

FCA firms authorisation guide

2024



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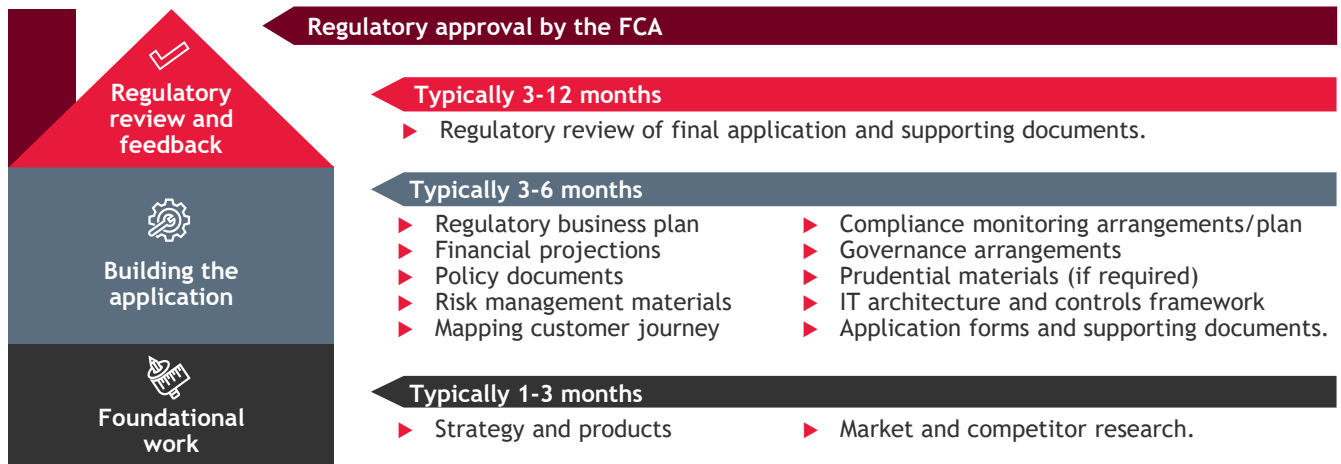
Introduction

Over the past decade, an ever-expanding range of firms and products have been brought under the purview of the Financial Conduct Authority ('FCA'). For all firms supervised only by the FCA (commonly referred to as 'solo regulated' firms) the complexity of applicable regulations and the degree of regulatory scrutiny associated with becoming authorised has increased over time.

This guide outlines:

- ▶ Types of FCA authorisation
- ▶ The FCA's approach to authorising most solo regulated firms carrying out regulated activities in the UK
- ▶ The common challenges and pitfalls (and how to avoid them) in authorisation projects
- ▶ How BDO's dedicated team can support you on your application journey.

Regardless of the type of licence sought, building a successful application is a multi-stage process. Much like building a house, it requires foundational work to demonstrate that the proposition is both credible and viable as well as conforming to regulatory requirements. This is followed by work to produce the range of materials to be provided to the regulators for them to determine whether authorisation should be granted. The following graphic summarises the process with detail of each of these stages set out on the following pages.



Types of regulated businesses

Depending on the nature of the products and services that your firm proposes to offer UK customers, there is a degree of variability in terms of the type of regulated activities you need to apply for to obtain either a Part 4A or Part 4B Permission (which of these depends on the nature of activities planned). The most common types of firms and therefore authorisation sought are shown below.

The adjacent table is not exhaustive and other types of authorisations/registrations are available for less common types of regulated business such as the registration of Cryptocurrency business and trading platforms. In the future, there will be further additions of types of businesses within regulatory perimeter such as Crypto asset firms themselves and Buy Now, Pay Later platforms.

For many potential applicants, it may seem obvious what type of authorisation for regulated activities is required. However, obtaining a formal legal opinion to confirm the exact set of regulated activities to be applied for, can save time and effort later in the process. It can also provide both investors and management with additional insight into any 'swing factors' (different approaches/ services considered which may directly impact the nature of license required) before embarking on the application journey.

