

# The Ultimate Guide to becoming

**AUTHORISED BY THE FCA**



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Under the Financial Services and Markets Act (FSMA) 2000, financial activities have to be regulated by the Financial Conduct Authority. Any firm (whether a business, a not-for-profit or a sole trader) carrying out a regulated activity must be authorised or registered by the FCA unless they are exempt.

This long list includes Financial services providers, investment firms and consumer credit firms, Banks, credit unions and insurance companies who are all regulated by the FCA and the Bank of England's Prudential Regulation Authority (PRA).

In this ebook guide, we will explain and outline:

- General questions you need to consider for your application
- Resources that your firm will need
- The regulatory history of you & your firm (disclosure)
- Risk management overview
- Business model
- Systems and controls
- Target customers
- Fees and charges
- Financial promotions
- Complaints
- Finances
- Application submission

# Your firm resources



Your senior management will need to be available to carry out their roles and be based in the UK. They will need to be focused on their roles, so as not to hold other significant functions elsewhere. You should review your succession plans and ensure there is no key man dependency.



In addition to your senior management, you will need to ensure your offices, IT systems, disaster recovery plans and compliance arrangements are adequately resourced. With regards to your compliance arrangements, this will need to be assigned to senior management with a competent compliance background (e.g. experience and qualifications).

Should you have any controllers (firms or individuals) you will need to disclose their location, level of influence and any material disclosures.

# Disclosures



The regulator is keen to understand the fitness and propriety of you and your senior team. It will assess the experience of the relevant senior management to the intended business of your firm. If you or your senior team have inadequate or dated experience, this could signify a lack of appropriate experience for the role(s). You will also need evidence that there is no history of debt issues or CCJs applicable to you or your team.

If there is any negative historical information, this will need to be disclosed. In addition, any information concerning your fitness and propriety will need to be explained. Any such response to the regulator will need to be clear and not misleading. Remember, the regulator is looking to understand if there are concerns over your honesty, integrity and reputation.

When disclosing information, you will need to provide evidence of how this information has been rehabilitated since the event. This can take the form of character references.

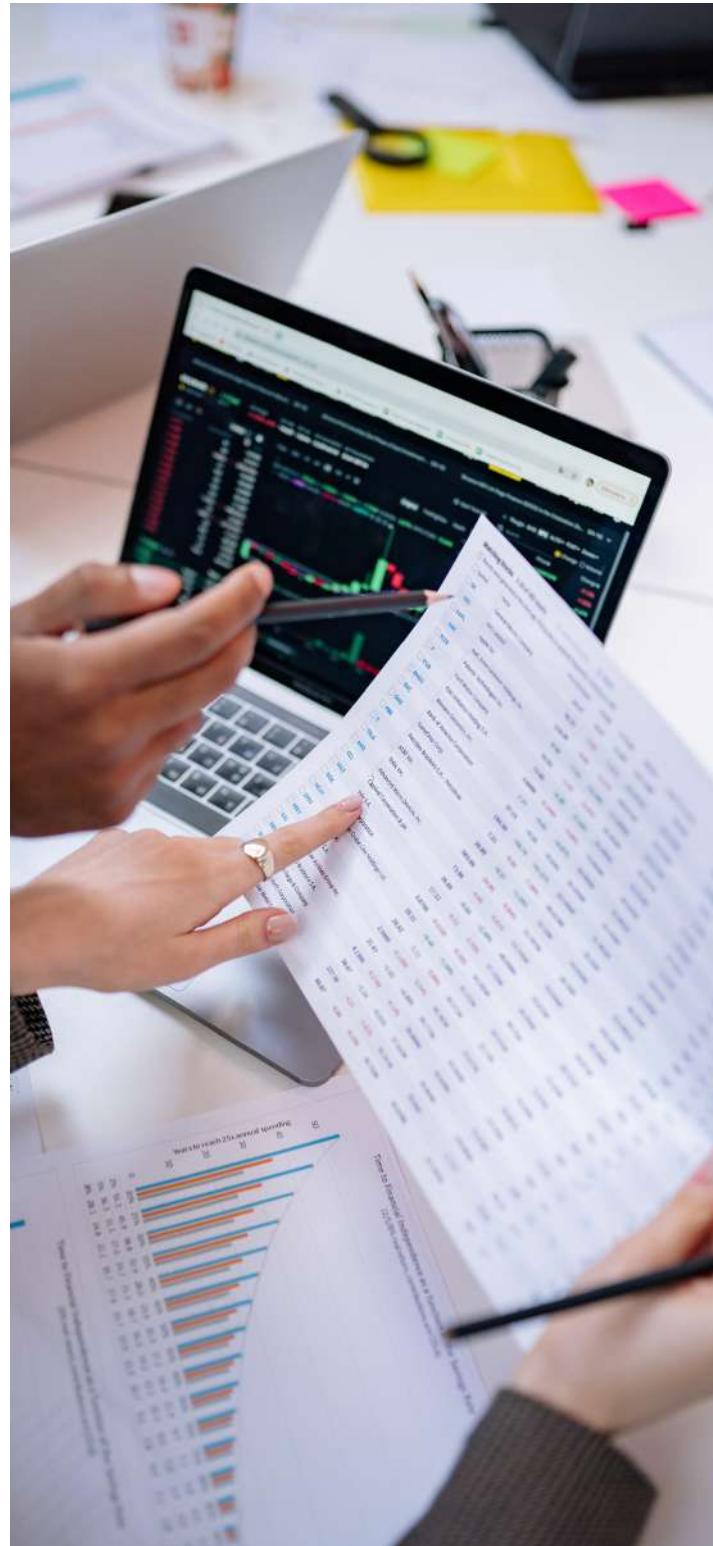
If you have had any previous enforcement actions taken against you or your firm, you will need to disclose it and demonstrate how your firm has made improvements since the action.

