

The Enforcement Guide

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1. Introduction

1.1 **FCA** This guide describes the *FCA's* approach to exercising the main enforcement powers given to it by the Financial Services and Markets Act 2000 (the *Act*) and by regulation 12 of the *Unfair Terms Regulations*. It is broken down into two parts. The first part provides an overview of enforcement policy and process, with chapters about the *FCA's* approach to enforcement (chapter 2), the use of its main information gathering and investigation powers under the *Act* (chapter 3), the conduct of investigations (chapter 4), settlement (chapter 5) and publicity (chapter 6). The second part contains an explanation of the *FCA's* policy concerning specific enforcement powers such as its powers to: vary a *firm's Part 4A permission* and impose requirements on its own initiative (chapter 8); make *prohibition orders* (chapter 9); prosecute criminal offences (chapter 12); and powers which the *FCA* has been given under legislation other than the *Act* (chapter 19).

1.2 **FCA** In the areas set out below, the *Act* expressly requires the *FCA* to prepare and publish statements of policy or procedure on the exercise of its enforcement and investigation powers and in relation to the giving of *statutory notices*.

- (1) section 63C requires the *FCA* to publish a statement of its policy on the imposition, and amount, of financial penalties on *persons* that perform a *controlled function* without approval;
- (1A) sections 69 and 210 require the *FCA* to publish statements of policy on the imposition of financial penalties, suspensions or restrictions on *firms, approved persons* and *unauthorised persons* to whom section 404C applies, the amount of financial penalties imposed, and the period for which suspensions or restrictions are to have effect;
- (1B) section 88C requires the *FCA* to publish a statement of policy on the imposition of financial penalties, suspensions or restrictions on *sponsors*, the amount of financial penalties imposed, and the period for which suspensions or restrictions are to have effect;
- (1C) section 89S requires the *FCA* to publish a statement of policy on the imposition of financial penalties, suspensions or restrictions on *primary information providers*, the amount of financial penalties imposed, the time period for any suspensions or restrictions, and the matters in relation to which, suspensions or restrictions are to have effect;
- (2) section 93 requires the *FCA* to publish a statement of its policy on the imposition, and amount, of financial penalties under section 91 of the *Act* (penalties for breach of Part 6 rules);
- (3) section 124 requires the *FCA* to publish a statement of its policy on the imposition, and amount, of financial penalties for *market abuse*;
- (3-A) section 131FA requires the *FCA* to publish a statement of its policy on the conduct of certain interviews in response to requests from *EEA regulators*; and
- (3A) section 131J requires the *FCA* to publish a statement of its policy on the

imposition, and amount, of financial penalties imposed under section 131G;

- (4) section 169 requires the *FCA* to publish a statement of its policy on the conduct of certain interviews in response to requests from *overseas regulators*; and
- (4A) section 192N requires the *FCA* to publish a statement of its policy on the imposition, and amount, of financial penalties on qualifying parent undertakings under section 192K of the *Act*;
- (4B) section 312J requires the *FCA* to publish a statement of its policy on the imposition, and amount, of financial penalties on *recognised investment exchanges* under section 312F of the *Act*;
- (4C) section 345D requires the *FCA* to publish a statement of its policy on the imposition, and amount, of financial penalties on *auditors* and actuaries under sections 249 and 345 of the *Act*; and
- (5) section 395 requires the *FCA* to issue a statement of procedures relating to:
 - (a) the giving of *supervisory notices*, *warning notices* and *decision notices*;
 - (b) the giving of consent to the *PRA* in respect of applications made to the *PRA* for *Part 4A permission*, variation of *Part 4A permission* and approval to hold *controlled functions*; and
 - (c) the publishing of information about matters to which certain *warning notices* relate.

These policies are set out in the Decision Procedure and Penalties manual (*DEPP*), a module of the *FCA Handbook*. References to the policies are made at appropriate places in the guide.

- 1.3 FCA This guide includes material on the investigation, disciplinary and criminal prosecution powers that are available to the *FCA* when it is performing functions as the competent authority under Part VI of the *Act* (Official listing). The *Act* provides a separate statutory framework within which the *FCA* must operate when it acts in that capacity. When determining whether to exercise its powers in its capacity as competent authority under Part VI, the *FCA* will have regard to the matters and objectives which apply to the competent authority function.
- 1.4 FCA The *FCA* has a range of enforcement powers, and in any particular enforcement situation, the *FCA* may need to consider which power to use and whether to use one or more powers. So in any particular case, it may be necessary to refer to a number of chapters of the guide.
- 1.5 FCA Since most of the *FCA*'s enforcement powers are derived from it, this guide contains a large number of references to the *Act*. Users of the guide should therefore refer to the *Act* as well as to the guide where necessary. In the event of a discrepancy between the *Act*, or other relevant legislation, and the description of an enforcement power in the guide, the provisions of the *Act* or the other relevant legislation prevail. Defined terms used in the text are shown in italic type. Where a word or phrase is in italics, its definition will be the one used for that word or phrase in the glossary to the *FCA Handbook*.
- 1.6 [deleted]

1.7 This guide will be kept under review and amended as appropriate in the light of further experience and developing law and practice.

FCA

1.8 The material in this guide does not form part of the *FCA Handbook* and is not *guidance on rules*, but it is 'general guidance' as defined in section 139B of the *Act*. If you have any doubt about a legal or other provision or your responsibilities under the *Act* or other relevant requirements, you should seek appropriate legal advice from your legal adviser.

FCA

2. The FCA's approach to enforcement

2.1 The *FCA's* effective and proportionate use of its enforcement powers plays an important role in the pursuit of its *statutory objectives*, including its operational objectives of securing an appropriate degree of protection for *consumers*, protecting and enhancing the integrity of the *UK financial system*, and promoting effective competition in the interests of *consumers*. For example, using enforcement helps to contribute to the protection of *consumers* and to deter future contraventions of *FCA* and other applicable requirements and *financial crime*. It can also be a particularly effective way, through publication of enforcement outcomes, of raising awareness of regulatory standards.

FCA

2.2 There are a number of principles underlying the *FCA's* approach to the exercise of its enforcement powers:

FCA

- (1) The effectiveness of the regulatory regime depends to a significant extent on maintaining an open and co-operative relationship between the *FCA* and those it regulates.
- (2) The *FCA* will seek to exercise its enforcement powers in a manner that is transparent, proportionate, responsive to the issue, and consistent with its publicly stated policies.
- (3) The *FCA* will seek to ensure fair treatment when exercising its enforcement powers.
- (4) The *FCA* will aim to change the behaviour of the *person* who is the subject of its action, to deter future non-compliance by others, to eliminate any financial gain or benefit from non-compliance, and where appropriate, to remedy the harm caused by the non-compliance.

2.3 Enforcement is only one of a number of regulatory tools available to the *FCA*. As a risk based regulator with limited resources, throughout its work the *FCA* prioritises its resources in the areas which pose the biggest threat to its *statutory objectives*. This applies as much to the enforcement tool as it does to any other tool available to it. The next section of this chapter summarises how in practice the *FCA* takes a risk based approach towards its use of the enforcement tool, and the subsequent sections comment on other aspects of the *FCA's* approach to enforcement.

FCA

2.4 Where a *firm* or other *person* has failed to comply with the requirements of the *Act*, the *rules*, or other relevant legislation, it may be appropriate to deal with this without the need for formal disciplinary or other enforcement action. The proactive supervision and monitoring of *firms*, and an open and cooperative relationship between *firms* and their supervisors, will, in some cases where a contravention has taken place, lead the *FCA* to decide against taking formal disciplinary action. However, in those cases, the *FCA* will expect the *firm* to act promptly in taking the necessary remedial action agreed with its supervisors to deal with the *FCA's* concerns. If the *firm* does not do this, the *FCA* may take disciplinary or other enforcement action in respect of the original contravention.

FCA

Case selection: Firms and approved persons, market abuse cases and listing matters

- 2.5 Other than in the area of a *firm's* failure to satisfy the *FCA's Threshold Conditions* for authorisation (as to which, see paragraph 2.11), the selection method for cases involving *firms* and *approved persons*, *market abuse* and listing matters (for example, breaches of the listing, prospectus or disclosure *rules*) occurs at two main levels:
- FCA**
- (1) strategic planning; and
 - (2) decisions on individual cases.
- 2.6 The *FCA* does not have a set of enforcement priorities that are distinct from the priorities of the *FCA* as a whole. Rather, the *FCA* consciously uses the enforcement tool to deliver its overall strategic priorities. The areas and issues which the *FCA* as an organisation regards as priorities at any particular time are therefore key in determining at a strategic level how enforcement resource should be allocated. *FCA* priorities will influence the use of resources in its supervisory work and as such, make it more likely that the *FCA* will identify possible breaches in these priority areas. Further, should evidence emerge of potential breaches, these areas are more likely to be supported by enforcement action than non-priority areas.
- FCA**
- 2.7 One way in which the *FCA* focuses on priority areas is through its thematic work. This work involves the *FCA* looking at a particular issue or set of issues across a sample of *firms*. Themes are, in general, selected to enable the *FCA* to improve its understanding of particular industry areas or to assess the validity of concerns the *FCA* has about risks those areas may present to the *statutory objectives*. Thematic work does not start with the presumption that it will ultimately lead to enforcement outcomes. But if the *FCA* finds significant issues, these may become the subject of enforcement investigations as they would if the *FCA* had discovered them in any other circumstance. Also, by definition, the fact they are in areas that are of importance to the *FCA* means, following the *FCA's* risk-based approach through, that they are proportionately more likely to result in the *FCA* determining that an enforcement investigation should be carried out than issues in lower priority areas.
- FCA**
- 2.8 This does not mean that the *FCA* will only take enforcement action in priority strategic areas. There will always be particularly serious cases where enforcement action is necessary, ad hoc cases of particular significance in a markets, *consumer* protection or *financial crime* context, or cases that the *FCA* thinks are necessary to achieve effective deterrence.
- FCA**
- 2.9 The combination of the priority given to certain types of misconduct over others and the *FCA's* risk-based approach to enforcement means that certain cases will be subject to enforcement action and others not, even where they may be similar in nature or impact. The *FCA's* choice as to the use of the enforcement tool is therefore a question of how the *FCA* uses its resources effectively and efficiently and how it ensures that it is an effective regulator.
- FCA**
- 2.10 Before it proceeds with an investigation, the *FCA* will satisfy itself that there are grounds to investigate under the statutory provisions that give the *FCA* powers to appoint investigators. If the statutory test is met, it will decide whether to carry out an investigation after considering all the relevant circumstances. To assist its consideration of cases, the *FCA* has developed a set of assessment criteria. The current criteria (which are published
- FCA**

on the Enforcement section of the *FCA* web site¹) are framed as a set of questions. They take account of the *FCA*'s *statutory objectives*, its strategic/supervision priorities (see above) and other issues such as the response of the *firm* or individual to the issues being referred. Not all of the criteria will be relevant to every case and there may be other considerations which are not mentioned in the list but which are relevant to a particular case. The *FCA*'s assessment will include considering whether using alternative tools is more appropriate taking into account the overall circumstances of the *person* or *firm* concerned and the wider context. Another consideration will be whether the *FCA* is under a Community obligation to take action on behalf of, or otherwise to provide assistance to, an authority from another *EU* member state. Paragraph 2.15 discusses the position where other authorities may have an interest in a case.

Case selection: Threshold Conditions cases

- 2.11 FCA The *FCA* often takes a different approach to that described above where *firms* no longer meet the *threshold conditions*. The *FCA* views the *threshold conditions* as being fundamental requirements for *authorisation* and it will generally take action in all such cases which come to its attention and which cannot be resolved through the use of supervisory tools. The *FCA* does not generally appoint investigators in such cases. Instead, *firms* are first given an opportunity to correct the failure. If the *firm* does not take the necessary remedial action, the *FCA* will consider whether its *permission* to carry out regulated business should be varied and/or cancelled. However, there may be cases where the *FCA* considers that a formal investigation into a *threshold conditions* concern is appropriate.

Case selection: Unauthorised business

- 2.12 FCA Where this poses a significant risk to the *consumer* protection objective or to the *FCA*'s other *regulatory objectives*, *unauthorised* activity will be a matter of serious concern for the *FCA*. The *FCA* deals with cases of suspected *unauthorised* activity in a number of ways and it will not use its investigation powers and/or take enforcement action in every single instance
- 2.13 FCA The *FCA*'s primary aim in using its investigation and enforcement powers in the context of suspected *unauthorised* activities is to protect the interests of *consumers*. The *FCA*'s priority will be to confirm whether or not a *regulated activity* has been carried on in the United Kingdom by someone without *authorisation* or exemption, and, if so, the extent of that activity and whether other related contraventions have occurred. It will seek to assess the risk to *consumers'* assets and interests arising from the activity as soon as possible.
- 2.14 FCA The *FCA* will assess on a case-by-case basis whether to carry out a formal investigation, after considering all the available information. Factors it will take into account include:
- (1) the elements of the suspected contravention or breach;
 - (2) whether the *FCA* considers that the *persons* concerned are willing to co-operate with it;
 - (3) whether obligations of confidentiality inhibit individuals from providing information unless the *FCA* compels them to do so by using its formal powers;

¹ <http://www.fca.org.uk/firms/being-regulated/enforcement/how-we-enforce-the-law/referral-criteria>

- (4) whether the *person* concerned has offered to undertake or undertaken remedial action.

Cases where other authorities have an interest

- 2.15 **FCA** Action before or following an investigation may include, for example, referring some issues or information to other authorities for consideration, including where another authority appears to be better placed to take action. For example, when considering whether to use its powers to conduct formal investigations into market misconduct, the *FCA* will take into account whether another regulatory authority is in a position to investigate and deal with the matters of concern (as far as a *recognised investment exchange* or *recognised clearing house* is concerned, the *FCA* will consider the extent to which the relevant exchange or clearing house has adequate and appropriate powers to investigate and deal with a matter itself). Equally, in some cases, the *FCA* may investigate and/or take action in parallel with another domestic or international authority. This topic is discussed further in *DEPP* 6.2.19 G to *DEPP* 6.2.28 G, [paragraph 3.16](#) of this guide and in the case of action concerning criminal offences, [paragraph 12.11](#).
- 2.15A **FCA** A need for a joint investigation with the *PRA* may arise where either the *FCA* or the *PRA* identifies circumstances which suggest that a *firm* or individual has committed misconduct that adversely affects both regulators' *statutory objectives*. In such cases, the regulators will determine whether they should carry out separate but coordinated investigations, or whether it would be more appropriate for one of the regulators to carry out an investigation, keeping the other informed. (See also *EG* 4.34 to *EG* 4.35).

Assisting overseas regulators

- 2.16 **FCA** The *FCA* views co-operation with its overseas counterparts as an essential part of its regulatory functions. Section 354A of the *Act* imposes a duty on the *FCA* to take such steps as it considers appropriate to co-operate with others who exercise functions similar to its own. This duty extends to authorities in the UK and overseas. In fulfilling this duty the *FCA* may share information which it is not prevented from disclosing, including information obtained in the course of the *FCA*'s own investigations, or exercise certain of its powers under Part XI of the *Act*. Further details of the *FCA*'s powers to assist overseas regulators are provided at [EG 3.12 – 3.15](#) (Investigations to assist overseas authorities), [EG 3.15A – D](#) (Information requests and investigations to assist EEA regulators in relation to short selling), [EG 4.8](#) (Use of statutory powers to require the production of documents, the provision of information or the answering of questions), [EG 4.25 – 4.27](#) (Interviews in response to a request from an overseas regulator or EEA regulator), and [EG 8.18 – 8.25](#) (Exercising the power under section 55Q to vary or cancel a firm's *Part 4A permission*, or to impose requirements on a firm in support of an overseas regulator: the *FCA*'s policy). The *FCA*'s statement of policy in relation to interviews which representatives of overseas regulators or EEA regulators attend and participate in is set out in *DEPP* 7.

Sources of cases

- 2.17 **FCA** The *FCA* may be alerted to possible contraventions or breaches by complaints from the public or *firms*, by referrals from other authorities or through its own enquiries and supervisory activities. *Firms* may also bring their own contraventions to the *FCA*'s attention, as they are obliged to do under Principle 11 of the *Principles for Businesses* and *rules* in the *FCA*'s Supervision manual.

Enforcement and the FCA's Principles for Business ('the Principles')

2.18 The *FCA's* approach to regulation involves a combination of high-level principles and detailed *rules* and *guidance*.

FCA

2.19 The *FCA* will, in appropriate cases, take enforcement action on the basis of the *Principles* alone (see also *DEPP* 6.2.14 G). This will have the benefit of providing further clear examples of how the *Principles* work in practice.

FCA

2.20 The *FCA* wishes to encourage firms to exercise judgement about, and take responsibility for, what the *Principles* mean for them in terms of how they conduct their business. But we also recognise the importance of an environment in which *firms* understand what is expected of them. So we have indicated that *firms* must be able reasonably to predict, at the time of the action concerned, whether the conduct would breach the *Principles*. This has sometimes been described as the "reasonable predictability test" or "condition of predictability", but it would be wrong to think of this as a legal test to be met in deciding whether there has been a breach of *FCA rules*. Rather, our intention has been to acknowledge that firms may comply with the *Principles* in different ways; and to indicate that the *FCA* will not take enforcement action unless it was possible to determine at the time that the relevant conduct fell short of our requirements.

FCA

2.21 To determine whether there has been a failure to comply with a *Principle*, the standards we will apply are those required by the *Principles* at the time the conduct took place. The *FCA* will not apply later, higher standards to behaviour when deciding whether to take enforcement action for a breach of the *Principles*. Importantly, however, where conduct falls below expected standards the *FCA* considers that it is legitimate for consequences to follow, even if the conduct is widespread within the industry or the *Principle* is expressed in general terms.

FCA

FCA guidance and supporting materials

2.22 The *FCA* uses *guidance* and other materials to supplement the *Principles* where it considers this would help *firms* to decide what action they need to take to meet the necessary standard.

FCA

2.23 *Guidance* is not binding on those to whom the *FCA's rules* apply. Nor are the variety of materials (such as case studies showing good or bad practice, *FCA* speeches, and generic letters written by the *FCA* to Chief Executives in particular sectors) published to support the *rules* and *guidance* in the Handbook. Rather, such materials are intended to illustrate ways (but not the only ways) in which a person can comply with the relevant *rules*.

FCA

2.24 *DEPP* 6.2.1G(4) explains that the *FCA* will not take action against someone where we consider that they have acted in accordance with what we have said. However, *guidance* does not set out the minimum standard of conduct needed to comply with a *rule*, nor is there any presumption that departing from *guidance* indicates a breach of a *rule*. If a *firm* has complied with the *Principles* and other *rules*, then it does not matter whether it has also complied with other material the *FCA* has issued.

FCA

2.25 *Guidance* and supporting materials are, however, potentially relevant to an enforcement case and a decision maker may take them into account in considering the matter. Examples of the ways in which the *FCA* may seek to use *guidance* and supporting materials in an enforcement context include:

FCA

- (1) To help assess whether it could reasonably have been understood or predicted at the time that the conduct in question fell below the standards required by the *Principles*.
- (2) To explain the regulatory context.
- (3) To inform a view of the overall seriousness of the breaches e.g. the decision maker could decide that the breach warranted a higher penalty in circumstances where the *FCA* had written to chief executives in the sector in question to reiterate the importance of ensuring a particular aspect of its business complied with relevant regulatory standards.
- (4) To inform the consideration of a *firm's* defence that the *FCA* was judging the *firm* on the basis of retrospective standards.
- (5) To be considered as part of expert or supervisory statements in relation to the relevant standards at the time.

2.26 The extent to which *guidance* and supporting materials are relevant will depend on all the circumstances of the case, including the type and accessibility of the statement and the nature of the *firm's* defence. It is for the decision maker (see [paragraphs 2.37 to 2.39](#)) - whether the *RDC*, *Tribunal* or an executive decision maker - to determine this on a case-by-case basis.

FCA

2.27 The *FCA* may take action in areas in which it has not issued *guidance* or supporting materials.

FCA

Industry guidance

2.28 The *FCA* recognises that Industry Guidance has an important part to play in a principles-based regulatory environment, and that firms may choose to follow such guidance as a means of seeking to meet the *FCA's* requirements. This will be true especially where Industry Guidance has been 'confirmed' by the *FCA*. *DEPP* 6.2.1G(4) confirms that, as with *FCA guidance* and supporting materials, the *FCA* will not take action against a firm for behaviour that we consider is in line with *FCA*-confirmed Industry Guidance that was current when the conduct took place.

FCA

2.29 Equally, however, *FCA*-confirmed Industry Guidance is not mandatory. The *FCA* does not regard adherence to Industry Guidance as the only means of complying with *FCA rules* and *Principles*. Rather, it provides examples of behaviour which meets the *FCA's* requirements; and non-compliance with confirmed Industry Guidance creates no presumption of a breach of those requirements.

FCA

2.30 Industry Guidance may be relevant to an enforcement case in ways similar to those described at [paragraph 2.25](#). But the *FCA* is aware of the concern that *firms* must have scope to exercise their own judgement about what *FCA rules* require, and that Industry Guidance should not become a new prescriptive regime in place of detailed *FCA rules*. This, and the specific status of *FCA*-confirmed Industry Guidance, will be taken into account when the *FCA* makes judgements about the relevance of Industry Guidance in enforcement cases.

FCA

Senior management responsibility

- 2.31 **FCA** The *FCA* is committed to ensuring that senior managers of *firms* fulfil their responsibilities. The *FCA* expects senior management to take responsibility for ensuring *firms* identify risks, develop appropriate systems and controls to manage those risks, and ensure that the systems and controls are effective in practice. The *FCA* will not pursue senior managers where there is no personal culpability. However, where senior managers are themselves responsible for misconduct, the *FCA* will, where appropriate, bring cases against individuals as well as *firms*. The *FCA* believes that deterrence will most effectively be achieved by bringing home to such individuals the consequences of their actions. The *FCA's* policy on disciplinary action against senior management and against other *approved persons* under section 66 of the *Act* is set out in *DEPP* 6.2.4 G to *DEPP* 6.2.9 G. The *FCA's* policy on prohibition and withdrawal of approval is set out in chapter 9 of this guide.
- 2.32 **FCA** The *FCA* recognises that cases against individuals are very different in their nature from cases against corporate entities and the *FCA* is mindful that an individual will generally face greater risks from enforcement action, in terms of financial implications, reputation and livelihood than would a corporate entity. As such, cases against individuals tend to be more strongly contested, and at many practical levels are harder to prove. They also take longer to resolve. However, taking action against individuals sends an important message about the *FCA's* *statutory objectives* and priorities and the *FCA* considers that such cases have important deterrent values. The *FCA* is therefore committed to pursuing appropriate cases robustly, and will dedicate sufficient resources to them to achieve effective outcomes.

Co-operation

- 2.33 **FCA** An important consideration before an enforcement investigation and/or enforcement action is taken forward is the nature of a *firm's* overall relationship with the *FCA* and whether, against that background, the use of enforcement tools is likely to further the *FCA's* aims and objectives. So, for any similar set of facts, using enforcement tools will be less likely if a *firm* has built up over time a strong track record of taking its senior management responsibilities seriously and been open and communicative with the *FCA*. In addition, a *firm's* conduct in response to the specific issue which has given rise to the question of whether enforcement tools should be used will also be relevant. In this respect, relevant matters may include whether the *person* has self-reported, helped the *FCA* establish the facts and/or taken remedial action such as addressing any systems and controls issues and compensating any consumers who have lost out. Such matters will not, however, necessarily mean that enforcement tools will not be used. The *FCA* has to consider each case on its merits and in the wider regulatory context, and any such steps cannot automatically lead to no enforcement sanction. However, they may in any event be factors which will mitigate the penalty.
- 2.34 **FCA** On its web site, the *FCA* has given anonymous examples of where it has decided not to investigate or take enforcement action in relation to a possible *rule* breach because of the way in which the *firm* has conducted itself when putting the matter right. This is part of an article entitled 'The benefits to firms and individuals of co-operating with the *FCA*'². However, in those cases where enforcement action is not taken and/or a formal investigation is not commenced, the *FCA* will expect the *firm* to act promptly to take the necessary remedial action agreed with its supervisors to deal with the *FCA's* concerns. If the *firm* does not do this, the *FCA* may take disciplinary or other enforcement action in

² <http://www.fca.org.uk/firms/being-regulated/enforcement/how-we-enforce-the-law/cooperating>

respect of the original contravention.

Late reporting or non-submission of reports to the FCA

- 2.35 **FCA** The *FCA* attaches considerable importance to the timely submission by *firms* of reports required under *FCA rules*. This is because the information contained in such reports is essential to the *FCA's* assessment of whether a *firm* is complying with the requirements and standards of the regulatory system and to the *FCA's* understanding of that *firm's* business. So, in the majority of cases involving non-submission of reports or repeated failure to submit complete reports on time, the *FCA* considers that it will be appropriate to seek to cancel the *firm's permission*. Where the *FCA* does not cancel a *permission*, it may take action for a financial penalty against a *firm* that submits a report after the due date (see *DEPP* 6.6.1 G to *DEPP* 6.6.5 G).

Legal review

- 2.36 **FCA** Before a case is referred to the *RDC*, it will be subject to a legal review by a lawyer who has not been a part of the investigation team. This will help to ensure that there is consistency in the way in which our cases are put and that they are supported by sufficient evidence. A lawyer who has not been a part of the investigation team will also review *warning notices* before they are submitted to the *settlement decision makers*.

Decision making in the context of regulatory enforcement action

- 2.37 **FCA** When the *FCA* is proposing to exercise its regulatory enforcement powers, the *Act* generally requires the *FCA* to give *statutory notices* (depending on the nature of the action, a *warning notice* and *decision notice* or *supervisory notice*) to the subject of the action. The person to whom a *warning notice* or *supervisory notice* is given has a right to make representations on the *FCA's* proposed decision.
- 2.38 **FCA** The procedures the *FCA* will follow when giving *supervisory notices*, *warning notices* and *decision notices* are set out in *DEPP* 1 to 5. Under these procedures, the decisions to issue such notices in contested enforcement cases are generally taken by the *RDC*, an *FCA* Board committee that is appointed by, and accountable to, the *FCA* Board for its decisions generally. Further details about the *RDC* can be found in *DEPP* 3 and on the pages of the *FCA* web site relating to the *RDC*.³ However, decisions on settlements and *statutory notices* arising from them are taken by two members of the *FCA's* senior management, under a special settlement decision procedure (see [chapter 5](#)).
- 2.39 **FCA** A person who receives a *decision notice* or *supervisory notice* has a right to refer the matter to the *Tribunal* within prescribed time limits. The *Tribunal* is independent of the *FCA* and members of the *Tribunal* are appointed by the Lord Chancellors Department. Where a matter has been referred to it, the *Tribunal* will determine what action, if any, it is appropriate for the *FCA* to take in relation to that matter. Further details about the *Tribunal* can be found in an item on the *Tribunal* on the Enforcement pages of the *FCA* web site⁴ and on the *Tribunal's* own web site⁵.

³ <http://www.fca.org.uk/about/structure/committees/regulatory-decisions-committee>

⁴ <http://www.fca.org.uk/about/governance/who/upper-tribunal>

⁵ <http://www.financeandtaxtribunals.gov.uk/>

3. Use of information gathering and investigation powers

3.1 The *FCA* has various powers under sections 97, 131E, 131FA, 165 to 169 and 284 of the *Act* to gather information and appoint investigators, and to require the production of a report by a *skilled person*. In any particular case, the *FCA* will decide which powers, or combination of powers, are most appropriate to use having regard to all the circumstances. Further comments on the use of these powers are set out below.

FCA

3.1A Information may also be provided to the *FCA* voluntarily. For example, *firms* may at times commission an internal investigation or a report from an external law firm or other professional adviser and decide to pass a copy of this report to the *FCA*. Such reports can be very helpful for the *FCA* in circumstances where enforcement action is anticipated or underway. The *FCA's* approach to using firm-commissioned reports in an enforcement context is set out at the end of this chapter.

FCA

Information requests (section 165)

3.2 The *FCA* may use its section 165 power to require information and documents from *firms* to support both its supervisory and its enforcement functions.

FCA

3.3 An officer with authorisation from the *FCA* may exercise the section 165 power to require information and documents from *firms*. This includes an *FCA* employee or an agent of the *FCA*.

FCA

Reports by skilled persons (section 166)

3.4 Under section 166 of the *Act*, the *FCA* has a power to require a *firm* and certain other persons to provide a report by a *skilled person*, or itself to appoint a *skilled person* to produce such a report. The *FCA* may use its section 166 power to require reports by *skilled persons* to support both its supervision and enforcement functions.

FCA

3.5 The factors the *FCA* will consider when deciding whether to use the section 166 power include:

FCA

- (1) If the *FCA's* objectives for making further enquiries are predominantly for the purposes of fact finding i.e. gathering historic information or evidence for determining whether enforcement action may be appropriate, the *FCA's* information gathering and investigation powers under sections 167 and 168 of the *Act* are likely to be more effective and more appropriate than the power under section 166.
- (2) If the *FCA's* objectives include obtaining expert analysis or recommendations (or both) for, say, the purposes of seeking remedial action, it may be appropriate to use the power under section 166 instead of, or in conjunction with, the *FCA's* other available powers.

3.6 Where it exercises this power, the *FCA* will make clear both to the *firm* and to the *skilled person* the nature of the concerns that led the *FCA* to decide to appoint a *skilled person* and the possible uses of the results of the report. But a report the *FCA* commissions for purely diagnostic purposes could identify issues which could lead to the appointment of an

FCA

investigator and/or enforcement action.

- 3.6A Under section 166A of the *Act*, the *FCA* also has a power to require a *firm* to appoint a *skilled person* to collect or update information, or itself to appoint a *skilled person* to do so, where it considers that the *firm* has failed to provide information required by the *FCA* or update information previously provided to the *FCA*.

FCA

- 3.7 Chapter 5 of the *FCA's* Supervision manual (Reports by skilled persons) contains *rules* and guidance that will apply whenever the *FCA* uses the section 166 and 166A powers.

FCA

Investigations into general and specific concerns (sections 167 and 168)

- 3.8 Where the *FCA* has decided that an investigation is appropriate (see chapter 2) and it appears to it that there are circumstances suggesting that contraventions or offences set out in section 168 may have happened, the *FCA* will normally appoint investigators pursuant to section 168. Where the circumstances do not suggest any specific breach or contravention covered by section 168, but, the *FCA* still has concerns about a *firm*, an *appointed representative*, a *recognised investment exchange* or an *unauthorised incoming ECA provider*, such that it considers there is good reason to conduct an investigation into the nature, conduct or state of the *person's* business or a particular aspect of that business, or into the ownership or control of an *authorised person*, the *FCA* may appoint investigators under section 167.

FCA

- 3.9 In some cases involving both general and specific concerns, the *FCA* may consider it appropriate to appoint investigators under both section 167 and section 168 at the outset. Also, where, for example, it has appointed investigators under section 167, it may subsequently decide that it is appropriate to extend the appointment to cover matters under section 168 as well.

FCA

Official listing investigations (section 97)

- 3.10 If the *FCA* has decided to carry out an investigation where there are circumstances suggesting that contraventions set out in section 97 may have happened, it will normally appoint investigators pursuant to that section. An investigator appointed under section 97 is treated under the *Act* as if they were appointed under section 167(1).

FCA

Investigations into collective investment schemes (section 284)

- 3.11 The *FCA* may appoint investigators under section 284 to conduct an investigation into the affairs of a *collective investment scheme* if it appears to it that it is in the interests of the participants or general participants to do so or that the matter is of public concern.

FCA

Investigations to assist overseas authorities (section 169)

- 3.12 The *FCA's* power to conduct investigations to assist overseas authorities is contained in section 169 of the *Act*. The section provides that at the request of an *overseas regulator*, the *FCA* may use its power under section 165 to require the production of documents or the provision of information under section 165 or to appoint a person to investigate any matter.

FCA

- 3.13 If the *overseas regulator* is a *competent authority* and makes a request in pursuance of any Community obligation, section 169(3) states that the *FCA* must, in deciding whether or not to exercise its investigative power, consider whether the exercise of that power is necessary

FCA

to comply with that obligation.

3.14 Section 169(4) and (5) set out factors that the *FCA* may take into account when deciding whether to use its investigative powers. However, these provisions do not apply if the *FCA* considers that the use of its investigative powers is necessary to comply with a Community obligation.

3.15 When it considers whether to use its investigative power, and whether section 169(4) applies, the *FCA* will first consider whether it is able to assist without using its formal powers, for example by obtaining the information voluntarily. Where that is not possible, the *FCA* may take into account all of the factors in section 169(4), but may give particular weight to the seriousness of the case and its importance to persons in the United Kingdom, and to the public interest.

Information requests and investigations to assist EEA regulators in relation to short selling

3.15A The *FCA* may use its section 131E power to require information and documents from natural or legal persons to support both its monitoring and its enforcement functions.

3.15B An officer with authorisation from the *FCA* may exercise the section 131E power to require information and documents from natural or legal persons. This includes an *FCA* employee or an agent of the *FCA*.

3.15C The *FCA's* power to conduct investigations to assist *EEA regulators* in respect of the *short selling regulation* is contained in section 131FA of the *Act*. The section provides that at the request of an *EEA regulator* or ESMA, the *FCA* may either use its power under section 131E to require the production of information, or appoint a person to investigate any matter.

3.15D Section 131FA states that the *FCA* must, in deciding whether or not to exercise its investigative power, consider whether the exercise of that power is necessary to comply with an obligation under the *short selling regulation*.

Liaison where other authorities have an interest

3.16 The *FCA* has agreed guidelines that establish a framework for liaison and cooperation in cases where certain other UK authorities have an interest in investigating or prosecuting any aspect of a matter that the *FCA* is considering for investigation, is investigating or is considering prosecuting. These guidelines are set out in Annex 2 to this guide.

***FCA* approach to firms conducting their own investigations in anticipation of *FCA* enforcement action.**

Firm-commissioned reports: the desirability of early discussion and agreement where enforcement is anticipated

3.17 The *FCA* recognises that there are good reasons for *firms* wishing to carry out their own investigations. This might be for, for example, disciplinary purposes, general good management, or operational and risk control. The *firm* needs to know the extent of any problem, and it may want advice as to what immediate or short-term measures it needs to

take to mitigate or correct any problems identified. The *FCA* encourages this proactive approach and does not wish to interfere with a *firm's* legitimate procedures and controls.

3.18 A *firm's* report – produced internally or by an external third party – can clearly assist the *firm*, but may also be useful to the *FCA* where there is an issue of regulatory concern.

FCA

Sharing the outcome of an investigation can potentially save time and resources for both parties, particularly where there is a possibility of the *FCA* taking enforcement action in relation to a *firm's* perceived misconduct or failing. This does not mean that *firms* are under any obligation to share the content of legally privileged reports they are given or advice they receive. It is for the *firm* to decide whether to provide such material to the *FCA*. But a *firm's* willingness to volunteer the results of its own investigation, whether protected by legal privilege or otherwise, is welcomed by the *FCA* and is something the *FCA* may take into account when deciding what action to take, if any. (The *FCA's* approach to deciding whether to take action is described in more detail in *DEPP* 6.2 and paragraph 2.4 of this Guide.)

3.19 Work done or commissioned by the *firm* does not fetter the *FCA's* ability to use its statutory powers, for example to require a skilled person's report under section 166 of the *Act* or to carry out a formal enforcement investigation; nor can a report commissioned by the *firm* be a substitute for formal regulatory action where this is needed or appropriate. But even if formal action is needed, it may be that a report could be used to help the *FCA* decide on the appropriate action to take and may narrow the issues or obviate the need for certain work.

FCA

3.20 The *FCA* invites *firms* to consider, in particular, whether to discuss the commissioning and scope of a report with *FCA* staff where:

FCA

- (1) *firms* have informed the *FCA* of an issue of potential regulatory concern, as required by *SUP* 15; or
- (2) the *FCA* has indicated that an issue or concern has or may result in a referral to Enforcement.

3.21 The *FCA's* approach in commenting on the proposed scope and purpose of the report will vary according to the circumstances in which the report is commissioned; it does not follow that the *FCA* will want to be involved in discussing the scope of a report in every situation. But if the *firm* anticipates that it will proactively disclose a report to the *FCA* in the context of an ongoing or prospective enforcement investigation, then the potential use and benefit to be derived from the report will be greater if the *FCA* has had the chance to comment on its proposed scope and purpose.