Grouping	Business types caught (non-exhaustive)	Grouping	Business types caught (non-exhaustive)
Investment firms	<ul style="list-style-type: none"> ▶ Asset/investment wealth management ▶ Fund management ▶ Wholesale trading firms (i.e. equities trading, market liquidity providers) ▶ Commodity dealing firms ▶ Corporate finance firms ▶ CFD/Spreadbetting firms. 	Consumer credit firms	<ul style="list-style-type: none"> ▶ Short term-high cost lending ▶ Personal loan providers ▶ Credit card providers (non-bank) ▶ Peer to peer lenders ▶ Pawnbrokers ▶ Motor finance providers and other hire purchase ▶ Debt advisors/counselling firms ▶ Credit reference agencies and credit information service providers.
Payment services	<ul style="list-style-type: none"> ▶ Money remitters ▶ Non-bank credit card issuers ▶ Merchant acquirers (i.e. payment card intermediaries) ▶ Account information service providers ▶ Executors of payment transactions. 	Benchmark firms	<ul style="list-style-type: none"> ▶ Benchmark and index administrators ▶ Data inputters to support a recognised benchmark ▶ Market data providers which include the provision of a recognised benchmark ▶ Issuers of products that reference a recognised index.
Mortgages and home finance providers	<ul style="list-style-type: none"> ▶ (Non-bank) mortgage and home finance lenders ▶ (Non-bank) commercial property finance lenders. 	Pension and life insurance*	<ul style="list-style-type: none"> ▶ Administrators to pension schemes ▶ Advisors to pension schemes ▶ Life insurance sale and distributors ▶ Life insurance advisors.
Insurance providers*	<ul style="list-style-type: none"> ▶ Sales and distributors of insurance products ▶ Insurance brokers and those that advise on insurance products. 	Electronic money	<ul style="list-style-type: none"> ▶ Issuers of electronic money ▶ Issuers and administrators of prepaid payment cards ▶ Issuers of any digital pre-paid stored value.

*Note: Underwriting of General or Life Insurance requires authorisation from the PRA.



Foundational work

Before approaching the FCA, it is critical to ensure three aspects of the prospective application are appropriately developed and clear.

- ▶ The set of planned products and services; their channel to market; the target customer segment; and evidence of demand in the market for these (e.g. size of addressable market; your USP; and competitor analysis)
- ▶ Commercial viability of the planned business based on clear assumptions (e.g. pricing, margins, and customer numbers) underpinning financial projections over a three-year horizon (balance sheet and P&L)
- ▶ The Target Operating Model ('TOM'); how will the planned business be organised in terms of governance, risk management and general organisational structure.

These would typically be explained in a Regulatory Business Plan ('RBP') submitted to the FCA as part of the application.

For those already operating an unregulated financial services business, it is often helpful to conduct a gap analysis of the TOM against the required regulatory and operational requirements needed to accommodate the proposed regulated activities (including its documentary underpinning through policies and frameworks already in place). This provides clarity as to any gaps in current arrangements relative to the future planned state, which in turn will help build a robust project plan to build the operational foundations alongside the application process.



Foundational work

Definition of business model

Should define:

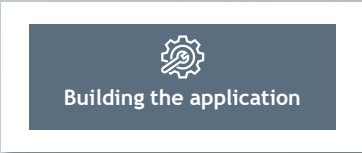
- ▶ Strategy
- ▶ Products and services to be offered
- ▶ High level financial projections
- ▶ Customers and market research/evidence of demand
- ▶ USPs/competitive advantages of proposition.

