Payments and Digital Assets Authorisations Video Transcript - Threshold conditions with Val Smith, Head of Authorisations: Part 2

Louis Myers

- Welcome back for part two of our discussion on the threshold conditions. In part one, we covered business model and appropriate resources, focusing on the importance of your regulatory business plan and how everything you submit needs to align with the information you provide us. In this video, we'll turn to the remaining three conditions, suitability, location of offices, and effective supervision. These can feel less tangible than the ones we covered in part one, so we'll focus on making them as practical and clear as possible. Suitability, Val, is perhaps the most personal of the five conditions because it goes beyond all of the documents that people need to put together, and it's a little bit more than the systems, isn't it, as well. So it raises a bit of a fundamental question really around competence, trust. What does suitability actually mean in reality?

Val Smith

- So, yes, absolutely. Looking at the people and thinking about those in charge, are they fit and proper? Are they competent, trustworthy, and will they act in the interests of their customers and the UK markets? So when I think about how we assess those individuals, I'm going to be looking at integrity, of course, their financial soundness, their experience. Many will be familiar with the senior managers regime, which sets out our expectations for people in key roles in a firm's hierarchy. We may look at background checks on people as well, particularly if they're holding senior management functions, and we will ask whether or not they understand the regulatory landscape that they are operating in and what will be expected of them as leaders in their firms. Now, I would add that, in this

space, disclosure is really important. If there is something you think you need to tell us, then please do, and please do so early, so we can have a conversation about it with you. Ultimately though, it is the firm's responsibility to do their due diligence on their people, and we will expect to be able to see how they have done that when we think about their application.

Louis Myers

- That's quite an individual level of assessment, isn't it? You're going into quite a lot of detail here. Speaking, I suppose, of the responsibility that firms carry, I wonder how do we then go about assessing suitability at a firm level? It's very different, isn't it? And it takes on a different form really in terms of the contrast between an individual assessment and a firm assessment.

Val Smith

- So when I think about the firm, I'm going to be thinking about the control framework that those people have set up to run their business in an appropriate way. As the regulator, we will want confidence that the risks of harm that come with doing that type of business can be managed effectively and controlled so that misconduct is minimised. And we will want to see how the controls and governance have been set up so we can be confident in how they can be executed. But it's not just about what they are, but also how you live them in practise. And we will be interested in the culture that those leaders will be setting in their firm to be able to deliver all of the things. The culture is so important. Not just the what, but the how.

Louis Myers

- So we've spoken about three of the conditions now over the course of these last two videos. The next one feels, I suppose, a little bit more tangible because we're going to talk about the location of offices. It's probably, again, it might feel like one of the more straightforward of the conditions, but there's some important nuancing here, isn't there? Particularly around what we actually mean by head office and what it means for international and overseas firms who are looking to enter the UK market. So could you explain a little bit about what we're looking for?

Val Smith

- So for a UK incorporated firm, the head office must be in the UK, but it's more than the location of the physicality. It is also about the people

again. Where is the mind management of that firm located? Are they in the UK and ready to manage that business with an awareness of what is going on in the UK market and the expectation of us their regulator as well? For international overseas firms entering the UK market, we might typically expect a subsidiary, but clearly there are lots of international firms that operate in our markets, and we welcome them that are not all completely based here. And so we will want to look at the nature of the business, how it operates, to be clear that if it's not a subsidiary based in the UK, it can still fulfil the requirements that we expect. For some sectors such as crypto assets, we will expect most businesses to be located in the UK. We have set out. There's a particular type that we thought might work on an international stage. So it will again vary by sector too.

Louis Myers

- Supervision, how we go about doing that is quite an important thing from an FCA regulatory perspective. The location of the offices plays an important role here, doesn't it? Because actually we might not necessarily be able to go and visit some of these international headquarters, but effective supervision is a key part of our function. So why does it matter so much and how does it work in the event that you are an international firm?

Val Smith

- This threshold condition is very important to us because it talks to not just the point of authorisation, but how you will be a regulated firm in our industry, hopefully for a long time. And our ability to effectively supervise does go to some quite simple things in there. So how can we communicate effectively? How can you communicate with us? Are we able to understand what is happening? If something was going wrong, can a change or action be done quickly to address the risk and the harm that might be happening in the market? And so we will think about that quite carefully when we look at how you intend to set up your business. Governance is crucial and looking from the top down how that works, what is the interaction between decision makers, parts of the different group, owners of that business, who is in charge, who is making the decisions, and how that might impact on our ability to supervise. And we will think about those group structures and perhaps any unregulated business you are doing or close links with other businesses just to understand how it might impact on your business too. Because at the end of the day, we need to be sure that we can do our job as a regulator and effectively supervise your business in the UK.

Louis Myers

- That is really helpful context. I wonder how firms might be able to go about demonstrating that they meet this particular expectation when putting together their application. Are there any pieces of information that you're particularly looking for?

Val Smith

- So I want to understand, given the business that has been set out that they want to do, how they have structured that and how will the different parts of their business play to each other as well? Where are they? So we see different group structures, different ways of organising, but how will it work and how will it meet the threshold conditions, rules, and guidance that we have set out for the type of business they want to do? So be very clear when you tell us in your regulatory business plan how the different parts fit together. Again, it goes back to the coherence of what are you going to be doing, who's going to be doing it, and how have you set yourselves up to do that in the UK, and if there is any international operation, how is the interplay going to work?

Louis Myers

- Now, there is that link, isn't there, between the office location and our ability to supervise firms effectively, particularly international firms. And can you bring that together, I suppose, and explain how those two conditions interact?

Val Smith

- In our experience, where our oversight is not as direct, there can be some problems with making sure that the regulatory requirements and outcomes that we're looking for fit well with the regulatory outcomes from elsewhere. That is entirely possible, but as we set out in our approach to international firms, some business structures can present certain risks of harm, and we would want to know how they are being dealt with. So again, in an application, helping us understand some of the things we care about, particularly if something was going wrong in a business, about how we would be able to deal with that, how we will be able to deal with the fact that you might be doing a business in the UK, but some parts of it are in a different jurisdiction. How do those things interplay with different legal structures or requirements? So when I think about the location of office, as you say, I am going to be thinking about, can I effectively supervise the way in which you have set yourself up? And I will

think about that both at the point at which you are authorised, but also on an ongoing basis when you are being supervised by the FCA.

Louis Myers

- Thank you, Val, and thank you to everyone who's watched both parts of this series. Hopefully, you now have a clear picture, not only of what the threshold conditions are, but of how we assess them in practise and what strong evidence looks like at each stage. It's worth remembering that the threshold conditions aren't simply a compliance checklist. They're a genuine test of whether your firm is ready to operate in a regulated market and serve customers well. Meeting them is the foundation on which everything else is built. Our exact expectations will vary depending on your business model and the activities you're applying to carry out. So we'd strongly encourage you to review the additional guidance on our website that is most relevant to your firm.