FCA

3.22 Some themes or issues are common to any discussion about the potential use or value of a report to the *FCA*. These include:

FCA

- (1) to what extent the *FCA* will be able to rely on the report in any subsequent enforcement proceedings;
- (2) to what extent the *FCA* will have access to the underlying evidence or information that was relied upon in producing the report;
- (3) where legal privilege or other professional confidentiality is claimed over any material gathered or generated in the investigation process, to what extent such material may nevertheless be disclosed to the *FCA*, on what basis and for what purposes the *FCA* may use that material;

- (4) what approach will be adopted to establishing the relevant facts and how evidence will be recorded and retained;
- (5) whether any conflicts of interest have been identified and whether there are proposals to manage them appropriately;
- (6) whether the report will describe the role and responsibilities of identified individuals;
- (7) whether the investigation will be limited to ascertaining facts or will also include advice or opinions about breaches of *FCA rules* or requirements;
- (8) how the *firm* intends to inform the *FCA* of progress and communicate the results of the investigation; and
- (9) timing.

3.23 In certain circumstances the *FCA* may prefer that a *firm* does not commission its own investigation (whether an internal audit report or a report by external advisers) because action by the *firm* could itself be damaging to an *FCA* investigation. This is true in particular of criminal investigations, where alerting the suspects could have adverse consequences. For example, where the *FCA* suspects that individuals are abusing positions of trust within financial institutions and that an insider dealing ring is operating, it might notify the relevant *firm* but would not want the *firm* to embark on its own investigation: to do so would alert those under investigation and prejudice on-going monitoring of the suspects and other action. *Firms* are therefore encouraged to be alive to the possibility that their own investigations could prejudice or hinder a subsequent *FCA* investigation, and, if in doubt, to discuss this with the *FCA*. The *FCA* recognises that *firms* may be under time and other pressures to establish the relevant facts and implications of possible misconduct, and will have regard to this in discussions with the *firm*.

3.24 Nothing in paragraphs 3.17 to 3.23 extends or increases the scope of the existing duty to report facts or issues to the *FCA* in accordance with *SUP 15* or *Principle 11*.

FCA *Firm-commissioned reports: material gathered*

3.25 Where a *firm* does conduct or commission an investigation, it is very helpful if the *firm* maintains a proper record of the enquiries made and interviews conducted. This will inform the *FCA's* judgment about whether any further work is needed and, if so, where the *FCA's* efforts should be focused.

3.26 How the results of an investigation are presented to the *FCA* may differ from case to case; the *FCA* acknowledges that different circumstances may call for different approaches. In this sense, one size does not fit all. The *FCA* will take a pragmatic and flexible approach when deciding how to receive the results of an investigation. However, if the *FCA* is to rely on a report as the basis for taking action, or not taking action, then it is important that the *firm* should be prepared to give the *FCA* underlying material on which the report is based as well as the report itself. This includes, for example, notes of interviews conducted by the lawyers, accountants or other professional experts carrying out the investigation.

3.27 The *FCA* is not able to require the production of “protected items”, as defined in the *Act*, but it is not uncommon for there to be disagreement with *firms* about the scope of this protection. Arguments about whether certain documents attract privilege tend to be time-consuming and delay the progress of an investigation. If a *firm* decides to give a report to the *FCA*, then the *FCA* considers that the greatest mutual benefit is most likely to flow

from disclosure of the report itself and any supporting papers. A reluctance to disclose these source materials will, in the *FCA's* opinion, devalue the usefulness of the report and may require the *FCA* to undertake additional enquiries.

Firm-commissioned reports: FCA use of reports and the protection of privileged and confidential material

- 3.28 For reasons that the *FCA* can understand, *firms* may seek to restrict the use to which a report can be put, or assert that any legal privilege is waived only on a limited basis and that the *firm* retains its right to assert legal privilege as the basis for non-disclosure in civil proceedings against a private litigant.
- FCA**
- 3.29 The *FCA* understands that the concept of a limited waiver of legal privilege is not one which is recognised in all jurisdictions; the *FCA* considers that English law does permit such “limited waiver” and that legal privilege could still be asserted against third parties notwithstanding disclosure of a report to the *FCA*. However, the *FCA* cannot accept any condition or stipulation which would purport to restrict its ability to use the information in the exercise of the *FCA's* statutory functions. In this sense, the *FCA* cannot ‘close its eyes’ to information received or accept that information should, say, be used only for the purposes of supervision but not for enforcement.
- FCA**
- 3.30 This does not mean that information provided to the *FCA* is unprotected. The *FCA* is subject to strict statutory restrictions on the disclosure of confidential information (as defined in section 348 of the *Act*), breach of which is a criminal offence (under section 352 of the *Act*). Reports and underlying materials provided voluntarily to the *FCA* by a *firm*, whether covered by legal privilege or not, are confidential for these purposes and benefit from the statutory protections.
- FCA**
- 3.31 Even in circumstances where disclosure of information would be permitted under the “gateways” set out in the Financial Services and Markets Act 2000 (Disclosure of Confidential Information) Regulations, the *FCA* will consider carefully whether it would be appropriate to disclose a report provided voluntarily by a *firm*. The *FCA* appreciates that *firms* feel strongly about the importance of maintaining confidentiality, and that *firms* are more likely to volunteer information to the regulator when they know that the regulator is mindful of this sensitivity and the impact of potential disclosure. Accordingly, if the *FCA* contemplates disclosing a report voluntarily provided by a *firm*, the *firm* will normally be notified and given the opportunity to make representations about the proposed disclosure. The exceptions to this include circumstances where disclosure is urgently needed, where notification might prejudice an investigation or defeat the purpose for which the information had been requested, or where notification would be inconsistent with the *FCA's* international obligations.
- FCA**

4. Conduct of investigations

Notifying the person under investigation where notice is a requirement under section 170

- 4.1 FCA The *FCA* will always give written notice of the appointment of investigators to the *person* under investigation if it is required to give such notice under section 170 of the *Act*. In such cases, if there is a subsequent change in the scope or conduct of the investigation and, in the *FCA's* opinion, the *person* under investigation is likely to be significantly prejudiced if not made aware of this, that *person* will be given written notice of the change. It is impossible to give a definitive list of the circumstances in which a *person* is likely to be significantly prejudiced by not being made aware of a change in the scope or conduct of an investigation. However, this may include situations where there may be unnecessary costs from dealing with an aspect of an investigation which the *FCA* no longer intends to pursue.

Notifying the person under investigation where notice is not required under the Act

- 4.2 FCA The *Act* does not always require the *FCA* to give written notice of the appointment of investigators, for example, where investigators are appointed as a result of section 168(1) or (4) of the *Act* and the *FCA* believes that the provision of notice would be likely to result in the investigation being frustrated, or where investigators are appointed as a result of section 168(2) of the *Act*.
- 4.3 FCA Although the *FCA* is not required to give written notice of the appointment of investigators appointed as a result of section 168(2), when it becomes clear who the *person* under investigation is, the *FCA* will, nevertheless, normally notify them that they are under investigation when it exercises its statutory powers to require information from them, providing such notification will not, in the *FCA's* view, prejudice the *FCA's* ability to conduct the investigation effectively.

Notification where a particular person is not yet under investigation

- 4.4 FCA In investigations into possible *insider dealing, market abuse, misleading statements and practices offences*, breaches of the *general prohibition*, the restriction on *financial promotion*, or the prohibition on promoting *collective investment schemes*, the investigator may not know the identity of the perpetrator or may be looking into market circumstances at the outset of the investigation rather than investigating a particular *person*. In those circumstances, the *FCA* will give an indication of the nature and subject matter of its investigation to those who are required to provide information to assist with the investigation. As soon as a *person* becomes the focus of the *FCA's* enquiries, the *FCA* will consider whether it is appropriate to notify that *person* that they are under investigation. The *FCA* will usually notify them when it exercises its statutory powers to require information from them unless doing so would prejudice the *FCA's* ability to conduct the investigation effectively.

Appointment of additional investigators

- 4.5 In some cases, the *FCA* will appoint an additional investigator or additional investigators during the course of an investigation. If this occurs and the *FCA* has previously told the subject it has appointed investigators, then the *FCA* will normally give the person written notice of the appointment(s).

FCA

Notice of termination of investigations

- 4.6 Except where the *FCA* has issued a *warning notice*, and the *FCA* has subsequently discontinued the proceedings, the *Act* does not require the *FCA* to provide notification of the termination of an investigation or subsequent enforcement action. However, where the *FCA* has given a *person* written notice that it has appointed an investigator and later decides to discontinue the investigation without any present intention to take further action, it will confirm this to the *person* concerned as soon as it considers it is appropriate to do so, bearing in mind the circumstances of the case.

FCA

What a subject of investigation can say to third parties

- 4.7 As is explained in the chapter of this guide on publicity (chapter 6), the *FCA* will not normally make public the fact that it is or is not investigating a matter and its expectation is that the *person* under investigation will also treat the matter as confidential. However, subject to the restrictions on disclosure of confidential information in section 348 of the *Act*, this does not stop the *person* under investigation from seeking professional advice or making their own enquiries into the matter, from giving their auditors appropriate details of the matter or from making notifications required by law or contract.

FCA

Use of statutory powers to require the production of documents, the provision of information or the answering of questions

- 4.8 The *FCA's* standard practice is generally to use statutory powers to require the production of documents, the provision of information or the answering of questions in interview. This is for reasons of fairness, transparency and efficiency. It will sometimes be appropriate to depart from this standard practice, for example:

FCA

- (1) For suspects or possible suspects in criminal or *market abuse* investigations, the *FCA* may prefer to question that *person* on a voluntary basis, possibly under caution. In such a case, the interviewee does not have to answer but if they do, those answers may be used against them in subsequent proceedings, including criminal or *market abuse* proceedings.
- (2) In the case of third parties with no professional connection with the financial services industry, such as the victims of an alleged fraud or misconduct, the *FCA* will usually seek information voluntarily.
- (3) In some cases, the *FCA* is asked by *overseas regulators* or *EEA regulators* to obtain documents or conduct interviews on their behalf. In these cases, the *FCA* will not necessarily adopt its standard approach as it will consider with the *overseas regulator* or *EEA regulator* the most appropriate method for obtaining evidence for use in their country.

4.9 **FCA** *Firms* and *approved persons* have an obligation to be open and co-operative with the *FCA* (as a result of Principle 11 for Businesses and Statement of Principle 4 for Approved Persons respectively). The *FCA* will make it clear to the *person* concerned whether it requires them to produce information or answer questions under the *Act* or whether the provision of answers is purely voluntary. The fact that the *person* concerned may be a regulated person does not affect this.

4.10 **FCA** The *FCA* will not bring disciplinary proceedings against a *person* under the above *Principles* simply because, during an investigation, they choose not to attend or answer questions at a purely voluntary interview. However, there may be circumstances in which an adverse inference may be drawn from the reluctance of a *person* (whether or not they are a *firm* or *approved person*) to participate in a voluntary interview.

4.11 **FCA** If a *person* does not comply with a requirement imposed by the exercise of statutory powers, they may be held to be in contempt of court. The *FCA* may also choose to bring proceedings for breach of *Principle 11* or *Statement of Principle 4* as this is a serious form of non-cooperation.

Scoping discussions

4.12 **FCA** For cases involving *firms* or *approved persons*, the *FCA* will generally hold scoping discussions with the *firm* or individuals concerned close to the start of the investigation (and may do so in other cases). The purpose of these discussions is to give the *firm* or individuals concerned in the investigation an indication of: why the *FCA* has appointed investigators (including the nature of and reasons for the *FCA*'s concerns); the scope of the investigation; how the process is likely to unfold; the individuals and documents the team will need access to initially and so on. There is a limit, however, as to how specific the *FCA* can be about the nature of its concerns in the early stages of an investigation. The *FCA* team for the purposes of the scoping discussions will normally include the nominated supervisor if the subject is a fixed portfolio *firm*.

4.13 **FCA** In addition to the initial scoping discussions, there will be an ongoing dialogue with the *firm* or individuals throughout the investigative process. Where the nature of the *FCA*'s concerns changes significantly from that notified to the person under investigation and the *FCA*, having reconsidered the case, is satisfied that it is appropriate in the circumstances to continue the investigation, the *FCA* will notify the person of the change in scope.

Involvement of *FCA* supervisors during the investigation phase

4.14 **FCA** A clear division between the conduct of the investigation on the one hand and the need to continue with the ongoing supervision of the *firm* on the other may mean that the investigation does not benefit as much as it might otherwise do from the knowledge of the *firm* or individuals that the supervisors will have built up, or from their general understanding of the *firm's* business or sector. Before matters are referred to the Enforcement Division for investigation, *FCA* staff from its Enforcement Division will often work closely together with staff from the Supervision Division in order to determine the proper course of action to take. Following a referral, the *FCA* takes the following general considerations into account in relation to the potential role of a supervisor in an investigation.

- (1) While it is clearly essential for the day-to-day supervisory relationship to continue during the course of any enforcement action, this need not, of itself,

preclude a *firm's* supervisor from assisting in an investigation.

- (2) Such assistance will include: making the case team aware of the *firm's* history and compliance track record; the current supervisory approach to the area concerned; current issues with the *firm*; and acting as a sounding board on questions that emerge from the investigation about industry practices and standards.
- (3) Equally, there may be circumstances where someone in the *FCA* other than the *firm's* supervisor can more effectively and efficiently provide information on the current supervisory approach to the area under investigation or current market standards. In this case it makes good sense for the *FCA* to draw on that other source of expertise.
- (4) In the event that a *firm's* supervisor becomes part of the investigation team, the *FCA* will notify the firm of this in the normal way.

The timeframe for responding to information and document requirements

4.15 As delays in the provision of information and/or documents can have a significant impact on the efficient progression of an investigation, the *FCA* expects *persons* to respond to information and document requests in a timely manner to appropriate deadlines. When an investigation is complex (and the timetable allows), the *FCA* may decide to issue an information or document requirement in draft, allowing a specified period (of usually no more than three working days) for the *person* to comment on the practicality of providing the information or documentation by the proposed deadline. After considering any comments, the *FCA* will then confirm or amend the request. The *FCA* will not, however, send such a draft request where the request is straightforward and the *FCA* considers that it is reasonable to expect the information or documents to be made available within the *FCA's* specified timeframe.

FCA

4.16 Once it has formally issued a requirement (whether or not this has been preceded by a draft), the *FCA* will not usually agree to an extension of time for complying with the requirement unless compelling reasons are provided to support an extension request.

FCA

Approach to interviews and interview procedures

4.17 [Paragraph 4.8](#) explains the *FCA's* approach to the use of its statutory powers to require, amongst other matters, individuals to be interviewed. The type of interview is a decision for the *FCA*.

FCA

4.18 A *person* required to attend an interview by the use of statutory powers has no entitlement to insist that the interview takes place voluntarily. If someone does not attend an interview required under the *Act*, then he can be dealt with by the court as if he were in contempt (where the penalties can be a fine, imprisonment or both).

FCA

4.19 Similarly, a *person* asked to attend an interview on a purely voluntary basis is not entitled to insist that he be served with a requirement. A *person* is not obliged to attend a voluntary interview or to answer questions put to them at that time. But they should be aware that in an appropriate case, an adverse inference may be drawn from the failure to attend a voluntary interview, or a refusal to answer any questions at such an interview.

FCA

Interviews generally

4.20 Where the *FCA* interviews a *person*, it will allow the *person* to be accompanied by a legal adviser, if they wish. The *FCA* will also, where appropriate, explain what use can be made of the answers in proceedings against them. Where the interview is tape-recorded, the *person* will be given a copy of the audio tape of the interview and, where a transcript is made, a copy of the transcript.

FCA

Interviews under caution

4.21 Individuals suspected of a criminal offence may be interviewed under caution. These interviews will be subject to all the safeguards of the relevant Police and Criminal Evidence Act Codes and are voluntary on the part of the suspect. The *FCA* will warn the suspect at the start of the interview of their right to remain silent (and the consequences of remaining silent) and will inform the suspect that they are entitled to have a legal adviser present. The *FCA* will also give a cautionary warning in similar terms to interviewees who are the subject of *market abuse* investigations.

FCA

Subsequent interviews

4.22 If a suspect has been interviewed by the *FCA* using statutory powers, before they are re-interviewed on a voluntary basis (under caution or otherwise), the *FCA* will explain the difference between the two types of interview. The *FCA* will also tell the individual about the limited use that can be made of their previous answers in criminal proceedings or in proceedings in which the *FCA* seeks a penalty for *market abuse* under Part VIII of the *Act*.

FCA

4.23 Conversely, where a suspect has been interviewed under caution, and the *FCA* later wishes to conduct a compulsory interview with them, the *FCA* will explain the difference between the two types of interview, and will notify the individual of the limited use that can be made of his answers in the compulsory interview.

FCA

Interviews under arrest

4.24 On occasion, where the police have a power of arrest, the *FCA* may make a request to the police for assistance to arrest the individual for questioning by the *FCA* (*FCA* investigators do not have powers of arrest), for example:

FCA

- (1) where it appears likely that inviting an individual to attend on a voluntary basis would prejudice an ongoing investigation or risk the destruction of evidence or the dissipation of assets; or
- (2) where a suspect declines an invitation to attend a voluntary interview.

The procedure the *FCA* may follow on such occasions in seeking assistance from the police is set out in a Memorandum of Understanding with the Association of Chief Police Officers of England, Wales and Northern Ireland dated 3 August 2005.⁶

Interviews in response to a request from an overseas regulator or EEA regulator

4.25 Where the *FCA* has appointed an investigator in response to a request from an *overseas regulator* or *EEA regulator*, it may, under sections 169(7) or 131FA of the *Act* respectively, direct the investigator to allow a representative of that regulator to attend, and take part in, any interview conducted for the purposes of the investigation. However, the

FCA

⁶ <http://www.fca.org.uk/your-fca/documents/association-of-chief-police-officers>

FCA may only use this power if it is satisfied that any information obtained by an *overseas regulator* or *EEA regulator* as a result of the interview will be subject to safeguards equivalent to those in Part XXIII of the *Act* (sections 169(8) and 131FA respectively).

4.26 The factors that the *FCA* may take into account when deciding whether to make a direction under section 169(7) include the following:

FCA

- (1) the complexity of the case;
- (2) the nature and sensitivity of the information sought;
- (3) the *FCA's* own interest in the case;
- (4) costs, where no Community obligation is involved, and the availability of resources; and
- (5) the availability of similar assistance to UK authorities in similar circumstances.

4.27 Under sections 169(9) and 131FA respectively, the *FCA* is required to prepare a statement of policy with the approval of the Treasury on the conduct of interviews attended by representatives of *overseas regulators* or *EEA regulators*. The statement is set out in *DEPP* 7.

FCA

Search and seizure powers

4.28 Under section 176 of the *Act*, the *FCA* has the power to apply to a justice of the peace for a warrant to enter premises where documents or information is held. The circumstances under which the *FCA* may apply for a search warrant include:

FCA

- (1) where a *person* on whom an information requirement has been imposed fails (wholly or in part) to comply with it; or
- (2) where there are reasonable grounds for believing that if an information requirement were to be imposed, it would not be complied with, or that the documents or information to which the information requirement relates, would be removed, tampered with or destroyed.

4.29 A warrant obtained pursuant to section 176 of the *Act* authorises a police constable or an *FCA* investigator in the company, and under the supervision of, a police constable, to do the following, amongst other things: to enter and search the premises specified in the warrant and take possession of any documents or information appearing to be documents or information of a kind in respect of which the warrant was issued or to take, in relation to any such documents or information, any other steps which may appear to be necessary for preserving them or preventing interference with them.

FCA

Preliminary findings letters and preliminary investigation reports

4.30 In cases where the *FCA* proposes to submit an investigation report to the *RDC* with a recommendation for regulatory action, the *FCA's* usual practice is to send a preliminary findings letter to the subject of an investigation before the matter is referred to the *RDC*. The letter will normally annex the investigators' preliminary investigation report. Comment will be invited on the contents of the preliminary findings letter and the preliminary investigation report.

FCA

4.31 The *FCA* recognises that preliminary findings letters serve a very useful purpose in focussing decision making on the contentious issues in the case. This in turn makes for better quality and more efficient decision making. However, there are exceptional circumstances in which the *FCA* may decide it is not appropriate to send out a preliminary findings letter. This includes:

FCA

- (1) where the subject consents to not receiving a preliminary findings letter; or
- (2) where it is not practicable to send a preliminary findings letter, for example where there is a need for urgent action in the interests of consumer protection, restoring market confidence or reducing *financial crime* or if the whereabouts of the subject are unknown; or
- (3) where the *FCA* believes that no useful purpose would be achieved in sending a preliminary findings letter, for example where it has otherwise already substantially disclosed its case to the subject and the subject has had an opportunity to respond to that case.

4.32 In cases where it is sent, the preliminary findings letter will set out the facts which the investigators consider relevant to the matters under investigation (normally, as indicated above, by means of an annexed preliminary investigation report). And it will invite the *person* concerned to confirm that those facts are complete and accurate, or to provide further comment. *FCA* staff will allow a reasonable period (normally 28 days) for a response to this letter, and will take into account any response received within the period stated in the letter. They are not obliged to take into account any response received outside that period.

FCA

4.33 Where the *FCA* has sent a preliminary findings letter and it then decides not to take any further action, the *FCA* will communicate this decision promptly to the person concerned.

FCA

Joint investigations with the PRA

4.34 In some cases, it may be appropriate for both the *FCA* and the *PRA* to pursue investigations into different aspects of the same misconduct (see *EG 2.15A*).

FCA

4.35 In such cases, the guidance contained in this chapter will apply to the *FCA*'s investigation and the *FCA* will attempt to ensure that the subject of the investigation is not prejudiced or unduly inconvenienced by the fact that there are two investigating authorities.

FCA

5. Settlement

Settlement and the FCA – an overview

- 5.1 The *FCA* resolves many enforcement cases by settlement. Early settlement has many potential advantages as it can result, for example, in *consumers* obtaining compensation earlier than would otherwise be the case, the saving of *FCA* and industry resources, messages getting out to the market sooner and a public perception of timely and effective action. The *FCA* therefore considers it is in the public interest for matters to settle, and settle early, if possible.
- FCA**
- 5.2 The possibility of settlement does not, however, change the fact that enforcement action is one of the tools available to the *FCA* to secure our *statutory objectives*. The *FCA* seeks to change the behaviour not only of those subject to the immediate action, but also of others who will be alerted to our concerns in a particular area. There is no distinction here between action taken following agreement with the subject of the enforcement action and action resisted by a firm before the *RDC*. In each case, the *FCA* must be satisfied that its decision is the right one, both in terms of the immediate impact on the subject of the enforcement action but also in respect of any broader message conveyed by the action taken.
- FCA**
- 5.3 Settlements in the *FCA* context are not the same as ‘out of court’ settlements in the commercial context. An *FCA* settlement is a regulatory decision, taken by the *FCA*, the terms of which are accepted by the *firm* or individual concerned. So, when agreeing the terms of a settlement, the *FCA* will carefully consider its *statutory objectives* and other relevant matters such as the importance of sending clear, consistent messages through enforcement action, and will only settle in appropriate cases where the agreed terms of the decision result in acceptable regulatory outcomes. Redress to *consumers* who may have been disadvantaged by a *firm’s* misconduct may be particularly important in this respect. Other than in exceptional circumstances, *FCA* settlements that give rise to the issue of a *final notice* or *supervisory notice* will result in some degree of publicity (see chapter 6), unlike commercial out of court settlements, which are often confidential.
- FCA**
- 5.4 In recognition of the value of early settlement, the *FCA* operates a scheme to award explicit discounts for early settlement of cases involving financial penalties. Details of the scheme, which applies only to settlement of cases where investigators were appointed on or after 20 October 2005, are set out in *DEPP* 6.7. This chapter provides some commentary on certain practical aspects of the operation of the scheme.
- FCA**
- 5.5 Decisions on settlements and *statutory notices* arising from them are taken by two members of the *FCA’s* senior management, rather than by the *RDC* (*DEPP* refers to these individuals as the ‘*settlement decision makers*’). Full details of the special decision making arrangements for settlements are set out in *DEPP* 5.
- FCA**

When settlement decisions may take place

- 5.6 Settlement discussions between *FCA* staff and the *person* concerned are possible at any stage of the enforcement process if both parties agree.

FCA

5.7 The *FCA* considers that in general, the earlier settlement discussions can take place the better this is likely to be from a public interest perspective. However, the *FCA* will only engage in such discussions once it has a sufficient understanding of the nature and gravity of the suspected misconduct or issue to make a reasonable assessment of the appropriate outcome. At the other end of the spectrum, the *FCA* expects that settlement discussions following a *decision notice* or *second supervisory notice* will be rare.

FCA

5.8 In the interests of efficiency and effectiveness, the *FCA* will set clear and challenging timetables for settlement discussions to ensure that they result in a prompt outcome and do not divert resources unnecessarily from progressing a case through the formal process. To this end, the *FCA* will aim to organise its resources so that the preparation for the formal process continues in parallel with any settlement discussions. The *FCA* will expect *firms* and others to give it all reasonable assistance in this regard.

FCA

The basis of settlement discussions

5.9 As described above, the *FCA* operates special decision-making arrangements under which members of *FCA* senior management take decisions on *FCA* settlements. This means that settlement discussions will take place without involving the *RDC*. The *FCA* would expect to hold any settlement discussions on the basis that neither *FCA* staff nor the *person* concerned would seek to rely against the other on any admissions or statements made if the matter is considered subsequently by the *RDC* or the *Tribunal*. This will not, however, prevent the *FCA* from following up, through other means, on any new issues of regulatory concern which come to light during settlement discussions. The *RDC* may be made aware of the fact negotiations are taking place if this is relevant, for example, to an application for an extension of the period for making representations.

FCA

5.10 If the settlement negotiations result in a proposed settlement of the dispute, *FCA* staff will put the terms of the proposed settlement in writing and agree them with the *person* concerned. The *settlement decision makers* will then consider the settlement under the procedures set out in *DEPP 5*. A settlement is also likely to result in the giving of *statutory notices* (see [paragraphs 2.37 to 2.39](#)).

FCA

Multiple parties and third party rights in enforcement action involving warning and decision notices

5.11 Enforcement cases often involve multiple parties, for example a *firm* and individuals in the *firm*. Enforcement action may be appropriate against just the *firm*, just the individuals or both. In some cases, it will not be possible to reach an acceptable settlement unless all parties are able to reach agreement.

FCA

5.12 Even where action is not taken against connected parties, these parties may have what the *Act* calls ‘third party rights’. Broadly, if any of the reasons contained in a *warning notice* or *decision notice* identifies a *person* (the third party) other than the *person* to whom the notice is given, and in the opinion of the *FCA* is prejudicial to the third party, a copy of the notice must be given to the third party unless that *person* receives a separate *warning notice* or *decision notice* at the same time. The third party has the right to make representations and ultimately can refer the matter to the *Tribunal*. Any representations made by the third party in response to a *warning notice* or *decision notice* will be considered by the *settlement decision makers*, who will also decide whether to give the *decision notice* or *final notice*.

FCA

5.13 In practice, third party rights do not frequently cause undue difficulty for settlement, either because they do not arise at all or because the third party agrees not to exercise such rights.

FCA

The settlement discount scheme

5.14 The *settlement discount scheme* allows a reduction in a financial penalty, period of suspension or period of restriction that would otherwise be imposed on a *person* according to the stage at which the agreement is reached. Full details of the scheme are set out in *DEPP* 6.7.

FCA

5.15 Normally, where the outcome is potentially a financial penalty, the *FCA* will send a letter at an early point in the enforcement process to the subject of the investigation. This is what the *FCA* refers to as a stage 1 letter.

FCA

5.16 The scheme does not apply to civil or criminal proceedings brought in the courts, or to *public censure, prohibition orders*, withdrawal of *authorisation* or approval or the payment of compensation or redress.

FCA

5.17 There is no set form for a stage 1 letter though it will always explain the nature of the misconduct, the *FCA's* view on penalty, and the period within which the *FCA* expects any settlement discussions to be concluded. In some cases, a draft *statutory notice* setting out the alleged *rule* breaches and the proposed penalty may form part of the letter, to convey the substance of the case team's concerns and reasons for arriving at a particular penalty figure.

FCA

5.18 The timing of the stage 1 letter will vary from case to case. Sufficient investigative work must have taken place for the *FCA* to be able to satisfy itself that the settlement is the right regulatory outcome. In many cases, the *FCA* can send out the stage 1 letter substantially before the *person* concerned is provided with the *FCA's* preliminary investigation report (see paragraphs 4.30 to 4.33). The latest point the *FCA* will send a stage 1 letter is when the *person* is provided with the preliminary investigation report.

FCA

5.19 The *FCA* considers that 28 days following a stage 1 letter will normally be the 'reasonable opportunity to reach agreement as to the amount of penalty' before the expiry of stage 1 contemplated by *DEPP* 6.7.3. Extensions to this period will be granted in exceptional circumstances only.

FCA

5.19A The procedure for the *settlement discount scheme* where the outcome is potentially a financial penalty, described in paragraphs 5.14 to 5.19, will also apply where the outcome is potentially a suspension or restriction.

FCA

Mediation

5.20 The *FCA* is committed to mediating appropriate cases; mediation and the involvement of a neutral mediator may help the *FCA* to reach an agreement with the *person* subject to enforcement action in circumstances where settlement might not otherwise be achieved or may not be achieved so efficiently and effectively.

FCA

5.21 Further information about the *FCA's* approach to mediation and the mediation process are set out on our web site.⁷

FCA

The relevance of settled cases to subsequent action

5.22 Decisions recorded in *FCA final notices* or *supervisory notices* will be taken into account in any subsequent case if the later case raises the same or similar issues to those considered by the *FCA* when it reached its earlier decision. Not to do so would expose the *FCA* to accusations of arbitrary and inconsistent decision-making. The need to look at earlier cases applies irrespective of whether the decisions were reached following settlement or consideration by the *RDC* or the *Tribunal*. This reflects the fact that a person's agreement to the action proposed by the *FCA* in the earlier case would not have relieved the *FCA* of the obligation to ensure that the final decision was the right regulatory outcome, both for the person concerned and more generally.

FCA

5.23 The *FCA* recognises the importance of consistency in its decision-making and that it must consider the approach previously taken to, say, the application of a particular *rule* or *Principle* in a given context. This applies equally to consideration by the *RDC* or by the *settlement decision makers* when they look at action taken by the *FCA* in earlier, similar, cases. This is not to say that the *FCA* cannot take a different view to that taken in the earlier case: the facts of two enforcement cases are very seldom identical, and it is also important that the *FCA* is able to respond to the demands of a changing and principles-based regulatory environment. But any decision to depart from the earlier approach will be made only after careful consideration of the reasons for doing so.

FCA

⁷ <http://www.fca.org.uk/firms/being-regulated/enforcement/how-we-enforce-the-law/settlement-mediation>

6. Publicity

Publicity during FCA investigations

6.1 The *FCA* will not normally make public the fact that it is or is not investigating a particular matter, or any of the findings or conclusions of an investigation except as described in other sections of this chapter. The following paragraphs deal with the exceptional circumstances in which the *FCA* may make a public announcement that it is or is not investigating a particular matter.

FCA

6.2 Where the matter in question has occurred in the context of a *takeover bid*, and the following circumstances apply, the *FCA* may make a public announcement that it is not investigating, and does not propose to investigate, the matter. Those circumstances are where the *FCA*:

FCA

- (1) has not appointed, and does not propose to appoint, investigators; and
- (2) considers (following discussion with the *Takeover Panel*) that such an announcement is appropriate in the interests of preventing or eliminating public uncertainty, speculation or rumour.

6.3 Where it is investigating any matter, the *FCA* will, in exceptional circumstances, make a public announcement that it is doing so if it considers such an announcement is desirable to:

FCA

- (1) maintain public confidence in the *financial system* or the market; or
- (2) protect *consumers* or investors; or
- (3) prevent widespread malpractice; or
- (4) help the investigation itself, for example by bringing forward witnesses; or
- (5) maintain the smooth operation of the market.

In deciding whether to make an announcement, the *FCA* will consider the potential prejudice that it believes may be caused to any *persons* who are, or who are likely to be, a subject of the investigation.

6.4 The exceptional circumstances referred to above may arise where the matters under investigation have become the subject of public concern, speculation or rumour. In this case it may be desirable for the *FCA* to make public the fact of its investigation in order to allay concern, or contain the speculation or rumour. Where the matter in question relates to a *takeover bid*, the *FCA* will discuss any announcement beforehand with the *Takeover Panel*. Any announcement will be subject to the restriction on disclosure of *confidential information* in section 348 of the *Act*.

FCA

6.5 [deleted]

6.6 The *FCA* will not normally publish details of the information found or conclusions reached during its investigations. In many cases, statutory restrictions on the disclosure of information obtained by the *FCA* in the course of exercising its functions are likely to prevent publication (see section 348 of the *Act*). In exceptional circumstances, and where it is not prevented from doing so, the *FCA* may publish details. Circumstances in which it may do so include those where the fact that the *FCA* is investigating has been made public, by the *FCA* or otherwise, and the *FCA* subsequently concludes that the concerns that prompted the investigation were unwarranted. This is particularly so if the *firm* under investigation wishes the *FCA* to clarify the matter.

FCA

Publicity during, or upon the conclusion of regulatory action

6.7 For *supervisory notices* (as defined in section 395(13)) which have taken effect⁸, *decision notices* and *final notices*, section 391 of the *Act* requires the *FCA* to publish, in such manner as it considers appropriate, such information about the matter to which the notice relates as it considers appropriate. Section 391 prevents the *FCA* from publishing *warning notices*, but the *FCA* may publish such information about the matter to which a *warning notice* falling within section 391(1ZB) of the *Act* relates as it considers appropriate after consulting the *persons* to whom the notice is given or copied. However, section 391(6) provides that the *FCA* cannot publish information if publication of it would, in its opinion, be unfair to the *person* with respect to whom the action was taken (or was proposed to be taken), prejudicial to the interests of *consumers*, or detrimental to the stability of the *UK financial system*.

FCA

6.7A The *FCA*'s approach to publishing information about *warning notices* is set out in paragraphs 6.7B to 6.7J below. This should be contrasted with the *FCA*'s approach to the publication of *decision notices* and *final notices* as set out in paragraphs 6.8 to 6.9 below. In particular, the considerations that the *FCA* will take into account when deciding what information to publish about a *warning notice*, including whether publication would be unfair, recognise that the *FCA* has a discretion as opposed to a duty to publish and that the recipient of a *warning notice* has not yet had a formal opportunity to make representations about the action the *FCA* proposes to take.

FCA

Warning notice statements

6.7B The *FCA* may publish information about *warning notices* which fall within section 391(1ZB) of the *Act*. These are essentially disciplinary *warning notices*, for example, where the *FCA* is proposing to censure, fine, suspend or restrict a *firm* or individual. The power to publish information does not apply, for example, to *warning notices* which only propose to prohibit an individual, withdraw the approval of an individual or cancel the permission of a *firm*.

FCA

6.7C The decisions on whether to exercise the power to publish information about a *warning notice*, and if so what information to publish, will be taken by the *RDC* after it has consulted with the *persons* to whom the *warning notice* has been given or copied. The procedure the *FCA* will follow when making these decisions is set out in *DEPP 3*.

FCA

6.7D The principal purpose of this power is to promote the early transparency of enforcement proceedings. This has several benefits, including:

FCA

- consumers, *firms* and market users will be able to understand the types of

⁸ Section 55Y(2) and section 391(8) of the *Act* define when a variation of permission under a supervisory notice takes effect

behaviour that the *FCA* considers unacceptable at an earlier stage, which in turn should encourage more compliant behaviour;

- by showing at an earlier stage that the *FCA* is taking action, confidence in the *FCA* and the regulatory system should be enhanced;
- there will be more openness in respect of the enforcement process, which will generally be in the public interest; and
- it aligns the stage at which publicity is given in regulatory cases with the stage at which publicity is given in civil and criminal cases.