# Risk management overview

In particular, you will need to ensure that you have clearly articulated:

- The inherent risks to consumers
- Gap analysis that these risks have been considered
- How your controls relate to identified risks

This will need to be shown in your regulatory business plan, included in your FCA application and relevant policies and procedures.



# Business model



It is crucial that your business model provides the regulator with clarity on how your firm makes money, and what risks may be prevalent for consumers.

You will need to provide the FCA with a regulatory business plan setting out the rationale for making the application. The FCA is not looking for a lengthy document, generally, an 8-10 page business plan is about the right length. It should cover:

- Background information about your firm and the permissions it is seeking to hold;  
Information about the services you will provide;
- The governance arrangements of your firm;
- The fitness and propriety of any other persons applying to hold controlled functions;
- Main business risks the firm faces and how these are mitigated;
- Compliance monitoring controls;
- How does your firm meet the FCA authorisation threshold conditions;
- Your growth plans over the next 3 years
- Most importantly: Is your business model aligned to the interest of treating customers fairly?

# Systems and controls

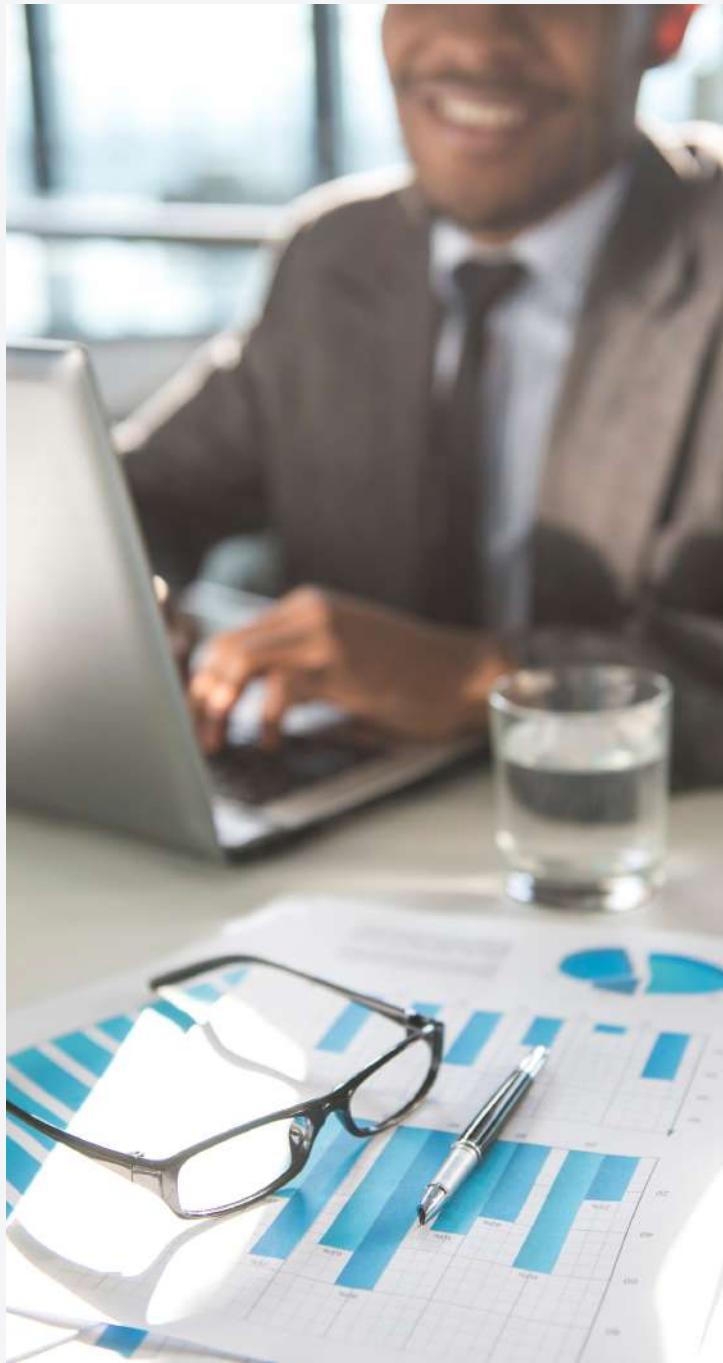


Considering the size of your firm, staff and location of staff you will need to detail how you assess and monitor staff compliance on an ongoing basis.

This explanation will need to include how you conduct quality assurance , compliance checking, audit (internal/external) reviews, staff performance management, staff incentives, staff training and development and what your disciplinary framework.

Consider whether your controls are robust to mitigate the risks of financial crime and fraud and whether your team is sufficiently trained.

You will need to evidence that you have a robust and appropriate control framework that sets out key risks and controls to mitigate these risks including process manuals, training, senior management oversight.



## Target customers

You must provide an explanation of who are your target customers, who may be deemed vulnerable from that cohort and how you will identify vulnerable consumers.

