

# Quick guide for small firms

Welcome to your quick and easy guide to the key aspects of FSA regulation.

This factsheet highlights what these are and shows you where you will find more information on our small firms' website:

[www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms)



## Why we regulate

The FSA has the following four statutory objectives:

- market confidence: maintaining confidence in the financial system
- public awareness: promoting public understanding of the financial system
- consumer protection: securing the appropriate degree of protection for consumers
- reduction of financial crime: reducing the extent to which it is possible for a business to be used for a purpose connected with its financial crime.

Everything we ask from you is to help us work together to achieve these objectives.

## The Principles for Business

The principles for regulation set out in simple terms the high level standards firms should apply.

1 Integrity	A firm must conduct its business with integrity.
2 Skill, care and diligence	A firm must conduct its business with due skill, care and diligence
3 Management and control	A firm must take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems.
4 Financial prudence	A firm must maintain adequate financial resources.
5 Market conduct	A firm must observe proper standards of market conduct.
6 Customers' interests	A firm must pay due regard to the interests of its customers and treat them fairly.
7 Communications with clients	A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
8 Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9 Customers: relationships of trust	A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.
10 Clients' assets	A firm must arrange adequate protection for clients' assets when it is responsible for them.
11 Relations with regulators	A firm must deal with its regulators in an open and cooperative way, and must disclose to the FSA appropriately anything relating to the firm of which the FSA would reasonably expect notice.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'general information' in the left hand menu and then again in the left hand menu 'Principles-based regulation'.*

## Treating Customers Fairly (TCF)

Our TCF initiative is currently at the forefront of our regulation work with firms and is one of our main priorities throughout 2008.

Your responsibility is to ensure your firm treats your customers fairly and that a TCF culture is fully embedded throughout your firm.

Because of the wide range of activities and business models you carry out, it isn't possible to outline TCF in a way that applies to everyone. We allow you flexibility in deciding how best to meet our requirements.

To be assessed as successfully treating your customers fairly, you need management information which demonstrates the following six outcomes for your customers:

- **they are confident your firm has put fair treatment of customers at the heart of your corporate culture**
- **you sell and market products and services designed to meet their needs**
- **you give them clear information and keep them appropriately informed before, during and after the point of sale**
- **you give them suitable advice which takes account of their circumstances**
- **you provide them with products which perform as you have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect**
- **you do not impose unreasonable barriers after a sale when they want to change product, switch provider, submit a claim or make a complaint.**

We expect all firms to be able to show they are treating customers fairly by December 2008.

*Online information: Visit the TCF section of our website: [www.fsa.gov.uk/smallfirms/tcf](http://www.fsa.gov.uk/smallfirms/tcf)*

## Threshold Conditions

The FSA is required to ensure your firm satisfies and will continue to satisfy certain Threshold Conditions. Your firm must meet these at all times.

The table below sets out the basic requirements of these conditions:

Threshold condition	How it relates to your firm
COND 2.1 – Legal status	The applicant can be any of the following: <ul style="list-style-type: none"> <li>• a sole trader</li> <li>• a body corporate</li> <li>• a partnership</li> <li>• an unincorporated association</li> </ul>
COND 2.2 – Location of offices	If the applicant is a body corporate constituted under law in any part of the UK: <ul style="list-style-type: none"> <li>• unless it carries on only insurance mediation activities, its head office and; if it has a registered office, its registered office must be in the UK; or</li> <li>• if it carries on only insurance mediation activities, its registered office or its head office if it does not have a registered office, must be in the UK.</li> </ul> If the applicant is not a body corporate but has its head office in the UK, it must also carry on its business in the UK.
COND 2.3 – Close links	If the applicant has any close links (links with other firms or individuals) these must not prevent effective FSA supervision of the applicant if the applicant is authorised.
COND 2.4 – Adequate resources	The FSA must be satisfied the applicant has adequate resources. The FSA assesses the quality and quantity of the applicant's resources regarding: <ul style="list-style-type: none"> <li>• finance</li> <li>• management</li> <li>• staff</li> <li>• systems and controls</li> </ul>
COND 2.5 – Suitability	The FSA must be satisfied the applicant is 'fit and proper' to be authorised. The FSA assesses: <ul style="list-style-type: none"> <li>• the competence and ability of management</li> <li>• the management's commitment to carrying on business with integrity</li> <li>• the management's commitment to carrying on the business in compliance with the regulator regime.</li> </ul>

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'FSA Handbook', on the black bar running across the top of the page, then 'Handbook online' then 'Full Handbook' on the left hand menu. Scroll down for Threshold Conditions.*

## Approved persons

As an authorised firm, you must have staff who perform controlled functions – and these staff must first be approved by us.

