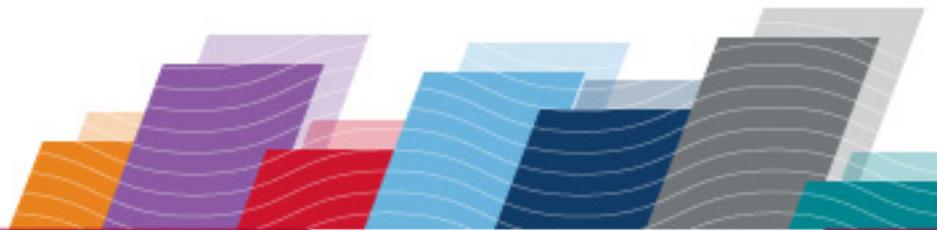


# Regulation round-up



December 2015

Banks & building societies // Investment managers & stockbrokers  
Financial advisers // Wealth managers & private banks  
Mortgage brokers // General insurance & insurers  
Consumer credit // Credit unions



Welcome to the December issue  
of *Regulation round-up*

Deborah Jones, Director of Competition

*'...in promoting competition we look to work with markets to drive better outcomes for consumers and firms...'*

**Welcome to December's Regulation round-up. Our objective to promote effective competition is testament to how competitive markets drive value, innovation and quality. This is underscored by successive governments' commitments to enhancing competition, recognising its role in economic growth and consumer outcomes.**

In promoting competition we look to work with markets to drive better outcomes for consumers and firms. We want to encourage market entry, foster innovation and empower consumers to make good choices that meet their needs. Price competition is one factor, but so are quality, product features, convenience and service levels.

Our market studies are in-depth examinations of all relevant aspects of how a market works from different perspectives - suppliers, customers and other market features. Where we find problems we look to improve market dynamics. Ideas from market studies into insurance add-ons and cash savings accounts have already resulted in regulatory changes. Recently, we've worked on credit cards and investment banking, and we've just started looking into asset management.

We also investigate competition law breaches - we recently wrote to a number of firms putting them on notice of

potential infringements.

We seek to factor competition analysis into a wide range of our work. For example our Innovation Hub supports qualified firms interested in launching innovative products and services.

But it is also important that we have the right sort of regulation in place. We want regulation to allow for new ideas and players - and we're always open to hearing about anything that hinders firms' efforts to compete fairly and attract customers.



### Hot topic:

### Suitability of investment portfolios

Our recent [thematic review](#) found that wealth managers and private banks have made progress in demonstrating the suitability of their clients' portfolios. This follows on from our earlier work in 2010 (which led to a [Dear CEO letter](#)) and [2012](#).

Even though there has been some improvement, a third of firms in the sample fell substantially short of our expected standards. A further third of firms need to make improvements to meet our standards.

The areas where improvements need to be made are:

- gathering, recording and regularly updating customer information to support the investment decisions taken on a customer's portfolio
- ensuring that the composition of client's portfolios truly reflect their investment
- ensuring that the governance, monitoring and assessment arrangements are sufficient to their regulatory obligations

Suitability is a key aspect of two of our operational objectives: to secure an appropriate degree of protection for the consumer; and to protect and enhance the integrity of the UK financial system. Using the further good and poor practice examples and [previous guidance](#) available, firms providing portfolio management services to retail customers may want to benchmark themselves against our findings and make improvements, where required.

Find out more



## Hot topic: Capital resources requirements for Personal Investment Firms (PIFs)

Our recent [Policy Statement](#) on capital resources requirements for personal investment firms (PIFs) replace and revoke the rules that were made by the FSA in 2009.

The new requirement will take effect from 30 June 2016 for PIFS that are subject to chapter 13 of IPRU (INV). For a category B3 firm or exempt CAD firm, the new capital requirement will be the higher of: £20,000 or 5% of the firm's annual income from its investment business. There will be a one-year transitional rule from 30 June 2016, during which the minimum capital resource is £15,000.

For the small number of firms that fall outside of the B3 prudential category and engage in higher risk activities, the new capital requirement will be the higher of: £20,000 or 10% of the firm's annual investment business income.

The simpler rules work across all business models in a fair manner, without a disruptive impact upon competition.

