

Financial Conduct Authority



Banking authorisation process

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Objectives and outline

These guidelines set out our approach for assessing banking applications. They apply to new applicants seeking to gain Part IV Permission to carry on banking business in the UK, and to existing FCA-authorized firms seeking a Part V Variation of Permission to do the same.

The establishment of the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), and in turn the introduction of dual regulation, mean there are significant changes to the authorisation process for new banks and existing regulated firms seeking to vary their permissions to add 'accepting deposits' to their regulated activities.

New dual-regulated applicant firms need to make a single application to the PRA, the lead regulator. The application is then assessed by the PRA and the FCA against the threshold conditions of the respective regulatory authorities. The two assessments run side-by-side in an open and collaborative process. (Our threshold conditions can be found on our website. Please refer to the PRA's website for their threshold conditions).

This document explains the structure of the authorisation process, the key information required during the process, and sets out a list of the documents to be submitted with an application. While the focus here is on the FCA, we refer to the PRA where there is a joint approach and we direct prospective applicants to the PRA where a particular aspect of the assessment is predominantly a prudential one.

Our authorisation process for banks is, as far as possible, an open one and normally begins well before an application is submitted to us. We encourage all prospective applicants to contact us as early as possible in their planning process so that we can discuss their proposed business. This will allow us to explain the process, our requirements and expectations and to identify any issues that may adversely affect the application.

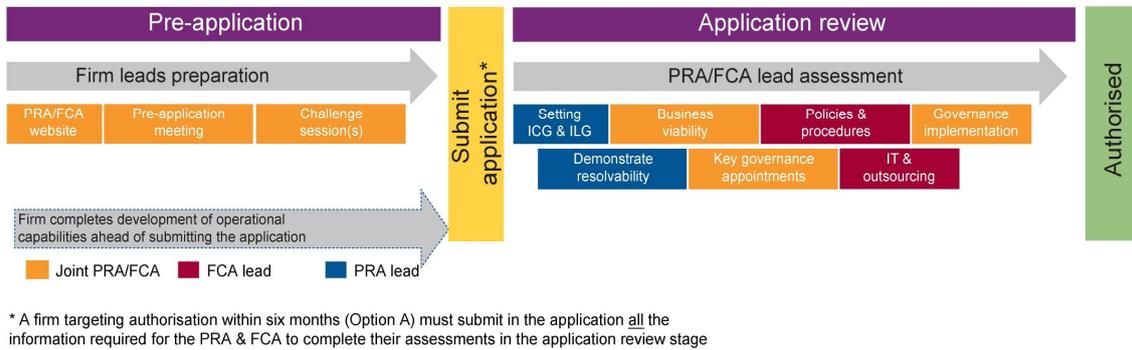
A full review of the previous FSA authorisation process for banking applications has been carried out and a new approach has been adopted, which provides different options to firms in recognition of the need for flexibility due to the variety of applications received.

We have retained the option for firms to submit a complete application and have their authorisation determined within six months. However, for firms that require the certainty of an authorisation before a significant capital outlay, we intend to offer an alternative process that contains clear stages, so there is a distinction between meeting the key regulatory requirements and the wider operational needs of setting up a bank.

Option A

This approach is an enhancement of the current process (see Figure 1) and is particularly suited to firms that have the development backing, capital and infrastructure to allow them to set the bank up at speed. Examples would include the subsidiarisation of branches and where firms are able to use existing IT and other infrastructure.

Figure 1: Revised authorisation process – Option A

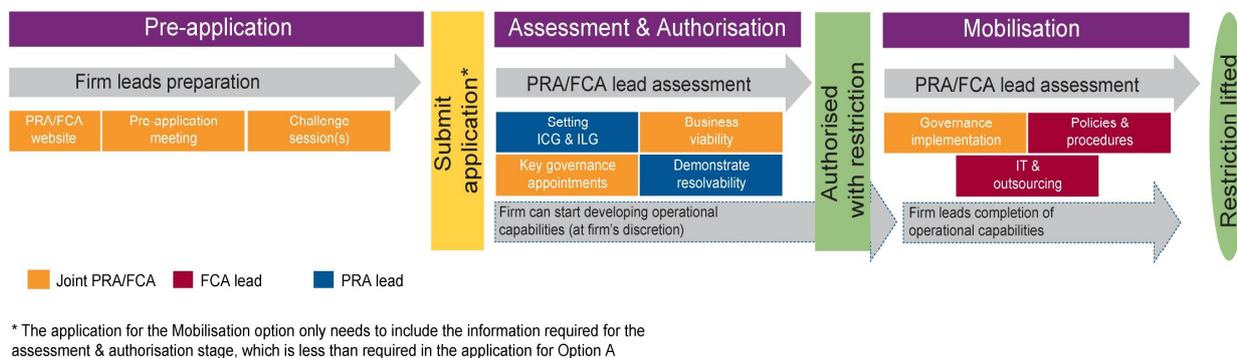


Where an applicant firm is able to deliver a complete application form with all the supporting materials, then the FCA and PRA will work together to complete the assessments and make a decision within six-months. Our experience is that few firms are able to provide us with a complete application. Therefore we are introducing a significant level of up-front support to firms during the pre-application stage, including a challenge session that has been universally welcomed by the firms we have spoken to, to help them do this. This means that from the start of the process to the end, providing that the firm itself is ready, it could start trading within six months.

Option B

We know that some firms are not able to meet the six-month timetable because they cannot fund the up-front investment required or because they have longer lead times in terms of raising capital or setting up the infrastructure. For these firms we are offering an alternative route to authorisation, which specifically addresses these barriers to entry. This is the staged ‘mobilisation’ route, shown in Figure 2.

Figure 2: Revised authorisation process – Option B



This option offers the same pre-application support, but firms can then submit a shorter application that focuses on key essential elements (such as business case, capital, liquidity, key senior appointments, credible mobilisation plan) which, if the information is of the required

quality, we will determine within six months. If the firm is successful we will grant them an authorisation, but with a restriction that will enable the firm to mobilise the remaining requirements, such as capital, personnel, IT and other infrastructure. Firms have told us that it will be considerably easier to mobilise if they can tell potential backers that they are already authorised.

The length of the mobilisation phase is almost entirely down to the firm. It could be as little as three months, depending on the nature of the application, but it will be capped at 12 months to ensure the data on which the authorisation was granted does not become out of date. Once the firm has completed its mobilisation, the restriction will be lifted.

Statutory deadlines

The statutory deadlines for determining an application are unchanged at: (i) 6 months for a complete application; and (ii) 12 months for an incomplete application. Common factors that can cause delays to an application are:

- an initial application submission that is either incomplete and/or of poor quality;
- the applicant firm is either unable or unwilling to cooperate with us during the process or to comply with regulatory requirements (e.g. implementing key systems and controls, or committing a sufficient level of capital); and
- significant delays in responding to our questions and/or information requests.

It is envisaged that an effective pre-application stage, together with a level of flexibility about what the applicant is required to provide and complete during the assessment phase, will help to ensure that the majority of applications are complete and can be determined within six months of submission.

Pre-application (both options)

We know that firms are not always clear about what they will need to do to achieve authorisation. Therefore, applicant firms are encouraged to contact the FCA and PRA at an early stage to discuss their plans before applying. We will, in turn, provide much more detailed information about the application process, the information to be supplied by the firm and the level of detail that the FCA and PRA will need to receive during the pre-application stage.

Firms have told us that they value the feedback and support they have received from the FSA and that they want more of this, particularly in the early stage of the process. We have taken this on board and will facilitate regular contact between firms and the FCA/PRA teams to ensure that this continues. In support of this we will also now hold a minimum of two (and more if appropriate) pre-application meetings with firms while they are developing their ideas and working on their application.

The pre-application meetings are seen as a key part of the process, during which we aim to establish a relationship with key individuals within the applicant firm, gain a greater understanding of the applicant's proposals, and raise any issues or concerns as soon as possible. Early on in the pre-application stage, we will also discuss and agree which option to pursue.

The attendees from both the FCA and PRA will typically include the case officer(s), the firm's prospective supervisor post-authorisation, and any technical specialists that may be required to attend.

During this stage we will want to discuss the following (as a minimum):

- Who the applicant is and what kind of entity it will be?
- Who are the owners and/or major capital investors and what is their country of origin?
- How advanced or developed is the applicant's proposition? In some cases it may be too early to have a meeting (e.g. at the conceptual stage).
- Is the applicant part of a larger group? If so, what is the group structure?
- Who will be responsible for running the business – the proposed structure of the Board and senior management?
- A summary of the proposed business plan including financial projections.
- Details of the products/services, target markets, delivery channels, pricing policy, and the corresponding regulated activities that will be applied for.
- The applicant's funding model.
- Viability of business; competitive advantage and the market research undertaken.
- Expected scale of operations with anticipated staffing levels.
- Key outsourcing arrangements.

It is our view that the process works well if the above information is provided to us in the form of a presentation ahead of the first meeting. At the meeting we expect that prospective applicants are able to talk in detail about the proposed business and are also prepared to be challenged on any aspects of their plans.

Challenge session

We have introduced a challenge session to ensure that firms receive the specific, detailed feedback on their proposals that they want. The purpose of the challenge session is to increase the likelihood of the applicant submitting a fully-completed application – that is, one that contains the necessary quality of information for the selected option.

