FCA and APCC Meeting 1st July 2015

Attendees:

Authorisations	Credit Authorisations	APCC
Lucy McClements	Nick Mears	Ben Mason
Val Smith (Part meeting)	Kim Heffernan	Gary Kershaw
Gordon Ferguson	Duncan Thistleton	Jude Bahnan (part)
Emma Krygier		Sean Farnsworth
Jag Sahota (Part meeting)		
Pat Knox (Part meeting)		

Key Contents:

Section 1	**Authorisations (scope of which is all non-Consumer Credit apps and includes Contact Centre)**
Section 2	**Credit Authorisations**

Section 1 Authorisations

General

1) Gordon Ferguson was welcomed to the meeting as an APCC point of liaison. Gordon will be well known to many members as a highly experienced case officer. He previously worked in a number of roles within the Supervision Department for six and half years.
2) The meeting noted the significant feedback received from APCC members and expressed its thanks to those members who had taken the time to feedback. Between the FCA and APCC it was agreed to revert to each member, and APCC expressed its appreciation to the FCA for being prepared to act on feedback on individual cases.
3) The FCA opened with a short discussion about the Dual Regulated Department. Although not solely related to dual regulated firms, Val Smith noted that IFPRU 730K firms should be working on their recovery plans and as part of the implementation of the Recovery & Resolution Directive. IFPRU 730K solo-regulated firms are due to report by the end of September (only 7 in the first set) with this number increasing per quarter until June of next year. There are two sets of firms (General and Simplified obligations) who have to report on an ongoing basis, General Obligation firms have to update every year with Simple Obligation firms updating every two years. The APCC noted that they will advise clients who fall within the IFPRU 730K category as this is something that they may not be aware of. The FCA is interested to know whether this message has reached firms and members are encouraged to feedback on this.
4) Val Smith enquired about demand for services from credit unions given continuing focus of Government policy to encourage credit unions. The FCA had recently extended the mobilisation option for new banks to credit unions and there is a factsheet on the FCA

website relating to this. Pre-application meetings for credit unions are available (similar to banks) and APCC has offered to put the FCA in contact with some individuals who might assist credit unions.

FCA response*: Please find a link to our webpage relating to the authorisation process for credit unions: http://www.fca.org.uk/firms/about-authorisation/dual-regulated-firms/credit-unions; in these pages you will also find a link to the PRA's website.*

5) The APCC raised the issue of some Payment Services firms using the word "bank or banking" in either their name or marketing materials. The FCA confirmed there is no change of policy on sensitive names.

6) The FCA is considering revising the application forms for solo new firm authorisations and VoPs with a view to reducing processing times. While the APCC noted that the application forms do not have a large impact on the time required to prepare application packs (compared to, say, writing the regulatory business plan) they would be pleased to contribute to the process, possibly by bringing in sector specialists to do so.

Application Processing Times

7) The FCA advised that volumes of all application types have increased year on year and even when you remove the AIFMD "bump", wholesale firm applications specifically are significantly up, and the FCA were therefore pleased that average processing times for wholesale apps were reduced over the last couple of quarters, but this trend is unlikely to continue given sustained rising volumes.

8) The FCA recognises this as an ongoing problem with no quick fix, and that the FCA will continue to consider how to address this moving forward given their resource constraints. It was noted that the only reason that the situation was not worse was that considerable process improvements have already been made.

9) There was a short discussion on case officer allocation timescales. The FCA understands that overall waiting times have increased in most instances, but also highlighted the ongoing triage of applications received to identify priority cases e.g. second charge mortgage lenders (given MCD implementation in March 2016), high quality and/or low risk applications. It was acknowledged that this does make it difficult for APCC members to manage expectations sometimes, but the quarterly KPIs act as a reasonable guide as to overall expectations.

10) The FCA concluded this discussion by noting that they will provide the APCC with some statistics relating to the number of applications that were received last year. With volumes rising it is inevitable that average determination times will rise for the foreseeable future.

FCA response*: Please see attachment providing a breakdown of the application numbers; however in summary the FCA has received 12% more Retail, 57% more Wholesale new solo firm authorisation applications (excluding the AIFMD "hump" from the first half of 2014) and 19% more change in control applications year on year.*

11) A couple of APCC members asked if there had been any change in approach to FX broker applications following the issues with the Swiss Franc earlier in the year and subsequent supervisory activity in this area. The FCA confirmed there was no change.

Approved Persons (Pat Knox and Jag Sahota joined the meeting)

12) Pat Knox is the Senior Manager within the Approved Persons team. Jag Sahota manages the Approved Persons Triage Team (see below.)

13) Jag and Pat provided the APCC with some background to the structure of the Approved Persons Department. There are three teams:

- Non Routine Individuals Team (NRI) which deals with cases that need further investigation
- Significant Influence Team which deals with significant influence applications for C1 and C2 firms
- Approved Persons Triage Team which deals with the remaining C3 and C4 category firms and all CF30 applications. The FCA note that the Approved Persons Triage Team deals with the vast majority of Approved Persons applications

14) The service standards for the Approved Persons Teams are categorised as voluntary and statutory. The FCA aim to determine 85% of SIF applications within their 10 day voluntary service standard and 5 days for customer functions. The statutory service standard is 90 days.

