Chapter 10

Appropriateness (for non-advised services) (non-MiFID and non-insurance-based investment products provisions)

Assessing appropriateness: non-readily realisable securities

This Annex belongs to ■ COBS 10.2.9G(1)(a) and ■ COBS 10A.2.11G.

When determining whether a *retail client* has the necessary knowledge to understand the risks involved in relation to a *non-readily realisable security*, a *firm* should consider asking the *client* questions that cover, at least, the following matters:

(1) the nature of the *client's* contractual relationship with the *issuer* and any underlying beneficiaries of the investment;

(2) the possibility that the *client* could lose all the money they invest;

(3) the risk of failure of the *issuer* and the associated risk of losing all of the money invested;

(4) the regulated status of the investment activity, including that the issuance of *securities* does not ordinarily involve *regulated activity* and the implications in relation to *FCA* regulation;

(5) the extent to which the protection of the *Financial Ombudsman Service* or *FSCS* apply to the investment activity (including the fact that these services do not protect investors against poor investment performance and that the *Financial Ombudsman Service* cannot ordinarily consider complaints in relation to *unauthorised persons*);

(6) the potential illiquidity of *non-readily realisable securities* (including the unlikelihood or impossibility that the *client* will be able to sell the *security* and the nature of the mechanisms through which the *client* could be paid their money back);

(7) the risk to any management and administration of the *client's* investment in the event of the *issuer* becoming insolvent or otherwise failing;

(8) the role of the *issuer* (including its role in assessing and making underlying investments);

(9) that where a *security* is held in an *innovative finance ISA* (IFISA), this does not reduce the risk of the *security* or otherwise protect the *client* from the risk of losing their money;

(10) the benefits of diversification and that *retail clients* should not generally invest more than 10% of their net assets in *restricted mass market investments*;

(11) where the security is a *share*:

(a) the likelihood of dividend payments;

(b) the risk of dilution from further issues of *shares* and the implications for the value of the *security*; and

(c) the risk of any further issues of *shares* granting preferential rights that negatively impact existing investors and the implications for the value of the *security*;

(12) where the *security* is a *debenture*:

(a) the *client's* exposure to the credit risk of the *issuer*;

(b) that investing in a *debenture* is not comparable to depositing money in a savings account; and

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(c) that returns may vary over time; and

(13) where an investment in a *non-readily realisable security* is, or is to be, *arranged* by a *firm*:

(a) the nature of the *client's* contractual relationships with the *firm*;

(b) the role of the *firm* and the scope of the service it provides to *clients* (including the extent of the due diligence that the *firm* undertakes in relation to the *securities* that it distributes); and

(c) the risk to any management and administration of the *client's* investment in the event of the *firm* becoming insolvent or otherwise failing.