FINANCIAL CONDUCT AUTHORITY

Improving the Appointed Representatives regime

Consultation Paper
CP21/34***

December 2021

How to respond

We are asking for comments on this Consultation Paper (CP) by **3 March 2022**.

You can send them to us using the form on our website at: www.fca.org.uk/cp21-34-response-form

Or in writing to:

Governance & Professionalism Policy
Financial Conduct Authority
12 Endeavour Square London E20 1JN

Email:
cp21-34@fca.org.uk

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1 Summary

Why we are consulting

1.1 We are proposing changes to the Appointed Representatives (AR) regime to reduce potential harm to consumers and markets. While the regime has benefits, we have seen a wide range of harm across all of the sectors where firms have ARs. Where harm occurs, it is often because principals do not undertake adequate due diligence before appointing an AR, and from poor ongoing control and oversight. We consider there is now significant evidence of harm requiring regulatory intervention.

1.2 The AR regime was introduced through primary legislation in 1986. An AR is a firm or person who carries on regulated activity on behalf, and under the responsibility of, an authorised firm (the principal). When appointing an AR, the principal assumes responsibility for the regulated activities the AR carries on.

1.3 ARs can undertake some regulated activities but not others. The relevant legislation specifies which regulated activities an AR can undertake. Most of these activities are advising on and arranging/making arrangements for different financial products and services (SUP 12.2.7G provides details on the regulated activities ARs can undertake).

1.4 The regime was created primarily to allow self-employed representatives to engage in regulated activities without having to be authorised. In particular, insurers and other product providers used it to distribute products through ARs. There are some benefits where the regime is used in this way. These range from increased cost efficiency for principals to effective competition for firms and market participants.

1.5 Over time, the regime has evolved to include a wider range of models such as regulatory hosting and networks. Principals and their ARs also offer a wider set of products and services across many different sectors (for example, from retail and general insurance to asset and investment management). Where these models are well run, they can also bring benefits such as wider consumer access and greater innovation.

1.6 This Consultation Paper (CP) builds on the findings of our previous thematic reviews of the general insurance sector in 2016 and the investment management sector in 2019. These reviews identified significant shortcomings in principals' understanding of their regulatory responsibilities for their ARs. Failings included insufficient oversight of their ARs and inadequate controls over the regulated activities for which they had accepted responsibility.

1.7 While the AR regime has benefits, including encouraging effective competition and providing market access, we are taking action to mitigate the risk of harms arising. Through analysis of our existing data on principals, on average principals generate 50 to 400% more complaints and supervisory cases than non-principals across all sectors where this model operates. This shows that there are more issues arising from principals and ARs than from other directly authorised firms.

1.8 Our previous thematic reviews showed issues with the regime in the insurance and investment management sectors. Since we published these reviews, we have seen further examples of failings through our supervisory and enforcement work in the retail and wholesale markets sectors where this model also operates. It is this wide-ranging, cross-sectoral harm which we want to address with the proposals in this CP. We took steps to address issues at individual firms following each of our thematic reviews, including a recently concluded Enforcement case relating to a firm's oversight of its ARs. We also issued wider communications, including a number of Dear CEO letters as well as thematic findings.

1.9 The Treasury Select Committee's (TSC) recent Lessons from Greensill Capital report also found that the AR regime may be being used for purposes which are well beyond those for which it was originally designed. The report recommended that the FCA and Treasury consider reforms to the AR regime, with the aim of limiting its scope and reducing opportunities for abuse of the system. We welcome this recommendation and have committed to reviewing the use of the regime as a business priority.

1.10 While there are changes we can make to improve the regime and limit harm, the AR model is established by legislation and so we are also working with the Treasury to explore whether legislative change is needed. To inform this, we have collaborated with the Treasury on its Call for Evidence.

What we want to change

1.11 We want to make changes to our rules and guidance for the AR regime to reduce potential harm for consumers and markets. In this CP, we are consulting on 2 main areas of change. These are:

- **Additional information on ARs and notification requirements for principals.** This will allow us to more easily identify potential risks within principals and ARs. It will also help us better assess whether the principal has the expertise, systems and controls to effectively oversee its ARs and to target our supervisory interventions more effectively.
- **Clarifying and strengthening the responsibilities and expectations of principals** in our rules and providing additional guidance for principals on their responsibilities, and our expectations of how they should act and oversee their ARs.

1.12 Additionally, we're taking this opportunity to simplify the structure of SUP 12 where possible. The draft instrument therefore includes a number of changes to this end but these do not change the substance of our requirements.

1.13 We are also seeking views, in a discussion chapter (Chapter 5), on the risk from regulatory hosting arrangements and business models where ARs are large in size relative to the principal. We also want views on whether we should introduce or strengthen prudential standards to reflect the harm posed to consumers and markets by firms with business models that include ARs. In Chapter 5, we also consider and seek views on how we may be able to reduce potential harm, including by setting limits on AR arrangements.

Who this applies to

1.14 This CP should be read by all firms who currently have, or intend to have ARs in future, and by the ARs themselves. The proposals apply across all sectors where ARs operate.

1.15 We have developed the policy proposals, the draft rules and CBA in line with the UK's regulatory framework. We are not proposing to apply the policy to firms in the Temporary Permissions Regime (TPR) or Financial Services Contracts Regime (FSCR). We consider there may be some firms which entered the TPR and may have since taken on ARs. However, given the limited time period during which such firms are able to operate under TPR, we don't propose to apply these proposals to them. This is because these firms will have become directly authorised, or otherwise recognised in the UK financial services market, by the time these rules would take effect. We will keep this position under review as we continue towards publication of a Policy Statement.

Outcomes and success measures

1.16 In proposing these policy changes, we are seeking to achieve the outcomes set out in the below table. Our proposals aim to reduce the range of potential harm arising from the AR regime. For each outcome, we also set out how we plan to measure our success over time.

Outcome	Harm to be addressed	What will this achieve?	How will we measure our success?
Principals better monitor, oversee and manage their ARs. Our proposals aim to clarify principals' responsibilities for their ARs and raise oversight expectations. Data has shown that harm can arise, for example, where principals don't fully understand their responsibilities over ARs and so fail to oversee them appropriately.	Consumer harm from ARs: • offering products and services that are not fit for purpose in delivering the benefits that consumers reasonably expect, or are not appropriate for the consumers they are being targeted at and sold to • offering products and services that do not represent fair value, where the benefits consumers receive are not reasonable relative to the price they pay • delivering poor customer service that hinders consumers from taking timely action to manage their financial affairs and making use of products and services, or increases their costs in doing so	Principals will be better able to identify issues which can lead to consumer harm more quickly and address them more efficiently.	We expect to see: • Better alignment of products with consumers' needs as consumers will be less likely to choose products or services from ARs which are unsuitable. • Evidence of principals more quickly and proactively preventing, and mitigating, potential harm within their ARs. • Fewer complaints, and Financial Ombudsman Service (Ombudsman) referrals, involving principals and/or ARs.

Outcome	Harm to be addressed	What will this achieve?	How will we measure our success?
Consumers are able to access better quality information on principals and ARs and make good decisions when choosing products or services. As set out in our proposed New Consumer Duty consultation, consumers' ability to make good decisions can be impaired by asymmetries of information. Displaying more comprehensive information on our Register can help consumers understand what business ARs are permitted to carry on.	As a result, consumers may: • find it harder to make an informed or timely decision • buy products and services that are inappropriate for their needs, of inadequate quality, too risky or otherwise harmful • incur greater monetary and non-monetary costs • receive substandard treatment during their relationship with a firm • find it harder to switch or get a better deal	Support consumers' ability to make good decisions and choose products and services which are suited to their needs, of adequate quality and which aren't risky or harmful.	Improved access to appropriate redress, as a result of consumers making good decisions on products and services and not purchasing from ARs acting outside the scope of their appointment.
We can better challenge firms with, and those looking to appoint, ARs. We currently only collect data at the principal level. Our proposals will allow us to gather improved data on principals and ARs' activities through regulatory reporting.	Consumer harm from actions of high-risk principals and ARs. Market harm will be reduced as issues are identified and dealt with before they result in reputational damage or monetary loss which could disrupt markets.	We will be better able to identify potential risks within both principals and ARs, enabling us to better target supervisory, authorisations and in some cases, enforcement, action.	We expect to see a decrease in open reactive supervision cases against principals. While these may increase in the short-medium term as a result of our targeted work in this area, over the long term we expect these to significantly reduce.

Next steps

1.17 Please do respond to the consultation using one of the methods set out in the 'How to respond' section on page 2. We will review feedback to the consultation and expect to publish a follow-up Policy Statement (PS) and final rules in H1 2022.

1.18 We have collaborated with the Treasury on its Call for Evidence on the regime. We will consider feedback received to this as we develop our final rules.

2 The wider context

Background to the AR regime

2.1 An Appointed Representative (AR) is a firm or person who carries on regulated activity on behalf, and under the responsibility, of an authorised firm (the principal). The AR regime was primarily created to allow self-employed representatives to carry out regulated activities on behalf of authorised firms without having to be authorised themselves. In particular, it allowed insurers and other product providers to distribute products through their ARs.

2.2 However, over time principals have increasingly used the regime in different ways. For example, some principals also now use the regime to appoint introducer appointed representatives (IARs). IARs are appointed representatives who can only undertake limited activities (effecting introductions and distributing financial promotions) on behalf of the principal. Throughout this CP we have considered how our proposals will apply to principals' IARs. Other examples include:

- network models, where a principal has a group of ARs that share a common commercial objective and usually operate in the same market, such as mortgage intermediaries, and
- the practice of regulatory hosting arrangements and in other diverse business models and sectors, including asset management and wholesale activities

2.3 We explore some of these models and practices more in our discussion chapter (Chapter 5).

2.4 There are around 40,000 ARs, including IARs, operating under around 3,600 principals in a wide range of financial services markets. At present, the highest numbers of ARs – c.16,200 - are in the retail lending and general insurance and protection - c. 13,500 - sectors. The number of ARs can vary significantly from firm to firm. Some firms have hundreds, or thousands, of ARs whereas others have only a few. Currently just over half of all principals have just 1 AR.

Benefits of the AR regime

2.5 While there are known issues and harm from the AR regime, there are also a range of potential benefits. These include:

- **Cost effectiveness:** for many firms, both principals and ARs, the regime provides a cost-effective way to comply with regulation. These costs might otherwise be transferred to consumers.
- **Supports our engagement with firms:** we have engaged with around 3,600 principals. This allows us to amplify the impact of our messages, focus and requirements.

- **Supports effective competition:** it allows different types of firms to perform certain regulated activities without our authorisation. This allows more participants in financial markets and in turn can support effective competition.
- **Innovation:** some firms use the AR model to trial new services and propositions. Some principals operate a 'regulatory incubator model' and support firms by helping them understand the regulatory environment and demands on them before they apply for our authorisation.
- **Robust monitoring mechanisms:** well-run principals provide high quality oversight and robust monitoring of their AR/s, ensuring good outcomes for consumers and markets.

The harm we are trying to reduce/prevent

2.6 We have found that harm often occurs as a result of principals being unclear about their regulatory responsibilities for their ARs, insufficient oversight of ARs by principals and inadequate controls over the regulated activities for which they have accepted responsibility.

2.7 This can result in a failure of principals to prevent practices including:

- ARs providing information which is misleadingly presented or difficult for consumers to understand, hindering their ability to properly assess products or services
- Products and services that are not fit for purpose in delivering the benefits that consumers reasonably expect, or are not appropriate for the consumers they are being targeted at and sold to
- Harms not being identified or acted on
- ARs acting outside the scope of their appointment. This can result in consumers not being able to access appropriate redress where only the regulated activities for which the principal has accepted responsibility are covered.
- Other practices which hinder consumers' ability to act or which exploit information asymmetries.

2.8 Our thematic reviews of the general insurance sector in 2016 and the investment management sector in 2019 identified significant shortcomings in principals' understanding of their regulatory responsibilities for their ARs. Failings included insufficient oversight of their ARs and inadequate controls over the regulated activities for which they had accepted responsibility.

2.9 We took steps to address issues at individual firms following each of our thematic reviews, including a recently concluded Enforcement case relating to a firm's oversight of its ARs. We also issued wider communications, including a number of Dear CEO letters as well as thematic findings. More recently, we have seen a growing number of failings through our supervisory and enforcement work across all sectors with ARs.

2.10 Last year we published a Call for Input on Consumer Investments which asked for views on how the AR regime is working in practice in the investment sector. As discussed in our recent feedback statement, we received a range of views, many of which raised concerns over the AR regime. Respondents argued that ARs drove significant consumer harm and the regulatory disparity between authorised firms and ARs was a source of confusion and harm for consumers.

2.11 To address the harms from the regime but keep the benefits, we propose to improve and strengthen our rules. Our approach is intended to be proportionate and balanced.

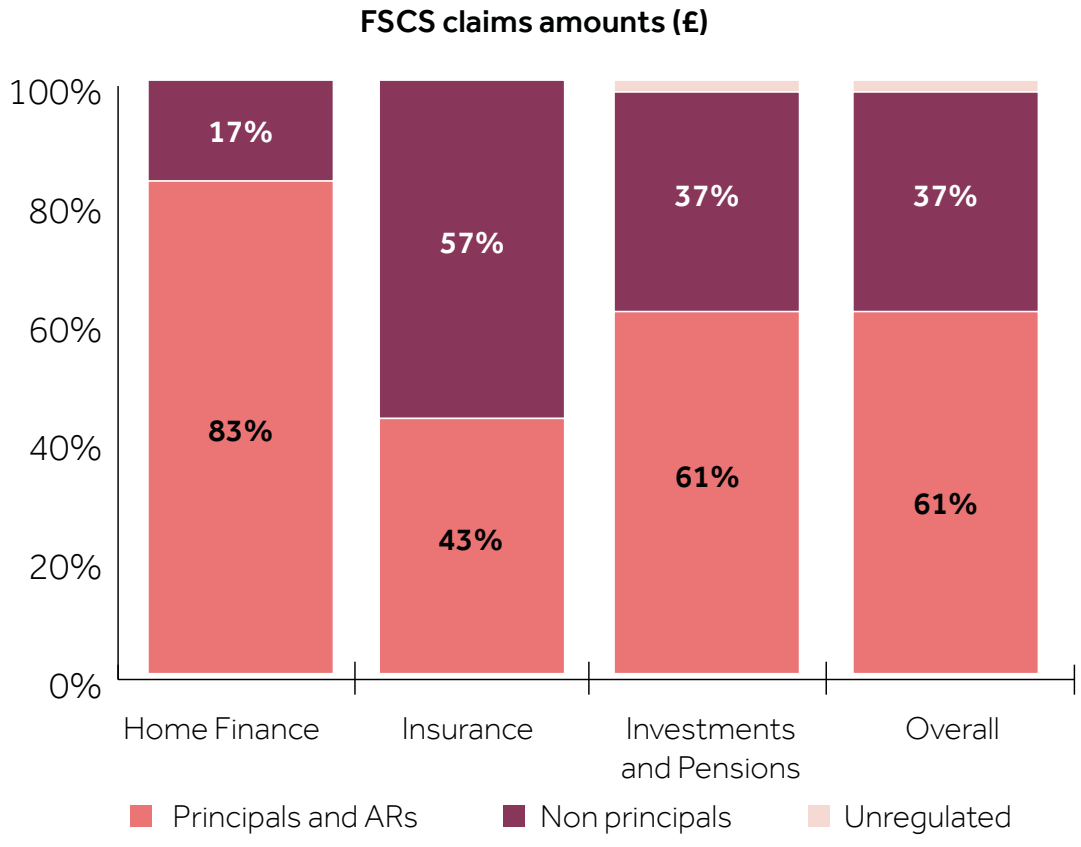
2.12 These policy proposals are just part of our wider intervention to tackle issues and harm from the AR regime. As set out in our 2021/22 Business Plan and 2020/21 Perimeter Report, we are also targeting supervisory action across sectors to address this. We consider this will lead to competent, financially stable principals and ARs and ensure fair outcomes for consumers. We are also scrutinising firms that intend to appoint ARs more closely at the gateway. We are funding this activity by the new annual levy on principals with ARs as set out in PS21/7, at £75 pa per IAR and £250 pa per AR. To date, we have used this additional resource to target, through enhanced supervisory and authorisations engagement, high-risk principals and risky business models across sectors.

Data analysis

2.13 To inform our understanding of how widespread the potential harm is across all sectors using the AR model, we analysed the information we already hold or have access to.

2.14 Firstly, we analysed FSCS claims and FCA authorisations data. Figure 1 shows that principals and ARs account for 61% of value from FSCS claims (£) from 2018 to H1 2019. The total of FSCS claims during this period was £1.1bn.

Figure 1: Percentage of FSCS claims attributed to principals and ARs compared to non-principals



Source: FSCS claims data, FCA authorisations data

2.15 We then analysed our supervisory cases and FCA and Ombudsman complaints data.On average, principals cause 50 to 400% more supervisory cases than non-principals (see Figure 2). It also shows that the cases are higher than for non-principals across every sector.

Figure 2: Average number of supervisory cases (non-principal vs principals - 'non-principal' means directly authorised firms which are not principals)

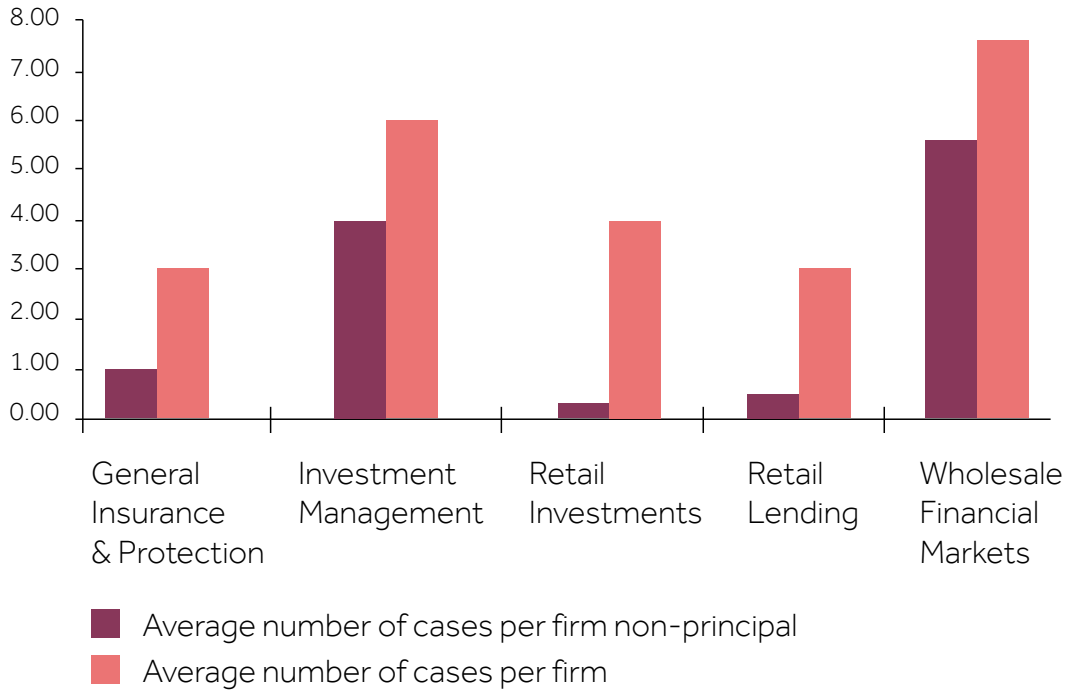
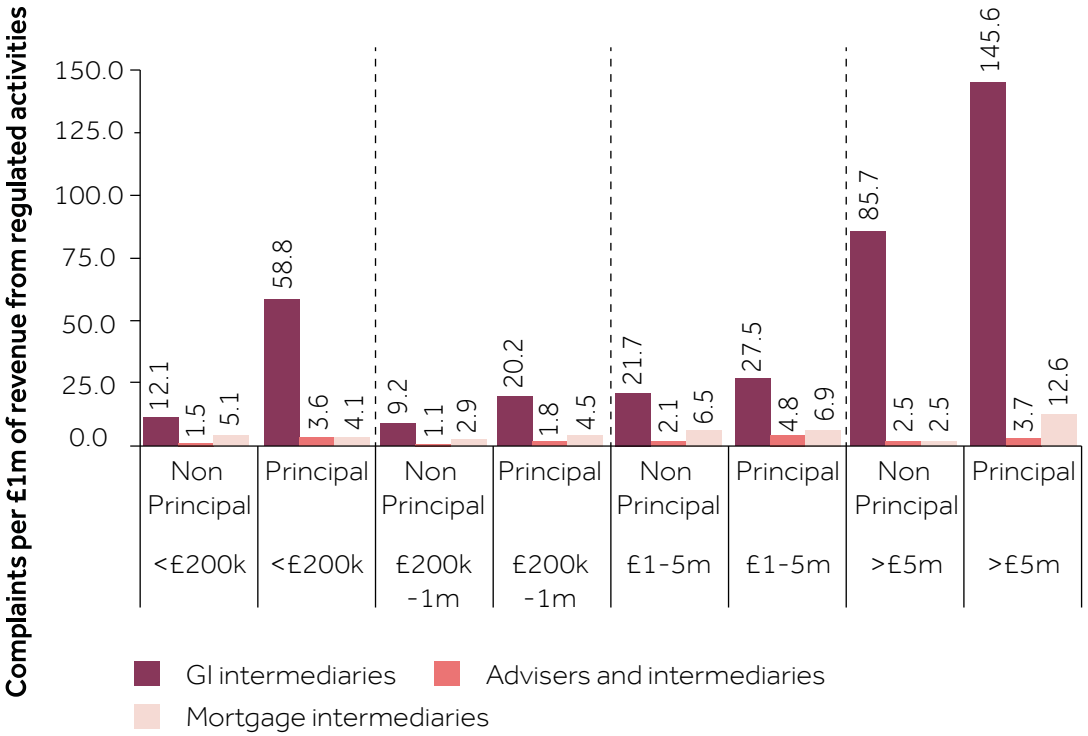


Figure 3: Complaints per £1m of revenue from regulated activities



2.16 Figure 3 shows that principals have more complaints per £1m of revenue compared to non-principals, particularly where they are smaller in size. This suggests that smaller principals are not able to resolve problems leading to complaints as effectively as larger principals. The chart also shows that complaints are generally higher for principals than non-principals across sectors (apart from principals with <£200k revenue from regulated activities in the mortgage intermediaries sector).

2.17 We note the complaints data set also has some limitations. For example, complaints can be made about different aspects of a firm's conduct towards consumers, such as poor customer service or misleading advice. Also, the complaints data only covers retail firms and so does not reflect issues from wholesale firms.

2.18 Together with the qualitative findings explained earlier in this chapter, we consider there is sufficient evidence to support a need to intervene to address harm to consumers and markets associated with this model.

Improving the depth and detail of our data

2.19 We sent many firms covered by the policy proposals in this CP a survey in October asking them to provide additional detail on their ARs. This included questions on ARs' revenue, business models and activities.

2.20 While existing data has provided sufficient evidence to inform and support our proposals, we needed to gather more detailed data from principals on their AR populations.

2.21 We consider that, by collecting this enhanced data, we will be better able to identify the drivers of harm in more detail. For example, how and where harm arises in ARs and principals and its potential scale. We will also use the data to inform our targeted supervisory work across sectors and portfolios.

2.22 Using this firm survey, and the discussion chapter in this CP, we will be able to determine whether we need to take additional action, in line with the ideas explored in Chapter 5 and the Treasury's Call for Evidence.

2.23 This data will also enable more effective supervision and authorisation of principals. Our data-led approach to identifying, and remediating, sources of harm will ultimately allow us to take an evidence-based and proportionate approach when taking action to address harm.

How this advances our objectives

Consumer protection

We will increase consumer protection by providing additional clarity on principal's responsibilities and our expectations of them

2.24 ARs will be less likely to engage in mis-selling and providing products which are not right for a consumer. Due to increased oversight of AR activities, consumers will be more likely to be offered products and services which meet their needs and in a way that meets our requirements. We consider consumers will benefit from additional information about the type of regulated business that ARs are able to undertake on behalf of principals. This will also help inform an understanding of the potential availability of access to the Ombudsman.

2.25 We also consider our proposals will increase consumer protection as we expect them to lead to a reduced risk of consumer harm. We have also considered the needs of different consumer groups and, in particular, consumers in vulnerable circumstances who may be at greater risk of harm where a principal or AR acts inappropriately. Our proposal for principals to consider the risk of harm from an AR's activities or business aims to address this risk by getting principals to proactively assess the risk of harm and take appropriate action to avoid it happening.

Improved data collection will allow us to intervene early, reducing consumer harm

2.26 Our proposals on notification and information requirements will enable us to more regularly collect improved data on principals and their ARs. As part of our role as a forward-looking and reactive data regulator, we intend to use this information to inform future policy, supervisory, authorisations and enforcement action. Our ability to react quickly and efficiently to address issues will lead to a reduction in consumer harm.

Market integrity

Consumers across sectors have access to a wide variety of options for financial products and services. Our proposals support and help improve the options available to consumers.

2.27 We recognise the benefits of an AR regime that allows some firms to offer certain products and services without being directly authorised. We consider our proposals preserve the viability of the AR model and should therefore protect market integrity through ongoing stability of services and products provided to consumers by those ARs.

Reduced level of misconduct and complaints across the market as a whole will enhance market integrity.

2.28 We consider our proposals will support our objective to enhance market integrity through reduced misconduct and fewer complaints made as a result of the regime. We will be better positioned to take more timely and decisive action against principals who do not comply with our rules and meet our expectations. This will in turn present the UK as an attractive and reputable place to do business.

Competition

Effective competition is driven by a wide variety of firms performing regulated activities

2.29 The AR regime, which we aim to improve through these proposals, allows different types of firms to perform regulated activities without being directly authorised by us. Our proposals will ensure the AR model can operate, with firms upholding standards, so competing in consumers' interests. We expect this will in turn raise the quality of competition across markets.

Wider effects of this consultation

TSC's recommendations

2.30 Earlier this year, the TSC published a report on Lessons from Greensill. The report made recommendation for the FCA and the Treasury to consider reforms to the AR regime, with the aim of limiting its scope and reducing opportunities for misuse.

2.31 Greensill Capital Securities Limited (GCSL) was an AR of Mirabella Advisers LLP. The effects of the collapse of GCSL's parent company (Greensill Capital (UK) Limited) and the wider Greensill group were felt widely across financial markets and by consumers and investors. The direct cost to investors as a result of Greensill's failure is estimated to be around £1 billion.

