

Authorised and approved persons

1. Introduction

1.1. Chapter overview

In the previous chapter, you read about the general prohibition of FSMA 2000. This chapter explains what is meant by **authorised** persons and defines the categories of **exempt** persons. As a general rule, an authorised person refers to a firm rather than an individual.

On the other hand, individuals working for an authorised firm and performing a **controlled function** would have to become **approved**. It may seem a small point but it is important that you appreciate the correct terminology. From now on, references to '**authorised persons**' will mean firms, while references to '**approved persons**' will mean individuals. You will learn of the two main ways in which a firm may obtain authorised status.

You will also be introduced to various codes of ethics, on which you could be asked to comment in the exam. These are the **principles for business** for authorised firms and the **statements of principle** for approved persons. In addition to the FCA's codes there are also CFA codes and principles that need to be understood and adhered to.

1.2. Learning outcomes

On completion of this module you will:

Authorised persons

- LO 3.3.5 - Explain, in outline, the procedures for authorisation of firms, including knowledge of the threshold conditions and liaison with the PRA where relevant

Markets in Financial Instruments Directive (MiFID)

- LO 3.1.3 - Explain the purpose and scope of the Markets in Financial Instruments Directive (MiFID) with respect to: passporting, roles of the home state and host state, core and non-core investment services, financial instruments covered by the legislation

Exempt persons

- LO 3.2.3 - Explain the scope of the Financial Services and Markets Act (FSMA) 2000 (as amended by the Financial Services Act 2012) (Exempt persons)
- LO 3.4.2 - Explain the need for, and relevance of, investment exchanges needing to be recognised by the FCA
- LO 3.4.3 - Explain how the Bank of England regulates clearing houses
- LO 3.4.4 - Identify the recognised investment exchanges and clearing houses in the UK

Principles for Businesses

- LO 3.3.3 – Identify the FCA's Principles for Businesses and explain their application and purpose
- LO 3.3.4 – Explain the consequences of breaching the FCA's Principles of Businesses

- LO 3.2.5 – Explain the purpose and scope of the FCA's rules regarding Senior Management Arrangements, Systems and Controls (SYSC)

Controlled functions and approved persons

- LO 3.3.10 - Define a controlled function and identify the types of controlled functions defined within the FCA
- LO 3.3.8 - Explain the application procedure for an Approved Person (SUP 10) and how the PRA may also be involved
- LO 3.3.7 - Identify the main assessment criteria in the FCA's Fit and Proper Test for Approved Persons (FIT)
- LO 3.3.9 - Explain the procedure for an Approved Person moving within a group and how the PRA may also be involved (SUP 10)

Statements of Principle

- LO 3.3.6 - Define an Approved Person and explain the application and purpose of the Statements of Principle and Code of Practice for Approved Persons (APER)

Training and competence and the retail distribution review

- LO 3.3.11 - Explain the requirements relating to training and competence (TC 1-3)
- LO 3.3.12 - Explain the professionalism requirements that have to met by retail investment advisers and investment managers (TC 1-3)
- LO 3.5.17 - Explain the rules on adviser charging and remuneration (COBS 6.3 & 6.4)
- LO 3.5.24 - Distinguish between independent advice and restricted advice (COBS 6.2A)

Code of ethics and professional standards

- LO 2.2.1 - Identify the elements of the CFA Code of Ethics and Standards of Professional Conduct
- LO 2.2.2 - Explain the professional principles and values on which the CFA Code of Ethics and Standards of Professional Conduct is based
- LO 2.2.3 - Apply the CFA Code of Ethics and Standards of Professional Conduct to a range of ethical dilemmas
- LO 2.1.1 - Describe the need for ethics in the investment industry
- LO 2.1.2 - Identify the ethical obligations to clients, prospective clients, employers and co-workers
- LO 2.1.3 - Identify positive and negative behavioural indicators
- LO 2.1.4 - Critically evaluate the outcomes which may result from behaving ethically - for the industry, individual advisers, and consumers. **(This will be tested in the question bank)**
- LO 2.1.5 - Critically evaluate the outcomes which may result from limiting behaviour to compliance within the rules - for the industry, individual advisers, and consumers. **(This will be tested in the question bank)**

2. Authorised persons

2.1. Basic requirement

FSMA 2000 requires any person undertaking regulated activities in the UK to be **one** of the following:

- An authorised person
- An exempt person

As a general rule, firms rather than individuals apply to become authorised under FSMA 2000. To this effect, an authorised (or exempt) person refers to a firm.

Individuals, on the other hand, apply to become 'approved'. This procedure is discussed later in this chapter.

It is both a criminal and civil offence to conduct unauthorised investment activity as it is a breach of the general prohibition (S19 FSMA 2000) - see Chapter 1 for details.

2.2. Authorisation

As discussed below, there are two principal types of authorisation: Part 4A permission and passporting.

Part 4A permission

Applications to the FCA under Part 4A of FSMA 2000 may be made by:

- An individual (sole trader)
- A body corporate (including a branch of a body corporate) - i.e. a company
- A partnership
- An unincorporated association (which is not an authorised person and which wishes to apply to carry on regulated activities in the UK)

The regulator (FCA or PRA) has to satisfy itself that the applicant has sufficient financial resources and management skills to undertake the relevant functions (i.e. is 'fit and proper'). Although it is firms that apply for authorisation, the regulator will also consider the fitness and properness of all individuals in a position of responsibility as well as the firm itself.

Applicants must apply in respect of each business activity they wish to pursue. Authorisation is specific, not general.

If the application is accepted, the firm will receive written notification of the decision and the regulator's register of authorised persons is updated.

Alternatively, the regulators grant authorisation subject to limitations or for a narrower scope of business than was originally requested, or may simply reject the application outright.