15) A new case management system has been implemented and there has been a large reorganisation which has impacted on the voluntary service standard. The system is now at a place where service standards are returning to normal.

16) Jag Sahota described some thematic problems that are common with Approved Persons applications:

- The first problem relates to the applicability of Controlled Functions. Members should ensure that AP applications are applicable to the firm permissions or the role of the individual; for example, generally, only firms which have the permission Designated Investment Business require an individual approved for the CF10 Compliance Oversight function
- The second is employment history. If there has been a termination then additional information needs to be provided (otherwise the FCA will come back to clarify)
- The third is when there are disclosures. The provision of documentation, for example relating to CCJs, is very helpful (this is a big issue for the NRI Team as they are interested in how firms monitor these disclosures and perform the required due diligence – regulatory references are very useful in this scenario)

17) The FCA and APCC both thought that it would be useful to have further dialogue regarding Approved Persons, for example at APCC forums etc.

FCA Connect (Andrew Otter joined the meeting)

18) The FCA had previously been aiming to have all new firm applications (with the exception of AIFMD) live on Connect by 20th July. The FCA confirmed that this deadline is still on course.

19) The Connect forms in July will be similar to the application pack on the current website. The move to the Connect system should help with the routing of applications at case officer stage. Payment should be quicker and declaration should be cleaner as it is now electronic.

20) There is a three month transitional period when new applications could be submitted in paper form or via Connect. It is recommended that firms use Connect. In October, the 'build your own application pack builder' will be removed, meaning the majority of applications (except AIFMD) will then have to go through Connect.

21) The FCA is working on external communications to be more helpful so that the website covers these points in a useful way.

22) APCC mentioned the problem of the Connect system not providing an invoice for application fees paid through it. Lucy McClements advised that the FCA will address this point.

    ***FCA response**: We have requested a system change in order to provide an invoice to firms for the application fees paid via Connect.*

23) The APCC mentioned a problem about a warning message that appears on the Connect system when clients log in. This message informs the client not to pass on their Connect login details to any third parties. The APCC notes that as consultants we will typically need to log on to our clients' Connect systems to assist them with applications. This warning message makes clients hesitant to pass on login information to consultants; as such this is detrimental to how we work. The FCA agreed that they will look into the possibility of having this warning removed.

24) The FCA advised that they would be very happy to receive feedback on the Connect application process as soon as they launch. In particular they are keen to receive applications electronically and for all 'hybrid' new firm authorisations (where the firm is applying for FSMA and Consumer Credit permissions) via the Consumer Credit forms given the greater automation within Connect's functionality.

25) The FCA advised that they were aware of the occasional problem with Connect taking an applicant's money but not submitting the application. This is being worked on and should be resolved soon.

26) AIFMD apps to stay as paper for new authorisations. APCC raised a point on whether or not AIFMD VoPs should be completed on the Connect system or in paper.

    ***FCA response**: AIFMD VoPs's should be submitted via the Connect system.*

Contact Centre

27) The Contact Centre acknowledged that they had experienced significant volumes of calls in recent months, much of it relating to seasonal issues such as annual fees and AIFMD reporting. This has now reduced due to increases in staff and passing of the AIFMD issue.

28) Many of these calls related to fees. The Contact Centre has suggested that the more people who can login and pay online the better. APCC said they will recommend this to members.

29) Emma Krygier advised that the welcome webinars for newly authorised firms were increasingly being taken up; however there are problems with lots of firms having missing emails addresses and therefore aren't being notified.

    FCA response*: Firms should be aware of the importance of getting all their 'standing data' (address, telephone number, complaints contact etc) including their email addresses correct.*

30) The effect of the recent Omnibus Directive was discussed. The Omnibus Directive requires all MiFID firms to have an accurate mapping of their RAO activities to MiFID activities. Firms will receive emails (some have been issued already) asking them to consider their current permissions and the activities that are undertaken and confirm that these have been mapped over correctly.

31) The FCA advised that generally this process had proceeded successfully, but occasionally it was highly complex for some firms.

32) The FCA advised that it was their policy to say to callers chasing an application's progress that there was nothing that could be done if an application was within the statutory timeframes. The APCC suggested that they believed the FCA has an important role to play in managing applicants' expectations in the situation where there are significant processing delays. Even telling callers something as honest as the FCA does not know when an application will be allocated is more helpful then just referencing statutory deadlines. This at least helps the applicant plan their business. The FCA agreed to take a look at how such 'chasing calls' are handled.

Mortgage Credit Directive

33) MCD applications may now be made, with around 60 lender applications expected. Permissions is working very closely with the Contact Centre and Credit Authorisations in relation to this. The FCA noted that MCD lenders and administrators are allocated to the Permissions Department to process and MCD brokers are going to Credit Authorisations Division.

