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Financial Conduct Authority

Regulation round-up

March 2014

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

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

Clive Adamson, Director of Supervision

'We want to supervise what matters. Good conduct is essential to how firms are run'

I'm pleased to introduce this edition in the week we launched our Approach to Supervision. We have produced four tailored guides to make it easier for you to understand what you can expect from our supervision – and what we expect from you.

We want to supervise what matters. Good conduct is essential to how firms are run.

This means looking at far more than systems and controls and compliance with the rulebooks. In the new model, we will be in direct contact with a wider range of people in many firms, and will examine various parts of firms much more closely to really get into the heart of the business.

We want to know how your business is really run, rather than just how you control your risks, to find where problems flow from and address them at the source. We are interested in your financial health and how you aim to make money, both now and in the future, and how your culture and strategies ensure better outcomes for consumers. We will examine the risks your business poses to our objectives in these areas, and how you respond to these risks.

And for the first time we are publishing information on our approach to supervision in one place, tailored for each category of firm.

So C3 firms can use their guide to find out more about how we will carry out periodic assessment at least once every four years. And how we may invite you to participate in thematic reviews and market studies.

For many C4 firms our approach has not changed. You'll still get a four-yearly assessment by phone or in person but we are now looking at the culture of firms to ensure you consider consumers and market integrity in everything you do.

We want to continue engaging with all firms in the industry, and will do so through events with trade bodies, speeches and roundtable discussions. These allow you to communicate directly with us and enable us to be aware of developments in each sector – a key part of our forward-looking approach. When we discover a risk, we will consider the most appropriate way to respond.

Hot topic:
Update on sales incentives at retail firms

FOR ACTION

We found significant improvements at many firms of all sizes during our review, which looked at how firms are managing the risk of mis-selling from financial incentives. We also identified a number of areas where further work is required.

Consumers have the right to expect that they are offered products based on their needs rather than a salesperson's desire to get a bonus or increased remuneration. A large number of firms have changed the way they reward staff to motivate better behaviour. But most firms still have some improvements to make, e.g. identifying and monitoring sales patterns.

Many smaller firms have not realised our guidance applies to them, including firms that don't operate separate bonus schemes, e.g. where staff or advisers (employed or self-employed) are paid a proportion of fees, income or commission generated. This is a form of incentive scheme and the risks still need to be managed. We expect firms of all sizes to read our publication and take action where required.

Financial incentives continue to be a priority for us. We will be carrying out thematic work to look at how firms manage the performance of their sales staff and whether other types of pressure put on staff (e.g. sales targets) increase the risk of mis-selling.

Find out more

Consumer credit: what happens if you don't register for interim permission

FOR ACTION

If your firm or any of its associated businesses holds a current consumer credit licence and intends to carry out consumer credit activities from 1 April 2014, you will need to register for interim permission by 31 March 2014. Registration is required even if firms are already authorised by the FCA for other activities.

If your firm continues with those activities without interim permission, it will be trading illegally and any contracts made will be unenforceable. We will be publishing a list on our website that will show the firms that had an OFT consumer credit licence but have not registered for interim permission or informed us of plans to stop consumer credit activities from 1 April 2014.

If you intend to stop carrying out consumer credit activities, you should tell us about your plans now to avoid having your firm included on this list.

Registering for interim permission takes just a few minutes.

Have you clicked yet?

Register now at fca.org.uk/clicked

Find out more

Banks

Payment systems regulation

FOR ACTION

We are seeking views on UK payment systems to help develop the approach for the new regulator. Please respond

Insurers/Insurance intermediaries

GI add-ons competition study

FOR ACTION

We have published the provisional findings of our market study into general insurance add-ons which to the **Call for Inputs** by 5 April 2014.

SME banking market study

We have been working closely with the Office of Fair Trading (OFT) on this market study. The OFT has issued an update, setting out its analysis to date. The Competition and Markets Authority (CMA) will take over responsibility for concluding the market study from the OFT from 1 April. We will continue to work closely with the CMA.

confirm that competition is not working in these markets and that this can lead to poor consumer outcomes. We believe that there is a clear case for us to intervene in the supply of general insurance add-ons, and the report outlines a package of proposed remedies. We are now inviting comments on our provisional findings and proposed remedies by Tuesday 8 April.

Financial Advisers

RDR: demonstrating independent advice

During our thematic review, advisory firms asked us about the practicalities of meeting the independence requirements. We have produced a video to answer these questions. Our report also details further good and poor practice we have seen where firms are demonstrating their independence.

Proposals for Section K and L of the RMAR

We propose to move the **Section K technical note** into the Handbook and change the reporting requirement from every six months to annually. We also propose to remove the requirement for firms to provide consultancy charges through Section L and move the APF annual questionnaire to GABRIEL as a new form.

