

## Guide To FCA Authorisation

### 1. Introduction

In order to carry on a regulated activity under the Financial Services and Markets Act you either need FCA authorisation or to be 'exempt' i.e. operating as the Appointed Representative of an authorised firm or network. The direct authorisation process is often seen as time consuming, difficult and to some not worth the effort, but it doesn't need to be like this and having the correct tools and approach gaining authorisation can be a relatively straightforward process.

This guide is for mortgage and/or non-investment insurance firms and explains the initial requirements, the thresholds and principles the FCA expect you to meet, the application process, the costs involved and responsibilities following authorisation.

### 2. Requirements

In order to obtain authorisation you need to ensure you meet the FCA's minimum standards known as "threshold conditions" and all persons who own or manage the firm must be 'fit and proper'. The FCA will expect you to satisfy, and continue to satisfy, these threshold conditions. In order to help explain this, a summary of the threshold conditions is noted below

### 3. Threshold conditions

<b>Legal status</b>	The business can be a sole trader, partnership, body corporate or unincorporated association. For a standard mortgage or insurance intermediary that does not undertake contracts of insurance then any of the above legal status's are allowed.
<b>Location of offices</b>	Your office is located in the UK
<b>Close links</b>	If you have any close links with another firm or applicant these must not prevent effective FCA supervision if authorisation is granted.
<b>Adequate resources</b>	You must have adequate resources with regard to: - Finance, management, staff, and systems and controls. Therefore you should not only have sufficient capital to meet the initial requirements at authorisation, but must also be able to evidence that you have sufficient financial resources to run the business and continue to meet capital adequacy AT ALL TIMES. Management must have the necessary skills, knowledge and experience to manage the business and the resources to manage staff effectively. There must also be adequate systems and controls in place to ensure the business remains compliant.
<b>Suitability</b>	The FCA must be satisfied you are "fit and proper" to be authorised. This involves assessing the competence and ability of the management, the management's ability to run the business with integrity and in accordance with the required standards.

#### 4. Approved Persons

An approved person is someone who is approved to perform a 'controlled function' for an authorised firm. A 'controlled function' is a role which has regulatory significance. For the majority of mortgage and/or insurance intermediaries this would be a significant influence controlled function (CF) such as CF1 (Director) of a regulated firm or CF4 (Partner). Mortgage and/or general insurance intermediaries do not need to apply for individuals to be approved for the customer function (CF30).

#### 5. Fit and proper test

All approved persons must satisfy the FCA that they can meet and maintain the criteria for approval (the "fit and proper" test). This is a set of benchmarks used to assess an individual's suitability to perform a controlled function. For a full breakdown of what constitutes the assessment please go to <http://www.fshandbook.info/FS/html/handbook/FIT>. Briefly it covers areas such as honesty, integrity and reputation, competence and capability and financial soundness.

Even if you have some adverse credit, failed business or minor criminal convictions this does not mean you will be automatically declined. The FCA will consider how relevant and important it is to the application. HOWEVER they will not appreciate any attempt to cover up or ignore such indiscretions – such behaviour is unlikely to result in positive outcome.

#### 6. The application

The application is completed via the FCA's CONNECT system. Its straightforward to register for the system and once you've confirmed your login details you can login to the system and start a new application. The system allows you to work through the application forms, and skip questions to come back to later. You can save progress and work on it in your own time, the fee is only paid when you submit the application. <https://www.fca.org.uk/firms/connect>

Many of the questions are easy enough to answer, and we some brokers manage to complete the bulk of the application, just needing help with certain questions or document templates.

#### 7. Supporting information

As well as the FCA application, you will need to provide a number of supporting documents and also certify that certain documents are in place and ready to view. These include:

- staff organisational/structure chart;
- business plan;
- compliance procedures – compliance monitoring program;
- an opening balance sheet;
- a forecast closing balance sheet for twelve months after authorisation;
- a monthly profit and loss account for the first twelve months after authorisation;
- a monthly cash flow forecast for the first twelve months after authorisation;
- a copy of the latest annual accounts (if the firm has previously traded);
- a professional indemnity (PI) insurance quotation; and
- Copies of qualifications e.g. CeMAP for providing mortgage advice
- Documented compliance procedures (compliance manual)
- Training and competence procedures
- Initial disclosure documents

We have templates for the above to help speed the application process up.