The table below lists the controlled functions the FSA considers most relevant to small firms. The firm may not need to have all of the controlled functions

Controlled Function	
CF 1 Director function	CF 11 Money laundering reporting function
CF 2 Non-executive director function	CF 12 Actuarial function
CF 3 Chief executive function	CF 12A With-profits actuary function
CF 4 Partner function	CF 12B Lloyd's Actuary function
CF 5 Directors of an unincorporated association	CF 28 System and controls function
CF 6 Small friendly society function	CF 29 Significant management function
CF 8 Apportionment and oversight function (Non-MiFID business only)	CF 30 Customer function
CF 10 Compliance oversight function	

Note:

CF13-15 have been merged to become CF28 (Systems and control function)

CF16-20 have been merged to become CF29 (Significant management function)

CF 21-27 have been merged to become CF30 (Customer function)

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to go to 'Doing business with the FSA', on the black bar running across the top of the page, then 'being regulated' in the left hand menu, and again in the left hand menu 'Approved persons'.*

## Senior management responsibilities

Senior management of regulated firms have particular responsibilities. These include maintaining a clear separation of significant responsibilities between directors and senior managers.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'FSA Handbook', on the black bar running across the top of the page, then 'Full Handbook'.*

## Changing important details for your firm

### Applying for a variation of permission

An FSA-authorized firm which wants to change (vary) its legal status (Part IV permission) should complete the 'Variation of Permission' application form.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'Doing Business with the FSA', on the black bar running across the top of the page, then 'Being regulated' in the left hand menu, and then again in the left hand menu 'Notifications and applications'.*

### Cancelling your Part IV permission/authorisation

An FSA-authorized firm which has this but wants to cancel it must apply to us.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'Doing Business with the FSA', on the black bar running across the top of the page, then 'How do I cancel my authorisation' in the left hand menu.*

### Change in control

When an individual or corporate body purchases shares which takes any existing holding above 10% of the firm's shares the new controller has to submit a 'Controllers Form A'.

Note, a change of control also occurs when an existing controller increases or decreases control through the trigger points of 20% and, for firms other than insurance intermediaries, of 33% and 50%.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms) go to, 'Doing Business with the FSA', on the black bar running across the top of the page, then 'Being regulated' in the left hand menu, then 'Notifications and applications' and then again in the left hand menu 'Change of control'.*

### Change of legal status

Any firm changing its legal status becomes another firm and must be authorised in its own right.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms) go to 'FSA Library' on the black bar running across the top of the page, then 'forms' in the right hand corner, and then again in the left hand menu 'application packs'. Scroll down to find the link to the 'Change of Legal Status Application Pack'.*

### Applying for a waiver

We will consider granting a waiver from, or modification to, a rule under certain circumstances.

More information and a waiver form are available on our website.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'Doing Business with the FSA' on the black bar running across the top of the screen, then in the left hand menu 'Being regulated' and then again in the left hand menu 'Notifications and applications' and finally 'Applying for a waiver'.*

## Report information we need online

You can make changes to your firm's details on our website and submit electronic forms to give us information about changes to your firm's information or business.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms), go to 'Doing Business with the FSA' on the black bar running across the top of the screen, then 'being regulated' in the left hand menu and then again in the left hand menu 'firms online'.*

### The Retail Mediation Activities Return (RMAR)

Your firm reports information to us information about the regulated activities you carry out through the RMAR. The report is tailored to your activities and firm type.

You should be able to use your own management information to give us the information we need.

You must register through our Firms Online section on our website to complete and submit the RMAR. If you have not done so, please register now.

### Complaints

As an authorised firm you have a number of responsibilities for reporting and recording information about complaints you receive.

From the homepage, click on 'Doing Business with the FSA' on the black bar running across the top of the screen, then in the left hand menu click 'being regulated', then again in the left hand menu 'reporting requirements' and then 'complaints reporting to the FSA'.

### Fees

All regulated firms must pay fees which help the FSA provide the resources we need to ensure we achieve our strategic objectives.

Our website has a fees calculator which is a quick and easy way to calculate how much you will pay.

*Online information: From our homepage, [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms) go to 'Doing Business with the FSA' on the black bar running across the top of the screen, then in the left hand menu click 'being regulated' and then again in the left hand menu 'paying fees'.*

## Contact us

Our Customer Contact Centre provides you with a direct point of contact at the FSA and can help you understand our regulatory requirements

Telephone: 0845 606 9966 (call rates may vary)

Overseas call: +44 20 7066 1000

Fax: +44 (0)20 7066 0991

Please have your six-digit firm reference number (FRN xxxxxx) ready.

Opening times: Monday to Friday 9am-5pm  
(extended to 8am-6pm at known peak times)

Email: [fcc@fsa.gov.uk](mailto:fcc@fsa.gov.uk)

Website: [www.fsa.gov.uk/smallfirms](http://www.fsa.gov.uk/smallfirms)

Post: Customer Contact Centre  
The Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS