Principles for Businesses
# Principles for Businesses

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4.1 Principles: MiFID business

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Chapter 1

Introduction
1.1 Application and purpose

Application

1.1.1 The Principles (see PRIN 2) apply in whole or in part to every firm. The application of the Principles is modified for firms conducting MiFID business and Annex II benchmark administrators. PRIN 3 (Rules about application) specifies to whom, to what and where the Principles apply.

1.1.1A The Principles also apply to certain payment service providers and electronic money issuers that are not firms. PRIN 3.1.1AR sets out the application of the Principles to these persons. The references to a firm in PRIN 2 includes such persons.

Purpose

1.1.2 The Principles are a general statement of the fundamental obligations of firms and the other persons to whom they apply under the regulatory system. They derive their authority from the FCA's rule-making powers as set out in the Act, including as applied by the Payment Services Regulations and the Electronic Money Regulations, and reflect the statutory objectives.

1.1.3 [deleted]

Link to fit and proper standard

1.1.4 In substance, the Principles express the main dimensions of the "fit and proper" standard set for firms in threshold condition 5 (Suitability), although they do not derive their authority from that standard or exhaust its implications. Being ready, willing and organised to abide by the Principles is therefore a critical factor in applications for Part 4A permission, and breaching the Principles may call into question whether a firm with Part 4A permission is still fit and proper.

1.1.4A For persons authorised or registered under the Payment Services Regulations or the Electronic Money Regulations, the relevant “fit and proper standards” are the standards set in those Regulations.
Taking group activities into account

1.1.5 Principles 3 (Management and control), 4 (Financial prudence) and (in so far as it relates to disclosing to the FCA) 11 (Relations with regulators) take into account the activities of members of a firm’s group. Compliance by another person to whom the Principles apply with Principles 3, 4 and 11 can also be affected by the activities of other persons who are members of their group. This does not mean that, for example, inadequacy of a group member’s risk management systems or resources will automatically lead to a firm contravening Principle 3 or 4. Rather, the potential impact of a group member’s activities (and, for example, risk management systems operating on a group basis) will be relevant in determining the adequacy of the firm’s risk management systems or resources respectively.

Standards in markets outside the United Kingdom

1.1.6 As set out in PRIN 3.3 (Where?), Principles 1 (Integrity), 2 (Skill, care and diligence) and 3 (Management and control) apply to world-wide activities in a prudential context. Principle 5 (Market conduct) applies to world-wide activities which might have a negative effect on confidence in the UK financial system. In considering whether to take regulatory action under these Principles in relation to activities carried on outside the United Kingdom, the FCA will take into account the standards expected in the market in which the firm or other person to whom the Principles apply is operating. Principle 11 (Relations with regulators) applies to world-wide activities; in considering whether to take regulatory action under Principle 11 in relation to cooperation with an overseas regulator, the FCA will have regard to the extent of, and limits to, the duties owed by the firm or other person to that regulator. (Principle 4 (Financial prudence) also applies to world-wide activities.)

1.1.6A PRIN 4 (Principles : MiFID Business) provides guidance on the application of the Principles to MiFID business.

Consequences of breaching the Principles

1.1.7 Breaching a Principle makes a firm or other person to whom the Principles apply liable to disciplinary sanctions. In determining whether a Principle has been breached it is necessary to look to the standard of conduct required by the Principle in question. Under each of the Principles the onus will be on the FCA to show that a firm or other person has been at fault in some way. What constitutes "fault" varies between different Principles. Under Principle 1 (Integrity), for example, the FCA would need to demonstrate a lack of integrity in the conduct of a firm’s or other person’s business. Under Principle 2 (Skill, care and diligence) a firm or other person would be in breach if it was shown to have failed to act with due skill, care and diligence in the conduct of its business. Similarly, under Principle 3 (Management and control) a firm or other person would not be in breach simply because it failed to control or prevent unforeseeable risks; but a breach would occur if the firm or other person had failed to take reasonable care to organise and control its affairs responsibly or effectively.