The challenge session will take place when a firm's business model and strategies for meeting capital and liquidity standards are nearly complete. At the challenge session we will discuss the proposals in detail, feedback the findings of the reviews carried out and agree areas where further work needs to be carried out.

For Option A, the work carried out in pre-application should substantially increase the likelihood that the application will be complete and, as a result, authorisation is more likely to be achieved well within the statutory deadline of six months. Previously, when received, most applications have been incomplete and as a direct result have taken longer to determine.

For Option B, we believe that, if a firm follows the process outlined above and submits the information we ask for to the required standard, the FCA will be able to give its consent and the PRA will be able to authorise the firm well within six months.

We have streamlined the information requirements so that, regardless of the option selected, the overall information required is less than in the current approach, and this will have both time and cost benefits for firms and regulators alike. While there are reduced information requirements overall, we expect the applicant firm to act on all the feedback they receive before applying for authorisation. As such, the timeframe for the pre-application stage will largely depend on the applicant firm's own timetable.

Under Option B, the amount of information to be submitted with the application will be greatly reduced, since we will only need the minimum amount of information that relates to activities that will take place in the subsequent mobilisation stage; for example, whether the IT systems will be built from scratch or outsourced.

Application submission

After the pre-application meeting and challenge session, an application can be submitted - providing that all issues and/or actions identified during the pre-application stage have been addressed. The application forms must be completed and then both a hard copy and an electronic version (on CD) of the application pack should be submitted to the PRA as the lead regulator.

An application fee must be paid at the time of submission. This is £25,000 for new firms and £12,500 for authorised firms applying to vary their permission to include 'accepting deposits'.

When the application is received it will be acknowledged in writing by the PRA and will then be assigned to case officers in both the PRA and the FCA.

As mentioned above, we have 12 months from the submission date to determine an incomplete application. We have six months to determine an application from the point at which it becomes complete, as long as this does not exceed 12 months from the date of submission.

Assessing an application

During the assessment phase, in line with our efforts to streamline the information requested and meet the statutory deadlines, we will also determine the most appropriate and proportionate way to be satisfied that the firm will meet the threshold conditions. Rather than requesting written evidence for all elements of the application, we will employ different methods to complete the assessment where appropriate, for example:

- asking the firm to attest that an action has been completed;
- reviewing samples of documentation;
- conducting onsite visits and speaking to staff; and
- commissioning s166/s166A reports.

Option A

For Option A, assuming a complete application is received, we should be able to complete our assessment and make a decision within six months. For the FCA, the assessment will consist of determining whether, if the applicant were to be authorised, it would meet the FCA threshold conditions both at authorisation and on an ongoing basis. This includes ensuring that:

- The firm is capable of being effectively supervised by the FCA, having regard to the nature and complexity of the proposed activities, its structure and the impact of links with other entities and individuals.
- The firm's non-financial resources are appropriate for the conduct of the regulated activities to be carried out. This includes proper operation and management given the scale and nature of the business, including appropriate systems and resources to mitigate the risks of financial crime.
- The applicant is suitable, including the fitness, probity, competence and ability of the key individuals of the firm who are already in place.
- The applicant's strategy for doing business, including the viability of its business model, must be suitable for a person carrying out the intended regulated activities.

Of particular interest to the FCA will be the business model assessment, where outputs from the PRA's assessment of capital and liquidity requirements will also help, as well as the key governance appointments in relation to how the applicant intends to put the consumer at the heart of its business and how Treating Customers Fairly (TCF) will be implemented.

We are currently developing a series of factsheets on each of the areas listed above setting out the information we require from the applicant firm and what a typical assessment looks like. These will be added to our website.

Option B

For Option B, the assessment will focus on the viability of the business model (FCA and PRA), capital, liquidity and resolvability (mainly PRA). We will also need the details of the key

executives/directors that are in place and responsible for driving their vision forward, together with details of associated parties and commercial relationships relevant to the application.

Option B is fundamentally different to anything we have done before. Under this option, a firm will (if it meets the threshold conditions) be authorised and will appear on our register of authorised firms as a bank.

During the assessment stage Individual Capital Guidance (ICG) and Individual Liquidity Guidance (ILG) will be set by the PRA, but only the minimum capital required under the European Capital Requirements Directive of €5m will need to be injected on authorisation. Firms will, therefore, be clear about the capital and liquidity requirements that will apply as they build up their business. As the next stage of the process (mobilisation) is capital intensive, and the Directive does not allow a bank's capital to fall below €5m at any time, the PRA will discuss the firm's plans and may, if appropriate, ask for additional capital to be held during mobilisation to ensure that the €5m level is not breached.