2.32 The collapse of Greensill highlighted some of the potential harm and issues from the AR regime. It also highlighted other known issues, such as the nature and extent of oversight required of principals - particularly where ARs' activities sit outside of our regulatory perimeter.

2.33 In our response to the TSC's report, we committed to work with the Treasury to determine the most effective ways to reduce opportunities for misuse of the regime, including whether limiting the scope of the AR regime is a necessary and effective way to achieve this. In line with the commitment set out in our 2021/21 Perimeter Report, we have collaborated with the Treasury on its Call for Evidence to ensure these areas of the regime are fully explored.

2.34 Ultimately, we want principals and ARs that are able to demonstrate appropriate oversight and control of their activities, are financially stable and ensure fair outcomes for consumers when selling products or giving advice. We consider the proposals in this CP will go some way to address the issues highlighted by Greensill, as well as the issues we have seen from wider work, within the boundary of our rule-making powers.

Unintended consequences of our intervention

2.35 The proposals in this CP are designed to address potential harm from the AR regime. However, we also consider this regime provides benefits as an alternative for firms wishing to provide regulated activities without full FCA authorisation. This helps ensure consumers have access to a wide variety of products and services. The AR regime is, for example, an integral mechanism to enable providers of non-financial services (such as vets and dentists) to help their customers access financial services. So we regard the AR regime as serving an important function and one which benefits consumers when it functions properly.

2.36 We consider there is a low risk that our proposals will reduce access to products and/or services for consumers or competition in the market through a material reduction in the number of principals and/or ARs. As much of our proposals clarify or enhance existing requirements, which we would expect many well run principals to already be meeting, we consider the number of principals and ARs should remain relatively stable, with an approximate potential for around 10% of them leaving the market.

2.37 In some cases, ARs may choose to leave the market temporarily to seek direct authorisation or otherwise be directly employed by the principal. In others, principals may decide to end relationships with ARs where they have concerns, which may cause them to leave the market. We consider this would be positive, as, for example, it would reduce the number of ARs in the market with the highest potential to cause harm through poor conduct.

Equality and diversity considerations

2.38 We have considered the equality and diversity issues that may arise from the proposals in this CP and remain especially mindful of the impact that some of the harm in the AR regime can have, particularly on consumers in vulnerable circumstances.

2.39 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

2.40 In the meantime, we welcome your input to this consultation.

3 Changes to information and notification requirements

3.1 In this chapter, we set out our proposals to require principals to:

- provide us with more information on their ARs and the business these ARs conduct
- report to us, for inclusion on the Financial Services Register (Register), specific information on the activities the ARs are permitted to undertake
- notify us of an intention to begin providing regulatory hosting services before beginning to do so

3.2 As we set out in our Business Plan, we will use data and technology to increase our ability to act decisively in consumers' interests. We also highlighted our intention to publish more data about firms to help inform consumers and influence firms' conduct.

3.3 Having more information on ARs and principals will allow us to better assess principals' arrangements to monitor and control their ARs' activities, helping us to better identify potential risks and target interventions as part of our authorisations and supervision. We also want to make some of this information available to consumers, by including it on the Register.

3.4 We provide details on each of these below.

Overview of the proposals

3.5 The information which principals are currently required to report to us on their ARs is limited. It includes the AR's name and contact details, its legal status, date of the appointment, whether it is an IAR, and the general financial market in which the AR operates. Some firms provide further information, including on monitoring ARs, as part of Section H of the RMAR.

3.6 We want to ensure that we have more information about ARs. This will enable us to identify risks and focus our activities on the most relevant areas to address potential harm. We also want to gather more information on principals and their business in relation to ARs, before appointments are made, so that we can, if needed, check whether the appropriate oversight arrangements have been put into place and take any necessary action.

3.7 Requiring more information on ARs and principals, does not change the fact that the principal has full responsibility (including for any liabilities that might arise) for ensuring that the AR is fit and proper and complies with our rules. FSMA is clear that anything that an AR has done or omitted to do as respects to the business for which the principal has accepted responsibility will be treated as having been done or omitted to be done by the principal. The principal must effectively oversee the ARs and must ensure that it has the appropriate governance arrangements, effective risk frameworks, internal controls and adequate resources which are necessary to do so.

3.8 We propose to require principals to provide us with additional information and details on their ARs, including:

- the AR's business
- the AR's revenue
- complaints against the AR
- the AR's regulated and non-regulated activities

3.9 We propose to apply the majority of the proposals in this chapter to introducer appointed representatives (IARs). Where this is not the case, we set this out clearly in the text.

3.10 We set out our proposals on each of these areas below.

Principals to provide information on the AR's business

3.11 Currently, principals only provide us with high-level information on the market in which the AR operates.

3.12 We propose to require principals to provide additional details on the business each of their ARs will conduct when an AR is appointed and on an ongoing basis, including when these details change over time. This additional information will allow us to identify potential risks within both principals and ARs.

3.13 We propose to require principals to provide us with the following new items of information for each of their ARs. We detail the items that we propose to apply to IARs in paragraph 3.14 below.

- The primary reason for the principal's intention to appoint the AR
- The nature of the regulated activities the principal will permit the AR to undertake (primary and secondary markets in which the AR will undertake regulated activity)
- Non-regulated business of the AR. This includes:
  - The nature of the non-regulated business (financial services products or services, non-financial products and services)
  - The proportion of the non-regulated activities compared to the regulated activities in the first year following the appointment
- Whether the AR will provide services to retail clients
- Whether the AR was previously an AR of a different principal, and if so, why the AR is now intending to operate under a new principal
- Whether the AR is part of a group. If so, provide the name of the parent undertaking. Activities of a wider group the AR is part of can affect the activities of the AR and the potential risk from it. Requiring firms to provide us with this information will allow us to monitor this more effectively
- Whether any individuals from the AR will be seconded or contracted to the principal firm to carry on portfolio management and / or dealing activities, and if so explain the rationale for entering into such an arrangement

- Information about the nature of the financial arrangements between the principal and the AR. For example, whether the AR pays or will pay the principal commission, any flat fees, or any additional payments. This would give us a better understanding of the financial relationship between the AR and the principal, better allow us to identify potential outliers and enable us to investigate further where needed.
- Anticipated revenue from regulated and non-regulated activity during the first year of appointment. We provide further details on this in paragraph 3.37.

3.14 The scope of the activities IARs are permitted to conduct is limited to effecting introductions and distributing non-real time financial promotions (SUP 12.2.8G). As such, the potential harm arising from their activities is relatively low. We therefore propose to require principals to provide less information on IAR appointments compared to AR appointments. We propose to require the following information for each IAR appointment:

- The nature of the regulated activities the principal will permit the IAR to undertake
- Information about the nature of the financial arrangements between the principal and the IAR, as detailed above
- Revenue from regulated activity (but not from non-regulated activity) during the first year of appointment

3.15 We propose to require notification of these additional items of information in respect of existing ARs as well as those appointed after the proposed rules come into force. This will ensure that we have this information for all ARs. We propose to amend the 'Add an appointed representative or tied agent form', and require firms to submit this information for all their existing ARs, as well as for new appointments.

Reporting timeframes

3.16 We propose to require that a principal notifies us of a proposed AR appointment at least 60 calendar days **before** the appointment takes effect.

3.17 This will ensure that, if needed, we can check whether the principal has carried out the appropriate due diligence processes and has put oversight arrangements into place. It will also enable us to consider how the principal has established that the proposed AR is solvent and otherwise suitable to act as an AR, before the AR begins to carry out regulated activities.

Reporting significant changes

3.18 Principals are already required to notify to us of any changes in information they have given on their ARs (SUP 12.7.7R). Also Principle 11 requires a firm to deal with its regulators in an open and cooperative way and disclose any relevant information (see also SUP 15.3).

3.19 We propose to require principals to report to us any planned changes to the AR's name or to the categories of regulated activities the principal allows the AR to use, at least 10 calendar days before the change takes effect. We propose that changes to the following information provided in the 'Add AR form' are reported to us within 10 business days of the change being made, as per the existing rule in SUP 12.7.7R:

- changes to the categories of regulated activities the principal allows the AR to use
- if the AR intends to begin or to cease to conduct non-regulated activities
- changes to the nature of non-regulated activities the AR conducts
- changes in relation to providing services to retail clients
- if the AR becomes or ceases to be part of a group
- if significant changes are made to the financial relationship between the principal and its ARs

3.20 We propose that these changes are reported to us using the 'Appointed representative or tied agent - change details' form on Connect.

3.21 These notifications would allow us to identify any potential issues in relation to these changes and would also ensure that we can keep the Register up to date.

3.22 We expect firms to already have this information and knowledge of the business of its ARs. We recognise that for some firms, particularly the larger networks, submitting this information to us could require more time and effort. We invite views on how we could help firms manage this potential burden.

Q1: **Do you agree with our proposal to require principals to provide more information on the business their ARs conduct?**

Q2: **Do you agree with the reporting timeframes we propose for reporting?**

Q3: **Do you have any suggestions on how the potential burden, particularly for firms with many ARs, of providing this information to us could be managed?**

Verification of AR details

3.23 All FCA-authorised firms are required to check the accuracy of their details on an annual basis, confirm where details remain accurate and report changes to us (see SUP 16.10).

3.24 We propose extending this requirement to cover the details of firms' ARs, including the activities the principal permits them to conduct, as set out above. We propose that any changes are notified using the appropriate form set out in SUP 12 and in accordance with SUP 16.10.4R.

3.25 We propose that, in line with the existing rules in SUP 16.10, principals would be required to check the accuracy of their AR details within 60 business days of their accounting reference date.

Q4: **Do you agree with our proposal to require principals to verify the details of their ARs?**

Include details on the AR activities the principal takes responsibility for on the FS Register

3.26 We propose that the information about the nature of the regulated activities the AR carries on, for which the principal takes responsibility, is included in the Register. The Register currently does not state which regulated activities an AR is permitted to undertake. It currently links each AR entry to their principal's entry on the Register. As the principal may have several permissions, not all of which have been permitted for the AR to use, this is potentially misleading for consumers. This builds on recent changes introduced in PS19/7 where we require principals to notify us for publication on the Register of any ARs carrying on activities requiring qualification (such as providing financial advice) under our training and competency regime.

3.27 Including this information on the Register would allow consumers to easily and quickly check the types of regulated activities which ARs are and are not permitted to undertake. This will also help consumers avoid instances in which an AR operates outside of its agreement with the principal. It would also help minimise confusion where an AR is acting on behalf of more than one principal. This would also provide consumers with greater clarity as to whether they might have recourse to the Ombudsman if things go wrong. We also consider that, together with other measures we are consulting on (see Chapter 4, paragraph 4.23 onwards), this would further encourage principals to ensure that their ARs do not operate outside of the scope of their agreement with the principal.

Q5: **Do you agree with our proposal to include details on the nature of the regulated activities of each AR that a principal takes responsibility for on the FS Register?**

Principals to provide complaints data on their ARs

3.28 Currently complaints data is reported to us in aggregate for the principal and its ARs, and is logged against the principal. This limits our ability to identify ARs against which there are many complaints or where the number of complaints is rising significantly.

3.29 To address this, we propose to require principals to submit complaints data by AR. This will allow us to better identify potentially problematic ARs and potential weaknesses in the principals' oversight of ARs.

3.30 We propose that firms would be required to submit data on complaints against their ARs on an annual basis, using a new AR reporting form (SUP 12 Annex 6R).

Q6: **Do you agree with our proposal to require principals to provide complaints data on their ARs?**

Principals to provide revenue information for their ARs

3.31 Some firms provide us with revenue information in aggregate for the principal and its ARs (firms that use the RMAR to report their revenue). Other firms do not report to us the revenue of their ARs.

3.32 This means that, under the current reporting requirements, we do not hold information on income generated by each AR individually. This makes it difficult to assess the size of ARs and thus the potential impact their business might have on consumers or the principal's ability to pay any redress for harm. We also currently do not hold any information on non-regulated activities ARs may perform or the revenue this generates. These new proposed requirements give us the additional indications of size and therefore potential harm and corresponding resources firms need to apply to oversee them effectively.

3.33 We propose to require principals to submit revenue data for each of their ARs, from both regulated and non-regulated activities. For revenue from non-regulated activities, we propose that this is split between revenue from non-regulated financial activity and non-financial activity. We consider that having this information will be useful in identifying potential risks, informing our supervision activities and how we target interventions.

3.34 We propose that principals would not be required to provide revenue data on non-regulated activities of their IARs. This is because the scope of the regulated activities IARs are permitted to conduct is limited and their main business is more likely to be non-regulated. Firms would not be required to provide revenue data in relation to the non-regulated activities of their IARs.

3.35 For existing ARs, we propose that:

- Principals provide this information annually based on their Accounting Reference Date (ARD), with 30 working days in which to submit the return.
- Principals will report this using a new AR reporting form (SUP 12 Annex 6R).
- We propose to apply a transitional period for existing ARs, so that principals provide this information for the first full year of data following the rules coming into effect.

3.36 For appointments of new ARs, we propose that:

- Where the data is available, we would require the principal to provide actual figures (for example, for non-regulated business, or if regulated business was conducted under a different principal).
- If the data is not available, particularly when a new AR is set-up and there are no revenues yet, provide a projection of the annual income of the AR (both regulated and non-regulated) at the point of appointment.
- We propose that for new appointments this information is provided to us using the amended 'Add an appointed representative or tied agent form'.

Q7: **Do you agree with our proposal to require principals to provide revenue information for their ARs?**

Summary of proposals for principals to provide more information on their ARs

3.37 The table below summarises our proposals above on principals providing more information on their ARs' business. It details the type of information we propose principals would report, the content, timings and triggers for submission, and the format. We are proposing fewer requirements for IARs. We have marked requirements that we propose to apply to ARs and not to IARs in purple below.

Information to be reported	Proposal	Timing for reporting	Mechanism for reporting
Explain the AR's business model	• Principal to explain the primary reason for the appointment of the AR • Provide information on the nature of the regulated activities the principal permits the AR to utilise • Describe any non-regulated activities an AR does. This includes the nature of the non-regulated business, and its size and scale • Indicate whether the AR will provide services to retail clients • Indicate whether the AR was previously an AR of a different principal, and if so, why the AR is now intending to operate under a new principal • Whether the AR is part of a group, and provide the name to the parent undertaking if so • Whether any individuals from the AR will be seconded or contracted to the principal firm to carry on portfolio management and / or dealing activities, and if so explain the rationale for entering into such an arrangement • Provide the estimated revenue from regulated and non-regulated activity in the first year following the appointment • Provide information on the nature of the financial arrangements between the principal and its AR(s)	• Provide for all existing ARs, within 60 calendar days of the rule coming into force • Provide 60 calendar days before new appointments • Ad hoc reporting of change to the AR's name or the nature of the regulated activities it will conduct, at least 10 calendar days before these changes take effect.	• Using the amended 'Add an appointed representative or tied agent form' on Connect. • Firms would be required to submit this information for all their existing ARs, as well as for new appointments, using the Appointed representative or tied agent - change details' form on Connect. • Changes to be reported using the 'Appointed representative or tied agent - change details' form.

Information to be reported	Proposal	Timing for reporting	Mechanism for reporting
Principals to verify AR details, including permitted activities	Principals to check the accuracy of the details of their ARs on an annual basis, confirm where details remain accurate and report changes to the FCA, including on the activities they permit their ARs to carry out.	Annually	• Using the annual attestation. • Firms would be required to submit this information for all their existing ARs, as well as for new appointments. • Corrections will be made using the appropriate form in SUP 12.
Include details on the AR activities the principal takes responsibility for, to be included on the Register	The information the principal provides on the activities it permits the AR to do will be included in the Register.	Updates made to the regulated activities the principal permits the AR to use (see above), will update the Register.	Changes principals report to us using the amended 'Add an appointed representative or tied agent form', or the Appointed representative or tied agent - change details' form will be reflected in the Register.
Principals to provide complaints data on their ARs	Principals to submit complaints data for each AR.	Submit reports to the FCA within 30 business days of the end of the relevant reporting periods.	Using the new AR reporting form (SUP 12 Annex 6R)
Principals to provide revenue information for their ARs	Principals to submit revenue data for each AR. Firms would need to submit data on both regulated revenue of the AR and non-regulated revenue of the AR(s)	Submit revenue information within 30 business days of the firm's accounting reference date.	Using the new AR reporting form (SUP 12 Annex 6R)

3.38 The chart below provides an overview of the triggers for the proposed notifications by the principal. We have marked requirements that we propose to apply to ARs and not to IARs in purple.

New appointments / existing ARs

- For new appointments at least 60 calendar days before appointment. For existing ARs up to 60 calendar days after the rules come into force:
  - Explain the primary reason for the appointment of the AR
  - Provide information on the nature of the regulated activities the principal permits the AR to utilise
  - Describe any non-regulated activities an AR does
  - Whether the AR will provide services to retail clients
  - Whether the AR was previously an AR of a different principal, and if so, why the AR is now intending to operate under a new principal
  - Whether the AR is part of a group
  - Whether any individuals from the AR will be seconded or contracted to the principal firm to carry on portfolio management and / or dealing activities, and if so explain the rationale for entering into such an arrangement
  - Provide the estimated revenue from regulated and non-regulated activity in the first year following the appointment
  - Provide information on the nature of the financial arrangements between the principal and its AR(s)

Notification of ad-hoc changes

- Report changes to the AR's name or regulated activities the principal permits the AR to utilise, at least 10 days before the changes take effect
- Report the following changes, within 10 business days of the change being made:
  - if the AR intends to begin or to cease to conduct non-regulated activities
  - changes to the nature of non-regulated activities the AR conducts
  - changes in relation to providing services to retail clients
  - if the AR becomes or ceases to be part of a group
  - if significant changes are made to the financial relationship between the principal and its ARs

On-going reporting

- Principals to check the accuracy of the details of their ARs on an annual basis, confirm where details remain accurate and report changes to the FCA
- Principals to submit complaints data on their ARs
- Principals to provide data on revenue from regulated activities
- Principals to provide data on revenue from non-regulated activities

Notifying the FCA of significant changes in relation to ARs

3.39 All FCA authorised firms, including principals, already need to tell us about significant changes to their business, such as proposed restructuring, reorganisation or business expansion, that could have a significant impact on their risk profile or resources.

3.40 We propose to require principals to notify us of an intention to begin providing regulatory hosting services. We also propose to require existing principal firms to notify us if they already provide regulatory hosting services. This will ensure that we are aware of all firms that use this business model. We provide details on the regulatory hosting model and the harm we see there in Chapter 5. In a regulatory hosting service, the principal itself does not engage in regulated activity to any meaningful extent itself, but instead allows 1 - or usually several - ARs to use its permissions to do so, often across a variety of products or markets.

3.41 This notification is in addition to the existing requirement to notify us of appointing an AR and providing their details.

3.42 We propose that the principal would make this notification at least 60 calendar days before starting to provide regulatory hosting services. This will ensure that, if needed, we can check whether the principal has carried out the due diligence, put oversight arrangements in place and address any concerns about the AR appointment. We propose that these notifications are made to us in compliance with the general notification guidance in SUP 15.7.

3.43 We have included a definition of 'regulatory hosting' in the legal instrument accompanying this CP, for the purpose of making a notification to us. As we detail in the discussion chapter (chapter 5), we consider that there is potential harm associated with the regulatory hosting business model, and set out potential ways to address this harm. Some of these may depend on the definition we adopt for 'regulatory hosting' and we therefore invite views on how we should define 'regulatory hosting' or what we should consider in doing so.

3.44 We have made similar rules on notifications for principals operating in the funeral plans market which will come under FCA regulation in 2022. Once we have decided on the policy changes we are consulting on here, our intention is to consolidate the requirements so that the same rules that apply to principals in other markets, will apply to principals operating in the funeral plans market.

Q8: **Do you agree with our proposal to require principals to notify us if they provide or intend to provide regulatory hosting services?**

4 Responsibilities of principals and our expectations

4.1 In this chapter, we set out proposals to enhance and clarify our expectations of principals and their responsibilities.

4.2 We consider these proposals will make clear the standards principals need to meet for their ARs, ensuring effective oversight of ARs and enabling principals to better identify where there are issues that require action.

4.3 We propose to apply most of the proposals in this chapter to introducer appointed representatives (IARs). Where this is not the case, we set this out clearly in the text.

Our overall approach and desired outcomes

4.4 Our proposals aim to:

- clarify principals' responsibilities for their ARs
- improve existing oversight requirements
- give principals more detail on the circumstances in which it may be necessary to terminate an AR relationship, and if so, how they should ensure that the relationship is wound down in an orderly way
- require principals to annually review senior management at ARs and aspects of ARs' business and activities, and
- require principals to complete an annual self-assessment of compliance with relevant rules and guidance for ARs

Clarify principals' responsibilities for their ARs and our expectations

4.5 This section sets out our expectations for how a principal should be ensuring a high standard for both its own conduct, and that of its ARs. Our proposals aim to provide new guidance for principals on how to practically meet our expectations. This includes assessing senior management at ARs for how well they align with fitness and propriety and taking reasonable steps to ensure ARs act within the scope of their appointment.

4.6 This will in turn allow us to better hold principals to account, and take appropriate action, where they do not meet these standards. We consider these proposals will reduce consumer and market harm by setting a clear standard for how we expect principals to manage their ARs effectively. We expect this will in turn lead to issues being identified before they lead to harm.

ARs providing functions or tasks for principals

4.7 Some principals rely on their ARs to support aspects of their own operation, for example through providing support services. However, this can create risks where this extends into oversight functions, such as risk and/or compliance. This can contradict the principle that a principal must oversee its AR and can create a conflict of interests between the principal and the AR.

4.8 These arrangements can also lead to harm for consumers, for example, where the principal is not meeting appropriate compliance standards because the AR is providing inadequate compliance oversight.

4.9 While an AR can provide certain functions effectively, we consider that it is necessary to provide guidance on how principals should ensure that any delegated or outsourced functions have appropriate safeguards in place.

4.10 There is existing guidance in SYSC 3.2.3G(1) on how certain firms should ensure appropriate safeguards are put in place where certain functions or tasks are delegated. This guidance will already apply to some principals with ARs and/or tied agents.

4.11 To ensure this guidance applies to all principals for their ARs and tied agents, and to give more detail on what these appropriate safeguards might be, we propose to add new guidance at SUP 12.6.5BG. We propose that principals, where they delegate functions or tasks to an AR or tied agent, should put appropriate safeguards in place. These include, but are not limited to:

- ensuring that the delegation does not represent a conflict of interest, and
- enhanced monitoring of the delegated task or function.

Q9: Do you agree with our proposed guidance for principals to put appropriate safeguards in place where a function or task is delegated to an AR or tied agent?

Fit and proper expectations for principals

Current position

4.12 We already set out in guidance in SUP 12 that a principal should consider whether individuals at ARs meet the fit and proper expectations, both before, when and after it appoints an AR. We also set out the information that principals should take reasonable steps to get and verify. The aim of this information gathering is to help principals ensure individuals at ARs are fit and proper to act as such.

4.13 We also set out some of the factors firms should consider, including whether the AR has:

- ever been the subject of disciplinary proceedings
- any current civil proceedings or are subject of any current criminal proceedings
- been insolvent, bankrupt or been involved in the dissolution of a company

4.14 We also have guidance on how principals should assess an AR's or prospective AR's financial position to satisfy themselves of its suitability. This assessment includes considering aspects of the AR entity's general finances such as accounts, forecasts and financial stability.

Annual review of AR senior management's fitness and propriety

4.15 We consider the existing guidance and considerations to be reasonable and clear. However, we want to emphasise our expectation for principals to be actively assessing and recording whether and how individuals at ARs meet fit and proper expectations on a continuing basis.

4.16 So we are proposing that the managing body at the principal be required to review whether senior management at its ARs remain fit and proper to act in that capacity, on an annual basis. This will ensure firms are always working towards a clear checkpoint, rather than just before they appoint, when they appoint and after they have appointed an AR. The assessment will need to be carried out under SUP 12.6A.2R.

Competence and capability

4.17 Principals already need to consider applicable guidance in the Fit and Proper test for Employees and Senior Personnel (FIT) in order to assess the fitness and propriety of individuals, such as senior managers, at the principal, and also key personnel at ARs under the approved persons regime. However, we consider it would be useful for principals to have some specific guidance on how to assess the competence and capability of such individuals at ARs. We expect this will enable principals to ensure that senior management at ARs are fully equipped to carry out their roles and responsibilities when carrying on activities or business within the scope of the principal's permission.

4.18 So we propose to include guidance on the considerations principals should have in assessing the competence and capability of individuals at ARs. These include whether the senior management at the AR:

- are appropriately experienced and trained to be responsible for the activities and business they carry on behalf of the principal;
- have the necessary time to perform the tasks and/or functions for which they are responsible;
- have the requisite knowledge and skills to undertake the tasks and/or functions for which they are responsible.

Practical considerations for assessment

4.19 We also consider principals will benefit from additional guidance on how they should be conducting these assessments, and our expectations for appropriate oversight from senior management. We want the principal's senior management to have a clear picture of their AR relationships and, more specifically, how those ARs are fit and proper. This will also limit the risk of harm from more inexperienced staff carrying out reviews of ARs' fitness and propriety.

4.20 We currently have guidance at SUP 12.6.7G which sets out our expectation that senior management is responsible for the control and monitoring of an AR's activities. But this does not include setting expectations for the way in which senior management should satisfy themselves of the ongoing fitness and propriety of individuals at ARs.

4.21 So we propose to include guidance on the practical considerations that senior management at principals should use to conduct these assessments effectively. These include:

- ensuring and verifying that information provided by the AR, either at entity-level or about senior management individuals, is accurate, sufficiently detailed and up to date
- discussing any omissions or concerns proactively with relevant persons at the AR, and
- keeping up to date with changes, such as to the AR's senior management, which may affect the quality or integrity of the information provided

4.22 We are not proposing to apply the proposals in paragraphs 4.15 to 4.21 to IARs. Our view is this would be disproportionate, given the limited scope of IARs' activities. We also note that our existing guidance at SUP 12.4.3G, SUP 12.4.4G(1) (and the corresponding material at SUP 12 Annex 1G and 2G) does not currently apply to IARs.

Q10: Do you agree with our proposals in relation to principals' annual assessment of ARs' fitness and propriety and the proposed considerations they should have to achieve this?

Strengthening our expectations of firms to monitor activities outside the scope of appointment

4.23 We know some ARs are carrying on regulated activities which are not within the scope of their contractual agreement with the principal to use. As such, the principal does not oversee the AR for those regulated activities and often does not accept responsibility for any resulting harm.