Threshold conditions

In order for an applicant to obtain permission, the regulator must be satisfied that it is fit and proper. In accordance with S41 FSMA, a firm must meet and continue to satisfy the following 'threshold conditions' for the activity concerned. The regulator provides guidance to the threshold conditions in the 'COND'

Sourcebook, contained within the High Level Standards block of the Handbook. Note that the threshold conditions are also restated in the Supervision Sourcebook (abbreviated to 'SUP') in the Regulatory Processes block of the Handbook.

In brackets, we have stated which regulator is responsible for assessing this threshold condition.

Legal status (PRA only)

Sets out the legal status that the applicant must have if it wishes to carry on certain regulated activities.

Location of offices (FCA for single-regulated and PRA for dual-regulated)

Provides that a company must have its head office and registered office in the UK.

Effective supervision (FCA for single-regulated and both for dual-regulated)

Relates to the effect of group companies and controlling shareholders on supervisability. The regulator must be satisfied that a controlling shareholder will not prevent the regulator from effective regulation. For these purposes, a close link is defined as a company or individual owning 20% or more of the voting capital of the applicant.

Appropriate resources (FCA for single-regulated only)

Relates to the appropriateness of an applicant's financial resources and non-financial resources such as human capital.

Appropriate non-financial resources (FCA for dual-regulated only)

Relates to the appropriateness of an applicant's non-financial resources such as human capital.

Business to be conducted in a prudent manner (PRA only)

Relates to the appropriateness of an applicant's financial resources and non-financial resources.

Fitness and propriety (suitability) of the applicant (FCA for single regulated and both for dual-regulated)

Relates to the ethical suitability of the applicant, i.e. the firm must be considered to be 'fit and proper' - in particular the management and staff of the firm must be competent.

Business model (FCA for single regulated and both for dual-regulated)

This is a new threshold condition (from 1 April 2013) requiring a firm's business strategy to be suitable for the type of firm carrying on comparable regulated activities. Matters relevant to determining the suitability of business strategies will include business model compatibility with affairs being conducted in a sound and prudent manner. The Firm will further need to conduct its activities in the interests of consumers and with the integrity of the UK financial system in mind.

Apportionment of a claims representative (PRA only)

This is relevant to insurance companies only.

Dual-regulated firms

Note that a dual-regulated firm must apply to the PRA to vary or cancel its Part 4A permission. The PRA may determine an application to vary permission only with the consent of the FCA. An FCA-only regulated firm will have to apply to the FCA to vary or cancel its Part 4A permission except where it seeks to vary its permission to include a PRA-regulated activity, in which case it must apply to the PRA.

Passporting

Another way to obtain authorisation to conduct regulated activity in the UK is to be 'passport'ed into the UK via a European Directive.

There are various directives allowing a firm already authorised in one EEA state to carry on investment business in the UK. These include:

- MiFID
- The UCITS Directive (Undertakings for Collective Investments in Transferable Securities)

The UCITS Directive allows collective investment schemes (CIS) to be passported.

MiFID allows investment services **firms** to be passported into the UK, without the need for Part 4A permission, and is discussed in detail below.

3. Markets in Financial Instruments Directive (MiFID)

3.1. Introduction

As discussed in Chapter 1 the UK regulatory framework is influenced by both UK and European law.

European law seeks to promote a single European marketplace. It achieves this via directives, which are agreed amongst member states and incorporated into the local statutory frameworks.

The main objectives of MiFID are to:

- Increase post-trade transparency across the EEA
- Ensure best execution of trades across the EEA
- Ensure cost effective execution venues are available across the EEA

MiFID allows investment services firms to be passported into the UK and throughout the EEA.

3.2. The EEA

Under the scope of MiFID, investment businesses can set up branches in other countries in the EEA without having to seek local authorisation. The arrangement is often known as 'passporting'.

The EEA comprises:

- European Union (EU) countries
- Norway
- Iceland
- Liechtenstein

For example, a German stockbroker would be able to set up a UK branch by asking its local regulator, who would in turn contact the FCA, i.e. the firm requires permission from both its home state and the FCA.

You will **not** be examined on which countries are members of the EEA.

3.3. MiFID: scope

Investment services and activities

MiFID applies to any firm whose head office and registered office are situated in the same EEA state and which conducts investment services and activities, as defined by MiFID.

These activities are often referred to as 'core' activities and include:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account
- Portfolio management

- Investment advice
- Underwriting and placing of financial instruments
- Operation of multi-lateral trading facilities (MTFs)

However, in order to acquire a passport to provide these services throughout the EEA, the activities must be conducted with regard to MiFID instruments (investments).

Instruments covered by MiFID

MiFID instruments include:

- Transferable securities, e.g. shares, bonds and CFDs
- Money market instruments
- Units in collective investment schemes
- Derivatives relating to securities, currencies, interest rates or yields
- Commodity derivatives
- Credit derivatives
- Financial contracts for differences
- Other derivatives (relating, e.g. to climate variables or other statistics)

Summary of scope

In summary, a firm conducting any activities in investments within the scope of MiFID is considered to be doing MiFID business.

For example, a UK firm offering dealing services in bonds would need Part 4A permission from the FCA, and would then be allowed to passport its services throughout the EEA as the firm is conducting MiFID business.

However, a UK firm offering advice on pensions would also need Part 4A permission from the FCA, but would **not** be able to passport its services throughout the EEA.

From this example, you can see that MiFID business does not cover the full range of business listed under the Regulated Activities Order (RAO). The most notable omissions are that retail products: mortgage business, insurance business and pension business are not considered MiFID business.

Nevertheless, MiFID business can be seen as a subsection of the business covered in the RAO.

On a final note, a firm that conducts MiFID business will be referred to as a MiFID firm. The title 'MiFID firm' is determined by the business that the firm conducts and **not** by whether or not the firm has chosen to passport that business.

Ancillary services (non-core)

Under MiFID, a firm which carries out ancillary services only will not be a MiFID firm and will, therefore, not be able to benefit from passporting its services into other member states.

However, if a firm carries on both core activities and ancillary services, it will be subject to MiFID and will be able to provide these services in other member states. Ancillary services can, therefore, be deemed 'passportable' on the condition that they are accompanied by at least one core activity.