6.7E The *FCA* will take the following initial steps in considering whether it is appropriate to exercise this power:

FCA

- (1) It will consider whether it is appropriate to publish details of the *warning notice* in order to enable consumers, *firms* and market users to understand the nature of the *FCA*'s concerns. The *FCA* will consider the circumstances of each case but expects normally to consider it appropriate to publish these details.
- (2) Where the *FCA* considers it is appropriate to publish details of the *warning notice*, it will consider whether it is also appropriate to identify the subject of the *warning notice*. The *FCA* will consider the circumstances of each case but expects normally that it will be appropriate to identify a firm, but that it will not be appropriate to identify an individual. This is because the *FCA* considers that the potential harm caused to an individual from publication at this stage of the enforcement proceedings will normally exceed the benefits of early transparency, but that this will not normally be the case in respect of *firms*. However, there may be circumstances where the *FCA* considers identification of an individual is appropriate, for example, where the *FCA* considers:
 - it is not possible to describe the nature of its concerns without making it possible to identify the individual;
 - it is necessary to avoid other *persons* being mistakenly believed to be the individual in breach;
 - it would help to protect *consumers* or investors;
 - it is necessary to maintain public confidence in the *financial system* or the market; or
 - it is desirable to quash rumours in the market.
- (3) Where the *FCA* considers it is appropriate either to publish details of the *warning notice* without identifying its subject, or to publish details of the *warning notice* and identify its subject, it will consult the *persons* to whom the notice is given or copied. It will then consider whether any of the grounds set out in section 391(6) of the *Act* prohibiting publication apply. These grounds are that publication of that information, or some of that information, would, in the opinion of the *FCA*, be unfair to the *person* with respect to whom the action was proposed to be taken, prejudicial to the interests of *consumers* or detrimental to the stability of the UK financial system. In considering whether publication would be unfair, the *FCA* will have regard to, amongst other matters, whether the *person* with respect to whom the action was proposed to be taken is a *firm* or an individual, the size of a *firm*, and the extent to which the *person* has been made aware of the case against him during the course of the investigation.

6.7F A *person* to whom the *warning notice* is given or copied who seeks to demonstrate potential unfairness from publication must provide clear and convincing evidence of how that unfairness may arise and how he could suffer a disproportionate level of damage. For example, this may be the case if publication could materially affect the person's health, result in bankruptcy or insolvency, a loss of livelihood or a significant loss of income, or prejudice criminal proceedings to which he is a party. The *FCA* is more likely to consider that the negative impact of publication on a person's reputation amounts to unfairness if the person also provides evidence of the harm that they could suffer as a consequence of the damage to their reputation. Arguments made solely on the basis that it is unfair for the *FCA* to have the power to publish information at this point of the enforcement process will have no effect on the *FCA*'s decision. Similarly, arguments about the merits of the *warning notice* itself will not be material to publication decisions; arguments of this nature should instead be made separately and later in the process by way of representations in response to the *warning notice*.

FCA

6.7G If, after consulting the *persons* to whom the notice is given or copied, the *FCA* still considers it is appropriate to publish information about a *warning notice*, it will publish this information in a statement (a *warning notice statement*). This will ordinarily include a brief summary of the facts which gave rise to the *warning notice* to enable consumers, *firms* and market users to understand the nature of the *FCA*'s concerns. Where the *FCA* considers it appropriate to identify the subject of the *warning notice*, it will also include details of:

FCA

- (1) the name of the *firm* or individual;
- (2) additional information to enable the identification of the *firm* or individual; and
- (3) in the case of an *approved person*, his or her employer at the relevant time.

6.7H As the *FCA* may only publish information about disciplinary *warning notices* and not others, it will in many cases not be able to publish details of all of the sanctions it is seeking to impose (for example, the fact that it is proposing to prohibit an individual as well as impose a fine). For this reason, the *FCA* will not normally publish the nature and level of the proposed disciplinary sanctions.

FCA

6.7I Any *warning notice statement* the *FCA* publishes will make clear that:

FCA

- (a) the *warning notice* is not the final decision of the *FCA*;
- (b) the recipient has the right to make representations to the *RDC* which, in the light of those representations, will decide on the appropriate action and whether to issue a *decision notice*; and
- (c) if a *decision notice* is issued, the subject of the notice will have the right to refer the matter to the *Tribunal* which will reach an independent decision on the appropriate action for the *FCA* to take.

6.7J Publication will generally include placing the *warning notice statement* on the *FCA* website. The *FCA* will also consider what information about the matter should be included on the *Financial Services Register*.

FCA

Decision notices and final notices

- 6.8 **FCA** The *FCA* will consider the circumstances of each case, but will ordinarily publicise enforcement action where this has led to the issue of a *final notice*. The *FCA* may also publicise enforcement action where this has led to the issue of a *decision notice*. The *FCA* will decide on a case-by-case basis whether to publish information about the matter to which a *decision notice* relates, but expects normally to publish a *decision notice* if the subject of enforcement action decides to refer the matter to the *Tribunal*. The *FCA* may also publish a *decision notice* before a person has decided whether to refer the matter to the *Tribunal* if the *FCA* considers there is a compelling reason to do so. For example, the *FCA* may consider that early publication of the detail of its reasons for taking action is necessary for market confidence reasons or to allow *consumers* to avoid any potential harm arising from a *firm's* actions. If a *person* decides not to refer a matter to the *Tribunal*, the *FCA* will generally only publish a *final notice*.
- 6.8A **FCA** If the *FCA* intends to publish a *decision notice*, it will give advance notice of its intention to the *person* to whom the *decision notice* is given and to any third party to whom a copy of the notice is given. The *FCA* will consider any representations made, but will normally not decide against publication solely because it is claimed that publication could have a negative impact on a *person's* reputation. The *FCA* will also not decide against publication solely because a *person* asks for confidentiality when they refer a matter to the *Tribunal*.
- 6.8B **FCA** Publication will generally include placing the *decision notice* or *final notice* on the *FCA* website and this will often be accompanied by a press release. The *FCA* will also consider what information about the matter should be included on the *Financial Services Register*. Additional guidance on the *FCA's* approach to the publication of information on the *Financial Services Register* in certain specific types of cases is set out at the end of this chapter.
- 6.9 **FCA** However, as required by the *Act* (see paragraph 6.7 above), the *FCA* will not publish information if publication of it would, in its opinion, be unfair to the *person* in respect of whom the action is taken or prejudicial to the interests of *consumers*, or detrimental to the stability of the *UK financial system*. It may make that decision where, for example, publication could damage market confidence or undermine market integrity in a way that could be damaging to the interests of *consumers*.
- 6.10 **FCA** Publishing notices is important to ensure the transparency of *FCA* decision-making; it informs the public and helps to maximise the deterrent effect of enforcement action. The *FCA* will upon request review warning notice statements, *decision notices*, *final notices* and related press releases that are published on the *FCA's* website. The *FCA* will determine at that time whether continued publication is appropriate, or whether notices and publicity should be removed or amended.
- 6.10A **FCA** In carrying out its review the *FCA* will consider all relevant factors. In particular, the *FCA* will take into account:
- the seriousness of the *person's* misconduct;
 - the nature of the action taken by the *FCA* and the level of any sanction imposed on the *person*;
 - whether the *FCA* has continuing concerns in respect of the *person* and any risk they might pose to the *FCA's* objectives;

- whether the *person* is a *firm* or an individual;
- whether the publication sets out the *FCA's* expectations regarding behaviour in a particular area, and if so, whether that message still has educational value;
- public interest in the case (both at the time and subsequently);
- whether continued publication is necessary for deterrence, consumer protection or market confidence reasons;
- how much time has passed since publication; and
- any representations made by the person on the continuing impact on them of the publication.

6.10B FCA The *FCA* expects usually to conclude that warning notice statements, notices and related press releases that have been published for less than six years should not be removed from the website, and that notices and related press releases relating to prohibition orders which are still applicable should not be removed from the website regardless of the length of time they have been published.

6.10C FCA In cases where the *FCA* publishes a warning notice statement and the *FCA* subsequently decides not to take any further action, or where it publishes a *decision notice* and the subject of enforcement action successfully refers the matter to the *Tribunal*, the *FCA* will make it clear on its website that the *warning notice* or the *decision notice* no longer applies. The *FCA* will normally do this by publishing a *notice of discontinuance* with the consent of the *person* to whom the *notice of discontinuance* has been copied.

Supervisory notices varying a firm's Part 4A permission or imposing a requirement on the FCA's own initiative (see chapter 8 of this guide)

6.11 [deleted]

6.12 FCA Publishing the reasons for variations of *Part 4A permission* the imposition of requirements, and maintaining an accurate public record, are important elements of the *FCA's* approach to its *statutory objectives*. The *FCA* will always aim to balance both the interests of *consumers* and the possibility of unfairness to the *person* subject to the *FCA's* action. The *FCA* will publish relevant details of both fundamental and non-fundamental variations of *Part 4A permission* and requirements which it imposes on *firms*. But it will use its discretion not to do so if it considers this to be unfair to the person on whom the variation is imposed, prejudicial to the interests of *consumers*, or detrimental to the stability of the *UK financial system*. Publication will generally include placing the notice on the *FCA* website and this may be accompanied by a press release. As with warning notice statements, *decision notices* and *final notices*, *supervisory notices* and related press releases that are published on the *FCA's* website will be reviewed upon request. The *FCA* will determine at that time whether continued publication is appropriate, or whether notices and related press releases should be removed or amended. The *FCA* expects usually to conclude that *supervisory notices* and related press releases that have been published for less than six years should not be removed from the website.

6.12A FCA The *FCA* will amend the *Financial Services Register* to reflect a *firm's* actual *Part 4A permission* following any variation.

Decisions against ECA providers

6.13 This is discussed in paragraphs 19.37 and 19.38 of this guide.

FCA

Publicity in RDC cases

6.14 The Chairman of the *RDC*, or his relevant Deputy, will approve the contents of press releases to be published by the *FCA* in cases in which the decision to take action was made by the *RDC*, unless the *RDC's* decision is superseded by a decision of the *Tribunal*.

FCA

Publicity during, or upon the conclusion of civil action

6.15 Civil court proceedings nearly always take place in public from the time they begin. Therefore, civil proceedings for an *injunction* (see chapter 10) or a restitution order (see chapter 11), for example, will often be public as soon as they start.

FCA

6.16 The *FCA* considers it generally appropriate to publish details of its successful applications to the court for civil remedies including *injunctions* or restitution orders. For example, where the court has ordered an *injunction* to prohibit further illegal *regulated activity*, the *FCA* thinks it is appropriate to publicise this to tell *consumers* of the position and help them avoid dealing with the *person* who is the subject of the *injunction*. Similarly, a restitution order may be publicised to protect and inform *consumers* and maintain market confidence. However, there may be circumstances when the *FCA* decides not to publicise, or not to do this immediately. These circumstances might, for example, be where publication could damage confidence in the *financial system* or undermine market integrity in a way that would be prejudicial to the interests of *consumers*.

FCA

Publicity during, or upon the conclusion of criminal action (see chapter 12)

6.17 The *FCA* will normally publicise the outcome of public hearings in criminal prosecutions.

FCA

6.17A When conducting a criminal investigation the *FCA* will generally consider making a public announcement when suspects are arrested, when search warrants are executed and when charges are laid. A public announcement may also be made at other stages of the investigation when this is considered appropriate.

FCA

6.17B The *FCA* will always be very careful to ensure that any *FCA* publicity does not prejudice the fairness of any subsequent trial.

FCA

Behaviour in the context of takeover bid

6.18 Where the behaviour to which a *decision notice*, *final notice*, civil action, or criminal action relates has occurred in the context of a *takeover bid*, the *FCA* will consult the *Takeover Panel* over the timing of publication if the *FCA* believes that publication may affect the timetable or outcome of that bid, and will give due weight to the *Takeover Panel's* views.

FCA

The Financial Services register: publication of prohibitions of individuals (see chapter 9)

6.19

FCA

Once the decision to make a *prohibition order* is no longer open to review, the *FCA* will consider what additional information about the circumstances of the *prohibition order* to include on the *Financial Services Register*. The *FCA* will balance any possible prejudice to the individual concerned against the interests of *consumer* protection. The *FCA's* normal approach to maintaining information about a *prohibition order* on the *Financial Services Register* is as follows:

- (1) The *FCA* will maintain an entry on the *Financial Services Register* while a *prohibition order* is in effect. If the *FCA* grants an application to vary the order, it will make a note of the variation on the *Financial Services Register*.
- (2) Where the *FCA* grants an application to revoke a *prohibition order*, it will make a note on the *Financial Services Register* that the order has been revoked giving reasons for the revocation. The availability to *firms* and *consumers* of a full record of *FCA* action taken in relation to an individual's fitness and propriety will help it in furthering its *statutory objectives*. In particular, it will help with protecting *consumers* and the maintaining of confidence in the *financial system*.
- (3) The *FCA* will maintain an annotated record of revoked *prohibition orders* for six years from the date of the revocation after which time it will remove the record from the *Financial Services Register*.

The Financial Services register: publication of disciplinary measures against auditors and actuaries (see chapter 15)

6.20

FCA

To help it fulfil its operational objective of protecting *consumers*, the *FCA* will keep on the *Financial Services Register* a record of *firms* or individual auditors or actuaries who have been the subject of disqualification orders or other disciplinary measures by the *FCA*.

The Financial Services Register: publication of disapplication orders against members of the professions (see chapter 16)

6.21

FCA

In general, the *FCA* considers that publishing relevant information about orders to disapply an exemption in respect of a member of a *designated professional body* will be in the interests of clients and *consumers*. The *FCA* will consider what additional information about the circumstances of the order to include on the record maintained on the *Financial Services Register* taking into account any prejudice to the *person* concerned and the interests of *consumer* protection.

6.22

FCA

The *FCA's* normal approach to maintaining information about a disapplication order on the *Financial Services Register* is as follows.

- (1) While a disapplication order is in effect, the *FCA* will maintain a record of the order on the *Financial Services Register*. If the *FCA* grants an application to vary the order, a note of the variation will be made against the relevant entry on the *Financial Services Register*.
- (2) The *FCA's* policy in relation to section 347(4) of the *Act* is that where an application to revoke an order is granted, it will make a note on the *Financial Services Register* saying that the order has been revoked giving reasons for its revocation. Having a full record of action the *FCA* has taken against *persons*

granted an exemption under section 327 of the *Act* available will help the *FCA* to fulfil its operational objectives of securing an appropriate degree of protection for *consumers* and protecting and enhancing the integrity of the *UK financial system*.

- (3) This is why the *FCA* will maintain the annotated record of the disapplication order for a period of six years from the date of the revocation of the order, after which period the record will be removed from the record on the *Financial Services Register*.

7. Financial penalties, suspensions and public censures

The FCA's use of sanctions

7.1 **FCA** Financial penalties, suspensions and *public censures* are important regulatory tools. However, they are not the only tools available to the *FCA*, and there will be many instances of non-compliance which the *FCA* considers it appropriate to address without the use of financial penalties, suspensions or *public censures*. Having said that, the effective and proportionate use of the *FCA*'s powers to enforce the requirements of the *Act*, the *rules* and the Statements of Principle for Approved Persons (APER) will play an important role in the *FCA*'s pursuit of its *statutory objectives*. Imposing financial penalties, suspensions and *public censures* shows that the *FCA* is upholding regulatory standards and helps to maintain market confidence and deter *financial crime*. An increased public awareness of regulatory standards also contributes to the protection of *consumers*.

7.2 **FCA** The *FCA* has the following powers to impose a financial penalty and to publish a *public censure*.

- (1) It may publish a statement:
 - (a) against an *approved person* under section 66 of the *Act*;
 - (b) against an *issuer* under section 87M of the *Act*;
 - (c) against a *sponsor* under section 88A of the *Act*;
 - (ca) against a *primary information provider* under section 89Q of the *Act*;
 - (d) where there has been a contravention of the *Part 6 rules*, under section 91 of the *Act*;
 - (e) where there has been *market abuse*, against a *person* under section 123 of the *Act*;
 - (ea) if a natural or legal person has contravened any provision of the *short selling regulation*, or any requirement imposed on that person under section 131E or 131F, under section 131G of the *Act*;
 - (eb) against a qualifying parent undertaking under section 192K of the *Act*;
 - (ec) against an auditor under section 249 of the *Act*;
 - (ed) against a *recognised investment exchange* under section 312E of the *Act*;
 - (ee) against an auditor and/or an *actuary* under section 345 of the *Act*;
and

- (f) against a *firm*, or an *unauthorised person* to whom section 404C applies, under section 205 of the *Act*.
- (2) It may impose a financial penalty:
- (a) on a *person* that performs a *controlled function* without approval, under section 63A of the *Act*;
 - (aa) on an *approved person*, under section 66 of the *Act*;
 - (ab) on a *sponsor* under section 88A of the *Act*;
 - (ac) on a *primary information provider* under section 89Q of the *Act*;
 - (b) where there has been a contravention of the *Part 6 rules*, under section 91 of the *Act*;
 - (c) where there has been *market abuse*, on any *person*, under section 123 of the *Act*;
 - (ca) on a natural or legal person who has contravened any provision of the *short selling regulation*, or any requirement imposed on that person under section 131E or 131F, or any natural or legal person who was knowingly concerned in the contravention, under section 131G of the *Act*;
 - (cb) on a qualifying parent undertaking under section 192K of the *Act*;
 - (d) on a *firm*, or an *unauthorised person* to whom section 404C applies, under section 206 of the *Act*;
 - (da) on an auditor under section 249 of the *Act*;
 - (db) on a *recognised investment exchange* under section 312F of the *Act*; and
 - (dc) on an auditor and/or *actuary* under section 345 of the *Act*.
- (3) It may impose a suspension, limitation or other restriction:
- (a) on an *approved person* under section 66 of the *Act*;
 - (b) on a *sponsor* under section 88A of the *Act*;
 - (c) on a *primary information provider* under section 89Q of the *Act*; and
 - (d) on a *firm* under section 206A of the *Act*.

7.2A Section 415B of the *Act* requires the *FCA* to consult with the *PRA* before it takes certain enforcement action in relation to a *PRA-authorised person* or someone who has a qualifying relationship (as defined in section 415B(4) of the *Act*) with a *PRA-authorised*

FCA

person. Further detail on when the *FCA* is required to consult the *PRA*, and when it has agreed to notify the *PRA* of certain matters, is set out in the Memorandum of Understanding between the *PRA* and the *FCA*.

Alternatives to financial penalties and public censures

7.3

The *FCA* also has measures available to it where it considers it is appropriate to take protective or remedial action. These include:

FCA

- (1) where a *firm's* continuing ability to meet the *threshold conditions* or where an *approved person's* fitness and propriety to perform the *controlled functions* to which his approval relates are called into question:
 - (a) varying and/or cancelling of *permission* and the withdrawal of a *firm's* authorisation (see chapter 8); and
 - (b) the withdrawal of an individual's status as an approved person and/or the prohibition of an individual from performing a specified function in relation to a *regulated activity* (see chapter 9).
- (2) where the smooth operation of the market is, or may be, temporarily jeopardised or where protecting investors so requires, the *FCA* may suspend, with effect from such time as it may determine, the *listing* of any *securities* at any time and in such circumstances as it thinks fit (whether or not at the request of the *issuer* or its *sponsor* on its behalf);
- (3) when the *FCA* is satisfied there are special circumstances which preclude normal regular dealings in any *listed securities*, it may cancel the *listing* of any *security*;
- (4) where there are reasonable grounds to suspect non compliance with the *disclosure rules*, the *FCA* may require the suspension of trading of a financial instrument with effect from such time as it may determine; and
- (5) where there are reasonable grounds for suspecting that a provision of Part VI of the *Act*, a provision contained in the *prospectus rules*, or any other provision made in accordance with the *Prospectus Directive* has been infringed, the *FCA* may:
 - (a) suspend or prohibit the offer to the public of transferable securities as set out in section 87K of the *Act*; or
 - (b) suspend or prohibit admission of transferable securities to trading on a regulated market as set out in section 87L of the *Act*.

FCA's statements of policy

7.4

FCA

The *FCA's* statement of policy in relation to the imposition of financial penalties is set out in *DEPP* 6.2 (Deciding whether to take action), *DEPP* 6.3 (Penalties for market abuse) and *DEPP* 6.4 (Financial penalty or public censure). The *FCA's* statement of policy in relation to the amount of a financial penalty is set out in *DEPP* 6.5 to *DEPP* 6.5D. The *FCA's* statement of policy in relation to financial penalties for late submission of reports is set out in *DEPP* 6.6. The *FCA's* statement of policy in relation to the imposition of suspensions or

restrictions is set out in *DEPP* 6A (The power to impose a suspension or restriction).

Apportionment of financial penalties

- 7.5 In a case where the *FCA* is proposing to impose a financial penalty on a *person* for two or more separate and distinct areas of misconduct, the *FCA* will consider whether it is appropriate to identify in the *decision notice* and *final notice* how the penalty is apportioned between those separate and distinct areas. Apportionment will not however generally be appropriate in other cases.

FCA

Payment of financial penalties

- 7.6 Financial penalties must be paid within the period (usually 14 days) that is stated on the *FCA's final notice*. The *FCA's* policy in relation to reducing a penalty because its payment may cause a *person* serious financial hardship is set out in *DEPP* 6.5D.

FCA

- 7.7 [deleted]

- 7.8 Chapter 6 of the General Provisions module of the *FCA Handbook (GEN)* contains *rules* prohibiting a *firm* or *member* from entering into, arranging, claiming on or making a payment under a *contract of insurance* that is intended to have, or has, the effect of indemnifying any *person* against a financial penalty.

FCA

- 7.8A Chapter 6 of the General Provisions of the *FCA Handbook (GEN)* also contains a rule prohibiting a *firm*, except a *sole trader*, from paying a financial penalty imposed by the *FCA* on a present or former *employee, director* or *partner* of the *firm* or of an *affiliated company*.

FCA

- 7.9 *Rule* 1.5.33 in the *FCA's* Prudential Sourcebook for Insurers (*INSPRU*) prohibits a *long-term insurer* (including a *firm* qualifying for *authorisation* under Schedule 3 or 4 to the *Act*), which is not a mutual, from paying a financial penalty from a long-term insurance fund.

FCA

Private warnings

- 7.10 In certain cases, despite concerns about a *person's* behaviour or evidence of a *rule* breach, the *FCA* may decide that it is not appropriate, having regard to all the circumstances of the case, to bring formal action for a financial penalty or *public censure*. This is consistent with the *FCA's* risk-based approach to enforcement. In such cases, the *FCA* may give a private warning to make the *person* aware that they came close to being subject to formal action.

FCA

- 7.11 Private warnings are a non-statutory tool. Fundamentally they are no different to any other *FCA* communication which criticises or expresses concern about a *person's* conduct. But private warnings are a more serious form of reprimand than would usually be made in the course of ongoing supervisory correspondence. A private warning requires that the *FCA* identifies and explains its concerns about a *person's* conduct and/or procedures, and tells the subject of the warning that the *FCA* has seriously considered formal steps to impose a penalty or censure. They are primarily used by the *FCA* as an enforcement tool, but they may also be used by other parts of the *FCA*.

FCA

- 7.12 Typically, the *FCA* might give a private warning rather than take formal action where the matter giving cause for concern is minor in nature or degree, or where the person has taken full and immediate remedial action. But there can be no exhaustive list of the conduct or

FCA

the circumstances which are likely to lead to a private warning rather than more serious action. The *FCA* will take into account all the circumstances of the case before deciding whether a private warning is appropriate. Many of the criteria identified in *DEPP 6* for determining whether the *FCA* should take formal action for a financial penalty or *public censure* will also be relevant to a decision about whether to give a private warning.

- 7.13 **FCA** Generally, the *FCA* would expect to use private warnings in the context of *firms* and *approved persons*. However, the *FCA* may also issue private warnings in circumstances where the *persons* involved may not necessarily be authorised or approved. For example, private warnings may be issued in potential cases of *market abuse*; cases where the *FCA* has considered making a *prohibition order* or a disapplication order; or cases involving breaches of provisions imposed by or under Part VI of the *Act* (Official Listing).
- 7.14 **FCA** In each case, the *FCA* will consider the likely impact of a private warning on the recipient and whether any risk that *person* poses to the *statutory objectives* requires the *FCA* to take more serious action. Equally, where the *FCA* gives a private warning to an *approved person*, the *FCA* will consider whether it would be desirable and appropriate to inform the *approved person's firm* (or employer, if different) of the conduct giving rise to the warning and the *FCA's* response.
- 7.15 **FCA** A private warning is not intended to be a determination by the *FCA* as to whether the recipient has breached the *FCA's rules*. However, private warnings, together with any comments received in response, will form part of the *person's* compliance history. In this sense they are no different to other *FCA* correspondence, but the weight the *FCA* attaches to a private warning is likely to be greater. They may therefore influence the *FCA's* decision whether to commence action for a penalty or censure in relation to future breaches. Where action is commenced in those circumstances, earlier private warnings will not be relied upon in determining whether a breach has taken place. However, if a *person* has previously been told about the *FCA's* concerns in relation to an issue, either by means of a private warning or in supervisory correspondence, then this can be an aggravating factor for the level of a penalty imposed in respect of a similar issue that is the subject of later *FCA* action.
- 7.16 **FCA** Where the *FCA* is assessing the relevance of private warnings in determining whether to commence action for a financial penalty or a *public censure*, the age of a private warning will be taken into consideration. However, a long-standing private warning may still be relevant.
- 7.17 **FCA** Private warnings may be considered cumulatively, although they relate to separate areas of a *firm's* or other *person's* business, where the concerns which gave rise to those warnings are considered to be indicative of a *person's* compliance culture. Similarly, private warnings issued to different subsidiaries of the same parent company may be considered cumulatively where the concerns which gave rise to those warnings relate to a common management team.

How a person will know they are receiving a private warning

- 7.18 **FCA** It will be obvious from the terms of any letter written by the *FCA* whether it is intended to constitute a private warning. In particular, a warning letter will describe itself as a private warning and will refer to this chapter to explain the consequences of receiving it for the person.

The procedure for giving a private warning

7.19

FCA

The *FCA's* normal practice is to follow a "minded-to" procedure before deciding whether to give a private warning. This means that it will notify in writing the intended recipient of the warning that it has concerns about their conduct and inform them that the *FCA* proposes to give a private warning. The recipient will then have an opportunity to comment on our understanding of the circumstances giving rise to the *FCA's* concerns and whether a private warning is appropriate. The *FCA* will carefully consider any response to its initial letter before it decides whether to give the private warning. The decision will be taken by an *FCA* head of department or a more senior member of *FCA* staff.

8. Variation and cancellation of permission and imposition of requirements on the FCA's own initiative and intervention against incoming firms

8.1 The *FCA* has powers under section 55J of the *Act* to vary or cancel an *authorised person's Part 4A permission* and a power under section 55L to impose requirements on an *authorised person*. The *FCA* may use these powers where:

FCA

- (1) the person is failing or is likely to fail to satisfy the *threshold conditions* for which the *FCA* is responsible;
- (2) the person has not carried on a *regulated activity* to which the *Part 4A permission* relates for a period of at least 12 months; or
- (3) it is desirable to exercise the power in order to advance one or more of its operational objectives.

8.1A The powers to vary and cancel a person's *Part 4A permission* and to impose requirements are exercisable in the same circumstances. However, the statutory procedure for the exercise of the *own-initiative powers* is different to the statutory procedure for the exercise of the cancellation power and this may determine how the *FCA* acts in a given case. Certain types of behaviour which may cause the *FCA* to cancel permission in one case, may lead it to impose requirements, vary, or vary and cancel, permission in another, depending on the circumstances. The non-exhaustive examples provided below are therefore illustrative but not conclusive of which action the *FCA* will take in a given case.

FCA

Varying a firm's Part 4A permission or imposing requirements on the FCA's own initiative

8.1B When it considers how it should deal with a concern about a *firm*, the *FCA* will have regard to its *statutory objectives* and the range of regulatory tools that are available to it. It will also have regard to:

FCA

- (1) the responsibilities of a *firm's* management to deal with concerns about the *firm* or about the way its business is being or has been run; and
- (2) the principle that a restriction imposed on a *firm* should be proportionate to the objectives the *FCA* is seeking to achieve.

8.2 The *FCA* will proceed on the basis that a *firm* (together with its directors and senior management) is primarily responsible for ensuring the *firm* conducts its business in compliance with the *Act*, the *Principles* and other *rules*.

FCA

8.3 In the course of its supervision and monitoring of a *firm* or as part of an enforcement action, the *FCA* may make it clear that it expects the *firm* to take certain steps to meet regulatory requirements. In the vast majority of cases the *FCA* will seek to agree with a *firm* those steps the *firm* must take to address the *FCA's* concerns. However, where the *FCA* considers it appropriate to do so, it will exercise its formal powers under sections 55J or 55L of the *Act* to vary a *firm's* permission or to impose a requirement to ensure such

FCA

requirements are met. This may include where:

- (1) the *FCA* has serious concerns about a *firm*, or about the way its business is being or has been conducted;
- (2) the *FCA* is concerned that the consequences of a *firm* not taking the desired steps may be serious;
- (3) the imposition of a formal statutory requirement reflects the importance the *FCA* attaches to the need for the firm to address its concerns;
- (4) the imposition of a formal statutory requirement may assist the *firm* to take steps which would otherwise be difficult because of legal obligations owed to third parties.

8.3A *SUP 7* provides more information about the situations in which the *FCA* may decide to take formal action in the context of its supervision activities.

FCA

8.4 [deleted]

8.5 Examples of circumstances in which the *FCA* will consider varying a *firm's Part 4A permission* because it has serious concerns about a *firm*, or about the way its business is being or has been conducted include where:

FCA

- (1) in relation to the grounds for exercising the power under section 55J(1)(a) or section 55L(2)(a) of the *Act*, the firm appears to be failing, or appears likely to fail, to satisfy the *threshold conditions* relating to one or more, or all, of its *regulated activities*, because for instance:
 - (a) the *firm's* material and financial resources appear inappropriate for the scale or type of *regulated activity* it is carrying on, for example, where it has failed to take account of the need to manage risk professional indemnity insurance or where it is unable to meet its liabilities as they have fallen due; or
 - (b) the *firm* appears not to be a fit and proper *person* to carry on a *regulated activity* because:
 - (i) it has not conducted its business in compliance with high standards which may include putting itself at risk of being used for the purposes of *financial crime* or being otherwise involved in such crime;
 - (ii) it has not been managed soundly and prudently and has not exercised due skill, care, and diligence in carrying on one or more, or all, of its *regulated activities*;
 - (iii) it has breached requirements imposed on it by or under the *Act* (including the *Principles* and the *rules*), for example in respect of its disclosure or notification requirements, and the breaches are material in number or in individual seriousness;
 - (c) the *firm's* business model is not suited to its *regulated activities*, for example, where the *firm's* business model

is not compatible with its affairs being conducted in a sound and prudent manner;

(d) the *firm* is not capable of effective supervision by the *FCA*, for example, where the way in which its business is organised or its membership of a group is likely to prevent effective supervision;

(2) in relation to the grounds for exercising the power under section 55J(1)(c)(i) or section 55L(2)(c), it appears that the interests of *consumers* are at risk because the *firm* appears to have breached any of *Principles* 6 to 10 of the *FCA*'s *Principles* (see *PRIN* 2.1.1R) to such an extent that it is desirable that *limitations*, restrictions, or prohibitions are placed on the *firm's regulated activity*.

Use of the own-initiative powers in urgent cases

8.6 The *FCA* may impose a variation of permission or a requirement so that it takes effect immediately or on a specified date if it reasonably considers it necessary for the variation or requirement to take effect immediately (or on the date specified), having regard to the ground on which it is exercising its *own-initiative powers*.

FCA

8.7 The *FCA* will consider exercising its *own-initiative power* as a matter of urgency where:

FCA

- (1) the information available to it indicates serious concerns about the *firm* or its business that need to be addressed immediately; and
- (2) circumstances indicate that it is appropriate to use statutory powers immediately to require and/or prohibit certain actions by the *firm* in order to ensure the *firm* addresses these concerns.

8.8 It is not possible to provide an exhaustive list of the situations that will give rise to such serious concerns, but they are likely to include one or more of the following characteristics:

FCA

- (1) information indicating significant loss, risk of loss or other adverse effects for *consumers*, where action is necessary to protect their interests;
- (2) information indicating that a *firm's* conduct has put it at risk of being used for the purposes of *financial crime*, or of being otherwise involved in crime;
- (3) evidence that the *firm* has submitted to the *FCA* inaccurate or misleading information so that the *FCA* becomes seriously concerned about the *firm's* ability to meet its regulatory obligations;
- (4) circumstances suggesting a serious problem within a *firm* or with a *firm's controllers* that calls into question the *firm's* ability to continue to meet the *threshold conditions*.

8.9 The *FCA* will consider the full circumstances of each case when it decides whether an urgent variation of *Part 4A permission* or an imposition of a requirement is appropriate. The following is a non-exhaustive list of factors the *FCA* may consider.

FCA

- (1) The extent of any loss, or risk of loss, or other adverse effect on *consumers*. The

more serious the loss or potential loss or other adverse effect, the more likely it is that the *FCA*'s urgent exercise of *own-initiative powers* will be appropriate, to protect the *consumers'* interests.

- (2) The extent to which *customer* assets appear to be at risk. Urgent exercise of the *FCA*'s *own-initiative power* may be appropriate where the information available to the *FCA* suggests that *customer* assets held by, or to the order of, the *firm* may be at risk.
- (3) The nature and extent of any false or inaccurate information provided by the *firm*. Whether false or inaccurate information warrants the *FCA*'s urgent exercise of its *own-initiative powers* will depend on matters such as:
 - (a) the impact of the information on the *FCA*'s view of the *firm's* compliance with the regulatory requirements to which it is subject, the *firm's* suitability to conduct *regulated activities*, or the likelihood that the *firm's* business may be being used in connection with *financial crime*;
 - (b) whether the information appears to have been provided in an attempt knowingly to mislead the *FCA*, rather than through inadvertence;
 - (c) whether the matters to which false or inaccurate information relates indicate there is a risk to *customer* assets or to the other interests of the *firm's* actual or potential *customers*.
- (4) The seriousness of any suspected breach of the requirements of the legislation or the *rules* and the steps that need to be taken to correct that breach.
- (5) The financial resources of the *firm*. Serious concerns may arise where it appears the *firm* may be required to pay significant amounts of compensation to *consumers*. In those cases, the extent to which the *firm* has the financial resources to do so will affect the *FCA*'s decision about whether exercise of the *FCA*'s *own-initiative powers* is appropriate to preserve the *firm's* assets, in the interests of the *consumers*. The *FCA* will take account of any insurance cover held by the *firm*. It will also consider the likelihood of the *firm's* assets being dissipated without the *FCA*'s intervention, and whether the exercise of the *FCA*'s power to petition for the winding up of the *firm* is more appropriate than the use of its *own-initiative powers* (see [chapter 13](#) of this guide).
- (6) The risk that the *firm's* business may be used or has been used to facilitate *financial crime*, including *money laundering*. The information available to the *FCA*, including information supplied by other law enforcement agencies, may suggest the *firm* is being used for, or is itself involved in, *financial crime*. Where this appears to be the case, and the *firm* appears to be failing to meet the *threshold conditions* or has put its *customers'* interests at risk, the *FCA*'s urgent use of its *own-initiative powers* may well be appropriate.
- (7) The risk that the *firm's* conduct or business presents to the *financial system* and to confidence in the *financial system*.
- (8) The *firm's* conduct. The *FCA* will take into account:
 - (a) whether the *firm* identified the issue (and if so whether this was by

- chance or as a result of the *firm's* normal *controls* and monitoring);
 - (b) whether the *firm* brought the issue promptly to the *FCA's* attention;
 - (c) the *firm's* past history, management ethos and compliance culture;
 - (d) steps that the *firm* has taken or is taking to address the issue.
- (9) The impact that use of the *FCA's own-initiative powers* will have on the *firm's* business and on its *customers*. The *FCA* will take into account the (sometimes significant) impact that a variation of *permission* may have on a *firm's* business and on its *customers'* interests, including the effect of variation on the *firm's* reputation and on market confidence. The *FCA* will need to be satisfied that the impact of any use of the *own-initiative power* is likely to be proportionate to the concerns being addressed, in the context of the overall aim of achieving its *statutory objectives*.