4.24 Currently, under SUP 12.6.6R, principals must take 'reasonable steps' to ensure that ARs act within the scope of their appointment. At present, we do not set out in our Handbook what we expect these reasonable steps to be.

4.25 To reduce the potential for this situation to arise, we are proposing to add some guidance setting out what we expect 'reasonable steps' to be.

4.26 We expect that reasonable steps may include ensuring a high standard of oversight using practical steps such as those we propose to add to SUP 12.4.4GG. This approach to oversight will allow the principal to better identify when an AR may be acting outside the scope of its appointment.

4.27 Breach of the rules in SUP 12 may be actionable under section 138D of FSMA by private persons who suffer loss as a result of the breach (SUP Sch 5). This proposal is intended to ensure firms understand how they can take practical, reasonable steps to ensure that their ARs do not undertake unlawful regulated activity.

4.28 It is important to note that the existing rule at SUP 12.6.6R does not have the effect of changing the extent of appropriate redress coverage where an AR acts outside the scope of its appointment, for example by carrying on activities which are not within the principal's permission. At present, consumers may not be able to access the Ombudsman in such a case. We are exploring with HMT and the Ombudsman whether this can be addressed through future legislative change.

Q11: Do you agree with our proposed guidance on what we expect 'reasonable steps' to be?

Overseeing ARs effectively

4.29 The proposals in this section aim to strengthen our existing requirements for principals' oversight of ARs, including the need to have sufficient resources. We consider these proposals will address harm from lack of appropriate oversight, specifically, from an AR being disproportionately large compared to its principal.

4.30 We are also including proposals on the considerations that principals should have in relation to an AR's growth. These proposals aim to ensure principals know when to review existing oversight arrangements for ARs and clarify when we expect principals to sever relationships with ARs that become unmanageable to oversee.

Sufficient resources

4.31 We already require a principal, before it appoints an AR and on an ongoing basis, to establish on reasonable grounds that the principal has 'adequate' controls over the AR's intended activities, and resources to monitor and enforce an AR's compliance with the relevant requirements that apply to its regulated activities.

4.32 By controls, we mean the functions needed to ensure the principal can oversee the AR's activities. This includes risk, audit and compliance functions, organisational structures (such as reporting lines) and reporting. When we refer to resources, we mean the people, processes, technology, facilities and information needed to oversee the AR's activities. This includes, for example, having appropriately trained staff and up-to-date IT systems.

4.33 However, we consider principals would benefit from clearer guidance on what we mean by 'adequate' resources and controls and how to assess if these are appropriate. So we propose to include guidance to set out that 'adequate' means controls and resources which:

- are commensurate to the size of the AR's business and the regulated activities it carries on, eg having appropriately trained staff with knowledge and expertise specific to the relevant activity/activities
- enable the principal to effectively manage conflicts of interest
- allow the principal to maintain effective oversight of the AR, and
- enable the principal to identify and resolve any issues arising from the AR

4.34 Principals must assess the adequacy of their controls and resources to oversee ARs before they appoint an AR, and on a continuing basis. To achieve this, we propose principals should review the adequacy of their controls and resources at least annually.

4.35 To carry out the assessment of controls and resources, principals should consider whether each element they are reviewing (for example the functions set out in paragraph 4.32) allows them to monitor and enforce compliance and oversee the AR's activities. Principals should also consider the proposed guidance at SUP 12.4.4BG on ensuring controls and resources are commensurate to the size of the AR's business and its activities.

4.36 Where a principal reviews its controls and resources, either before it appoints an AR or in line with the proposed annual review process, and determines that its controls and resources are inadequate, it should:

- Remediate the identified issue with its controls and resources as a matter of urgency. If the problem is significant and ongoing, the firm should consider notifying us under Principle 11 (Relations with regulators).
- Where it has not yet appointed the AR, it should postpone doing so until the issue has been satisfactorily resolved.

4.37 If the problem cannot be remediated in a reasonable time period, the principal should consider whether it needs to indefinitely postpone appointment of the AR, or, if it has already appointed the AR, terminate the relationship. We have clarified this expectation in guidance at SUP 12.6.1-AG. Where terminating the relationship is the necessary course of action, principals should ensure they consider our existing rules and guidance on the subject and the additional rules and guidance proposed in this CP (on winding-down and whether to remediate/terminate the relationship).

Q12: Do you agree with our proposals to clarify what we mean by adequate resources and controls and how to assess whether these are appropriate?

Monitoring appointed representative growth

4.38 We have seen some instances of principals not being able to oversee an AR effectively because the AR has grown significantly in a relatively short period of time. This can cause consumer or market harm where the principal is not able to appropriately oversee the AR's business, as per its responsibility under our rules, and/or identify any issues arising.

4.39 To address this, we consider it would be beneficial for principals to have some clarity on the specific circumstances in which an AR's growth should trigger a review of oversight appropriateness. By oversight appropriateness, we mean a review to determine whether the resources and systems and controls the principal employs to monitor the AR's activities and business are appropriate.

4.40 We are therefore proposing to include guidance at SUP 12.4.4FG on these specific circumstances. These include, but are not limited to, if:

- the size/volume of the AR's regulated business increases significantly in a short period of time
- the senior management turnover at the AR is unusually high
- staff turnover at the AR, across all staff members involved in carrying on regulated activities for which the principal is ultimately responsible, is unusually high

4.41 By conducting a review of oversight appropriateness, principals will be better able to identify areas of concern whenever they encounter each of these circumstances. They can then take steps to either fix the issue or terminate the contract with the AR (in line with SUP 12.6.1R).

4.42 We also propose that principals are required to ensure that their contractual arrangement with an AR allows for termination where a principal considers it can no longer adequately oversee the AR. We propose to amend SUP 12.5.5R to reflect this.

4.43 Our expectation is that principals would only need to amend existing AR contracts to capture this from the next contractual renewal date/revision point. Therefore they would not need to amend all contracts immediately once the amended SUP 12.5.5R had taken effect.

Q13: **Do you agree with the proposed circumstances which should trigger a review of principals' oversight appropriateness?**

Q14: **Do you agree with our other proposals for principals to ensure they can effectively maintain pace with AR growth?**

Threshold Conditions and effective oversight of ARs

4.44 All firms that want to become authorised must meet the Threshold Conditions (TCs) as set out in FSMA. TCs represent the minimum conditions for which we are responsible, which a firm is required to satisfy, and continue to satisfy, to be given and to retain a Part 4A permission. A Part 4A permission is needed for a firm to carry on a regulated activity.

4.45 The minimum conditions in the TCs relate to:

- the firm's location
- whether the firm can be effectively supervised by the relevant regulatory authorities
- whether the firm has appropriate resources
- the firm's suitability, and
- the firm's business model

4.46 At the gateway, we assess firms' ability to meet these conditions before we can grant them a Part 4A permission.

4.47 Under our current rules for principals, when they are considering appointing an AR (not including an IAR) they must ensure that the appointment will not prevent them from satisfying, and continuing to satisfy, threshold conditions (see SUP 12.4.2R). Under SUP 12.4.5G, a principal should also, in determining whether an AR or prospective AR has close links which would be likely to prevent the firm's effective supervision, consider the guidance to TC 2C or 3B as applicable.

4.48 We are not proposing to make changes to our existing guidance on the TCs as set out in COND. However, we consider it will be beneficial for effective oversight for principals to assess and oversee their ARs more closely. These proposals build on the existing requirement for principals to have adequate controls and resources in place to oversee ARs.

4.49 So we propose to introduce new guidance on our expectations at SUP 12.4.4BG. This would clarify that principals should have systems and controls in place which enable them to effectively oversee financial services staff at ARs to a comparable standard as if they were individuals directly employed by the principal and the AR's activities were in-house at the principal. This proposal does not change the nature of the relationship between the principal and financial services staff working at the AR in connection with a regulated activity. So, for example, we do not expect principals to take on the role of employer of relevant staff at their ARs. However, this proposal reflects the level of oversight and responsibility we expect principals to take.

4.50 It is our view that principals should do this to satisfy, and continue to satisfy, TCs. The ultimate outcome is for principals to establish and maintain a high standard of oversight of ARs to minimise problems and limit the risk of harm to consumers and/or markets.

4.51 We also propose to include guidance at SUP 12.4.4GG setting out how we expect principals, to meet this standard in practice. This would include expectations that principals should:

- Collect, and scrutinise, management information. Principals should work with ARs to agree how and when management information should be provided, the format it should take and the data it should capture.
- Analyse data provided by the AR to identify risks and issues. We expect principals should scrutinise entity-level data provided by their ARs. For example, where principals analyse complaints data, they should look at the volume of complaints but also at other data and trends to identify the root cause of any issues.
- Closely monitor the delivery of the AR's activities and business, within the scope of its appointment. For example, this could take the form of reviewing call scripts or other materials provided by the AR and organising regular check-ins with them.
- Closely scrutinise directors (CF1s), as the senior responsible individual within the AR, to ensure they are appropriate for the role.
- Have regular engagement with their ARs, whether through in-person meetings, regular phone calls or emails.
- Set clear expectations around processes for escalation of issues, including service level agreements (SLAs) where necessary. This could include, for example, grading of issue severity based on impact and potential harm to the ARs' customers and processes for remediation timeframes. Where appropriate, such expectations should be included in the contract between the principal and the AR. We do not propose that contracts be amended to include these considerations but that they are incorporated, if necessary, at the first contract revision/renewal point.
- Take a risk-based approach to oversight of the AR's activities and business, within the scope of its appointment. For example, this could include the principal setting out different expectations and management information requirements where a particular activity carried on by the AR is, in the principal's view, risky.

4.52 Much of this reflects existing good practice in the market. We consider these proposals will help ensure principals understand our expectations for how they can appropriately scrutinise their ARs' information to ensure that they are meeting, on an ongoing basis, TCs.

4.53 If the principal is not satisfied with any of the outcomes of this exercise, it should seek to remediate any issues or otherwise terminate its contract with the AR if it has no other option. For more information on remediation and termination see paragraphs 4.64 to 4.71.

Q15: Do you agree with our proposed guidance for principals overseeing individuals at their ARs to a comparable standard as if they were directly employed by the principal?

Effectively recognising, and limiting, the risk of harm

4.54 We consider that principals should be more actively assessing and preventing any activities carried on by an AR from creating an undue risk of harm to consumers or market integrity. This aligns to the overall aim of our proposed New Consumer Duty, where we propose that firms consistently focus on consumer outcomes.

4.55 Under the proposals in this section, principals would be clearer about their obligations to identify and assess what would constitute an undue risk of harm both before they appoint an AR and on an ongoing basis. This will help to prevent harm before it has a significant, or irreversible, impact on consumers and/or markets. Currently, there is no existing requirement in SUP 12 for principals to consider harm from their ARs.

4.56 So we propose to require principals to ensure that an AR's activities do not result in undue risk of harm to consumers or market integrity.

4.57 To help principals identify and assess the types of harm, we also propose to include at SUP 12.4.4CG accompanying guidance on the considerations principals should have to identify an undue risk of harm. These are:

- The impact to prospective, or existing, customers of the AR if a risk of harm crystallised. This could include, for example, considerations of the number of customers the AR has, or likely would have, and whether the target market/ customer base includes customers in vulnerable circumstances who may be at greater risk of harm if things go wrong. Principals are reminded of our guidance on the fair treatment of vulnerable customers, which they should be considering in their own activities and business and that of any ARs.
- Financial loss to the AR's customers, for example if the AR were to fail.
- Risks to the principal, for example if the AR were to generate a high volume of complaints.
- Substitutability of the AR's services. For example, if the AR's customers would be able to quickly and easily find another provider for their needs were the AR to fail.
- The potential for reputational damage, which could harm the AR's customers.
- Whether there are any concerns with the AR's business model/strategy or governance arrangements, for example, its senior management.
- The ability of the principal's arrangements to effectively identify and manage risks in compliance with existing obligations in SYSC.

4.58 If a principal identifies an undue risk of harm from an AR's activities during the assessment process it should take steps, in accordance with SUP 12.6.1R, to rectify the matter or otherwise terminate its relationship with the AR. Where the assessment has taken place before the AR has been appointed, the principal may choose not to appoint the AR or it may make appropriate resolution of the risk a condition of entering into a contractual agreement with the AR.

4.59 In some cases, the principal may have to strengthen its own compliance oversight arrangements and controls to accommodate ARs which it considers carry a higher risk of harm. Where the principal decides to terminate its relationship with the AR, it should also consider how it will help the AR wind down (in line with the proposed rule on this at SUP 12.8.3R).

Q16: Do you agree with our proposals on principals ensuring ARs' activities do not present an undue risk of harm to consumers or market integrity?

Annual review of AR's activities and business

4.60 We consider there are some specific aspects of an AR's activities/business which principals should be scrutinising annually.

4.61 We propose to include a new rule at SUP 12.6A.2R requiring principals, on an annual basis, to review (for each AR they have a contractual arrangement with):

- The fitness and propriety of senior management at the AR, considering existing guidance at SUP 12.4.4G(2) and the proposed competence & capability guidance at SUP 12.4.4G (3).
- The AR's financial position, considering existing guidance at SUP 12 Annex 1G.
- Spans of control, ie the ability of relevant persons at the AR to carry out regulated activities for which the firm has accepted responsibility.
- The adequacy of the firm's controls and resources for the purposes of SUP 12.4.2R(3)(a) and (b).

4.62 We are not proposing to apply the proposals in paragraph 4.61 and 4.63 to IARs. We consider doing so would be disproportionate given the limited scope of IARs' activities. We also note that our existing guidance at SUP 12.4.3G and SUP 12.4.4G(1) (and the corresponding material at SUP 12 Annex 1G and 2G) does not currently apply to IARs.

Risk-based approach to review frequency

4.63 To ensure that the proposed annual review is matched to the nature and level of risk of the AR's business and activities, we also propose to require principals to carry out the annual review more regularly in certain circumstances. These include if:

- the AR changes its business model, or
- the scope of the AR's appointment changes (for example, it begins conducting a new activity within the scope of the principal's permission), or
- if the AR changes any of its senior management responsible for, or involved with, the activities being carried on within the scope of its appointment more than once in a calendar year, or
- if the AR enters into a new contractual arrangement with another principal.

Q17: Do you agree with our proposals in relation to principals conducting an (at least) annual review of their ARs' activities and business?

Termination of AR contracts and winding down

4.64 The proposals in this section aim to give principals clearer guidance on how and when they should terminate, or remediate issues with, an AR relationship. We also set out how we expect principals to consider how to wind down a relationship, where they decide this is the right course of action, in an orderly way and giving consideration to our Wind-Down Planning Guide.

4.65 We consider these proposals will reduce consumer and market harm by ensuring that principals have the support, and information, to inform decisions about how to deal with issues at an AR. By more effectively identifying when to terminate an AR relationship, the actions principals take will reduce the risk of harm to consumers and markets before it crystallises.

4.66 We consider our rules allow a principal to explore options to address concerns. A principal terminating a contract with an AR (see SUP 12.5.4G) will only be required if these options do not satisfactorily address the concerns.

4.67 Under our existing rule at SUP 12.6.1R, principals are required to take immediate steps to rectify a matter or terminate their contract with an AR if the conditions at SUP 12.4.2R, SUP 12.4.6R or SUP 12.4.8AR are no longer being satisfied. These conditions include:

- the AR's appointment does not prevent the principal from meeting TCs
- the AR's suitability, for example, solvency and close links
- the principal having adequate systems, controls and resources to oversee its ARs

4.68 We consider that most issues should be fixable and that a principal should not be required to terminate its contract with an AR where an issue could be resolved. There can be negative implications from terminating of these contracts, especially where principals have not appropriately considered how to do this in an orderly way. For example, if the principal terminates the contract with immediate effect but hasn't sufficiently considered the AR's existing customers and how they might be affected.

4.69 We are not proposing to change or remove the existing requirement at SUP 12.6.1R. But we propose to add guidance at SUP 12.6.1-AG on the circumstances in which principals should pursue termination to give them some clarity. Circumstances include, but are not limited to:

- Issues with the AR which have not been resolved satisfactorily or in a reasonable time period. For example, where the AR has agreed to resolve known issues but it has not met the principal's standards or expectations for remediation, or where the principal deems the proposed remediation risks it breaching FCA rules or guidance.
- If senior management turnover at the AR is high and the reason for this is unsatisfactory. For example, senior management departures are unexplained or the AR's reasoning is insufficient or vague.
- If the AR is found carrying on regulated activities which are not within the scope of its appointment.
- If the AR is found to have intentionally misled its customers in any way. For example, by including a misleading status disclosure on its website, other communications or financial promotion materials.
- If any of the AR's senior management with responsibility for, or involvement in, activities carried on within the scope of the appointed representative's appointment are dismissed due to gross misconduct.

4.70 Where principals decide termination is appropriate, we consider it the principal's responsibility for ensuring the AR relationship is wound down in an orderly way. So we propose to include a new rule at SUP 12.8.3R. This requires principals to ensure that they terminate a relationship with an AR in an orderly way.

4.71 Finally, to help principals identify and assess when to seek to remediate an issue or terminate their contract with an AR, we propose to include a decision flow chart at SUP 12 Annex 7G. The chart shows the effect of our existing, and proposed, rules and guidance on termination and remediation. We consider this will help principals effectively identify and assess the best course of action.

Q18: Do you agree with our proposals for the termination or remediation of AR contracts?

Self-assessment

4.72 The proposals in this section set out our requirement for principals to explain in a self-assessment document how they are meeting certain aspects of the policy.

4.73 The document would ensure principals are proactively assessing, monitoring and documenting their compliance with the policy. It will also ensure that principals' governing bodies are appropriately sighted on AR relationships. By thinking more holistically about their ARs, we expect principals will be able to identify gaps or issues which may lead to harm.

4.74 There is no current explicit requirement for a principal's governing body to ensure its ARs are meeting the principal's expectations and enabling it to meet its regulatory responsibilities. So we are proposing to require the governing body (ie the Board or equivalent managing body) to annually review and approve, a self-assessment document. The document would contain, among other things, a written record of:

- How the AR's senior management meet the fit and proper expectations and the considerations the principal had in carrying out the assessment. This includes the ability of relevant persons at the AR to carry out regulated activities for which the firm has accepted responsibility.
- The AR's financial position.
- How the principal is monitoring oversight of its ARs and the outcome of the oversight appropriateness review.
- The principal's assessment of its own controls and resources.
- The principal's assessment of the risk of consumer/market harm arising from the AR's activities/business.

4.75 Principals will also need to evidence in the self-assessment document methodologies used to carry out the activities required. By methodologies we mean the approaches, techniques and systems used to inform their assessment process. To produce the self-assessment annually, principals may be able to use the previous year's self-assessment document as a starting point. We do not expect principals to produce the document from scratch on an annual basis if this is not necessary.

4.76 While the proposed requirement is for the governing body to review and approve the self-assessment, we expect that most of the information will be collated by appropriate senior management and other staff at working level who are closer to the technical detail.

4.77 To reduce the compliance burden on principals, particularly those with a high number of ARs, we are not proposing this document be annually submitted to us (as with other reporting requirements). Instead, we propose that principals make it available to us on request, in compliance with Principle 11 and existing guidance at SUP 2.3.3G. We also expect that principals with multiple ARs should produce a single self-assessment document covering all the required information, rather than 1 document per AR.

4.78 Principals would need to complete the self-assessment document for their IARs, to the extent the corresponding requirements would apply to them. In practice this means that principals wouldn't need to include detail on an IARs' fitness and propriety or its financial situation in their self-assessment document.

4.79 Principals should not view completing the self-assessment as a tick-box exercise. They should view it as a helpful tool for identifying how they are meeting the requirements of the rules and considering where they may need to make changes.

Q19: **Do you have any comments on our proposed requirement for principals to create, and maintain, a self-assessment document?**

Summary of proposals

4.80 The table below summarises the policy proposals in this chapter for ease of reference.

Proposal	How would this be achieved?	Application to IARs (Yes/No)
Clarify principals' responsibilities for their ARs and our expectations		
Principals, where they delegate functions or tasks to an AR or tied agent, should put appropriate safeguards in place.	Principals to ensure that delegated functions or tasks do not represent a conflict of interests and are subject to enhanced monitoring	Yes
Principals to assess senior management at ARs for competence and capability.	Principals to consider proposed guidance on how to practically assess senior management at ARs.	No
Principals to ensure their ARs act within the scope of their appointment.	Principals to consider proposed guidance on what we consider 'reasonable steps' to be	Yes
Overseeing ARs effectively		
Principals to ensure controls and resources are adequate.	Principals to annually review the adequacy of controls and resources in line with our proposed guidance of what these could look like. Where controls and resources are inadequate, principals should consider notifying us under Principle 11. If the issue cannot be resolved, principal should postpone appointment of the prospective AR or otherwise terminate the existing AR relationship.	Yes
Principals to complete an 'oversight appropriateness' review. This is to determine whether the resources and systems and controls the principal uses to monitor the AR's activities and business are appropriate.	Principals to consider proposed guidance on the circumstances in which this review would be triggered. Principals to review contractual relationship with an AR where it, or its business, grows rapidly in a short time.	Yes
Principals to have systems and controls in place which anticipate the oversight of ARs to a comparable standard as if they were an individual directly employed by the principal and the activities being undertaken by the AR were in-house at the principal.	Principals to consider proposed practical expectations of how they might achieve this standard of oversight through systems and controls.	Yes

Proposal	How would this be achieved?	Application to IARs (Yes/No)
Principals must ensure, when appointing an AR and on ongoing basis while in a contractual arrangement with an AR, that the activities the AR carries on do not, or would not, result in an undue risk of harm to consumers or market integrity.	Principals to meet proposed expectations of how they might identify harm.	Yes
Principals to annually review fitness and propriety of senior management at ARs and spans of control.	Additionally, principals would need carry out the annual review more regularly in certain circumstances.	No
Principals to arrange ongoing oversight of their ARs	Principals to consider proposed practical guidance on how to achieve this.	Yes
Termination of AR contracts and winding down		
Principals to have clarity on the circumstances in which they should terminate an AR relationship.	Principals to consider proposed guidance on circumstances and terminate relationships if necessary.	Yes
Principals to ensure, when terminating a relationship with an AR, that they do this in an orderly way.	Principals would need to assist ARs with orderly wind down where they decide this is necessary.	Yes
Self-assessment		
Principals to annually prepare a self-assessment document demonstrating their compliance with aspects of the policy and methodologies used to complete the assessment.	If requested, principals would need to submit the self-assessment document to their FCA supervisor.	Yes

5 For discussion: potential areas for further change

5.1 In this chapter, we set out our views on areas of potential policy change which we think could improve the effectiveness of the AR regime and reduce harm.

5.2 At this stage, we are not consulting on potential rule changes, but inviting views and input on potential policy changes. This covers potential risks in 'regulatory hosting' arrangements and business models where ARs are larger in relative terms than the principal.

5.3 We consider that there is potential harm arising from these models and seek views on this harm and on the ways we may be able to reduce it, including by setting limits on such arrangements.

5.4 We also invite comments on whether there are particular prudential standards that we should introduce or strengthen for business models that include ARs.

Regulatory hosting

5.5 The 'regulatory hosting' model is one where, rather than carrying on any substantive element of a regulated activity itself, the principal oversees the use of its permissions by ARs. This service is commonly marketed as an additional service alongside other compliance support services.

5.6 This model typically differs from a 'network' in that the regulatory host firm's ARs are generally independent, unconnected businesses, in some cases operating in different markets. These ARs do not necessarily have any relationship with the principal in terms of selling its products or services. Regulatory host firms also tend to oversee a wide variety of AR business models. In the more traditional AR network model, the ARs and principal typically share a common commercial objective and operate in a particular sector.

5.7 In recent years the number of firms providing regulatory hosting services has grown significantly. We have seen more firms applying for authorisation that are seeking to operate a regulatory hosting model, and our review of principals in the investment management sector (see details below) also confirmed this. Also, different variations of the regulatory hosting model exist in different markets, and we provide examples of some of these and the potential harm we see in them below.

5.8 Some principals use the regulatory hosting model to provide a 'regulatory incubator' service. This allows unauthorised companies to trial new services and propositions. Where used appropriately, this incubator model could help firms understand the regulatory environment and compliance needs before going on to apply for FCA authorisation. This could support effective competition and innovation.

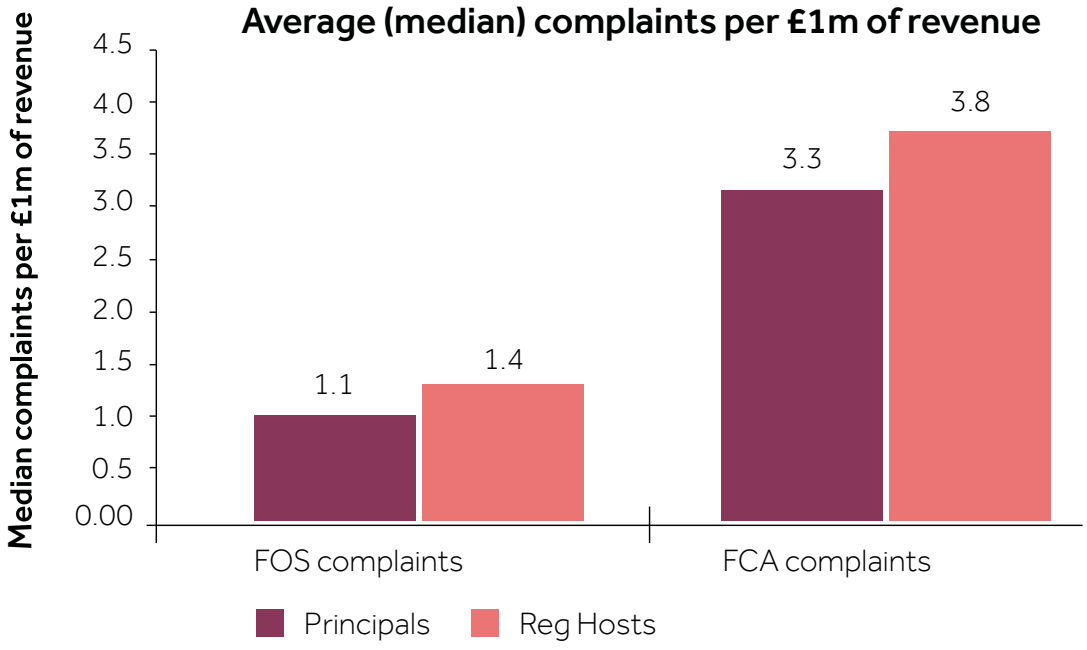
5.9 As mentioned in Chapter 3, there is no definition of 'Regulatory hosting' in our Handbook currently. We have proposed one and included it in the legal instrument accompanying this CP in the context of our proposal to require firms to notify us of their intention to begin to provide regulatory hosting services before they begin to do so. As this definition may have wider implications in the future, as detailed below, we invite views on how we should define 'regulatory hosting' or what we should consider in doing so.

