Further information for firms on the Motor Finance Compensation Scheme

June 2026

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Introduction

Since publishing our Policy Statement PS26/3, our engagement has shown that further information would help firms understand and prepare for the scheme.

The information in this document is based on queries we have received and aims to answer those relevant for a broader audience. If you have any specific questions not covered, please get in touch with your supervisor or on MotorFinanceSupervision@fca.org.uk.

Firms should read this document in the context of the ongoing legal challenge to the scheme. The FCA may need to update this document or take further steps in relation to the scheme rules or guidance, as that challenge continues. Firms should monitor FCA announcements closely.

1 Scope and application

Paused complaints

1.1 The complaints pause ended on 31 May 2026, but this has no impact on cases that are within the scope of CONRED 5 and 6. This is because the scheme rules disapply the usual complaints handling time limits for firms to deal with complaints, including motor finance complaints that are subject to our complaints pause rules. So paused motor finance complaints are now bound by the scheme rules.

1.2 This currently also means in practice that firms are not expected to handle non-scheme elements of such motor finance complaints under DISP from 1 June when the pause has ended. However, complaints about agreements outside of the scheme scope will have to be handled within the DISP timelines from 1 June.

Definition of motor vehicle

1.3 The scheme adopts the definition of "motor vehicle" in section 185 of the Road Traffic Act 1988. A motor vehicle is defined as a mechanically propelled vehicle intended or adapted for use on roads to which the public has access. It is clear from the case law that the courts have consistently interpreted that definition broadly; lenders need to take their own legal advice on whether the financed vehicle was a motor vehicle. The breadth of the statutory definition reflects our view about the appropriate scope of the scheme. The scheme is framed by reference to the existence of a regulated credit agreement for a motor vehicle and an applicable commission fact pattern, rather than the subjective purpose, or the type of borrower who acquired it – subject to them being an unincorporated association or a partnership with up to 3 partners (and therefore entitled to benefit from the protections under the Consumer Credit Act).

1.4 Parliament has deliberately brought small partnerships and unincorporated bodies within the consumer credit regime.

Successors and debt sales

1.5 If the original lender still exists and is solvent, then that lender will remain responsible for administering the scheme, even if it has since exited the market. If, for example, the debt was sold, then the purchaser may be responsible for a portion of the redress, and the original lender will inform the purchaser if that is the case.

1.6 If the original lender is insolvent or no longer exists, then another person (for example, a debt purchaser) may be responsible for administering the scheme and paying redress. This will be the case for motor finance agreements where the person (a successor) became a creditor during the fixed term of the agreement.

2 Financial Ombudsman Service

Complaints already with the Financial Ombudsman

2.1 Consumers who had a complaint with the Financial Ombudsman at the date the scheme rules came into force (31 March 2026) and that are within the Financial Ombudsman's jurisdiction will have their complaint resolved by the Financial Ombudsman. This is because the FCA cannot require complaints referred to the Financial Ombudsman before the scheme rules came into force – and that are within the Financial Ombudsman's jurisdiction – to be returned to firms or included in the scheme.

2.2 So, motor finance complaints referred to the Financial Ombudsman prior to the scheme effective date:

- will not be scheme cases if:
  - the complaint falls within the subject matter of the scheme; but
  - the merits of the complaint have been considered by the Financial Ombudsman.

  This is because the Financial Ombudsman will have carried out its own independent investigation into the merits of the complaint and the consumer would have had the opportunity to ask it to review the matter if they did not agree with its initial assessment.

- will be capable of being scheme cases if they:
  - were (or are) found to be out of the Financial Ombudsman's jurisdiction, or
  - have been (or are) treated as withdrawn or abandoned by the Financial Ombudsman before it determined the merits of the complaint

This is because these consumers will not have had an independent assessment of the merits of their complaint. They will be treated as non-complainants for the purpose of the scheme, unless they submit a new complaint.

2.3 Therefore, firms will need to wait until the Financial Ombudsman has dealt with existing complaints referred to the Financial Ombudsman before the scheme effective date and relating to the subject matter of the scheme before assessing whether those complaints may be scheme cases that need to be processed under the scheme.

2.4 The Financial Ombudsman is considering what the scheme rules mean for its determinations of cases that are outside of the scheme. Firms should continue to cooperate fully and promptly with the Financial Ombudsman Service on any complaints that have been referred to it.

The Financial Ombudsman's charging arrangements for scheme cases and cases where no redress is due

2.5 Consumers have a statutory right to refer their complaint to the Financial Ombudsman. As a result, there may be instances where scheme cases, including cases where no redress is due, are brought to the Financial Ombudsman.

2.6 Details of the case fees for these cases will be set by the Financial Ombudsman. Any changes to the case fees are a matter for the Financial Ombudsman and will be subject to consultation. The Financial Ombudsman will announce if and when any consultation is published.

3 Relevant arrangements and exceptions

'DCA not used' exception

3.1 CONRED 5.2.19R / 6.2.19R identify relevant arrangements, unless an exception applies. One exception is the scenario where a DCA operated but the credit broker applied the lowest APR in the range of interest rates that they could have selected.

3.2 CONRED 5.2.19R(5) / 6.2.19R(5) clarify the meaning of "lowest rate" for these purposes. The lowest APR in the range is the rate at which the credit broker would not receive discretionary commission. Where commission is not the result of discretion to select a higher APR than the lowest available, it falls within the DCA exception and the DCA will not be treated as a relevant arrangement. Firms must show that the APR was the lowest APR in the range that the credit broker could have selected under the DCA, based on objective evidence, to demonstrate that the DCA exception applies.

3.3 The exception does not prevent the agreement from having another relevant arrangement, if a tie or high commission was present.

4 Brokers and representatives

Working with brokers

4.1 We set out in our October 2025 Dear CEO letter (PDF) that we expected lenders to address any gaps in records swiftly. Where records were incomplete, we stated that lenders should take early steps to identify the types and volumes of information they may need from brokers and start engaging with them collaboratively and promptly. The scheme rules reflect this and where lenders do not hold the records necessary to evidence rebuttals, they must request relevant records and information from credit brokers (CONRED 5.2.25R / 6.2.25R).

4.2 We also stated that we expected brokers to start taking early steps to prepare for potential requests from lenders to support swift resolutions. Brokers are required to respond appropriately to reasonable requests from lenders within 1 month as highlighted in paragraph 6.24 of PS26/3.

4.3 All firms should continue to work in a collaborative and prompt manner to ensure the swift payment of compensation and conclusion of motor finance commission complaints.

4.4 Where firms experience challenges working together, we expect firms to tell us promptly and to provide information about the issue, the steps they have taken and any impact on their ability to process cases under the scheme.

4.5 Firms are expected to engage with us in an open and cooperative way in line with Principle 11 of the Principles for Business. This includes responding promptly to information requests, engaging proactively where issues arise, and notifying us at the earliest opportunity of any matters that could materially affect progress with complaints or delivery of the scheme.

Multiple representatives

4.6 Firms should promptly identify motor finance commission complaints involving more than one professional representative and work quickly to resolve the issue, without allowing this to delay complaint handling or cause consumer detriment. Our February 2026 Dear CEO letter (PDF) sets out a suggested approach that firms may wish to consider to help them find a suitable solution. More information can also be found in the FCA and SRA joint message to professional representatives on dealing with multiple representation and excessive termination fees.

5 Consumer communications and scheme steps

Scheme steps vs scheme stages

5.1 A scheme step is a main sequential part of the scheme process. A stage is a more granular part of a scheme step or calculation, used where CONRED rules break that step into separate analytical tasks. For example, under CONRED 5.3 / 6.3 (which relate to the assessment of whether there is an unfair relationship causing loss) there are two stages to the assessment. The first stage is the unfair relationship assessment, including whether there was adequate disclosure, and the second is to carry out a loss or damage assessment.