For the applicant to meet the threshold conditions, and in recognition of the fact that the necessary infrastructure is not yet in place, a restriction will be placed on the firm's activities at the point of authorisation. A restriction is a standard regulatory tool and currently many firms have a restriction attached to their activities. In this case, the restriction will allow the bank to accept deposits, but will limit the scale of the deposit-taking activities to reflect the lack of infrastructure and controls in place. The restriction may also limit the type of deposits that the applicant can accept during the mobilisation phase.

The purpose of this approach is to provide the leadership of the bank with the certainty that authorisation has been granted before it begins the potentially expensive build of infrastructure and capability in the mobilisation stage. It also reassures investors that the proposals meet minimum regulatory standards, and gives prospective employees the comfort that their jobs have a greater degree of security. The timeframe for the assessment stage will largely be driven by the FCA and the PRA. If an application is submitted that contains sufficient information for both regulators to complete their assessment work, we anticipate the firm will be authorised well within six months.

The assessment stage has been designed to capture the key regulatory elements of a banking application and enable authorisation to be granted as soon as possible in the process. This will give firms the certainty that authorisation has been granted before costly activities such as the IT build-out have to be undertaken.

Complete vs incomplete

When an application is reviewed for the first time the case officer will determine whether it is complete or incomplete by:

1. identifying the gaps in the information that is required in the application pack (the quantitative test); and
2. assessing the materiality of the gap (the qualitative test).

Some omissions will carry different weights and the judgement applied in the qualitative test will determine whether a particular gap means the application is incomplete. In the past, most applications have been incomplete at the time of submission. Our new approach involving more detailed and effective pre-application discussions will, we hope, result in a complete application for the purposes of the assessment.

The process will usually involve engaging with a number of FCA stakeholders and technical specialists to assist in the assessment and in reaching a decision about the application. Some features of the assessment process are:

- regular communication and meetings with the firm (when required);
- a robust and constructive challenge in areas where we don't agree with the applicant or we simply need more information or clarity; and
- clear and early communication of major risks and concerns we have identified relating to the application.

All applications will be subject to a minimum level of assessment based on the information asked for, after which our work will depend on the scale and nature of the activities the applicant plans to undertake and the risks in turn that this poses to our objectives. So we will always be interested in assessing the business model, but a simple business model with a limited product range will require less scrutiny than a firm proposing multiple product ranges, a range of distribution channels and an ambitious growth plan. This does not mean that we are reducing standards, rather that we will clearly focus on the risks that we judge to be the most significant.

All applicants will have access to the FCA Authorisations team, who are experts in assessing the applications we receive from all dual-regulated firms. We will be on hand to take applicants through the authorisation process and to ensure a seamless and integrated handover to our Supervision Division once the authorisation has been granted and the mobilisation stage completed (if applicable).

Mobilisation

The third stage, which applies to Option B only, is mobilisation, during which time the bank will raise capital, put in place and test an appropriate IT platform or outsourcing arrangements, hire the necessary staff, finalise policies and procedures that are appropriate to the activities it will carry out, and conduct any relevant training.

The bank's activities during the assessment and mobilisations stages do not have to be done strictly in sequence. Depending on how ready the bank is, it is possible to start the mobilisation activities during the assessment stage, which could mean a firm can begin trading quicker.

The timescale for this stage will be largely driven by the firm. The FCA and PRA will discuss the firm's project plan for this stage towards the end of the assessment stage. While the timeframe is largely driven by the firm, the mobilisation phase cannot continue indefinitely, as the data on which the authorisation was granted will become out of date. We therefore anticipate that the mobilisation phase could take as little as three months to complete, depending on the firm's ability to mobilise, but will not take longer than 12 months. As with the work undertaken during the assessment stage, we will take a pragmatic approach to gaining satisfaction that the threshold conditions will be met, employing different methods where appropriate.

Once the restriction is lifted, the bank can increase the scale of the activities it has been authorised to carry out. With the benefit of being authorised and able to focus fully on the operational elements, we anticipate that firms will want to progress rapidly through the mobilisation phase. The 12-month timescale is very much a backstop against unexpected or unforeseen delays.

While a small degree of flexibility can be applied to the 12-month timeframe, if we judge that a firm does not meet the conditions for the restriction applied at authorisation to be lifted, the PRA will apply a 'guillotine clause' to ensure that the authorisation does not continue past the point when the information on which the authorisation was based becomes out of date. The effect of the guillotine clause will be to remove the bank's authorisation.

During the assessment stage, the FCA will work with the applicant bank to understand its own project plan for completing the mobilisation stage, and will determine the most appropriate and proportionate way to satisfy itself that the new bank will meet the FCA's threshold conditions if the restriction is lifted. By doing this, we will ensure that once the firm enters the mobilisation stage, we only ask for information that is necessary and will apply a range of methods to complete our assessment.