Regulatory permissions assessment

Should:

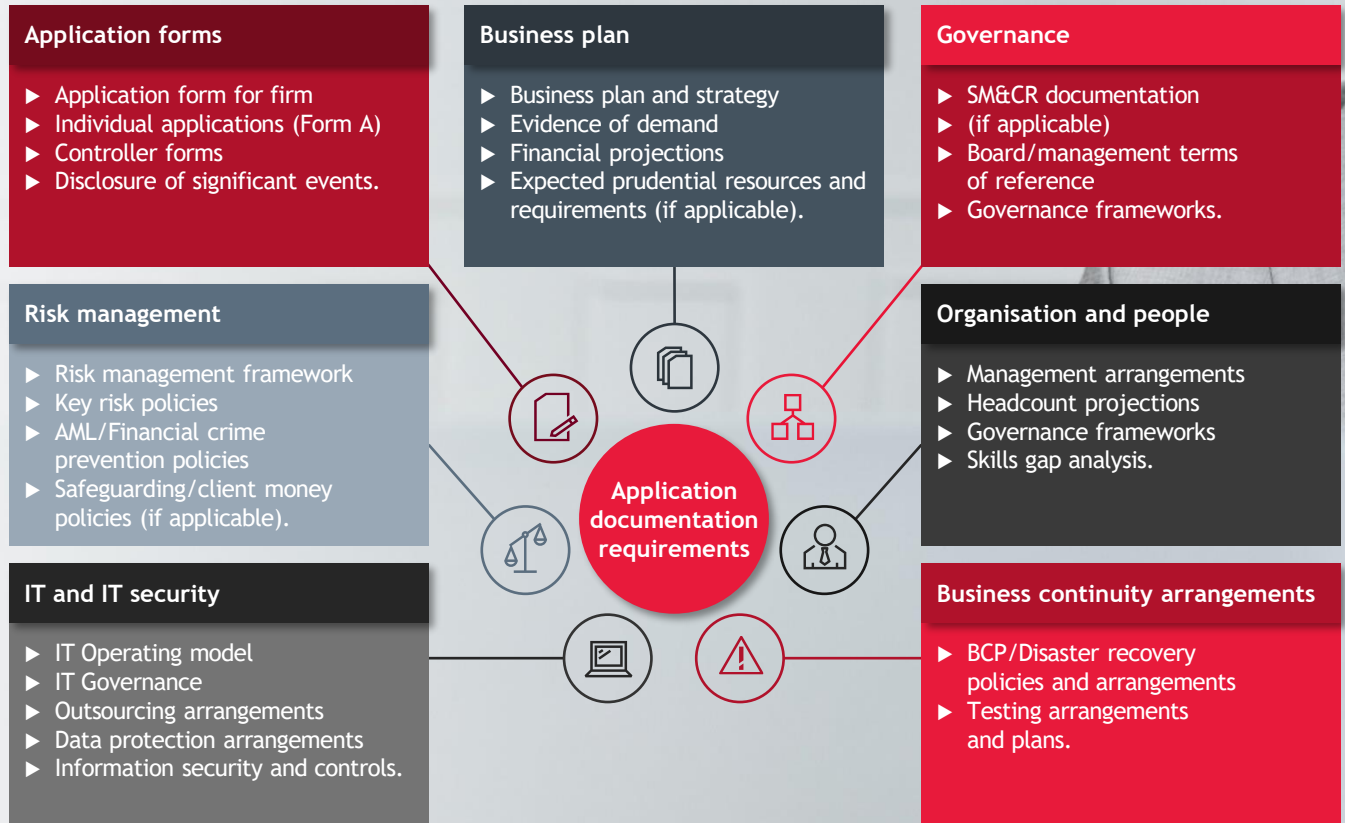
- ▶ Ensure correct regulated activities and customer types are selected
- ▶ Validate these with external professional input
- ▶ Confirm type of application required.