Redress determinations

5.2 Provisional redress decisions and redress determinations need to include a clear illustration of the redress calculation, as set out in CONRED 5 Annex 2.1R(4), 5 Annex 3.1R(4) / 6 Annex 2.1R(4), 6 Annex 3.1R(4), including "*details of the calculations to determine the total amount of redress, clearly setting out the methodology used, any evidential assumptions and reconstructions relied on, the amount of compensatory interest included in these calculations and any proposed set-off for undisputed arrears or default sums*".

5.3 Consumers can accept redress outcomes in provisional redress decisions immediately, rather than waiting for a final redress determination. In some circumstances this means consumers will receive a provisional redress decision as the first outcome explaining that there is no redress due to them and will be asked to accept or object to that decision. Where a consumer chooses not to respond to that decision within the response period, the firm – if it is satisfied the provisional redress decision has been received – must send a redress determination to bring finality for both parties.

Late acceptance of redress determinations

5.4 Firms must give consumers at least 6 months to accept a redress determination (or consumers can choose to refer the matter to the Financial Ombudsman). Firms may specify a longer acceptance period. However, where they decide to set a deadline (after a minimum of 6 months), they must take exceptional circumstances into account, as set out in CONRED 5.4.40R / 6.4.40R.

Joint agreements

5.5 In cases of joint agreements, in PS26/3, the consent of all parties to opt in or join the scheme needs to be present (page 133). Ultimately, the consent and acceptance of all parties need to be obtained before any redress is paid (page 150) or a case closed - unless it can be shown that there has been an assignment to one party of the right to complain and receive redress. A lender must also take reasonable steps to trace all parties to the agreement (page 136).

5.6 However, the rules don't prevent firms from voluntarily splitting claims up for individuals. The intent behind the text in PS26/3 requiring consent from all joint borrowers is that one eligible party does not lose out if another eligible party (or parties) claims on the joint agreement. If a firm decides to pay out part of any redress due, they would not be able to settle this claim in full and final settlement as part of the claim would stay open, and the firm would also carry the risk of disputes or further complaints due to an incorrect split.

5.7 If different professional representatives (PRs) represent different joint borrowers, the firm should verify each mandate and should not assume one PR can bind the other borrower.

Claims by others

5.8 Only consumers who were party to the agreement are eligible to make a claim under the scheme. If they choose to have a professional or a personal representative (such as a friend or family member) act on their behalf, we would expect firms to check appropriate authority as they would in any complaint process, in line with their existing monitoring and control arrangements.

5.9 CONRED 5.7.18R / 6.7.18R set out the requirements for communicating with a deceased consumer's estate or beneficiaries.

Cases across Scheme 1 and 2

5.10 The scheme rules do not require firms to align treatment for consumers who have complaints spanning both Scheme 1 and Scheme 2. Firms may choose to combine the provision of scheme outcomes and communications to consumers who have complaints spanning Scheme 1 and Scheme 2. But if they choose to do this, they must meet the earliest applicable scheme deadlines. As the Scheme 2 implementation period and deadlines are shorter, these become the deadline for any combined communications

Customer verification

5.11 The scheme rules do not prescribe a fixed point for customer verification. However, the implementation period and scheme communication timelines are there to provide firms enough flexibility to complete appropriate verification checks before making redress offers and before a consumer accepts an offer.

5.12 CONRED 5.9.7R (3)(f) / 6.9.7R (3)(f) require firms to set out their approach to fraud prevention and customer identity verification in their implementation plans, and PS26/3 explains how existing financial crime obligations (including SYSC 3.2.6R and SYSC 6.1.1R) continue to apply. Firms should adopt proportionate safeguards, but these should not create unreasonable barriers for legitimate or vulnerable customers.

6 Liability

Agreement start date

6.1 The agreement start date is the date on which the motor finance agreement was entered into. Where this is not known, firms may use other data sources (such as the date of the first payment under the agreement), in accordance with CONRED 5.4.33R(4) / 6.4.33R(4), provided they can justify the proxy used and, where appropriate, explain their approach to FCA supervisors.