Limitations and requirements that the FCA may impose when exercising its section 55J and 55L powers

- 8.10 When varying *Part 4A permission* at its own-initiative under its section 55J power (or section 55Q power), the *FCA* may include in the *Part 4A permission* as varied any *limitation* or restriction which it could have imposed if a fresh *permission* were being given in response to an application under section 55A of the *Act*.
- FCA**
- 8.11 Examples of the *limitations* that the *FCA* may impose when exercising its *own-initiative variation power* in support of its enforcement function include *limitations* on: the number, or category, of *customers* that a *firm* can deal with; the number of specified investments that a *firm* can deal in; and the activities of the *firm* so that they fall within specific regulatory regimes (for example, so that *oil market participants, locals, corporate finance advisory firms* and service providers are permitted only to carry on those types of activities).
- FCA**
- 8.11A Under its section 55L power (or section 55Q power), the *FCA* may, at any time and of its own initiative, impose on an *authorised person* such requirements as it considers appropriate.
- FCA**
- 8.12 Examples of *requirements* that the *FCA* may consider imposing when exercising its *own-initiative power* in support of its enforcement function are: a *requirement* not to take on new business; a *requirement* not to hold or control *client money*; a *requirement* not to trade in certain categories of *specified investment*; a *requirement* that prohibits the disposal of, or other dealing with, any of the *firm's* assets (whether in the United Kingdom or elsewhere) or restricts those disposals or dealings; and a *requirement* that all or any of the *firm's* assets, or all or any assets belonging to investors but held by the *firm* to its order, must be transferred to a *trustee* approved by the *FCA*.
- FCA**

Cancelling a firm's Part 4A permission on its own initiative

- 8.13 The *FCA* will consider cancelling a *firm's Part 4A permission* using its *own-initiative powers* contained in sections 55J and 55Q respectively of the *Act* in two main circumstances:
- FCA**
- (1) where the *FCA* has very serious concerns about a *firm*, or the way its business is

or has been conducted;

- (2) where the *firm's regulated activities* have come to an end and it has not applied for *cancellation* of its *Part 4A permission*.

8.14

FCA

The grounds on which the *FCA* may exercise its power to cancel an authorised person's permission under section 55J of the *Act* are the same as the grounds for variation and for imposition of requirements. They are set out in section 55J(1) and section 55L(2) and described in *EG 8.1*. Examples of the types of circumstances in which the *FCA* may cancel a *firm's Part 4A permission* include:

- (1) non-compliance with a *Financial Ombudsman Service* award against the *firm*;
- (2) material non-disclosure in an application for authorisation or approval or material non-notification after authorisation or approval has been granted. The information which is the subject of the non-disclosure or non-notification may also be grounds for cancellation;
- (3) failure to have or maintain adequate financial resources, or a failure to comply with regulatory capital requirements;
- (4) non-submission of, or provision of false information in, regulatory returns, or repeated failure to submit such returns in a timely fashion;
- (5) non-payment of *FCA* fees or repeated failure to pay *FCA* fees except under threat of enforcement action; and
- (6) failure to provide the *FCA* with valid contact details or failure to maintain the details provided, such that the *FCA* is unable to communicate with the *firm*;
- (7) repeated failures to comply with *rules* or requirements;
- (8) a failure to co-operate with the *FCA* which is of sufficient seriousness that the *FCA* ceases to be satisfied that the *firm* is fit and proper, for example failing without reasonable excuse to:
 - (a) comply with the material terms of a formal agreement made with the *FCA* to conclude or avoid disciplinary or other enforcement action; or
 - (b) provide material information or take remedial action reasonably required by the *FCA*.

Sections 55J(6) and 55K of the *Act* sets out further grounds on which the *FCA* may cancel the permission of *authorised persons* which are *investment firms*.

8.15

FCA

Depending on the circumstances, the *FCA* may need to consider whether it should first use its *own-initiative powers* to impose requirements on a *firm* or to vary a *firm's Part 4A permission* before going on to cancel it. Amongst other circumstances, the *FCA* may use this power where it considers it needs to take immediate action against a *firm* because of the urgency and seriousness of the situation.

8.16

FCA

Where the situation appears so urgent and serious that the *firm* should immediately cease to carry on all *regulated activities*, the *FCA* may first vary the *firm's Part 4A permission* so that there is no longer any *regulated activity* for which the *firm* has a *Part 4A permission*. If

it does this, the *FCA* will then have a duty to cancel the *firm's Part 4A permission* - once it is satisfied that it is no longer necessary to keep the *Part 4A permission* in force.

- 8.17 FCA However, where the *FCA* has cancelled a *firm's Part 4A permission*, it is required by section 33 of the *Act* to go on to give a direction withdrawing the *firm's authorisation*. Accordingly, the *FCA* may decide to keep a *firm's Part 4A permission* in force to maintain the *firm's* status as an *authorised person* and enable it (the *FCA*) to monitor the *firm's* activities. An example is where the *FCA* needs to supervise an orderly winding down of the *firm's* regulated business (see *SUP* 6.4.22 (When will the relevant regulator grant an application for cancellation of *permission*)). Alternatively, the *FCA* may decide to keep a *firm's Part 4A permission* in force to maintain the *firm's* status as an *authorised person* to use administrative enforcement powers against the *firm*.

Exercising the power under section 55Q to vary or cancel a firm's Part 4A permission or to impose requirements on a firm in support of an overseas regulator: the FCA's policy

- 8.18 FCA The *FCA* has a power under section 55Q to vary, or alternatively cancel, a *firm's Part 4A permission*, or to impose requirements on a *firm*, in support of an *overseas regulator*. Section 55Q(4), (5) and (6) set out matters the *FCA* may, or must, take into account when it considers whether to exercise these powers. The circumstances in which the *FCA* may consider varying a *firm's Part 4A permission* or imposing requirements in support of an *overseas regulator* depend on whether the *FCA* is required to consider exercising the power in order to comply with a Community obligation. This reflects the fact that under section 55Q, if a relevant *overseas regulator* acting under prescribed provisions has made a request to the *FCA* for the exercise of its *own-initiative power* to vary or cancel a *Part 4A permission* or to impose requirements, the *FCA* must consider whether it must exercise the power in order to comply with a Community obligation.
- 8.19 FCA Relevant Community obligations which the *FCA* may need to consider include those under the Banking Consolidation Directive, the Insurance Directives, the Investment Services Directive/Markets in Financial Instruments Directive; and the Insurance Mediation Directive. Each of these Directives imposes general obligations on the relevant *EEA competent authority* to cooperate and collaborate closely in discharging their functions under the Directives.
- 8.20 FCA The *FCA* views this cooperation and collaboration as essential to effective regulation of the international market in financial services. It will therefore exercise its *own-initiative powers* wherever:
- (1) an *EEA Competent authority* requests it to do so; and
 - (2) it is satisfied that the use of the power is appropriate (having regard to the considerations set out at [paragraphs 8.1B to 8.5](#)) to enforce effectively the regulatory requirements imposed under the *Single Market Directives* or other Community obligations.
- 8.21 FCA The *FCA* will actively consider any other requests for assistance from relevant *overseas regulators* (that is requests in relation to which it is not obliged to act under a Community obligation). Section 55Q, which sets out matters the *FCA* may take into account when it decides whether to vary or cancel a *firm's Part 4A permission* or to impose requirements on a *firm* in support of the *overseas regulator*, applies in these circumstances.
- 8.22 Where section 55Q(5) applies and the *FCA* is considering whether to vary a *firm's Part 4A permission* or to impose requirements on a *firm*, it may take account of all the factors

FCA

described in [paragraphs 8.18 to 8.25](#) but may give particular weight to:

- (1) the matters set out in paragraphs (c) and (d) of section 55Q(5) (seriousness, importance to persons in the United Kingdom, and the public interest); and
- (2) any specific request made to it by the *overseas regulator* to impose requirements or to vary, rather than cancel, the *firm's Part 4A permission*.

8.23

FCA

The *FCA* will give careful consideration to whether the relevant authority's concerns would provide grounds for the *FCA* to exercise its *own-initiative powers* to vary, impose requirements or cancel if they related to a UK *firm*. It is not necessary for the *FCA* to be satisfied that the overseas provisions being enforced mirror precisely those which apply to UK *firms*. However, the *FCA* will not assist in the enforcement of regulatory requirements or other provisions that appear to extend significantly beyond the purposes of *UK regulatory provisions*.

8.24

FCA

Similarly, the *FCA* will not need to be satisfied that precisely the same assistance would be provided to the United Kingdom in precisely the same situation. However, it will wish to be confident that the relevant authorities in the jurisdiction concerned would have powers available to them to provide broadly similar assistance in aid of UK authorities, and would be willing properly to consider exercising those powers. The *FCA* may decide, under section 55Q(6), not to exercise its *own-initiative powers* to vary or cancel in response to a request unless the regulator concerned undertakes to make whatever contribution towards the cost of its exercise the *FCA* considers appropriate.

8.25

FCA

[Paragraphs 8.11 and 8.12](#) set out some examples of *limitations* and *requirements* the *FCA* may impose when exercising its section 55Q powers.

The FCA's policy on exercising its power of intervention against incoming firms under section 196 of the Act

8.26

FCA

The *FCA* adopts a similar approach to the exercise of its *power of intervention* under section 196 as it does to its *own-initiative powers* to vary *Part 4A permission* or impose requirements, but with suitable modification for the differences in the statutory grounds for exercising the powers. Consequently the factors and considerations set out in paragraphs [8.1B to 8.12](#) and [8.18 to 8.25](#) may also be relevant when the *FCA* is considering regulatory concerns about *incoming firms*.

8.27

FCA

When it is considering action against an *incoming firm*, the *FCA* will co-operate with the *firm's Home State regulator* as appropriate, including notifying and informing the *firm's Home State regulator* as required by the relevant section of the *Act*.

9. Prohibition Orders and withdrawal of approval

Introduction

- 9.1 **FCA** The *FCA's* power under section 56 of the *Act* to prohibit individuals who are not fit and proper from carrying out functions in relation to *regulated activities* helps the *FCA* to work towards achieving its *statutory objectives*. The *FCA* may exercise this power to make a *prohibition order* where it considers that, to achieve any of those objectives, it is appropriate either to prevent an individual from performing any function in relation to *regulated activities*, or to restrict the functions which he may perform.
- 9.2 **FCA** The *FCA's* effective use of the power under section 63 of the *Act* to withdraw approval from an *approved person* will also help ensure high standards of regulatory conduct by preventing an *approved person* from continuing to perform the *controlled function* to which the approval relates if he is not a fit and proper person to perform that function. Where it considers this is appropriate, the *FCA* may prohibit an *approved person*, in addition to withdrawing their approval.

The *FCA's* general policy in this area

- 9.3 **FCA** In deciding whether to make a *prohibition order* and/or, in the case of an *approved person*, to withdraw its approval, the *FCA* will consider all the relevant circumstances including whether other enforcement action should be taken or has been taken already against that individual by the *FCA*. As is noted below, in some cases the *FCA* may take other enforcement action against the individual in addition to seeking a *prohibition order* and/or withdrawing its approval. The *FCA* will also consider whether enforcement action has been taken against the individual by other enforcement agencies or *designated professional bodies*.
- 9.4 **FCA** The *FCA* has the power to make a range of *prohibition orders* depending on the circumstances of each case and the range of *regulated activities* to which the individual's lack of fitness and propriety is relevant. Depending on the circumstances of each case, the *FCA* may seek to prohibit individuals from performing any class of function in relation to any class of *regulated activity*, or it may limit the *prohibition order* to specific functions in relation to specific *regulated activities*. The *FCA* may also make an order prohibiting an individual from being employed by a particular *firm*, type of *firm* or any *firm*.
- 9.5 **FCA** The scope of a *prohibition order* will depend on the range of functions which the individual concerned performs in relation to *regulated activities*, the reasons why he is not fit and proper and the severity of risk which he poses to *consumers* or the market generally.
- 9.6 **FCA** Where the *FCA* issues a *prohibition order*, it may indicate in the *decision notice* or *final notice* that it would be minded to revoke the order on the application of the individual in the future, in the absence of new evidence that the individual is not fit and proper. If the *FCA* gives such an indication, it will specify the number of years after which it would be minded to revoke or vary the prohibition on an application. However, the *FCA* will only adopt this approach in cases where it considers it appropriate in all the circumstances. In deciding whether to adopt this approach, the factors the *FCA* may take into account include, but are not limited to, where appropriate, the factors at [paragraphs 9.9 and at 9.17](#).

The *FCA* would not be obliged to revoke an order after the specified period even where it gave such an indication. Further, if an individual's *prohibition order* is revoked, he would still have to satisfy the *FCA* as to his fitness for a particular role in relation to any future application for approval to perform a *controlled function*.

- 9.7 FCA [Paragraphs 9.8 to 9.14](#) set out additional guidance on the *FCA's* approach to making *prohibition orders* against *approved persons* and/or withdrawing such persons' approvals. [Paragraphs 9.17 to 9.18](#) set out additional guidance on the *FCA's* approach to making *prohibition orders* against other individuals.

Prohibition orders and withdrawal of approval - approved persons

- 9.8 FCA When the *FCA* has concerns about the fitness and propriety of an *approved person*, it may consider whether it should prohibit that person from performing functions in relation to *regulated activities*, withdraw its approval, or both. In deciding whether to withdraw its approval and/or make a *prohibition order*, the *FCA* will consider in each case whether its *statutory objectives* can be achieved adequately by imposing disciplinary sanctions, for example, *public censures* or financial penalties, or by issuing a private warning.

- 9.9 FCA When it decides whether to make a *prohibition order* against an *approved person* and/or withdraw its approval, the *FCA* will consider all the relevant circumstances of the case. These may include, but are not limited to those set out below.

- (1) The matters set out in section 61(2) of the *Act*.
- (2) Whether the individual is fit and proper to perform functions in relation to *regulated activities*. The criteria for assessing the fitness and propriety of *approved persons* are set out in *FIT* 2.1 (Honesty, integrity and reputation); *FIT* 2.2 (Competence and capability) and *FIT* 2.3 (Financial soundness).
- (3) Whether, and to what extent, the *approved person* has:
 - (a) failed to comply with the *Statements of Principle* issued by the *FCA* with respect to the conduct of *approved persons*; or
 - (b) been knowingly concerned in a contravention by the relevant *firm* of a requirement imposed on the *firm* by or under the *Act* (including the *Principles* and other *rules*) or failed to comply with any directly applicable Community regulation made under *MiFID* or any directly applicable provision of the *auction regulation*.
- (4) Whether the *approved person* has engaged in *market abuse*.
- (5) The relevance and materiality of any matters indicating unfitness.
- (6) The length of time since the occurrence of any matters indicating unfitness.
- (7) The particular *controlled function* the *approved person* is (or was) performing, the nature and activities of the *firm* concerned and the markets in which he operates.
- (8) The severity of the risk which the individual poses to *consumers* and to confidence in the *financial system*.

- (9) The previous disciplinary record and general compliance history of the individual including whether the *FCA*, any *previous regulator*, *designated professional body* or other domestic or international regulator has previously imposed a disciplinary sanction on the individual.
- 9.10 **FCA** The *FCA* may have regard to the cumulative effect of a number of factors which, when considered in isolation, may not be sufficient to show that the individual is not fit and proper to continue to perform a *controlled function* or other function in relation to *regulated activities*. It may also take account of the particular *controlled function* which an *approved person* is performing for a *firm*, the nature and activities of the *firm* concerned and the markets within which it operates.
- 9.11 **FCA** Due to the diverse nature of the activities and functions which the *FCA* regulates, it is not possible to produce a definitive list of matters which the *FCA* might take into account when considering whether an individual is not a fit and proper person to perform a particular, or any, function in relation to a particular, or any, *firm*.
- 9.12 **FCA** The following are examples of types of behaviour which have previously resulted in the *FCA* deciding to issue a *prohibition order* or withdraw the approval of an *approved person*:
- (1) Providing false or misleading information to the *FCA*; including information relating to identity, ability to work in the United Kingdom, and business arrangements;
 - (2) Failure to disclose material considerations on application forms, such as details of County Court Judgments, criminal convictions and dismissal from employment for regulatory or criminal breaches. The nature of the information not disclosed can also be relevant;
 - (3) Severe acts of dishonesty, e.g. which may have resulted in financial crime;
 - (4) Serious lack of competence; and
 - (5) Serious breaches of the *Statements of Principle* for *approved persons*, such as failing to make terms of business regarding fees clear or actively misleading clients about fees; acting without regard to instructions; providing misleading information to clients, consumers or third parties; giving clients poor or inaccurate advice; using intimidating or threatening behaviour towards clients and former clients; failing to remedy breaches of the general prohibition or to ensure that a firm acted within the scope of its permissions.
- 9.13 **FCA** Certain matters that do not fit squarely, or at all, within the matters referred to above may also fall to be considered. In these circumstances the *FCA* will consider whether the conduct or matter in question is relevant to the individual's fitness and propriety.
- 9.14 **FCA** Where it considers it is appropriate to withdraw an individual's approval to perform a *controlled function* within a particular *firm*, it will also consider, at the very least, whether it should prohibit the individual from performing that function more generally. Depending on the circumstances, it may consider that the individual should also be prohibited from performing other functions.
- 9.14A **FCA** The *FCA* will consult the *PRA* before withdrawing an approval given by the *PRA*.

Prohibition orders against exempt persons and members of professional firms

9.15 In cases where it is considering whether to exercise its power to make a *prohibition order* against an individual performing functions in relation to *exempt regulated activities* by virtue of an exemption from the *general prohibition* under Part XX of the *Act*, the *FCA* will consider whether the particular unfitness might be more appropriately dealt with by making an order disapplying the exemption using its power under section 329 of the *Act*. In most cases where the *FCA* is concerned about the fitness and propriety of a specific individual in relation to *exempt regulated activities* by virtue of an exemption under Part XX of the *Act*, it will be more appropriate to make an order prohibiting the individual from performing functions in relation to *exempt regulated activities* than to make a disapplication order.

FCA

9.16 When considering whether to exercise its power to make a *prohibition order* against an *exempt person*, the *FCA* will consider all relevant circumstances including, where appropriate, the factors set out in [paragraph 9.9](#).

FCA

Prohibition orders against other individuals

9.17 Where the *FCA* is considering making a *prohibition order* against an individual other than an individual referred to in [paragraphs 9.8 to 9.14](#), the *FCA* will consider the severity of the risk posed by the individual, and may prohibit the individual where it considers this is appropriate to achieve one or more of its *statutory objectives*.

FCA

9.18 When considering whether to exercise its power to make a *prohibition order* against such an individual, the *FCA* will consider all the relevant circumstances of the case. These may include, but are not limited to, where appropriate, the factors set out in [paragraph 9.9](#).

FCA

Applications for variation or revocation of prohibition orders

9.19 When considering whether to grant or refuse an application to revoke or vary a *prohibition order*, the *FCA* will consider all the relevant circumstances of a case. These may include, but are not limited to:

FCA

- (1) the seriousness of the misconduct or other unfitness that resulted in the order;
- (2) the amount of time since the original order was made;
- (3) any steps taken subsequently by the individual to remedy the misconduct or other unfitness;
- (4) any evidence which, had it been known to the *FCA* at the time, would have been relevant to the *FCA's* decision to make the *prohibition order*;
- (5) all available information relating to the individual's honesty, integrity or competence since the order was made, including any repetition of the misconduct which resulted in the prohibition order being made;
- (6) where the *FCA's* finding of unfitness arose from incompetence rather than from dishonesty or lack of integrity, evidence that this unfitness has been or will be remedied; for example, this may be achieved by the satisfactory completion of relevant training and obtaining relevant qualifications, or by supervision of the individual by his employer;

- (7) the financial soundness of the individual concerned; and
- (8) whether the individual will continue to pose the level of risk to *consumers* or confidence in the *financial system* which resulted in the original prohibition if it is lifted.

9.20 When considering whether to grant or refuse an application to revoke or vary a *prohibition order*, the *FCA* will take into account any indication given by the *FCA* in the *final notice* that it is minded to revoke or vary the *prohibition order* on application after a certain number of years (see [paragraph 9.6](#)).

FCA

9.21 If the individual applying for a revocation or variation of a *prohibition order* proposes to take up an offer of employment to perform a *controlled function*, the *approved persons* regime will also apply to him. In these cases, the *firm* concerned will be required to apply to the *FCA* for approval of that individual's employment in that capacity. The *FCA* will assess the individual's fitness and propriety to perform *controlled functions* on the basis of the criteria set out in *FIT 2.1* (Honesty, integrity and reputation); *FIT 2.2* (Competence and capability) and *FIT 2.3* (Financial soundness).

FCA

9.22 The *FCA* will not generally grant an application to vary or revoke a *prohibition order* unless it is satisfied that: the proposed variation will not result in a reoccurrence of the risk to *consumers* or confidence in the *financial system* that resulted in the order being made; and the individual is fit to perform functions in relation to *regulated activities* generally, or to those specific *regulated activities* in relation to which the individual has been prohibited.

FCA

9.22A The *FCA* will consult the *PRA* before varying or revoking a prohibition order if, as a result of the variation or revocation, an individual will either be prohibited from, or no longer be prohibited from, a function of interest to the *PRA* as defined at section 56(7B) of the *Act*.

FCA

Other powers that may be relevant when the FCA is considering whether to exercise its power to make a prohibition order

9.23 In appropriate cases, the *FCA* may take other action against an individual in addition to making a *prohibition order* and/or withdrawing its approval, including the use of its powers to: impose a financial penalty or issue a *public censure*; apply for an *injunction* to prevent dissipation of assets; stop any continuing misconduct; order restitution; apply for an insolvency order or an order against debt avoidance; and/or prosecute certain criminal offences.

FCA

The effect of the FCA's decision to make a prohibition order

9.24 The *FCA* may consider taking disciplinary action against a *firm* that has not taken reasonable care, as required by section 56(6) of the *Act*, to ensure that none of that *firm's* functions in relation to carrying on of a *regulated activity* is performed by a *person* who is prohibited from performing the function by a *prohibition order*. The *FCA* considers that a search by a *firm* of the *Financial Services Register* is an essential part of the statutory duty to take reasonable care to ensure that *firms* do not employ or otherwise permit prohibited individuals to perform functions in relation to *regulated activities*. In addition, the *FCA* expects firms to check the *Financial Services Register* when making applications for approval under section 59 of the *Act*. More generally, if a *firm's* search of the *Financial Services Register* reveals no record of a *prohibition order*, the *FCA* will consider taking action for breach of section 56(6) only where the *firm* had access to other information indicating that a *prohibition order* had been made.

FCA

The effect of the FCA's decision to withdraw approval

9.25 When the *FCA's* decision to withdraw an approval has become effective, the position of the *firm* which applied for that approval depends on whether it directly employs the *person* concerned, or whether the *person* is employed by one of its contractors.

FCA

9.26 Section 59(1) is relevant where the *firm* directly employs the *person* concerned. Under the provision, a firm ('A') must take reasonable care to ensure that no *person* performs a *controlled function* under an *arrangement* entered into by A in relation to the carrying on by it of a *regulated activity*, unless the *appropriate regulator* (as defined in section 59(4) of the *Act*) approves the performance by that *person* of the *controlled function* to which the approval relates. Therefore, if the *firm* continues to employ the *person* concerned to carry out a *controlled function*, it will be in breach of section 59(1) and the *FCA* may take enforcement action against it (save where the *firm* concerned is a *PRA-authorised person* and the approval concerned falls to be given by the *PRA*).

FCA

9.27 Section 59(2) is relevant where the *person* is employed by a contractor of the *firm*. It requires a *firm* ('A') to take reasonable care to ensure that no *person* performs a *controlled function* under an arrangement entered into by a contractor of A in relation to the carrying on by A of a *regulated activity*, unless the *appropriate regulator* (as defined in section 59(4) of the *Act*) approves the performance by that person of the *controlled function* to which the approval relates. Therefore, if a contractor of the *firm* employs the person concerned, and the contractor continues to employ the *person* to carry out a *controlled function*, the *firm* itself will be in breach of section 59(2) unless it has taken reasonable care to ensure that this does not happen. The *FCA* may take enforcement action against a *firm* that breaches this requirement (save where the *firm* concerned is a *PRA-authorised person* and the approval concerned falls to be given by the *PRA*).

FCA

9.28 *Firms* should be aware of the potential effect that these provisions may have on their contractual relationships with *approved persons* employed by them and with contractors engaged by them, and their obligations under those contracts.

FCA

10. Injunctions

10.1A **FCA** Decisions about whether to apply to the civil courts for injunctions under the *Act* will be made by the *RDC* Chairman or, in an urgent case and if the Chairman is not available, by an *RDC* Deputy Chairman. In an exceptionally urgent case the matter will be decided by the director of Enforcement or, in his or her absence, another member of the *FCA*'s executive of at least director of division level.

10.1B **FCA** An exceptionally urgent case in these circumstances is one where the *FCA* staff believe that a decision to begin proceedings

- (1) should be taken before it is possible to follow the procedure described in paragraph 10.1A; and
- (2) it is necessary to protect the interests of consumers or potential consumers.

10.1 **FCA** The orders the court may make following an application by the *FCA* under the powers referred to in this chapter are generally known in England and Wales as *injunctions*, and in Scotland as *interdicts*. In the chapter, the word '*injunction*' and the word '*order*' also mean '*interdict*'. The *FCA*'s effective use of these powers will help it work towards its *operational objectives*, in particular, those of securing an appropriate degree of protection for *consumers*, protecting and enhancing the integrity of the *UK financial system* and promoting effective competition in the interests of *consumers* in the markets.

Section 380 (injunctions for breaches of relevant requirements⁹) and section 381 (injunctions in cases of market abuse): the *FCA*'s policy

10.2 **FCA** The court may make three types of order under these provisions: to restrain a course of conduct, to take steps to remedy a course of conduct and to secure assets. As is explained below, the court may also make an order freezing assets under its inherent jurisdiction. In certain cases, the *FCA* may seek only one type of order, although in others it may seek several.

10.3 **FCA** The broad test the *FCA* will apply when it decides whether to seek an *injunction* is whether the application would be the most effective way to deal with the *FCA*'s concerns. In deciding whether an application for an *injunction* is appropriate in a given case, the *FCA* will consider all relevant circumstances and may take into account a wide range of factors. The following list of factors is not exhaustive; not all the factors will be relevant in a particular case and there may be other factors that are relevant.

- (1) The nature and seriousness of a contravention or expected contravention of a relevant requirement. The extent of loss, risk of loss, or other adverse effect on *consumers*, including the extent to which *client* assets may be at risk, may be

⁹ Under sections 380(6)(a) and (7)(a), a 'relevant requirement' in relation to an application by the appropriate regulator means a requirement: which is imposed by or under the *Act* or by a qualifying EU provision specified, or of a description specified, for the purpose of subsection 380(6) by the Treasury by order; or which is imposed by or under any other Act and whose contravention constitutes an offence mentioned in section 402(1) of the *Act*. The definition of "appropriate regulator" is set out in subsections 380(8) to (12) of the *Act*.

relevant. The seriousness of a contravention or prospective contravention will include considerations of:

- (a) whether the losses suffered are substantial;
 - (b) whether the numbers of *consumers* who have suffered loss are significant;
 - (c) whether the assets at risk are substantial; and
 - (d) whether the number of *consumers* at risk is significant.
- (2) In cases of *market abuse*, the nature and seriousness of the misconduct or expected misconduct in question. The following may be relevant:
- (a) the impact or potential impact on the *financial system* of the conduct in question. This would include the extent to which it has resulted in distortion or disruption of the markets, or would be likely to do so if it was allowed to take place or to continue;
 - (b) the extent and nature of any losses or other costs imposed, or likely to be imposed, on other users of the *financial system*, as a result of the misconduct.
- (3) Whether the conduct in question has stopped or is likely to stop and whether steps have been taken or will be taken by the *person* concerned to ensure that the interests of *consumers* are adequately protected. For example, an application for an *injunction* may be appropriate where the *FCA* has grounds for believing that a contravention of a relevant requirement, *market abuse* or both may continue or be repeated. It is likely to have grounds to believe this where, for example, the *Takeover Panel* has requested that a person stop a particular course of conduct and that *person* has not done so.
- (4) Whether there are steps a *person* could take to remedy a contravention of a relevant requirement or *market abuse*. The steps the *FCA* may require a *person* to take will vary according to the circumstances but may include the withdrawal of a misleading *financial promotion* or publishing a correction, writing to clients or investors to notify them of *FCA* action, providing financial redress and repatriating funds from an overseas jurisdiction. An application by the *FCA* to the court under section 380(2) or 381(2) for an order requiring a *person* to take such steps may not be appropriate if, for example, that *person* has already taken or proposes to take appropriate remedial steps at his own initiative or under a ruling imposed by another regulatory authority (such as the *Takeover Panel* or a *recognised investment exchange*). If another authority has identified the relevant steps and the *person* concerned has failed to take them, the *FCA* will take this into account and (subject to all other relevant factors and circumstances) may consider it is appropriate to apply for an *injunction*. In those cases the *FCA* may consult with the relevant regulatory authority before applying for an *injunction*.
- (5) Whether there is a danger of assets being dissipated. The main purpose of an application under section 380(3), sections 381(3) and (4) or pursuant to the court's inherent jurisdiction, is likely to be to safeguard funds containing *client* assets (e.g. *client* accounts) and/or funds and other assets from which restitution may be made. The *FCA* may seek an *injunction* to secure assets while a

suspected contravention is being investigated or where it has information suggesting that a contravention is about to take place.

- (6) The costs the *FCA* would incur in applying for and enforcing an *injunction* and the benefits that would result. There may be other cases which require the *FCA's* attention and take a higher priority, due to the nature and seriousness of the breaches concerned. There may, therefore, be occasions on which the *FCA* considers that time and resources should not be diverted from other cases in order to make an application for an *injunction*. These factors reflect the *FCA's* duty under the *Act* to have regard to the need to use its resources in the most efficient and economic way.
- (7) The disciplinary record and general compliance history of the *person* who is the subject of the possible application. This includes whether the *FCA* (or a *previous regulator*) has taken any previous disciplinary, remedial or protective action against the *person*. It may also be relevant, for example, whether the *person* has previously given any undertakings to the *FCA* (or any *previous regulator*) not to do a particular act or engage in particular behaviour and is in breach of those undertakings.
- (8) Whether the conduct in question can be adequately addressed by other disciplinary powers, for example *public censure* or financial penalties.
- (9) The extent to which another regulatory authority can adequately address the matter. Certain circumstances may give rise not only to possible enforcement action by the *FCA*, but also to action by other regulatory authorities. The *FCA* will examine the circumstances of each case, and consider whether it is appropriate for the *FCA* to take action to address the relevant concern. In most cases the *FCA* will consult with other relevant regulatory authorities before making an application for an order.
- (10) Whether there is information to suggest that the *person* who is the subject of the possible application is involved in *financial crime*.
- (11) In any case where the *FCA* is of the opinion that any potential exercise of its powers under section 381 may affect the timetable or the outcome of a *takeover bid*, the *FCA* will consult the *Takeover Panel* before taking any steps to exercise these powers and will give due weight to its views.

Asset-freezing injunctions

- 10.4 FCA Where the *FCA* applies to the court under section 380(3) or sections 381(3) and (4) of the *Act*, the *FCA* may ask the court to exercise its inherent jurisdiction to make orders on an interim basis, restraining a *person* from disposing of, or otherwise dealing with, assets. To succeed in an application for such interim relief, the *FCA* will have to show a good arguable case for the granting of the *injunction*. The *FCA* will not have to show that a contravention has already occurred or may have already occurred.
- 10.5 FCA The *FCA* may request the court to exercise its inherent jurisdiction in cases, for example, where it has evidence showing that there is a reasonable likelihood that a *person* will contravene a requirement of the *Act* and that the contravention will result in the dissipation of assets belonging to investors.

Other relevant powers

- 10.6 **FCA** The *FCA* has a range of powers it can use to take remedial, protective and disciplinary action against a *person* who has contravened a relevant requirement or engaged in *market abuse*, as well as its powers to seek *injunctions* under sections 380 and 381 of the *Act* and under the courts' inherent jurisdiction. Where appropriate, the *FCA* may exercise these other powers before, at the same time as, or after it applies for an *injunction* against a *person*.
- 10.7 **FCA** When, in relation to *firms*, the *FCA* applies the broad test outlined in paragraph 10.3, it will consider the relative effectiveness of the other powers available to it, compared with injunctive relief. For example, where the *FCA* has concerns about whether a *firm* will comply with restrictions that the *FCA* could impose by exercising its *own-initiative powers*, it may decide it would be more appropriate to seek an *injunction*. This is because breaching any requirement imposed by the court could be punishable for contempt. Alternatively, where, for example, the *FCA* has already imposed requirements on a *firm* by exercising its *own-initiative powers* and these requirements have not been met, the *FCA* may seek an *injunction* to enforce those requirements.
- 10.8 **FCA** The *FCA's own-initiative powers* do not apply to *unauthorised persons*. This means that an application for an *injunction* is the only power by which the *FCA* may seek directly to prevent *unauthorised persons* from actual or threatened breaches or *market abuse*. The *FCA* will decide whether an application against an *unauthorised person* is appropriate, in accordance with the approach discussed in paragraph 10.3. The *FCA* may also seek an *injunction* to secure assets where it intends to use its insolvency powers against an *unauthorised person*.
- 10.9 **FCA** In certain cases, conduct that may be the subject of an *injunction* application will also be an offence which the *FCA* has power to prosecute under the *Act*. In those cases, the *FCA* will consider whether it is appropriate to prosecute the offence in question, as well as applying for *injunctions* under section 380, section 381, or both.
- 10.10 **FCA** Where the *FCA* exercises its powers under section 380, section 381 and/or invokes the court's inherent jurisdiction to obtain an order restraining the disposal of assets, it may also apply to the court for a restitution order for the distribution of those assets.

Section 198: the FCA's policy

- 10.11 **FCA** Under section 198 of the *Act* the *FCA* has power to apply to court on behalf of the *Home State regulator* of certain *incoming EEA firms* for an *injunction* restraining the *incoming EEA firm* from disposing of, or otherwise dealing with, any of its assets. The *FCA* will consider exercising this power only where a request from a *Home State regulator* satisfies the requirements of section 198(1).

Applications for injunctions under regulation 12 of the Unfair Terms Regulations: the FCA's policy

- 10.12 **FCA** If the *FCA* decides to address issues using its powers under the *Unfair Terms Regulations*, and the contract is within its scope as described in the *FCA's Regulatory Guide* on these powers, it will, unless the case is urgent, generally first write to the *person* expressing its concerns about the potential unfairness within the meaning of the *Unfair Terms Regulations* of a term or terms in the *person's* contract and inviting the *person's* comments

on those concerns. If the *FCA* remains of the view that the term is unfair within the meaning of the *Unfair Terms Regulations*, it will normally ask the *person* to undertake to stop including the term in new contracts and stop relying on it in contracts which have been concluded.

10.13 If the *person* either declines to give an undertaking, or gives such an undertaking and fails to follow it, the *FCA* will consider the need to apply to court for an *injunction* under regulation 12 of the *Unfair Terms Regulations*.

FCA

10.14 In determining whether to seek an *injunction* against a *person*, the *FCA* will consider the full circumstances of each case. A number of factors may be relevant for this purpose. The following list is not exhaustive; not all of the factors may be relevant in a particular case, and there may be other factors that are relevant.

FCA

- (1) whether the *FCA* is satisfied that the contract term which is the subject of the complaint may properly be regarded as unfair within the meaning of the *Unfair Terms Regulations*;
- (2) the extent and nature of the detriment to *consumers* resulting from the term or the potential detriment which could result from the term;
- (3) whether the *person* has fully cooperated with the *FCA* in resolving the *FCA*'s concerns about the fairness of the particular contract term;
- (4) the likelihood of success of an application for an *injunction*;
- (5) the costs the *FCA* would incur in applying for and enforcing an *injunction* and the benefits that would result from that action; the *FCA* is more likely to be satisfied that an application is appropriate where an *injunction* would not only prevent the continued use of the particular contract term, but would also be likely to prevent the use or continued use of similar terms, or terms having the same effect, used or recommended by other *firms* concluding contracts with *consumers*.

10.15 In an urgent case, the *FCA* may seek a temporary *injunction*, to prevent the continued use of the term until the fairness of the term could be fully considered by the court. An urgent case is one in which the *FCA* considers that the actual or potential detriment is so serious that urgent action is necessary. In deciding whether to apply for a temporary *injunction*, the *FCA* may take into account a number of factors, including one or more of the factors set out in paragraph 10.14. In such an urgent case, the *FCA* may seek a temporary *injunction* without first consulting with the *person*.