Ancillary services include:

- Safekeeping and administration of financial instruments, including custody and related services
- Granting loans to an investor (to carry out a transaction in which the firm is involved)
- Advice to undertakings on capital structure and on mergers and acquisitions
- Foreign exchange services
- Investment research and financial analysis
- Services related to underwriting

3.4. MiFID: responsibilities of the respective regulators

Once a firm has passported its business, inevitably that firm will have responsibilities to regulators in both its **home** state and **host** state.

Home state

The home state is the state in which the firm has their registered office.

The home state regulator will take responsibility for:

- Authorisation
- Prudential supervision, such as the capital adequacy rules
- Conduct of business rules, when conducting business in the home states
- Conduct of business rules, when conducting business in the host state from an office outside that host state. This is often referred to as cross-border selling
- Client asset rules, such as the custody rules and client money rules

Host state

The host state is the state into which the firm has passported their business.

The host state regulator will take responsibility for:

- Conduct of business rules, when conducting business in the host state from a branch office in the host state
- Other rules, such as the approval of controlled functions

Note: under the FCA conduct of business rules, EEA firms permitted to operate in the UK (incoming firms) must notify retail clients in writing regarding which rules are governed by the home state.

4. Exempt persons

4.1. Introduction

Certain categories of persons carrying on regulated activities do not require any authorisation under FSMA 2000.

Such a person is called an **exempt person**, as defined by the Exemption Order.

The most important exempt persons are:

- Appointed representatives
- Recognised investment exchanges and clearing houses
- Lloyd's syndicate members
- Members of designated professional bodies
- Other exempted persons

Each category of exempt person is described below.

4.2. Appointed representatives

Large firms selling directly to the public often engage the services of self-employed representatives. These individuals are known as appointed representatives (or **tied agents**) and do not need individual authorisation from the FCA. Firms, as well as individuals, may also act as appointed representatives of a product provider, such as a life assurance company.

An appointed representative will only provide advice on the products and services of a single product provider. This contrasts with an independent financial advisor (IFA) who is permitted to advise on the marketplace as a whole. Consequently, IFAs must obtain authorisation.

The employing firm is responsible for ensuring that appointed representatives meet the 'fit and proper' criteria, and must take **complete responsibility** for their actions and omissions.

4.3. Recognised Investment Exchanges (RIEs)

Certain investment exchanges need to be **recognised** by the FCA in order to provide services to their customers. The regulators will insist on the exchange meeting 'recognition requirements' set out in FSMA 2000. These requirements include:

- High standards of integrity, sufficient financial resources and co-operation with regulators
- Business on the exchange is conducted in an orderly manner and dealings are limited to investments in which there is a proper market
- Effective monitoring and recording of transactions
- Rules setting out procedures in the event of a default by a member of the exchange
- Arrangements for investigating complaints

As recognised investment exchanges have been subject to rigorous conditions, they are exempt from the requirements of the authorisation process.

This is the current list of RIEs:

- BATS Trading
- CME Europe
- Euronext UK Markets
- London Stock Exchange (LSE)
- Liffe Administration and Management (NYSE.Liffe)
- London Metal Exchange (LME)
- ICE futures
- ICAP Securities and Derivatives Exchange (ISDX)

You will only be tested explicitly on LSE and NYSE.Liffe.

Recognised Overseas Investment Exchanges (ROIEs)

Certain overseas exchanges which can be accessed electronically from the UK are known as **recognised overseas investment exchanges (ROIEs)**.

Examples of ROIEs include:

- Nasdaq
- Chicago Mercantile Exchange (CME Group)
- Swiss Stock Exchange
- EUREX
- Australian Securities Exchange

Recognition is given by the FCA.

You will not be tested explicitly on any of these exchanges.

Designated Investment Exchanges (DIEs)

The FCA **designates** other overseas exchanges, which would have met the recognition criteria if they had been situated in the UK but are, in fact, based overseas. Examples of DIEs include the New York Stock Exchange, the Tokyo Stock Exchange and the Chicago Board Options Exchange (CBOE).

Note that DIEs are **not** exempt persons, as they do not fall under the FCA's jurisdiction in the first place.

You will not be tested explicitly on any of these exchanges.

4.4. Recognised Clearing Houses (RCHs)

Agreements to buy and sell securities take place on exchanges but the delivery of the security in return for cash will happen through a clearing house.

The previous regulator (FSA) had responsibility for recognising and supervising both RIEs and RCHs. The FSA 2012 transferred responsibility for regulating settlement systems and RCHs, collectively known as Financial Market Infrastructures (FMIs), to the Bank of England. Institutions providing both exchange services and central counterparty systems will be regulated jointly by the BoE for its RCH activities and by the FCA for its exchange services.

The Bank of England recognises five clearing houses in the UK:

- Euroclear UK and Ireland who operate the CREST system
- LCH.Clearnet
- ICE Clear Europe Limited
- CME Clearing Europe
- LME Clear

You will only be tested explicitly on Euroclear UK and Ireland and LCH.Clearnet.

4.5. Recognised Overseas Clearing Houses (ROCHs)

The Bank of England has recognised and supervises a number of Recognised Overseas Clearing Houses (ROCHs). These include:

- ICE Clear US Limited
- SIS X-clear AG
- The Chicago Mercantile Exchange [CME] Clearing

You will not be tested explicitly on any of these clearing houses.

4.6. Members of Lloyd's

Whilst the Society of Lloyd's itself requires authorisation under FSMA 2000, a **member** of a Lloyd's syndicate is an exempt person.

Note, however, that advising on syndicate participation, or managing a syndicate, would require authorisation.

4.7. Members of the professions

A person who is a member of a Designated Professional Body (DPB), e.g. an accountant or solicitor, and is carrying on incidental regulated activities, does not require authorisation.