Harm arising from regulatory hosts

5.10 We have identified issues and potential harm arising from regulatory hosts. Our supervision work has identified that most issues arising from regulatory hosting arrangements are due to the principal applying too little resources to overseeing ARs, lack of skills and experience in the different markets in which the ARs operate and lack of appropriate systems and controls in place to enable principals to effectively oversee their ARs (see SUP 12).

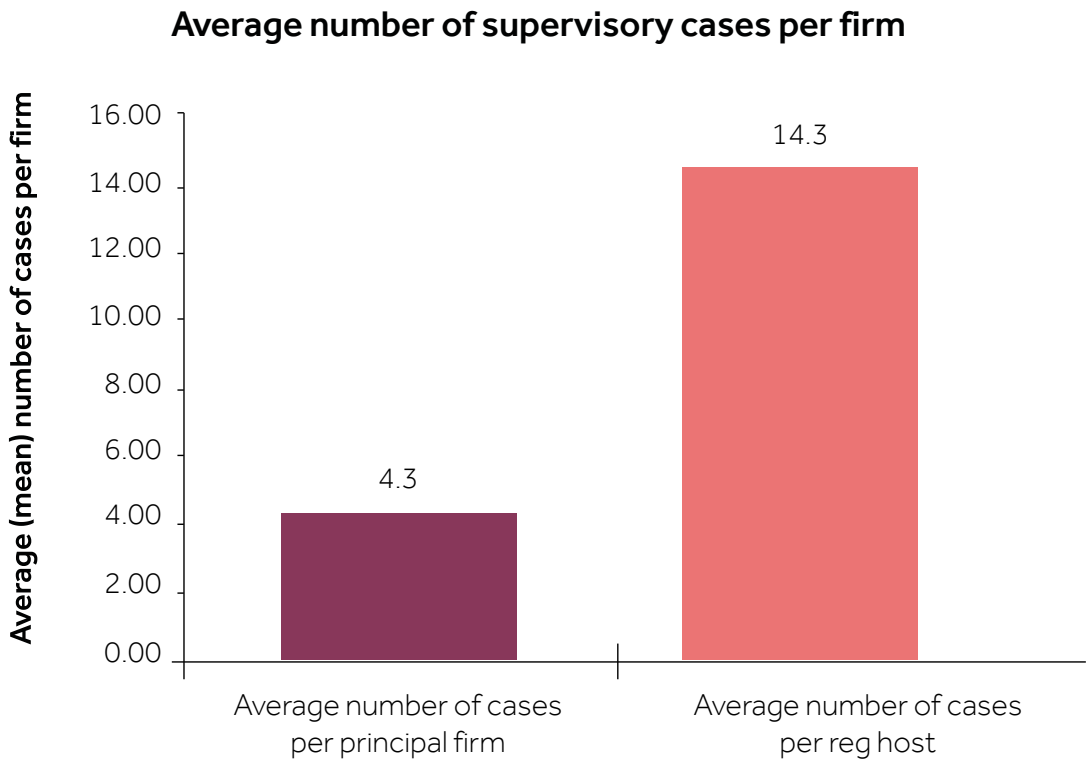
5.11 Experience tells us that regulatory hosts often take a more distanced 'light-touch' approach to their ARs than other principals. Many of them have a wide range of permissions and ARs conducting a broad range of business models. This makes it inherently more difficult for principals to have the requisite scale, knowledge, expertise and systems and controls to effectively oversee the ARs. Where principals are more reliant on income from their ARs to sustain their business model, this could also create a conflict of interest where a principal may be less able or willing to effectively oversee its ARs or take swift action to address harm when needed.

5.12 Our analysis of FCA and Ombudsman complaints shows that regulatory hosts have, on average, more complaints against them compared to other principals.

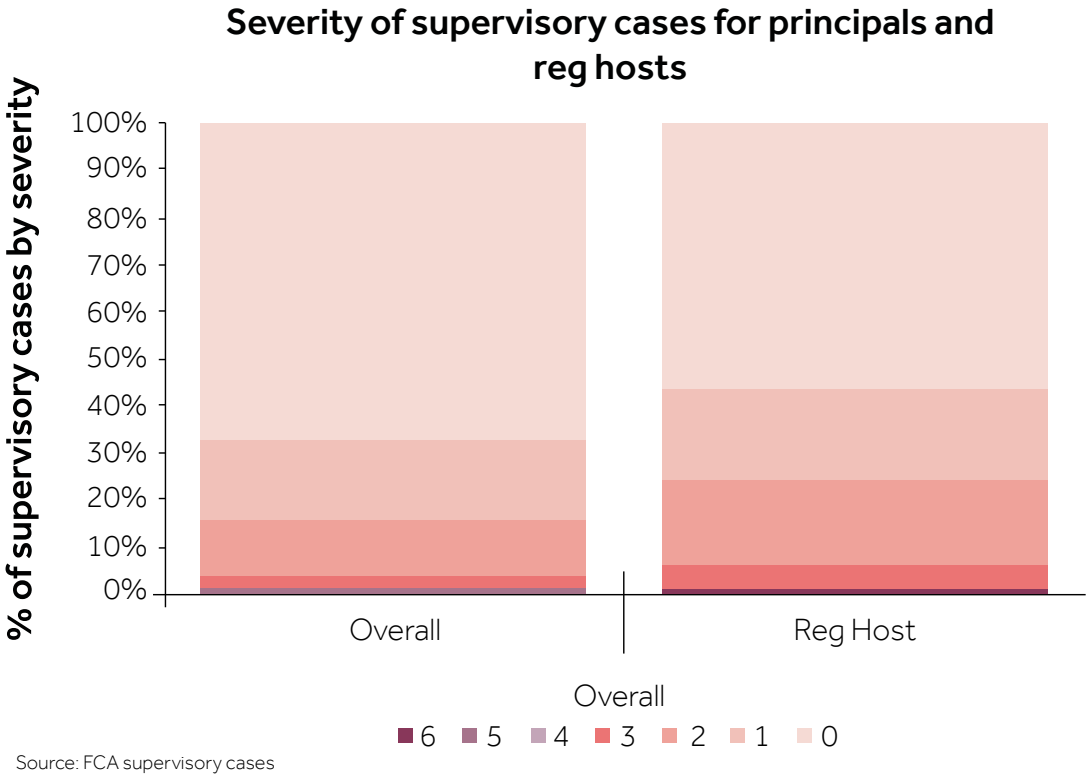


Source: FCA complaints data, RMAR, FOS complaints data

5.13 Regulatory hosts also create, on average, more FCA supervisory cases than other principals, and these cases are on average more severe. As a result, the time and effort we spend on regulating regulatory hosts is disproportionate to their size and level of activity.



Source: FCA supervisory cases



Source: FCA supervisory cases

5.14 Although this analysis shows that there are problems with the regulatory hosting model, the data we have on regulatory hosts is limited. Also, as there is no definition of 'regulatory host' in our rules or guidance, principals do not generally identify themselves to us as regulatory hosts. So there are likely to be many more principals offering these services than we currently know of.

5.15 To determine whether it is necessary and appropriate to bring forward policy change in this area, we need more information on the benefits and harm of the regulatory hosting model.

5.16 In October, we issued a survey to a large number of principals, requesting information on their business and that of their ARs. The survey included specific questions to firms that provide regulatory hosting services, which aim to help us to better assess the harm from these models and the drivers of such harm. We will use the input from this survey to further consider and refine our approach to this business model.

5.17 At the same time, we are seeking views and data about these business models, the harm arising from them, and potential ways to mitigate these through this discussion chapter in the CP.

Q20: What do you consider are the harms and benefits in the regulatory hosting model? It would be helpful to set out your views on whether principals providing regulatory hosting services can exercise adequate oversight over their ARs and be commercially viable, and if so how.

5.18 We are also seeking views on potential harms from regulatory hosting business models in the investment management sector.

5.19 As we mention in Chapter 1, ARs are permitted to undertake certain regulated activities, but not others. The types of regulated activities which ARs are permitted to undertake are mostly advising on and arranging/making arrangements for different financial products and services. ARs are not permitted to conduct activities that involve managing investments.

5.20 Our multi-firm review of principals and ARs in the investment management sector in 2019 found that regulatory hosts might permit people at ARs to be seconded to the principal. These individuals then undertake regulated activities, such as dealing in investments as agent and managing investments for which ARs cannot be exempt (Handbook SUP 12 and SUP 12.2.7G).

5.21 This secondment arrangement has led to the emergence of ARs marketing themselves as, for example, investment managers, wealth managers and stockbrokers. These descriptions give the impression that these ARs can carry on a wider range of regulated activities than those for which a principal can lawfully accept responsibility.

5.22 Another example of potential harm highlighted in the multi-firm review, is the 'Host AIFM' model, which has grown in recent years. Under this model, a principal is appointed as the alternative investment fund manager (AIFM) to an alternative investment fund (AIF); the AR is usually appointed as an adviser to the AIF. People from the AR may be seconded to the principal and, in this capacity, they can undertake portfolio management activity. For these purposes, the seconded individual performs the client-dealing function on behalf of the principal. Under this arrangement, the AR, rather than the AIFM, claims to be the fund manager when marketing AIFs, when legally this role is taken by the principal as the AIFM.

Q21: **Do you consider that the regulatory hosting model in the investment management sector (as described), including the secondment model, works in the best interests of consumers?**

Q22: **Do you consider that the use of the 'Host AIFM' model, including where staff are seconded from principal to AR, is compatible with ensuring good outcomes for consumers and markets?**

Q23: **How should ARs be allowed to market themselves in relation to activities they cannot lawfully undertake, e.g. acting as investment managers?**

Smaller principals with larger ARs and overseas ARs

Smaller principals

5.23 The vast majority of ARs are relatively small firms that operate on behalf of their principal. There are also relatively small principals which are responsible for overseeing ARs of significant size. Where an AR – or the group in which they operate - is disproportionately large relative to the principal, we are concerned this could lead to harm. For example, where a principal becomes overly reliant on the AR to sustain its business, this might undermine the independence and effectiveness of its oversight.

5.24 The relative size and complexity of larger ARs can also mean a principal does not have sufficient skills and resource to effectively oversee them. A principal may also not have the financial resources to deal with the failure of a materially larger AR or pay appropriate redress to consumers.

Overseas ARs

5.25 Most ARs and principals are located in the UK. But recently some principals, particularly in the general insurance, consumer investments and wholesale markets sectors, have been appointing or looking to appoint, overseas ARs. By overseas ARs we mean firms or persons which have their head office outside the UK.

5.26 We are concerned this practice may be used, by some ARs or potential ARs, as a way to access UK markets instead of seeking Part 4A permission to carry on regulated activities in the UK. This includes where the proposed AR is a person who has been refused a Part 4A permission, following an application made through the Temporary Permissions Regime (TPR).

5.27 We know that inadequate oversight of ARs by principals can lead to potential harm. We consider the existence of an extra-territorial element to these arrangements could add an additional level of complexity and potential risk to the AR model, in particular with respect to the ability of the principal to adequately oversee an overseas AR's activities.

5.28 For smaller principals with larger ARs and principals with overseas ARs, these types of arrangement could exist both within the regulatory hosting model and outside of it.

5.29 As is the case with regulatory hosting, we do not have enough information on the activities of smaller principals with larger ARs or principals with overseas ARs to properly assess the harm arising from these arrangements. However, we consider that the issues and harm have some similarities with those in principals providing regulatory hosting services, although the potential conflicts of interest are different.

Next steps

5.30 Through our firm survey, we are also collecting information on principals with large ARs and principals with overseas ARs. We will use the information from this firm survey, as well as views and data on these arrangements provided in response to this discussion chapter, to further consider our approach.

Q24: **What do you consider are the harms and benefits in smaller principals with larger ARs? It would be helpful to set out your views on the conflicts of interest from the principal being overly reliant on its ARs for income within these business models and on whether these firms can exercise adequate oversight over their ARs, and if so how.**

Q25: **Do you consider there are challenges where principals appoint overseas ARs? Are there benefits to appointing overseas ARs?**

Potential ways to address the harm from these business models

5.31 We are seeking views on the potential policy options that we think could be effective in reducing harm in these business models. We are also seeking suggestions on alternative ways to address the harm.

5.32 There are a number of potential ways to address the harm from firms that provide regulatory hosting services and from smaller principals with larger ARs. The potential solutions set out below could potentially be applied separately or together with other steps.

5.33 We have not yet decided which interventions, if any, would be most effective or appropriate. We will use the feedback on the discussion questions, and the evidence of our firm survey, to inform any proposals we decide to take forward to consultation. Some of the options we set out below might require legislative change. Treasury have issued a Call for Evidence to gather views on the overall aim, scope, benefits and risks of the current AR regime. We are working with the Treasury on this, including whether measures are needed to reduce harm in these business models.

Potential policy options

- prohibit the engagement of ARs which operate businesses which are materially distinct from that of the principal
- limit the maximum size of ARs before requiring them to become fully authorised in their own right

- require our specific consent to provide regulatory hosting services or to have larger ARs than the principal
- limit the range or scope of regulated activities that regulatory hosts can oversee and / or the number of ARs they can have
- require principals that provide these services to meet additional requirements to those that apply to other principals
- rely on changes already in this CP, including requiring firms that want to provide regulatory hosting services to notify us of this intention before beginning to provide these services
- require principals to regularly review the relative size/scale of business carried on by their ARs and consider whether it remains appropriate

5.34 We provide details on each of these options below.

Ban the use of regulatory hosting services

5.35 One way to address the harm from the regulatory hosting model is to prevent firms from providing these services.

5.36 This could be achieved by requiring that firms can only appoint ARs if the AR's business and that of the proposed principal are similar and share common characteristics. Under this option, ARs that operate as an independent, unconnected business to that of the principal would not be allowed to conduct regulated activities as an AR of that principal. Such firms could either apply for direct FCA authorisation or would have to find a suitable principal and act on its behalf.

5.37 If such a prohibition were put in place, this would be very likely to manage the harm from these models. However, we know that it would impact principals currently operating these business models and their ARs. It could also lead to firms leaving, or deciding not to enter, certain markets, which in some cases might have a negative impact on competition and economic growth. We think this would require a significant implementation period to allow principals and their ARs to make necessary adjustments to the way they undertake their business.

5.38 We also acknowledge that the effectiveness of this option depends on the definition of 'regulatory hosting'. We invite views on how best to define 'regulatory hosting'.

Limit the size of ARs

5.39 To address the harm from smaller principals with larger ARs, we could potentially limit the size of firms that can conduct regulated activities as ARs.

5.40 This would mean that only firms of up to a certain size could conduct regulated activities as ARs, whereas larger firms would need to apply to be directly authorised by us. Alternatively, we could limit the size of an AR relative to the size of the principal.

5.41 This option would likely resolve the harm from larger ARs with smaller principals and could potentially resolve some of the harm we see in the regulatory hosting model. This would ensure that businesses of a certain size undertaking regulated activity would generally need to seek authorisation, so ensuring that we could use the full range of our powers in relation to such persons.

5.42 However, we know that limiting the size of ARs might have an impact on existing larger firms operating as ARs and on their principal. We also acknowledge that there will probably be challenges in determining what the cap on size should be, and that some

firms might try to find ways to restructure their businesses to get around this rule. We think this would require a significant implementation period to allow principals and their ARs to make necessary adjustments to the way they undertake their business.

Require specific consent from us to provide regulatory hosting services or be a smaller principal with larger AR(s)

5.43 Under this option, we could require firms that are already providing or want to provide regulatory hosting services to get our consent to do so. As above, we acknowledge that the effectiveness of this option depends on the definition of 'regulatory hosting' and invite views on this.

5.44 This potential option, together with our proposal to require firms to provide us with a notification for regulatory hosting services, would ensure that we are alerted to firms that are proposing to provide regulatory hosting services which we consider to have a greater potential for harm. This would allow us to check that these firms have the appropriate processes, systems and controls to effectively oversee their ARs. This could be done both at the point at which firms applied to be able to operate as a regulatory host and on an ongoing basis through our supervision work.

5.45 This same requirement could potentially apply to firms that are or want to become smaller principals with larger ARs. This would mean that once an AR is about to pass a certain threshold, the principal would be required to apply for specific consent to continue to be the AR's principal. This would require setting an appropriate cap for the size of ARs, after which the principal would need to get our specific consent.

Limit the range or scope of regulated activities that regulatory hosts can oversee and / or the number of ARs they can have

5.46 Another potential option would be to limit the scope and range of regulated activities that regulatory hosts could oversee.

5.47 We consider that doing this would make regulatory hosts focus on specific areas, sectors and products. It would avoid them overseeing too wide a range of activities which might hinder their ability to effectively oversee their ARs.

5.48 We know that some regulatory hosts currently have a wide range of permissions and ARs operating in several sectors. These business models, the principals and their ARs, would be affected by this proposal. So we think this would require a significant implementation period to allow principals and their ARs to make necessary adjustments to the way they undertake their business.

Require firms that provide these services to meet additional requirements to those that apply to other principals

5.49 We could require firms that currently, or intend to, provide regulatory hosting services and firms with larger ARs to meet additional requirements to those that apply to other principals.

5.50 Such a requirement would aim to ensure that firms operating these riskier business models have appropriate process and measures to ensure effective oversight.

5.51 We could, for example, require these principals to have a certain ratio of staff involved in risk management and oversight of the AR in relation to the number of ARs and their size, and / or require them to hold more capital to better align with the potential harm from its ARs.

Require firms that want to provide regulatory hosting services to notify us of their intention to do so before beginning to provide these services

5.52 This option relies on changes already in this consultation paper to require principals to notify us if they provide regulatory hosting services. We could also require existing firms that intent to provide regulatory hosting services to notify us that they do so.

5.53 This would ensure that we have complete information on regulatory hosts and can scrutinise them more intensely if needed.

Principals to regularly review the proportionality of business carried on by ARs

5.54 We could require all principals to periodically review the proportionality of the business their ARs carry on and assess whether it remains appropriate. This assessment should consider appropriateness in the context of existing systems and controls rules in SUP 12, and proactively assess and monitor the size and growth of their ARs' business.

5.55 By requiring principals to proactively assess and monitor the size and growth of their ARs' business, our view is that principals, and in turn, the FCA, would have a clearer understanding of whether the activities of ARs are more likely to cause harm.

Q26: **Do you have any comments on the policy options set out above in paragraph 5.35 onwards?**

Q27: **Are there any other options we should consider?**

Q28: **Do you have any suggestions on how we should define 'regulatory hosting' or what we should consider in doing so?**

Prudential Standards

5.56 Prudential standards are currently not consistent across our regimes where principals have ARs. Over time we intend to update prudential standards so that the metrics determining firms' prudential requirements better reflect the harm they may cause to consumers and markets.

5.57 The additional information on ARs that we are consulting on in this CP will improve our ability to identify and assess which principal and AR business model arrangements are more likely to cause harm. This in turn will enable us to consider whether particular arrangements have sufficiently robust prudential standards given their potential for consumer harm.

5.58 We are interested in views from stakeholders on which sectors or business model arrangements that involve ARs could benefit from new or enhanced prudential standards.

Q29: **Do you have any views or comments on where prudential standards should be introduced or enhanced to reflect the harm posed to consumers and markets by firms with business models that include ARs?**

Annex 1
Questions in this paper

Q1: Do you agree with our proposal to require principals to provide more information on the business their ARs conduct?

Q2: Do you agree with the reporting timeframes we propose for reporting?

Q3: Do you have any suggestions on how the potential burden, particularly for firms with many ARs, of providing this information to us could be managed?

Q4: Do you agree with our proposal to require principals to verify the details of their ARs?

Q5: Do you agree with our proposal to include details on the regulated activities of each AR that a principal takes responsibility for on the FS Register?

Q6: Do you agree with our proposal to require principals to provide complaints data on their ARs?

Q7: Do you agree with our proposal to require principals to provide revenue information for their ARs?

Q8: Do you agree with our proposal to require principals to notify us if they provide or intend to provide regulatory hosting services?

Q9: Do you agree with our proposed guidance for principals to put appropriate safeguards in place where a function or task is delegated to an AR or tied agent?

Q10: Do you agree with our proposals in relation to principals' annual assessment of ARs' fitness and propriety and the proposed considerations they should have to achieve this?

Q11: Do you agree with our proposed guidance on what we expect 'reasonable steps' to be?

Q12: Do you agree with our proposals to clarify what we mean by adequate resources and controls and how to assess whether these are appropriate?

Q13: Do you agree with the proposed circumstances which should trigger a review of principals' oversight appropriateness?

Q14: Do you agree with our other proposals for principals to ensure they can effectively maintain pace with AR growth?

Q15: Do you agree with our proposed guidance for principals overseeing individuals at their ARs to a comparable standard as if they were directly employed by the principal?

Q16: Do you agree with our proposals on principals ensuring ARs' activities do not present an undue risk of harm to consumers or market integrity?

Q17: Do you agree with our proposals in relation to principals conducting an (at least) annual review of their ARs' activities and business?

Q18: Do you agree with our proposals for the termination or remediation of AR contracts?

Q19: Do you have any comments on our proposed requirement for principals to create, and maintain, a self-assessment document?

Q20: What do you consider are the harms and benefits in the regulatory hosting model? It would be helpful to set out your views on whether principals providing regulatory hosting services can exercise adequate oversight over their ARs and be commercially viable, and if so how.

Q21: Do you consider that the regulatory hosting model in the investment management sector (as described), including the secondment model, is appropriate?

Q22: Do you consider that the use of the 'Host AIFM' model, including where staff are seconded from principal to AR, is compatible with ensuring good outcomes for consumers and markets?

Q23: How should ARs be allowed to market themselves in relation to activities they cannot lawfully undertake, e.g. acting as investment managers?

Q24: What do you consider are the harms and benefits in smaller principals with larger ARs? It would be helpful to set out your views on the conflicts of interest from the principal being overly reliant on its ARs for income within these business models and on whether these firms can exercise adequate oversight over their ARs, and if so how.

Q25: **Do you consider there are challenges where principals appoint overseas ARs? Are there benefits to appointing overseas ARs?**

Q26: **Do you have any comments on the policy options set out above in paragraph 5.34 onwards?**

Q27: **Are there any other options we should consider?**

Q28: **Do you have any suggestions on how we should define 'regulatory hosting' or what we should consider in doing so?**

Q29: **Do you have any views or comments on where prudential standards should be introduced or enhanced to reflect the harm posed to consumers and markets by firms with business models that include ARs?**

Annex 2
Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

Problem and rationale for intervention

3. Issues arising from the existing Appointed Representatives (ARs) regime can cause harm to consumers and market integrity. The range of harm we see arising from the regime spans the entire range of harm we see as the FCA. Some of the harm is more specific to ARs.

4. Harm to consumers may arise, for example, from:

- Firms providing information which is misleadingly presented or difficult for consumers to understand, hindering their ability to properly assess products/ services
- Products and services that are not fit for purpose in delivering the benefits that consumers reasonably expect, or are not appropriate for the consumers they are being targeted at and sold to
- Issues not being identified, or acted upon, by principals
- ARs acting outside the scope of their appointment. This can result in consumers not being able to access appropriate redress where only the regulated activities for which the principal has accepted responsibility are covered.
- Other practices which hinder consumers' ability to act or which exploit information asymmetries.

5. Harm to market integrity may arise where the failure of an AR means it has to abruptly withdraw from the market. Such failures can sometimes occur where the principal hasn't overseen the activities of the AR appropriately. This can lead to disruption to markets, for example through the disorderly wind-down of the AR's business.

6. The AR regime was first introduced in the 1980s. It was primarily created to allow self-employed representatives to engage in regulated activities without having to be authorised, in particular to allow insurers and other product providers to distribute products through ARs. In recent years, more novel business models have developed that pose additional risks. These include the practice of regulatory hosting arrangements and other diverse business models and sectors, including asset management and wholesale activities (see Chapter 5).

7. Our reviews of the general insurance sector in 2016 and the investment management sector in 2019 identified significant shortcomings in principals' understanding of their regulatory responsibilities for their ARs. Failings included insufficient oversight of their ARs and inadequate controls over the regulated activities for which they have accepted responsibility.

Recent regulatory development/interventions

8. More recently, we are also increasingly seeing more examples of failings through our supervisory and enforcement work. Actions (including a recently concluded Enforcement case) were taken against individual firms in each of our thematic reviews and wider communications were issued, including a number of Dear CEO letters as well as thematic findings.

9. Our recent Call for Input on Consumer Investments asked for views on how the AR regime is working in practice in the investment sector. We received a range of views, many of which raised concerns over the AR regime. Respondents who raised concerns argued that ARs drove significant consumer harm and the regulatory disparity between authorised firms and ARs was a source of confusion and harm for consumers.

10. To inform the proposals in this CP, we also conducted an analysis of the information we already hold or have access to. This includes from our supervisory cases and FCA and Ombudsman complaints data. The data (see Chapter 2) showed that there are more issues arising from principals and ARs than from non principals (other directly authorised firms).

11. We are currently undertaking an enhanced work programme, using revenue from the new annual fee applying to principals with ARs, to target issues and harms arising from the regime. As part of this work, we are carrying out targeted and proactive supervision activity in those aspects of ARs' interactions with consumers, or those aspects of principals' oversight of their ARs, or those sectors or portfolios, where we consider that the AR regime is a particular driver of harm.

12. We are also intensifying scrutiny for all principals seeking permissions at the gateway. In a small pilot of a more enhanced approach, 65% of new principals have either withdrawn or we have been minded to refuse their applications. The proposals in this CP seek to complement this ongoing work.

Description of the drivers of harm

13. There are a several key drivers of harm we see arising from principals and their ARs. These include:

- Principals having a lack of understanding of their regulatory responsibilities in respect of their ARs.
- Lack of clarity on the limits of AR relationships (for example, in relation to the business and the activities the AR is permitted to carry on within the scope of the principal's permission).
- Poor due diligence of prospective ARs by the principal. This can include, for example, the principal carrying out insufficient checks on the AR's suitability, in line with existing SUP 12 requirements.
- Poor ongoing oversight of ARs. This can be caused, for example, by a lack of inappropriate systems, controls and resources.
- Poor adviser competence. This can be caused by staff at the principal or AR not being fit and proper to carry out their role.