1.1.8 The Principles are also relevant to the FCA’s powers of information-gathering, to vary a firm’s Part 4A permission or authorisation or registration under the Payment Services Regulations or Electronic Money Regulations,
and of investigation and intervention, and provide a basis on which the FCA may apply to a court for an injunction or restitution order or require a firm or other person to make restitution. However, the Principles do not give rise to actions for damages by a private person (see PRIN 3.4.4 R).

1.1.9 Some of the other rules and guidance in the Handbook deal with the bearing of the Principles upon particular circumstances. However, since the Principles are also designed as a general statement of regulatory requirements applicable in new or unforeseen situations, and in situations in which there is no need for guidance, the FCA’s other rules and guidance or onshored regulations should not be viewed as exhausting the implications of the Principles themselves.

Responsibilities of providers and distributors under the Principles

1.1.10 RPPD contains guidance on the responsibilities of providers and distributors for the fair treatment of customers under the Principles.
1.2 Clients and the Principles

Characteristics of the client

1.2.1 Principles 6 (Customers' interests), 7 (Communications with clients), 8 (Conflicts of interest), 9 (Customers: relationships of trust), 10 (Clients' assets) and 12 (Consumer Duty) impose requirements on firms expressly in relation to their clients or customers. These requirements depend, in part, on the characteristics of the client or customer concerned. This is because what is "due regard" (in Principles 6 and 7), "fairly" (in Principles 6 and 8), "clear, fair and not misleading" (in Principle 7), "reasonable care" (in Principle 9), "adequate" (in Principle 10) or "good outcomes" (in Principle 12) will, of course, depend on those characteristics.

Approach to client categorisation

1.2.2 [deleted]

1.2.3 [deleted]

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1.2.5 [deleted]

Acting through an agent

1.2.6 If the person with or for whom the firm is carrying on an activity is acting through an agent, the ability of the firm to treat the agent as its client under COBS 2.4.3 R (Agent as client) will not be available. For example, if a general insurer is effecting a general insurance contract through a general insurance broker who is acting as agent for a disclosed policyholder, the policyholder will be a client of the firm and the firm must comply with the Principles accordingly.
Non-designated investment business - clients that a firm may treat as an eligible counterparty for the purposes of PRIN

1.1 A firm may categorise the following types of client as an eligible counterparty for the purposes of PRIN:

(1) a properly constituted government (including a quasi-governmental body or a government agency) of any country or territory;

(2) a central bank or other national monetary authority of any country or territory;

(3) a supranational whose members are either countries or central banks or national monetary authorities;

(4) a State investment body, or a body charged with, or intervening in, the management of the public debt at national level;

(5) another firm, or an overseas financial services institution;

(6) any associate of a firm (except an OPS firm), or of an overseas financial services institution, if the firm or institution consents;

(7) a client when he is classified as an eligible counterparty in accordance with 1.2; or

(8) a recognised investment exchange, EU regulated market or clearing house.

1.2 A firm may classify a client (other than another firm, regulated collective investment scheme, or an overseas financial services institution) as an eligible counterparty for the purposes of PRIN under 1.1(7) if:

(1) the client at the time he is classified is one of the following:

(a) a body corporate (including a limited liability partnership) which has (or any of whose holding companies or subsidiaries has) called up share capital of at least £10 million (or its equivalent in any other currency at the relevant time);

(b) a body corporate that meets (or any of whose holding companies or subsidiaries meets) two of the following tests:

(i) a balance sheet total of 12.5 million euros (or its equivalent in any other currency at the relevant time);

(ii) a net turnover of 25 million euros (or its equivalent in any other currency at the relevant time);

(iii) an average number of employees during the year of 250;

(c) [deleted]

(d) a partnership or unincorporated association which has net assets of at least £10 million (or its equivalent in any other currency at the relevant time) (and calculated, in the case of a limited partnership, without deducting loans owing to any of the partners);

(e) a trustee of a trust (other than an occupational pension scheme, SSAS, personal pension scheme or stakeholder pension scheme) with assets of at least £10 million (or its equivalent in any other currency), calculated by aggregating the value of the cash and designated investments forming part of the trust’s assets, but before deducting its liabilities;