FCA

10.16 In deciding whether to grant an *injunction*, the court will decide whether the term in question is unfair within the meaning of the *Unfair Terms Regulations* (see *UNFCOG* 1.3.2G). The court may grant an *injunction* on such terms as it sees fit. For example, it may require the *person* to stop including the unfair term in contracts with *consumers* from the date of the *injunction* and to stop relying on the unfair term in contracts which have been concluded. If the *person* fails to comply with the *injunction*, it will be in contempt of court.

FCA

10.17 Regulation 8 of the *Unfair Terms Regulations* provides that an unfair term is not binding on the *consumer*. This means that if the court finds that the term in question is unfair, the *person* would be unable to rely on the unfair term in existing contracts governed by the *Unfair Terms Regulations*. To the extent that it is possible, the existing contract would

FCA

continue in effect without the unfair term.

10.18 When the *FCA* considers that a case requires enforcement action under the *Unfair Terms Regulations*, it will take the enforcement action itself if the *person* is a *firm* or an *appointed representative*.

FCA

10.19 Where the *person* is not a *firm* or an *appointed representative*, the *FCA* will generally pass the case to the Office of Fair Trading, with a recommendation that it take the enforcement action. The Office of Fair Trading may then decide whether or not to take enforcement action.

FCA

FCA costs

10.20 When it seeks an *injunction* under a power discussed in this chapter, the *FCA* may ask the court to order that the *person* who is the subject of the application should pay the *FCA's* costs.

FCA

11. Restitution and redress

Restitution orders under sections 382, 383 and 384 of the Act: the FCA's general approach

11.1A **FCA** Decisions about whether to apply to the civil courts for restitution orders under the *Act* will be made by the *RDC* Chairman or, in an urgent case and if the Chairman is not available, by an *RDC* Deputy Chairman. In an exceptionally urgent case the matter will be decided by the director of Enforcement or, in his or her absence, another member of the *FCA*'s executive of at least director of division level.

11.1B **FCA** An exceptionally urgent case in these circumstances is one where the *FCA* staff believe that a decision to begin proceedings

- (1) should be taken before it is possible to follow the procedure described in paragraph 11.1A; and
- (2) it is necessary to protect the interests of consumers or potential consumers.

11.1 **FCA** The *FCA* has power to apply to the court for a restitution order under section 382 of the *Act* and (in the case of *market abuse*) under section 383 of the *Act*. It also has an administrative power to require restitution under section 384 of the *Act*. When deciding whether to exercise these powers, the *FCA* will consider whether this would be the best use of the *FCA*'s limited resources taking into account, for example, the likely amount of any recovery and the costs of achieving and distributing any sums. It will also consider, before exercising its powers: other ways that *persons* might obtain redress, and whether it would be more efficient or cost-effective for them to use these means instead; and any proposals by the *person* concerned to offer redress to any *consumers* or other *persons* who have suffered loss, and the adequacy of those proposals. The *FCA* expects, therefore, to exercise its formal restitution powers on rare occasions only.

11.2 **FCA** Instances in which the *FCA* might consider using its powers to obtain restitution for *market counterparties* are likely to be very limited.

Criteria for determining whether to exercise powers to obtain restitution

11.3 **FCA** In deciding whether to exercise its powers to seek or require restitution under sections 382, 383 or 384 of the *Act*, the *FCA* will consider all the circumstances of the case. The factors which the *FCA* will consider may include, but are not limited to, those set out below.

- (1) Are the profits quantifiable?

The *FCA* will consider whether quantifiable profits have been made which are owed to identifiable *persons*. In certain circumstances it may be difficult to prove that the conduct in question has resulted in the *person* concerned making a profit. It may also be difficult to find out how much profit and to whom the profits are owed. In these cases it may not be appropriate for the *FCA* to use its powers to obtain restitution.

(2) Are the losses identifiable?

The *FCA* will consider whether there are identifiable *persons* who can be shown to have suffered quantifiable losses or other adverse effects. In certain circumstances it may be difficult to establish the number and identity of those who have suffered loss as a result of the conduct in question. It may also prove difficult in those cases to establish the amount of that loss and whether the losses have arisen as a result of the conduct in question. In these cases it may not be appropriate for the *FCA* to use its powers to obtain restitution.

(3) The number of persons affected

The *FCA* will consider the number of *persons* who have suffered loss or other adverse effects and the extent of those losses or adverse effects. Where the breach of a relevant requirement by a *person*, whether *authorised* or not, results in significant losses, or losses to a large number of *persons* which collectively are significant, it may be appropriate for the *FCA* to use its powers to obtain restitution on their behalf. The *FCA* anticipates that many individual losses resulting from breaches by *firms* may be more efficiently and effectively redressed by *consumers* pursuing their claims directly with the firm concerned or through the *Financial Ombudsman Service* or the *compensation scheme* where the *firm* has ceased trading. However, where a large number of *persons* have been affected or the losses are substantial it may be more appropriate for the *FCA* to seek or require restitution from a *firm*. In those cases the *FCA* may consider combining an action seeking or requiring restitution from a *firm* or *unauthorised person* with disciplinary action or a criminal prosecution.

(4) *FCA* costs

The *FCA* will consider the cost of securing redress and whether these are justified by the benefit to *persons* that would result from that action. The *FCA* will consider the costs of exercising its powers to obtain restitution and, in particular, the costs of any application to the court for an order for restitution, together with the size of any sums that might be recovered as a result. The costs of the action will, to a certain extent, depend on the nature and location of assets from which restitution may be made. In certain circumstances it may be possible for the *FCA* to recover its costs of applying to the court for an order for restitution, or a proportion of those costs, from the party against whom a restitution order is obtained, though this would have the disadvantage of reducing the amount available to pay redress.

(5) Is redress available elsewhere?

The *FCA* will consider the availability of redress through the *Financial Ombudsman Service* or the *compensation scheme*. This will be relevant where the loss has resulted from the conduct of a *firm*. It will not be relevant where losses have resulted from the conduct of *unauthorised persons* operating in breach of the *general prohibition*. The *Financial Ombudsman Service* and the *compensation scheme* (where the *firm* has ceased trading) may be a more efficient and effective method of redress in many cases. The *Financial Ombudsman Service* provides a way for some *consumers* to obtain redress. The *compensation scheme* may provide redress for some *consumers* and businesses. The *FCA's* power to obtain restitution is not intended to duplicate the functions of the *Ombudsman* or *compensation schemes* in those cases. However, in certain cases it will be more appropriate for the *FCA* to pursue restitution.

Further details of these schemes are set out in *COMP*.

- (6) Is redress available through another regulator?

The *FCA* will consider the availability of redress through another regulatory authority. Where another regulatory authority, such as *the Takeover Panel*, is in a position to require appropriate redress, the *FCA* will not generally exercise its own powers to do so. If the *FCA* does consider that action is appropriate and the matters in question have happened in the context of a *takeover bid*, the *FCA* will only take action during the bid in the circumstances set out in *DEPP* 6.2.25G if the *person* concerned has responsibilities under the *Takeover Code*. If another *regulatory body* has required redress and a *person* has not met that requirement, the *FCA* will take this into account and (subject to all other relevant factors and circumstances) may consider it appropriate to take action to ensure that such redress is provided.

- (7) Can persons bring their own proceedings?

The *FCA* will consider whether *persons* who have suffered losses are able to bring their own civil proceedings. In certain circumstances it may be appropriate for *persons* to bring their own civil proceedings to recover losses. This might be the case where the *person* who has suffered loss is a *market counterparty* and so may be expected to have a high degree of financial experience and knowledge. When considering whether this might be a more appropriate method of obtaining redress, the *FCA* will consider the costs to the *person* of bringing that action and the likelihood of success in relation to the size of any sums that may be recovered.

- (8) Is the firm solvent?

The *FCA* will consider the solvency of the *firm* or *unauthorised person* concerned. Where the solvency of the *firm* or *unauthorised person* would be placed at risk by the payment of restitution, the *FCA* will consider whether it is appropriate to seek restitution. In those cases, the *FCA* may consider obtaining a compulsory *insolvency order* against the *firm* or *unauthorised person* rather than restitution. When considering these options, the *FCA* may also take account of the position of other creditors who may be prejudiced if the assets of the *firm* or *unauthorised person* are used to pay restitution payments prior to insolvency.

- (9) What other powers are available to the *FCA*?

The *FCA* will consider the availability of its power to obtain a compulsory *insolvency order* against the *firm* or *unauthorised person* concerned or to apply to the court for the appointment of a receiver. In certain circumstances it may be appropriate for the *FCA* to obtain an administration order, winding up order or bankruptcy order against a *firm* or *unauthorised person* carrying out *regulated activities* in breach of the *general prohibition*.

The *FCA* may decide to exercise its power to obtain a compulsory *insolvency order* or to apply for the appointment of a receiver rather than to exercise its powers to obtain restitution. This could happen if the *FCA* has particular concerns about a *person's* conduct, or financial position and, in particular, whether it is solvent (though the appointment by the court of a receiver is not conditional on the insolvency of the *person* concerned). The *FCA* may also

consider the cost of seeking compulsory *insolvency orders* which will be paid out of the assets of the *firm*, or of the *unauthorised person* concerned, compared to the cost of seeking restitution. In the case of *unauthorised persons* operating in breach of the *general prohibition*, a decision to apply for a compulsory *insolvency order* rather than restitution will depend on all the circumstances of the case. In particular, the *FCA* may consider the significance of the *unauthorised* activities compared to the whole of the business; the nature and conduct of the activities carried on in breach of the *general prohibition*; and the number and nature of the claims against the *person* or *firm* concerned. The *FCA's* powers to apply for compulsory *insolvency orders* are discussed in [chapter 13](#) of this guide.

- (10) The behaviour of the persons suffering loss

The *FCA* will consider the conduct of the *persons* who have suffered loss. As part of its operational objective of securing an appropriate degree of protection for *consumers*, the *FCA* is required to publicise information about the *authorised* status of *persons* and is empowered to give information and guidance about the regulation of financial services. This information should help *consumers* avoid suffering losses. When the *FCA* considers whether to obtain restitution on behalf of *persons*, it will consider the extent to which those *persons* may have contributed to their own loss or failed to take reasonable steps to protect their own interests.

- (11) Other factors which may be relevant

The *FCA* will consider the context of the conduct in question. In any case where the *FCA* believes that the exercise of its powers under section 383 or 384 of the *Act* may affect the timetable or outcome of a *takeover bid*, it will consult the *Takeover Panel* before taking any steps to exercise such powers, and will give due weight to its views.

Where the *FCA* is considering applying to court for a restitution order in relation to *market abuse* under section 383 of the *Act*, it will also consider whether the court would be prevented from making that order by section 383(3) of the *Act*. A similar provision to section 383(3) applies where the *FCA* proposes to exercise its powers to require restitution in relation to market abuse under section 384(2). The conditions set out in section 383(3)(a) and section 384(a) and (b) are the same as those that apply to penalties for *market abuse* and the *FCA* will take the same factors into account when considering whether the conditions have been met. *DEPP* 6.3 lists those factors.

The FCA's choice of powers

- 11.4 In cases where it is appropriate to exercise its powers to obtain restitution from *firms*, the *FCA* will first consider using its own administrative powers under section 384 of the *Act* before considering taking court action.

FCA

- 11.5 However, there may be circumstances in which the *FCA* will choose to use the powers under section 382 or section 383 of the *Act* to apply to the court for an order for restitution against a *firm*. Those circumstances may include, for example, where:

FCA

- (1) the *FCA* wishes to combine an application for an order for restitution with other court action against the *firm*, for example, where it wishes to apply to the court

for an *injunction* to prevent the *firm* breaching a relevant requirement of the *Act* or any directly applicable Community regulation or decision made under *MiFID* or the *UCITS Directive* or the *auction regulation*; the *FCA's* powers to apply for *injunctions* restraining *firms* from breaching one of those relevant requirements are discussed in chapter 10 of this guide;

- (2) the *FCA* wishes to bring related court proceedings against an *unauthorised person* where the factual basis of those proceedings is likely to be the same as the claim for restitution against the *firm*;
- (3) there is a danger that the assets of the *firm* may be dissipated; in those cases, the *FCA* may wish to combine an application to the court for an order for restitution with an application for an asset-freezing *injunction* to prevent assets from being dissipated; or
- (4) the *FCA* suspects that the *firm* may not comply with an administrative requirement to give restitution; in those cases the *FCA* may consider that the sanction for breach of a court order may be needed to ensure compliance; a *person* who fails to comply with a court order may be in contempt of court and is liable to imprisonment, to a fine and/or to have his assets seized.

Determining the amount of restitution

11.6 The *FCA* may obtain information relating to the amount of profits made and/or losses or other adverse effects resulting from the conduct of *firms* or *unauthorised persons* as a result of the exercise of its powers to appoint investigators under sections 167 or 168 of the *Act*.

FCA

11.7 As well as obtaining information through the appointment of investigators, the *FCA* may consider using its power under section 166 of the *Act* to require a *firm* to provide a report prepared by a *skilled person* or appoint a *skilled person* itself to prepare a report. That report may be requested to help the *FCA* to:

FCA

- (1) determine the amount of profits which have been made by the *firm*; or
- (2) establish whether the conduct of the *firm* has caused any losses or other adverse effects to qualifying persons and/or the extent of such losses; or
- (3) determine how any amounts to be paid by the *firm* are to be distributed between qualifying persons.

Other relevant powers

11.8 The *FCA* may apply to the court for an *injunction* if it appears that a *person*, whether *authorised* or not, is reasonably likely to breach a requirement of the *Act* or any directly applicable Community regulation or decision under *MiFID* or the *UCITS Directive* or the *auction regulation*, or engage in *market abuse*. It can also apply for an *injunction* if a *person* has breached one of those requirements or has engaged in *market abuse* and is likely to continue doing so.

FCA

11.9 The *FCA* may consider taking action for a financial penalty or *public censure*, as well as seeking restitution, if a *person* has breached a relevant requirement of the *Act* or any directly applicable Community regulation or decision under *MiFID* or the *UCITS Directive* or the *auction regulation*, or has engaged in, or *required* or *encouraged* others to engage

FCA

in, *market abuse*.

11.10 The *FCA* may consider exercising its power to prosecute offences under the *Act*, as well as applying to seek restitution if a *person* has breached certain requirements of the *Act*.

FCA

12. Prosecution of Criminal Offences

The FCA's general approach

- 12.1 **FCA** The *FCA* has powers under sections 401 and 402 of the *Act* to prosecute a range of criminal offences in England, Wales and Northern Ireland. The *FCA* may also prosecute criminal offences where to do so would be consistent with meeting any of its statutory objectives.
- 12.2 **FCA** The *FCA*'s general policy is to pursue through the criminal justice system all those cases where criminal prosecution is appropriate. When it decides whether to bring criminal proceedings in England, Wales or Northern Ireland, or to refer the matter to another prosecuting authority in England, Wales or Northern Ireland (see paragraph 12.11), it will apply the basic principles set out in the Code for Crown Prosecutors.¹¹ When considering whether to prosecute a breach of the *Money Laundering Regulations*, the *FCA* will also have regard to whether the person concerned has followed the Guidance for the UK financial sector issued by the Joint Money Laundering Steering Group.
- 12.3 **FCA** The *FCA*'s approach when deciding whether to commence criminal proceedings for *misleading statements and practices offences* and *insider dealing offences*, where the *FCA* also has power to impose a sanction for *market abuse*, is discussed further in [paragraphs 12.7 to 12.10](#).
- 12.4 **FCA** In cases where criminal proceedings have commenced or will be commenced, the *FCA* may consider whether also to take civil or regulatory action (for example where this is appropriate for the protection of *consumers*) and how such action should be pursued. That action might include: applying to court for an *injunction*; applying to court for a restitution order; variation and/or cancellation of *permission*; and prohibition of individuals. The factors the *FCA* may take into account when deciding whether to take such action, where criminal proceedings are in contemplation, include, but are not limited to the following:
- (1) whether, in the *FCA*'s opinion, the taking of civil or regulatory action might unfairly prejudice the prosecution, or proposed prosecution, of criminal offences;
 - (2) whether, in the *FCA*'s opinion, the taking of civil or regulatory action might unfairly prejudice the defendants in the criminal proceedings in the conduct of their defence; and
 - (3) whether it is appropriate to take civil or regulatory action, having regard to the scope of the criminal proceedings and the powers available to the criminal courts.
- 12.4A **FCA** Subject to 12.4C, a decision to commence criminal proceedings will be made by the *RDC* Chairman or, in an urgent case and if the Chairman is not available, by an *RDC* Deputy Chairman. In an exceptionally urgent case the matter will be decided by the director of Enforcement or, in his or her absence, another member of the *FCA*'s executive of at least

¹¹ http://www.cps.gov.uk/publications/code_for_crown_prosecutors/

director of division level.

12.4B An exceptionally urgent case in these circumstances is one where the *FCA* staff believe that a decision to begin proceedings

FCA

- (1) should be taken before it is possible to follow the procedure described in paragraph 12.4A; and
- (2) it is necessary to protect the interests of consumers or potential consumers.

12.4C Decisions about whether to initiate criminal proceedings under the Building Societies Act 1986, the Friendly Societies Acts 1974 and 1992, the Credit Unions Act 1979, the Industrial and Provident Societies Act 1965 and the Friendly and Industrial and Provident Societies Act 1968 may either be taken by the procedure described in paragraph 12.4A above or under *executive procedures*. The less serious the offence or its impact and the less complex the issues raised, the more likely that the *FCA* will take the decision to prosecute under *executive procedures*.

FCA

FCA cautions

12.5 In some cases, the *FCA* may decide to issue a formal caution rather than to prosecute an offender. In these cases the *FCA* will follow the Home Office Guidance on the cautioning of offenders, currently contained in the Home Office Circular 16/2008.

FCA

12.6 Where the *FCA* decides to administer a formal caution, a record of the caution will be kept by the *FCA* and on the Police National Computer. The *FCA* will not publish the caution, but it will be available to parties with access to the Police National Computer. The issue of a caution may influence the *FCA* and other prosecutors in their decision whether or not to prosecute the offender if he offends again. If the offender is a *firm* or an *approved person*, a caution given by the *FCA* will form part of the *firm's* or *approved person's* regulatory record for the purposes of *DEPP* 6.2.1 G (3). If relevant, the *FCA* will take the caution into account in deciding whether to take disciplinary action for subsequent regulatory misconduct by the *firm* or the *approved person*. The *FCA* may also take a caution into account when considering a *person's* honesty, integrity and reputation and his fitness or propriety to perform controlled or other functions in relation to *regulated activities* (see *FIT* 2.1.3G).

FCA

Criminal prosecutions in cases of market abuse

12.7 In some cases there will be instances of market misconduct that may arguably involve a breach of the criminal law as well as *market abuse* as defined in section 118 of the *Act*. When the *FCA* decides whether to commence criminal proceedings rather than impose a sanction for *market abuse* in relation to that misconduct, it will apply the basic principles set out in the Code for Crown Prosecutors. When deciding whether to prosecute market misconduct which also falls within the definition of *market abuse*, application of these basic principles may involve consideration of some of the factors set out in paragraph 12.8.

FCA

12.8 The factors which the *FCA* may consider when deciding whether to commence a criminal prosecution for market misconduct rather than impose a sanction for *market abuse* include, but are not limited to, the following:

FCA

- (1) the seriousness of the misconduct: if the misconduct is serious and prosecution is likely to result in a significant sentence, criminal prosecution may be more

likely to be appropriate;

- (2) whether there are victims who have suffered loss as a result of the misconduct: where there are no victims a criminal prosecution is less likely to be appropriate;
- (3) the extent and nature of the loss suffered: where the misconduct has resulted in substantial loss and/or loss has been suffered by a substantial number of victims, criminal prosecution may be more likely to be appropriate;
- (4) the effect of the misconduct on the market: where the misconduct has resulted in significant distortion or disruption to the market and/or has significantly damaged market confidence, a criminal prosecution may be more likely to be appropriate;
- (5) the extent of any profits accrued or loss avoided as a result of the misconduct: where substantial profits have accrued or loss avoided as a result of the misconduct, criminal prosecution may be more likely to be appropriate;
- (6) whether there are grounds for believing that the misconduct is likely to be continued or repeated: if it appears that the misconduct may be continued or repeated and the imposition of a financial penalty is unlikely to deter further misconduct, a criminal prosecution may be more appropriate than a financial penalty;
- (7) whether the person has previously been cautioned or convicted in relation to market misconduct or has been subject to civil or regulatory action in respect of market misconduct;
- (8) the extent to which redress has been provided to those who have suffered loss as a result of the misconduct and/or whether steps have been taken to remedy any failures in systems or controls which gave rise to the misconduct: where such steps are taken promptly and voluntarily, criminal prosecution may not be appropriate; however, potential defendants will not avoid prosecution simply because they are able to pay compensation;
- (9) the effect that a criminal prosecution may have on the prospects of securing redress for those who have suffered loss: where a criminal prosecution will have adverse effects on the solvency of a *firm* or individual in circumstances where loss has been suffered by *consumers*, the *FCA* may decide that criminal proceedings are not appropriate;
- (10) whether the *person* is being or has been voluntarily cooperative with the *FCA* in taking corrective measures; however, potential defendants will not avoid prosecution merely by fulfilling a statutory duty to take those measures;
- (11) whether an individual's misconduct involves dishonesty or an abuse of a position of authority or trust;
- (12) where the misconduct in question was carried out by a group, and a particular individual has played a leading role in the commission of the misconduct: in these circumstances, criminal prosecution may be appropriate in relation to that individual;

- (12A) where the misconduct in question was carried out by two or more individuals acting together and one of the individuals provides information and gives full assistance in the *FCA's* prosecution of the other(s), the *FCA* will take this co-operation into account when deciding whether to prosecute the individual who has assisted the *FCA* or bring market abuse proceedings against him;
- (13) the personal circumstances of an individual may be relevant to a decision whether to commence a criminal prosecution.

12.9 The importance attached by the *FCA* to these factors will vary from case to case and the factors are not necessarily cumulative or exhaustive.

FCA

12.10 It is the *FCA's* policy not to impose a sanction for *market abuse* where a *person* is being prosecuted for market misconduct or has been finally convicted or acquitted of market misconduct (following the exhaustion of all appeal processes) in a criminal prosecution arising from substantially the same allegations. Similarly, it is the *FCA's* policy not to commence a prosecution for market misconduct where the *FCA* has brought or is seeking to bring disciplinary proceedings for *market abuse* arising from substantially the same allegations.

FCA

Liaison with other prosecuting authorities

12.11 The *FCA* has agreed guidelines that establish a framework for liaison and cooperation in cases where one or more other authority (such as the Crown Prosecution Service or Serious Fraud Office) has an interest in prosecuting any aspect of a matter that the *FCA* is considering for investigation, investigating or considering prosecuting. These guidelines are set out in [annex 2](#) to this guide. The *FCA* is also a signatory to the Prosecutors' Convention and the Investigators' Convention.

FCA

Prosecution of Friendly Societies

12.12 The *FCA's* power to prosecute friendly societies is discussed in *EG* 19.3 to 19.9 and in an article on the *FCA* web-site entitled 'Prosecuting Friendly Societies'.¹²

FCA

¹² <http://www.fca.org.uk/firms/being-regulated/enforcement/how-we-enforce-the-law/courts/friendly-societies>

13. Insolvency

13.1 This chapter explains the *FCA's* policies on how it uses its powers under the *Act* to apply to the court for orders under existing insolvency legislation and exercise its rights under the *Act* to be involved in proceedings under that legislation. The *FCA's* effective use of its powers and rights in insolvency proceedings helps it pursue its *regulatory objectives*, including its operational objectives of securing an appropriate degree of protection for *consumers*, protecting and enhancing the integrity of the *UK financial system*, and promoting effective competition in the interests of *consumers* by, amongst other matters, enabling it to apply to court for action to:

FCA

- (1) stop *firms* and *unauthorised persons* carrying on insolvent or unlawful business; and
- (2) ensure the orderly realisation and distribution of their assets.

The FCA's general approach to use of its powers and rights in insolvency proceedings

13.2 In using its powers to seek *insolvency orders* the *FCA* takes full account of: the principle adopted by the courts that recourse to insolvency regimes is a step to be taken for the benefit of creditors as a whole; and the fact that the court will have regard to the public interest when considering whether to wind up a body on the grounds that it is just and equitable to do so.

FCA

13.3 The *FCA* will consider the facts of each particular case when it decides whether to use its powers and exercise its rights. The *FCA* will also consider the other powers available to it under the *Act* and to *consumers* under the *Act* and other legislation, and the extent to which the use of those other powers meets the needs of *consumers* as a whole and the *FCA's* *statutory objectives*. The *FCA* may use its powers to seek *insolvency orders* in conjunction with its other powers, including its powers to seek *injunctions*.

FCA

13.3A Decisions about whether to apply to the civil courts for insolvency orders under the *Act* will be made by the *RDC* Chairman or, in an urgent case and if the Chairman is not available, by an *RDC* Deputy Chairman. In an exceptionally urgent case the matter will be decided by the director of Enforcement or, in his or her absence, another member of the *FCA's* executive of at least director of division level.

FCA

13.3B An exceptionally urgent case in these circumstances is one where the *FCA* staff believe that a decision to begin proceedings

FCA

- (1) should be taken before it is possible to follow the procedure described in paragraph 13.3A; and
- (2) it is necessary to protect the interests of consumers or potential consumers.

**Petitions for administration orders or compulsory winding up orders:
determining whether a company or partnership is unable to pay its debts**

- 13.4 **FCA** The *FCA* can petition for an administration order or compulsory winding up order on the grounds that the *company* or *partnership* is unable (or, in the case of administration orders, is likely to become unable) to pay its debts. The *FCA* does not have to be a creditor to petition on these grounds.
- 13.5 **FCA** Under sections 359 (Petitions) and 367 (Winding up Petitions) of the *Act*, a *company* or *partnership* is deemed to be unable to pay its debts if it is in default on an obligation to pay a sum due and payable under an agreement where the making or performance of the agreement constitutes or is part of a *regulated activity* which the *company* or *partnership* is carrying on.
- 13.6 **FCA** The *FCA* would not ordinarily petition for an administration order unless it believes that the *company* or *partnership* is, or is likely to become, insolvent. Similarly, the *FCA* would not ordinarily petition for a compulsory winding up order solely on the ground of inability to pay debts (as provided in the *Act*), unless it believes that the *company* or *partnership* is or is likely to be insolvent.
- 13.7 **FCA** While a default on a single agreement of the type mentioned in [paragraph 13.5](#) is, under the *Act*, a presumption of an inability to pay debts, the *FCA* will consider the circumstances surrounding the default. In particular, the *FCA* will consider whether:
- (1) the default is the subject of continuing discussion between the *company* or *partnership* and the creditor, under the relevant agreement, which is likely to lead to a resolution;
 - (2) the default is an isolated incident;
 - (3) in other respects the *company* or *partnership* is meeting its obligations under agreements of this kind; and
 - (4) the *FCA* has information to indicate that the *company* or *partnership* is able to pay its debts or, alternatively, that in addition to the specific default the *company* or *partnership* is in fact unable to pay its debts.

**Petitions for administration orders or compulsory winding up orders:
determining whether to seek any insolvency order**

- 13.8 **FCA** Where the *FCA* believes that a *company* or *partnership* to which sections 359(1) and 367(1) of the *Act* applies is, or is likely to become, unable to pay its debts, the *FCA* will consider whether it is appropriate to seek an administration order or a compulsory winding up order from the court. The *FCA*'s approach will be in two stages: the first is to consider whether it is appropriate to seek any *insolvency order*; the second is to consider which *insolvency order* will meet, or is likely to meet, the needs of *consumers*.
- 13.9 **FCA** In determining whether it is appropriate to seek an *insolvency order* on this basis, the *FCA* will consider the facts of each case including, where relevant:
- (1) whether the *company* or *partnership* has taken or is taking steps to deal with its insolvency, including petitioning for its own administration, placing itself in voluntary winding up or proposing to enter into a company voluntary

arrangement, and the effectiveness of those steps;

- (2) whether any consumer or other creditor of the *company* or *partnership* has taken steps to seek an *insolvency order* from the court;
- (3) the effect on the *company* or partnership and on the creditors of the company or partnership if an *insolvency order* is made;
- (4) whether the use of other powers, rights or remedies available to the *FCA*, *consumers* and creditors under the *Act* and other legislation will achieve the same or a more advantageous result in terms of the protection of *consumers*, and of market confidence and the restraint and remedy of unlawful activity, for example:
 - (a) in the case of *authorised persons* and *appointed representatives*, the interests of *consumers* may, in certain circumstances, be met by the use of the *FCA's* intervention powers and by requiring restitution to *consumers*;
 - (b) in the case of *unauthorised companies* and *partnerships*, the *FCA* will consider whether the interests of *consumers* can be achieved by seeking an *injunction* to restrain continuation of the carrying on of the *regulated activity* and/or an order for restitution to consumers.
- (5) whether other regulatory authorities or law enforcement agencies propose to take action in respect of the same or a similar issue which would be adequate to address the *FCA's* concerns or whether it would be appropriate for the *FCA* to take its own action;
- (6) the nature and extent of the *company* or *partnership* assets and liabilities, and in particular whether the *company* or *partnership* holds *client* assets and whether its secured and preferred liabilities are likely to exceed available assets;
- (7) whether there is a significant cross border or international element to the business which the *company* or *partnership* is carrying on and the effect on foreign assets or on the continuation of the business abroad of making an *insolvency order*;
- (8) whether an *insolvency order* is likely to achieve a fair and orderly realisation and distribution of assets; and
- (9) whether there is a risk of creditors being preferred and any advantage in securing a moratorium in relation to proceedings against the *company* or *partnership*.

13.10

FCA

After the *FCA* has determined that it is appropriate to seek an *insolvency order*, and there is no moratorium in place under Schedule A1 to the Insolvency Act 1986 (as amended by the Insolvency Act 2000) (hereafter referred to in this chapter as 'the 1986 Act'), it will consider whether this order should be an administration order or a compulsory winding up order.

**Petitions for administration orders or compulsory winding up orders:
determining which insolvency order to seek**

13.11 An administration order can be made only in relation to *companies* and *partnerships* and only where the court believes that making such an order will achieve one or more of the four purposes set out in section 8 of the 1986 Act. The *FCA* will apply for an administration order only where it considers that doing so will meet or is likely to meet one or more of these purposes.

FCA

13.12 Where it has the option of applying for either an administration order or a compulsory winding up order, the *FCA* will have regard to the purpose to be achieved by the insolvency procedure.

FCA

13.13 In addition, the *FCA* will consider, where relevant, factors including:

FCA

- (1) the extent to which the financial difficulties are, or are likely to be attributable to the management of the *company* or *partnership*, or to external factors, for example, market forces;
- (2) the extent to which it appears to the *FCA* that the *company* or *partnership* may, through an administrator, be able to trade its way out of its financial difficulties;
- (3) the extent to which the *company* or *partnership* can lawfully and viably continue to carry on *regulated activities* through an administrator;
- (4) the extent to which the sale of the business in whole or in part as a going concern is likely to be achievable;
- (5) the complexity of the business of the *company* or *partnership*;
- (6) whether recourse to one regime or another is likely to result in delays in redress to *consumers* or an additional cost;
- (7) whether recourse to one regime or another is likely to result in better redress to *consumers*;
- (8) the adequacy and reliability of the *company* or *partnership's* accounting or administrative records;
- (9) the extent to which the management of the *company* or *partnership* has cooperated with the *FCA*;
- (10) in the case of an *unauthorised company* or *partnership* carrying on a *regulated activity* as part of a larger enterprise, the scale and importance of the unauthorised activity in relation to the whole of the *company's* or *partnership's* business;
- (11) the extent to which the management of the *company* or *partnership* is likely to cooperate in determining whether one or more of the purposes of an administration order can be met;
- (12) in the case of an *unauthorised company* or *partnership* carrying on a *regulated activity* as part of a larger enterprise, the extent to which the *company's* or *partnership's* survival can be anticipated without the continuance of the

unauthorised *regulated activity*;

- (13) where an administrative receiver is in place, whether the *debenture* holder is likely to agree to an application for an administration order;
- (14) where an administrative receiver is in place, whether the *FCA* has reason to believe that the *debenture* under which the administrative receiver has been appointed is likely to be released, discharged, avoided or challenged.

Petitioning for compulsory winding up on just and equitable grounds

13.14 The *FCA* has power under section 367(3)(b) of the *Act* to petition the court for the compulsory winding up of a *company* or *partnership*, on the ground that it is just and equitable for the body to be wound up, regardless of whether or not the body is able to pay its debts. In some instances the *FCA* may need to consider whether to petition on this ground alone or in addition to the ground of insolvency.

FCA

13.15 When deciding whether to petition on this ground the *FCA* will consider all relevant facts including:

FCA

- (1) whether the needs of *consumers* and the public interest require the *company* or *partnership* to cease to operate;
- (2) the need to protect *consumers'* claims and *client* assets;
- (3) whether the needs of *consumers* and the public interest can be met by using the *FCA's* other powers;
- (4) in the case of an *authorised person*, where the *FCA* considers that the *authorisation* should be withdrawn or where it has been withdrawn, the extent to which there is other business that the *person* can carry on without *authorisation*;
- (5) in the case of an *unauthorised company* or *partnership* carrying on a *regulated activity* as part of a larger enterprise, the scale and importance of the *unauthorised regulated activity* and the extent to which the enterprise is likely to survive the restraint and remedying of that activity by the use of other powers available to the *FCA* having regard to any continuing risk to *consumers*;
- (6) whether there is reason to believe that an *injunction* to restrain the carrying on of an *unauthorised regulated activity* would be ineffective;
- (7) whether the *company* or *partnership* appears to be or to have been involved in *financial crime* or appears to be or to have been used as a vehicle for *financial crime*.

13.16 Where appropriate the *FCA* will also take the following factors into account:

FCA

- (1) the complexity of the *company* or *partnership* (as this may have a bearing on the effectiveness of winding up or any alternative action);
- (2) whether there is a significant cross border or international element to the business being carried on by the *company* or *partnership* and the impact on the

business in other jurisdictions;

- (3) the adequacy and reliability of the *company* or *partnership's* accounting or administrative records;
- (4) the extent to which the *company* or *partnership's* management has co-operated with the *FCA*.

Petitioning for compulsory winding up of a company already in voluntary winding up

13.17 **FCA** Section 365(6) of the *Act* makes it clear that the *FCA* may petition for the compulsory winding up of a *company* even if it is already in voluntary winding up. This power is already available to creditors and contributories of *companies* in voluntary winding up. For example, the court can be asked to direct the liquidator to investigate a transaction which the *company* undertook before the winding up. In some circumstances, this power may be used in respect of partnerships (section 367 of the *Act*).

13.18 **FCA** Given the powers available to creditors (or contributories), the *FCA* anticipates that there will only be a limited number of cases where it will exercise the right under section 365(6) to petition for the compulsory winding up of a company already in voluntary winding up. The *FCA* will only be able to exercise this right where one or both of the grounds on which it can seek compulsory winding up are met.

13.19 **FCA** Factors which the *FCA* will consider when it decides whether to use this power (in addition to the factors identified in paragraphs 13.11 to 13.16 in relation to the *FCA's* decisions to seek compulsory winding up) include:

- (1) whether the *FCA's* concerns can properly and effectively be met by seeking a specific direction under section 365(2) of the *Act*;
- (2) whether the affairs of the *company* require independent investigation of the kind which follows a compulsory winding up order and whether there are or are likely to be funds available for that investigation;
- (3) the composition of the creditors of the company including the ratio of *consumer* and *non-consumer* creditors and the nature of their claims;
- (4) the extent to which there are creditors who are or are likely to be connected to the *company* or its directors and management;
- (5) the extent to which the directors and management are cooperating with the liquidator in voluntary winding up;
- (6) the need to protect and distribute *consumers' claims and assets*;
- (7) whether a petition by the *FCA* for compulsory winding up is likely to have the support of the majority or a large proportion of the creditors; and
- (8) the extent of any resulting delay and additional costs in seeking a compulsory winding up order.

13.20 **FCA** Where the *FCA* is requested by a *Home State regulator* of an *EEA firm* or a *Treaty firm* to present a petition for the compulsory winding up of that firm, the *FCA* will first need to consider whether the presentation of the petition is necessary in order to comply with a

Community obligation.

Power to apply to court for a provisional liquidator

13.21 Where a petition has been presented for the winding up of a body, the court may appoint a provisional liquidator in the interim period pending the hearing of the petition. An appointment may be sought and made to:

FCA

- (1) permit the continuation of the business for the protection of *consumers*; or
- (2) secure, protect, or realise assets or property in the possession or under the control of the *company* or *partnership* (in particular where there is a risk that the assets will be dissipated) for the benefit of creditors or *consumers*.