'No better deal' rebuttal

6.2 The 'no better deal' rebuttal is only available in cases involving high commission arrangements or certain tied arrangement cases. The test of the rebuttal is that it is more likely than not that the consumer would not, in relation to the same transaction, have been able to obtain a lower APR from another lender the broker had a referral arrangement with, at the relevant time.

6.3 The rules (CONRED 5.3.22R (3) (a) and (b) / 6.3.22R (3) (a) and (b)) require firms to have contemporaneous evidence which demonstrates either:

- alternative available APRs from other lenders the broker had arrangements with; or
- that the credit broker's internal processes involved carrying out checks which ensured that the consumer could not have obtained a lower APR from another lender the broker had arrangements with.

Evidence requirements for non-operative 'right of first refusal' rebuttal

6.4 Evidence requirements for the non-operative tied arrangement rebuttal are explained in 10.73 onwards in PS26/3, and the rules are set out in CONRED 5.3.16R / 6.3.16R to 5.3.19R / 6.3.19R.

6.5 We explain in para 10.82 of PS26/3 that "*The rules set out the evidence likely to be required to demonstrate that the test for a non-operative tie is met. However, it is not an exhaustive list and firms may have alternative credible evidence. As firms develop their approaches, we may issue further guidance on appropriate evidence and how evidence should be assessed.*"

Redress determination for periods where no interest was charged

6.6 Redress under PS26/3 compensates consumers for financial loss arising from an unfair relationship under the agreement. Where interest was not lawfully chargeable, or has already been refunded or credited under a prior remediation programme, it is not considered a loss for the purposes of the scheme. This does not affect the agreement's eligibility.

6.7 Under Chapter 10 of PS26/3, lenders can rebut the presumption of loss by evidencing that the consumer did not incur additional interest costs, or that any such interest has already been remediated. In rebuttal, lenders must demonstrate the nature, scope and period of the prior remediation. For redress calculations under the APR adjustment component of the hybrid remedy, firms should treat earlier remediation as part of the actual payment history, so calculations reflect the reduced or no interest charged and any outstanding balance, and avoid double-counting following the earlier refund. As a result, the payment differential may be lower than it would have been without the prior refund.

7 Redress calculations

Calculating the commission amount

7.1 As set out in Chapter 12 PS26/3 (page 253), if the commission amounts are not available, a firm may contact third parties, such as credit reference agencies, or the consumer to gather relevant data.

7.2 Where appropriate, firms can reconstruct the missing commission amounts (for example, use median annual commission from available data) based on contemporaneous records relating to similar consumers, or consumers in sufficiently similar positions. The considerations that firms must take into account while reconstructing missing data are laid out on page 253, Chapter 12 of PS26/3.

7.3 If the firms are still unable to reconstruct the missing values, they must use the default median values set out in Chapter 12 PS26/3 (Table 10, page 255) and refer to CONRED 5.4.33R(2) / 6.4.33R(2).

7.4 Importantly, firms must ensure that any methodology adopted to calculate commission amounts does not systematically disadvantage consumers compared to the median approach. The methodology used by firms should be applied consistently across affected consumers, should be appropriately documented, and auditable with evidence to demonstrate that the outcome is reasonable.

7.5 Chapter 5 of PS26/3 (page 93) says that the cases where no commission was payable are not scheme cases. If commission was paid by the consumer under the motor finance agreement, the agreement would not be excluded from the scheme on the basis that no commission was earned by the broker, even if the case resulted in early settlement, voluntary termination, or repossession.

Net vs gross commission amount

7.6 Under CONRED 5.1.3R / 6.1.3R, the 'total amount of commission' means the sum of all commission payable in connection with entering into a specific motor finance agreement. 'Payable' refers to the amount of commission that the credit broker was entitled to receive under the arrangement. The lender may refer to evidence of the actual amount of commission paid to a broker in connection with the specific agreement in its financial records.

