Financial Conduct Authority

Regulation round-up

May 2014

Banks // Insurers & insurance intermediaries
Financial advisers // Mortgage lenders & brokers
Investment managers & stockbrokers // Wealth managers & private bankers

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

Victoria Raffé, Director of Authorisations

'...a complete, high-quality application helps us to make our assessment as quickly as possible...'

I am delighted to introduce this month's round-up. In Authorisations we are always working to make our processes as efficient as possible while delivering a robust gateway to help maintain a clean market.

We have just published our first set of key performance indicators (KPIs), to replace Voluntary Service Standards for some regulatory transactions, such as Authorisation, Variation of Permission and Waivers. We use these to manage our operational delivery, and publishing them will improve transparency – helping existing or prospective firms know what to expect from our processes. The KPIs include the average processing time (APT), the volume of applications we approved and the percentage of approval, withdrawal and refusal decisions, supplemented by analysis and commentary.

It is important to note that the APT is influenced by the degree of risk, completeness and quality of each application – a complete, high quality application helps us to make our assessment as quickly as possible.

Authorisations has expanded significantly to take on the challenges of the regulation of consumer credit firms at the gateway. We have received 49,454 interim permission notifications and are receiving around 120 new applications per week. We have now published the schedule of application periods and firms will need to apply for authorisation within their designated application period otherwise their interim permission will lapse. Whether firms are applying for authorisation soon or in the future they should start preparing their application now. There's more information on preparing for authorisation available on our website.

Hot topic:
Mortgage Market Review (MMR)

We've seen a lot of press comment recently about the tough approach lenders are applying to affordability checks so we thought it worthwhile reminding you about what we expect.

Underwriters need to look at information about income and outgoings, just as they did pre-MMR, to judge the borrower's ability to repay the mortgage. In this respect, we don't expect that much to change.

The only difference is that we have added more detail to the rules, setting some standards around what lenders, as a minimum, need to take into account. In addition to committed expenditure, credit and contractual and any other expenditure the borrower is committed to continue after the mortgage has completed, the lender needs to consider the essential expenditure that households have to meet to maintain basic needs – things that are not realistically possible for a borrower to reduce or go without (such as food and household utilities).

On top of that, we've asked lenders to allow for basic quality of living costs, expenditure beyond the bare essentials that is still difficult to go without or to reduce, such as clothing, household appliances and basic recreational activities.

We believe that the need to think about expenditure as well as income is nothing more than the application of common sense and that the benefit of this will become more apparent as MMR beds in.

For more information, please refer to our MMR web pages.

Find out more

Financial crime: anti-money laundering controls

We are carrying out a thematic review of smaller banks' anti-money laundering controls (AML), having visited some of these banks as part of a thematic review in 2011. We continue to find significant weaknesses in many banks' money-laundering risk assessment and management policies and procedures. In particular, we find these in how banks identify and manage high-risk customers, and monitor transactions.

Our visits are ongoing and we intend to publish a report setting out our findings later this year. We are reminding all firms that are subject to our AML rules that they must put in place and maintain policies and procedures to identify, assess and manage money-laundering risk effectively. We provide guidance on how firms can achieve this. There is also more information available on our website.

All firms that are subject to our AML rules must regularly review their policies and procedures, to ensure they remain effective and relevant.

Find out more

Banks

Clive Adamson at the BSA conference

Speaking at the recent Building Societies Association conference, Clive Adamson, Director of Supervision, outlined how effective regulation and sustainable businesses go hand in hand and how the FCA has set out to make a positive difference in its first year.

Insurers & insurance intermediaries

General insurance conference

This will take place on 2 June 2014 at The Brewery, London. At the conference we will discuss our strategy for general insurance regulation and consider top conduct issues for the sector.

Financial advisers

Changing customers to post-RDR unit classes

Our finalised guidance addresses:

- whether a conversion to a clean unit class should be treated in the same way as a switch of units
- whether conversions can happen in bulk rather than individually
- if conversions can happen without express consent of the relevant unitholder(s)
- whether advice is needed
- the role of advisers in the conversion process, and
- whether a new disclosure document (e.g. a Key Investor Information Document (KIID) for a UCITS scheme) needs to be issued to each relevant unitholder before conversion

Our **FAQs** may answer some of your specific questions.

Clarity of fund charges thematic review

FOR ACTION

Our **review** focused on the clarity of fund charges in information provided by asset managers, but advisers and platforms also have a responsibility to provide information on charges clearly and consistently. It is important for investors to be able to understand and compare charges because, with performance and the levels of risk, they contribute to fund returns. We expect charges to be clearly and consistently presented so retail investors can make valid comparisons of charges between funds.

Review of post-RDR adviser charging and service disclosure: cycle 3 starts in early July

FOR ACTION

We published the **findings** of our thematic review into disclosure of adviser charges and services. The results were disappointing, with 73% of firms failing to correctly provide the required information on the cost of advice. The next cycle of our review starts in July, so you need to act now to ensure your disclosure documents and processes

Investment managers and stockbrokers (retail and wholesale)

Clarity of fund charges thematic review

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Dealing commission: clarifying rules on research

FOR ACTION

Our **Policy Statement** finalises clarifications to our rules that allow investment managers to use dealing commissions – paid from their customers' funds – to receive execution-related and research goods and services.

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Warning notice against an adviser over UCIS

An individual warning was issued to a director of an Appointed Representative for promoting and arranging certain Unregulated Collective Investment Schemes (UCIS).

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Invesco Perpetual fined

Invesco were **fined** £18,643,000 for not complying with investment limits designed to protect consumers, and not clearly informing investors or explaining associated risks of its use of derivatives, which introduced leverage into the funds.

Pension transfers into unregulated products through SIPPs

We have alerted firms to our requirements when they give advice on self-invested personal pensions (SIPPs), as recent supervisory work has identified ongoing and serious failings in this area. We believe pension transfers or switches to SIPPs intended to hold non-mainstream propositions are unlikely to be suitable options for the vast majority of retail customers and that firms operating in this market need to be particularly careful to ensure their advice is suitable.

Former UBS trader banned

We have **banned** John Christopher Hughes from performing any function in relation to any regulated activity in the financial services industry for failings related to $2.3 billion unauthorised trading losses by another trader Kweku Mawuli Adoboli.

Mortgage lenders & brokers

Clive Adamson at the BSA conference

Speaking at the recent Building Societies Association conference, Clive

Wealth managers & private bankers

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May news round-up

FCA Independent Directors Publish Protocol and Updated Terms of Reference

The **Protocol** sets out the procedures under which the inquiry is to be carried out, and an updated Terms of Reference.

Events & publications

General insurance conference

This will take place on 2 June 2014 at The Brewery, London. At the conference we will discuss our strategy for general insurance regulation and consider top conduct issues for the sector.

FCA key perfomance indicators (KPIs)

FCA appoints two new senior advisers on competition and investment banking

David Saunders will be a senior adviser for competition and Gunner Burkhart will be a senior adviser for investment banking.

We are making more information about our performance available, by publishing some **KPIs** for the first time.

FCA service standards

Our **service standards portfolio** provides information about key areas of our service, how we are performing and how firms and consumers assess the levels of satisfaction with our service.

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