## 8. Capital Adequacy

In order to obtain authorisation you will need to demonstrate that your firm is sufficiently capitalised. The FCA require a minimum level of capital adequacy – normally £5,000 (or £10,000 if you will be holding client money).

How can this be demonstrated? This all depends on your legal status and if you have previously been trading (e.g. as an Appointed Representative). For sole traders and partnerships you can use personal assets (if required), unless you will also be holding client money. For limited companies the requirements are more stringent and usually capital is evidenced through issued share capital, existing reserves or a subordinated loan. Details of what constitutes a subordinated loan can be found in the <http://fshandbook.info/FS/html/handbook/MIPRU/4/4>

## 9. Application completion

It is vital that the application is complete, all relevant information has been supplied and you are open and honest. This will help ensure the processing by the FCA is as smooth as possible. The non refundable £1,500 application fee is payable on submission.

## 10. Application process

Once the FCA receives the application you will be assigned a case officer. The case officer will review your application and may ask for clarification or for further information depending on the complexity of the case and supporting information sent. References will also be sought during the process, although this is usually one of the final stages that are undertaken.

Often there are some issues that require a positive indication of the FCA's authorisation before they can be put in place e.g. PI insurance, however the FCA will need to see that they are in place BEFORE they grant final authorisation. To resolve this 'chicken and egg' scenario the FCA will advise that they are 'minded to authorise' the application, provided the outstanding conditions are fulfilled.

If your application is successful they will write to you acceptance and enclosing your Scope of Permission Notice which is your formal Part IV permission and will set out when the permission starts, which regulated activities you have permission to carry on and any requirements or limitations requested.

## 11. Timescales

How long does it take? Well the FCA state up to six months for a complete application and twelve for an incomplete application. Unfortunately application times depend on the case officer, some are more meticulous than others and we have had experience of switching case officers due to holiday or sickness and this can cause minor delays. You should plan at least six months.

## 12. Costs

One of the big concerns for firms within a network looking to go direct is the cost and risk. Let's first look at the costs, whilst upfront costs may be high over the long term the saving on network fees and retaining full commissions easily pays for itself.

Initial Costs		
<b>FCA Application Fee</b>	£1500	For a straightforward application such as a mortgage and/or non-investment insurance intermediary.
<b>PI insurance</b>	£500+	Variable dependent on size of business, products sold, turnover, historic claims etc.
<b>Data Protection Licence</b>	£35	Annual fee payable
<b>Compliance</b>	Variable (£500-1500)	This is optional. You could choose to complete the application yourself, but if you choose to have third party assistance then the cost will be lower if you have made a start and completed some of the application yourself.

Ongoing costs once authorised include:		
<b>FCA fees</b>	For a small firm with £80k regulated income the fee is around £2500. <a href="https://www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator">https://www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator</a>	Variable, the first fee becomes payable on authorisation then triggered every 1 <sup>st</sup> April and payable around July. Initial fee is based on projected regulated turnover figures, thereafter based on figures submitted on your annual return. Fees will be lower for mortgage only permission than it will if you plan on doing insurance such as Life assurance. Fees can be paid in lump sum or spread monthly with interest. (minimum amounts per fee block* apply) * Home finance (mortgages) is in one fee block while insurance is in another.
<b>Data Protection</b>	£35	As above
<b>PI insurance</b>	£500+	As above
<b>Compliance costs</b>	Variable (see website)	Outsourced compliance is optional but highly recommended. You should enquire what the service provides as many firms charge extra for fairly basic services.
<b>Software systems</b>	Variable	Sourcing systems such as Trigold, Mortgage Brain, Customer relationship management (CRM)? Database management etc? There are no hard and fast rules so you should choose what suits your needs, typically £30pm

### 13. Once Authorised

#### Stationery & Marketing

Once authorisation has been granted you need to get your stationery and any marketing material such as websites updated with your new details. All advertising must be checked for compliance before it is used and this must be recorded in an appropriate log. The relevant rules are stated in the FCA handbook but if you are unsure we offer advertising checks and 'sign off' at reasonable prices. You will also need to register with product providers for commission routes and submission of business. It is often worth making initial enquiries with providers before you are authorised so there are no undue delays.