(f) a trustee of an occupational pension scheme or SSAS, or a trustee or operator of a personal pension scheme or stakeholder pension scheme where the scheme has (or has had at any time during the previous two years):
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(i) at least 50 members; and

(ii) assets under management of not less than £10 million (or its equivalent in any other currency at the relevant time); and

(2) the firm has, before commencing business with the client on an eligible counterparty basis:

(a) advised the client in writing that he is being categorised as an eligible counterparty for the purposes of PRIN;

(b) given a written warning to the client that he will lose protections under the regulatory system;

(c) for a client falling under (1)(a) or (b):

(i) taken reasonable steps to ensure that the written notices required by (a) and (b) have been delivered to a person authorised to take such a decision for the client; and

(ii) not been notified by the client that the client objects to being classified as an eligible counterparty;

(d) for a client falling under (1)(c), (d), (e) or (f):

(i) taken reasonable steps to ensure that the written notices required by (a) and (b) have been delivered to a person authorised to take such a decision for the client; and

(ii) obtained the client's written consent or is otherwise able to demonstrate that consent has been given.
### 2.1 The Principles

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The Consumer Duty

Chapter 2A

The Consumer Duty
2A.1 Application and purpose

Application

2A.1.1 References in PRIN to the obligations on firms under Principle 12 include the obligations imposed by rules in 2A.

2A.1.2 References in PRIN to obligations imposed on firms under PRIN 2A include the obligation imposed by Principle 12.

2A.1.3 The application of Principle 12 and PRIN 2A is set out in PRIN 3, including PRIN 3.2.6R to PRIN 3.2.12G. Principle 12 applies in relation to a firm’s retail market business or where the firm communicates or approves financial promotions which are addressed to, or disseminated in such a way that they are likely to be received by, a retail customer. To the extent that Principle 12 applies, Principles 6 and 7 do not apply.

2A.1.4 The definition of a product for the purposes of Principle 12 and PRIN 2A includes both products and services.

2A.1.5 The definition of a retail customer for the purposes of Principle 12 and PRIN 2A includes a prospective customer.

2A.1.6 The rules in Principle 12 and PRIN 2A are to be interpreted in accordance with the standard that could reasonably be expected of a prudent firm carrying on the same activity in relation to the same product and taking appropriate account of the needs and characteristics of retail customers as set out in PRIN 2A.7.1R. Further guidance about what can reasonably be expected and the needs and characteristics of retail customers is set out at PRIN 2A.7.2G to 2A.7.5G.

2A.1.7 References in this chapter (including those within Glossary definitions used in this chapter) to regulated activities include payment services and issuing electronic money (whether or not the activity of issuing electronic money specified in article 9B of the Regulated Activities Order); and unless
otherwise stated are to be taken to include activities connected to the provision of payment services and to the issuing of electronic money (whether or not the activity of issuing electronic money specified in article 9B of the Regulated Activities Order).

**Purpose**

2A.1.8 Principle 12 reflects a general expectation by the FCA that firms should conduct their business to a standard which ensures an appropriate level of protection for retail customers.

2A.1.9 While recognising the general principle that consumers should take responsibility for their decisions, having regard to the other factors set out in s.1C of the Act, it is appropriate to require a high level of protection for retail customers for reasons including:

1. that they typically face a weak bargaining position in their relationships with firms;
2. that they are susceptible to cognitive and behavioural biases;
3. that they may lack experience or expertise in relation to products offered through retail market business; and
4. that there are frequently information asymmetries involved in retail market business.

2A.1.10 (1) The cross-cutting obligations at PRIN 2A.2 set out the overarching conduct which firms must demonstrate when they act to deliver good outcomes for retail customers.

(2) The main elements of firms’ conduct obligations under Principle 12 and PRIN 2A are set out in PRIN 2A.3 to PRIN 2A.11.

(3) The retail customer outcome rules and guidance at PRIN 2A.3 to PRIN 2A.6 set out firms’ key obligations in relation to product governance, price and value, consumer understanding and supporting consumers.

(4) There are particular provisions concerning closed products and existing products distributed to retail customers before 31 July 2023 in PRIN 2A.3 and PRIN 2A.4.