7.7 CONRED 5.1.4G / 6.1.4G explain that where more than one type of commission is attributable to a specific agreement (for example, a DCA and a fixed percentage advance) the total amount of commission is the sum of commission payable under each arrangement (so the net amount after considering the calculations under both arrangements). The firm should be able to evidence the link between the relevant commission calculations and the specific motor finance agreement.

Early settlement

7.8 Under Chapter 12 of PS26/3, early settlement is applicable while calculating payment differentials under the hybrid remedy, therefore firms cannot take early settlement

into account when calculating redress for cases under the commission repayment remedy (very high commission and a tied arrangement and/or a DCA). The commission repayment remedy is calculated using the commission in the original motor finance agreement and does not require firms to create payment schedules or payment differentials, or account for early settlement.

7.9 Early settlement is only reflected in the calculation of the underlying redress amount and not directly in the caps, which are applied later. However, the cap based on the realised cost of credit will incorporate the effects of early settlement. In practice, this may mean that the realised cost of credit cap is more likely to be the binding cap in some cases, as early settlement reduces the total cost of credit paid.

Redress caps

7.10 In the hybrid remedy cases, redress is capped at the lowest of the three caps calculated as set out in Chapter 12 PS26/3 (page 240). CONRED 5.4.5R / 6.4.5R outline the order of calculations and clarify that caps are applied, where required, after completing the underlying redress calculation.

7.11 As redress under the full methodology is capped at the lowest of three caps, firms would ordinarily be required to calculate all three to identify the applicable cap. However, for operational simplicity, CONRED 5.2.7R / 6.2.7R permits firms to make a settlement offer at any of the three caps without calculating the others. In these cases, the resulting offer will constitute a valid outcome under the methodology and consumers may receive a higher redress outcome than if all three caps were calculated.

7.12 For ongoing agreements, firms should calculate redress and any applicable caps on the basis required by the scheme methodology, including by assuming the agreement runs to term where future scheduled payments need to be reflected. Where the agreement is ongoing and there are no undisputed arrears or default sums, firms may provide consumers with the option to offset their redress against the outstanding principal. As outlined in CONRED 5.4.38R(2) / 6.4.38R(2), firms must obtain consent from the consumer before set-off can be applied.

Post-termination recoveries

7.13 Post-termination recoveries are outstanding payments or charges that are recovered by the lender after the consumer's agreement has ended, where the consumer still owes money under that agreement. These can arise in a range of situations after the agreement has ended (e.g. default, repossession, or voluntary termination).

7.14 Whether post-termination recoveries should be included within the redress calculation will depend on the facts of the individual case. Each case will need to be considered to understand how post-termination recoveries are applied to the account and the contractual basis for doing so.

7.15 Payments made after termination may still count as payments relating to the original motor finance agreement and therefore in scope for the purposes of redress calculations. For example, where the vehicle has been sold post termination, proceeds from the sale may have been used to contribute to reducing the shortfall in payments due under the original motor finance agreement. Such payments may still count towards component "A" of the redress calculation and can be treated as part of

the total value of actual payments made by the consumer under the agreement minus the total cost of credit (see CONRED 5.4.21R / 6.4.21R) as it represents a sum that the consumer paid towards the cost of the loan.

7.16 In many cases, motor finance agreements include specific clauses covering post-termination recoveries, meaning that such payments may still be made to discharge the contractual obligation to pay the cost of credit.

Customer deposits

7.17 Under CONRED 5.4.21R / 6.4.21R, customer deposits are excluded from component "A" (the total value of all actual payments made by the consumer under the motor finance agreement, minus the total amount of credit) when calculating the total realised cost of credit cap. Only payments made by the consumer towards the total cost of credit are included. It does not include deposits or any other amounts paid by the consumer that do not constitute payment for the credit itself. The purpose of the cap is to capture only what the consumer paid for the provision of credit.

Debit backs

7.18 A debit back is where a lender recovers (claws back) commission previously paid to a broker or dealer, usually because the finance agreement ended early or did not perform as expected. Debit backs are not explicitly addressed in the scheme rules. However, the realised cost of credit caps ensure that consumers cannot receive more in redress than they actually paid under their motor finance agreement.

