why interest is retained. The two most prevalent were that retention of interest on cash was undertaken to cover the costs of managing cash, or to discourage long-term allocations of cash in platform accounts.
- Only 48% of sampled firms gave examples of actions they had taken in relation to the retention of interest because of Consumer Duty considerations.

## Key messages

- We expect firms to ensure that their retention of interest on cash balances provides fair value and is understood by consumers in line with the Consumer Duty, in particular the Duty outcomes of price and value and consumer understanding.
- Where firms retain interest on cash balances, we have concerns that they are not doing so in line with the cross-cutting rules and outcomes as set out below:
  - The high percentages of interest retained by some firms are not in line with customers' reasonable expectations, and as such are unlikely to amount to firms **acting in good faith**;
  - Retention of interest by firms is generally not providing **fair value** to consumers (for example, if it very significantly exceeds operational costs, where that is given as a justification for the retention);
  - It is not disclosed in a way that facilitates **consumer understanding** and may not meet the information needs of customers or is unlikely to be understood by the intended recipients, and as such does not equip them to make decisions that are effective, timely and properly informed; and
  - For the above reasons these practices may be causing **foreseeable harm** to customers.
- We also have serious concerns with the practice of some firms which both retain interest and take an account charge or fee on customers' cash ('double dipping'). This practice may be particularly likely to confuse consumers and we do not consider that it demonstrates that a firm is acting in good faith, that is honest, fair and open dealing, and acting consistently with the reasonable expectations of customers. These concerns about double dipping are in addition to the more general concerns about the level of retention of interest as outlined above.

## Our expectations

As set out above, we expect firms to ensure where they retain interest on cash balances that they do so in a way that delivers good outcomes in line with Principle 12 and PRIN 2A and meets the Consumer Duty outcomes, in particular of price and value and consumer understanding.

Our findings suggest firms can do much more to achieve that and as such we expect firms to:

- **Review their approach to the retention of interest** on customers' cash balances under the Duty **and take action** to address the concerns raised in this letter.
- Ensure that their approach to retention of interest **represents fair value** for the firm's customers.
  - Firms should consider any decision to retain a portion of the interest earned on customers' cash balances in their Fair Value Assessments<sup>2</sup>, including setting out how the retention of interest relates to the cost of managing the cash (and what that cost is and how it has evolved in recent years), how it benefits the customer, and any other relevant considerations.
  - Where firms state to consumers that the retention is to cover the cost of the cash management service, then our expectation is that firms ensure the amount retained is reasonable in light of the actual costs of providing this service.
- **Cease the practice of double-dipping.**
- **Review and update their terms and conditions as necessary**, to ensure the approach to the retention of interest on customers' cash balances is fair value to the customer, clearly and accurately reflected in the product documentation and related communications, and likely to be understood by customers.
- More generally, ensure their **communications** meet the rules under the consumer understanding outcome, in particular so:
  - customers can easily locate the information they need to make effective and properly informed decisions about their cash balances<sup>3</sup>, and
  - communications, including websites and literature, explain the firm's policy for retaining interest on customers' cash balances in a way that is clear, fair and not misleading<sup>4</sup>, and likely to be understood by the firm's retail customers.
- We expect firms to avoid foreseeable harm to consumers and ensure products and services are **designed** to meet the needs, characteristics, and objectives of retail customers for whom they are intended, including ensuring the design of the product or service does not adversely affect groups of retail customers in the relevant target market<sup>5</sup>.

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<sup>2</sup> PRIN 2A.4

<sup>3</sup> PRIN 2A.5.3R(1)

<sup>4</sup> PRIN 2A.5.3R(2)

<sup>5</sup> PRIN 2A.3.4R

- Where firms are holding large cash balances for retail consumers as client money, firms should consider, in particular, what communications with customers may be appropriate to discourage customers from holding large cash balances on the platform longer term (for example, firms may want to consider their approach to inform customers of the protection limits provided by the Financial Services Compensation Scheme)<sup>6</sup>.

We want firms to consider the above promptly and expect to see significant and timely changes in practice across the market as a result of this letter.

### Next steps

Investment platforms and SIPP operators should review their approaches to meet our expectations, as set out above and provide us with confirmation that they have done so along with the following information:

- Confirmation that the firm has ceased or will cease **double dipping** (where they were previously charging fees for holding cash while retaining interest earned on customers' cash).
- Confirmation of any **changes** the firm has made or intends to make to the rate of retention of interest on customer cash balances.
- Confirmation that the firm has revisited their **Fair Value Assessment** in line with the obligations set out in PRIN 2A.4 and is prepared to provide this assessment to the FCA on request.
- Evidence of any improvements to **disclosures**, including website and customer literature, regarding the retention of cash interest on customers' cash balances, which the firm has implemented as a response to this letter.
- A copy of the section of the firm's **terms and conditions** that outlines the treatment on interest on customer cash balances. Where these terms assert that the interest retained is designed to cover operational costs, the firm should provide an explanation to the FCA of how they have calculated what an appropriate amount of retained interest is to reasonably reflect these costs.
- If the firm believes their practices are already compliant with the Consumer Duty and as such the firm does not intend to make any changes further to this letter, confirmation of the reasons why not, with supporting evidence demonstrating compliance with the relevant Consumer Duty requirements.

We will review the responses from firms and take further action as is necessary to ensure consumer protection and support good outcomes.

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<sup>6</sup> These risks include delay in the recovery of client money subject to insolvency costs and, in the case of a bank failure, a client may find that they are owed more than the compensation limit of £85,000 across all their protected deposits with that bank and may suffer a shortfall in recovery. These risks relate, respectively, to primary pooling events under [CASS 7A.2](#) and secondary pooling events under [CASS 7A.3](#).

We expect firms to provide us with the confirmations and information requested above by **close of business on 31 January 2024** and to have made the corresponding changes **by close of business on 29 February 2024**.

Where we find responses and reviews that have not been as thorough as we would expect, and firms are unable to demonstrate they are meeting expectations under the Duty, particularly for fair value and consumer understanding, we will take appropriate action.

Our expectations and next steps above apply to all investment platforms and SIPP operators in receipt of this letter. Other consumer investment firms with comparable business models who hold uninvested cash that belongs to retail customers should also consider the expectations set out in this letter and take appropriate action.

If you have questions or require clarifications regarding the content of this letter, please contact the Investment Platforms supervision team ([InvestmentPlatformsTeam@fca.org.uk](mailto:InvestmentPlatformsTeam@fca.org.uk)).

Yours sincerely

Sheldon Mills

**Executive Director of Consumers & Competition**