13.22 In cases where it decides to petition for the compulsory winding up of a body under section 367 of the *Act*, the *FCA* will also consider whether it should seek the appointment of a provisional liquidator. The *FCA* will have regard, in particular, to the extent to which there may be a need to protect *consumers'* claims and *consumers'* funds or other assets. Where the *FCA* decides to petition for the compulsory winding up of a *company* or *partnership* on the just and equitable ground and where the *company* or *partnership* is solvent but may become insolvent, the *FCA* will also consider whether the appointment of a provisional liquidator would serve to maintain the solvency of the *company* or *partnership*.

FCA

The FCA's use of its power to petition for a bankruptcy order or a sequestration award in relation to an individual (section 372 of the Act)

13.23 The *FCA* recognises that the bankruptcy of an individual or the sequestration of an individual's estate are significant measures which may have significant personal and professional implications for the individual involved. In considering whether to present a petition the *FCA's* principal considerations will be its *statutory objectives* including the protection of *consumers*.

FCA

13.24 The *FCA* is also mindful that whilst the winding up of an *unauthorised company* or *partnership* should bring an end to any unlawful activity, this is not necessarily the effect of bankruptcy or sequestration. The *FCA* may, in certain cases, consider the use of powers to petition for bankruptcy or sequestration in conjunction with the use of other powers to seek *injunctions* and other relief from the court. In particular, where the individual controls assets belonging to consumers and holds, or appears to hold, those assets on trust for consumers, those assets will not vest in the insolvency practitioner appointed in the bankruptcy or sequestration. The *FCA* will in those circumstances consider whether separate action is necessary to protect the assets and interests of *consumers*.

FCA

13.25 If an individual appears to be unable to pay a *regulated activity debt*, or to have no reasonable prospect of doing so, then section 372 of the *Act* permits the *FCA* to petition for the individual's bankruptcy, or in Scotland, for the sequestration of the individual's estate. The *FCA* will petition for bankruptcy or sequestration only if it believes that the individual is, in fact, insolvent. In determining this, as a general rule, the *FCA* will serve a demand requiring the individual to establish, to the *FCA's* satisfaction, that there is a reasonable prospect that he will be able to pay the *regulated activity debt*.

FCA

13.26 The *FCA* will consider the response of the individual to that demand on its own facts and in the light of information, if any, available to the *FCA*. Exceptionally, the *FCA* may not first proceed to serve a demand if:

FCA

- (1) the individual is already in default of a *regulated activity debt* which has fallen due and payable; and
- (2) the *FCA* is satisfied, either because the individual has confirmed it or on the information already available to the *FCA*, that the individual is insolvent and has no reasonable prospect of paying another *regulated activity debt* when it falls due.

13.27 If the *FCA* believes that the individual is insolvent, the factors it will consider when it decides whether to seek a bankruptcy order or sequestration award include:

FCA

- (1) whether others have taken steps to deal with the individual's insolvency, including a proposal by the individual of a voluntary arrangement, a petition by the individual for his own bankruptcy or sequestration, or a petition by a third party for the individual's bankruptcy or the sequestration of the individual's estate;
- (2) whether the *FCA* can adequately deal with the individual using other powers available to it under the *Act*, without the need to seek a bankruptcy order or sequestration award;
- (3) the extent of the individual's insolvency or apparent insolvency;
- (4) the number of *consumers* affected and the extent of their claims against the individual;
- (5) whether the individual has control over assets belonging to *consumers*;
- (6) the individual's conduct in his dealings with the *FCA*, including the extent of his cooperation with the *FCA*;
- (7) whether the individual appears to be, or to have been, involved in *financial crime*;
- (8) the adequacy of the individual's accounts and administration records;
- (9) in the case of an *unauthorised individual* who is carrying on or who has carried on a *regulated activity*, the nature, scale and importance of that activity and the individual's conduct in carrying on that activity;
- (10) whether there would be an advantage in securing a moratorium in respect of proceedings against the individual; and
- (11) whether there are any special personal or professional implications for that individual if a bankruptcy order or sequestration award is made.

Applications in relation to voluntary arrangements: the *FCA*'s policy

13.28

FCA

In general terms, the approval of a voluntary arrangement (in relation to *companies*, *partnerships* and *individuals*) requires more than 75% of the creditors to whom notice of a meeting has been sent and who are present in person or by proxy. The arrangement must also not be opposed by more than 50% of creditors given notice of the meeting and who have notified their claim, but excluding secured creditors and creditors who are, in the case of companies or partnerships, connected persons and, in the case of individuals, associates. The *FCA* will therefore not normally challenge an arrangement approved by a majority of

creditors.

13.29 Exceptionally, the *FCA* will consider making such a challenge using its powers in sections 356 and 357 of the *Act* after considering, in particular, the following matters:

FCA

- (1) The composition of the creditors of the company including the ratio of *consumer* to non-*consumer* creditors or the nature of their claims;
- (2) whether the *FCA* has concerns, or is aware of concerns of creditors, about the regularity of the meeting or the identification of connected or associated creditors and the extent to which creditors with those concerns could themselves make an application to court;
- (3) whether the *company*, *partnership* or individual has control of consumer assets which might be affected by the voluntary arrangement;
- (4) the complexity of the arrangement;
- (5) the nature and complexity of the *regulated activity*;
- (6) the *company's*, *partnership's* or individual's previous dealings with the *FCA*, including the extent of its cooperation with the *FCA* and its compliance history;
- (7) whether the *FCA* is aware of any matters which would materially affect the rights and expectations of creditors under the voluntary arrangement as approved; and
- (8) the extent to which the debtor has made full and accurate disclosure of assets and liabilities in the proposal to creditors.

13.29A Similarly, the *FCA* will not normally use its powers under section 358 of the *Act* to petition for sequestration of a debtor's estate following the grant of a trust deed, if the trust deed has been, or appears likely to be, acceded to by a majority of creditors.:

FCA

13.30 In considering whether to exercise its powers under Schedule A1 to the 1986 Act to make a challenge in relation to acts, omissions or decisions of a nominee during a moratorium, the *FCA* will have regard to the following matters in particular:

FCA

- (1) whether the *FCA* is aware of matters indicating that the proposed voluntary arrangement does not have a reasonable prospect of being approved and implemented or that the company is likely to have insufficient funds available to it to carry on its business during the moratorium;
- (2) whether consumer assets held by the company are or may be placed at risk; and
- (3) in the case of an *unauthorised company* whether that *company* is able to carry on its business lawfully during the moratorium without undertaking any *regulated activity* in contravention of the *general prohibition*.

Applications for orders against debt avoidance: the FCA's policy

13.31 When it decides whether to make an application for an order against debt avoidance pursuant to section 375 of the *Act*, the *FCA* will consider all relevant factors, including the following:

FCA

- (1) the extent to which the relevant transactions involved dealings in *consumers'* funds;
- (2) whether it would be appropriate to petition for a winding up order, bankruptcy order, or sequestration award, in relation to the debtor and the extent to which the transaction could properly be dealt with in that winding up, bankruptcy or sequestration;
- (3) the number of *consumers* or other creditors likely to be affected and their ability to make an application of this nature; and
- (4) the size of the transaction.

The FCA’s arrangements for notification of petitions and other documents

13.32

FCA

[Paragraphs 13.34 to 13.36](#) contain information for insolvency practitioners and others about sending copies of petitions, notices and other documents to the *FCA*, and about making reports to the *FCA*. Insolvency practitioners and others have duties to give that information and those documents to the *FCA* under various sections in Part XXIV of the *Act* (Insolvency). [Paragraph 13.34](#) identifies the relevant sections of the *Act* that explain some of the duties.

Insolvency regime and relevant sections of the *Act*

13.33

FCA

Insolvency regime	Relevant sections of the Act
Administration	Sections 361 and 362(3)
Compulsory winding up	Sections 369, 370, and 371(3)
Voluntary liquidation	Section 365(4)
Receivership	Sections 363(4) and 364
Bankruptcy and sequestration	Sections 373 and 374(3)
Company moratoria Individual voluntary arrangements	Paragraph 44 of schedule A1 to the 1986 Act Section 357(3) - relates to notices of the result of the creditors' meetings.
Trust deeds for creditors	Section 358(2)(a) and (b) - relates to copies of trust deeds and copies of certain other documents of information sent to creditors. Section 358(4) - relates to notices of any meeting of creditors held in relation to the trust deed.

13.34 Unless [paragraph 13.36](#) applies, the information and documents identified in 13.34 should be sent to the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS marked 'Insolvency Information'. If the *person* who is subject to the insolvency regime ('the insolvent person') is an *authorised person*, the information and documents should, in the first instance, be addressed to the insolvent person's supervisory contact at the *FCA* (if known).

FCA

13.35 If the insolvent person is an *authorised person* and the sender of the information or documents knows that the insolvent person's supervisory contact operates from Edinburgh, information or documents should, in the first instance, be sent to the Financial Conduct Authority, Quayside House, 127 Fountainbridge, Edinburgh EH3 8DJ.

FCA

Rights on petitions by third parties and involvement in creditors meetings: the FCA's policy

13.36 The *FCA* will exercise its rights under sections 362, 371 and 374 of the *Act* to be heard on a third party's petition or in subsequent hearings only where it believes it has information that it considers relevant to the court's consideration of the petition or application. These circumstances may include:

FCA

- (1) where the *FCA* has relevant information which it believes may not otherwise be drawn to the court's attention; especially where the *FCA* has been asked to attend for a particular purpose (for example to explain the operation of its *rules*);
- (2) where the *FCA* believes that the *insolvency order* being sought by a third party is inappropriate to meet the needs of *consumers* and the public interest; and
- (3) where the *FCA* believes that the making of an *insolvency order* will affect the *FCA's* exercise of its other powers under the *Act*, and wishes to make the court aware of this.

13.37 The making of an *insolvency order* operates to stay any proceedings already in place against the company, partnership or individual, and prevents proceedings being commenced while the *insolvency order* is in place. Proceedings can continue or be commenced against those *persons* only with the court's permission. This may impact on the effectiveness of the *FCA's* use of its powers to seek *injunctions* and restitution orders from the court. The *FCA* will draw the court's attention to this potential effect where the *FCA* believes it is a relevant consideration, but it is a matter for the court to determine its relevance in a particular case.

FCA

13.38 The *FCA* is given power to receive the same information as creditors are entitled to receive in the winding up, administration, receivership or voluntary arrangement of an *authorised person*, of *appointed representatives* and of *persons* who have carried out a *regulated activity* while *unauthorised*. The *FCA* is also entitled to attend and make representation at any creditors' meeting or (where relevant) creditors' committee meeting taking place in those regimes. When it decides whether to exercise its power to attend and make representations at meetings the factors which the *FCA* will take into account include:

FCA

- (1) the extent of claims by *consumers* upon the body or individual;
- (2) the extent to which *consumer* assets are held by the body or individual;
- (3) the extent to which the *FCA* is aware of concerns of *consumers* (or other creditors or contributories) about the way in which the insolvency regime is

proceeding;

- (4) whether the circumstances which gave rise to the insolvency regime might have general implications for others carrying on regulated business;
- (5) whether the creditors include *shareholders*, directors, or other *persons* who have a connection with the management or ownership of the body or are associated with the individual;
- (6) the complexity or specialisation of the business of the body or individual; and
- (7) where there is a significant cross border or international element to the business which the *company*, *partnership* or individual is carrying out.

14. Collective Investment Schemes

Exercise of the powers in respect of Authorised Unit Trust Schemes (AUT) and authorised contractual schemes (ACS): sections 254 (Revocation of authorisation order otherwise than by consent), 257 (Directions), 258 (Applications to the court), 261U (Revocation of authorisation order otherwise than by consent), 261X (Directions) and 261Y (Applications to the court) of the Act

14.1 The *FCA* will consider all the relevant circumstances of each case and may take a number of factors into account when it decides whether to use these powers. The following list is not exhaustive; not all these factors may be relevant in a particular case and there may be other factors that are relevant.

FCA

- (1) The seriousness of the breach or likely breach by an *authorised fund manager* or *depository* of a requirement imposed by or under the *Act*. The following may be relevant:
 - (a) the extent to which the *breach* was deliberate or reckless;
 - (b) the extent of loss, or risk of loss, caused to existing, past or potential participants in the *AUT* or *ACS* as a result of the *breach*;
 - (c) whether the *breach* highlights serious or systemic weaknesses in the management or control of either the *AUT*, *ACS* or *scheme property*;
 - (d) whether there are grounds for believing a *breach* is likely to be continued or repeated;
 - (e) the length of time over which the *breach* happened; and
 - (f) whether existing and/or past participants in the *AUT* or *ACS* have been misled in a material way, for example about the investment objectives or policy of the *scheme* or the level of investment risk.
- (2) The consequences of a failure to satisfy a requirement for the making of an order authorising an *AUT* or *ACS*. The *FCA* will expect the non-compliance to be resolved as soon as possible. Important factors are likely to be whether existing and/or past *participants* have suffered loss due to the non-compliance and whether remedial steps will be taken to satisfy all the requirements of the order.
- (3) Whether it is necessary to suspend the issue and redemption of units to protect the interests of existing or potential *participants* in the *AUT* or *ACS*. For example, this may be necessary if:
 - (a) information suggests the current price of units under the *AUT* or *ACS* may not accurately reflect the value of *scheme property*; or

- (b) the *scheme property* cannot be valued accurately.
- (4) The effect on the interests of *participants* within the scheme of the use of any of its powers under sections 254, 257, 261U and 261X. However, the *FCA* will also consider the interests of past and potential *participants*.
- (5) Whether the *FCA's* concerns can be resolved by taking enforcement action against the *authorised fund manager* and/or *depository* of the *AUT* or *ACS*. In some instances, the *FCA* may consider it appropriate to deal with a *breach* by an *authorised fund manager* or *depository* by taking direct enforcement action against the *authorised fund manager* and/or *depository* without using its powers under sections 254, 257, 258, 261U, 261X or 261Y. In other instances, the *FCA* may combine direct enforcement action against a *depository* and/or *authorised fund manager* with the use of one or more of the powers under sections 254, 257, 258, 261U, 261X or 261Y.
- (6) Whether there is information to suggest that a *depository* or *authorised fund manager* has knowingly or recklessly given the *FCA* false information. Giving false information is likely to cause very serious concerns, particularly if it shows there is a risk of loss to the *scheme property* or that *participants'* interests have been or may be affected in some other way.
- (7) The conduct of the *authorised fund manager* or *depository* in relation to, and following the identification of, the issue, for example:
 - (a) whether the *authorised fund manager* or *depository* discovered the issue or problem affecting the *AUT* or *ACS* and brought it to the *FCA's* attention promptly;
 - (b) the degree to which the *authorised fund manager* or *depository* is willing to cooperate with the *FCA's* investigation and to take protective steps, for example by suspending the issue and redemption of units in the *AUT* or *ACS*;
 - (c) whether the *authorised fund manager* or *depository* has compensated past and existing *participants* who have suffered loss.
- (8) The compliance history of the *depository* or *authorised fund manager*, including whether the *FCA* has previously taken disciplinary action against the *depository* or *authorised fund manager* in relation to the *AUT*, *ACS* or any other *collective investment scheme*.
- (9) Whether there is information to suggest that the *AUT* or *ACS* is being used for criminal purposes and/or that the *authorised fund manager* or *depository* is itself involved in *financial crime*.

Choice of powers

- 14.2 The *FCA* may use its powers under sections 254, 257 and 258 (in the case of *AUTs*) and sections 261U, 261X and 261Y (in the case of *ACSs*) individually, together, and as well as direct enforcement action against a *depository* or *authorised fund manager* in their capacity as *firms*.
- FCA**
- 14.3 Where the *FCA* has a concern about an *AUT* or *ACS* that must be dealt with urgently, it will generally use its power to give directions under section 257 (in the case of an *AUT*) or

FCA section 261X (in the case of an *ACS*) in the first instance.

14.4 The following are examples of situations where the *FCA* may consider it appropriate to seek a court order under section 258 (in the case of an *AUT*) or section 261Y (in the case of an *ACS*) to remove the *authorised fund manager* or *depository*:

FCA

- (1) Where there are grounds for concern over the behaviour of the *authorised fund manager* or *depository* in respect of the management of the *scheme* or of its assets.
- (2) Where an *authorised fund manager* or *depository* has breached a requirement imposed on him under the *Act* or has knowingly or recklessly given the *FCA* false information.

14.5 The *FCA* recognises that participants in an *AUT* or *ACS* have a direct financial interest in the *scheme property*. It follows that in cases where it considers it appropriate to use its section 254 power (in the case of an *AUT*) or its section 261U power (in the case of an *ACS*) to revoke an authorisation order, the *FCA* will generally first require the *authorised fund manager* or *depository* to wind up the *AUT* or *ACS* (or seek a court order for the appointment of a firm to wind up the *AUT* or *ACS*).

FCA

14.6 [deleted]

Exercise of the powers in respect of recognised schemes: section 267 of the Act - power to suspend promotion of a scheme recognised under section 264: the FCA's policy

14.7 When it decides whether a suspension order under section 267 is appropriate, the *FCA* will consider all the relevant circumstances. General factors that the *FCA* may consider include, but are not limited to:

FCA

- (1) the seriousness of the breach of *financial promotion rules* by the *operator* (the matters listed at [paragraph 14.1\(1\)\(a\) to \(f\)](#) may be relevant in this context); and
- (2) the conduct of the *operator* after the *breach* was discovered including whether the *operator* has compensated past and existing *participants* who have suffered loss.

14.8 In addition to or instead of suspending the promotion of a *scheme* recognised under section 264, the *FCA* may ask the *competent authorities* of the *EEA State* in which the *scheme* is constituted who are responsible for the authorisation of *collective investment schemes*, to take such action in respect of the *scheme* and/or its *operator* as will resolve the *FCA's* concerns. Also, Schedule 5 to the *Act* states that a *person* who for the time being is an *operator*, *trustee* or *depository* of a *scheme* recognised under section 264 of the *Act* is an *authorised person*. So, it will also be open to the *FCA* to take direct enforcement action against those *persons*.

FCA

Exercise of the powers in respect of recognised schemes: sections 279 and 281 of the Act – powers to revoke recognition of schemes recognised under section 272: the FCA's policy

14.9 The *FCA* will consider all the relevant circumstances of each case. The general factors which the *FCA* may consider include, but are not limited to, those set out in [paragraph 14.1\(1\) to \(9\)](#) (the conduct of the *operator* of the *scheme* and of the *trustee* or *depository*

FCA

will also, of course, be taken into account in relation to each of these factors).

14.10 As well as or instead of using these powers, the *FCA* may ask the relevant *regulatory body* of the country or territory in which the *scheme* is authorised to take such action in respect of the *scheme* and/or its *operator, trustee or depositary* as will resolve the *FCA's* concerns.

FCA

14.10A Decisions about whether to apply to the civil courts for *collective investment scheme* related orders under the *Act* will be made by the *RDC* Chairman or, in an urgent case and if the Chairman is not available, by an *RDC* Deputy Chairman. In an exceptionally urgent case the matter will be decided by the director of Enforcement or, in his or her absence, another member of the *FCA's* executive of at least director of division level.

FCA

14.10B An exceptionally urgent case in these circumstances is one where the *FCA* staff believe that a decision to begin proceedings

FCA

- (1) should be taken before it is possible to follow the procedure described in paragraph 14.10A; and
- (2) it is necessary to protect the interests of consumers or potential consumers.

15. Disqualification of auditors and actuaries

15.1 **FCA** Auditors and *actuaries* fulfil a vital role in the management and conduct of *firms*, *AUTs* and *ACSSs*. Provisions of the *Act*, *rules* made under the *Act* and the *OEIC Regulations 2000* impose various duties on auditors and *actuaries*. These duties and the *FCA's* power to disqualify auditors and *actuaries* if they breach them assist the *FCA* in pursuing its *statutory objectives*. The *FCA's* power to disqualify auditors in breach of duties imposed by *trust scheme rules* or *contractual scheme rules* also assists the *FCA* to achieve these *statutory objectives* by ensuring that auditors fulfil the duties imposed on them by these *rules*.

15.1A **FCA** The *FCA* also has the power under section 345 to impose a financial penalty and a *public censure* on an auditor or *actuary* in respect of a failure to comply with a duty imposed on the auditor or *actuary* by rules made by the *FCA*, or a failure to comply with a duty imposed under the *Act* to communicate information to the *FCA*. The *FCA* has the power under section 249 to impose a financial penalty and a *public censure* on an auditor in respect of a failure to comply with a duty imposed on him by *trust scheme rules*. The *FCA's* statement of policy in relation to the imposition of financial penalties is set out in *DEPP 6.2* (Deciding whether to take action) and *DEPP 6.4* (Financial penalty or *public censure*). The *FCA's* statement of policy in relation to determining the amount of a financial penalty is set out in *DEPP 6.5* to *DEPP 6.5D*.

Disqualification of auditors and actuaries under its powers contained in section 345, section 249 and section 261K of the Act: the FCA's general approach

15.2 **FCA** The *FCA* recognises that the use of its powers to disqualify auditors and *actuaries* will have serious consequences for the auditors or *actuaries* concerned and their clients; it will therefore exercise its power to impose a disqualification in a way that is proportionate to the particular breach of duty concerned. The *FCA* will consider the seriousness of the breach of duty when deciding whether to exercise its power to disqualify and the scope of any disqualification.

15.3 **FCA** *Actuaries* appointed by *firms* under rule 4.3.1 of the *FCA's* Supervision Manual are *approved persons* and as such will be subject to the *FCA's* *Statements of Principle* and *Code of Practice for Approved Persons*. When deciding whether to exercise its power to disqualify an *actuary* who is an *approved person*, the *FCA* will consider whether the particular breach of duty can be adequately addressed by the exercise of its disciplinary powers in relation to *approved persons*.

15.4 **FCA** In cases where the nature of the breach of duties imposed on the auditors and *actuaries* under the *Act* (and/or in the case of *actuaries* imposed by *trust scheme rules* or *contractual scheme rules*) is such that the *FCA* has concerns about the fitness and propriety of an individual auditor or *actuary*, the *FCA* will consider whether it is appropriate to make a *prohibition order* instead of, or in addition to, disqualifying the individual.

15.5 **FCA** A disqualification order will be made against the *person* appointed as auditor or *actuary* of the *firm*. In the case of *actuaries*, the disqualification order will be made against the individual appointed by the *firm*. In the case of auditors, the disqualification order will depend on the terms of the appointment. Where the *firm* has appointed a named individual

as auditor the disqualification will be made against that individual and this will be the case where the individual concerned is a member of a *firm* of auditors. Where the *firm* has appointed a firm as auditor the disqualification order will be against that firm. Where the *person* appointed is a *limited liability partnership* the disqualification order will be against the *limited liability partnership* rather than its members.

Disqualification under section 345

15.6

FCA

When it decides whether to exercise its power to disqualify an auditor or *actuary* under section 345(1), and what the scope of any disqualification will be, the *FCA* will take into account all the circumstances of the case. These may include, but are not limited to, the following factors:

- (1) the nature and seriousness of any breach of *rules* and the effect of that breach: the *rules* are set out in *SUP 3* (Auditors) and *SUP 4* (Actuaries), and in the case of *firms* which are *ICVCs*, in *COLL 4* (Investor relations) and *COLL 7* (Suspension of dealings and termination of authorised funds). The *FCA* will regard as particularly serious any breach of *rules* which has resulted in, or is likely to result in, loss to *consumers* or damage to confidence in the *financial system* or an increased risk that a *firm* may be used for the purposes of *financial crime*;
- (2) the nature and seriousness of any breach of the duties imposed under the *Act*: the *FCA* will regard as particularly serious any failure to disclose to it information which has resulted in, or is likely to result in, loss to *consumers* or damage to confidence in the *financial system* or an increased risk that a *firm* may be used for the purposes of *financial crime*;
- (3) action taken by the auditor or *actuary* to remedy the *breach*: this may include whether the auditor or *actuary* brought the *breach* to the attention of the *FCA* promptly, the degree of cooperation with the *FCA* in relation to any subsequent investigation, and whether remedial steps have been taken to rectify the breach and whether reasonable steps have been taken to prevent a similar breach from occurring;
- (4) action taken by professional bodies: the *FCA* will consider whether any disciplinary action has been or will be taken against the auditor or *actuary* by a relevant professional body and whether that action adequately addresses the particular breach of duty;
- (5) The previous compliance record of the auditor or *actuary* concerned: whether the *FCA* (or a *previous regulator*) or professional body has imposed any previous disciplinary sanctions on the *firm* or individual concerned.

Disqualification under section 249 or section 261K

15.7

FCA

When deciding whether or not to disqualify an auditor under section 249(1) or section 261K(1) of the *Act* (concerning the power to disqualify an auditor for breach of *trust scheme rules* or *contractual scheme rules*), and in setting the disqualification, the *FCA* will take into account all the circumstances of the case. These may include, but are not limited to, the following circumstances:

- (1) the effect of the auditor's breach of a duty imposed by *trust scheme rules* or *contractual scheme rules*: the *FCA* will regard as particularly serious a breach

of a duty imposed by *trust scheme rules* or *contractual scheme rules* (set out in *COLL 4* (Investor relations) and *COLL 7* (Suspension of dealings and termination of authorised funds)) which has resulted in, or is likely to result in, loss to *consumers* or damage to confidence in the *financial system* or an increased risk that a *firm* may be used for the purposes of *financial crime*;

- (2) action taken by the auditor to remedy its breach of a duty imposed by *trust scheme rules* or *contractual scheme rules*: this may include any steps taken by the auditor to bring the breach to the attention of the *FCA* promptly, the degree of co-operation with the *FCA* in relation to any subsequent investigation, and whether any steps have been taken to rectify the breach or prevent a similar breach;
- (3) action taken by a relevant professional body: The *FCA* will consider whether any disciplinary action has or will be taken against the auditor by a relevant professional body and whether such action adequately addresses the particular breach of a duty imposed by *trust scheme rules* or *contractual scheme rules*;
- (4) the previous compliance record of the auditor concerned: whether the *FCA* (or a *previous regulator*) or professional body has imposed any previous disciplinary sanctions on the *firm* or individual concerned.

Removal of a disqualification

15.8

FCA

An auditor or *actuary* may ask the *FCA* to remove the disqualification at any time after it has been imposed. The *FCA* will remove a disqualification if it is satisfied that the disqualified *person* will in future comply with the duty in question (and other duties under the *Act*). When it considers whether to grant or refuse a request that a disqualification be removed on these grounds, the *FCA* will take into account all the circumstances of a particular case. These circumstances may include, but are not limited to:

- (1) the seriousness of the breach of duty that resulted in the disqualification;
- (2) the amount of time since the original disqualification; and
- (3) any steps taken by the auditor or *actuary* after the disqualification to remedy the factors which led to the disqualification and any steps taken to prevent a similar breach of duty from happening again.

16. Disapplication orders against members of the professions

The FCA's general approach to making disapplication orders

- 16.1 **FCA** The *FCA's* power under section 329 of the *Act* to make an order disapplying an exemption from the *general prohibition* in relation to a *person* who is a *member* of the professions on the grounds that the *member* is not a fit and proper person to conduct *exempt regulated activities*, and to maintain a public record of disapplication orders, will assist the *FCA* in pursuing its *statutory objectives*.
- 16.2 **FCA** The *FCA* may make a range of disapplication orders depending on the particular circumstances of each case, including the range of *exempt regulated activities* undertaken and the particular *exempt regulated activities* to which the *person's* lack of fitness and propriety in that context is relevant.
- 16.3 **FCA** The *FCA* recognises that a decision to make a disapplication order may have serious consequences for a *member* in relation not only to the conduct by the member of *exempt regulated activities*, but also in relation to the other business carried on by the *member*. When it decides whether to exercise its power to make a disapplication order, the *FCA* will consider all relevant circumstances including whether other action, in particular the making of a *prohibition order* (see chapter 9 of this guide), would be more appropriate. In general, the *FCA* is likely to exercise its powers to make an order disapplying an exemption where it considers that a *member* of a profession presents such a risk to the *FCA's statutory objectives* that it is appropriate to prevent the *member* from carrying out the *exempt regulated activities*. The *FCA* will also have regard to any disciplinary action taken, or to be taken, against the *person* by the relevant *designated professional body*.

Disapplication orders

- 16.4 **FCA** When the *FCA* has concerns about the fitness and propriety of a *member* to carry out *exempt regulated activities*, it will consider all the relevant circumstances of the case, including whether those concerns arise from the fitness and propriety of specific individuals engaged to perform the *exempt regulated activities* carried out by the *member* or whether its concerns arise from wider concerns about the *member* itself.
- 16.5 **FCA** In most cases, where the *FCA* is concerned about the fitness and propriety of a specific individual, it may be more appropriate for the *FCA* to consider whether to make an order prohibiting the individual from performing functions in relation to *exempt regulated activities* rather than a disapplication order in relation to the *member* concerned. The criteria which the *FCA* will apply when determining whether to make a prohibition order against an individual who is not regulated by the *FCA* are set out in [paragraphs 9.17 to 9.18](#) of this guide (*prohibition orders* against other individuals). In addition to the factors referred to in these paragraphs, the *FCA* may also take into consideration any disciplinary action that has been, or will be taken against the individual concerned by the relevant *designated professional body*, where that disciplinary action reflects on the fitness and propriety of the individual concerned to perform *exempt regulated activities*.
- 16.6 The *FCA* will also take into account the potentially more serious consequences that a disapplication of an exemption will have for the *member* concerned compared with the

FCA consequences of a prohibition of a particular individual engaged in *exempt regulated activities*. However, the *FCA* may consider it appropriate in some cases to disapply an exemption where it decides that the *member* concerned is not fit and proper to carry out *exempt regulated activities* in accordance with section 327 of the *Act* (Exemption from the general prohibition).

16.7 As an alternative to making an order to disapply an exemption, the *FCA* may consider issuing a private warning. A private warning may be appropriate where the *FCA* has concerns in relation to a *member's* fitness and propriety but feels that its concerns in relation to the conduct of *exempt regulated activities* can be more appropriately addressed by a private warning than by a disapplication of the *member's* exemption.

FCA

16.8 When it decides whether to exercise its power to disapply an exemption from the *general prohibition* in relation to a *member*, the *FCA* will take into account all relevant circumstances which may include, but are not limited to, the following factors:

FCA

- (1) Disciplinary or other action taken by the relevant *designated professional body*, where that action relates to the fitness and propriety of the *member* concerned: where the *FCA* considers that its concerns in relation to the fitness and propriety of the *member* concerned may be, or have been adequately addressed by disciplinary or other action taken by the relevant *designated professional body* it may consider not making a disapplication order in addition to such action; however, where the *FCA* considers that its concerns, and in particular, any risks presented to the *member's clients* in respect of its *exempt regulated activities*, are not adequately addressed by that action, the *FCA* will consider making a disapplication order;
- (2) The significance of the risk which the *member* presents to its *clients*: if the *FCA* is satisfied that there is a significant risk to *clients* and *consumers* it may consider making a disapplication order;
- (3) The extent of the *member's* compliance with *rules* made by the *FCA* under section 332(1) of the *Act* (Rules in relation to whom the general prohibition does not apply) or by the relevant *designated professional body* under section 332(3) of the *Act*;

16.9 Where the *FCA* is considering whether to exercise its power to make a disapplication order in relation to a *member*, it will liaise closely with the relevant *designated professional body*.

FCA

16.10 Where the *FCA* is considering making a disapplication order against a *member* as a result of a breach of *rules* made by the *FCA* under section 323(1) of the *Act*, it will take into account any proposed application by the *member* concerned for *authorisation* under the *Act*. The *FCA* may refrain from making a disapplication order pending its consideration of the application for *authorisation*.

FCA

Applications under section 329(3) for variation or revocation of disapplication orders

16.11 When considering whether to grant or refuse an application under section 329(3) of the *Act* to vary or revoke a disapplication order, the *FCA* will take into account all the relevant circumstances. These may include, but are not limited to:

FCA

- (1) any steps taken by the *person* to rectify the circumstances which gave rise to the

original order;

- (2) whether the *person* has ceased to present the risk to *clients* and *consumers* or to the *FCA's statutory objectives* which gave rise to the original order;
- (3) the circumstances giving rise to the original order and any additional information which, had it been known by the *FCA*, would have been relevant to the decision to make the order;
- (4) the amount of time which has elapsed since the order was made.

16.12 The *FCA* will not generally grant an application to vary a disapplication order unless it is satisfied that the proposed variation will not result in the *person* presenting the same degree of risk to *clients* or *consumers* that originally gave rise to the order to disapply the exemption. Similarly, the *FCA* will not revoke a disapplication order unless and until it is satisfied that the *person* concerned is fit and proper to carry out *exempt regulated activities* generally or those specific *exempt regulated activities* in relation to which the exemption has been disapplied.

FCA

The effect of a disapplication order

16.13 When the *FCA* has made a disapplication order, the *member* against which it has been made may not perform the *exempt regulated activities* to which the order relates. If the member contravenes the order, there will be a breach of the *general prohibition* that may be prosecuted under section 23 of the *Act* ([see chapter 12](#)).

FCA

16.14 A disapplication order in relation to *exempt regulated activities* made against a *member* will be relevant should that *member* subsequently apply for *authorisation* under the *Act*. Whether or not such an application for *authorisation* is successful will depend on many factors, including the *FCA's* grounds for making the disapplication order. For example, if the order for disapplication of the exemption was made on the grounds of a breach of *rules* made under section 332(1) of the *Act*, the *FCA* may accept an application for *authorisation* notwithstanding the disapplication order. If, however, the order was made on grounds of a breach of the rules of a *designated professional body* resulting in a significant risk to *clients* in relation to the provision of *exempt regulated activities*, it is unlikely that an application for approval made by the *member* would be accepted by the *FCA* before the revocation of the disapplication order.

FCA

17. [deleted]

18. Cancellation of approval as sponsor on the FCA's own initiative

18.1 The *FCA* may cancel a *sponsor's* approval under section 88 of the *Act* if it considers that a *sponsor* has failed to meet the criteria for approval as a *sponsor* as set out in *LR 8.6.5R*.

FCA

18.2 When considering whether to cancel a *sponsor's* approval on its own initiative, the *FCA* will take into account all relevant factors, including, but not limited to, the following:

FCA

- (1) the competence of the *sponsor*;
- (2) the adequacy of the *sponsor's* systems and controls;
- (3) the *sponsor's* history of compliance with the *listing rules*;
- (4) the nature, seriousness and duration of the suspected failure of the *sponsor* to meet (at all times) the criteria for approval as a *sponsor* set out in *LR 8.6.5R*;
- (5) any matter which the *FCA* could take into account if it were considering an application for approval as a *sponsor* made under section 88(3)(d) of the *Act*.

19. Non-FSMA powers

Introduction

19.1 This chapter describes many of the powers that the *FCA* has to enforce requirements imposed under legislation other than the *Act*. The chapter is ordered chronologically, ending with the most recent legislation. Where powers under different pieces of legislation are broadly the same, or apply to the same class of person, we have set out the relevant statements of policy in one section to avoid duplication.

FCA

19.2 Where conduct may amount to a breach of more than one enactment, the *FCA* may need to consider which enforcement powers to use and whether to use powers from one or more of the Acts. Which power or powers are appropriate will vary according to the circumstances of the case. However, where appropriate, we have tried to adopt procedures in respect of our use of powers under legislation other than the *Act* which are akin to those used under the *Act*. We expect, for example, to provide the subject of an investigation with confirmation of the reasons for the investigation and the legislative provisions under which it is conducted unless notification would be likely to prejudice the investigation or otherwise result in it being frustrated.

FCA

Industrial and Provident Societies Act 1965 (IPSA65)

Friendly and Industrial and Provident Societies Act 1968 (FIPSA68)

Friendly Societies Act 1974 (FSA74)

Friendly Societies Act 1992 (FSA92)

19.3 The *FCA* has certain functions in relation to what are described as “registrant-only” mutual societies. These societies are not regulated or supervised under the *Act*. Instead, they are subject to the provisions of IPSA65, FIPSA68, FSA74 and FSA92, which require them to register with the *FCA* and fulfil certain other obligations, such as the requirement to submit annual returns.

