Chapter 11

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

11.1.1 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.

11.1.2 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 11.1.1; and

2. it is necessary to protect the interests of consumers or potential consumers.

11.1.3 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.

11.1.4 Instances in which the FCA might consider using its powers to obtain restitution for eligible counterparties are likely to be very limited.
11.2 Criteria for determining whether to exercise powers to obtain restitution

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 6.2.26G 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 an eligible 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.
11.3 The FCA’s choice of powers

11.3.1 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.

11.3.2 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:

(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; 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.

11 Under section 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 section 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; or which is imposed by the AIFMD UK regulation. The definition of “appropriate regulator” is set out in section 380(8) to (12) of the Act.
11.4 Determining the amount of restitution

11.4.1 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.

11.4.2 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:

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.
11.5 Other relevant powers

11.5.1 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 relevant requirement\(^\text{12}\), 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.

\(^{12}\) Under section 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 section 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; or which is imposed by the AIFMD UK regulation. The definition of “appropriate regulator” is set out in section 380(8) to (12) of the Act.

11.5.2 The FCA may consider taking disciplinary action using a range of powers as well as seeking restitution, if a person has breached a relevant requirement\(^\text{13}\) 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 market abuse.

\(^{13}\) Under section 204A(2), 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 section 204A(2) by the Treasury by order or which is imposed by the AIFMD UK regulation. The definition of “appropriate regulator” is set out in section 204A(3) of the Act.

11.5.3 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.