2A.1.11 Principle 12 does not change the nature of a firm’s relationship with any given retail customer. In particular, it does not create a fiduciary relationship where one would not otherwise exist nor require a firm to provide advice or carry out any other regulated activity where it would not otherwise have done so.

2A.1.12 The FCA has issued guidance on the Consumer Duty in FG22/5 which firms should read alongside Principle 12 and PRIN 2A as a guide to the FCA’s view as to how Principle 12 and PRIN 2A might be complied with.
2A.1.13 **Guidance on responsibilities of firms in a product’s distribution chain**

(1) **Principle 12** imposes obligations on firms towards retail customers of products irrespective of whether the customer is a client of the firm.

(2) This extended application aims to ensure the effectiveness of obligations under **Principle 12** which may properly relate to activities which determine or materially influence retail customer outcomes carried out by a firm with whom the retail customer is not in a client relationship.

(3) A firm’s role in the distribution chain may mean it is unable to determine or materially influence retail customer outcomes in connection with the product. If so, the firm may not be subject to any obligation under **Principle 12**.

2A.1.14 Obligations on firms in the distribution chain of a product must be interpreted reasonably, in a manner that reflects the firm’s role in that distribution chain and the degree to which it can determine or materially influence retail customer outcomes.

2A.1.15 The extent of a firm’s responsibilities under **Principle 12** in any one case will turn on the substance of the firm’s role in the arrangements relating to the product. A firm which determines or has a material influence over retail customer outcomes is accountable notwithstanding that the retail customer may not be its client due to the indirect nature of their relationship.

2A.1.15A For example, where a firm’s sole activity subject to obligations under **Principle 12** is communicating or approving a financial promotion, the rules and guidance in ■ PRIN 2A.3 (products and services), ■ PRIN 2A.4 (price and value), ■ PRIN 2A.6 (customer support) and ■ PRIN 2A.11 (sale and purchase of product books) are likely to have limited relevance.

**Relevance of guidance about Principles 6 and 7**

2A.1.16 Given the high-level nature and breadth of application of the Principles, guidance about a Principle cannot exhaustively cover its implications (see also ■ PRIN 1.1.9G).

2A.1.17 (1) In general terms, **Principle 12** and ■ PRIN 2A impose a higher and more exacting standard of conduct in relation to a firm’s activities relative to what Principles 6 or 7 would have otherwise required. **Principle 12** and ■ PRIN 2A also have a broader application in relation to a firm’s activities relative to Principles 6 and 7, with a greater focus on consumer protection outcomes for retail customers, including where those retail customers do not stand in a client relationship with that firm in the distribution chain.

(2) While existing, formal guidance on Principles 6 and 7 will remain relevant to firms in considering their obligations under **Principle 12**, firms should also take due account of the inherent limits of such guidance in light of the factors in (1). See also ■ PRIN 2A.1.3G.
(3) To the extent that a firm is not acting in accordance with existing guidance on Principles 6 and 7 and the behaviour would amount to a breach of Principle 6 or 7 in the event that they had continued to apply, the behaviour is likely to amount to a breach of Principle 12.

(4) Where a firm is acting in accordance with guidance on Principles 6 and 7 that should not be relied on alone in considering how to comply with Principle 12. Firms also need to consider all their obligations not only under the Principles, but under any other applicable law, including other FCA rules such as those expanding upon Principle 12 as set out in PRIN 2A.

2A.1.18 The effect of PRIN 3.2.10R is that the application of Principles 6 and 7 is unchanged with respect to a firm’s activities insofar as they are not subject to Principle 12.
2A.2 Cross-cutting obligations

Act in good faith

2A.2.1 A firm must act in good faith towards retail customers.

2A.2.2 Acting in good faith is a standard of conduct characterised by honesty, fair and open dealing and acting consistently with the reasonable expectations of retail customers.

2A.2.3 Examples of where a firm is not acting in good faith would include:

(a) failing to take account of retail customers’ interests, for example in the way it designs a product or presents information;

(b) seeking inappropriately to manipulate or exploit retail customers, for example by manipulating or exploiting their emotions or behavioural biases to mis-lead or create a demand for a product;

(c) taking advantage of a retail customer or their circumstances, for example any characteristics of vulnerability, in a manner which is likely to cause detriment;

(4) carrying out the same activity to a higher standard or more quickly when it benefits the firm than when it benefits the retail customer, without objective justification.