7.19 Caps help ensure proportionality and reduce the risk of overcompensation. Firms will need to consider the individual facts of the case. Where a debit back was present, this means an agreement ended early, and firms should therefore take the same approach as they would for early settlement cases. As debit backs relate to commercial arrangements between the lender and broker, they are not relevant to the redress calculation beyond evidencing early termination of the consumer's agreement.

Payment schedules and reconstructed cashflows

7.20 Chapter 12 of PS26/3 explains how firms apply the APR adjustment when constructing a payment schedule for redress calculations. The scheme accommodates more than one approach to constructing payment schedules, recognising that firms' access to data may be limited.

7.21 Firms must reconstruct payment schedules in accordance with the scheme rules and are required to apply Options 1, 2 and 3 in order. These rules are slightly different for agreements which are settled early, or partially settled early.

7.22 Where firms hold reliable and complete records of actual payments (including where agreements were settled early), those records should be used (Option 1). Where such records are not available or are unreliable, firms may instead rely on the contractual payment schedule (Option 2). Where neither cash flows nor contractual schedules are available, firms may construct a modelled schedule using the standard amortisation formula, the original APR, and the contractual term, assuming the agreement ran to full term (Option 3).

7.23 The modelled approaches will not reflect all features such as missed or irregular payments. However, the purpose of the payment schedule is to enable application of the APR adjustment as a proxy for interest-based detriment.

7.24 Early settlement should be reflected where the necessary and reliable inputs are available. Where neither cashflows nor the contractual schedule are available, the amortisation modelling assumes the agreement ran to full term. Firms are therefore expected to reflect early settlement only where they have the necessary inputs to do so.

7.25 We have set out the rationale for this methodology in Chapter 12 (pages 237-239) of the PS26/3. The applicable rules are set out in CONRED 5.4.10R / 6.4.10R. As noted in PS26/3, firms can also make settlement offers, which provide firms with a quicker and lower administrative cost route to resolving claims.

7.26 Some specific scenarios relating to payment schedules are addressed below:

Payment Schedules under Option 1 - hybrid remedy cases where firms have the actual payment schedule and the consumer settled early or partially settled early.

- Treatment of partial payments towards arrears or missed payments (later completed): Chapter 12 of PS26/3 (page 237-239) confirms that when partial payments are below the market-adjusted amount for the particular instalment (negative differential), no redress should arise. The redress should be calculated across the reconstructed payment schedule. This is not conditional on the customer making a full contractual payment under the market-adjusted APR. The partial payment towards an arrears or missed payment (later completed) should not generate additional redress for that previous contractual instalment. For later periods, redress arises only when the actual payments (including an added payment to clear previous arrears or missed payments) exceed market-adjusted payments.
- Treatment of overpayment by consumer under Option 1: In cases where the consumer paid more than the contractually agreed amount, the full amount will be considered as actual payment for that instalment. Firms are not required to cap the payment at the contractual amount or re-split it into artificial instalments and should calculate the payment differential by subtracting the market-adjusted payment from the actual over-payment made by the consumer.

Payment schedules under Option 2 and 3

- Treatment of arrears: Option 2 and Option 3 are applicable where the firm does not have actual cashflows but is relying on a contractual payment schedule or cashflow modelling as a fallback option. The periods of arrears are not separately modelled within the reconstructed schedules under these options. Firms should calculate redress assuming that reconstructed payments were made as scheduled. This is to ensure that the scheme is consistent, scalable and feasible where historic data is missing or unreliable.

7.27 Under CONRED 5.4 / 6.4, 'payments made by the consumer' intends to capture payments made in discharge of the consumer's obligation towards the payment of the loan or cost of credit under the specific motor finance agreement. This would include payments not directly initiated by the consumer, but made on their behalf by

a guarantor, family member, insurers or another third party. The interpretation applies consistently across the construction of schedules under CONRED 5.4.10R / 6.4.10R (Option 1) and the application of caps under CONRED 5.4.20R / 6.4.20R and 5.4.21R / 6.4.21R.