Our proposed intervention

14. It is already the responsibility of principals to do the following key things in respect of their ARs:

- ensure appropriate oversight over ARs (for example, by ensuring adequacy of controls and resources)
- assess their suitability (both before appointing, and when they have appointed an AR)
- ensure the AR is acting within the scope of its appointment
- take steps to fix issues at the AR or otherwise terminate the contractual agreement with the AR.

15. The above list is not exhaustive. There are many other existing requirements which apply to principals set out in SUP 12 and elsewhere in the Handbook (for example in TC, FIT and SYSC).

16. This CP proposes policy measures aimed at strengthening and improving the existing AR regime. The detail of the proposals is set out in Chapters 3 and 4 of this CP. Chapter 5 is not in scope of this CBA as it does not contain policy proposals. In summary, the proposals covered by this CBA are:

Information and notification requirements (Chapter 3)

- **Enhanced information gathering** – principals to provide more information on individual ARs and the business they conduct (for example, on revenue, number of customers and complaints)
- **Notifications** – principals to notify us ahead of any significant changes they are planning in relation to ARs before these changes are made
- **Financial Services Register changes** – principals to provide information on which of their regulated activities each AR is permitted to use for publication on our FS Register

Principals' responsibilities and our expectations (Chapter 4)

- clarify principals' responsibilities for their ARs
- enhance existing oversight requirements
- give principals more detail on the circumstances in which termination of an AR relationship may be necessary, and how, if termination is necessary, they should ensure that the relationship is wound down in an orderly way
- require principals to annually review their senior management and complete an annual self-assessment of compliance with relevant rules and guidance applying at principal level in respect of ARs

Baseline and key assumptions

Baseline – existing regulatory framework

2.1 The costs and benefits of the proposals in this CP need to be assessed against a baseline. As we are not proposing a new framework and are focusing instead on clarifying and building on existing requirements applying to principals, we consider the existing framework provides an appropriate baseline.

2.2 We have developed the policy proposals, the draft rules and CBA in the context of the UK regulatory framework. We are not proposing to apply the policy to firms in the Temporary Permissions Regime (TPR) or Financial Services Contracts Regime (FSCR). We consider there may be some firms which entered the TPR and then may have since taken on ARs. However, given the limited time period during which such firms are able to operate under TPR, we don't propose to apply these proposals to them. This is because we consider that any such firms will have become directly authorised, or otherwise recognised in the UK financial services market, by the time these rules would take effect. We will keep this position under review as we continue towards publication of a Policy Statement.

2.3 At present, principals are subject to existing requirements in SUP 12 (Appointed representatives). Principals are also subject to other FCA Handbook requirements both in the context of the appointed representatives regime and more broadly as regulated firms, such as in TC, FIT, COND and SYSC. There are also specific requirements in SUP 12 for tied agents, firms carrying on insurance distribution activity and MCD credit intermediation activity, for example. Such firms in scope of these requirements will also be subject to broader regulatory requirements, such as the onshored Insurance Distribution Directive (IDD) and Mortgage Credit Directive (MCD).

Affected firms

2.4 We are consulting on proposed new rules and guidance applicable to all our authorised principals (approximately 3,600 firms). These firms will have to apply the policy in respect of their ARs (and introducer appointed representatives, where applicable). At the time of publishing this CP, we estimate there are around 40,000 ARs.

2.5 Principals and ARs are present across sectors, with the highest numbers in the retail lending (c. 16,200 ARs) and general insurance and protection (c. 13,500) sectors. The number of ARs can vary significantly from principal to principal. Some principals have many hundreds, or even thousands, of ARs. But at the time of publishing this CP, just over half of all principals have only one AR. We have considered this variation in the number of ARs across principals when identifying our small, medium and large firms for the purposes of this CBA.

2.6 For the purpose of this CBA, we have classified firms by their size (small, medium and large) measured by the number of their ARs. This is because we consider the costs of implementing our proposals will be higher for principals with more ARs. We have therefore categorised a small firm as one with 5 or fewer ARs, a medium firm as 6-99 ARs and a large firm as having 100 or more ARs. Our estimates are based on there being 3,002 principals in the small category, 498 in the medium category and 75 in the large category (totalling 3,575).

2.7 We expect dual-regulated firms will incur the same costs as solo-regulated firms as a result of our proposals. This is because the PRA has no separate requirements for ARs and so only our requirements and expectations are changing. Such dual-regulated firms will be banks, building societies, insurers and enhanced-scope SM&CR firms.

Data

2.8 We have used data already available to us (for example, the number of ARs each principal reports to have) to estimate the cost to firms of implementing our proposals.

Costs and benefits

Summary of costs and benefits

2.9 In the sections below, we have assessed the one-off and ongoing (annual) costs arising from each of the elements of the proposed policy changes. They include compliance costs arising directly from our intervention. The following table summarises the estimated total costs of the proposals set out in this CP.

Table 1: Total costs of implementing our policy proposals by firm size

	Firm size			
	Large	**Medium**	**Small**	**All firms**
One-off costs (total)	£4.1m	£8.9m	£9.9m	**£22.8m**
Familiarisation and gap analysis	£1.0m	£2.3m	£2.4m	£5.7m
Governance changes	£1.4 m	£3.4 m	£3.0 m	£7.7 m
Training	£0.3 m	£1.7 m	£4.1 m	£6.1 m
IT	£1.3 m	£1.5 m	£0.4 m	£3.2 m
Ongoing annual costs (total)	£0.5 m	£2.0 m	£3.0 m	**£5.4 m**

2.10 One-off (upfront) costs include changes required to implement the policy (including) costs for firms as a result of governance changes and familiarisation costs, as well as costs expected to be incurred as a result of necessary training of staff and updates to IT systems.

2.11 The ongoing costs presented in this table include activities which we expect will to be necessary to ensure compliance with the policy over the longer term. These include changes as a result of our proposals on reporting and notifications requirements (Chapter 3) and annual review and self-assessment (Chapter 4).

2.12 The one-off and ongoing costs presented in this table for the smaller firms are the highest across firm size categories, as they comprise 84% of firms in scope of our new rules. We consider that the cost to firms of implementing and maintaining compliance with our intervention will be higher for firms with a larger population of ARs. For a detailed breakdown of these costs, see Table 2 on page 57.

2.13 We were unable to estimate benefits given the nature of the interventions. However, we believe benefits will arise as a result of the improvement in principals' systems and controls, better oversight of ARs by principals and enhanced data available to the FCA to supervise and enforce the markets better. We also expect there will be a reduction in Ombudsman complaints and FSCS claims as a result. We consider this reduction will be material enough, taken together with the other benefits, to justify our interventions.

2.14 Overall, given a moderate level of expected costs, of which most are one-off, we believe the interventions will be net beneficial.

Costs

2.15 In this section, we outline our estimates of one-off and ongoing costs for firms across implementation costs, IT costs and training costs.

One-off costs

2.16 To calculate the expected one-off cost, we use the Standardised Costs Model, which is detailed in Annex 1 of "How we analyse the costs and benefits of our policies".

Table 2: Average one-off costs by firm size

Firm size	Average cost per firm
Small	£3.3k
Medium	£17.8k
Large	£54.3k
Across all firms	£6.4k

Familiarisation, gap analysis and governance changes

2.17 These costs include the time and resources spent by firms familiarising themselves with the proposals and performing a gap analysis to identify the resulting necessary changes.

2.18 Most of our proposals focus on clarifying existing requirements, rather than introducing new rules. This is reflected in the assumptions underlying the estimated costs incurred by firms. These are likely to result from changes made to internal processes, for example from ensuring senior management and boards take responsibility for signing off firms' self-assessment documents.

2.19 Firms may incur one-off costs to achieve this, for example through changes to organisational structure or recruitment to ensure they have appropriately experienced and trained staff responsible for overseeing and monitoring ARs. However, these costs should be limited, as firms are already required to ensure they have adequate resources (which includes staff), under SUP 12.4.2R(3)(b), to monitor and enforce compliance in respect of the AR.

2.20 There are 71 pages of text for the compliance staff to familiarise themselves with, as well as 61 pages of legal text. Using the Standardised Costs Model, we estimate the total one-off cost of familiarisation and gap analysis to the industry to be around £5.7m. For an individual firm, this cost translates to about £13.7k, £4.7k, and £0.8k for a large, medium, and small firm, respectively.

2.21 For the governance changes section of the Standardised Costs Model, we assumed that the size of the project will be "Small". Accordingly, the total person days for the project team and the manager were assumed to be 45 for large firms, 14 at medium firms, and 3 at small firms as well as some time for the board and executive committee reviews. This led us to £7.7m as the total one-off cost of governance changes to the industry. For an individual firm, this cost translates to about £18.4k, £6.8k, and £1k for a large, medium, and small firm, respectively.

IT costs

2.22 We recognise that some firms will incur IT costs as a result of our proposals. We consider this will mainly be in consequence of making changes to internal systems to meet our proposed requirements on notifications and data provision. Many firms already collect/have in house the data we are requesting, so we don't consider that these costs will increase as a result of our new rules. However, changes to IT systems might potentially be necessary to ensure that the data is stored safely and effectively and can be imported to meet our proposed reporting and notification requirements.

2.23 Consequently, we assumed that the most appropriate scenario for the size of the IT project within the Standardised Costs Model is "Small". We assumed further that the project would be 5 days long for large firms and 2 days long for medium firms with in-house IT. Across the standard IT project team structure, this leads to a total of 46 person days in large firms and 8 days in medium firms with in-house IT. Firms without IT departments would also incur costs, which we assumed to be equivalent to half a day per firm. This led us to a total one-off IT cost to the industry of £3.2m. For an individual firm, this cost translates to about £17.8k, £3k, and £0.1k for a large, medium, and small firm, respectively.

Training costs

2.24 Firms may need to train existing staff on the policy changes. This will be particularly important where we are proposing new annual reporting and notification requirements, and to ensure ongoing monitoring, review and assessment of the principal's ARs. We therefore expect firms to incur training costs. Some of these costs could be one-off, depending on the organisational structure of the firm and the skills and expertise of existing staff. We would also expect that training may need to be delivered when existing staff depart the firm or move to a new area and are replaced. For the purposes of this CBA however, we have included training costs as expected one-off costs, as we anticipate the majority of training will need to be delivered as a firm prepares to implement the policy.

2.25 Training could encompass formal courses as well as informal dissemination via email or staff meetings. Some firms might have in-house training departments, where the costs include the time of internal staff to design and deliver training. In line with the Standardised Costs Model, we assumed that all large firms and 40% of medium firms have in-house training departments. Other firms were assumed not to have such departments available and would incur the costs of purchasing training courses from external providers.

2.26 However, we expect training costs to be minimal as training should only be required where we are proposing to implement new requirements (for example, on annual self-assessment, reporting and notifications). Where we are clarifying existing requirements, the need for additional training should be low because firms should be familiar with the regulatory requirements applying to them already.

2.27 As a result of the above considerations, we assumed that the most appropriate scenario for the level or required training and dissemination in the Standardised Costs Model was "Basic training". We further assumed that the number of compliance staff members who will need to be trained will vary by firm size: with 10, 5, and 2 members trained at large, medium, and small firms, respectively. We expect this cost to the industry to total £6.1m. For an individual firm, this cost translates to about £4.4k, £3.4k, and £1.4k for a large, medium, and small firm, respectively.

Ongoing costs

2.28 We expect our proposed intervention to directly result in some ongoing annual costs for firms. As with the one-off costs, we also used the Standardised Cost Model to estimate these. We would attribute these predominantly to:

- the additional reporting and notification requirements set out in Chapter 3, and

- the requirements in Chapter 4 for firms to complete an annual review of ARs' senior management and a self-assessment document covering the firm's compliance with, and progress against, the policy changes.

Table 3: Average ongoing (annual) cost, by firm size

Firm size	Average cost per firm
Small	£1k
Medium	£3.9k
Large	£6.5k
Across all firms	£1.5k

2.29 For these costs we have considered the approximate cost to firms of staff (including senior management and compliance resource) needed to ensure these requirements of the policy would be met. When estimating these costs, we also considered the likelihood that most firms should hold the additional information they would be required to report already. The resource reflected in Table 4 below is therefore only reflective of the incremental resource we will consider will be needed to implement the additional requirements proposed in this CP. We expect this resource would be needed mainly to collect, assess and verify this information before it is reported to the FCA or incorporated into the firm's self-assessment document for approval by the firm's governing body.

2.30 We consider the smallest firms, with the fewest ARs, will incur the lowest ongoing (annual) costs. This is because they will have less information to report, assess, analyse and collate than larger firms with a higher population of ARs. While less staff are likely to be required at a small firm with 5 or fewer ARs, it could be more likely that these staff have other responsibilities to consider than staff at a large firm, who may dedicate resource specifically to the implementation of our proposals. Detailed assumptions about staff resource requirements by firm size are presented in Table 4.

Table 4: Assumed staff resources for the ongoing costs of notifications, annual review and self-assessment.

		Firm size		
		Large	Medium	Small
Senior managers	no. of working days	1	0.5	0.25
	no. of staff	3	2	1
Compliance	no. of working days	6	4	2
	no. of staff	2	2	1

Costs to the FCA

2.31 We expect there will be some costs for the FCA to implement these proposals. Most of these will be to implement systems changes as a result of the policy changes. These changes will be to the Register, supervisory systems, our Connect forms, and RegData.

2.32 Additionally, we expect there will be some costs associated with heightened supervisory, authorisations and policy resource needed to implement our proposals. This includes, for example, resource needed to review extra notifications and firms' self-assessment documents. We expect to fund this with income from the new annual fee applying to principals in respect of their ARs and IARs. We are already using some of this income to fund our enhanced work programme, for example where we are increasingly engaged with principals.

Indirect impacts

2.33 Increased compliance costs will likely increase firms' operating costs. In some cases, this could result in additional costs for retail and wholesale consumers where these costs are passed on, for example through increased prices for products and services provided to customers by principals and their ARs.

2.34 There is also some potential for increased compliance costs to result in an indirect impact of the broader market due to increased barriers to entry. Additionally, some principals may decide, as a result of our policy proposals, to reduce the number of ARs they have through terminating contracts with some of them. This could in turn have an impact on innovation, consumers having a wide range of providers to choose from and their ability to access specialist products or services.

2.35 We recognise that, if principals or ARs leave the market, this could reduce competition in certain markets, particularly where ARs are more common. But, as set out in paragraph 2.34, as many of our proposals clarify or enhance existing requirements, which we would expect many well run principals to already be meeting these. We consider the number of principals and ARs should remain relatively stable, with an approximate potential for around 10% of them leaving the market.

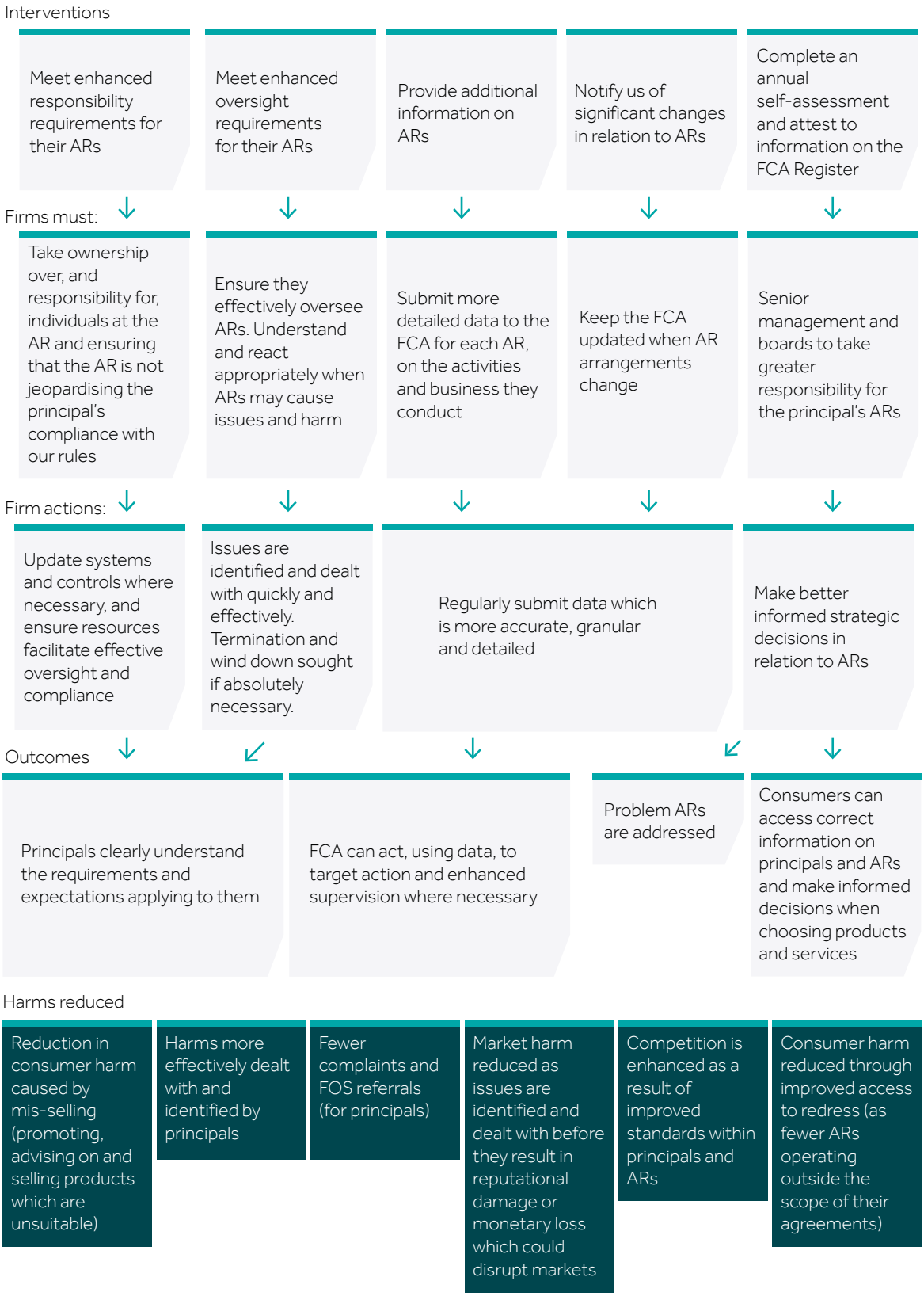
2.36 As a result of the increased requirements on principals there is potential for consumers to receive a lower standard of, or poorer quality, services from ARs. This could occur where principals pass on expectations as a result of our policy proposals to ARs and do not take appropriate steps to monitor standards, or where principals or ARs are not appropriately resourced to raise standards, for example. If this were to happen, this would not be consistent with the underlying principle of the AR regime, our existing rules or those proposed in this CP, where principals are responsible for overseeing their ARs. This is something we intend to monitor closely, informed by the data we propose to collect in this CP.

2.37 However, we consider that, given the proportionately low overall cost to firms of implementing our proposals, the risk of indirect impacts should be minimal.

Benefits

2.38 The causal chain in Figure 4 illustrates how our interventions will address the issues and harms arising from the existing regime. We consider our proposals will reduce harm by clarifying our expectations for effective oversight of, and responsibility for, ARs by principals. They will also enable us to collect better data on ARs and ensure the accuracy of principal-AR relationships as shown on our FS Register. These measures will in turn ensure better outcomes for consumers and markets and serve to mitigate harm.

Figure 4: Appointed representatives policy proposals causal chain



Benefits for consumers, firms and the wider economy

2.39 Our interventions will lead to improvements in the way principals oversee, take responsibility for, and manage their ARs. And, in collecting more data and information on ARs and requiring them to attest to the information, and AR permissions, shown on the FS Register, we will also be able to better identify and target riskier principals. In turn, there will be corresponding benefits for consumers, firms and the wider economy.

2.40 Consumers will benefit in several ways from our proposals, including from:

- Gaining clarity on the activities ARs can carry on and the permissions they can operate under. This will allow consumers to check the scope of the activities an AR is permitted to carry on, reducing the likelihood of them engaging with an AR on a product or service which is outside the scope of the principal-AR agreement. In turn, this will reduce the number of consumers who are unable to access appropriate redress(when lodging a complaint about, or making a claim against, an AR) in situations where an AR has acted outside the scope of its appointment and such actions have led to consumer harm. We would also expect this clarity will save consumers time when checking the FS Register.
- Consumer harm will be reduced overall. Principals and in turn, their ARs, will be better run, with higher standards of oversight and conduct applied. This will mean fewer consumers will suffer harm as a result of a principal or AR not appropriately meeting the standards applying to them.
- There will be a reduction in complaints (to the FCA and the Ombudsman) as a result of the proposals. This is because we expect consumers will have fewer issues with principals and their ARs.
- There will be better alignment of products with consumers' needs as under our proposals consumers will be less likely to choose products or services from ARs which are unsuitable.

2.41 Firms, and in particular principals, will benefit from complying with the proposed policy. In more closely overseeing and managing ARs, we expect firms will be better equipped to identify and deal with issues as they arise. In turn, this will mean that any negative impacts which could have come back on the principal as a result of the AR's actions will be addressed before any damage is caused. This will mean that firms are less likely to suffer reputational or complaints handling/redress costs.

2.42 The wider market will also benefit from an improved AR regime. It will increase competition for principals and firms across sectors and ensure that markets continue to function well as losses as a result of failures should be more easily avoidable. Our proposals also support the ongoing presence of ARs in financial markets which in turn supports effective competition.

Benefits to the FCA

2.43 There will also be benefits for the FCA in implementing the proposals. The most significant benefit will be a reduction in the number of, and time spent on, supervisory cases involving principals and ARs. This is currently disproportionately high for principals relative to other directly authorised firms. We also expect that improved standards of conduct would reduce costs and resource requirements, enabling us to

redeploy this to other areas over time. Finally, there will be benefits from collecting better data on principals and ARs. While we consider we have sufficient evidence to inform the policy proposals in this CP, collecting enhanced data on an ongoing basis will allow us to more efficiently identify harms and issues arising from the regime and develop a holistic picture of how the model is being used.

Estimating benefits

2.44 We expect the proposals in this CP will generate material benefits for consumers, firms and markets. While it is not reasonably practicable to quantify all benefits, such as better product suitability for consumers and the ongoing availability of products and services provided by ARs, we believe that the other benefits set out in this CP will be net beneficial in the short-medium term. This is because, from our analysis of the costs for firms and quantifiable benefits, we expect the benefits for consumers, firms and markets to be proportionate to our interventions.

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of protecting and enhancing the integrity of the UK financial system. They are also relevant to the FCA's consumer and competition objectives. We consider the proposals will ensure the AR model can operate, with firms upholding standards, so competing in consumers' interests. We also consider that our consumer objective will be advanced as our proposals will result in a reduction in consumer harm.

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to enhance and make clear to principals their responsibilities and our expectations in respect of their ARs. Where a principal does not act in compliance with the rules and guidance applying to it, in respect of its ARs, there is an increased risk of market failure and our proposals would give us more substantive and timely information to help us better target interventions where principals do not meet the expected market standard. This could be, for example, due to the inappropriate oversight, and/or monitoring, of the AR's activities or business. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

9. In preparing the proposals set out in this consultation, the FCA has had regard to the relevant regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

10. The proposals in this CP support the efficient and economic use of our resources. In particular, where our proposals are to request additional data from principals, we have considered our ability to review and process this data most efficiently. In some cases, as we developed the proposals, we made adjustments for this purpose, for example by amending existing, rather than introducing new, reporting requirements and systems.

11. Additionally, where we are proposing firms prepare an annual self-assessment document, we are proposing this is submitted to us on request. This ensures we can measure principals' progress against the policy as part of business as usual supervisory work and negates the need for additional resource.

The principle that a burden or restriction should be proportionate to the benefits

12. In line with our cost benefit analysis, we have fully considered the benefits of our proposed policy interventions against associated burden. We have tailored the proposed interventions to ensure the proposals apply proportionately across sectors and business models. For example, we have proposed that some of our policy measures will not need to be implemented by IARs.

The general principle that consumers should take responsibility for their decisions

13. Our proposal on enhancing the data available on the FS Register aims to ensure that consumers can make informed and responsible decisions in respect of choosing products and/or services provided by ARs. We consider consumers will be better protected by knowing what regulated activities ARs are allowed to do on behalf of principals and whether they are able to access appropriate redress.

The responsibilities of senior management

14. Our proposals on ensuring fitness and propriety of senior management at ARs (including practical guidance of how principals should assess their suitability) aim to clarify the responsibilities of senior management. Our proposal for a principal's governing body to review and approve its annual self-assessment document also seeks to place greater responsibility on senior management. We consider this proposal will increase senior management accountability for, and oversight of, the ARs with which it has contractual relationships.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

15. We have considered for all the proposals in this CP how to ensure they are proportionate and balanced for all firms in scope. As the AR regime is used across a wide range of sectors, we have had regard to the different ways the regime is used. We are aware of some diversified business models used by principals and ARs. Where we do not yet know enough about these to inform proposals for consultation, we have taken the additional step of gather views on these, through Chapter 5 and a separate firm survey, to inform any future proposals.

The principle that we should exercise of our functions as transparently as possible

16. We are publicly consulting on these proposals to be transparent about the changes we intend to make to the AR regime. We have also included clear information, in line with commitments in our Business Plan, as to how we will measure the outcome of our proposals, if implemented, and our reasons for the intervention.

17. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

18. We have also considered the recommendations as set out in section B of HM Treasury's Remit Letter. The Remit Letter discharges the Treasury's duties under section 1JA FSMA. We consider the proposals in this CP support, and will deliver on, the majority of these recommendations and have reflected in this statement how they do this. We note that recommendation vii (Climate change) is not relevant for these proposals but we do not consider the proposals will have an adverse impact on climate change.

Expected effect on mutual societies

19. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

20. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

21. We consider that our proposals will promote competition by ensuring that consumers have the confidence to choose products and services from firms which are well-regulated and well-run. This will drive competition between firms, to ensure they compete effectively, innovate and grow. We also consider our proposals support the ongoing use of the AR model for innovation purposes (for example, through diversified business models which enable regulatory sandboxes).

22. Our proposals will also impact competitiveness, as we expect firms will want to show how they are compliant with regulatory requirements and expectations applying to them to give consumers confidence to purchase products or services. In turn, this will encourage trade by demonstrating that the UK market is an attractive place for firms to do business.

Equality and diversity

23. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

24. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.38 and 2.39 of this CP.