2A.2.4 Acting in good faith does not mean a firm is prevented from pursuing legitimate commercial interests or seeking a profit, provided it does so in a manner which is compliant with Principle 12 and PRIN 2A. Acting in good faith does not require a firm to act in a fiduciary capacity where it was not already obliged to do so.

2A.2.5 If a firm identifies through complaints, its internal monitoring or from any other source, that retail customers have suffered foreseeable harm as a result of acts or omissions by the firm, it must act in good faith and take appropriate action to rectify the situation, including providing redress where appropriate.

[Note: PRIN 2A.10 contains rules which are relevant when a firm is considering what “appropriate action” it must take.]
PRIN 2A : The Consumer Duty

Section 2A.2 : Cross-cutting obligations

2A.2.6 R ■ PRIN 2A.2.5 does not apply where the harm identified was caused by risks inherent in a product, provided the firm reasonably believed that retail customers or the relevant retail customer (as the context requires) understood and accepted those risks.

2A.2.7 G Whether such a belief is reasonable will depend (among other things) on the nature of the product offered by the firm; the adequacy of the firm’s product design, communications and customer services; the needs and characteristics of retail customers or the relevant retail customer (as the context requires); and the extent to which the firm is compliant with applicable law in relation to the sale of that product, including the rules set out in ■ PRIN 2A.

Avoid causing foreseeable harm

2A.2.8 R A firm must avoid causing foreseeable harm to retail customers.

2A.2.9 R Foreseeable harm may be caused by both act and omission, in a firm’s direct relationship with a retail customer or through its role in the distribution chain even where another firm in that chain also contributes to the harm.

2A.2.10 G Avoiding causing foreseeable harm to retail customers includes:

(1) ensuring all aspects of the design, terms, marketing, sale of and support for its products avoid causing foreseeable harm;

(2) ensuring that no aspect of its business involves unfairly exploiting behavioural biases displayed or characteristics of vulnerability held by retail customers;

(3) identifying the potential for harm that might arise if it withdraws a product, its products change or its understanding about the impact on retail customers changes;

(4) responding to emerging trends that identify new sources of harm, including FCA supervisory action and/or communications; and

(5) taking appropriate action to mitigate the risk of actual or foreseeable harm, including for example by:

   (i) updating or otherwise amending the design of the product or distribution strategy;

   (ii) updating information about a product or updating investment advice;

   (iii) ensuring that retail customers do not face unreasonable barriers (including unreasonable additional costs), for example when they want to switch products or providers or to complain;

   (iv) allowing time and support for retail customers to find suitable alternatives where a product is withdrawn.
### 2A.2.11

A *firm* with an ongoing relationship with a *retail customer* in relation to a *product* would need to act to avoid causing foreseeable harm to that *customer* throughout the lifecycle of that *product*.

### 2A.2.12

A *firm* which is involved with the provision of a *product* at a point in time and without an ongoing relationship with the *retail customer* does not need to act to avoid causing harm which only later becomes foreseeable.

### 2A.2.13

Avoiding causing foreseeable harm to *retail customers* does not mean a *firm* has a responsibility to prevent all harm. For example:

1. A *product* may have inherent risks which *retail customers* accept by selecting that *product*. Where a *firm* reasonably believes a *retail customer* understands and accepts such risks, it will not breach the rule if it fails to prevent them;

2. Whether such a belief is reasonable will depend (among other things) on the nature of the *product* offered by the *firm*, the adequacy of the *firm’s* product design, communications and customer services; and the extent to which it is compliant with applicable law in relation to the sale of that *product*, including the rules set out in [PRIN 2A]; and

3. Examples of risks which are inherent to a *product* include that a *mortgage* carries a risk of repossession and most investments carry a risk that the market may move resulting in capital loss.

### Enable and support retail customers

#### 2A.2.14

A *firm* must enable and support *retail customers* to pursue their financial objectives.