Building the application

Depending on the type of regulated activities applied for, the exact range of supporting documentation required will vary. The following diagram illustrates the broad groups of documentation typically expected in applying to the FCA:

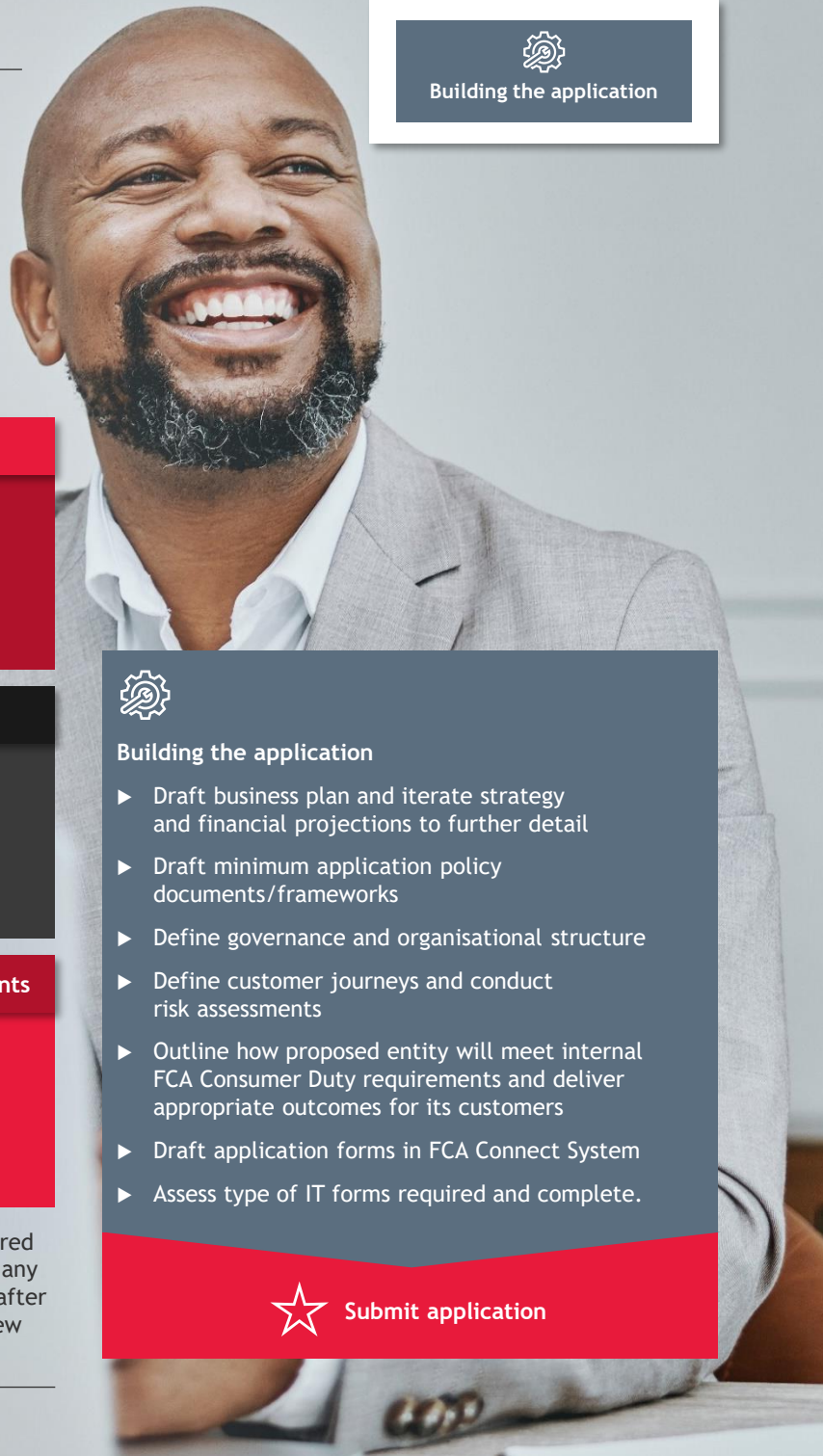


Note: While the relevant [FCA Application Form](#) for your required authorisation type sets out the documentation required to support the application, it is the FCA’s prerogative to ask for additional information to enable them to assess fully any applicant’s preparedness to launch a regulated business in the UK. Also, some documents needed to run the business after authorisation, such as policy documents must be ready at the point of launch although may not be requested for review by the regulator. Typically requests for additional information will be made during the FCA’s review period.

