

FINANCIAL REGULATORY QUICK START GUIDE

KEY OBLIGATIONS FOR UK AUTHORISED FIRMS

Once authorised, financial services firms in the UK must comply with various regulatory obligations on a continuing basis. In particular, they must be familiar with, and abide by, the rules set out in the FCA Handbook (and PRA Rulebook, if applicable).

THRESHOLD CONDITIONS

Firms must comply with the Threshold Conditions on an ongoing basis. The Threshold Conditions relate to matters such as the firm being capable of effective supervision, the firm having appropriate financial and non-financial resources, the firm being fit and proper in all the circumstances, and the firm's business model being suitable for the activities it carries on.

Although they are gateway requirements to becoming authorised, firms must also ensure they meet the Threshold Conditions on an ongoing basis. A firm that fails to meet the Threshold Conditions risks having its authorisation removed.

PRINCIPLES FOR BUSINESSES

Firms are required to abide by eleven core high-level principles (set out overleaf).

These are basic standards for firms, which sit above the more detailed and granular regulatory rules. Even if a firm complies with the letter of all relevant rules, it may still be found to

be in breach of one or more of the Principles, and enforcement action may be pursued.

This means that the regulator can, and often does, discipline firms where there is no technical rule breach, but when the behaviour in question is not of the standard expected as it does not comply with the Principles.

SYSTEMS AND CONTROLS

There are a variety of systems and controls arrangements that firms are required to have in place.

These cover a range of areas, such as:

- General organisational requirements and how responsibilities are apportioned within the firm
- Employing personnel with appropriate skills, knowledge, and expertise
- Arrangements relating to compliance, internal audit, and financial crime
- Requirements relating to outsourcing
- General rules on record-keeping
- Prevention and management of conflicts of interest
- Whistleblowing arrangements

For many firms, there is also an applicable "Remuneration Code", setting out general principles and detailed rules around how firms should (and should not) remunerate management and staff.

REGULATORY CAPITAL

In addition to the general requirement in the Threshold Conditions to maintain adequate financial resources, most types of firm are also subject to detailed and prescriptive regulatory capital requirements.

The most complex requirements apply to systemically important firms such as banks and insurers. Less risky firms, such as retail intermediaries, typically face much simpler requirements, for example a single set minimum amount of capital that must be held.

CONDUCT OF BUSINESS

Firms are also subject to detailed conduct of business rules. These regulate how firms go about their everyday business and how they interact with clients, and often derive from European standards.

The precise requirements vary by firm type. However, many of the rules focus on similar concepts that apply across the sector, such as providing clear, fair, and not misleading information to clients, ensuring clients are provided with sufficient information at the outset of any relationship, ensuring that firms assess which products are suitable for a particular client, and making sure clients are kept suitably informed and given appropriate reports throughout the relationship.

There are also detailed rules around the holding of client money and assets, for firms that have the relevant permissions to do so.

NOTIFICATIONS

Firms have various notification obligations, whereby they are required to inform the regulator of certain matters.

One particularly important obligation to bear in mind is the general notification obligation pursuant to Principle 11 of the Principles for Businesses. Essentially, this means that firms must inform the regulator of matters having a serious regulatory impact, as well as other significant events such as a proposed reorganisation, a rule breach, legal proceedings being brought against the firm, or a competition law infringement by the firm.

FEES AND RETURNS

Firms must pay an annual fee to the regulator; there are different fee brackets depending on the type of firm. Certain firms must pay further additional levies, such as contributions towards consumer protection services including the Financial Ombudsman Service and Financial Services Compensation Scheme.

Firms are also required to submit certain returns and reports to the regulator periodically. Again, what is required will depend on the type of firm, but can include things such as a business-specific return, an annual report on the firm’s controllers and close links, compliance reporting, remuneration reporting, and client money and asset reporting.

THE PRINCIPLES FOR BUSINESSES

The Principles	
1 Integrity	A firm must conduct its business with integrity.
2 Skill, care and diligence	A firm must conduct its business with due skill, care and diligence.
3 Management and control	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
4 Financial prudence	A firm must maintain adequate financial resources.
5 Market conduct	A firm must observe proper standards of market conduct.
6 Customers' interests	A firm must pay due regard to the interests of its customers and treat them fairly.
7 Communications with clients	A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
8 Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9 Customers: relationships of trust	A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.
10 Clients' assets	A firm must arrange adequate protection for clients' assets when it is responsible for them.
11 Relations with regulators	A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice.

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