This recognises the fact that certain professions are regulated by their own industry bodies in such a way that their customers can have confidence in their methods of conducting investment business.

Member firms of DPBs are not automatically granted exemption from authorisation, but must apply to their professional body for their licence. Furthermore, two other conditions must be met; these are:

44 Other particular exempted persons

- The firm only provides incidental investment services; and
- It does not receive remuneration in respect of the investment services it provides other than from its clients

Consequently, professional firms receiving commissions from unit trust or pension providers would require authorisation under FSMA 2000.

Authorisation would also need to be obtained where the investment activity is a distinct and separate business from the usual core activities of the firm.

4.8. Other particular exempted persons

Other particular exempt persons defined by secondary legislation include:

- Supranational bodies, e.g. the International Monetary Fund (IMF)
- Local authorities
- Housing associations
- The National Grid
- Trade unions
- The Treasury Taskforce
- The English Tourist Board
- Government organisations (e.g. the Bank of England, other central banks and the UK National Savings Bank)

In addition, charities and the Student Loans Company are exempt in respect of **deposit taking**.

5. Principles for Businesses

5.1. The Effect of the Principles for Businesses

The Principles are a general statement of the fundamental obligations of firms under the regulatory system. They derive their authority from the FCA rule-making powers as set out in the Act and reflect the regulatory objectives.

The Principles apply to every authorised firm.

The principles provide a basis on which the FCA may apply to a court for an injunction or restitution order or require a firm to make restitution. Breach of a principle does not, of itself, give rise to an action, but will be taken into account for purposes of discipline and intervention. The principles do not provide basis for actions by private persons in relation to damages.

5.2. The Principles for Businesses

The 11 Principles for Businesses are as follows (each Principle is set out in **bold letters**):

Integrity

A firm must conduct its business with integrity.

Those working in the financial services industry have responsibilities to clients, and any profit must be made fairly.

Skill care and diligence

A firm must conduct its business with due skill, care and diligence.

Work must be of a high standard.

Management and control

A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

This places emphasis on the way a firm is organised and managed.

Financial prudence

A firm must maintain adequate financial resources.

This builds in flexibility when a firm suffers losses or the economy takes a downturn.

Market conduct

A firm must observe proper standards of market conduct.

Customers' interests

A firm must pay due regard to the interests of its customers and treat them fairly.

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.

This allows clients to make reasoned decisions concerning their investments.

Conflicts of interest

A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.

One means of avoiding conflict is through the use of barriers to information flow within a firm, called **Chinese Walls**. In this way a sales team could be prevented from knowing any positions taken by a firm in order to avoid a potential conflict of interests.

Note that the use of Chinese Walls is not compulsory, as this would be unrealistic for very small firms with a minimal number of employees. Where Chinese Walls are not implemented, the firm must manage conflicts of interests in other ways, e.g. disclosure or declining to act for certain clients.

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 judgement.

Clients' assets

A firm must arrange adequate protection for clients' assets when it is responsible for them.

Relations with regulators

A firm must deal with its regulators in an open and cooperative way and must disclose to the FCA appropriately anything relating to the firm of which the FCA would reasonably expect notice.

This Principle aims to ensure that the FCA and its member firms enjoy a relationship where the FCA can be less obtrusive in its day-to-day monitoring.

5.3. Senior management arrangements, systems and controls (SYSC): Guidance on Principle 3

Purpose

SYSC - Senior Management and Arrangements, Systems and Controls - is a sourcebook found in the High Level Standards block of the FCA Handbook.

The purposes of SYSC are:

- Further guidance as to how senior management can fulfil their responsibilities under Principle for Businesses 3: to take reasonable care to organise and control the firm's affairs
- To encourage directors and senior managers of authorised firms to take appropriate responsibility for the apportionment of responsibilities systems and controls
- To vest responsibility for that control in specific directors and senior managers
- To create a common platform for this element among firms covered by the Capital Requirements Directive and MiFID

SYSC 4: General organisational requirements

- General requirements – A firm should create clear and transparent lines of responsibility

- Persons who directly direct the business – Persons responsible for controlling the firm should be of good repute and sufficiently experienced. Where the firm is an alternative investment fund (AIF) there must be at least two such managers
- Responsibility of senior personnel – A firm must appoint senior personnel in roles responsible for the implementation of regulatory controls
- Apportionment of responsibility – A firm must apportion significant responsibilities to senior managers that are clear and appropriate. A firm must also create functions responsible for apportionment and oversight

SYSC 5: Employees, agents and other relevant persons

Where a firm appoints persons, either on permanent contracts or on a temporary basis, it must do so while ensuring:

- The skills, knowledge and expertise of the persons appointed are suitable for the roles they are performing
- There must be an adequate segregation of duties to prevent conflicts of interest
- Relevant persons are made aware of procedures that must be followed
- The systems and controls must take into consideration the nature, scale and complexity of the business and must be reviewed regularly

SYSC 6: Compliance, internal audit and financial crime

A firm must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the firm including its managers, employees and appointed representatives (or where applicable, tied agents) with its obligations under the regulatory system and for countering the risk that the firm might be used to further financial crime.

The compliance function must also be available to advise and assist those responsible for carrying out regulated activities to comply with the firm's obligations under the regulatory system.

SYSC: Other requirements

A firm must also establish and maintain systems and controls for the monitoring and managing of risk control (SYSC 7), outsourcing of roles (SYSC 8), record keeping (SYSC 9) and conflicts of interest (SYSC 10). The risk control is then amplified in SYSC 12, 13, and 14.

SYSC: Whistleblowing

Purpose

The whistleblowing provisions aim to:

- Remind firms of the provisions of the Public Interest Disclosure Act 1998 (PIDA)
- Encourage firms to consider adopting and communicating to workers appropriate internal procedures for handling workers' concerns

Effect of PIDA

Under PIDA, any clause or term between a worker and his employer precluding the worker from making a protected disclosure ('blowing the whistle') is void.

