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August 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

2 July 2021

Portfolio strategy letter: investment-based crowdfunding

Dear CEO,

We previously wrote to all investment-based crowdfunding (IBCF) firms in February 2020 setting out our concerns and expectations for the IBCF market. We are now writing to you as we believe your firm is active in the IBCF market. If that is not the case, we expect you to apply to us to remove permissions no longer required, or apply to cancel when no regulated activities are being undertaken.

Our objective is to ensure crowdfunding firms promote investment opportunities appropriately so that consumers can understand the risks these speculative and high-risk investments pose. This mitigates the risk of inappropriate investments and reduces the risk of unexpected losses, as highlighted in the FCA's Call for Input on Consumer Investment, published in September 2020. We also want to ensure that, in the event of failure, a firm can wind down in an orderly manner by having an effective wind down plan and holding adequate financial resources.

As CEO, you are responsible for the conduct of your firm as a whole. We expect you to ensure that there is clear accountability within your senior management team for addressing the issues set out in this letter and, where relevant, sharing the contents of this letter with any of your Appointed Representatives.

We see the use of high-quality data as fundamental to our regulatory strategy and we expect you to maintain appropriate systems and controls to facilitate the production and reporting of high-quality data on a timely basis.

The remainder of this letter provides an update to you on our view of the key risks we see in this market, our expectations of you and a summary of the work we intend to do.

Inappropriate investments

Our view of the risks

- Advances in technology have made investing more accessible and we are concerned that despite our existing marketing restrictions, too many consumers are still investing in inappropriate high-risk investments which do not meet their needs.
- Our rules on client categorisation (as 'restricted', 'high net worth' or 'sophisticated' investor) play a key role in protecting consumers. We are concerned that too many consumers simply 'click through' this process, without sufficient verification by firms, and do not understand the risks of how they have been categorised.
- We are also concerned that consumers may be holding more than 10% of their investment portfolio in these high risk and speculative investments which could pose a significant risk of harm. This is because holding more than 10% is unlikely to be in the customers' best interests.

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What we expect you to do

- It is important that your customers understand the risks they will be exposed to by the investments your firm promotes and the risks from how they have been categorised by your firm. Before your customers decide to invest, your firm must ask them to provide information regarding their knowledge and experience, categorise the investor and assess whether the investment opportunity offered is appropriate for them. In order to do this, you must consider the nature and risks of the investments offered and disclose relevant, accurate information to investors so that they can make an informed investment decision. You should maintain records of client categorisations and other key information used to assess whether the investment opportunity is appropriate.
- We additionally expect your firm to make it clear to potential investors what analysis and due diligence has been undertaken on the underlying recipients of the funding so that investors can determine how much extra work they might need to do before deciding whether to invest.
- You must be mindful of conflicts of interest between businesses who are raising money and consumers investing money, as well as potential conflicts between your own interests and those of your clients. We expect your firm to treat customers on both sides of the investment fairly. If conflicts of interest cannot be managed or avoided, they must be clearly disclosed to investors so they can assess whether they wish to continue investing. Please review the rules and guidance in our Handbook regarding identifying and managing conflicts of interest, specifically the FCA's Conduct of Business (COB) rules 7.1 and Principle 8 of our Principles for Businesses.
- You must take reasonable steps to reduce the risk that investors hold more than 10% of their portfolio in this type of high risk and speculative investment as this is not likely to be in their best interests.

What we will do

- We will undertake monitoring of your firm's activities and as the Chief Executive Officer, we will be holding you and the firm's other Senior Management Function holders accountable for your firm's actions when our expectations have not been met.
- We are considering how to strengthen our rules on the promotion of high-risk investments to address the harms we see. Please refer to our recently published discussion paper which provides further details, DP 21/1: https://www.fca.org.uk/publications/discussion-papers/dp21-1-strengthening-financial-promotion-rules-high-risk-investments-firms-approving-financial-promotions

Scams

Our view of the risks

- Retail investors may be at risk of exposure to fraud and investment scams when using crowdfunding platforms, for example due to inadequate due diligence when hosting investments and approving financial promotions.
- There is also a risk that poor cyber controls result in client data being lost or stolen and subsequently being used to defraud individuals.