Building the application

- ▶ Draft business plan and iterate strategy and financial projections to further detail
- ▶ Draft minimum application policy documents/frameworks
- ▶ Define governance and organisational structure
- ▶ Define customer journeys and conduct risk assessments
- ▶ Outline how proposed entity will meet internal FCA Consumer Duty requirements and deliver appropriate outcomes for its customers
- ▶ Draft application forms in FCA Connect System
- ▶ Assess type of IT forms required and complete.

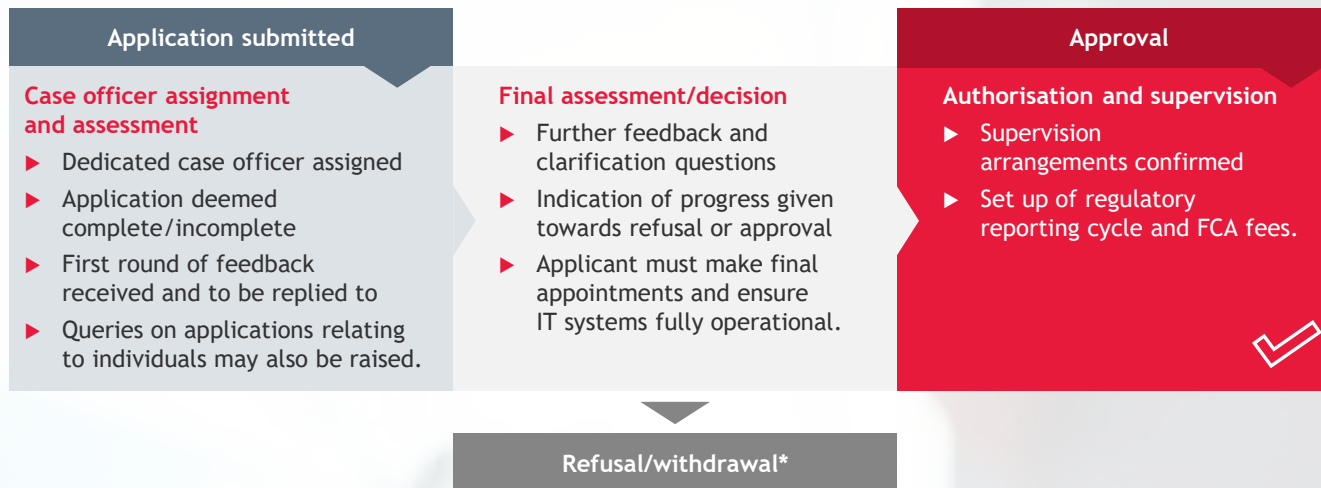
Submit application





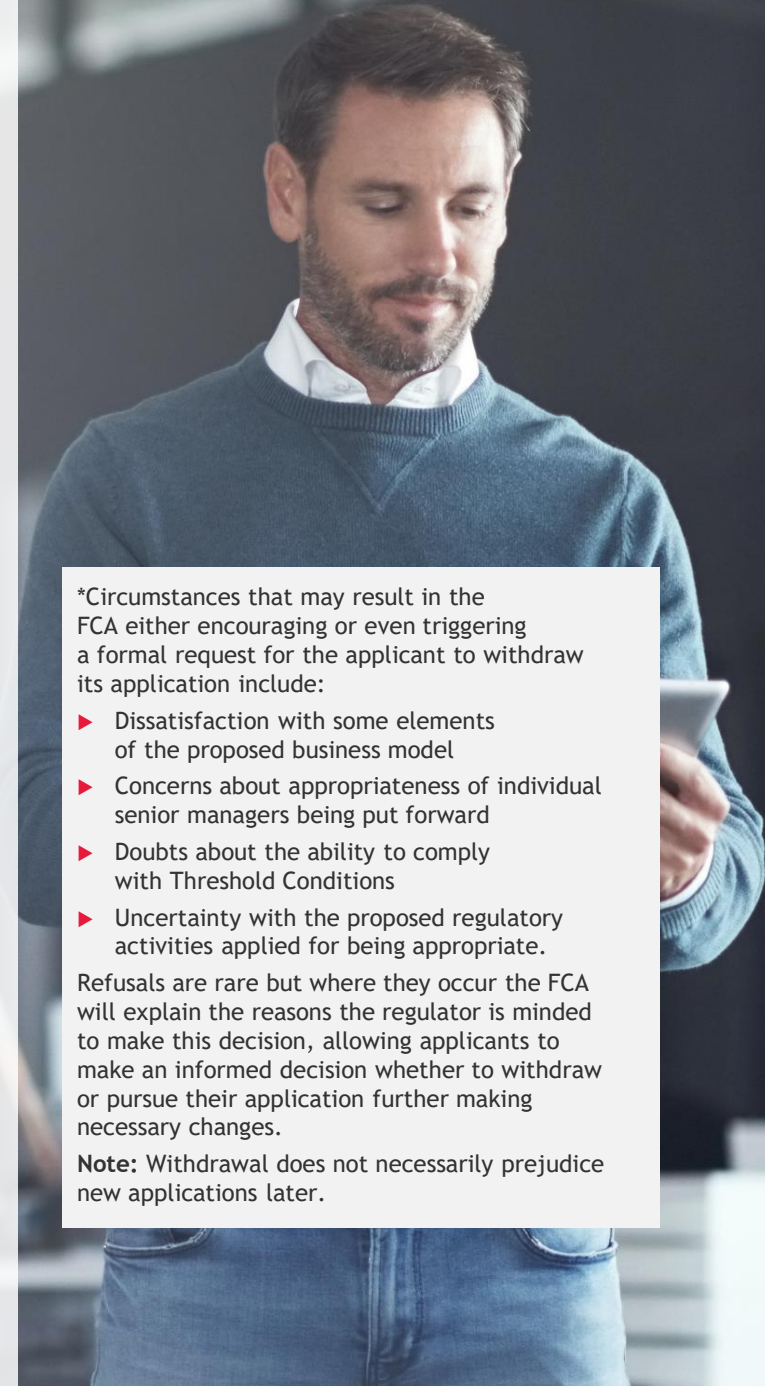
Submission, review and approval

Becoming authorised requires applicants to demonstrate not only a clear understanding of the regulatory obligations arising from their planned business, but also how regulatory requirements and Threshold Conditions will be met from day one of operating as a regulated business and on an ongoing basis thereafter. **Threshold Conditions** cover aspects such as place of business being in the UK as is the ‘mind and management’ of the firm, the nature of its controllers and the FCA being satisfied that the firm will be able to be supervised by it. Only when the aforementioned preparatory steps have been completed and the associated supporting materials been fully developed (and challenged/approved through your internal governance arrangements), should an application be submitted. An overview of the process is shown below.



Once an application has been submitted, the FCA will appoint a case officer who will be responsible for the review of the application and for the correspondence with the applicant during the review period. The time this appointment takes can vary significantly (timelines of between two weeks and up to three months, or in some cases more has been observed). Once allocated, the FCA has six months to reach a conclusion on the application (if deemed complete) and more complex applications will often utilise the 12-month statutory timeframe (for an incomplete application).

The assessment timeframe and associated volume of queries by the FCA will be impacted by a range of factors, including: the complexity of the application; the need for further information and later on in the process and; relevant evidence needed for the applicant to demonstrate they are able to commence regulated business.



*Circumstances that may result in the FCA either encouraging or even triggering a formal request for the applicant to withdraw its application include:

- ▶ Dissatisfaction with some elements of the proposed business model
- ▶ Concerns about appropriateness of individual senior managers being put forward
- ▶ Doubts about the ability to comply with Threshold Conditions
- ▶ Uncertainty with the proposed regulatory activities applied for being appropriate.

Refusals are rare but where they occur the FCA will explain the reasons the regulator is minded to make this decision, allowing applicants to make an informed decision whether to withdraw or pursue their application further making necessary changes.