34) The FCA is in contact with these firms to ensure they have considered if they are caught by the new Directive. The FCA is expecting a spike in these applications in September.

35) The FCA is working on more communications in relation to the MCD, specifically relating to house builders which should be available in August.

MIFID 2

36) The FCA confirmed there is not a significant amount to update the APCC on since the last meeting, although planning on this important topic was ongoing. Feedback on MIFID 2 and its likely challenges from APCC members would be welcomed by the FCA. The FCA is expecting the number of new firms that will be caught by the Directive to be relatively low (because the vast majority of existing MiFID firms expect to be grandfathered) and so are considering contacting these firms directly (e.g. OTFs, high frequency traders). The FCA is open to working with the APCC on this.

37) The timings of the opening of MIFID 2 applications needs to be carefully handled as the Level 2 text is unlikely to be finalised until Spring 2016 yet the FCA will need more than six months to consider new applications.

38) The APCC raised an issue relating to Binary Options and the Gambling Commission not taking applications for new binary options firms. The FCA noted that they cannot take these apps as they have no legislative framework for doing so and suggested that this information needs relaying back to HMT.

Section 2 Credit Authorisations

39) The FCA had now developed a comprehensive data bulletin on CAD application processing. This is available on the FCA website and it is recommended that members review it.

40) The FCA gave a general update on overall applications' status. Three application periods have closed since the last meeting; 70% of firms who could apply in these periods did so.

41) In the last three application periods the FCA had also seen higher numbers than expected of AR applications and higher numbers of Interim Permission firms allowing their authorisation to lapse.

42) The FCA noted there is more complexity in some broker cases than others, which is seeing a higher effort required from case officers and so these types of firms are taking longer to process. More complex firms were generally allocated to the earlier landing slots.

43) The FCA noted that authorisation timescales should now begin to improve as the application periods coming up are now much lower in volumes and it is expected that there will be a higher lapse rate as has been seen previously.

44) Levels of approved person and change in control applications so far have been low relative to main authorisations, while there has been a higher than expected number of cancellation and AR applications. However, the processing of these applications is less complex than new permissions and Credit Authorisations has been able to deal with these applications quickly.

45) The FCA is continuing to recruit people due to natural staff turnover, with some contracts having come to an end. The FCA also reports there is a higher turnover of less experienced case officers who can be hired and trained more quickly; there is however naturally a greater challenge in replacing more senior case officers.

46) The FCA advised that if a case officer leaves and there is no obvious handover, that the firm reports this to the FCA with FRN and case reference number, and the FCA will address this rapidly.

47) It was discussed that initially very simple and very complex cases were allocated to the early application periods. Now other firms that don't sit on the extremes of the spectrum are coming through in the current application periods.

48) The FCA is continuing to train its case officers on each type of application and to analyse the cases they receive. Additionally, this will link in to how cases are allocated, not just oldest first; each application has to be routed to a person with the right skills.

49) The FCA has taken on board APCC's previous comments on the importance for firms with new applications to be processed rapidly compared to IP firms and this is now happening.

50) The FCA expects there to be around 7-10k Consumer Credit ARs (this is caveated by not knowing how many of these are new ARs and which were already ARs for non-credit

activities such as insurance intermediation). It is expected that some firms might see becoming an AR as a short term measure before moving to full authorisation.

51) APCC advised that often members and firms feel that the level of questioning from case officers is disproportionate to the risk profile of the applicant business. The FCA agreed that this has happened on occasion and have been working with their case officers on this point.

52) The FCA provided some additional background to the *Consumer Credit: Authorisations Data Bulletin* as follows.

- This is the first publication and is to be produced quarterly going forward
- A number of firms have withdrawn – higher than expected, this number is now expected to be around 900. It is anticipated that the withdrawal rate will reduce
- The percentage of refusals is very low
- Average processing time is expected to increase until the next data bulletin and then to come back down. It is expected that queuing times have hit a peak and are now reducing; these are expected to stabilise for a period and then reduce again

53) The FCA has been considering setting up similar authorisation guidelines as those used with permissions. However, the challenge is that very little of the existing guidelines would apply to consumer credit authorisations as they are currently not in a business as usual situation. The possibility was discussed of using a smaller list of guidelines for this type of authorisation, and to keep them 'fluid' – i.e. recognising the changing dynamic of credit applications to be prepared to make adjustments more often. The FCA will look at this again with a view to introducing something simple and workable.

54) The FCA is continually training case officers on other areas which are of importance to them. It was proposed that the APCC could assist by giving some consultant awareness training, and previous sessions carried out by APCC, or APCC members, were highlighted as successful examples of how the APCC can help. The APCC has agreed to support this initiative and provide appropriate resource as required.

55) The APCC was interested to know if any higher risk firms, such as debt management or payday lenders, have been authorised yet (or how they are getting on). The FCA confirmed that many cases are now in progress. The FCA is not physically meeting all such applicants, but they are having a high level of interaction with these types of firms.