A protected disclosure is a qualifying disclosure (one made in good faith) that tends to show that one or more of the following ('a failure') has been, is being, or is likely to be, committed:

- A criminal offence
- A failure to comply with any legal obligation
- A miscarriage of justice
- The putting of the health and safety of any individual in danger
- Damage to the environment
- Deliberate concealment relating to any of the above

Links to fitness and propriety

The FCA would regard as a serious matter any evidence that a firm had acted to the detriment of a worker because he/she had made a protected disclosure. Such evidence would call into question the fitness and propriety of the firm or relevant members of staff.

6. Controlled functions and approved persons

6.1. Controlled functions

Introduction

In total there are 18 controlled functions listed in Section 10 of the Supervision Sourcebook ('SUP 10'), which is contained within the Regulatory Processes block of the Handbook. (Although CF7 has been deleted, the FCA has not renumbered the remaining functions. So, for example, CF11 prior to the deletion of CF7 is not now CF10.) As previously described, all individuals carrying out a controlled function must be assessed as fit and proper under the approved persons regime.

If a person wishes to change functions, this will usually require a new approval. The firm has a duty to inform the FCA in writing within seven days (Form C) if an approved person ceases to perform a controlled function.

Controlled functions are grouped together under five main headings below.

Note that all functions, except those in the category of customer functions, are classed as **significant influence functions**.

For dual-regulated firms, the FCA and PRA share oversight of controlled functions.

Governing functions

(CF 1)* Director: includes 'shadow directors', e.g. directors of a holding company who may direct the directors of the firm.

(CF 2)* Non-executive director: does not undertake day-to-day executive responsibilities, but takes a broad view of the direction of the business.

(CF 3)* Chief executive: leads other directors and carries ultimate responsibility.

(CF 4)* Partner: excludes limited partners.

(CF 5)* Director of unincorporated association.

(CF 6)* Member of governing body of a small friendly society (a 'small friendly society' is a body that offers investors tax efficient savings).

Required functions

Note that it is **compulsory** for the firm to appoint someone to the following:

(CF 8) Apportionment and oversight: directors and senior managers responsible for apportioning responsibilities among staff and overseeing the establishment and maintenance of internal controls.

(CF 10) Compliance oversight: directors and senior managers responsible for compliance.

(CF10A) CASS oversight operation function.

(CF 11)* Money Laundering Reporting Officer (MLRO): the central contact internally and externally for money laundering issues.

(CF 12)* Appointed actuary: only applicable to PRA-regulated firms.

(CF 12A)* With-profits actuarial function

(CF 12B)* Lloyd's actuarial function

Systems and controls functions

(CF 28)* Systems and controls function: employee responsible for reporting to the governing body about the firm's financial affairs, its risk exposure and its internal systems and controls, procedures and policies.

Significant management functions

(CF 29) Significant management function.

In most firms, the people carrying out governing functions (i.e. the directors) and/or the systems and control functions will also be carrying out the managerial functions.

The requirement to identify individuals carrying out a significant management function is only in larger firms where there is a level of management able to influence the firm despite being below board level.

FCA guidance suggests that it is unlikely to be necessary for firms with less than 100 approved persons and/or insurance companies with gross premiums below £100m.

Where the requirement does exist, the following activities represent a significant management function:

- Designated investment business: senior managers responsible for investment services activities, e.g. head of equities
- Other business operations: senior managers responsible for non-investment services, e.g. head of retail banking
- Insurance underwriting: senior managers responsible for effecting contracts of insurance
- Financial resources: senior managers responsible for committing the firm's financial resources, e.g. acquisition of assets and overall financial planning
- Settlements: senior managers responsible for back office functions

Customer functions

(CF 30) Customer functions: covers employees who perform the functions of:

- Trainee investment advisor
- Corporate finance advisor
- advisor on syndicate participation at Lloyd's
- Customer trading
- Investment manager

Libor functions

(CF 40) Benchmark submission function

(CF 50) Benchmark administration function

Dual-regulated firms

For dual-regulated firms, the FCA and PRA share oversight of controlled functions. The asterisked functions above fall under the remit of the PRA in dual-regulated firms.

6.2. Approved persons

Approved person status: criteria

If a firm appoints an individual to perform a 'controlled function', it must also apply to the relevant regulator to grant approved person status for that individual.

The approved person regime is limited by FSMA 2000 to those who:

- Exert significant influence over the firm
- Deal with customers
- Deal with the property of customers

Note that 'deal' does not just mean undertake a transaction. Dealing with customers includes employees who have a relationship with customers and talk to them concerning a controlled function.

Firms who use non-approved persons to carry out controlled functions are liable to be sued under S71 FSMA 2000.

Fit and proper test

The FCA will only grant approved person status if the individual is fit and proper to undertake controlled functions.

When considering whether an individual is fit and proper, the FCA will take into account the activities of the firm and the markets in which it operates. For example, a person may be fit and proper to deal with market professionals but not private consumers.

The FCA has the right to discuss any application with the firm submitting the application on behalf of an employee and the right to retain notes on any discussions held.

In assessing fitness and propriety the FCA considers:

Honesty, integrity and reputation

- Criminal convictions, including old (spent) convictions as defined by the Rehabilitation of Offenders Act 1974
- Civil findings relating to financial activities
- Discipline by the FCA or other regulators
- Complaints which have been upheld
- Involvement in a company that has gone into liquidation
- Honesty and openness in dealing with the FCA
- Breaches of industry rules, e.g. FCA rules

The FCA is also entitled to look back into the last five years of a person's employment history in order to evaluate their suitability.

Competence and capability

- Exam success in appropriate qualifications
- Experience and training

Financial soundness

- Breach of a court order requiring the payment of debts
- Bankruptcy

Approval is either granted or withheld. There is no such thing as conditional approval.

After resigning as an approved person, an individual is still liable to disciplinary action from the FCA for a period of **three years**.

Where an approved person ceases to perform a controlled function, the firm must notify the FCA within **seven business days**.

Withdrawal of approval

Where the FCA believes that an individual is no longer fit and proper, it may withdraw its approval.

If the FCA decides to withdraw approval it will inform the individual by issuing a warning notice followed by a decision notice.

7. Training and Competence (TC) and the Retail Distribution Review (RDR)

7.1. Training and Competence (TC)

Introduction

The purpose of the Training and Competence (TC) Sourcebook is to define the standards that firms should achieve. The FCA then expects firms to make their own arrangements to meet these standards.

It is important to recognise the links with other parts of the FCA Handbook such as SYSC and APER, which also cover the responsibilities of approved persons in relation to systems and controls and ensuring competent staff.

S59 FSMA requires firms to take reasonable care that no person performs a controlled function without approval from the relevant regulator. Before the regulator can grant an application for such approval, it must be satisfied that the person is fit and proper. Under S61 of FSMA the fit and proper test for those requiring approval includes assessing qualifications, training and competence.

Competence means having the skills, knowledge and expertise needed to discharge the responsibility of an employee's role. This includes achieving a good standard of ethical behaviour.

Assessing and maintaining competence

Assessment of competence and supervision

A firm must not allow an employee to carry on a prescribed activity without appropriate supervision.

Where an employee is giving advice in packaged products to retail clients and has not been assessed as competent to do so, the firm must ensure that the individual supervising and assessing that employee has passed an appropriate exam.

Examination requirements before starting activities

A firm must ensure that an employee does not carry on a prescribed activity (other than an overseeing activity) for which there is an examination requirement without first passing the relevant regulatory module of an appropriate examination.

A firm must ensure that an employee does not carry on any of the following activities without first passing each module of an appropriate examination:

- 'Advising and dealing' activities (as prescribed)
- The activity of a broker fund advisor
- Advising on syndicate participation at Lloyd's
- The activity of a pension transfer specialist

A firm should select an appropriate examination from the list maintained by the FCA.

Exemptions from the requirements

There are certain circumstances where a firm would not need to follow the examination requirements set out above. These conditions are that a firm should be satisfied that an employee:

- Has at least three years' relevant experience overseas
- Has not needed to pass the examinations previously
- Has passed the relevant regulatory module of an appropriate exam

The latter two conditions do not apply to someone benefiting from the 30-day rule. This is where an employee performs a function whilst based overseas and spends no more than 30 days in the UK during any 12 months. Nevertheless, this person will need to be supervised by an appropriately approved person.

Record keeping

A firm must make appropriate records to demonstrate compliance with the rules on TC and keep them for the following periods after an employee stops carrying on the activity:

- Five years - MiFID business
- Three years - non-MiFID business
- Indefinitely - pension transfer specialist

7.2. The Retail Distribution Review (RDR)

Professionalism standards for investment advisors

The Retail Distribution Review was a review of retail advice in the UK. The result of the review led to retail investment advisors needing to increase their level of professionalism and knowledge, with the aim of improving trust in the retail investment sector. It focused on four main improvements and took effect on 1st January 2013.

Ethical standards

Ethical standards are essential in the financial services, where a large number of the population invest their hard-earned savings in an industry they do not fully understand, and possibly do not trust. Maintaining a high level of ethics in financial advice is seen as a way to enhance the perception of professionalism.

A higher level of qualification

In order to emphasise the level of professionalism in the retail advice sector, advisors are required to hold a relevant qualification of at least Level 4, as stated by Ofqual. Professional bodies, including CFA Society of the UK, created qualifications to meet this requirement. The qualification taken and passed by the advisor not only needed to meet the level of difficulty required, but also the specific focus, including ethical standards. For those that held a sufficient level of qualification, but one that did not cover all the areas necessary, there was the ability to fill the gaps with gap-fill study. The full list of qualifications and gap-fill requirements is managed by the FCA and is available in their handbook.

Continuous professional development (CPD)

Once an advisor has attained a level of knowledge, they need to actively maintain that level of knowledge through CPD. Advisors need to complete a minimum of 35 hours of CPD each year. 21 of these hours should be structured learning including courses, seminars and appropriate e-learning.

Statement of Professional Standing (SPS)

Statements of Professional Standing (SPS) are a requirement for all retail advisors and are awarded by accredited bodies.

Before awarding the SPS, accredited bodies will ensure advisors follow an appropriate code of ethics, and check that they hold an appropriate qualification. They will ensure advisors meet CPD requirements, through sample checks (at least 10%). Most accredited bodies also offer services to help record CPD, although there is no requirement for the advisors to use these.

Firms employing retail advisors are required to submit data to the FCA every 12 months about each advisor. This data will include details on the advisor's honesty, integrity and professionalism, including any complaints or problems with the advisor. Accredited bodies also feed back to the FCA of advisors who no longer meet the standards required to obtain the SPS – failure to attain the appropriate CPD for example.

Failure to meet or continue to meet these standards will result in the FCA preventing the advisor from making personal recommendations to retail customers.

Advisor charging

Introduction

Since the end of 2012, new rules have governed those firms making personal recommendations to retail clients. The rules cover both independent and restricted advisors (but not basic advice) in the UK who offer advice in a retail investment product.

Elimination of commission-based advice

A key element of these rules is a prohibition of advisors receiving product provider commission. This was deemed to distract the advisor firm from its duty to the client and focus instead on the commission available.

Under the RDR regime, an advisor firm must not solicit or receive any commission from the provider of a retail investment product being recommended by the advisor. The prohibition also extends to other services linked with the advice, such as arranging or administering the transaction. Reciprocal to this is a ban on the product providers offering or paying commissions to advisors.

Instead of commissions, the advisor firm will be paid an advisor charge, which has been agreed in advance by the client.

Advisor charges

The RDR rules require firms to work out an appropriate structure for charges when calculating the advisor charge. It is acceptable for this to be in a standard format like a 'price list' and not specifically tailored for each client.