These changes are outside the scope of the Financial Advice Market Review, which is considering how financial advice could work better for consumers. PIFs can get an idea of what their capital resources requirements will be under these rules by trying our [online calculator](#).

Find out more

Banks & building societies

Investment managers &  
stockbrokers (retail &  
wholesale)

## **PS: Cash savings remedies**

**New measures** concerning cash savings accounts mean that from December 2016, firms will have to provide:

- clearer information on interest rates
- reminders to consumers about changes in interest rates or the end of an introductory rate
- a summary box setting out the key information to help consumers compare savings accounts

We have also **published data** which shows the lowest interest rates offered by the 32 largest providers of easy-access cash savings accounts and easy-access cash ISAs.

## **Accountability: Enforcing the regimes**

We have set out how we will enforce the new accountability regimes. This covers the Senior Managers Regime, Certification Regime, Conduct Rules and the Approved Persons Regime for insurers.

## **Speech: Personal accountability**

In her latest speech, Tracey McDermott, Acting Chief Executive, focused on the Senior Managers Regime. She said there are two major priorities. The first is that there is a clear focus from firms on meeting the spirit of the new rules, rather than approaching this with a narrow focus on what the letter of the law requires. The second, linked task, is that firms must take ownership of the regime and embrace the opportunities it presents for their business.

## **Mortgage Credit Directive (MCD)**

In January, to prepare for the Mortgage Credit Directive, home finance firms need to complete a form on Connect. In this one-off exercise, the form asks all firms if they will undertake second charge mortgage business. In addition, intermediaries need to confirm if they will be a tied credit intermediary and name the person responsible for MCD intermediation (RMCDI). We will contact Connect principal users when the form is available. It should take less than ten minutes to complete.

## **TR: Controls over information flows**

We have published the findings of our review looking at how investment banks control flows of confidential and inside information. We found that investment banks' processes and controls to manage these flows of information were not always as robust as we would have liked. Weak processes can lead to inappropriate sharing of information, which in turn could result in increased risks to market participants and potentially market abuse. Controlling flows of information is crucial, whatever the size of the business.

## **CP: MiFID II**

We have issued our first consultation on MiFID II implementation in the UK. This primarily covers wholesale markets issues, including new trading venues, trading transparency and controls over algorithmic and high frequency trading. There are also proposals covering changes to the scope of the application of our Principles for Businesses and the supervision of the new Data Reporting Service Providers category of firms. We will be consulting on other elements of MiFID II next year.

## **MiFID II: Implementation roundtable**

On 30 November we held a MiFID II roundtable with trade associations. We discussed a range of topics, including implementing measures, our first consultation paper and ESMA's level 3 work.

## **Improper delegation of authorised activities**

Firms that are approached to delegate their regulated activities, such as providing pension switching advice, to an unauthorised third party need to be aware of the serious implications that may arise as a result of entering into this type of arrangement.

## **Capital Resources Requirement (CRD IV)**

Our QCP has a specific chapter on changes we propose to IFPRU, which applies to investment firms subject to CRD IV that we prudentially supervise, as a consequence of our undertaking to comply with the EBA SREP Guidelines which come into force from 1 January 2016. During our ongoing supervision, we have found that some firms are doing a good job and have created

## **Mortgage Credit Directive (MCD) passporting**

Under the Mortgage Credit Directive, a firm can now apply to add a passport on Connect. The passport will not be effective until 21 March 2016. It will not appear on the FS register and it will not be possible to change or cancel a passport until this date.

## **FSCS Deposit Guarantee**

From 1 January 2016 there are changes to deposit protection provided by the Financial Services Compensation Scheme (FSCS). From 1 January 2016 the new deposit protection limit for all eligible depositors will be £75,000. It has been reduced from £85,000. The PRA is required by the European Deposit Guarantee Schemes Directive to recalculate the FSCS deposit protection limit every five years based on the sterling amount equivalent to €100,000. It is important that firms take steps to make sure that consumers are given accurate information about the new £75,000 limit.

## **Payment Services Stakeholder Liaison Group**

We are restarting our Payment Services Stakeholder Liaison Group as we develop our approach to the implementation of the revised Payment Services Directive (PSDII). If you're authorised and regulated by us for payment services, you will be impacted by the Directive. If your firm is interested and has the time and capacity to be actively involved in the group, we would like to hear from you. We will also welcome comments and questions on the [group output](#). To get in touch please email [paymentservices@fca.org.uk](mailto:paymentservices@fca.org.uk).

## **Accountability: Foreign branches**

We have published our final rules for individuals working in UK branches of overseas banks. These rules are designed to encourage senior individuals to take more responsibility for their actions, make it easier for both firms and regulators to hold individuals to account when things go wrong, and improve standards of individual conduct at all levels in these firms.

effective risk management programmes and have embedded ICAAP processes that meet expectations.

The Internal Capital Adequacy Assessment Process (ICAAP) is the firm's risk management process, not a document. It should be supported by effective policies, procedures, systems and controls and these should be reviewed as to their adequacy at least annually. This review should be documented. From 1 January 2016 we will apply the SREP provisions set out by the EBA SREP Guideline.

### **Social investments call for input**

We have launched a call for input asking stakeholders for the evidence on whether there are any regulatory barriers to the development of social investments. We would like to hear from a range of stakeholders, including financial advisers. We are particularly keen to understand advisers' experience advising their clients on social investments.

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## Mortgage brokers

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## General insurance & insurers

### **CP: GI auto renewals**

Our proposals aim to address concerns about levels of consumer engagement, their treatment by firms at renewal, and the lack of competition that results from this. This can result in consumers defaulting to renew products that are not good value or have become unsuitable for their changing needs. We also remind firms of their obligations to treat customers fairly when developing their overall approach to renewal pricing and in their treatment of long-standing customers.

### **OP: Encouraging consumers to act at renewal: Evidence from field trials in the home and motor insurance markets**

Our paper presents the results of field trials testing the potential for improved renewal notices to encourage

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consumers to switch or negotiate their home or motor insurance policy at renewal.

### **Mobile phone insurance follow-up**

We have published the results of our follow-up review looking at the mobile phone insurance market. We found that there was still a significant range of practices and outcomes within the market. Some firms had improved their practices, with evidence that customers were now consistently receiving fair outcomes. There were still many firms where this was not the case despite [our previous work](#) in this area.

### **Accountability: Approved Persons Regime for insurers not subject to Solvency II**

Our final rules are an important part of our overall drive to raise standards of individual conduct across the financial services industry, and to ensure that smaller insurance companies are run with integrity.

## Consumer credit

### **Webinar: Now you are authorised**

The webinar covers: what being regulated by us means for firms; how to find out what rules and standards apply; a firm's relationship with us once authorised; reporting and data obligations.

### **Dear CEO letter to debt management firms**

We have written to debt management firms, noting that there has recently been an increase in consumers being transferred between firms, and reminding them of their responsibilities when buying or selling consumers' contracts or contact details. In particular, our letter emphasises the need for firms that are considering selling on their customers to advise us of this at an early stage.

## Credit unions

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## December news round-up

### **Speech: Examining the future of anti-money laundering**

Rob Gruppetta, Head of Financial Crime, spoke at Accuity's AML Risk Reduction and Compliance Europe Conference. In his speech he discussed challenges the UK faces in implementing the new European AML directive: this will lead to reforms to the UK regulations, and place new demands on firms.

### **Speech: Wholesale market policy - a year in review**

David Lawton, Director of Markets Policy and International, spoke at the ICI Global Trading and Market Structure Conference in London on 8 December 2015.

### **Website project update**

Over the next few months we will be adding to the firms section of our website, improving the navigation and the search function, highlighting particular areas of interest to our users. This includes rolling out our new approach to the content and design – making it clear, concise and functional.

## Publications

### **CP: FSCS**

We are consulting on changes to some of the rules in our Compensation sourcebook (COMP).

### **CP: Our approach to SMEs as users of financial services**

This discussion paper reviews the way in which small and medium-sized enterprises (SMEs) that use financial services are treated in our rules.

### **FG: Our registration function under the Co-operative and Community Benefit Societies Act 2014**

Our finalised guidance brings together the existing series of information notes and the results of our extensive consultation with stakeholders. Our role as registering authority is different and separate from our role as financial services regulator.

### **Our approach to advancing our objectives**

We report on the feedback we received to our publication in July 2013 of general guidance on what firms and consumers can expect from us and how we intend to deliver our statutory responsibilities.