Legislative and Regulatory Reform Act 2006 (LRRA)

25. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that they will help principals understand and meet our enhanced regulatory requirements and expectations on them and in respect of their ARs. We consider this will in turn lead to better outcomes for principals, ARs and consumers. We also think our proposals are proportionate and take into consideration the variety of firms in scope. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals do not create an unnecessary burden on firms, or adversely affect competition.

Annex 4
Abbreviations in this document

Abbreviation	Description
AR	Appointed representative
CBA	Cost benefit analysis
COND	Threshold Conditions
CP	Consultation Paper
DP	Discussion Paper
FIT	Fit and Proper test for Employees and Senior Personnel
FSCS	Financial Services Compensation Scheme
FSCR	Financial Services Contracts Regime
FSMA	Financial Services & Markets Act 2000
IAR	Introducer appointed representative
IDD	Insurance Distribution Directive
IT	Information technology
LRRA	Legislative and Regulatory Reform Act 2006
MCD	Mortgage Credit Directive
PRA	Prudential Regulation Authority
PS	Policy Statement
SLA	Service level agreement
SM&CR	Senior Managers' & Certification Regime
SUP	Supervision manual
SYSC	Senior Management Arrangements, System and Controls sourcebook

Abbreviation	Description
TC	Training & Competence sourcebook
TPR	Temporary Permissions Regime

Appendix 1
Draft Handbook text

APPOINTED REPRESENTATIVES INSTRUMENT 2022

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.

Notes

F. In the annexes to this instrument, the "notes" (indicated by "**Note:**" or "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Appointed Representatives Instrument 2022.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definition in the appropriate alphabetical position. This text is not underlined.

regulatory host a *firm*:

(1) that offers or provides a service by which *unauthorised persons*, whether or not *closely linked* to the *firm*, may become *appointed representatives* of the *firm*;

(2) that markets or offers the service in (1) to *unauthorised persons* as an alternative to applying for *authorisation*;

(3) that provides the service in (1) for *remuneration* with a view to profit; and

(4) to which either (a) or (b) applies:

(a) the *firm* does not carry on any *regulated activities* in a principal capacity; or

(b) the *regulated activities* carried on by one or more *appointed representatives* of the *firm* are not connected to any *regulated activity* undertaken by the *firm* in a principal capacity.

Amend the following definition as shown.

complaint …

(2) (in *DISP*, except *DISP* 1.1 and (in relation to *collective portfolio management*) in the *consumer awareness rules*, the *complaints handling rules* and the *complaints record rule*, and in *CREDS* 9 and *SUP* 12) any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a *person* about the provision of, or failure to provide, a financial service, *claims management service* or a *redress determination*, which:

(a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material

inconvenience; and

(b) relates to an activity of that *respondent*, or of any other *respondent* with whom that *respondent* has some connection in marketing or providing financial services or products or *claims management services*, which comes under the jurisdiction of the *Financial Ombudsman Service*.

…

Annex B

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

2 Information gathering by the FCA or PRA on its own initiative

2.1 Application and purpose

Application

…

2.1.2A G *CBTL firms* are subject to a duty to deal with the *FCA* in an open and co-operative manner under article 18(1)(d) of the *MCD Order*. *SUP* 2.3 applies to *CBTL firms* in relation to complying with that duty as though:

…

(5) a reference to *SUP* 12.5.3G were a reference to ~~*SUP* 12.5.3AG~~ *SUP* 12.5.13G;

…

…

12 Appointed representatives

12.1 Application and purpose

…

12.1.1D G …

Territorial application: Gibraltar

12.1.1E G This chapter applies to a *Gibraltar-based firm* which is considering appointing, has decided to appoint or has appointed an *appointed representative*.

…

12.2 Introduction

…

Business for which an appointed representative is exempt

12.2.7 G (1) The *Appointed Representatives Regulations* are made by the Treasury under sections 39(1), (1C) and (1E) of the *Act*. These regulations describe, among other things, the business for which an *appointed representative* may be exempt or to which sections 20(1) and (1A) and 23(1A) of the *Act* may not apply, which is business which comprises any of:

…

(k) *agreeing to carry on a regulated activity* (article 64 of the *Regulated Activities Order*) where the *regulated activity* is one of those ~~in (a) to (h) or (ja) or (jb)~~ specified in Regulation 2(1)(d) of the *Appointed Representatives Regulations*; and

…

(2) If the *appointed representative* is also a *tied agent*, the business for which the *appointed representative* may be exempt includes the following additional activities:

(a) placing *financial instruments* or *structured deposits*;

(b) providing advice to *clients* or potential *clients* in relation to the placing of *financial instruments* or *structured deposits*.

…

What is an introducer appointed representative?

12.2.8 G …

(2) The permitted scope of appointment of an *introducer appointed representative* does not include in particular:

…

(d) *advising on investments*, giving *basic advice* on a *stakeholder product*, *advising on a home finance transaction*, *advising on regulated credit agreements for the acquisition of land*, or other activity that might reasonably lead a *customer* to believe that ~~he~~ they had received, ~~*basic advice* or *advice on investments* or on *home finance transactions*~~ or that the *introducer appointed representative* is permitted to ~~give *basic advice* or give *personal recommendations* on investments or on *home finance transactions*~~ provide, one of those services.

…

…

12.2.10 G All *rules* in *SUP* 12 apply in relation to *introducer appointed representatives* except for:

(1) *SUP* 12.4.2R, *SUP* 12.4.5BR and *SUP* 12.4.5C, on the appointment of *appointed representatives*, which are replaced by *SUP* 12.4.6R;

(2) *SUP* 12.5.6AR on required contract terms, which is replaced by *SUP* 12.5.7R; ~~and~~

(2A) *SUP* 12.6A.2R to *SUP* 12.6A.4R; and

(3) *SUP* 12.9.1R(4) (Record keeping).

…

12.4 What must a firm do when it appoints an appointed representative or an FCA registered tied agent?

…

Appointment of an appointed representative (other than an introducer appointed representative)

12.4.2 R Before a *firm* appoints a *person* as an *appointed representative* (other than an *introducer appointed representative*) and on a continuing basis, it must establish on reasonable grounds that:

…

(3) the *firm* has adequate:

…

(b) resources to monitor and enforce compliance by the *person* with the relevant requirements applying to the *regulated activities* for which the *firm* is responsible and with which the *person* is required to comply under its contract with the *firm* (see *SUP* 12.5.3G(2)); ~~and~~

(4) the *firm* is ready and organised to comply with the other applicable requirements contained or referred to in this chapter; and

(5) the *person's* activities do not, or would not, result in undue risk of harm to *consumers* or market integrity.

12.4.2A R ~~(1) A *firm* must ensure that:~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.4.4HR]

~~(a) a *tied agent* that is an *appointed representative*; or~~

~~(b) a *MiFID optional exemption appointed representative*; or~~

~~(c) a *structured deposit appointed representative*,~~

~~is of sufficiently good repute and that it possesses appropriate general, commercial and professional knowledge and competence so as to be able to communicate accurately all relevant information regarding the proposed service to the *client* or potential *client*. This does not limit a *firm's* obligations under *SUP* 12.4.2R.~~

~~(2) A *firm* must ensure that its *tied agent* or *MiFID optional exemption appointed representative* also possesses appropriate general, commercial and professional knowledge and competence so as to be able to deliver the *investment service* or *ancillary service* for which the *firm* has accepted responsibility.~~

~~[**Note**: paragraphs 2 and 3 of article 29(3) of *MiFID*]~~

12.4.2B G ~~(1) A *firm* to which *SUP* 12.4.2AR applies should also have regard to *SYSC* 5.1 (Skills, knowledge and expertise). The requirements of the Training and Competence sourcebook (*TC*) and *guidance* in the Fit and Proper Test for Employees and Senior Personnel (*FIT*) may also be relevant.~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.4.4IG]

~~(2) *ESMA* has issued guidelines for *MiFID investment firms* specifying the criteria for the assessment of knowledge and competence. These guidelines are relevant to *tied agents* (see *SYSC* 5.1.5ADG).~~

Guidance on the appointment of an appointed representative

12.4.2C G *SUP* 12.4.2R applies before a *firm* appoints a *person* as an *appointed representative* and on a continuing basis thereafter. References in this *guidance* to an *appointed representative* should therefore be read as also referring to a prospective *appointed representative* where appropriate.

12.4.3 G In assessing, under *SUP* 12.4.2R(2)(a) and (b), whether an *appointed representative* ~~or prospective *appointed representative*~~ is solvent and otherwise suitable, a *firm* should determine, among other matters, whether the *person* is likely to be adversely influenced by its financial position in the conduct of the business for which the *firm* is responsible. This might arise, for example, if the *person* has cashflow problems and is not able to service its debts. ~~Guidance~~ *Guidance* for *firms* on assessing the financial position of an *appointed representative* ~~or prospective *appointed representative*~~ is given in *SUP* 12 Annex 1.

12.4.4 G In assessing, under *SUP* 12.4.2R(2)(b), whether an *appointed representative* ~~or prospective *appointed representative*~~ is otherwise suitable to act for the *firm* in that capacity, a *firm* should consider:

(1) whether the *person* is fit and proper; *guidance* on the information that *firms* should take reasonable steps to obtain and verify is given in

SUP 12 Annex 2; ~~and~~

(2) the fitness and propriety (including good character ~~and competence~~) and financial standing of the *controllers*, *directors*, *partners*, proprietors and *managers* of the *person*; *firms* seeking *guidance* on the information which they should take reasonable steps to obtain and verify should refer to *FIT* and the questions in the relevant Form A (Application to perform controlled functions under the approved person regime) in *SUP* 10A Annex 4; and

(3) the competence and capabilities of relevant *directors*, *partners*, proprietors and *managers* of the *person*, including whether they have:

(a) appropriate experience, knowledge, skills and training in relation to the activities and business carried out, or to be carried out, on behalf of the *firm*; and

(b) the necessary time to properly perform the tasks and functions for which they are responsible.

12.4.4A G In considering the competence and capabilities of relevant *individuals*, *firms* should note that other provisions, including *SYSC* 3.1 (Systems and controls) and *SYSC* 5.1 (Skills, knowledge and expertise), the requirements of the Training and Competence sourcebook (*TC*) and *guidance* in the Fit and Proper test for Employees and Senior Personnel sourcebook (*FIT*) may also be relevant. See also *SUP* 12.6.10G.

12.4.4B G In assessing whether the *firm* has adequate controls and resources for the purposes of *SUP* 12.4.2R(3)(a) and (b), a *firm* should consider whether these:

(1) are commensurate to:

(a) the size or potential size of the *appointed representative*; and

(b) the nature of the *regulated activities* for which the *firm* has, or proposes to have, responsibility;

(2) enable the *firm* to effectively manage conflicts of interest;

(3) allow the *firm* to maintain effective oversight of the *appointed representative*;

(4) enable the *firm* to identify and remediate any issues arising at the *appointed representative*; and

(5) enable the *firm* to maintain a level of oversight of the *appointed representative's* activities equivalent to that which would be, and ought reasonably to be, applied if:

(a) those activities were carried on by the *firm* in a principal

capacity; and

(b) all *individuals* engaged in those activities were employees of the *firm*

(and see also *Principle* 3, *COND* 2.5.6G(1) and (1A) and *SUP* 12.6.11G).

12.4.4C G In assessing, under *SUP* 12.4.2R(5), whether an *appointed representative's* activities or proposed activities give rise to an undue risk of harm, a *firm* should consider:

(1) the nature of the risks associated with the *person's* appointment and activities or proposed activities having regard to, amongst other things, the *person's*:

(a) business model;

(b) (as applicable) senior management and governance arrangements;

(2) the likely impact on *clients* or potential *clients* were a relevant risk to crystallise having regard to, amongst other things:

(a) the number of *clients* with which the *person* is, or is likely be, dealing;

(b) whether the *clients* or potential *clients* with which the *person* is, or is likely to be, dealing include those in vulnerable circumstances who may be at greater risk of harm if things go wrong;

(c) the likely extent of any financial loss that *clients* may suffer;

(3) the likely impact on the *firm* were a relevant risk to crystallise including, but not limited to, the impact of a significant volume of *complaints* relating to the *person's* activities;

(4) the likely impact on the continuity of the provision of services to *clients* in the event of the *person's* failure;

(5) the potential for reputational damage which could harm the *clients* with which the *person* deals, or is likely to deal; and

(6) the ability of its own arrangements to effectively identify and manage those risks in compliance with its obligations in *SYSC*.

[*Editor's note*: The provision at SUP 12.4.4DG is not new text; it is moved from SUP 12.4.5G. The moved text is not underlined.]

12.4.4D G In determining, under *SUP* 12.4.2R(2)(c), whether an *appointed representative* has any *close links* which would be likely to prevent the *firm's* effective supervision, a *firm* should consider the *guidance* to *threshold condition* 2C or 3B as applicable in *COND* 2.3.

Practical considerations for assessment

12.4.4E G In undertaking the assessment required by *SUP* 12.4.2R, a *firm* should:

(1) ensure and verify that information provided by the *appointed representative*, either at entity-level or about relevant *individuals* (*SUP* 12.4.4G(2) and (3)), is accurate, sufficiently detailed and up to date;

(2) discuss any omissions or concerns proactively with relevant *individuals* at the *appointed representative* or prospective *appointed representative*; and

(3) ensure that it is made aware of any changes, including to relevant *individuals* at the *appointed representative*, which may affect the quality or integrity of the information provided.

Continuing obligations after appointment: controls and resources

12.4.4F G *SUP* 12.4.2R applies on a continuing basis. In particular:

(1) a *firm* should re-assess whether its controls and resources remain adequate for the purposes of *SUP* 12.4.2R(3)(a) and (b) if any of the following circumstances arise:

(a) the size or volume of the *appointed representative's* business involving *regulated activity* increases significantly in a short period of time; or

(b) the *firm* identifies an unusually high rate of turnover at the *appointed representative* of:

(i) senior management; or

(ii) other staff of the *appointed representative* involved in carrying on the *regulated activities* for which the *firm* has accepted responsibility;

(2) *SUP* 12.6A.3R requires the *governing body* of a *firm* to carry out a review, including of the adequacy of the *firm's* controls and resources, in any of the circumstances specified in that *rule*.

Practical steps to ensure effective oversight

12.4.4G G In order to comply with the various obligations in this chapter and having due regard to the nature of the *appointed representative's* activities and the risks

associated with them, a *firm* should:

(1) collect and scrutinise relevant management information and agree with its *appointed representative* how and when management information should be provided, the format it should take and the data it should capture;

(2) analyse data provided by the *appointed representative* to identify emerging risks and issues;

(3) closely monitor the delivery of the *appointed representative's* activities and business, within the scope of its appointment (for example, by reviewing call scripts or other materials provided by the *appointed representative* and organising regular meetings with them);

(4) engage regularly with its *appointed representative*, whether through in-person meetings, telephone calls or email communication; and

(5) establish clear processes for the escalation of issues, including service level agreements where necessary. This could include, for example, grading of issue severity based on impact and potential harm to *clients* and processes for remediation within defined timeframes. Where appropriate, such expectations should be included in the contract between the *firm* and *the appointed representative*.

[*Editor's note*: The provisions at SUP 12.4.4HR and SUP 12.4.4IG are not new text; they are moved from SUP 12.4.2AR and SUP 12.4.2BG respectively. The moved text is not underlined.]

Appointment of tied agents, MiFID optional exemption appointed representatives and structured deposit appointed representatives

12.4.4H R (1) A *firm* must ensure that:

(a) a *tied agent* that is an *appointed representative*; or

(b) a *MiFID optional exemption appointed representative*; or

(c) a *structured deposit appointed representative*,

is of sufficiently good repute and that it possesses appropriate general, commercial and professional knowledge and competence so as to be able to communicate accurately all relevant information regarding the proposed service to the *client* or potential *client*. This does not limit a *firm's* obligations under *SUP* 12.4.2R.

(2) A *firm* must ensure that its *tied agent* or *MiFID optional exemption appointed representative* also possesses appropriate general, commercial and professional knowledge and competence so as to be able to deliver the *investment service* or *ancillary service* for which

the *firm* has accepted responsibility.

[**Note**: paragraphs 2 and 3 of article 29(3) of *MiFID*]

12.4.4I G (1) A *firm* to which *SUP* 12.4.4HR applies should also have regard to *SYSC* 5.1 (Skills, knowledge and expertise). The requirements of the Training and Competence sourcebook (*TC*) and *guidance* in the Fit and Proper test for Employees and Senior Personnel (*FIT*) may also be relevant.

(2) *ESMA* has issued guidelines for *MiFID investment firms* specifying the criteria for the assessment of knowledge and competence. These guidelines are relevant to *tied agents* (see *SYSC* 5.1.5ADG).

12.4.5 G ~~In determining, under *SUP* 12.4.2R(2)(c), whether an *appointed representative* or prospective *appointed representative* has any *close links* which would be likely to prevent the *firm's* effective supervision, a *firm* should consider the *guidance* to *threshold condition* 2C or 3B as applicable in *COND* 2.3.~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.4.4DG]

…

Appointment of an introducer appointed representative

12.4.6 R Before a *firm* appoints a *person* as an *introducer appointed representative*, and on a continuing basis, it must take reasonable care to ensure that:

(1) the *person* is suitable to act for the *firm* in that capacity (having regard, in particular, to other *persons* connected with the *person* who will be, or who are, directly responsible for its activities); ~~and~~

(2) the *firm* is ready and organised to comply with the other applicable requirements contained or referred to in this chapter; and

(3) the *person's* activities do not, or would not, result in undue risk of harm to *consumers* or market integrity.

…

12.4.7A G In complying with the requirements in *SUP* 12.4.6R, a *firm* should also have regard, so far as relevant, to the *guidance* in *SUP* 12.4.4BG, *SUP* 12.4.4CG, *SUP* 12.4.4FG(1)(b) and *SUP* 12.4.4GG.

…

12.4.8C R …

Inclusion on the Financial Services Register

12.4.9 G …

(2) ~~If an appointed representative's scope of appointment is to include an *insurance distribution activity*, the principal must notify the *FCA* of the appointment before the appointed representative commences that activity (see *SUP* 12.7.1R(1)).~~ [deleted]

(3) ~~As an exception, pre-notification is not required if the appointed representative is already included on the *Financial Services Register* as carrying on *insurance distribution activities* in another capacity (for example, as the appointed representative of another *principal*).~~ [deleted]

…

Appointed representative carrying on MCD credit intermediation activity

…

12.4.10C G (1) ~~If an *appointed representative's* scope of appointment is to include *MCD credit intermediation activity*, the *principal* must notify the *FCA* of the appointment before the *appointed representative* commences that activity (see *SUP* 12.7.1R(1)).~~ [deleted]

…

…

Tied agents

12.4.12 G …

(5) ~~If an *appointed representative's* scope of appointment is to include acting as a *tied agent*, the principal must notify the *FCA* of the appointment before the *appointed representative* starts acting as such (see *SUP* 12.7.7R(1A)).~~ [deleted]

…

MiFID optional exemption appointed representatives and structured deposit appointed representatives

12.4.13 G …

(2) ~~A *firm* must notify the *FCA* of the appointment of a *MiFID optional exemption appointed representative* or a *structured deposit appointed representative* before such *appointed representative* starts acting in that capacity (*SUP* 12.7.1R).~~ [deleted]

…

12.5 Contracts: required terms

Required contract terms for all appointed representatives

…

12.5.2A G ~~If:~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.5.12G]

~~(1) a *MiFID investment firm* or a *third country investment firm* appoints an *appointed representative* that is a *tied agent* or a *MiFID optional exemption appointed representative*, regulation 3(6) of the *Appointed Representatives Regulations* requires the contract between the *firm* and the *appointed representative* to contain a provision that the representative is only permitted to provide the services and carry on the activities referred to in section 39(7) of the *Act* while entered on the Register.~~

~~(2) a *firm* appoints an *appointed representative* that is a *structured deposit appointed representative*, regulation 3(6) of the *Appointed Representatives Regulations* requires the contract between the *firm* and the *appointed representative* to contain a provision that the representative is only permitted to sell, or advise *clients* on, *structured deposits* while entered on the Register.~~

12.5.3 G (Subject to *SUP* ~~12.5.3AG~~ 12.5.13G) a *firm* should satisfy itself that the terms of the contract with its *appointed representative* (including an *introducer appointed representative*):

…

12.5.3A G ~~To the extent that the appointment of the *appointed representative* includes *CBTL business*, a *firm* should satisfy itself that the terms of the contract with its *appointed representative*:~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.5.13G]

~~(1) are designed to enable the *firm* to comply properly with any direction issued or imposed under article 19 of the *MCD Order*; and~~

~~(2) require the *appointed representative* to deal with the *FCA* in an open and co-operative manner and give access to its premises, as set out in *SUP* 2.3.4G and *SUP* 2.3.5R(2), as applied by *SUP* 2.1.2AG.~~

12.5.4 G A *firm* should have the ability to terminate the contract with its *appointed representative* in the circumstances in *SUP* 12.6.1R(2). However, such a termination provision should not be automatic (see *SUP* 12.8.3R(1)). *SUP* 12.5.5R(4) also requires that the *firm* be able to terminate the contract in the event that the *firm* determines that it is no longer able to effectively oversee the activities of the *appointed representative*.

12.5.5 R A *firm* must ensure that its written contract with each of its *appointed representatives*:

…

(2A) (where the scope of appointment of the *appointed representative* includes *CBTL business*) requires the *appointed representative* to comply, and to ensure that any persons who provide services to the *appointed representative* under a contract for service comply, with the requirements of and arising under Part 3 of the *MCD Order*; ~~and~~

(3) (unless the written contract prohibits appointments by other *principals*) requires the *appointed representative* to notify the *firm*:

…

(c) (as soon as possible) of the termination of any such appointment; and

(4) enables the *firm* to terminate the contract in the event that the *firm* determines, pursuant to its continuing obligation in *SUP* 12.4.2R, *SUP* 12.4.6R or *SUP* 12.4.8AR that it is no longer able to adequately oversee the activities of the *appointed representative*.

…

[*Editor's note*: The provisions at SUP 12.5.12G and SUP 12.5.13G are not new text; they are moved from SUP 12.5.2AG and SUP 12.5.3AG respectively. The moved text is not underlined.]

Required contract terms for tied agents, MiFID optional exemption appointed representatives and structured deposit appointed representatives

12.5.12 G If:

(1) a *MiFID investment firm* or a *third country investment firm* appoints an *appointed representative* that is a *tied agent* or a *MiFID optional exemption appointed representative*, regulation 3(6) of the *Appointed Representatives Regulations* requires the contract between the *firm* and the *appointed representative* to contain a provision that the representative is only permitted to provide the services and carry on the activities referred to in section 39(7) of the *Act* while entered on the Register;

(2) a *firm* appoints an *appointed representative* that is a *structured deposit appointed representative*, regulation 3(6) of the *Appointed Representatives Regulations* requires the contract between the *firm* and the *appointed representative* to contain a provision that the representative is only permitted to sell, or advise *clients* on, *structured deposits* while entered on the Register.

Required contract terms for appointed representatives engaging in CBTL business

12.5.13 G To the extent that the appointment of the *appointed representative* includes *CBTL business*, a *firm* should satisfy itself that the terms of the contract with its *appointed representative*:

(1) are designed to enable the *firm* to comply properly with any direction issued or imposed under article 19 of the *MCD Order*; and

(2) require the *appointed representative* to deal with the *FCA* in an open and co-operative manner and give access to its premises, as set out in *SUP* 2.3.4G and *SUP* 2.3.5R(2), as applied by *SUP* 2.1.2AG.

12.6 Continuing obligations of firms with appointed representatives or FCA registered tied agents

~~Suitability etc. of appointed representatives~~ Remediation and termination

12.6.1 R …

12.6.1-A G Where *SUP* 12.6.1R applies, the circumstances in which it is likely to be appropriate to terminate the contract include, but are not limited to, where:

(1) there are issues with the *appointed representative* which have not been resolved satisfactorily or within a reasonable period of time. This may include where the *appointed representative* has agreed to resolve known issues but it has not met the *firm's* standards or expectations for remediation or where the *firm* considers the proposed remediation would risk it breaching applicable *rules*;

(2) the *appointed representative* is unable to satisfactorily explain unusually high rates of senior management turnover;

(3) the *principal* becomes aware that the *appointed representative* is carrying on *regulated activities* in breach of the *general prohibition* or (if the *appointed representative* is a *firm* with a *limited permission*) in breach of section 20(1) or (1A) of the *Act*;

(4) the *appointed representative* is found to have intentionally misled *clients* or potential *clients* in any way; or

(5) any of the *appointed representative's* senior management with responsibility for, or involvement in, activities carried on within the scope of the *appointed representative's* appointment are dismissed on the basis of gross misconduct.

12.6.1-B G *SUP* 12 Annex 7G contains a flowchart to assist *firms* in determining whether a particular matter is more properly addressed through remediation or termination.

Monitoring: tied agents; appointed representatives carrying on MCD credit intermediation activity

12.6.1A R …

…

Appointed representative's financial position

12.6.2 G ~~The *FCA* would normally expect a *firm* to carry out a check on its *appointed representative's* financial position every year (more often, if necessary) and to review critically the information obtained.~~ A *firm* is required to review the financial position of its *appointed representatives* (other than its *introducer appointed representatives*) at least annually (*SUP* 12.6A.2R). An appropriately experienced *person* (for example, a financial accountant) should carry out these checks for consideration by the *firm's governing body*.

…

12.6.5A G …

Appointed representatives performing functions or tasks for principals

12.6.5B G (1) Where a *firm* delegates functions or tasks to an *appointed representative*, it should apply appropriate safeguards including, but not limited to:

(a) ensuring that the delegation does not represent a conflict of interest; and

(b) applying enhanced monitoring to the delegated task or function.

(2) A *firm* should also refer, where applicable, to *SYSC* 3.2.3G.

Regulated activities and investment services outside the scope of appointment

…

12.6.6A G In determining what are reasonable steps for the purposes of *SUP* 12.6.6R, a *firm* should have regard to the *guidance* at *SUP* 12.4.4GG.

…

Insert the following new section SUP 12.6A after SUP 12.6 (Continuing obligations of firms with appointed representatives or FCA registered tied agents). The text is not underlined.

12.6A Assessment of compliance

Purpose

12.6A.1 G (1) *SUP* 12.4.2R imposes continuing obligations on a *firm* that has appointed an *appointed representative*. This includes to ensure on

reasonable grounds that the *person* is suitable to act in the capacity of an *appointed representative* and that the *firm* has adequate controls and resources to oversee the *person's* activities. *SUP* 12.4.6R imposes similar obligations in relation to *introducer appointed representatives*.