Note: Withdrawal does not necessarily prejudice new applications later.

Additional food for thought

Application preparation - what else is required?



Senior Managers and Certification Regime

Many authorised firms are required to comply with the Senior Managers and Certification Regime ('SM&CR'). This requires individuals appointed to take on specific senior roles within firms being assessed as both fit and proper by the applicant firm and by the FCA before being able to undertake their roles. These roles are known as Senior Manager Functions ('SMFs') and depending on the type of firm and the size, nature and complexity of the planned operations different roles are caught as SMFs under the SM&CR (e.g. Chairperson of the Board; Chief Executive Officer; and Head of Compliance). In addition, those members of staff who interact directly with customers and are therefore potentially able to cause 'significant harm' (if acting inappropriately/ incompetently) must also be Certified as 'Fit and Proper', although only by the applicant firm. All Certified Persons are registered with the FCA and included on the FCA's Directory of Certified and Assessed Persons.

Once captured in the regime, a range of ongoing obligations arise for the firm and the individuals designated as SMFs and Certified Persons. The application of SM&CR comes with it the burden of ensuring that SMFs have a clear and consistent approach to recording the 'reasonable steps' that they take to ensure comfort with their Prescribed Responsibilities (also designated by the FCA), and to demonstrate competent discharging of their responsibilities.



Consumer Duty

All applicants operating in the retail sector who either directly interface with retail consumers, or have a material influence or determine consumer outcomes, will also need to comply with FCA's Consumer Duty upon authorisation. The Duty sets out overarching standards, requirements and guidance relating to how firms are expected to consider the needs and objectives of their customers. This replaces the Principle for Treating Customers Fairly for retail consumers with a new Principle 12, 'a firm must act to deliver good outcomes for retail consumers', which imposes a higher and broader standard than previously. The Consumer Duty has four focus areas for delivering and evidencing good customer outcomes with increased focus on products and services, providing fair value, consumer understanding and ongoing provision of consumer support.

The FCA has been clear that it expects those preparing applications to become authorised to consider carefully how they will meet the objectives and requirements of the Duty. In particular, applicants should consider how they will achieve good customer outcomes wherever they are in the value chain (i.e. distributing such as when selling a manufacturer's product, providing advice which will lead to a sale of a product created outside the firm, or providing a service such as administration). Therefore, any documentation prepared as part of an application (e.g. RBPs and policies/frameworks focused on customer-facing processes) should clearly articulate how the Duty will be met and the outcomes and remediation should things go wrong be monitored to support continuous improvement.)



How can BDO help?

Based on our extensive experience of supporting successful applicants, BDO offers a structured and bespoke approach to ensure an exact match to your needs and requirements at all stages of the regulatory process. For the purposes of synergies, our support is grouped into thematic modules which are in turn, supported by deep insight of regulatory expectations, the application process itself and the elements that are common to successful applications. In addition, we also provide high quality project management to tie the project together overall.

Importantly, our approach is driven by your needs during the application journey. So for example, should the nature of support you require change as you progress deeper into the process, we can adjust the level of our support on any element of our project accordingly.

BDO's regulatory applications team has extensive experience of handling different types of applications and client needs, ranging from piecemeal 'on-demand' support through to full hands-on drafting support to create first drafts of key materials required. We therefore offer three levels of support reflecting this reality.



On-Demand

Occasional support as required with targeted review/challenge on documents and input on regulatory correspondence.