You should consider breaking down by percentage the different distribution channels you may have. You will need to ensure you have appropriate controls in place to deal with vulnerable consumers.



# Your fees and charges

The regulator wants to understand if your fees and charges can be considered excessive or your terms and conditions are misleading. As an exercise, you should examine whether you have an array of charges that could be applied to a consumer, if so this could be deemed excessive.

Remember you are trying to display to the regulator that your fees are reasonable and that the customer is fairly treated.



## Exercise

- Provide a list of all the charges that apply to consumers and state why these charges may apply?
- Would they affect consumers in a negative way?
- How does this affect vulnerable consumers?
- Is your literature (i.e. terms and conditions) clear and comprehensive about the charges?
- Are your contract terms clear and fair to the consumer?
- Are you charging the customer a fee due to you outsourcing a part of your service? E.g. credit broking

# Financial promotions



You must continuously review all of your financial promotional literature to ensure that all advertising is clear, fair and not misleading. This will apply to your brochures, leaflets, websites, paid marketing etc. Any advertising should clearly explain the benefits and risks of a consumer selecting your product.

You should also update your policies and procedures to ensure that vulnerable consumers are not being inappropriately targeted by any of your promotional campaigns.

## As a reminder to you

- Financial promotions or adverts are likely to be the way consumers become aware of your financial services and products
- They can take the form of a website, leaflet, social media post etc
- The FCA sees financial promotions as a significant influencer of consumers' decisions when selecting a product
- If an advert breaches regulatory rules, you can be asked to withdraw or change the advert to comply with FCA requirements (brand damage may occur if this happens)

At MEMA we have helped a number of firms who have needed practical support reviewing their websites against FCA requirements in anticipation of authorisation.