(2) Without prejudice to these continuing requirements, the *rules* in this section require a *firm* to:

(a) undertake a specific review of certain aspects of its arrangements with *appointed representatives* (other than *introducer appointed representatives*) on at least an annual basis; and

(b) maintain a written record of the *firm's* broader self-assessment of how it is meeting the requirements in this chapter;

which are each approved by the *governing body* of the *firm*.

(3) The self-assessment requirement applies in relation to *introducer appointed representatives* to the extent that the *rules* in this chapter apply to arrangements with *introducer appointed representatives*.

Annual review

12.6A.2 R At least once every 12 *months*, the *governing body* of a *firm* must specifically review in respect of each of the *firm's appointed representatives* (other than its *introducer appointed representatives*):

(1) whether the *appointed representative* is solvent and otherwise suitable for the purposes of *SUP* 12.4.2R(2)(a) and (b);

(2) the fitness and propriety of the *controllers*, *directors*, *partners*, proprietors and *managers* of the *appointed representative* and, in particular, their ability to carry out the *regulated activities* for which the *firm* has accepted responsibility; and

(3) the adequacy of the *firm's* controls and resources for the purposes of *SUP* 12.4.2R(3)(a) and (b).

12.6A.3 R The *governing body* of a *firm* must additionally carry out the review set out in *SUP* 12.6A.2R where:

(1) the *appointed representative* changes its business model;

(2) the scope of the *appointed representative's* appointment is expanded to include additional *regulated activity*;

(3) the *appointed representative* changes any of its senior management responsible for, or involved with, the activities being carried on within the scope of its appointment more than once in a 12-*month*

period; or

(4) the *appointed representative* is appointed by another *principal*.

12.6A.4 R (1) A *firm* must maintain a written record of each review undertaken for the purposes of *SUP* 12.6A.2R or *SUP* 12.6A.3R.

(2) The written record required by (1) must be retained for at least 6 years from the date of the *governing body's* review.

Self-assessment

12.6A.5 R (1) A *firm* must make and maintain a written record (its 'self-assessment *document*') of the way in which it complies with the requirements in this chapter (*SUP* 12).

(2) The record in (1) must include at least the *firm's* initial assessment of, and further work to confirm on a continuous basis:

(a) the fitness and propriety of the *appointed representative*, its *controllers*, *directors*, *partners*, proprietors and *managers* and the matters which the *firm* considered in undertaking the assessment;

(b) the *appointed representative's* financial position;

(c) the effectiveness of the *firm's* arrangements for overseeing the *appointed representative*;

(d) the adequacy of the *firm's* controls and resources for the purposes of *SUP* 12.4.2R(3);

(e) the *firm's* assessment of the risk of harm to *consumers* or market integrity arising from the *appointed representative's* activities or business (*SUP* 12.4.2R(5));

(f) the outcome of any review of the appropriateness of the *firm's* oversight arrangements for the purposes of *SUP* 12.4.4FG; and

(g) the methodologies used to assess and verify the *firm's* compliance with the requirements.

(3) In respect of each *introducer appointed representative*, the record in (1) must include those matters in (2) which are relevant to *introducer appointed representatives* (including at least those matters specified in *SUP* 12.6A.5R(2)(c), (e) and (f)).

12.6A.6 R The *governing body* of the *firm* must review and approve the *firm's* self-assessment *document* as an accurate record of the way in which the *firm* has complied with the requirements in this chapter at least once every 12 *months*.

12.6A.7 R A *firm* must retain a copy of each self-assessment *document* approved by the *governing body* of the *firm* for at least 6 years from the date of approval.

12.6A.8 G (1) While the self-assessment *document* must be approved by the *governing body* each year (*SUP* 12.6A.6R) it is not expected that the *firm* creates a new *document* each year.

(2) A *firm* that has appointed more than one *appointed representative* need only maintain a single self-assessment *document* covering all of its *appointed representative relationships*.

(3) The self-assessment *document* should also record the outcome of any review undertaken during the relevant period in compliance with *SUP* 12.6A.2R or *SUP* 12.6A.3R. This may be incorporated by reference.

Amend the following text as shown.

12.7 Notification and reporting requirements

Notification of appointment of an appointed representative

12.7.1 R (1) This *rule* applies to a *firm* which intends to appoint an *appointed representative* or *FCA registered tied agent*.~~:~~

~~(a) an *appointed representative* to carry on *insurance distribution activities*; or~~

~~(b) a *tied agent*; or~~

~~(c) an *appointed representative* to carry on *MCD credit intermediation activity*; or~~

~~(d) a *MiFID optional exemption appointed representative*; or~~

~~(e) a *structured deposit appointed representative*.~~

(2) ~~This *rule* also applies to a *firm* which has appointed an *appointed representative*.~~ [deleted]

(3) A *firm* ~~in (1)~~ to which this *rule* applies must complete and submit the form in *SUP* 12 Annex 3 ~~before the appointment~~ to be received by the *FCA* no later than 60 *days* before the commencement of *regulated activities* by the proposed *appointed representative*.

(4) ~~A *firm* in (2) must complete and submit the form in *SUP* 12 Annex 3 within ten *business days* after the commencement of activities.~~ [deleted]

12.7.1A R (1) A *firm* other than:

(a) a *credit union*; or

(b) a *firm* which intends to appoint~~, or has appointed,~~ an *appointed representative* to carry on only *credit-related regulated activity*;

must submit the form in *SUP* 12 Annex 3 via online submission at the *FCA's* website at http://www.fca.org.uk or any of the methods set out in *SUP* 15.7.4R to *SUP* 15.7.5AR (Method of notification).

(2) A *credit union* or a *firm* which intends to appoint~~, or has appointed,~~ an *appointed representative* to carry on only *credit-related regulated activity* must submit the form in *SUP* 12 Annex 3R in the way set out in *SUP* 15.7.4R to *SUP* 15.7.9G (Form and method of notification).

…

12.7.2 G A *firm's* notice under *SUP* 12.7.1R should give details of the proposed *appointed representative* ~~and the *regulated activities* which the *firm* is, or intends to, carry on through the *appointed representative*~~, including:

…

(3) a description of the nature of the *regulated activities* which the *appointed representative* ~~is~~ will be permitted or required to carry on and for which the *firm* ~~has accepted~~ intends to accept responsibility;

(4) any restrictions imposed on the *regulated activities* for which the *firm* ~~has accepted~~ intends to accept responsibility; ~~and~~

(5) where the *appointed representative* is not an individual, the name of the individuals who are responsible for the management of the business carried on by the *appointed representative* so far as it relates to *insurance distribution activity*;

(6) the name and contact details of the *individual* to be named as the primary point of contact at the *appointed representative* on the *Financial Services Register*;

(7) a description of the nature and scale of the non-regulated business of the *appointed representative*;

(8) any *group* of which the *appointed representative* is a part;

(9) the primary reason for the appointment;

(10) a description of the financial relationship between the *firm* and the *appointed representative*;

(11) the expected level of revenue of the *appointed representative* during

the first year of its appointment; and

(12) whether the *appointed representative* will provide services to *retail clients*.

17.7.2A G A *firm's* notice under *SUP* 12.7.1R relating to a proposed *introducer appointed representative* need not include those details specified in *SUP* 12.7.2G(7), (8), (9), (10), (11) and (12).

…

Notification of appointed representatives undertaking regulated funeral plan activity

12.7.6A R (1) A *firm* must notify the *FCA* in good time before:

(a) ~~it appoints an *appointed representative* to carry on *regulated funeral plan activity* for the first time; or~~ [deleted]

(b) …

…

…

Notification of changes in information given to the FCA

12.7.7 R (1) ~~If:~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.7.7AR]

~~(a) (i) the scope of appointment of an appointed representative is extended to cover *insurance distribution activities* for the first time; and~~

~~(ii) the appointed representative is not included on the Financial Services Register as carrying on *insurance distribution activities* in another capacity; or~~

~~(b) the scope of appointment of an appointed representative ceases to include *insurance distribution activity*;~~

~~the appointed representative's principal must give written notice to the *FCA* of that change before the appointed representative begins to carry on *insurance distribution activities* under the contract (see *SUP* 12.4) or as soon as the scope of appointment of the appointed representative ceases to include *insurance distribution activities*.~~

(1A) ~~If:~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.7.7BR]

~~(a) (i) the scope of appointment changes such that the~~

~~*appointed representative* acts as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative* for the first time; and~~

~~(ii) the *appointed representative* is not included on the *Financial Services Register*; or~~

~~(b) the *appointed representative* ceases to act as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative*;~~

~~the *appointed representative's principal* must give written notice to the *FCA* of that change before the *appointed representative* begins to act as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative* (see *SUP* 12.4) or as soon as the *appointed representative* ceases to act as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative*.~~

(1B) ~~If:~~ [deleted] [*Editor's note*: This provision now appears at SUP 12.7.7CR]

~~(a) (i) the scope of appointment of an *appointed representative* is extended to cover *MCD credit intermediation activity* for the first time; and~~

~~(ii) the *appointed representative* is not included on the *Financial Services Register*; or~~

~~(b) the scope of appointment of an *appointed representative* ceases to include *MCD credit intermediation activity*;~~

~~the *appointed representative's principal* must give written notice to the *FCA* of that change before the *appointed representative* begins to carry on *MCD credit intermediation activity* under the contract (see *SUP* 12.4), or as soon as the scope of appointment of the *appointed representative* ceases to include *MCD credit intermediation activity*.~~

~~[**Note:** article 31(4) of the *MCD*]~~

(2) ~~Where~~ Except where (3) applies, where there is a change in any of the information provided to the *FCA* under *SUP* 12.7.1R ~~or *SUP* 12.7.7R(1A)~~, a *firm* must complete and submit to the *FCA* the form in *SUP* 12 Annex 4R (Appointed representative or tied agent – change details) within ten *business days* of that change being made or, if later, as soon as the *firm* becomes aware of the change. The Appointed representative or tied agent – change details form must state that the information has changed.

(3) A *firm* must complete and submit to the *FCA* the form in *SUP* 12 Annex 4R (Appointed representative or tied agent – change details) at least 10 *days* before a change taking effect to:

(a) the name of the *firm's appointed representative*; or

(b) the *regulated activities* which the *appointed representative* is permitted or required to carry on and for which the *firm* accepts responsibility.

…

[*Editor's note*: The provisions at SUP 12.7.7AR, SUP 12.7.7BR and SUP 12.7.7CR are not new text; they are moved from SUP 12.7.7R(1), (1A) and (1B) respectively. The moved text is not underlined.]

Notification of changes relating to insurance distribution activities

12.7.7A R If:

(1) (a) the scope of appointment of an appointed representative is extended to cover *insurance distribution activities* for the first time; and

(b) the appointed representative is not included on the Financial Services Register as carrying on *insurance distribution activities* in another capacity; or

(2) the scope of appointment of an appointed representative ceases to include *insurance distribution activity*;

the appointed representative's principal must give written notice to the *FCA* of that change before the appointed representative begins to carry on *insurance distribution activities* under the contract (see *SUP* 12.4) or as soon as the scope of appointment of the appointed representative ceases to include *insurance distribution activities*.

Notification of changes relating to tied agents, MiFID optional exemption appointed representatives and structured deposit appointed representatives

12.7.7B R If:

(1) (a) the scope of appointment changes such that the *appointed representative* acts as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative* for the first time; and

(b) the *appointed representative* is not included on the *Financial Services Register*; or

(2) the *appointed representative* ceases to act as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative*;

the *appointed representative's principal* must give written notice to the *FCA* of that change before the *appointed representative* begins to act as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative* (see *SUP* 12.4) or as soon as the *appointed representative* ceases to act as a *tied agent*, *MiFID optional exemption appointed representative* or *structured deposit appointed representative*.

Notification of changes relating to MCD credit intermediation activity

12.7.7C R If:

(1) (a) the scope of appointment of an *appointed representative* is extended to cover *MCD credit intermediation activity* for the first time; and

(b) the *appointed representative* is not included on the *Financial Services Register*; or

(2) the scope of appointment of an *appointed representative* ceases to include *MCD credit intermediation activity*;

the *appointed representative's principal* must give written notice to the *FCA* of that change before the *appointed representative* begins to carry on *MCD credit intermediation activity* under the contract (see *SUP* 12.4), or as soon as the scope of appointment of the *appointed representative* ceases to include *MCD credit intermediation activity*.

[**Note:** article 31(4) of the *MCD*]

…

Notification of intention to act as a regulatory host

12.7.9A R (1) A *firm* must notify the *FCA* if it intends to begin acting as a *regulatory host*.

(2) The notification in (1) must be received by the *FCA* at least 30 *days* before the *firm* begins offering services as a *regulatory host*.

12.7.9B G (1) Any notification required by *SUP* 12.7.9AR is in addition to any notification required by any other *rule* in *SUP* 12 (including the requirement to notify the *FCA* of an intention to appoint individual *appointed representatives* in *SUP* 12.7.1R).

(2) A *firm* making a notification in accordance with *SUP* 12.7.9AR should consider the *guidance* in *SUP* 15.7 on the form and method of

notification.

Other notifications

12.7.9C G (1) A *firm* should also be aware that certain matters relating to *firms' appointed representatives* may require notification to be made to the *FCA* under the *notification rules* in *SUP* 15 and *Principle* 11.

(2) In particular, *SUP* 15.3.8G(2) sets out the *FCA's* expectation that a *firm* will notify the *FCA* in accordance with *Principle* 11 in the event of a significant failure of the *firm's* systems and controls for overseeing its *appointed representatives*.

Complaints and revenue data reporting

12.7.9D R (1) This *rule* applies to a *firm* that has appointed one or more *appointed representatives*.

(2) A *firm* must, once a year, submit the form in *SUP* 12 Annex 6R (On-going reporting by principal firms on their appointed representatives) to the *FCA* including information on:

(a) numbers of *complaints* relating to each of the *firm's appointed representatives*; and

(b) revenue and *remuneration* attributed to each of the *firm's appointed representatives.*

(3) The form in (2) must be submitted to the *FCA* within 30 *business days* of the *firm's accounting reference date* using the appropriate online systems accessible from the *FCA's* website.

(4) A *firm* must submit the form in (2) in respect of each 12-*month* period to its *accounting reference date* in respect of which it has been a *principal* to one or more *appointed representatives* (whether or not it was a *principal* for the complete 12-*month* period).

Submission in the event of failure of FCA information technology systems

12.7.10 G If the *FCA's* information technology systems fail and online submission is unavailable for 24 hours or more, the *FCA* will endeavour to publish a notice on its website confirming that online submission is unavailable and that *firms*, other than *credit unions*, should use the alternative methods of submission set out in *SUP* 12.7.1AR(3) and *SUP* 12.7.8AR(3) (as appropriate), and *SUP* 15.7.4R to *SUP* 15.7.9G, ~~addressing~~ clearly marking applications ~~for the attention of the Approved Persons, Passporting and Mutuals Team~~ as relating to *appointed representatives*.

…

12.8 Termination of a relationship with an appointed representative or FCA registered tied agent

Notification of termination or prohibited amendment of the contract

…

12.8.2 G In assessing whether to terminate a relationship with an *appointed representative*, a *firm* should have regard to the *guidance* in *SUP* 12.6.1-AG and be aware that the *notification rules* in *SUP* 15 require notification to be made immediately to the *FCA* if certain events occur. Examples include a matter having a serious regulatory impact or involving an offence or a breach of any requirement imposed by the *Act* or by regulations or orders made under the *Act* by the Treasury.

Steps to be taken on termination or prohibited amendment of the contract

12.8.3 R If a contract with an *appointed representative* is terminated, or if it is amended in a way which gives rise to a requirement to notify under *SUP* 12.8.1R, a *firm* must take all reasonable steps to ensure that:

…

(3) where appropriate, *clients* are informed of any relevant changes; ~~and~~

(4) all the other *principals* of the *appointed representative* of which the *firm* is aware are notified; and

(5) if the termination results in the wind down of relevant business, this is undertaken in an orderly way.

…

12.9 Record keeping

…

12.9.2A G *SUP* 12.6A also contains *rules* on maintaining records of a *firm's* self-assessment *documents* and of reviews undertaken by a *firm's governing body* of *appointed representative* arrangements.

…

Amend the following forms in SUP 12 Annex 3R (Appointed representative appointment form) and SUP 12 Annex 4R (Appointed representative or tied agent – change details) as shown.

12 Annex 3R Appointed representative appointment form

Add an appointed representative or tied agent form

Notification under *SUP* 12.7.1R (i.e. the form in *SUP* 12 Ann 3R)

Firm name (i.e. the *principal firm*) †	**("*The firm*")**
Firm reference number§ *	
Address§ *	

Please return the form to:

Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
United Kingdom
Telephone +44 (0) 300 500 0597
Facsimile +44 (0) 207 066 0017
E-mail iva@fca.org.uk
Website http://www.fca.org.uk

Registered as a Limited Company in England and Wales No 1920623. Registered Office as above.

NOTES

† These questions should be completed whether submission of this form is online or in one of the other ways set out in SUP 15.7

* These questions should only be completed if the form is being submitted in one of the ways set out in SUP 15.7 other than online submission. It should not be completed if the submission of this form is online

§ Denotes a mandatory field

This form should be used to notify the FCA of a new appointed representative or tied agent. It is the form required by *SUP* 12.7.1R which is set out in *SUP* 12 Ann 3R.

For the purposes of this form, references to 'appointed representative' include 'tied agent' unless the context otherwise requires.

Personal Details — Section A

1	Contact name for this form (this is not necessarily the same person making the declaration at the end of the form) †	**§**
2	Contact's details:	
	a position in the *firm*†	**§**
	b daytime telephone number†	**§**
	c e-mail address†	
	d individual reference number (IRN), if applicable*	
	e business address†	
	f post code†	
	g mobile phone†	
	~~**h** fax number~~†	

† These questions should be completed whether submission of this form is online or in one of the other ways set out in SUP 15.7

* These questions should only be completed if the form is being submitted in one of the ways set out in SUP 15.7 other than online submission. It should not be completed if the submission of this form is online

§ Denotes a mandatory field

New Appointed Representative Details **Section B**

1	Name of the appointed representative† **§**	§
	Appointed Representative FRN (if known) *	
2	Address of the appointed representative† **§**	§
	Postcode:	
3	Trading name(s) of the appointed representative, if different to the name given in question 1 above†	
4	Telephone number of the appointed representative†	
~~5~~	~~Fax number of the appointed representative†~~	
~~6~~5	Email address of the appointed representative†§	
~~7~~6	Website address of the appointed representative†	
~~8~~7	Legal status of the appointed representative † §	

Private limited company	☐	Public limited company	☐
Partnership	☐	Limited partnership	☐
Limited liability partnership	☐	Unincorporated association	☐
Sole trader	☐	Other, please specify below	☐

		Yes	No
~~9~~8	~~Date of appointment (if an appointed representative carrying on insurance distribution activities or a tied agent) or~~ Intended date of commencement of the appointed representatives' activities ~~(if any other kind of appointed representative)~~ † **§**		

† These questions should be completed whether submission of this form is online or in one of the other ways set out in SUP 15.7

* These questions should only be completed if the form is being submitted in one of the ways set out in SUP 15.7 other than online submission. It should not be completed if the submission of this form is online

§ Denotes a mandatory field

			Yes	No
~~10~~9	~~Is~~ Will the appointed representative be an introducer appointed representative? §**1†**		☐	☐
10	Is the application in respect of a tied agent? †§		☐	☐
11	Name of main contact for Financial Services Register**§**:	Title †		
		Forename(s) †		
		Surname †		

		Yes	No
12	Was the appointed representative to which this form refers previously an appointed representative of a different principal? **§**	☐	☐

13 If 'Yes', provide details on why the appointed representative's relationship with the previous principal was terminated (including whether it was terminated at the initiative of the appointed representative or the principal). **†**

		Yes	No
14	Is the appointed representative part of a group? [2]**§†**	☐	☐

14A If the appointed representative is part of a group, what is the name(s) of the parent undertaking(s)[3]?

15 What is the primary market covered by the appointed representative agreement in which the appointed representative will undertake regulated activity?[4] §**†**

Credit related regulated activity	☐	Operating an electronic system in relation to lending	☐
Insurance distribution activity	☐	Funeral plan distribution	☐
Structured deposit regulated activity	☐	Bidding in emissions auctions	☐

† These questions should be completed whether submission of this form is online or in one of the other ways set out in SUP 15.7 § Denotes a mandatory field

[2] "Group" has the meaning given in section 421 of the Financial Services and Markets Act 2000 and contained in the Glossary of the FCA Handbook: https://www.handbook.fca.org.uk/handbook/glossary/?filter-title=group

[3] See the Handbook glossary definition - https://www.handbook.fca.org.uk/handbook/glossary/G832.html

[4] The primary market refers to the category of regulated activity from which the largest percentage of the appointed representative's gross income is expected to be derived.

			Home finance mediation activity; Select all that apply below:	☐
	Consumer buy-to-let mortgage business	☐	(i) mortgage mediation activity;	☐
			(ii) reversion mediation activity;	☐
			(iii) home purchase mediation activity	☐
	Designated investment business; Select all that apply below:	☐		
	(i) in connection with managing investments;	☐		
	(ii) involves advising on pension transfers and pension opt-outs; or	☐		
	(iii) other designated investment business	☐		

16 If the appointed representative will be permitted to undertake regulated activities under the appointed representative agreement in additional markets, what markets will the appointed representative undertake regulated activities in? Select all options that apply: §†

	Credit related regulated activity	☐	Operating an electronic system in relation to lending	☐
	Insurance distribution activity	☐	Funeral plan distribution	☐
	Structured deposit regulated activity	☐	Bidding in emissions auctions	☐
		☐	Home finance mediation activity; Select all that apply below:	☐
	Consumer buy-to-let mortgage business		(i) mortgage mediation activity;	☐
			(ii) reversion mediation activity;	☐
			(iii) home purchase mediation activity	☐
	Designated investment business; Select all that apply below:	☐		
	(i) in connection with managing investments;	☐		
	(ii) involves advising on pension transfers and pension opt-outs; or	☐		
	(iii) other designated investment business	☐		

~~**11** Will the appointed representative undertake designated investment business? ‡**§** ☐ ☐~~

~~**12** Will the appointed representative undertake home finance activities? ‡§ ☐ ☐~~

~~**12A** Will the appointed representative undertake consumer buy-to-let mortgage business? ‡ ☐ ☐~~

~~**13** Is the application in respect of: ‡§~~

~~(1) an appointed representative who will carry on insurance distribution activities? ☐~~

~~If question 13(1) is answered "yes", you must complete the 3 fields immediately below:~~

~~**14** Will the appointed representative undertake credit- related regulated activities? † §~~ ☐ ☐

~~**15** Will the appointed representative undertake structured- deposit related regulated activities? † §~~ ☐ ☐

		Yes	No
17	Will the appointed representative provide services to retail clients, as applicable? §	☐	☐
		Yes	No
18	Will any individuals from the appointed representative be seconded or contracted to the principal firm to carry on portfolio management / dealing activities? If 'Yes' please explain the rationale for entering into such an arrangement. § [Open text box]	☐	☐

19 What is the primary reason for the principal's intention to appoint the appointed representative? §

Distribution of products/services	☐	Acquisition of an appointed representative / restructuring of business	☐
Investment adviser to fund managed by principal/connected firm	☐	Introductions/capital raising for principal's business	☐
Hosting/compliance services/incubation	☐	Other	☐
		If other, provide details	

		Yes	No
20	Will the appointed representative conduct any non-regulated activities? **§**	☐	☐

If question 20 is answered "yes", you must complete the two fields immediately below:

			Yes	No
20A	What is the nature of the non-regulated business			
	(i)	Non-regulated financial services products or services	☐	☐
	(ii)	Non-financial products and services	☐	☐
	(iii)	What is the non-regulated activity?	Open text box	

20B What is the estimated proportion of gross income of the appointed representative in the first year from regulated activities compared to the non-regulated activities[5]?

- ☐ 0%-20%
- ☐ 21%-40%
- ☐ 41%-60%
- ☐ 61% - 80%
- ☐ 81%-100%

21	Approximately how much revenue does the appointed representative expect to generate from its regulated activities in the first year following the commencement of its appointment?[6] **§**	£k
22	Approximately how much revenue does the appointed representative expect to generate from its non-regulated activities in the first year following the commencement of its appointment? **§**	£k

		Yes	No
23	Will the appointed representative pay the principal firm for services received? **§**	☐	☐

[5] Please provide the percentage of income from regulated activities. E.g., if 15% of the appointed representative's income is expected to be derived from regulated activities and 85% from non-regulated activities, please choose 0-20%.

[6] Where the data is available, for example if the appointed representative already conducts these activities (for example, for non-regulated business, or if regulated business was conducted under a different principal) the principal should provide the estimation based on actual figures.

If yes, indicate which services the appointed representative will pay the principal firm for:

Commission[7]	☐	Compliance services[8]	☐
IT services[9]	☐	Any other fees	☐
		If other, provide details	

[7] Most commission is paid by the principal firm to appointed representatives. This question asks about payments the appointed representative makes to the principal firm. Select this option if the appointed representative will make commission payments to the principal.

[8] Fees the appointed representative will pay the principal for providing them or assisting them with compliance

[9] Payments the appointed representative will make to the principal for use of IT systems, including licenses

Declaration and signatures Section C

Warning†

Knowingly or recklessly giving the FCA information, which is false or misleading in a material particular, may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000).

SUP 15.6.4R requires an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the FCA and to notify the FCA immediately if materially inaccurate information has been provided.

Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the Appropriate Regulator.

It should not be assumed that information is known to the FCA merely because it is in the public domain or has previously been disclosed to the FCA or another regulatory body. If you are not sure whether a piece of information is relevant, please include it anyway.

Data Protection†
For the purposes of complying with the Data Protection Act, the personal information in this form will be used by the FCA to discharge its statutory functions under the Financial Services and Markets Act 2000 and other relevant legislation. It will not be disclosed for any other purposes without the permission of the applicant.

Review and submission†
The ability to submit this form is given to an appropriate user or users by the firm's principal compliance contact.

Some questions do not require supporting evidence. However, the records, which demonstrate the applicant firm's compliance with the rules in relation to the questions, must be available to the FCA on request.