What we expect you to do

- We expect your firm to understand the risks present in its business model and to have in place appropriate safeguards to ensure that you act in accordance with consumers' best interests when you host and promote offers on your platform. For

example, you must ensure that your firm does not promote scams or inappropriate investments by conducting thorough due diligence procedures.
- We also expect you to educate your consumers about the risk of fraud and scams.
- To minimise the risk of loss from cyber-attacks or other events which result in data loss, you should ensure your firm maintains a high standard of operational resilience. This includes having robust and effective data infrastructure and cyber controls. You can find further details regarding operational resilience on our website, which you should take account of: https://www.fca.org.uk/firms/operational-resilience

What we will do

- As noted above, we will monitor the activities of your firm on an ongoing basis to assess whether our expectations on scam prevention have been met, and we are considering strengthening our financial promotions rules through our recently published discussion paper, DP 21/1.
- In instances when we identify that your firm is not using all or part of its permissions, and you have not proactively updated these, we will ask you to apply to cancel its authorisation or vary its permissions. If you do not act, we will consider using our own initiative powers to do this. Further details can be found on our website: https://www.fca.org.uk/news/press-releases/fca-clamps-down-consumer-investment-harm

Appointed Representatives oversight

Our view of the risks

- We are concerned that consumers may be inappropriately exposed to high-risk investments, fraud, and scams due to inadequate oversight by firms of the activities of their Appointed Representatives.

What we expect you to do

- As the Chief Executive we expect you to understand your responsibilities and accountability for the actions and conduct of your firm's Appointed Representatives and ensure your firm has robust systems and controls for oversight of their activities.

What we will do

- We will be seeking assurances from the Chief Executives of firms with, or seeking to appoint, Appointed Representatives that they have robust systems and controls to oversee the activities of their Appointed Representatives.
- We have concluded that we need to do further work to address the harms. We have recently consulted on introducing a new flat fee of £250 per Appointed Representative to fund this additional work. You can find further details in CP21/8: https://www.fca.org.uk/publications/consultation-papers/cp21-8-fca-regulated-fees-levies-rates-proposals-2021-22

Disorderly firm failure

Our view of the risks

- We are concerned that as IBCF firms are predominately loss making, there is a risk that firms fail in a disorderly way, and this leads to consumer harms, including the loss of client assets.

What we expect you to do

- You should have a good understanding of the firm's regulatory capital requirements and reporting requirements including, where applicable, the potential liabilities and

risks associated with Appointed Representatives. Please refer to our published guidance, FG20/1, which sets out our approach to the assessment of adequate financial resources, for all FCA solo-regulated firms subject to threshold conditions and/or the Principles for Businesses (PRIN): https://www.fca.org.uk/publications/finalised-guidance/fg20-1-assessing-adequate-financial-resources

- You should undertake regular reviews of the adequacy of your firm's capital and liquidity to ensure that your firm always has enough capital and liquidity for its future needs. You should proactively engage with us as soon as possible when emerging liquidity or capital risks are identified in your business, in order that we can work with you to minimise consumer harm, should those liquidity risks crystallise.
- You should ensure your firm has a winddown plan that is credible and includes appropriate and timely triggers for implementation, together with a realistic timeframe and cost estimate for achieving the wind down. Please refer to our Wind-Down Planning Guide for further details: https://www.handbook.fca.org.uk/handbook/WDPG.pdf.

What we will do

- We will undertake monitoring of your firm's capital and liquidity and, as the Chief Executive, we will hold you and the firm's other Senior Management Function holders accountable for your firm's actions when our expectations are not met.
- Our identification process will involve an increased use of data which we will gather directly from you and other sources available to us, and we will engage with you to understand the risk of harm from your firm's business model and any planned changes to it.

Next steps

As noted in our letter of 10 February 2020, you are responsible for ensuring that your firm meets FCA requirements, including the obligations and expectations set out above, and should take all necessary actions to ensure these are met. We will use the Senior Managers and Certification Regime (SM&CR), which applied to IBCF platforms from 9 December 2019, to engage directly with accountable individuals on areas of concern.

Should you have any queries please contact our Supervision Hub on 0300 500 0597. This is the primary point of contact for your firm's day-to-day interactions with the FCA, and further details of how we can be reached are available on our website.

We also recognise that there may be times when your firm faces urgent issues of strategic importance. In such significant circumstances, please contact the Head of Department for Investment Intermediaries and Scams, Nick McGruer on 0131 301 2117 or at Nick.McGruer@fca.org.uk.

Yours sincerely,

Debbie Gupta

Director of Consumer Investments Supervision

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