Some examples of the payments that should not be included under the abovementioned rules are:

- the redress or remediation amounts credited separately from the original agreement;
- credits applied after the end of the agreement;
- credits applied solely to fees; or
- charges that were not payable by the consumer.

Set-off

Debt purchasers

7.28 Debt purchasers should be treated in the same way as lenders for the purposes of set-off under the scheme. This means that where a consumer is owed redress under the scheme, a debt purchaser may set that redress off against any undisputed arrears or default sums owed by the consumer on the motor finance agreement. Consumers may object to set-off under the unfairness test, as set out in the rules in CONRED 5.4.26 / 6.4.26.

7.29 Where relevant, all references to a lender should be understood to include a debt purchaser.

Shortfall

7.30 Where a consumer has voluntarily terminated their agreement and has paid at least 50% of the total amount payable, they are not liable for the remaining balance under section 100 of the Consumer Credit Act. In these circumstances, set-off cannot be applied under the scheme to recover the remaining balance due under the agreement.

7.31 This includes cases where the proceeds from the sale of the vehicle do not cover the outstanding balance.

7.32 However, consumers may still have outstanding liabilities in some voluntary termination cases. In those circumstances, set-off may be applicable. Examples include:

- Additional charges arising during the agreement (where these are specified in the agreement): where the consumer has paid up to the 50% threshold but remains liable for other charges incurred during the agreement, such as excess mileage, damage, or missed or late payments.
- Termination before the 50% threshold is reached: a consumer can exercise their right to voluntary termination at any time before the final payment is due (section 99 of the Consumer Credit Act). If they terminate before paying 50% of the total amount payable, they may remain liable for the difference up to that threshold (for example, where termination occurs at 30%, leaving 20% still

payable). However, this will depend on the terms of the agreement, as under some agreements a right to voluntary termination may arise at a lower threshold.

7.33 Where an agreement has been terminated early by the lender, as a result of the consumer breaching the agreement (for example, through non-payment), and the agreement has not been voluntarily terminated, the consumer may remain liable for any outstanding amounts payable during the term of the agreement.

7.34 In these circumstances, lenders may be able to apply set-off in line with the scheme rules. However, lenders and debt purchasers should consider each case on its individual facts, including the contractual basis for making any post-termination recoveries and the extent of the consumer's liability after the agreement is terminated.

Written off debts

7.35 In some circumstances, a lender may be able to set redress off against a debt that has previously been written off in connection with the motor finance agreement. Whether set-off can be applied in these circumstances will depend on the specific facts of the case. We would therefore expect lenders to conduct their own legal analysis when assessing whether set-off is appropriate.

7.36 As part of this analysis, lenders would be expected to consider a range of relevant factors, including:

- Communication with the consumer - this includes the effect of any communication from the lender in relation to the debt, such as whether the consumer was informed that the debt would not be enforced.
- The conduct of the lender in relation to the debt – this includes whether, and to what extent, the lender has taken steps to pursue or recover the debt.
- The contractual position - this includes whether the relevant agreement contains any provisions about outstanding debts being used for the purposes of set-off.
- Enforceability of the debt – this includes whether, as a matter of law, the lender would be able to recover the debt via court action.

Other losses incurred by the lender

7.37 Redress can only be set off against undisputed arrears or default sums owed by the consumer under the motor finance agreement (as set out in CONRED 5.4.24R / 6.4.24R). Redress may also be offset against the principal where the consumer has an ongoing agreement in line with the requirements set out in CONRED 5.2.38R / 6.2.38R.

7.38 Lenders and debt purchasers are not permitted to deduct other amounts or losses from the redress payable to consumers under the scheme. For example, lenders and debt purchasers cannot recover the admin costs associated with the scheme by taking this from the sum of redress payable to a consumer.