Hybrid

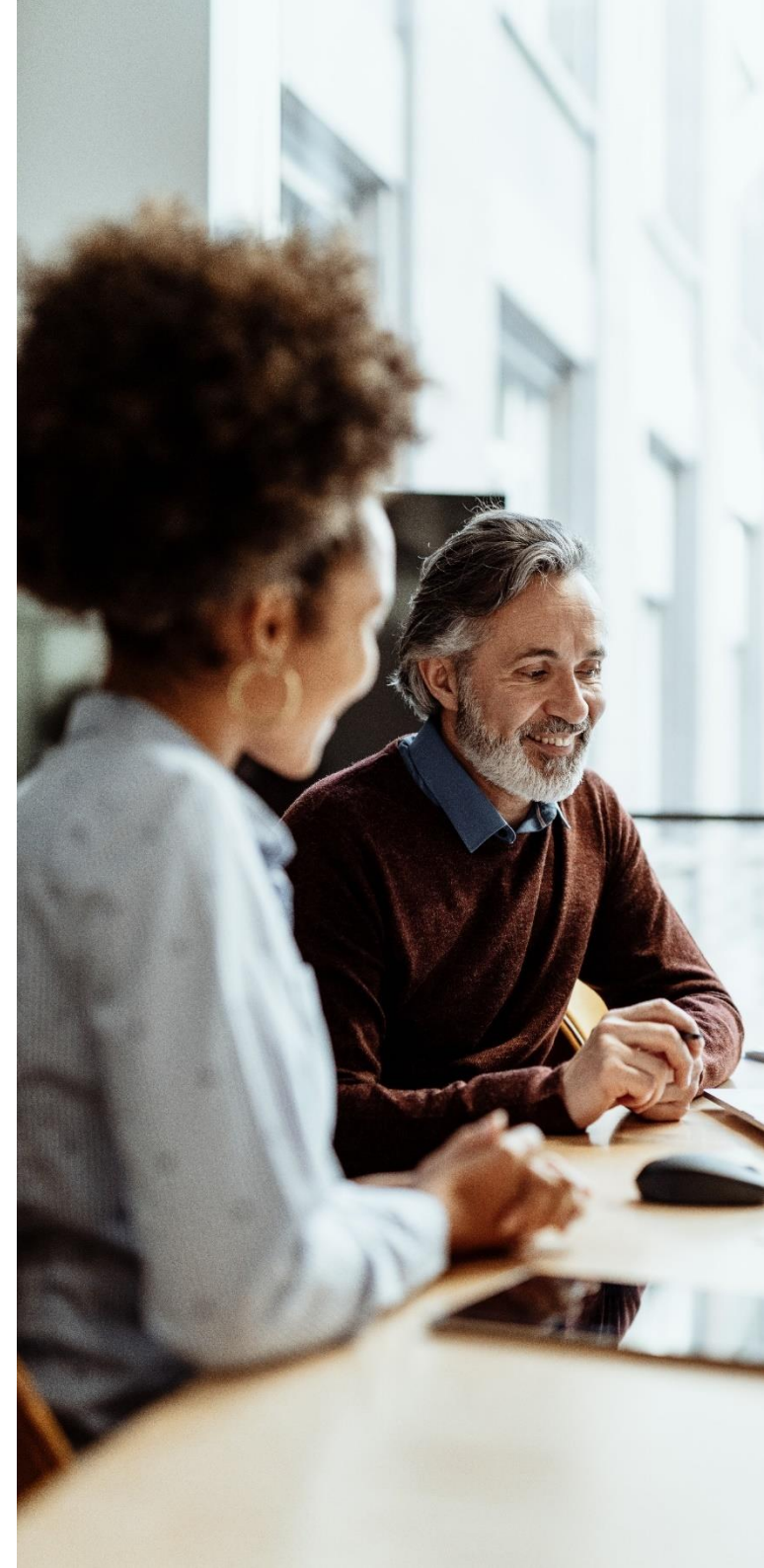
Review/challenge support as per the On-Demand option, combined with more targeted 'hands on' drafting assistance.



Enhanced

Full drafting support across most documents, with BDO providing first drafts and subsequent updates as the application progresses.

BDO has been helping clients successfully become authorised by the FCA for over a decade. As part of this the members of our dedicated team, both at BDO and across their wider careers, have supported a large number of solo regulated firms get authorised, including payment and e-money firms; wealth and asset managers; insurance brokers; wholesale and retail investment firms, funeral plan providers, principals operating appointed representative networks and consumer credit firms.



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