This charging structure must be disclosed to the client in writing 'in good time' before any advice or related services are given. In conjunction with the client's best interest rule, this information should be made in 'clear and plain language'.

The total advisor charge payable must be disclosed and agreed with the client 'as early as practicable' in a durable medium or via a website. Clients can then choose to pay the advisor charge upfront or have it deducted from their investment. If the client chooses to have it deducted from their investment, they must be informed of how much will be invested and what impact the deduction will have on any cancellation procedures.

Records

Firms are required to retain records of their charging structure and the total advisor charge payable by each client. If the charge greatly differs from the charging structure, the reasons for the discrepancy should be adequately recorded.

Application

The RDR rules will apply equally to:

- Independent advice – IFAs. These independent advisors will have to have knowledge of all retail investment products and not just packaged products
- Restricted advice – These are not independent and could be tied to one product provider or /multi-tied

The new rules do not apply to:

- Basic advice (advice on stakeholder products using pre-scripted questions) where advisors will still have the ability to earn commission on sales
- Non-advised services
- Execution-only sales
- Advice on stocks and shares or structured deposits

8. Statements of Principle

The FCA has also set out **seven** Statements of Principle with which approved persons (individuals) must comply:

Table 1. Statements of Principle

Statement of Principle	Possible breaches
1. Act with integrity in carrying out controlled function	Deliberately misleading by act or omission
	Deliberately recommending an unsuitable investment
	Deliberately failing to disclose a conflict of interest
2. Act with due skill, care and diligence in carrying out controlled function	Failing to inform clients or the firm of material information
	Undertaking transactions without understanding the risks
	Continuing to perform a controlled function having failed to meet the appropriate standards
3. Observe proper standards of market conduct in carrying out controlled function	Failure to comply with the Code of Market Conduct
4. Deal with the FCA and with other regulators in an open and cooperative way and disclose appropriately any information of which the FCA would reasonably expect notice	Failure to report promptly
	Failure to inform or assist the regulator when necessary
Statements of Principle 5-7 apply to significant influence function only	
5. When performing a significant influence function, take reasonable steps to ensure that the business of the firm is organised so that it can be controlled effectively	Failure to clearly set out and communicate the organisation of the business and the responsibilities of staff
	Failure to carefully review the role of staff who perform unsatisfactorily
6. When performing a significant influence function, exercise due skill, care and diligence in managing the business of the firm	Failure to keep up-to-date with events affecting their area of responsibility
	Delegating authority without checking the competence of the delegate
	Failure to supervise and monitor a person who has been delegated responsibility
7. When performing a significant influence function, take reasonable steps to ensure that the business of the firm complies with the relevant requirements and standards of the regulatory system	Failure to ensure that the business has operating procedures and systems which comply with the regulatory environment
	Failure to take timely and appropriate steps to deal with actual or suspected problems

Customer functions have to comply with the Statements of Principle 1 to 4 only. Significant influence functions have to comply with **all seven** of the Statements of Principle.

Note that an individual who breaches one or more of the Statements of Principle can be disciplined **without** the firm as a whole being disciplined. For example, an individual may mislead a client about the likely performance of an investment by providing inappropriate projections of future investment returns, despite appropriate procedures put in place by the firm. This would breach Principle 1: Integrity.

The FCA has issued a Code of Practice for Approved Persons (the Code). This sets out examples of behaviour which do not comply with the Code. The examples are not exhaustive and the descriptions only have the status of evidential provisions.

9. Code of Ethics and Professional Standards

9.1. Introduction

The CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards) are fundamental to the values of the CFA Institute and essential to achieving its mission to lead the investment profession globally by setting high standards of education, integrity, and professional excellence. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession.

Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations.

All CFA Institute members (including holders of the Chartered Financial Analyst® (CFA®) designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by the CFA Institute. Sanctions can include revocation of membership, candidacy in the CFA Program, and the right to use the CFA designation.

9.2. The Code of Ethics

Members of CFA Institute (including Chartered Financial Analyst® (CFA®) charterholders) and candidates for the CFA designation ('Members and Candidates') must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets
- Place the integrity of the investment profession and the interests of clients above their own personal interests
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession
- Promote the integrity of, and uphold the rules governing, capital markets
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals

9.3. Standards of Professional Conduct

I. Professionalism

A. Knowledge of the Law

Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organisation, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or

regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity

Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation

Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct

Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. Integrity of capital markets

A. Material Non-public Information

Members and Candidates who possess material non-public information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation

Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. Duties to clients

A. Loyalty, Prudence, and Care

Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

B. Fair Dealing

Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability

1. When Members and Candidates are in an advisory relationship with a client, they must:

- Make a reasonable inquiry into a client's or prospective clients' investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly
- Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action

- Judge the suitability of investments in the context of the client's total portfolio
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio

D. Performance Presentation

When communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality

Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client.
2. Disclosure is required by law.
3. The client or prospective client permits disclosure of the information.

IV. Duties to employers

A. Loyalty

In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements

Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors

Members and Candidates must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority.

V. Investment analysis, recommendations, and action

A. Diligence and Reasonable Basis

Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analysing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients

Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyse investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
3. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention

Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment related communications with clients and prospective clients.

VI. Conflicts of interest

A. Disclosure of Conflicts

Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions

Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees

Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

VII. Responsibilities as a CFA Institute Member or CFA Candidate

A. Conduct as Members and Candidates in the CFA Program

Members and Candidates must not engage in any conduct that compromises the reputation or integrity of the CFA Institute or the CFA designation or the integrity, validity, or security of the CFA examinations.

B. Reference to CFA Institute, the CFA designation, and the CFA Program

When referring to the CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in the CFA Institute, holding the CFA designation, or candidacy in the CFA Program.

9.4. Ethics in the investment industry

Professionalism goes beyond compliance

Of course it is very important that all participants in the financial services follow regulatory and legal stipulations in their relationships with clients and counterparties. However, it is also very important that participants understand the requirement to act with the highest levels of professional standards. This

includes following professional codes of conduct, such as that of the CFA detailed the previous section of this manual.