FCA

19.4 IPSA65, FIPSA68, FSA74 and FSA92 provide the *FCA* with certain powers to ensure that registrant-only societies meet the requirements imposed on them. These include the power to:

FCA

- cancel or suspend the society’s registration (ss.16 and 17 IPSA65, s.91 FSA74);
- dissolve the society (ss.95 and 95A FSA74);
- appoint an accountant or actuary to inspect the society’s books (s.47 IPSA65);
- require the production of documents and provision of information for certain purposes (s.48 IPSA65, s.90 FSA74);

- appoint inspectors and call special meetings (s.49 IP65, s.90 FSA74);
- present petitions for winding up (s.56 IP65; ss.22 and 52 FSA92); and
- prosecute failures to comply with requirements (s.61 IP65, s.18 FIP68 s.98 FSA74).

19.5 The *FCA's* enforcement activities in respect of registrant-only societies focus on prosecuting societies that fail to submit annual returns. As registrant-only societies are not subject to the *rules* imposed by the *Act* and by the *FCA Handbook*, the requirement that they submit annual returns provides an important check that the interests and investments of members, potential members, creditors and other interested parties are being safeguarded. The power to prosecute registrant-only societies who fail to meet this requirement is therefore an important tool and one which the *FCA* is committed to using in appropriate cases.

FCA

19.6 The *FCA* considers a variety of factors when deciding whether to prosecute a society for failing to submit its annual return. The *FCA* is more likely to prosecute a society which has previously failed to submit returns, or which poses a greater risk to the *FCA's* statutory objectives, for example, because of the size of its financial resources or its number of members.

FCA

19.7 The *FCA* may also use its power to petition for the society's winding up where it has prosecuted a society but the society continues to fail to submit the outstanding annual returns or defaults on submitting further returns.

FCA

19.8 The decision whether to initiate criminal and other proceedings under these Acts will be taken in accordance with the procedure described in *EG 12.4C*. Under section 18 IP65, a society may appeal certain decisions of the *FCA* relating to the refusal, cancellation or suspension of a society's registration to the High Court or, in Scotland, the Court of Session. Refusals to register a branch or to register the amendment of a society's rules and cancellations or suspensions of a society's listing under the Friendly Societies Act 1974 are also appealable in certain circumstances to the High Court or the Court in Sessions. Distinguishing features of the procedure for giving statutory notices under the FSA92, including available rights of reference to the *Tribunal*, are set out in *DEPP 2.5.18G*.

FCA

19.9 Further information about the *FCA's* powers under IP65 and FSA74 can be found on the *FCA's* website.¹³

FCA

Credit Unions Act 1979

19.10 The Credit Unions Act enables certain societies in Great Britain to be registered under IP65 and makes provisions in respect of these societies. It gives the *FCA* certain powers in addition to the powers that it has under the *Act* in respect of those credit unions which are *authorised persons*. The *FCA's* powers under the Credit Unions Act include the power to:

FCA

- require the production of books, accounts and other documents in the exercise of certain functions (section 17);
- appoint an investigator or to call a special meeting of the credit union

¹³ <http://www.fca.org.uk/firms/being-regulated/enforcement/how-we-enforce-the-law/courts/friendly-societies>

- cancel the registration of the credit union (section 20); and
- petition the High Court to wind up the credit union in particular circumstances (section 20).

19.11 The *FCA* will use these powers in a manner consistent with its approach to using the same powers under the *Act*. Where the *FCA* decides to cancel or suspend a credit union's registration under section 20(1) of the Credit Unions Act, the credit union may appeal that decision to the High Court or, in Scotland, the Court of Session.

FCA

19.12 The Credit Unions Act also extends to credit unions some criminal offences under IP65. The *FCA* will act in accordance with *EG 12* when prosecuting these offences.

FCA

19.13 [deleted]

19.14 [deleted]

Unfair Terms in Consumer Contracts Regulations 1999

19.15 The *FCA* has published a separate regulatory guide, *UNFCOG*, which describes how it will use the general powers under the *Unfair Terms Regulations*, including its powers to obtain undertakings and seek information from firms. In addition, *EG 10* describes how the *FCA* will use its injunctive powers under these Regulations.

FCA

Regulation of Investigatory Powers Act 2000 (RIPA)

19.16 RIPA provides methods of surveillance and information gathering to help the *FCA* in the prevention and detection of crime. RIPA ensures that, where these methods are used, an individual's rights to privacy under Article 8 of the European Convention of Human Rights are considered and protected.

FCA

19.17 Under RIPA the *FCA* is able to:

FCA

- acquire data relating to communications;
- carry out covert surveillance;
- make use of covert human intelligence sources (CHIS); and
- access electronic data protected by encryption or passwords.

19.18 The *FCA* is not able to obtain warrants to intercept communications during the course of transmission.

FCA

19.19 The *FCA* is only able to exercise powers available to it under Parts I and II of RIPA where it is necessary for the purpose of preventing or detecting crime. All RIPA authorisations for the acquisition of communications data, the carrying out of directed surveillance and the use of CHIS must be approved by a Head of Department in the Enforcement Division. Authorisation will only be given where the authorising officer believes that the proposed action is necessary and proportionate in the specific circumstances set out in the

FCA

application. Consideration will be given to any actual or potential infringement of the privacy of individuals who are not the subjects of the investigation or operation (collateral intrusion) and to the steps taken to avoid or minimise any such intrusion. When considering whether the proposed action is necessary and proportionate the following non-exhaustive list of factors is likely to be relevant:

- the seriousness of the offence;
- the amount of material that might be gathered;
- the nature of the material that might be gathered;
- whether there are other less intrusive ways of obtaining the same result;
- whether the proposed activity is likely to satisfy the objective; and
- where surveillance is proposed, the location of the surveillance operation.

Encryption

19.20

FCA

Under Part III RIPA the *FCA* is able to require a person who holds “protected” electronic information (that is, information which is encrypted) to put that information into an intelligible form and, where the person has a key to the encrypted information, to require the person to disclose the key so that the data may be put into an intelligible form. The *FCA* may impose such a requirement where it is necessary for the purpose of preventing or detecting crime or where it is necessary for the purpose of securing the effective exercise or proper performance by the *FCA* of its statutory powers or statutory duties. In order to serve a notice under Part III RIPA, the *FCA* must obtain written permission from an appropriate judicial authority. The *FCA* does not anticipate using powers under Part III very often as it expects firms and individuals to provide information in intelligible format pursuant to requirements to provide information under the *Act*.

Home Office Codes of Practice

19.21

FCA

In exercising powers under RIPA the *FCA* has regard to the relevant RIPA codes of practice. The Codes are available on the Home Office website: security.homeoffice.gov.uk/ripa/publication-search/ripa-cop/.

Complaints and Oversight

19.22

FCA

RIPA provides for the appointment of Commissioners to oversee the compliance of designated authorities with RIPA requirements, and the establishment of a tribunal with jurisdiction to consider and determine, amongst other things, complaints and referrals about the way in which the *FCA* and other public bodies use their RIPA powers.

Regulated Activities Order 2001 (RAO)

19.23

FCA

The RAO sets out those activities which are regulated for the purposes of the *Act*. Part V of the RAO also requires the *FCA* to maintain a register of all those people who are not authorised by the *FCA* but who carry on insurance mediation activities. Under article 95 RAO, the *FCA* has the power to remove from the register an appointed representative who carries on insurance mediation activities if it considers that he is not fit and proper. The *FCA* will give the person a *warning notice* informing him that it proposes to remove his registration and a *decision notice* if the decision to remove his registration is taken. The

decisions to give a *warning notice* or a *decision notice* will be taken by the *RDC* following the procedures set out in *DEPP* 3.2 or, where appropriate, *DEPP* 3.3. A person who receives a decision notice under article 95 RAO may refer the matter to the *Tribunal*.

The Open-Ended Investment Companies Regulations 2001

19.24 The *OEIC Regulations* set out requirements relating to the way in which collective investment may be carried on by open-ended investment companies. Under the *OEIC Regulations*, the *FCA* has the power, amongst other things, to:

FCA

- revoke an open-ended investment company's authorisation in several situations, including where the firm breaches relevant requirements or provides us with false or misleading information (regulation 23);
- give, vary and revoke certain directions, including that the affairs of the company be wound up (regulations 25 and 28);
- apply to court for an order that a depositary or director of a company be removed and replaced (regulation 26);
- appoint one or more competent persons to investigate and report on the affairs of the company and specified others (regulation 30).

19.25 Factors that the *FCA* may take into account when it decides whether to use one or more of these powers include, but are not limited to, factors which are broadly similar to those in *EG* 14.1 in the context of *AUTs* or *ACSSs*. However, the relevant conduct will be that of the *ICVC*, the *director* or *directors* of the *ICVC* and its *depositary*. Another difference is that the *FCA* is also able to take disciplinary action against the *ICVC* itself since the *ICVC* will be an *authorised person*. When choosing which powers to use, the *FCA* will adopt an approach which is broadly similar to that described in *EG* 14.2 to 14.5.

FCA

19.26 The *FCA* will give a company a *warning notice* if it proposes to revoke the company's authorisation and a *decision notice* if the decision to revoke the company's authorisation is subsequently taken. The decisions to give a *warning notice* or a *decision notice* will be taken by the *RDC* following the procedures set out in *DEPP* 3.2 or, where appropriate, *DEPP* 3.3. A person who receives a decision notice under the *OEIC Regulations* may refer the matter to the *Tribunal*.

FCA

19.27 Under the *OEIC Regulations*, the *FCA* may also use its disqualification powers against auditors who fail to comply with a duty imposed on them under *FCA rules*. The procedure which the *FCA* will follow when exercising its disqualification powers is set out in *EG* 15.

FCA

Electronic Commerce Directive (Financial Services and Markets) Regulations 2002

19.28 The *FCA* has powers under regulation 6 of the *ECD Regulations*, provided certain policy and procedural conditions are met, to direct that an *incoming ECA provider* may no longer carry on a specified *incoming electronic commerce activity*, or may only carry it on subject to specified requirements.

FCA

Electronic commerce activity directions: the FCA's policy

19.29 The *FCA* will exercise the power to make an *electronic commerce activity direction* on a case-by-case basis. When deciding whether to make a direction, the *FCA* will undertake an

FCA assessment of whether the circumstances of the particular case meet the policy conditions set out in regulation 6.

19.30 On obtaining information concerning possible *financial crime* facilitated through or involving an *incoming ECA provider*, or detriment to UK markets or UK *ECA recipients* caused by the activities of an *incoming ECA provider*, the *FCA* will contact the relevant *EEA regulator* of the *incoming ECA provider*. The *FCA* would expect the relevant *EEA regulator* to consider the matter, investigate it where appropriate and keep the *FCA* informed about what action, if any, was being taken. The *FCA* may not need to be involved further if the action by the relevant *EEA regulator* addresses the *FCA's* concerns.

19.31 However, there are likely to be circumstances in which the *FCA* will need to use the *electronic commerce activity direction* power. Examples could include where it was necessary to stop the behaviour complained of, or to make the continued provision of services by the *incoming ECA provider* conditional upon compliance with specified requirements. Overall, the *FCA* may use the direction power:

- FCA**
- (1) where:
 - (a) the behaviour complained of was causing, or had the potential to cause, major detriment to *consumers* in the United Kingdom; or
 - (b) the *incoming ECA provider's* activities have been used, or have the potential to be used, to facilitate serious *financial crime* or to launder the proceeds of a crime; or
 - (c) the making of the direction is considered to be necessary for other reasons of public policy relevant to the *regulatory objectives*; and
 - (2) either:
 - (a) the relevant *EEA regulator* is unable to take action, or has not within a reasonable time taken action which appears to the *FCA* to be adequate; or
 - (b) the relevant *EEA regulator* and the *FCA* agree that, having regard to the circumstances of the particular case, action against the wrongdoing would be taken more effectively by the *FCA*.

19.32 The question of whether the *FCA* decides to prevent or prohibit the *incoming electronic commerce activity*, or to make it subject to certain requirements (for example, compliance with specified rules), will depend on the overall circumstance of the case. A relevant consideration will be whether the *FCA* is satisfied that its concerns over the *incoming electronic commerce activity* can be adequately addressed through the imposition of a requirement, rather than a complete prohibition on the activity. Set out below is a list of factors the *FCA* may consider. The list is not exhaustive.

- FCA**
- (1) The extent of any loss, or risk of loss, or other adverse effect on UK *ECA recipients*: The more serious the loss or potential loss or other adverse effect on them, the more likely it is to be appropriate for the *FCA* to use its powers to prohibit the activity altogether, to protect the interests of UK *ECA recipients*.
 - (2) The extent to which customer assets appear to be at risk.

- (3) The risk that the *incoming ECA provider's* activities may be used or have been used to facilitate *financial crime* or to launder the proceeds of a crime: Information available to the *FCA*, including information supplied by other law enforcement agencies, may suggest that the *incoming ECA provider* is being used for, or is itself involved in, *financial crime*. Where this appears to be the case, a direction that the *incoming electronic commerce activity* should cease may be appropriate.
- (4) The risk that the *incoming ECA provider's* activities present to the *financial system* and to confidence in the *financial system*.
- (5) The impact that a complete prohibition on the activity would have on UK *ECA recipients*.

19.33 The *FCA* may consider that a case is urgent, in particular, where:

FCA

- (1) the information available to it indicates serious concerns about the *incoming electronic commerce activity* that need to be addressed immediately; and
- (2) circumstances indicate that it is appropriate to use the direction power immediately to prohibit the *incoming electronic commerce activity*, or to make the carrying on of the activity subject to specified requirements.

19.34 The *FCA* will consider the full circumstances of the case when deciding whether exercising the direction power, without first taking the procedural steps set out in regulation 6, is an appropriate response to such concerns. The factors the *FCA* may consider include those listed in paragraph 19.32 of this guide. There may be other relevant factors.

FCA

Decision making

19.35 The *FCA's* decision to make, revoke or vary an *electronic commerce activity direction* will generally be taken by the *RDC* Chairman. However, this is subject to two exceptions.

FCA

- (1) In an urgent case and if the Chairman is not available, the decision will be taken by an *RDC* Deputy Chairman and where possible, but subject to the need to act swiftly, one other *RDC* member.
- (2) If a provider who has been notified of the *FCA's* intention to make a direction or to vary a direction on its own initiative makes representations within the period and in the manner required by the *FCA*, then those representations will be considered by the *RDC*, rather than by the *RDC* Chairman alone. Having taken into account the provider's representations, the *RDC* will then decide whether to make the direction, or to vary the existing direction.

19.36 Where a provider must be given the opportunity to make representations in relation to a proposed direction or variation of a direction, the *RDC* Chairman will determine in each case the manner and the period within which those representations should be made. If the *FCA* decides to issue a direction or vary it at its own initiative, or if the *FCA* refuses an application to vary or revoke a direction, the person to whom the direction applies may refer the matter to the *Tribunal*.

FCA

Publicity

19.37 Regulation 10(8) of the *ECD Regulations* provides that if the *FCA* makes a direction, it may publish, in such manner as it considers appropriate, such information about the matter to which the direction relates as it considers appropriate in furtherance of any of the objectives referred to in paragraph 19.31(1) of this guide. However, under regulation 10(9), the *FCA* may not publish information relating to a direction if publication would, in the *FCA's* opinion, be unfair to the provider to whom the direction applies or prejudicial to the interests of *consumers*.

FCA

19.38 When deciding what information, if any, to publish and the appropriate manner of publication, the *FCA* will consider the full circumstances of each case. The *FCA* anticipates that it will generally be appropriate to publish relevant details of a direction, in order to protect and inform *consumers*. However, in accordance with the regulation 10(9) prohibition, it will not publish information if it considers that publication would be unfair to the provider or prejudicial to the interests of *consumers*.

FCA

Enterprise Act 2002

19.39 The *FCA*, together with several other UK authorities, has powers under Part 8 of the Enterprise Act to enforce breaches of consumer protection law. Where a breach has been committed, the *FCA* will liaise with other authorities, particularly the Office of Fair Trading (the OFT), to determine which authority is best placed to take enforcement action. The *FCA* would generally expect to be the most appropriate authority to deal with breaches by authorised firms in relation to regulated activities.

FCA

19.40 The Enterprise Act identifies two main types of breach which trigger the Part 8 enforcement powers. These are referred to as “domestic infringements”, which are breaches of UK law, and “Community infringements” which are breaches of the EU legislation listed in Schedule 13 of the Enterprise Act. In both cases the breach must be regarded as harming the collective interests of consumers.

FCA

19.41 The Community legislation falling within the *FCA's* scope under the Enterprise Act is:

FCA

- the Unfair Terms in Consumer Contracts Directive;¹⁴
- the Comparative and Misleading Advertising Directive;¹⁵
- the E-Commerce Directive;¹⁶
- the Distance Marketing Directive;¹⁷ and
- the Unfair Commercial Practices Directive.¹⁸

19.42 The *FCA* has powers under Part 8 of the Enterprise Act both as a “designated enforcer” in relation to domestic and Community infringements and as a “CPC enforcer” which gives the *FCA* and other CPC enforcers additional powers in relation to Community infringements so that they can meet their obligations as “competent authorities” under Regulation (EC) No.2006/2004 on co-operation between national authorities responsible

FCA

¹⁴ Directive 93/13/EEC

¹⁵ Directive 97/55/EC

¹⁶ Directive 2000/31/EC

¹⁷ Directive 2002/65/EC

¹⁸ Directive 2005/29/EC

for enforcement of consumer protection laws (the CPC Regulation).

The FCA's powers as a designated enforcer

19.43 As a designated enforcer, the *FCA* has the power to apply to the courts for an enforcement order or an interim enforcement order which requires a person who has committed a breach of applicable legislation not to engage in the conduct which constituted the breach. The *FCA* may also apply for orders where it thinks that a person is likely to commit a Community infringement.

FCA

19.44 The *FCA* has the power under the Enterprise Act to require any person to provide it with information which will enable it to (i) exercise or consider exercising its functions as an enforcer; or (ii) determine whether a person is complying with an enforcement order or an interim enforcement order. If the *FCA* requires a person to provide it with information, it must give him a notice setting out the information that it requires and confirming for which of purposes (i) and (ii) above the information is required.

FCA

19.45 Before the *FCA* may apply for an enforcement order, it must consult with:

FCA

- the OFT; and
- the person against whom the enforcement order would be made.

The period for consultation is 14 days before an application for an enforcement order can be made, or 7 days in the case of an application for an interim enforcement award. The aim of consultation is to ensure that any action taken is necessary and proportionate, and to ensure that businesses are given a reasonable opportunity to put things right before the courts become involved.

19.46 The Enterprise Act also makes provision for enforcers to accept undertakings from a person who has committed a breach. The undertaking confirms that the person will not, amongst other things, commence, continue or repeat the conduct which constituted or would constitute the breach. There is a general expectation that, if a breach of applicable legislation is committed, or if a Community infringement is likely to be committed, enforcers will seek an undertaking from the person in question before applying to court for an enforcement order against him.

FCA

19.47 The *FCA* may take steps to publish the undertakings it receives, and may apply to the court for an enforcement order if a person fails to comply with an undertaking that he has given.

FCA

The FCA's powers as a CPC enforcer

19.48 In addition to its powers as a designated enforcer under the Enterprise Act, the *FCA* also has powers, in its capacity as a "CPC enforcer", to enter premises with or without a warrant. The *FCA* must give at least two working days' notice of its intention to enter premises without a warrant unless it has not been possible to serve such notice despite all reasonably practicable steps having been taken. If the *FCA* cannot give a notice in advance, it must produce the notice on the day the premises are entered.

FCA

Use of enforcement powers under Enterprise Act

19.49 The *FCA* anticipates that its powers under the *Act* will be adequate to address the majority of breaches which it would also be able to enforce under the Enterprise Act and that there will therefore be limited cases in which it would seek to use its powers as an Enterprise Act

FCA

enforcer. Where the *FCA* does use its powers under the Enterprise Act, it will have regard to the enforcement guidelines which are published on the OFT's website.¹⁹

19.50 Further information about the *FCA's* powers under the CPC Regulations is provided at paragraphs 19.66 to 19.70 below.

FCA

Proceeds of Crime Act 2002 (POCA)

19.51 POCA provides the legislative framework for the confiscation from criminals of the proceeds of their crime. Under POCA, the *FCA* can apply to the Crown Court for a restraint order when it is investigating or prosecuting criminal cases. A restraint order prevents the person(s) named in the order from dealing with the assets it covers for the duration of the order.

FCA

19.52 The *FCA* may apply for such an order where a criminal investigation has been started or where proceedings have started but not concluded; in either case there must be reasonable cause to believe that the defendant has benefited from criminal conduct. In this context, a person benefits from criminal conduct if he obtains property or a pecuniary advantage as a result of or in connection with conduct that would be an offence if it took place in England or Wales, regardless of whether he also obtains it in some other connection. The court is required to exercise its powers with a view to securing that the value of realisable assets is not diminished.

FCA

19.53 Once an order is made, the applicant or anyone affected by the order can apply to the court for it to be varied or discharged. The court must discharge the order if the condition for granting it is no longer satisfied, that is, if the criminal investigation has not led to criminal proceedings being started within a reasonable time or the criminal proceedings have concluded.

FCA

19.54 A restraint order may apply to any realisable property held by the specified person whether or not described in the order, or to any such property transferred to him after the order is made. The order may contain exceptions for reasonable living and business expenses, but not for legal expenses relating to the offences from which he is suspected to have benefited for the order to be made.

FCA

19.55 The order can apply to assets wherever they are held, and anyone breaching the order would be guilty of contempt of court in this country. The *FCA* may request that the court make ancillary orders requiring the person to disclose his assets and/or to repatriate assets held overseas.

FCA

19.56 POCA also contains various powers of investigation which the *FCA* may use in specified circumstances. However, where these powers overlap with powers under the *Act*, the *FCA* will in most cases consider it more appropriate to rely on its investigation powers under the *Act*.

FCA

19.57 [deleted]

19.58 [deleted]

¹⁹ www.offt.gov.uk/advice_and_resources/resource_base/legal/enterprise-act/part8/

19.59 [deleted]

Financial Services (Distance Marketing) Regulations 2004

19.60 These Regulations give effect to the Distance Marketing Directive.²⁰ Under the Regulations, the *FCA* can enforce breaches of the Regulations concerning “specified contracts”. Specified contracts are certain contracts for the provision of financial services which are made at a distance and do not require the simultaneous physical presence of the parties to the contract.

FCA

19.61 The *FCA* may apply to the courts for an injunction or interim injunction against a person who appears to it to be responsible for a breach of the Regulations. The *FCA* must consult with the OFT before exercising this power. The *FCA* may also accept undertakings from the person who committed the breach that he will comply with the Regulations. The *FCA* must publish details of any applications it makes for injunctions; the terms of any orders that the court subsequently makes; and the terms of any undertakings given to it or to the court.

FCA

19.62 The *FCA* may also prosecute offences under the Regulations which relate to specified contracts. It will generally be appropriate for the *FCA* to seek to resolve the breach by obtaining an undertaking before it applies for an injunction or initiates a prosecution. Where a failure by a firm to meet the requirements of the Regulations also amounts to a breach of the *FCA's rules*, the *FCA* will consider all the circumstances of the case when deciding whether to take action for a breach of its *rules* or under the Regulations. This will include, amongst other things, having regard to appropriate factors set out in *DEPP* 6 and the considerations in *EG* 12.

FCA

Financial Conglomerates and Other Financial Groups Regulations 2004

19.63 These Regulations implement in part the Financial Conglomerates Directive,²¹ which imposes certain procedural requirements on the *FCA* as a competent authority under the Directive. These Regulations also make specific provision about the exercise of certain supervisory powers in relation to financial conglomerates.

FCA

19.64 The *FCA's powers* to vary a firm’s *Part 4A permission* or to impose requirements under sections 55J and 55L of the *Act* has been extended under these Regulations. The *FCA* is able to use this power where it is desirable to do so for the purpose of:

FCA

- supervision in accordance with the Financial Conglomerates Directive;
- acting in accordance with specified provisions of the Banking Consolidation Directive; and
- acting in accordance with specified provisions of the Insurance Groups Directive.

19.65 The duty imposed by section 55B(3) (The threshold conditions) of the *Act* does not prevent the *FCA* from exercising its own-initiative power for these purposes. But subject to that, when exercising this power under the Regulations, the *FCA* will do so in a manner consistent with its approach generally to variation under the *Act*.

FCA

²⁰ Directive 2002/65/EC

²¹ Directive 2002/87/EC

The Consumer Protection Co-operation Regulation²²

19.66 **FCA** The *FCA* is a competent authority under the CPC Regulation, which aims to encourage and facilitate co-operation between competent authorities across the EU in consumer protection matters. The *FCA* is a competent authority for the purposes of specified EU consumer protection laws²³ in the context of the regulated activities of authorised firms and of breaches by UK firms concerning “specified contracts” as defined in the Financial Services (Distance Marketing) Regulations 2004 (for which see paragraphs 19.60 to 19.62).

19.67 **FCA** All CPC competent authorities have a minimum set of enforcement and investigatory powers available to them to ensure that across the EU there is a robust toolkit to protect consumers. These are powers to:

- access any relevant document related to the breach;
- require the supply by any person of relevant information related to the breach;
- carry out necessary on-site inspections;
- request in writing that a person cease the breach;
- obtain from the person responsible for the breach an undertaking to cease the breach; and, where appropriate, to publish the resulting undertaking;
- require the cessation or prohibition of any breach and where appropriate, to publish resulting decisions; and
- require the losing defendant to make payments in the event of failure to comply with the decision.

19.68 **FCA** The powers are engaged when a person breaches one of the EU consumer protection laws which are scheduled to the CPC Regulation and the breach is one which harms, or is likely to harm, the collective interests of consumers who live in a member state other than the member state in which the breach was committed; where the person who committed the breach is established; or where evidence or assets relating to the breach are located.

19.69 **FCA** Under the CPC Regulation the *FCA* can request information from competent authorities in other member states to help it determine whether a relevant breach has taken, or may take, place. The *FCA* can also request that competent authorities in the relevant member states take action without delay to stop or prohibit the breach. All competent authorities are required to notify their counterparts in relevant member states when they become aware of actual or possible breaches of European consumer protection law.

19.70 **FCA** The *FCA* may use its powers under the *Act* or under Part 8 of the Enterprise Act (for which, see paragraphs 19.39 to 19.50 above) in order to fulfil its obligations under the CPC Regulation. The *FCA* will decide on a case-by-case basis which powers will enable it to obtain its desired outcomes in the most effective and efficient way. In the majority of

²² Regulation (EC) No.2006/2004 on co-operation between national authorities responsible for enforcement of consumer protection laws.

²³ These are the Unfair Terms in Consumer Contracts Directive; the Comparative and Misleading Advertising Directive; the E-Commerce Directive; the Distance Marketing Directive; and the Unfair Commercial Practices Directive.

cases this is more likely to be by using its powers under the *Act*.

Money Laundering Regulations 2007

- 19.71 **FCA** The *FCA* has investigation and sanctioning powers in relation to both criminal and civil breaches of the *Money Laundering Regulations*. The *Money Laundering Regulations* impose requirements including, amongst other things, obligations to apply customer due diligence measures and conduct ongoing monitoring of business relationships on designated types of business.
- 19.72 **FCA** The *FCA* is responsible for monitoring and enforcing compliance with the Regulations not only by authorised firms who are within the *Money Laundering Regulations*' scope, but also by what the Regulations describe as "Annex I financial institutions". These are businesses which are not otherwise authorised by us but which carry out certain of the activities listed in Annex I of the Banking Consolidation Directive.²⁴ The activities include lending (e.g. forfaiters and trade financiers), financial leasing, and safe custody services. Annex I financial institutions are required to register with the *FCA*.
- 19.73 **FCA** The *Money Laundering Regulations* add to the range of options available to the *FCA* for dealing with anti-money laundering failures. These options are:
- to prosecute both authorised firms and Annex I financial institutions;
 - to take regulatory action against authorised firms for failures which breach the *FCA's rules* and requirements (for example, under Principle 3 or SYSC 3.2.6R or SYSC 6.1.1R); and
 - to impose civil penalties on both authorised firms and Annex I financial institutions under regulation 42 of the *Money Laundering Regulations*.
- 19.74 **FCA** This means that there will be situations in which the *FCA* has powers to investigate and take action under both the *Act* and the *Money Laundering Regulations*. The *FCA* will consider all the circumstances of the case when deciding what action to take and, if it is appropriate to notify the subject about the investigation, will in doing so inform them about the basis upon which the investigation is being conducted and what powers it is using. The *FCA* will adopt the approach outlined in EG 12 when prosecuting *Money Laundering Regulations* offences. In the majority of cases where both the Regulations and the *FCA rules* apply and regulatory action, as opposed to criminal proceedings, is appropriate, the *FCA* generally expects to continue to discipline authorised firms under the *Act*.
- 19.75 **FCA** The *Money Laundering Regulations* also provide investigation powers that the *FCA* can use when investigating whether breaches of the Regulations have taken place. These powers include:
- the power to require information from, and attendance of, relevant and connected persons (regulation 37); and
 - powers of entry and inspection without or under warrant (regulations 38 and 39).

The use of these powers will be limited to those cases in which the *FCA* expects to take

²⁴ Credit financial institutions and money service businesses are also outside the definition of "Annex I financial institution", which is set out in Regulation 22(1).

action under the Regulations.

19.76 The *FCA* will adopt a risk-based approach to its enforcement of the *Money Laundering Regulations*. Failures in anti-money laundering controls will not automatically result in disciplinary sanctions, although enforcement action is more likely where a firm has not taken adequate steps to identify its money laundering risks or put in place appropriate controls to mitigate those risks, and failed to take steps to ensure that controls are being effectively implemented.

FCA

19.77 However, the *Money Laundering Regulations* say little about the way in which investigation and sanctioning powers should be used, so the *FCA* has decided to adopt enforcement and decision making procedures which are broadly akin to those under the *Act*. Key features of the *FCA's* approach are described below.

FCA

The conduct of investigations under the Money Laundering Regulations

19.78 The *FCA* will notify the subject of the investigation that it has appointed officers to carry out an investigation under the *Money Laundering Regulations* and the reasons for the appointment, unless notification is likely to prejudice the investigation or otherwise result in it being frustrated. The *FCA* expects to carry out a scoping visit early on in the enforcement process in most cases. The *FCA's* policy in civil investigations is to use powers to compel information in the same way as it would in the course of an investigation under the *Act*.

FCA

19.79 When the *FCA* proposes or decides to impose a penalty under the *Money Laundering Regulations*, it must give the person on whom the penalty is to be imposed a notice. These notices are akin to *warning notices* and *decision notices* given under the *Act*, although Part XXVI (Notices) of the *Act* does not apply to notices given under the Regulations.

FCA

19.80 The *RDC* is the *FCA's* decision maker for contested cases in which the *FCA* decides to impose a penalty under the *Money Laundering Regulations*. This builds a layer of separation into the process to help ensure not only that decisions are fair but that they are seen to be fair. The *RDC* will make its decisions following the procedure set out in *DEPP* 3.2 or, where appropriate, *DEPP* 3.3. Where the *FCA* imposes a penalty on a person under the *Money Laundering Regulations*, that person may appeal the decision to the *Tribunal*.

FCA

19.81 Although the *Money Laundering Regulations* do not require it, the *FCA* will involve third parties and provide access to Authority material when it gives notices under the Regulations, in a manner consistent with the provisions of sections 393 and 394 of the *Act*. However, there is no formal mechanism under the *Money Laundering Regulations* for third parties to make representations in respect of proposed money laundering actions. If a third party asks to make representations, it will be a matter for the *FCA's* decision makers to decide whether this is appropriate and, if so, how best to ensure that these representations are taken into consideration. In general it is expected that decision makers would agree to consider any representations made. Third parties may not refer cases to the *Tribunal* as the *Money Laundering Regulations* give the *Tribunal* no power to hear such referrals.

FCA

19.82 When imposing or determining the level of a financial penalty under the Regulations, the *FCA's* policy includes having regard, where relevant, to relevant factors in *DEPP* 6.2.1G and *DEPP* 6.5 to *DEPP* 6.5D. The *FCA* may not impose a penalty where there are reasonable grounds for it to be satisfied that the subject of the proposed action took all reasonable steps and exercised all due diligence to ensure that the relevant requirement of the *Money Laundering Regulations* would be met. In deciding whether a person has failed to comply with a requirement of the *Money Laundering Regulations*, the *FCA* must consider whether he followed any relevant guidance which was issued by a supervisory

FCA

authority or other appropriate body; approved by the Treasury; and published in a manner approved by the Treasury. The Joint Money Laundering Steering Group Guidance satisfies this requirement.

19.83 As with cases under the *Act*, the *FCA* may settle or mediate appropriate cases involving civil breaches of the *Money Laundering Regulations* to assist it to exercise its functions under the Regulations in the most efficient and economic way. The settlement discount scheme set out in *DEPP* 6.7 applies to penalties imposed under the *Money Laundering Regulations*.

FCA

19.84 The *FCA* will apply the approach to publicity that it has outlined in *EG* 6. However, as the *Money Laundering Regulations* do not require the *FCA* to issue final notices, the *FCA* will publish such information about the matter to which the decision notice relates as it considers appropriate. This will generally involve publishing the decision notice on the *FCA's* website, with or without an accompanying press release, and updating the Public Register.

FCA

Transfer of Funds (Information on the Payer) Regulations 2007 (The Transfer of Funds Regulations)

19.85 The *FCA* is required, under EU Regulation 1781/2006 (on information on the payer accompanying transfers of funds), to monitor the compliance of payment services providers which are *authorised firms* with the requirements imposed by the Regulation. The Transfer of Funds Regulations set out the *FCA's* powers to investigate and impose sanctions for breaches of Regulation 1781/2006. The powers are identical to those given under the *Money Laundering Regulations*. The *FCA's* policy in respect of the use of its powers under the Regulations is the same as the policy it has adopted for the use of *Money Laundering Regulations* powers; the *FCA* will adopt enforcement procedures broadly akin to those used under the *Act*, with the modifications described in paragraphs 19.78 to 19.84 above.

FCA

Regulated Covered Bonds Regulations 2008

19.86 The *RCB Regulations* provide a framework for issuing covered bonds in the UK. Covered bonds issued under the *RCB Regulations* are subject to strict quality controls and both bonds and issuers must be registered with the *FCA*. The *RCB Regulations* give the *FCA* powers to enforce these Regulations. Where a person has failed, or is likely to fail, to comply with any obligation under the *RCB Regulations*, the *FCA* may make a direction that the person take steps to ensure compliance with the Regulations or it may make a direction for the winding up of the owner of the asset pool. The *FCA* may also remove an *issuer* from the register if it fails to comply with the Regulations. In addition, the *FCA* may apply to court for an order restraining a person from committing a breach of the Regulations or requiring the person to take steps to remedy the breach. The *RCB Regulations* also give the *FCA* the power to impose a financial penalty on a person for a breach of the Regulations.

FCA

19.87 The *FCA* may use the information gathering powers set out in section 165 of the *Act* when monitoring and enforcing compliance with the *RCB Regulations*, and may appoint skilled persons as provided in section 166 of the *Act*.

FCA

19.88 The *FCA's* approach to the use of its enforcement powers, and its statement of policy in relation to imposing and determining financial penalties under the *RCB Regulations*, are set out in *RCB* 4.2. The *FCA's* penalty policy includes having regard, where relevant, *DEPP* 6.5 to *DEPP* 6.5D and such other specific matters as the likely impact of the penalty on the

FCA

interests of investors in the relevant bonds. The *FCA's* statement of procedure in relation to giving *warning notices* or *decision notices* under the *RCB Regulations* is set out in *RCB 6*. It confirms that the *RDC* will be the decision maker in relation to the imposition of financial penalties under the *RCB Regulations*, following the procedure outlined in *DEPP 3.2* or, where appropriate, *DEPP 3.3* and that decision notices given under the Regulations may be referred to the *Tribunal*.

- 19.89 The *FCA* may agree to settle cases in which it proposes to impose a financial penalty under the *RCB Regulations* if the right regulatory outcome can be achieved. The settlement discount scheme set out in *DEPP 6.7* applies to penalties imposed under the *RCB Regulations*. See *DEPP 5* and *EG 5* for further information about the settlement process.

