

An introduction to the Financial Conduct Authority's proposed consumer credit regime

We want to help you understand how the Financial Conduct Authority (FCA) operates and what it will mean for you once the transfer of consumer credit regulation has happened. We understand this is a huge change for many of you and we want to help and guide you throughout the transfer. This short document gives you an overview of the different elements of the Financial Conduct Authority's (FCA) proposed consumer credit regime.

As we go through the transfer we will continue to provide detailed information and alert you to any actions that are required.

What is changing?

From 1 April 2014 all firms that carry on regulated consumer credit activities will be regulated by the FCA.

What is the FCA?

From April 2013 the FCA will be one of the UK's main financial regulators. It will replace the Financial Services Authority (FSA), which currently regulates more than 26,000 financial companies and the people who work in them – from high street banks, through to the small local financial adviser.

The FCA will aim to make markets work well so consumers get a fair deal. There are three broad outcomes it wants to achieve:

- consumers get financial services and products that meet their needs, from firms they can trust;
- markets and financial systems are sound, stable and resilient, with transparent pricing information; and
- firms compete effectively, with the interests of their customers and the integrity of the market at the heart of how they run their businesses.

What does this mean for licence holders?

The Government's and our Consultation Papers (CP) propose a new regulatory regime for consumer credit that is different to the Office of Fair Trading's (OFT) regime. We encourage you to read them and respond. We have produced chapter summaries of our CP to give you a high-level overview of the key areas.

Consumer credit



Interim permission

Licence holders will need to notify us that they want an interim permission. This will allow them to continue to carry on regulated consumer credit activities after 1 April 2014. If you do not notify us that you want an interim permission, and continue to carry on regulated credit activities after 1 April 2014, you may be subject to enforcement action by the FCA. The interim permission has a limited lifespan. All licence holders will need to be fully authorised by 2016.

Authorisation process

Authorisation is the FCA's equivalent of the OFT's credit licensing system. There will be a phased approach to authorisations. This means that we plan to ask different types of firms to apply by different deadlines. The application form will request information about your business, the structure of your business and your financial resources.

To become authorised, licence holders will be required to demonstrate that they satisfy the FCA's standards and will continue to satisfy them as long as they are authorised. These standards are known as 'threshold conditions'. They will cover the legal status of your firm, the location of your offices and links you may have with other firms.

When we receive your completed application form, a case officer will be allocated. They will review the application and may ask additional questions or seek further clarification. You will still be able to carry on regulated credit activities using your interim permission while you are waiting for the outcome of your application for authorisation.

If your application for authorisation is successful, we will send you a confirmation letter with a unique reference number – this will be used in all your dealings with us. Some firms, such as banks and insurance brokers, that are already authorised by the FSA, will need to have their 'permissions' amended.

Being supervised

The firms that operate in the consumer credit sector are very diverse. We aim to supervise the credit market in a proportionate way. Firms will be categorised based on certain criteria such as the size of the firm, the number of customers and the perceived risk to consumers due to the firm's activities. The category we place a firm in will determine the way we supervise it and the extent of the supervision.

We are proposing that firms will need to comply with our high level principles such as 'treating customers fairly'. The principles form a general statement of the obligations that will apply in whole or in part to your firm. The principles are unlikely to mean major changes if you already comply with the standards under the current OFT regime.

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FCA supervision is broken down into three areas.

- **Firm Systematic Framework** – what is happening, where there could be a problem.
- **Event-driven work** – quickly responding to an issue and fixing what has gone wrong to remedy the issue in the firm.
- **Issues and product supervision** – work to stop a problem emerging in the firm or sector.

Fees

As is the case with the OFT licensing system, the FCA's funding is gathered from regulated firms via authorisation and annual fees. Firms will pay a one-off fee for an interim permission that will be valid until the firm becomes authorised. We aim to cover our costs in a way that is as fair and efficient as possible. Based on our estimate of the number of firms that will apply for interim permission, we propose to charge:

- sole traders £150; and
- other firms £350.

In October/November 2013, we will publish a consultation paper on how fees and levies will be calculated for consumer credit firms.