#### Paperwork & Systems

If you were previously an Appointed Representative you may have had to use a particular submission system or process that you may no longer have access to. If you are a new broker then you may be unsure on what you need. Many intermediaries find a sourcing system (sometimes combined with a CRM

system) an essential tool. These systems often have templates included within for regulatory documents. Alternatively we have a full range of file documents and templates which can either be purchased or provided within our support packages.

You may have used a system previously and wish to continue using the same or similar system going forward. Most offer trial options so you can test these out, and it's possibly something you could try prior to authorisation so once authorised you are ready to go with your preferred option.

### **File Checking**

File checks are especially important for new advisers to your firm, or trainees as it will form part of their competency sign off. Such checks can be undertaken in-house but the person responsible will need to have the knowledge and skills to be able to do this to an acceptable standard. This is when external compliance can help; it could be you have file checks as part of the support or pay for regular file checks or even just a sample so you can understand what you need to look for. Please get in touch for an informal chat and we can explain what we can do to help.

### **Financial Returns**

Twice yearly the FCA will ask for returns to be submitted. These will fall due on your accounting reference date (i.e. the firm's financial year end) and six months after that date. These returns are submitted via the FCA's online system called GABRIEL. You will need to register for GABRIEL via the FCA website.

The information requested includes: balance sheet, simplified profit and loss - detailing regulated income and non-regulated income, capital adequacy details, PI details (if renewed within the period), training and competence details (overall staff numbers and a breakdown of those advising, competent, and qualified) and information about certain new insurance products written during the period. The FCA provide help guides but if you are unsure, or need our support, please get in touch.

### **Training and Competency (T&C)**

All sales/customer facing staff should have a T&C file. The file should contain details of what checks had been carried out when they were recruited, copies of qualifications, details of roles and responsibilities, training, previous relevant experience and evidence of how they are deemed competent to carry out their role. There should also be a record of their continuing professional development (CPD), periodic competency assessments, records of appraisals etc.

We can provide templates, or if you are just unsure of the requirements and what to include, then get in touch.

### **Notifications and Applications**

Even though you have gained authorisation you may need to change your legal status, amend approved people or controllers of the firm, alter standing data or vary your permission. Most of this is done via another FCA online system known as CONNECT, but some of the changes have to be done on paper forms. You should be aware that some changes require an application fee, so it's really important prior to FCA authorisation you make sure your business is set up the way you want to save time and money afterwards making the changes. Basic 'standing data' such as contact details, trading names etc are all free and easily changed on the CONNECT system - you will have to register for this as well, as it's independent of the GABRIEL system!

### **FCA visits**

If you remain compliant then you should have no concerns. We have sat in on many FCA visits so know what they tend to look for and expect, but you shouldn't stress over getting a visit. We know of many firms who have never had a visit.

## **14. Summary**

This guide is based on mortgage and/or non-investment insurance applications. Whilst it may still appear overly complex and confusing it doesn't have to be. For firms within a network it can be daunting - not

knowing what's involved, thinking about the upfront costs and the added issue of compliance. It doesn't have to be this way, the process and costs are hopefully clearer now, and as for compliance if you don't feel you have the knowledge then we can help ease that burden at a budget which suits you. You can then get on with running the business and if you are no longer part of a network you will have the added benefit of retaining all commissions and often getting paid quicker, directly from the provider.

Hopefully this guide has helped explain the process and requirements. You will no doubt have unanswered questions as it's impossible to cover everything and each firm is different. Should you have any questions, please get in touch via our website <http://www.h3consultancy.co.uk>

We would strongly recommend our compliance support once authorised as it will ensure you are set up correctly, have the right documentation and process going forward. Our service is tailored and we offer a friendly personal approach to work with you. We don't have call centres you will deal with your own consultant at all times, that way we understand your business and how you operate.

<p>This document is not intended to form regulatory guidance and is based upon the FCA Handbook. In the unlikely event of any conflict of information the FCA Handbook will always take precedent.</p>
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