FCA

Counter-Terrorism Act 2008

- 19.89A The *FCA* has investigation and sanctioning powers in relation to both criminal and civil breaches of the Counter Terrorism Act 2008 (“the Counter Terrorism Act”). The Counter Terrorism Act allows the Treasury to issue directions imposing requirements on relevant persons in relation to transactions or business relationships with designated persons of a particular country. Relevant persons may be required to take the following action:

FCA

- apply enhanced customer due diligence measures;
- apply enhanced ongoing monitoring of any business relationship with a designated person;
- systematically report details of transactions and business relationships with designated persons; or
- limit or cease business with a designated person.

- 19.89B The *FCA* is responsible for monitoring and enforcing compliance with requirements imposed by the Treasury under the Counter Terrorism Act by ‘credit institutions’ that are authorised persons and by ‘financial institutions’ (except money service businesses that are not authorised persons and consumer credit financial institutions). ‘Credit institutions’ and ‘financial institutions’ are defined in Part 2 of Schedule 7 to the Counter Terrorism Act.

FCA

- 19.89C The investigation and sanctioning powers given to the *FCA* by the Counter Terrorism Act are similar to those given to the *FCA* by the *Money Laundering Regulations*. The *FCA's* approach to using its powers under the Counter Terrorism Act will be consistent with its approach to using its powers under the *Money Laundering Regulations*, described in paragraphs 19.78 to 19.84 above.

FCA

Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008

- 19.89D The Lloyd’s Accounting Regulations implement the Audit and Accounts Directives in relation to the Lloyd’s insurance market. They aim to increase the transparency of the accounts published by Lloyd’s syndicates by imposing requirements in relation to the preparation and disclosure of the accounts. The Regulations give the *FCA* the power to institute criminal proceedings for an offence committed under the Regulations.

FCA

- 19.89E Our policy in relation to the prosecution of criminal offences and the circumstances in which we would expect to commence criminal proceedings is set out in *EG 12*.

FCA

Payment Services Regulations 2009

19.90 The *FCA* has investigation and sanctioning powers in relation to both criminal and civil breaches of the *Payment Services Regulations*. The *Payment Services Regulations* impose requirements including, amongst other things, obligations on *payment service providers* to provide users with a range of information and various provisions regulating the rights and obligations of payment service users and providers.

FCA

19.91 The *FCA's* approach to enforcing the *Payment Services Regulations* will mirror its general approach to enforcing the *Act*, as set out in *EG 2*. It will seek to exercise its enforcement powers in a manner that is transparent, proportionate, responsive to the issue, and consistent with its publicly stated policies. It will also seek to ensure fair treatment when exercising its enforcement powers. Finally, it will aim to change the behaviour of the *person* who is the subject of its action, to deter future non-compliance by others, to eliminate any financial gain or benefit from non-compliance, and where appropriate, to remedy the harm caused by the non-compliance.

FCA

19.92 The regulatory powers which the *Payment Services Regulations* provide to the *FCA* include:

FCA

- the power to require information;
- powers of entry and inspection;
- power of public censure;
- the power to impose financial penalties;
- the power to prosecute or fine unauthorised providers; and
- the power to vary an authorisation on its own initiative.

19.93 The *Payment Services Regulations*, for the most part, mirror the *FCA's* investigative, sanctioning and regulatory powers under the *Act*. The *FCA* has decided to adopt procedures and policies in relation to the use of those powers akin to those it has under the *Act*. Key features of the *FCA's* approach are described below.

FCA

The conduct of investigations under the Payment Services Regulations

19.94 The *Payment Services Regulations* apply much of Part 11 of the *Act*. The effect of this is to apply the same procedures under the *Act* for appointing investigators and requiring information when investigating breaches of the *Payment Services Regulations*.

FCA

19.95 The *FCA* will notify the subject of the investigation that it has appointed investigators to carry out an investigation under the *Payment Services Regulations* and the reasons for the appointment, unless notification is likely to prejudice the investigation or otherwise result in it being frustrated. The *FCA* expects to carry out a scoping visit early on in the enforcement process in most cases. The *FCA's* policy in civil investigations under the *Payment Services Regulations* is to use powers to compel information in the same way as it would in the course of an investigation under the *Act*.

FCA

Decision making under the Payment Services Regulations

- 19.96 The *RDC* is the *FCA's* decision maker for some of the decisions under the *Payment Services Regulations* as set out in *DEPP 2 Annex 1G*. This builds a layer of separation into the process to help ensure not only that decisions are fair but that they are seen to be fair. The *RDC* will make its decisions following the procedure set out in *DEPP 3.2* or, where appropriate, *DEPP 3.3* and *3.4*. *DEPP 3.4* applies for urgent notices under Regulations 11(6), (9), and (10)(b) (including as applied by Regulation 14).
- FCA**
- 19.97 For decisions made by *executive procedures* the procedures to be followed will be those described in *DEPP 4*.
- FCA**
- 19.98 The *Payment Service Regulations* do not require the *FCA* to have published procedures to launch criminal prosecutions. However, in these situations the *FCA* expects that it will normally follow its decision-making procedures for the equivalent decisions under the *Act*.
- FCA**
- 19.99 The *Payment Service Regulations* require the *FCA* to give third party rights as set out in section 393 of the *Act* and to give access to certain material as set out in section 394 of the *Act*.
- FCA**
- 19.100 Certain *FCA* decisions (for example the cancellation of an authorisation or the imposition of a financial penalty) may be referred to the *Tribunal* by an aggrieved party.
- FCA**

Imposition of penalties under the Payment Services Regulations

- 19.101 When imposing a financial penalty the *FCA's* policy includes having regard to the relevant factors in *DEPP 6.2* and *DEPP 6.4*. The *FCA's* policy in relation to determining the level of a financial penalty includes having regard, where relevant, to *DEPP 6.5* to *DEPP 6.5D*.
- FCA**
- 19.102 As with cases under the *Act*, the *FCA* may settle or mediate appropriate cases involving civil breaches of the *Payment Services Regulations* to assist it to exercise its functions under the Regulations in the most efficient and economic way. See *DEPP 5*, *DEPP 6.7* and *EG 5* for further information on the settlement process and the settlement discount scheme.
- FCA**

Statement of policy in section 169(7) interviews (as implemented by the Payment Services Regulations)

- 19.103 The *Payment Services Regulations* apply section 169 of the *Act* which requires the *FCA* to publish a statement of policy on the conduct of certain interviews in response to requests from overseas regulators. For the purposes of the *Payment Services Regulations* the *FCA* will follow the procedures described in *DEPP 7*.
- FCA**

Electronic Money Regulations 2011

- 19.104 The *FCA* has investigation and sanctioning powers in relation to both criminal and civil breaches of the Electronic Money Regulations. The *Electronic Money Regulations* impose requirements including, amongst other things, various provisions regulating the rights and obligations of electronic money institutions.
- FCA**
- 19.105 The *FCA's* approach to enforcing the *Electronic Money Regulations* will mirror its general approach to enforcing the *Act*, as set out in *EG 2*. It will seek to exercise its enforcement powers in a manner that is transparent, proportionate, responsive to the issue, and consistent with its publicly stated policies. It will also seek to ensure fair treatment when
- FCA**

exercising its enforcement powers. Finally, it will aim to change the behaviour of the electronic money issuer or relevant person who is the subject of its action, to deter future non-compliance by others, to eliminate any financial gain or benefit from non-compliance, and where appropriate, to remedy the harm caused by the non-compliance.

- 19.106 **FCA** The *Electronic Money Regulations*, for the most part, mirror the *FCA's* investigative, sanctioning and regulatory powers under the *Act*. The *FCA* has decided to adopt procedures and policies in relation to the use of those powers akin to those it has under the *Act*. Key features of the *FCA's* approach are described below.

The conduct of investigations under the Electronic Money Regulations

- 19.107 **FCA** The *Electronic Money Regulations* apply much of Part 11 of the *Act*. The effect of this is to apply the same procedures under the *Act* for appointing investigators and requiring information when investigating breaches of the *Electronic Money Regulations*.

- 19.108 **FCA** The *FCA* will notify the subject of the investigation that it has appointed investigators to carry out an investigation under the *Electronic Money Regulations* and the reasons for the appointment, unless notification is likely to prejudice the investigation or otherwise result in it being frustrated. The *FCA's* policy in civil investigations under the *Electronic Money Regulations* is to use powers to compel information in the same way as it would in the course of an investigation under the *Act*.

Decision making under the Electronic Money Regulations

- 19.109 **FCA** The RDC is the *FCA's* decision maker for some of the decisions under the *Electronic Money Regulations* as set out in *DEPP 2* Annex 1G. The RDC will make its decisions following the procedure set out in *DEPP 3.2* or, where appropriate, *DEPP 3.3* and *3.4*. *DEPP 3.4* applies for urgent notices under regulations 11(6), (9) and (10)(b) (including as applied by regulation 15).

- 19.110 **FCA** For decisions made by *executive procedures* the procedures to be followed will be those described in *DEPP 4*.

- 19.111 **FCA** The *Electronic Money Regulations* do not require the *FCA* to have published procedures to commence criminal prosecutions. However, in these situations the *FCA* expects that it will normally follow its decision-making procedures for the equivalent decisions under the *Act*.

- 19.112 **FCA** The *Electronic Money Regulations* require the *FCA* to give third party rights as set out in section 393 of the *Act* and to give access to material as set out in section 394 of the *Act* in certain cases.

- 19.113 **FCA** Certain *FCA* decisions (for example the cancellation of an authorisation or the imposition of a financial penalty) may be referred to the *Tribunal* by an aggrieved party.

Imposition of penalties under the Electronic Money Regulations

- 19.114 **FCA** When determining whether to take action to impose a penalty the *FCA's* policy includes having regard to the relevant factors in *DEPP 6.2* and *DEPP 6.4*. When determining the level of a financial penalty the *FCA's* policy includes having regard to relevant principles and factors in *DEPP 6.5* to *6.5D*.

- 19.115 When determining whether to suspend the authorisation or, as the case may be, the registration of an electronic money institution or limit or otherwise restrict the carrying on of electronic money issuance or payments services business by an electronic money issuer

FCA the *FCA's* policy will have regard to the relevant factors in *DEPP* 6A.

19.116 As with cases under the *Act*, the *FCA* may settle or mediate appropriate cases involving civil breaches of the *Electronic Money Regulations* to assist it to exercise its functions under the Regulations in the most efficient and economic way. See *DEPP* 5, *DEPP* 6.7 and *EG* 5 for further information on the settlement process and the settlement discount scheme.

FCA

Statement of policy in section 169(7) interviews (as implemented by the Electronic Money Regulations)

19.117 The Electronic Money Regulations apply section 169 of the *Act* which requires the *FCA* to publish a statement of policy on the conduct of certain interviews in response to requests from overseas regulators. For the purposes of the *Electronic Money Regulations* the *FCA* will follow the procedures described in *DEPP* 7.

FCA

Cross-Border Payments in Euro Regulations 2010

19.118 The *Cross-Border Payments in Euro Regulations* lay down rules on cross-border payments in euros, to ensure that compliance with the *EU Cross-Border Regulation* is guaranteed by effective, proportionate and dissuasive sanctions. The main aim of the *EU Cross-Border Regulation* is to ensure that the charges for cross-border payments in euro are equal to the charges for identical national payments in euro within a Member State. The *Cross-Border Payments in Euro Regulations* give the *FCA* investigation and sanctioning powers in relation to breaches of the *EU Cross-Border Regulation*, including:

FCA

- the power to require information
- the power of public censure; and
- the power to impose financial penalties.

19.119 The *FCA's* policy for using the powers given to it by the *Cross-Border Payments in Euro Regulations* is the same as its policy for using the equivalent powers given to it by the *Payment Services Regulations*, set out in *EG* 19.90 to 19.103, as, for the most part, these powers are very similar. As the *Payment Services Regulations*, for the most part, mirror the *FCA's* investigative, sanctioning and regulatory powers under the *Act*, the *FCA* will therefore adopt enforcement procedures akin to those used under the *Act*.

FCA

Recognised Auction Platforms Regulations 2011

19.120 The *FCA's* policy for using the powers given to it by the *RAP Regulations* is set out in *REC*. This includes, for example, its policy in relation to the power to impose a financial penalty on or censure an *RAP* (*REC* 2A.4) and its policy in relation to the power to give directions to an *RAP* (*REC* 4.6).

FCA

OTC Derivatives, Central Counterparties and Trade Repositories Regulations 2013

19.121 The *OTC derivatives, CCPs and trade repositories regulation* sets out information gathering and sanctioning powers enabling the *FCA* to investigate and take action for breaches of the *EMIR requirements*.

FCA

Information gathering powers

19.122 The *FCA* may require a *non-authorised counterparty* that is subject to obligations under *EMIR* to provide specified information or specified documents so that it can verify whether

FCA the non-authorised counterparty has complied with *EMIR*. The *FCA* also has the power to require a *person* to provide specified information or specified documents so that it can verify whether the *person* is subject to *EMIR*. The *FCA* may require the above information to be provided in such form, or to be verified or authenticated in such manner, as is reasonably required in connection with the exercise of the *FCA*'s functions under *EMIR*.

Sanctioning powers

19.123 (1) The *FCA* has the power to impose a financial penalty of such amount as it considers appropriate on a financial counterparty, non-financial counterparty or other *person* who has contravened an *EMIR requirement* or regulation 7 or 8 of the *OTC derivatives, CCPs and trade repositories regulation*. The power to impose a financial penalty does not extend to contravention of articles 11(3) and (4) of *EMIR* by PRA-authorised financial counterparties.

FCA

(2) Where the *FCA* has imposed such a penalty, it must publish a statement to that effect unless such disclosure would seriously jeopardise the financial markets or cause disproportionate damage to the parties involved.

19.124 As the power to impose penalties for contravention of an *EMIR requirement* or regulations 7 or 8 of the *OTC derivatives, CCPs and trade repositories regulation* mirrors similar powers to that the *FCA* has under the *Act*, the *FCA* will adopt procedures and policies in relation to the use of those powers akin to those it has adopted under the *Act*.

FCA

19.125 The *FCA* will use the sanctioning powers where it is appropriate to do so and with regard to the relevant factors listed in *DEPP 6.2.1G*. In determining the appropriate level of financial penalty, the *FCA* will have regard to the principles set out in *DEPP 6.5, DEPP 6.5A, DEPP 6.5B, DEPP 6.5D* and *DEPP 6.7*.

FCA

19.126 Where the *FCA* proposes or decides to take action to impose a financial penalty referred to in *EG 19.122G*, it will give the *person* concerned a *warning notice* or a *decision notice* respectively. Those notices must state the amount of the penalty. On receiving a *warning notice*, the *person* concerned has a right to make representations regarding the *FCA*'s proposed decision. A *person* that receives a *decision notice* may refer the matter to the *Tribunal*.

FCA

19.127 If it is proposing to impose a penalty under the *OTC derivatives, CCPs and trade repositories regulation*, the *FCA*'s decision maker will be the *RDC*. The *RDC* will make its decisions following the procedure set out in *DEPP 3.2* or where appropriate, *DEPP 3.3*.

FCA

19.128 Sections 393 and 394 of the *Act* apply to notices referred to in this section. See *DEPP 2.4* (Third party rights and access to *FCA* material).

FCA

19.129 The *FCA* will apply the approach to publicity that is outlined in *EG 6*.

FCA

19.130 In relation to *authorised persons* and *recognised bodies* which are subject to obligations under *EMIR*, other information gathering powers and sanctions may also be applicable under the *Act*.

FCA

Alternative Investment Fund Managers Regulations 2013

19.131 The *AIFMD UK regulation* transposes *AIFMD, EuSEF* and *EuVECA regulations* and provides new and updated powers to both existing and new managers of *AIFs*, whether

FCA

authorised or registered.

19.132

FCA

The *AIFMD UK regulation* includes information gathering and sanctioning powers that enable the *FCA* to investigate and take action for breaches of the regulations and directly applicable EU regulations. Specific standalone powers are in the *AIFMD UK regulation* for *unauthorised AIFMs*, by applying relevant sections of the *Act*. Amendments to the *Act*, including those made under the Financial Services and Markets Act (Qualifying EU Provisions) Order 2013, extend certain *FCA* powers (e.g. disciplinary powers, injunctions and restitution) so that they apply to contraventions of requirements of the *AIFMD UK regulation* and to contraventions of directly applicable EU regulations.

Information gathering and investigation powers

19.133

FCA

The *FCA* has decided that its approach to enforcing the *AIFMD UK regulation* requirements will mirror its general approach to enforcing the *Act* in *EG 2*. Therefore, the *FCA* will apply the same procedures and policies under the *Act* for appointing investigators and requiring information for breaches of the *AIFMD UK regulation*.

19.134

FCA

The new powers under the *AIFMD UK regulation* include powers of direction and the power to revoke the registration of *small registered UK AIFMs*, including a *EuSEF manager* or a *EuVECA manager* and, in some circumstances, EEA managers of a *qualifying social entrepreneurship fund* or a *qualifying venture capital fund*, respectively.

19.135

FCA

The *FCA* will respect the principle of proportionality when taking action against *EuSEF* or *EuVECA managers* for breaches identified in articles 22 and 21 of the directly applicable *EuSEF regulation* and *EuVECA regulation*, respectively. The *FCA* may take action to ensure compliance with the regulations or prohibit the use of the designation of *EuSEF manager* or *EuVECA manager* and revoke registration of such managers. The prohibition route is more likely to apply to serious breaches of the EU regulations such as in situations where:

- registration has been obtained through false statements or any other irregular means; or
- there are grounds for concern over the behaviour of a *EuSEF manager* or a *EuVECA manager* in the management of a *qualifying social entrepreneurship fund* or a *qualifying venture capital fund*, respectively.

Decision making under the AIFMD UK regulation

19.136

FCA

The *RDC* is the *FCA*'s decision maker for some decisions under the *AIFMD UK regulation*, as set out in *DEPP 2 Annex 1G*. The *RDC* will make its decisions following the procedure in *DEPP 3.2* or, where appropriate, *DEPP 3.3* and *3.4*. For decisions made by *executive procedures*, the procedures to be followed are in *DEPP 4*.

19.137

FCA

The *AIFMD UK regulation* does not require the *FCA* to publish procedures to commence criminal prosecutions. However, the *FCA* will normally follow its equivalent decision-making procedures for similar decisions under the *Act*.

19.138

FCA

The *AIFMD UK regulation* applies the procedural provisions of Part 9 and Part 26 of the *Act* for matters that can be referred to the Tribunal and to warning and decision notices under the regulations as it applies to referrals and notices under the *Act*. The *AIFMD UK regulation* also applies sections 205 and 206 of the *Act* to *unauthorised AIFMs* and, accordingly, the *FCA* will give third party rights (section 393 of the *Act*) and access to

material (section 394 of the *Act*).

Imposition of penalties under the AIFMD UK regulation

19.139 **FCA** When determining whether to take action to impose a penalty under the *AIFMD UK regulation*, the *FCA*'s policy includes having regard to the relevant factors in *DEPP* 6.2 and *DEPP* 6.4. When determining the level of financial penalty, the *FCA*'s policy includes having regard to relevant principles and factors in *DEPP* 6.5 to 6.5A, *DEPP* 6.5B, *DEPP* 6.5D and *DEPP* 6.7.

19.140 **FCA** As with cases under the *Act*, the *FCA* may settle or mediate appropriate cases involving civil breaches of the *AIFMD UK regulation* to assist it to exercise its functions. *DEPP* 5, *DEPP* 6.7 and *EG* 5 set out information on the *FCA*'s settlement process and the settlement discount scheme.

19.141 The *FCA* will apply the approach to publicity that is outlined in *EG* 6.

FCA

Statement of Policy in section 169(7) interviews (as applied by the AIFMD UK regulation)

19.142 **FCA** Regulation 71(2) of the *AIFMD UK regulation* applies section 169 of the *Act* in respect of *unauthorised AIFMs*, which requires the *FCA* to have a statement of policy on the conduct of certain interviews in response to requests from overseas regulators. The *FCA* will follow the procedures described in *DEPP* 7.

Annex 1 – [deleted]

Annex 2 - Guidelines on investigation of cases of interest or concern to the Financial Conduct Authority and other prosecuting and investigating agencies

Purpose, status and application of the guidelines

1 These guidelines concern the following bodies (the agencies):

FCA

- the Financial Conduct Authority (the *FCA*);
- the Serious Fraud Office (the *SFO*);
- the Department for Business, Innovation and Skills (*BIS*);
- the Crown Prosecution Service (the *CPS*);
- the Association of Chief Police Officers in England, Wales and Northern Ireland (*ACPO*);
- the Crown Office and Procurator Fiscal Service (*COPFS*);
- the Public Prosecution Service for Northern Ireland (the *PPS*);
- the Association of Chief Police Officers in Scotland (*ACPO*).

2 The guidelines are intended to assist the agencies when considering cases concerning financial crime and/or regulatory misconduct that are, or may be, of mutual interest to the *FCA* and one or more of the other agencies. Their implementation and wider points arising from them will be kept under review by the agencies who will liaise regularly.

FCA

3 The purpose of the guidelines is to set out some broad principles which the agencies agree should be applied by them in order to assist them to:

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- (a) the seriousness of the breach of duty that resulted in the disqualification;
- (b) the amount of time since the original disqualification; and
- (c) any steps taken by the auditor or *actuary* after the disqualification to remedy the factors which led to the disqualification and any steps taken to prevent a similar breach of duty from happening again.
- (d) prevent the subjects of proceedings being treated unfairly by reason of the unwarranted involvement of more than one agency.

4 The guidelines are intended to apply to the relationships between the *FCA* and the other agencies. They are not intended to apply to the relationships between those other agencies themselves where there is no *FCA* interest. They are not legally binding.

FCA

5 The guidelines are subject to the restrictions on disclosure of information held by the agencies. They are not intended to override them.

FCA

6 The guidelines are relevant to ACPO and ACPO(S) only in so far as they relate to investigations. Similarly, they are relevant to the CPS, COPFS and the PPS only in so far as they relate to prosecutions.

FCA

Commencing Investigations

7 The agencies recognise that there are areas in which they have an overlapping remit in terms of their functions and powers (the powers and functions of the agencies are set out in the Appendix to this document). The agencies will therefore endeavour to ensure that only the agency or agencies with the most appropriate functions and powers will commence investigations.

FCA

8 The agencies further recognise that in certain cases concurrent investigations may be the most quick, effective and efficient way for some cases to be dealt with. However, if an agency is considering commencing an investigation and another agency is already carrying on a related investigation or proceedings or is otherwise likely to have an interest in that investigation, best practice is for the agencies concerned to liaise and discuss which agency or agencies should take action, i.e. investigate, bring proceedings or otherwise deal with the matter.

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Indicators for deciding which agency should take action

9 The following are indicators of whether action by the *FCA* or one of the other agencies is more appropriate. They are not listed in any particular order or ranked according to priority. No single feature of the case should be considered in isolation, but rather the whole case should be considered in the round.

FCA

(a) Tending towards action by the *FCA*

- Where the suspected conduct in question gives rise to concerns regarding market confidence or protection of consumers of services regulated by the *FCA*.
- Where the suspected conduct in question would be best dealt with by:
 - criminal prosecution of offences which the *FCA* has powers to prosecute by virtue of the Financial Services and Markets Act 2000 ("the 2000 Act") (See Appendix paragraph 1.4) and other incidental offences;
 - civil proceedings under the 2000 Act (including applications for injunctions, restitution and to wind up firms carrying on regulated activities);

- regulatory action which can be referred to the *Tribunal* (including proceedings for market abuse); and
 - proceedings for breaches of Part VI of the *Act*, of *Part 6 rules* or the *Prospectus Rules* or a provision otherwise made in accordance with the *Prospectus Directive* .
- Where the likely defendants are *authorised persons* or *approved persons*.
 - Where the likely defendants are issuers or sponsors of a security admitted to the official list or in relation to which an application for listing has been made.
 - Where there is likely to be a case for the use of *FCA* powers which may take immediate effect (e.g. powers to vary the permission of an authorised firm or to suspend listing of securities).
 - Where it is likely that the investigator will be seeking assistance from overseas regulatory authorities with functions equivalent to those of the *FCA*.
 - Where any possible criminal offences are technical or in a grey area whereas regulatory contraventions are clearly indicated.
 - Where the balance of public interest is in achieving reparation for victims and prosecution is likely to damage the prospects of this.
 - Where there are distinct parts of the case which are best investigated with regulatory expertise.
- (b) Tending towards action by one of the other agencies
- Where serious or complex fraud is the predominant issue in the conduct in question (normally appropriate for the SFO).
 - Where the suspected conduct in question would be best dealt with by:
 - criminal proceedings for which the *FCA* is not the statutory prosecutor;
 - proceedings for disqualification of directors under the Company Directors Disqualification Act 1986 (normally appropriate for BIS action);
 - winding up proceedings which the *FCA* does not have statutory powers to bring (normally appropriate for BIS action); or

○ criminal proceedings in Scotland.

- Where the conduct in question concerns the abuse of limited liability status under the Companies Acts (normally appropriate for BERR action).
- Where powers of arrest are likely to be necessary.
- Where it is likely that the investigator will rely on overseas organisations (such as law enforcement agencies) with which the other agencies have liaison.
- Where action by the *FCA* is likely to prejudice the public interest in the prosecution of offences for which the *FCA* is not a statutory prosecutor.
- Where the case falls only partly within the regulated area (or criminal offences for which *FCA* is a statutory prosecutor) and the prospects of splitting the investigation are not good.

10 It is also best practice for the agencies involved or interested in an investigation to continue to liaise as appropriate throughout in order to keep under review the decisions as to who should investigate or bring proceedings. This is particularly so where there are material developments in the investigation that might cause the agencies to reconsider its general purpose or scope and whether additional investigation by others is called for.

FCA

Conduct of concurrent investigations

11 The agencies recognise that where concurrent investigations are taking place, action taken by one agency can prejudice the investigation or subsequent proceedings brought by another agency. Consequently, it is best practice for the agencies involved in concurrent investigations to notify each other of significant developments in their investigations and of any significant steps they propose to take in the case, such as:

FCA

- interviewing a key witness;
- requiring provision of significant volumes of documents;
- executing a search warrant; or
- instituting proceedings or otherwise disposing of a matter.

12 If the agencies identify that particular action by one party might prejudice an investigation or future proceedings by another, it is desirable for the parties concerned to discuss and decide what action should be taken and by whom. In reaching these decisions, they will bear in mind how the public interest is best served overall. The examples provided in paragraph 9 above may also be used as indicators of where the overall balance of interest lies.

FCA

Deciding to bring proceedings

13 The agencies will consider, as necessary, and keep under review whether an investigation has reached the point where it is appropriate to commence proceedings. Where agencies are deciding whether to institute criminal proceedings, they will have regard to the usual codes or guidance relevant to that decision. For example, agencies other than the PPS or COPFS will have regard to the Code for Crown Prosecutors (Note: Different guidance applies to the PPS and COPFS. All criminal proceedings in Scotland are the responsibility of the Lord Advocate. Separate arrangements have been agreed between the *FCA* and the Crown Office for the prosecution of offences in Scotland arising out of *FCA* investigations). Where they are considering whether to bring non-criminal proceedings, they will take into account whatever factors they consider relevant (for example, in the case of market abuse proceedings brought by the *FCA*, these are set out in paragraph 6.2 of the *FCA* Decision and Procedure and Penalties manual).

FCA

14 The agencies recognise that in taking a decision whether to commence proceedings, relevant factors will include:

FCA

- whether commencement of proceedings might prejudice ongoing or potential investigations or proceedings brought by other agencies; and
- whether, in the light of any proceedings being brought by another party, it is appropriate to commence separate proceedings against the person under investigation.

15 Best practice in these circumstances, therefore, is for the parties concerned to liaise before a decision is taken.

FCA

Closing Cases

16 It is best practice for the agencies, at the conclusion of any investigation where it is decided that no further action need be taken, or at the conclusion of proceedings, to notify any other agencies concerned of the outcome of the investigation and/or proceedings and to provide any other helpful feedback.

FCA

APPENDIX TO THE GUIDELINES ON INVESTIGATION OF CASES OF INTEREST OR CONCERN TO THE FINANCIAL CONDUCT AUTHORITY AND OTHER PROSECUTING AND INVESTIGATING AGENCIES

1. The FCA

1.1 The *FCA* is the single statutory regulator for all financial business in the UK. Its *strategic objective* under the Financial Services and Markets Act 2000 (the 2000 Act) is to ensure that the relevant markets function well. The *FCA*'s operational objectives are:

FCA

- securing an appropriate degree of protection for *consumers*;
- protecting and enhancing the integrity of the *UK financial system*; and
- promoting effective competition in the interests of *consumers* in the markets.

(**Note:** The 2000 Act repealed and replaced various enactments which conferred powers and functions on the *FCA* and other regulators whose functions are now carried out by the *FCA*. Most notable in this context are the Financial Services Act 1986 and the Banking Act 1987. Transitional provisions under the 2000 Act permit the *FCA* to continue to investigate and bring proceedings for offences under the old legislation. Details of these transitional provisions are not set out in these guidelines)

1.2 The *FCA*'s *regulatory objectives* as the competent authority under Part VI of the *Act* are:

FCA

- the protection of investors;
- access to capital; and
- investor confidence.

1.3 Under the 2000 Act the *FCA* has powers to investigate concerns including:

FCA

- regulatory concerns about authorised *firms* and individuals employed by them;
- suspected *market abuse* under s.118 of the 2000 Act;
- suspected misleading statements and practices under s.397 of the 2000 Act and Part 7 of the Financial Services Act 2012;

- suspected *insider dealing* under of Part V of the Criminal Justice Act 1993;
- suspected contraventions of the general prohibition under s.19 of the 2000 Act and related offences;
- suspected offences under various other provisions of the 2000 Act (see below);
- suspected breaches of Part VI of the *Act*, of *Part 6 rules* or the *prospectus rules* or a provision otherwise made in accordance with the *Prospectus Directive*.

The *FCA*'s powers of information gathering and investigation are set out in Part XI of the 2000 Act and in s.97 in relation to its Part VI functions.

1.4 The *FCA* has the power to take the following enforcement action:

FCA

- discipline authorised firms under Part XIV of the 2000 Act and approved persons under s.66 of the 2000 Act;
- impose penalties on persons that perform controlled functions without approval under s.63A of the 2000 Act;
- impose civil penalties in cases of market abuse under s.123 of the 2000 Act;
- prohibit an individual from being employed in connection with a *regulated activity*, under s.56 of the 2000 Act;
- apply to Court for *injunctions* (or interdicts) and other orders against persons contravening relevant requirements (under s.380 of the 2000 Act) or engaging in *market abuse* (under s.381 of the 2000 Act);
- petition the court for the winding up or administration of companies, and the bankruptcy of individuals, carrying on *regulated activities*;
- apply to the court under ss.382 and 383 of the 2000 Act for restitution orders against persons contravening relevant requirements or persons engaged in *market abuse*;
- require restitution under s.384 of the 2000 Act of profits which have accrued to authorised persons contravening relevant requirements or persons engaged in *market abuse*, or of losses which have been suffered by others as a result of those *breaches*;
- (except in Scotland) prosecute certain offences, including under the Money Laundering Regulations 2007, the Transfer of Funds (Information on the Payer) Regulations 2007, Part V Criminal Justice Act 1993 (insider dealing), Part 7 of the Financial Services Act 2012 and various offences under the 2000 Act including (Note: The *FCA* may also prosecute any other offences where to do so would be consistent with meeting any of its statutory objectives):
 - carrying on *regulated activity* without authorisation or exemption,

- making false claims to be authorised or exempt, under s.24;
- promoting investment activity without authorisation, under s.25;
- breaching a prohibition order, under s.56;
- failing to co-operate with or giving false information to *FCA* appointed investigators, under s.177;
- failing to comply with provisions about influence over authorised persons, under s.191;
- making misleading statements and engaging in misleading practices, under s.397;
- misleading the *FCA*, under s.398;
- various offences in relation to the *FCA's* Part VI function;
- Fine, issue public censures, suspend or cancel listing for breaches of the Listing Rules by an issuer; and
- Issue public censures or cancel a sponsor's approval.

2 BIS

2.1 The Secretary of State for Business, Innovation and Skills exercises concurrently with the *FCA* those powers and functions marked with an asterisk in paragraphs 1.3 above. The investigation functions are undertaken by Companies Investigation Branch (CIB) and the prosecution functions by the Legal Services Directorate.

FCA

2.2 The principal activities of CIB are, however, the investigations into the conduct of companies under the Companies Acts. These are fact-finding investigations but may lead to follow-up action by CIB such as petitioning for the winding up of a company, disqualification of directors of the company or referring the matter to the Solicitors Office for prosecution. CIB may also disclose information to other prosecution or regulatory authorities to enable them to take appropriate action under their own powers and functions. Such disclosure is, however, strictly controlled under a gateway disclosure regime.

FCA

2.3 The Solicitors Office advises on investigation work carried out by CIB and undertakes criminal investigations and prosecutions in respect of matters referred to it by CIB, the Insolvency Service or other directorates of BIS or its agencies.

FCA

3 SFO

3.1 The aim of the SFO is to contribute to:

FCA

- reducing fraud and the cost of fraud;

- the delivery of justice and the rule of law;
- maintaining confidence in the UK's business and financial institutions.

3.2 Under the Criminal Justice Act 1987 the Director of the SFO may investigate any suspected offence which appears on reasonable grounds to involve serious or complex fraud and may also conduct, or take over the conduct of, the prosecution of any such offence. The SFO may investigate in conjunction with any other person with whom the Director thinks it is proper to do so; that includes a police force (or the *FCA* or any other regulator). The criteria used by the SFO for deciding whether a case is suitable for it to deal with are set out in paragraph 3.3.

FCA

3.3 The key criterion should be that the suspected fraud is such that the direction of the investigation should be in the hands of those who would be responsible for any prosecution.

FCA

The factors that are taken into account include:

- whether the amount involved is at least £1 million (this is simply an objective and recognisable signpost of seriousness and likely public concern rather than the main indicator of suitability);
- whether the case is likely to give rise to national publicity and widespread public concern. That includes those involving government bodies, public bodies, the governments of other countries and commercial cases of public interest;
- whether the case requires highly specialist knowledge of, for example, stock exchange practices or regulated markets;
- whether there is a significant international dimension;
- whether legal, accountancy and investigative skills need to be brought together; and
- whether the case appears to be complex and one in which the use of Section 2 powers might be appropriate.

4 CPS

4.1 The CPS has responsibility for taking over the conduct of all criminal proceedings instituted by the police in England and Wales. The CPS may advise the police in respect of criminal offences. The CPS prosecutes all kinds of criminal offences, including fraud. Fraud cases may be prosecuted by local CPS offices but the most serious and complex fraud cases will be prosecuted centrally.

FCA

5 ACPO and ACPOS

5.1 ACPO represents the police forces of England, Wales, and Northern Ireland. ACPO represents the police forces of Scotland.

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6 COPFS

- 6.1 **FCA** The investigation and prosecution of crime in Scotland is the responsibility of the Lord Advocate, who is the head of the COPFS, which comprises Procurators Fiscal and their Deputes, who are answerable to the Lord Advocate. The Procurator Fiscal is the sole public prosecutor in Scotland, prosecuting cases reported not only by the police but all regulatory departments and agencies. All prosecutions before a jury, both in the High Court of Justiciary and in the Sheriff Court, run in the name of the Lord Advocate; all other prosecutions run in the name of the local Procurator Fiscal. The Head Office of the Procurator Fiscal Service is the Crown Office and the Unit within the Crown Office which deals with serious and complex fraud cases and with the investigation of cases of interest or concern to the Financial Services Authority is the National Casework Division: the remit of this Unit is directly comparable to that of the Serious Fraud Office.

7 The PPS

- 7.1 **FCA** The PPS is responsible for the prosecution of all offences on indictment in Northern Ireland, other than offences prosecuted by the Serious Fraud Office. The PPS is also responsible for the prosecution of certain summary offences, including offences reported to it by any government department.

Transitional provisions applying to the Enforcement Guide

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(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision dates in force:	(6) Regulatory Guide provision coming into force
1	<i>EG</i>		<p><i>EG</i> takes effect on 28 August 2007, save to the extent described below.</p> <p>The <i>FCA's</i> enforcement policy will continue to be as described in the Enforcement manual (ENF) in relation to any <i>statutory notice</i> or related notice given on or after 28 August where a <i>warning notice</i>, first <i>supervisory notice</i> or <i>decision notice</i> was given by the <i>FCA</i> before 28 August in relation to the same matter.</p>	From 28 August 2007	28 August 2007