One of the most famous avowals of the application of ethical standards at both an individual and corporate level was the Latin motto of the old London Stock Exchange, *Dictum meum pactum* (My word is my bond). What these short words intend to say is: you can trust me/us. There is no qualification, there is no small print, and there is no attempt to provide wriggle-room.

Another way of putting this sentiment is to memorise the following rule-of-thumb:

- Client first
- Firm second
- Self third

At the individual level, sections III and VI of the CFA Standards of Professional Conduct remind us of our ethical responsibilities towards our clients, over and above complying with the regulatory framework and our legal responsibilities. In addition, if you are guided by ethical principles, compliance with regulation is much easier!

Ethics vs. Compliance

Most of the financial services industry is heavily regulated in order to ensure clients are protected from mistreatment by more experienced practitioners. However, past experience in regulation suggests that prescriptive standards have been unable to prevent misconduct. The ever-expanding rule books, designed to prevent misdemeanour, have not stopped further mis-selling, market misconduct or any other detrimental activity.

Is unethical behaviour a product of the individual or the environment in which they operate?

There are strong arguments in favour of the latter, which is why corporate responsibility and ethical behaviour are strongly linked. This syllabus focuses in detail on the regulatory and legislative side of the financial services. However, it also covers areas of corporate responsibility, such as the Model Code, the Combined Code for Corporate Governance and the Stewardship Code. These codes actively encourage all stakeholders in business to 'do the right thing', and all agree that it must become part of the corporate culture from the top down, for independent directors and internal policies, in order to work. This should not, however, take away from the personal responsibility of the individual.

The key difference between ethics and compliance is summarised below:

Table 2.

Ethics	Compliance
Prevention	Detection
Principles-based	Laws/rules-based
Values-driven	Fear-driven
Implicit	Explicit
Spirit of the law	Letter of the law
Discretionary	Mandatory

Why do people behave unethically?

Firms should look at their corporate culture to identify whether the internal structures could lead to unethical behaviour. For example:

- A culture of paying 'lip-service' to non-regulatory issues
- Failure to segregate responsibilities leading to conflicts of interest
- Bonuses structured purely on amount sold, rather than the suitability of what was sold
- Lack of personal accountability
- Lack of monitoring of adherence to policies

Problems of unethical behaviour

Failure to meet client needs through unethical behaviour can impact on the financial services industry in general – for example, lack of confidence from the investors – and more specifically on individual firms – for example, damage to reputation.

The more general impact on the industry can lead to a stagnation in the economy and reactions in the government's fiscal stance on spending and taxation that could cause the economy to suffer more.

The damage to the reputation of individual firms will clearly impact on client retention, but also staff retention – most individuals are averse to being associated with unethical behaviour. It could also, in extreme cases lead to loss of regulated status.

Good ethical practice

Firms that display a good ethical culture will push this from the top. This can be done through:

- The board's commitment to ethical practices in their business model
- Appointing a senior manager to oversee ethical behaviour
- Implementing, publicising and enforcing ethical policies
- Identifying and rewarding ethical good practice

10. Summary

10.1. Key concepts

Authorised persons

- LO 3.3.5 – The procedures for authorisation of firms, including knowledge of the threshold conditions and liaison with the PRA where relevant

Markets in Financial Instruments Directive (MiFID)

- LO 3.1.3 – The purpose and scope of the Markets in Financial Instruments Directive (MiFID) with respect to: passporting, roles of the home state and host state, core and non-core investment services, financial instruments covered by the legislation

Exempt persons

- LO 3.2.3 - The scope of the Financial Services and Markets Act (FSMA) 2000 (as amended by the Financial Services Act 2012) (Exempt persons)
- LO 3.4.2 – The need for, and relevance of, investment exchanges needing to be recognised by the FCA
- LO 3.4.3 – How the Bank of England regulates clearing houses
- LO 3.4.4 – The recognised investment exchanges and clearing houses in the UK

Principles for Businesses

- LO 3.3.3 – The FCA's Principles for Businesses and explain their application and purpose
- LO 3.3.4 – The consequences of breaching the FCA's Principles of Businesses
- LO 3.2.5 – The purpose and scope of the FCA's rules regarding Senior Management Arrangements, Systems and Controls (SYSC)

Controlled functions and approved persons

- LO 3.3.10 - A controlled function and identify the types of controlled functions defined within the FCA
- LO 3.3.8 - The application procedure for an Approved Person (SUP 10) and how the PRA may also be involved
- LO 3.3.7 - The main assessment criteria in the FCA's Fit and Proper Test for Approved Persons (FIT)
- LO 3.3.9 - The procedure for an Approved Person moving within a group and how the PRA may also be involved (SUP 10)

Statements of Principle

- LO 3.3.6 - An Approved Person and the application and purpose of the Statements of Principle and Code of Practice for Approved Persons (APER)

Training and competence and the retail distribution review

- LO 3.3.11 - The requirements relating to training and competence (TC 1-3)

- LO 3.3.12 - The professionalism requirements that have to met by retail investment advisers and investment managers (TC 1-3)
- LO 3.5.17 - The rules on adviser charging and remuneration (COBS 6.3 & 6.4)
- LO 3.5.24 - Independent advice and restricted advice (COBS 6.2A)

Code of ethics and professional standards

- LO 2.2.1 - The elements of the CFA Code of Ethics and Standards of Professional Conduct
- LO 2.2.2 - The professional principles and values on which the CFA Code of Ethics and Standards of Professional Conduct is based
- LO 2.2.3 - The CFA Code of Ethics and Standards of Professional Conduct to a range of ethical dilemmas
- LO 2.1.1 - The need for ethics in the investment industry
- LO 2.1.2 - The ethical obligations to clients, prospective clients, employers and co-workers
- LO 2.1.3 - Positive and negative behavioural indicators

Now you have finished this chapter you should attempt the chapter questions.