8 Supervision and reporting

Managing adequate financial resources

8.1 Authorised firms must meet our Threshold Conditions and Principles, which require firms to have appropriate resources (see COND 2.4 Appropriate resources and PRIN in our Handbook). We set out more detail in our framework for assessing adequate financial resources (FG20/1), including the need to cover potential redress liabilities.

8.2 We expect you to undertake an assessment of whether your firm's financial resources are adequate. This assessment should be proportionate to the scale and complexity of your regulated activities. The assessment is expected to be forward looking and must consider the risks, and potential liabilities, your firm is exposed to, including any potential redress liabilities.

8.3 We expect you to analyse the impact of making any capital reduction, such as dividend payments, on your firm's ability to meet potential future liabilities that may arise.

8.4 Accounting standards generally require firms to make provision or recognise a contingent liability in their financial statements for liabilities of uncertain timing and/or amount. You should ensure that your financial statements are accurate and up to date. This includes considering issues relevant to your firm. For example, relevant Financial Ombudsman decisions that may impact your firm, pertinent court judgments and any other issues identified from your internal review. You should engage external auditors where required.

8.5 Under Principle for Businesses 11, we expect regulated firms to deal with us in an open and cooperative way. That includes disclosing anything we would reasonably expect to know. More detailed rules and guidance are set out in SUP 15. You must immediately notify us if you're unlikely to have adequate financial resources in the next 12 months, and before you take action that could materially impact capital positions or any other decisions which could result in serious detriment to a consumer.

8.6 If your firm is part of a wider group, we expect you to engage with relevant group stakeholders to ensure that they fully understand the possible impact on your firm and additional financial support is secured, if appropriate. They must hold enough capital in the UK and make proper provisions for possible liabilities. We will test this through supervision and take strong action, including business restrictions, if firms do not have the right financial resources in place.

8.7 We'll monitor financial resources held by your firm through the motor finance scheme reporting, ongoing supervisory engagement and supplement with additional data requests, where necessary. We may use our regulatory tools to intervene if we find your firm has not undertaken any assessment of adequacy of financial resources or may be at risk of not having adequate financial resources. Additionally, we'll intervene if we identify actions that appear to be an attempt to avoid potential future liabilities.

New authorisations, changes in control and cancellations

8.8 We are enhancing our gateway monitoring to prevent firms and individuals from avoiding potential redress liabilities or engaging in phoenixing. Our approach includes:

- Scrutinising the rationale for new applications, changes in control and cancellations.
- Assessing whether applicants have properly identified and calculated potential redress liabilities.
- Confirming they have credible arrangements to fund any future redress and have settled existing liabilities.
- Verifying all complaints are resolved before approving cancellations.
- Ensuring applicants have taken reasonable steps to minimise any adverse impact on customers.

8.9 Where firms have not taken adequate steps, we may require further action such as PI insurance, customer contact exercises, third-party assurance in transfer scenarios, or reviews of high-risk business and payment of redress. Firms may also use deed polls where they are confident in the quality of past services, allowing responsibility for historic activity to transfer to the new firm. Applicants that do not engage appropriately will face increased scrutiny and may have their applications refused.

8.10 **We expect firms to manage redress liabilities in line with our rules. We scrutinise redress provisions, challenge firms on actual and potential liabilities, and use data to identify risks such as phoenixing and other polluter behaviours. Where firms fail to prevent harm, we may require them to review high-risk business, strengthen controls, or pay redress.**

Firms with one or more senior management function (SMF)

8.11 All firms must nominate an SMF (or equivalent where there is no SMF) to have overall responsibility for oversight of the delivery forecast and scheme compliance.

8.12 In some circumstances, a firm may need to nominate more than one SMF, for example, where the firm has separate divisions with different systems and staff.

8.13 If you intend to have more than one SMF overseeing the scheme, you will need to do the following:

- Submit the most senior SMF details into RegData as required under CONRED 5.9.3R (2) & 6.9.3R (2).
- Email the name and contact details of the additional senior manager responsible for oversight and overall delivery of the scheme, including your reasoning for an additional SMF to MotorFinanceSupervision@fca.org.uk.

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