# Dealing with complaints

You must ensure your internal complaint procedures clearly and prominently state that the customer has a right to complain, including the ability to escalate a complaint to the Financial Ombudsman Service.

You will need a complaints policy that aims to ensure that:

- making a complaint is as easy as possible;
- you treat a complaint as a clear expression of dissatisfaction with our service which calls for an immediate response;
- you deal with complaints promptly, politely and, when appropriate, confidentially;
- you respond in the right way - for example, with an explanation, or an apology where you have got things wrong, or information on any action taken etc;
- you learn from complaints i.e. root cause analysis, use them to improve your service, and review annually your complaints policy and procedures.

This will be an opportunity for your firm to ensure its complaints procedures consider the handling of complaints, monitoring complaint levels and/or issues.

MEMA offers bespoke management information metrics to help firms report effective complaints analysis to senior management in their business



# Financials

You must evidence that your firm has sufficient capital requirements in place. This is different depending on industry and required permissions, so start to speak with your accountants to provide a clear view on whether your firm is able to meet its liabilities as they fall due and can provide realistic forward projections.

Remember you are required to hold an appropriate level of capital and/or liquid resources to cover potential harm. Capital includes elements of your equity and appropriate loss-absorbing debt liabilities which rank behind general creditors, such as share capital and retained earnings, and subordinated debt. Liquid resources are normally those that you can convert into 'cash' as soon as needed and with minimal loss in value.

Key documentation you will need will be your annual accounts and a 3-5 year cash flow projection. You may also need to upload a copy of your capital resources calculation.



# Final application steps

Before submitting your regulatory business plan and supporting documents you must ensure the information contained within the application is clear, concise and detailed.

You must review your selected permissions and assess whether they are related to the business activities you undertake. If you have misunderstood your permissions this could lead to concern from the regulator that you have not exercised due diligence when completing your application.

Review your answers and ensure you have not used boilerplate or irrelevant responses. If you decide to use a consultancy firm make sure you read the content and are familiar with it. Of course, check the content actually relates to business operations e.g. stating you have 20 members of staff and you employ five personnel.

# Time

Once you have displayed that you are ready, willing and organised to be authorised. How long can you expect a decision after submitting your application for authorisation to the FCA?

It can take approximately 18 weeks for the FCA to complete its review of an authorisation application. It is important to factor this into your firm's planning and timescales. Once submitted, it takes around 3 or 4 weeks for a case officer to be appointed to review your application.

The timescale for a decision depends on the complexity of the application, any issues raised by the case officer and whether you need to provide follow up documentation. The statutory timeframe under Financial Services and Markets Authority (FSMA) for the FCA to determine your application depends on whether it is "complete" (6 months) or "incomplete" (12 months).

Do not be alarmed! The case officer will deem an application complete when they have all of the information necessary to make their decision.

Your application should provide sufficient information to enable the FCA to determine whether you meet the requirements for authorisation. You may need to provide further information as the FCA reasonably considers necessary to enable it to determine your application

It is perfectly acceptable if you are approaching a gateway deadline, to submit a nearly complete (i.e. all aspects of the form are complete and minimal documents are missing) authorisation application and follow up with certain documents that the FCA would expect to see once they are ready. Our advice is to use that 3 or 4 week period from submitting the application and hearing from the case officer to prepare any outstanding documentation, so you can send it to the case officer once they will undoubtedly ask for it. This includes items such as the investment advisory/management agreement or fund offering documents.





## About MEMA

Founded in early 2018 by a team with experience at the regulator, big 4 consultants and rapidly growing fintech/ regtech firm.

Our team is highly experienced and expertly skilled. We specialise in providing our clients with solutions to often complex regulatory requirements and compliance needs.

We will not only support you through your application journey but through your regulatory journey from compliance check ins to ad hoc training.

Our unique industry insight and comfort with compliance enables our team to support you to the fullest extent possible, helping to develop your business model and compliance.

**If you need support, get in contact today by using the details below**

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