Declaration†

By submitting this notification:

- **I/we confirm that this information is accurate and complete to the best of my knowledge and belief and that I have taken all reasonable steps to ensure that this is the case.**
- **I/we confirm that I/we have complied with all of my/our regulatory obligations as a principal, including those contained in the Financial Services and Markets Act 2000 and SUP 12.**
- **I am/we are aware that it is a criminal offence knowingly or recklessly to give the FCA information that is false or misleading in a material particular.**
- **I/we will notify the FCA immediately if there is a significant change to the information given in the form. If I/we fail to do so, this may result in a delay in the application process or enforcement action.**
-

Signature *	
Name of signatory †	
Date†	
Position in firm †	

* These questions should only be completed if the form is being submitted in one of the ways set out in SUP 15.7 other than online submission. It should not be completed if the submission of this form is online.

Individual Registration Number (if applicable)	

☐Tick here to confirm you have read and understood this declaration: ∞

12 Annex 4R **Appointed representative or tied agent – change details**

Appointed representative or tied agent - change details

Notification under *SUP* 12.7.7R (i.e. the form in *SUP* 12 Ann 4R)

Firm name (i.e. the *principal firm*) †	**("*The firm*")**
Firm reference number*	
Address*	

Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
United Kingdom
Telephone +44 (0) 300 500 0597
Facsimile +44 (0) 207 066 0017
E-mail iva@fca.org.uk
Website http://www.fca.org.uk
Registered as a Limited Company in England and Wales No 1920623.
Registered Office as above

NOTES

This form should be used to change the details of an existing appointed representative or tied agent. It is the form required by *SUP* 12.7.7R which is set out in *SUP* 12 Ann 4R.

For the purposes of this form, references to 'appointed representative' include 'tied agent' unless the context otherwise requires.

N.B. if all the changes made on the form do not take effect from the same date, you should use more than one form for each set of changes that take effect on the same date.

Personal Details — Section A

1	Contact Name for this form (this is not necessarily the same person making the declaration at the end of the form) †	**§**
2	Contact's details:	
a	position in the *firm*†	**§**
b	daytime telephone number†	**§**
c	e-mail address†	
d	business address†	
e	post code†	
f	mobile phone number†	
g	~~fax number~~†	

Change Details of an Existing Appointed Representative Section B

What is the name of the appointed representative whose details are to be amended? †

§

What is this appointed representative's Firm Reference Number? (If not known, this can be found on the Financial Services Register on our website at www.fca.org.uk) †

§

Yes

1 **a. Do you wish to suspend** the appointed representative? † ☐

If 'Yes', please give the reasons for this: †

If you have any additional information to add to the reason above please attach it to this form †.

Yes

b. Do you wish to reinstate the appointed representative? † ☐

➔ I have supplied further information related to this page in Section 3† YES ☐ NO ☐

				Yes	
2	Do you wish to change the name of the appointed representative? †			☐	
	If 'Yes', what is the new name of the appointed representative? †	**§**			
				Yes	
3a	Do you wish to change the legal status of the appointed representative? †			☐	
	If 'Yes', what is the new legal status of the appointed representative? †				
	Private limited company	☐	Public limited company		☐
	Partnership	☐	Limited partnership		☐
	Limited liability partnership	☐	Unincorporated association		☐
	Sole trader	☐	Other, please specify below		☐
			Yes	No	N/A
3b	Has the name change been approved by Companies House? †		☐	☐	☐
	N.B. If the appointed representative is a UK registered company or LLP, the name of the appointed representative can only be changed if the change has already been approved by Companies House.				
				Yes	
4	Do you wish to change the address of the appointed representative? †			☐	
	If 'Yes', please enter the new address: †	**§** Postcode:			

		Yes
5	Do you wish to change the trading name(s) of the appointed representative? †	☐

If 'Yes', please provide details below. If you wish to amend a trading name please enter the name to be deleted in the box on the left and add the new one in the box on the right.

Please detail the trading name(s) to be deleted below: †	Please detail the trading name(s) to be added below: †

			Yes	
6	Do you wish to change the telephone number of the appointed representative? †		☐	
	If 'Yes', please enter the new telephone number: †	**§**		
			~~Yes~~	
~~**7**~~	~~Do you wish to change the fax number of the appointed representative? †~~		~~☐~~	
	~~If 'Yes', please enter the new fax number: †~~	~~§~~		
			Yes	
7	Do you wish to change the E-mail address of the appointed representative? †		☐	
	If 'Yes', please enter the new e-mail address†	**§**		
			Yes	
8	Do you wish to change the website address of the appointed representative? †		☐	
	If 'Yes', please enter the new website address: †	**§**		
			Yes	No
9	Is the appointed representative currently an introducer appointed representative? †		☐	☐
	Do you wish to change this? If 'Yes', please provide details below: †		☐	
			Yes	No
10	Do you wish to change the details of the Main Contact for the Financial Services Register for this appointed representative? †		☐	☐
	If 'Yes', please give the new details:	Title†		

		Forename(s) †	
		Surname†	

		~~Yes~~	~~No~~
~~12~~	~~Does the appointed representative undertake home finance activities?†~~	☐	☐
	~~Do you wish to change this? If 'Yes', please provide details below: †~~		
		~~Yes~~	~~No~~
~~12A~~	~~Does the appointed representative undertake consumer buy-to-let mortgage business? †~~	☐	☐
	~~Do you wish to change this? If 'Yes', please provide details below: †~~		
		~~Yes~~	~~No~~
~~13A~~	~~Does the appointed representative undertake credit-related regulated activities?~~	☐	☐
	~~Do you wish to change this? If 'Yes', please provide details below: †~~		
		~~Yes~~	~~No~~
~~13B~~	~~Will the appointed representative undertake structured deposit related regulated activities? † §~~	☐	☐
	~~Do you wish to change this? If 'Yes', please provide details below: †~~		
		~~Yes~~	~~No~~
~~14~~	~~Is the change in respect of an appointed representative who is carrying on or proposes to carry on insurance distribution activities or a tied agent? †~~	☐	☐
	~~If so please provide details below: †~~		
~~15~~	~~Please enter the date on which these changes take effect: †~~	~~§~~	
11	Is the appointed representative currently part of a group[10]§†? †		

[10] "Group" has the meaning given in section 421 of the Financial Services and Markets Act 2000 and contained in the Glossary of the FCA Handbook: https://www.handbook.fca.org.uk/handbook/glossary/?filter-title=group

	Do you wish to change this? If 'Yes', please provide details below. If the appointed representative was not part of a group and will become part of a group following the change, provide the name(s) of the parent undertaking(s)[11]: †		☐	☐
			Yes	No
12	Do you wish to change the primary market in which the appointed representative will undertake regulated activity?[12] §†		☐	☐
	If 'Yes', please enter the new primary market in which the appointed representative will undertake regulated activity: †			
	Credit related regulated activity	☐	Operating an electronic system in relation to lending	☐
	Insurance distribution activity	☐	Funeral plan distribution	☐
	Structured deposit regulated activity	☐	Bidding in emissions auctions	☐
	Consumer buy-to-let mortgage business	☐	Home finance mediation activity; Select all that apply below: (iv) mortgage mediation activity; (v) reversion mediation activity; (vi) home purchase mediation activity	☐ ☐ ☐ ☐
	Designated investment business; Select all that apply below: (iv) in connection with managing investments; (v) involves advising on pension transfers and pension opt-outs; or (vi) other designated investment business	☐ ☐ ☐ ☐		
			Yes	No
13	Do you wish to change the additional markets in which the AR will undertake regulated activities? †		☐	☐
	If 'Yes', please select all the additional markets in which the appointed representative will undertake regulated activity, following the change: †			
	Credit related regulated activity	☐	Operating an electronic system in relation to lending	☐
	Insurance distribution activity	☐	Funeral plan distribution	☐
	Structured deposit regulated activity	☐	Bidding in emissions auctions	☐

[11] See the Handbook glossary definition - https://www.handbook.fca.org.uk/handbook/glossary/G832.html

[12] the primary regulated activity is the regulated activity from which the largest percentage of the AR's gross income is derived.

	Consumer buy-to-let mortgage business	☐	Home finance mediation activity; Select all that apply below: (i) mortgage mediation activity; (ii) reversion mediation activity; (iii) home purchase mediation activity	☐
	Designated investment business; Select all that apply below: (i) in connection with managing investments; (ii) involves advising on pension transfers and pension opt-outs; or (iii) other designated investment business	☐ ☐ ☐ ☐		

		Yes	No
14	Do you wish to change whether the appointed representative currently provides services to retail clients? If 'Yes', please respond to the question below†	☐	☐
14a	Will the appointed representative provide services to retail clients following the change?	☐	☐
		Yes	No
15	Does the appointed representative currently conduct any non-regulated activities?	☐	☐
	Do you wish to change this?	☐	☐
	Will the appointed representative conduct any non-regulated activities following the change?	☐	☐
		Yes	No
16	Do you wish to change the nature of the non-regulated business the appointed representative will conduct following the change? If 'Yes' what will be the nature of the non-regulated business following the change? †	☐	☐
		Yes	No
	Non-regulated financial services products or services	☐	☐
	Non-financial products and services	☐	☐
		Yes	No
16A	Do you wish to change the details of the non-regulated activity If 'Yes', please provide details below: †	☐	☐
		Yes	No
17	Does the appointed representative currently pay the principal firm for services received? †	☐	☐
17A	Do you wish to change this? If "Yes", please provide details below. If the appointed representative did not pay the principal for services before and will pay following the change, indicate which services the appointed representative will pay the principal firm for following the change: †	☐	☐

	Commission[13]	☐	Compliance services[14]	☐
	IT services[15]	☐	Any other fees	☐
			If other, provide details	

[13] Most commission is paid by the principal firm to appointed representatives. This question asks about payments the appointed representative makes to the principal firm. Select this option if the appointed representative will make commission payments to the principal.

[14] Fees the AR pays the principal for providing them or assisting them with compliance

[15] Payments the AR makes to the principal for use of IT systems, including licenses

Supplementary information Section 3

3.01 Is there any other information the approved person or the firm considers to be relevant to the application? †

Yes	No
☐	☐

If so, please provide full details†

3.02 Please indicate clearly which question the supplementary information relates to. †

Question	Information

3.03 How many additional sheets are being submitted? †

Supporting Documents

Indicate the required supporting documents to accompany this form†.

Documents	Mode (Send by email, Post, or Fax)

Other information (please specify) †:

Declaration and signature Section C

Warning †

Knowingly or recklessly giving the FCA information, which is false or misleading in a material particular, may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). SUP 15.6.4R requires an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the FCA and to notify the FCA immediately if materially inaccurate information has been provided. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the FCA. It should not be assumed that information is known to the FCA merely because it is in the public domain or has previously been disclosed to the FCA or another regulatory body. If you are not sure whether a piece of information is relevant, please include it anyway.

Data Protection †

For the purposes of complying with the Data Protection Act, the personal information in this form will be used by the FCA to discharge its statutory functions under the Financial Services and Markets Act 2000 and other relevant legislation. It will not be disclosed for any other purposes without the permission of the applicant.

Some questions do not require supporting evidence. However, the records, which demonstrate the applicant firm's compliance with the rules in relation to the questions, must be available to the FCA on request.

Declaration †

By submitting this notification:

- **I/we confirm that this information is accurate and complete to the best of my knowledge and belief and that I have taken all reasonable steps to ensure that this is the case.**
- **I am/we are aware that it is a criminal offence knowingly or recklessly to give the FCA information that is false or misleading in a material particular.**
- **I/we will notify the FCA immediately if there is a significant change to the information given in the form. If I/we fail to do so, this may result in a delay in the application process or enforcement action.**

Signature*	
Name of signatory†.	
Date†	
Position in *firm* †	

Individual Reference Number (if applicable) †	

☐Tick here to confirm you have read and understood this declaration:

After SUP 12 Annex 5 (Appointed representative termination form), insert the following new annexes. All the text is new and not underlined.

12 Annex 6R **On-going reporting by principal firms on their appointed representatives**

[*Editor's note*: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

New proposed form

On-going reporting by principal firms on their appointed representatives

Reporting under *SUP* 12.7.9DR (i.e. the form in *SUP* 12 Ann 6)

Firm name (i.e. the *principal firm*) †	
	("*The firm*")
Firm reference number§ *	
Address§ *	

Please return the form to:

Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
United Kingdom
Telephone +44 (0) 300 500 0597
Facsimile +44 (0) 207 066 0017
E-mail iva@fca.org.uk
Website http://www.fca.org.uk

Registered as a Limited Company in England and Wales No 1920623. Registered Office as above.

† These questions should be completed whether submission of this form is online or in one of the other ways set out in SUP 15.7

* These questions should only be completed if the form is being submitted in one of the ways set out in SUP 15.7 other than online submission. It should not be completed if the submission of this form is online

§ Denotes a mandatory field

NOTES

This form should be used by principal firm to report to the FCA on complaints made against their appointed representatives, and on the revenue of their appointed representatives. It should also be used to report on funds exchanged between the principal and the appointed representative.
Principals should use this form to report these data for all of their appointed representatives. The relevant reporting period is the 12 months immediately following a firm's accounting reference date.
This report is in addition to any other reporting requirements for firms.
It is the form required by *SUP* 12.7.9DR which is set out in *SUP* 12 Ann 6.

For the purposes of this form, references to 'appointed representative' include 'tied agent' unless the context otherwise requires.

Contact Details — Section A

1	Contact name for this form (this is not necessarily the same person making the declaration at the end of the form) †	§ Title	§ First name	§ Last name
2	Contact's details:			
	a Job title†			
	b daytime telephone number†	§		
	c e-mail address†	§		
	d business address†			
	e post code†			

Complaints made against appointed representatives Section B

Complete the table below for each of your appointed representatives, including introducer appointed representatives.
If there have been no complaints against an appointed representative in the relevant period, there is no need to include that appointed representative in the report.

#	Name of the appointed representative§	Appointed representative FRN§	Number of complaints opened against the appointed representative in the relevant period§	Total number of complaints closed§	Total number of complaints upheld§	Total redress paid (single units) §

Appointed representatives' revenue Section C

Complete the table below for each of your appointed representatives, including introducer appointed representatives.

#	Name of the appointed representative§	Appointed representative FRN§	Total regulated business revenue§	Other revenue (income from non-regulated activities)§	Total remuneration or financial benefit the principal firm received from the appointed representative§	Total remuneration or financial benefit the appointed representative received from the principal§

Declaration and signatures Section D

Warning†

Knowingly or recklessly giving the FCA information, which is false or misleading in a material particular, may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000).

SUP 15.6.4R requires an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the FCA and to notify the FCA immediately if materially inaccurate information has been provided.

Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the Appropriate Regulator.

It should not be assumed that information is known to the FCA merely because it is in the public domain or has previously been disclosed to the FCA or another regulatory body. If you are not sure whether a piece of information is relevant, please include it anyway.

Data Protection†

For the purposes of complying with the Data Protection Act, the personal information in this form will be used by the FCA to discharge its statutory functions under the Financial Services and Markets Act 2000 and other relevant legislation. It will not be disclosed for any other purposes without the permission of the applicant.

Review and submission†

The ability to submit this form is given to an appropriate user or users by the firm's principal compliance contact.

Some questions do not require supporting evidence. However, the records, which demonstrate the applicant firm's compliance with the rules in relation to the questions, must be available to the FCA on request.

Declaration†

By submitting this notification:

- **I/we confirm that this information is accurate and complete to the best of my knowledge and belief and that I have taken all reasonable steps to ensure that this is the case.**
- **I/we confirm that I/we have complied with all of my/our regulatory obligations as a principal, including those contained in the Financial Services and Markets Act 2000 and SUP 12.**
- **I am/we are aware that it is a criminal offence knowingly or recklessly to give the FCA information that is false or misleading in a material particular.**
- **I/we will notify the FCA immediately if there is a significant change to the information given in the form. If I/we fail to do so, this may result in a delay in the application process or enforcement action.**

☐[In the online form] Tick here to confirm that the person submitting this Form on behalf of the Firm and (if applicable) the individual named below – have read and understood the declaration.

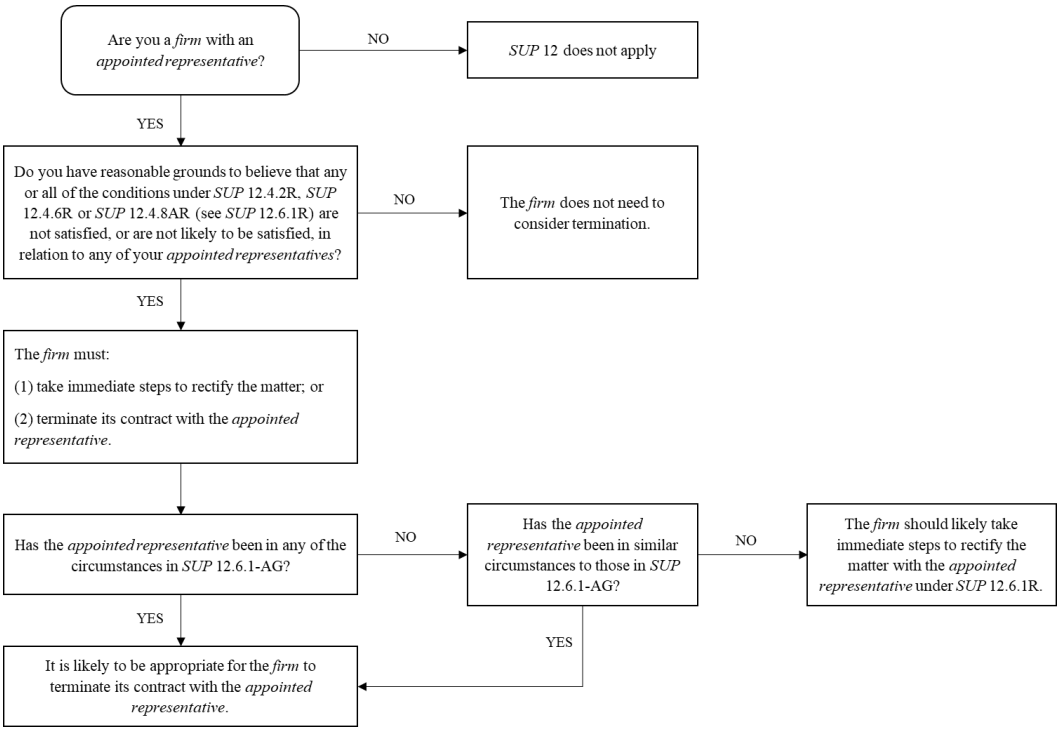
Signature

☐I confirm that a permanent copy of this application, signed by myself and the signatories, will be retained for an appropriate period, for inspection at the FCA/PRA's request.

Signature *	
Name of authorised signatory †	
Date†	
Position in firm †	
Individual Registration Number (if applicable)	

* These questions should only be completed if the form is being submitted in one of the ways set out in SUP 15.7 other than online submission. It should not be completed if the submission of this form is online.

12 Annex 7G Guidance on steps to be taken where relevant conditions are not satisfied



Amend the following text as shown.

15 Notifications to the FCA

…

15.3 General notification requirements

…

Communication with the appropriate regulator in accordance with Principle 11

15.3.7 G *Principle* 11 requires a *firm* to deal with its regulators in an open and cooperative way and to disclose to the *FCA* appropriately anything relating to the *firm* of which the *FCA* would reasonably expect notice. *Principle* 11 applies to *unregulated activities* as well as *regulated activities* and takes into account the activities of other members of a *group* as well as any *appointed representatives*.

…

15.3.8 G Compliance with *Principle* 11 includes, but is not limited to, giving the *FCA* notice of:

…

(2) any significant failure in the *firm's* systems or controls, including, but not limited to:

(a) those reported to the *firm* by the *firm's* auditor;

(b) those relating to the *firm's* oversight of its *appointed representatives*;

…

…

16 Reporting requirements

16.1 Application

…

Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.22 and SUP 16.26)

16.1.3 R

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
…		
~~*SUP* 16.9~~	~~*Firm* **with** *permission* **to** *advise on investments; arrange (bring about) deals in investments; make arrangements with a view to transactions in investments;* **or** *arrange safeguarding and administration of assets*~~	~~**Entire section**~~
…		

…

16.3 General provisions on reporting

…

Structure of the chapter

16.3.2 G This chapter has been split into the following sections, covering:

…

(6) ~~annual appointed representatives reports (*SUP* 16.9)~~ [deleted];

…

16.3.3 G The annual controllers, annual close links~~,~~ and persistency ~~and annual appointed representatives~~ reports sections are the same for all categories of *firm* to which they apply.

…

16.10 Verification of firm details

…

Requirement to check the accuracy of firm details and to report changes to the FCA

16.10.4 R …

(3) If any *firm details* are incorrect, the *firm* must submit the corrected *firm details* to the *FCA* using:

(a) the appropriate form set out in *SUP* 15 Ann 3 and in accordance with *SUP* 16.10.4AR; or

(b) where the relevant details relate to an *appointed representative* of the *firm*:

(i) the form in *SUP* 12 Ann 3 (Appointed representative appointment) if the *appointed representative* is not included on the *Financial Services Register*;

(ii) the form in *SUP* 12 Ann 4 (Appointed representative or tied agent – change details) if the details about an *appointed representative* on the *Financial Services Register* are incorrect; or

(iii) the form in *SUP* 12 Ann 5 (Appointed representative termination) if a relationship with an *appointed representative* has been terminated but this is not reflected on the *Financial Services Register*,

in accordance with the applicable *rules* in *SUP* 12.7 (Notification and reporting requirements) or *SUP* 12.8 (Termination of a relationship with an appointed

representative or FCA registered tied agent).

16.10.4A R (1) A *firm* must submit any corrected *firm details* under *SUP* ~~16.10.4R(3)~~ 16.10.4R(3)(a) using the appropriate online systems accessible through the *FCA's* website.

…

…

16 Annex 16A Firm details (See SUP 16.10.4R)

16 Annex 16A.1 R …

B: Information about a *firm* and its *appointed representatives* on the *Financial Services Register*

8A. Information about any *appointed representative* of the *firm*

…

…

16 Annex 18B Notes for Completion of the Retail Mediation Activities Return

…

Section H Conduct of Business ('COBS') Data

…

Before a *firm* appoints a *person* as an *appointed representative*, and afterwards **on a continuing basis**, it should take reasonable care to ensure that:

(1) the appointment does not prevent the *firm* from satisfying and continuing to satisfy the *threshold conditions*;

(2) the *person*:

(a) is solvent;

(b) is suitable to act for the *firm* in that capacity; and

(c) has no *close links* which would be likely to prevent the effective supervision of the *person* by the *firm*; ~~and~~

(3) the *firm* has adequate:

(a) controls over the *person's regulated activities* for which the *firm* has

responsibility (see *SYSC* 3.1); and

(b) resources to monitor and enforce compliance by the *person* with the relevant requirements applying to the *regulated activities* for which the *firm* is responsible and with which the *person* is required to comply under its contract with the *firm*. Accordingly, *firms* are required to monitor and oversee the activities of their ARs. It is the *firm*'s responsibility to be able to demonstrate that it has adequate procedures and resources in place to monitor these activities;

(4) the *firm* is ready and organised to comply with the other applicable requirements contained or referred to in *SUP 12*; and

(5) the *person*'s activities do not, or would not, result in undue risk of harm to *consumers* or market integrity.

…

Insert the following new TP 13 after SUP TP 12 (Transitional provisions relating to tied agents). The text is not underlined.

TP 13 Transitional provisions relating to appointed representatives

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
			Contract terms enabling termination		
1	*SUP* 12.5.5R(4)	R	(1) This transitional provision applies to a *firm* in respect of those contracts with *appointed representatives* which are in effect on [date on which *SUP* 12.5.5R(4) comes into force]. (2) *SUP* 12.5.5R(4) does not apply to a written contract in (1). (3) A *firm* must amend a contract in (1) to comply with *SUP* 12.5.5R(4) at the first point at which	From [date]	[date]

			the contract is subject to renewal or revision following [date on which *SUP* 12.5.5R(4) comes into force].		
			Annual reviews		
2	*SUP* 12.6A.2R	R	(1) This transitional provision applies to a *firm* with one or more *appointed representatives* on [date on which *SUP* 12.6A.2R comes into force]. (2) The *governing body* of the *firm* must complete its first review for the purposes of *SUP* 12.6A.2R by [date].	From [date]	[date]
			Self-assessments		
3	*SUP* 12.6A.5R	R	(1) This transitional provision applies to a *firm* with one or more *appointed representatives* on [date on which *SUP* 12.6A.5R comes into force]. (2) The *governing body* of the *firm* must approve the *firm's* first self-assessment *document* by [date].	From [date]	[date]
			Re-notification of existing appointed representatives		
4	*SUP* 12.7.1R	R	(1) This transitional provision applies to a *firm* in respect of those *appointed representatives* to which it is the *principal* on [date on which this instrument comes into force].	From [date]	1 December 2001

			(2) Except where (3) applies, a *firm* must complete and submit those parts of the form in *SUP* 12 Annex 3 in respect of each of its *appointed representatives* which relate to the items described in *SUP* 12.7.2G(3), (6), (7), (8), (10) and (12). (3) A *firm* must complete and submit those parts of the form in *SUP* 12 Annex 3 in respect of each of its *introducer appointed representatives* which relate to the items described in *SUP* 12.7.2G(3) and (6). (4) A *firm* must submit the form or forms required by this *rule* by [date 60 *days* after this instrument comes into force].		
			Regulatory hosts		
5	*SUP* 12.7.9AR	R	(1) This transitional provision applies to a *firm* that is acting as a *regulatory host* on [date on which *SUP* 12.7.9AR comes into force]. (2) A *firm* must notify the *FCA* that it is acting as a *regulatory host* by [date 60 *days* after *SUP* 12.7.9AR comes into force].	From [date]	[Date]
			Appointed representative reporting		
6	*SUP* 12.7.9DR	R	(1) This transitional provision applies to a		

			firm with one or more *appointed representatives* on [date on which *SUP* 12.7.9DR comes into force]. (2) A *firm* must submit the form in *SUP* 12 Annex 6 for the first time within 30 *business days* of the *firm's* first *accounting reference date* after [date 12 months after *SUP* 12.7.9DR comes into force].		

Amend the following text as shown.

Schedule 1 **Record keeping requirements**

…

Sch 1.2G

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
SUP 4.3.17R(3)	…	…	…	…
SUP 12.6A.4R	*Appointed representatives*	Written record of each review	Following each review undertaken for the purposes of *SUP* 12.6A.2R or *SUP* 12.6A.3R	6 years from date of *governing body's* review
SUP 12.6A.7R	*Appointed representatives*	Copy of each approved self-assessment *document*	Following approval by the *firm's governing body*	6 years from date of approval
SUP 12.9.1R, *SUP* 12.9.2R	…	…	…	…

Pub ref: 007745

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