Platform rules come into force on 6 April

Platforms are making good progress in preparing for the rules. We encourage platforms to work with advisers to ensure customers understand the changes and any impact they may have.

Inducements guidance

Our guidance sets out that advisers and product providers share the responsibility for managing potential conflicts of interests when receiving and making payments under service and

Investment Managers and Stockbrokers (Retail and Wholesale)

CRD IV test environment available

FOR ACTION

If you are caught by the CRD IV rules we encourage you to **sign up** and use our test environment specifically for your reporting. It will test whether your software matches ours and the technical construction of your report.

Inducements guidance

Our guidance sets out that advisers and product providers share the responsibility for managing potential conflicts of interests when receiving and making payments under service and distribution agreements. We found payments were still being made that could result in advisers favouring one provider over another, which is against the aim of the RDR.

Martin Wheatley update on dealing commission

Martin updated the industry on his vision for the asset management sector, as first set out at our Asset Management Conference last year. We are pleased to see parts of the sector start to put things right, for example, setting clear budgets for research. There are a number of areas for improvement, particularly where controls over the use of commissions are not up to scratch.

New head of investment banking

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Final rules on crowdfunding

We confirmed our rules on crowdfunding, specifically on loan-based crowdfunding and security-based crowdfunding. These rules will ensure that consumers are better protected.

Our pension switching webinar is now online

Our pension switching webinar discussed the findings from our previous thematic work. We look at how suitability can be demonstrated and share good and poor practice on communicating with clients when making a recommendation. You can watch it here.

Our webinar on income drawdown is now available

Our income drawdown webinar discussed the findings from our previous thematic work. We share examples of good and poor practice and our expectations when we review client files. You can watch it here.

We have appointed Julia Hoggett as head of investment banking in our supervision division. She will start in early May.

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Mortgage Lenders & Brokers

Mortgage arrears thematic review

We found that firms had improved their management of customers in financial difficulty since the last review. However, lenders and administrators need to focus on delivering consistently fair outcomes.

Mortgage interest rate stress test

We are consulting on the changes needed to implement the recommendation of the Financial Policy Committee (FPC) on interest rate stress tests in the assessment of affordability.

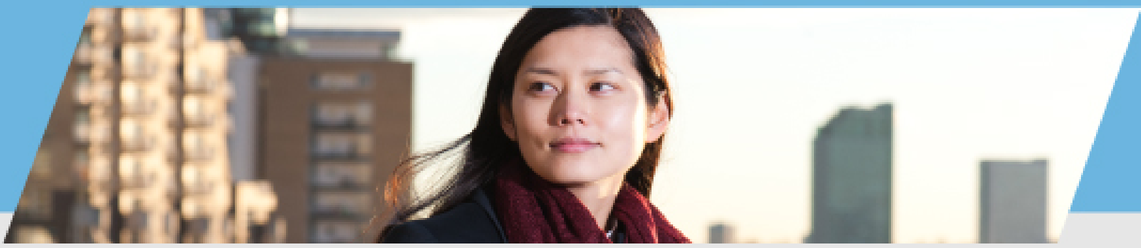
Mortgage data reporting

We are proposing to amend our Mortgage Market Review (MMR) data reporting rules to make it clear that the new Product Sales Data performance data must be reported by regulated firms that own regulated mortgage contracts, even if they do not have the permission for ‘entering into’ mortgages. This may include some firms that have bought mortgage books from other firms. This has a two-month consultation period, which closes on 6 May 2014.

Mortgage Market Review reminder

We propose to achieve this through an amendment to our mortgage rules. There is a four-week consultation period, which closes on 4 April 2014.

FOR ACTION There's just over a month until the MMR takes effect – check your understanding of the disclosure and advice requirements by logging onto the MMR webcast.



March news round-up

Martin Wheatley speech: Ethics and economics

Consumer credit: Review into debt collection practices of payday lenders to start on day one of FCA regulation

David Lawton speech: Regulatory developments and the changing market structure

Consumer credit: watch our supervision webinar

Our supervision webinar covers our approach to supervising firms and how consumer credit firms can prepare for being regulated by us. You can watch it **here**.

Events & Publications

Positive Compliance Seminars

Our 2014 programme of Positive Compliance seminars will start in May. We have listened to your feedback on the areas where you want more clarity and our focus this year will be on RDR and Centralised Investment Propositions (CIPS)/Replacement business.

As with previous sessions, we will be offering two topics during the day with an opportunity for you to attend either one session or both. Full details of the content as well as locations and dates will be on the events pages of our website shortly.

New commodities web pages

Our latest web page outlines how we regulate commodity markets. A more detailed **guide** is also available.

Quarterly consultation paper