#### 2A.2.15

The conclusions a *firm* can properly reach about the financial objectives of *retail customers* will depend on the type of *product* it provides.

#### 2A.2.16

A *firm* which provides an execution-only service or a non-advised service can assume (unless it knows or could reasonably be expected to have known otherwise) that the financial objectives of *retail customers* are to purchase, use and enjoy the full benefits of the *product* in question.

#### 2A.2.17

A *firm* which provides advisory or discretionary services is entitled to rely on the objectives that *retail customers* have disclosed unless it knows or could reasonably be expected to know that information disclosed is manifestly out of date, inaccurate or incomplete.

#### 2A.2.18

Information a *firm* must obtain under a provision of law (including, but not limited to, information required by [COBS 9.2.1R], [COBS 9A.2.1R], [COBS 10.2.1R], [COBS 10A.2.1R], [ICOBS 5.2.2R], [MCOB 4.7A.6 R], [MCOB 11.6.2R] and [CONC 5.2A.5R]) is relevant to whether a *firm* knew or could reasonably be expected to know that a customer has different financial objectives for the purposes of [PRIN 2A.2.16G] and [PRIN 2A.2.17G].
2A.2.19 To the extent that a firm becomes aware or should reasonably have become aware of a specific financial objective sought by a retail customer in connection with a product, it should consider how to support progress towards achieving that objective in its interactions with that retail customer.

2A.2.20 Enabling and supporting retail customers to pursue their financial objectives includes acting to empower retail customers to make good choices in their interests, including by:

(1) ensuring all aspects of the design, terms, marketing, sale of and support for its products meet and not frustrate the objectives and interests of retail customers;

(2) making sure retail customers have the information and support they need, when they need it, to make and act on informed decisions;

(3) enabling retail customers to enjoy the use of their product and to switch or exit the product where they want to without unreasonable barriers or delay; and

(4) taking account of retail customers' behavioural biases and the impact of characteristics of vulnerability in all aspects of customer interaction.

2A.2.21 Enabling and supporting retail customers to pursue their financial objectives may include the proactive provision of information or offer of support when a firm declines to provide a particular product to a retail customer. In particular:

(1) firms should consider in light of the financial objectives of that retail customer whether it would be appropriate to provide information to enable and support that retail customer to achieve those objectives, and where appropriate should provide it; and

(2) they should take reasonable steps to ensure any information they provide to a retail customer which is produced by an external third party such as a money advice charity, to which the retail customer is signposted, is independent and reliable.

2A.2.22 Enabling and supporting retail customers to pursue their financial objectives does not mean that a firm is expected to go beyond what a prudent firm carrying out the same activity in relation to the same product, taking appropriate account of the needs and characteristics of retail customers, including in particular as set out in PRIN 2A.7.4G to PRIN 2A.7.5G, would do. For example, it does not require firms to go beyond what is reasonably expected by retail customers in the delivery of the product.

Guidance on the cross-cutting obligations

2A.2.23 (1) The obligations in PRIN 2A.2 apply at all stages of the customer journey and during the whole lifecycle of a product. Firms will therefore need to keep products under regular review and consider the impact of any changes they make to those products.
(2) In applying the obligations in [PRIN 2A.2], firms should note that each of the cross-cutting obligations in this section requires firms to act both proactively and reactively, as the context requires.

2A.2.24 The obligations in [PRIN 2A.2] apply both at a target market and (where context requires) at an individual customer level, for example:

1. Where a firm interacts with an individual retail customer or is providing a bespoke service the obligations in [PRIN 2A.2] apply to those interactions and that service;

2. Where a firm is not interacting with an individual retail customer, for example in the design of a product, when making pricing decisions or designing communications, the obligations in [PRIN 2A.2] apply at the level of that target market.

2A.2.25 Each of the cross-cutting obligations in this section requires firms to understand and take account of cognitive and behavioural biases and the impact of characteristics of vulnerability and/or lack of knowledge on retail customers’ needs and decisions.

Interaction between Principle 12 and the cross-cutting obligations

2A.2.26 The cross-cutting obligations (the rules in [PRIN 2A.2]) exhaust what is required under Principle 12.

2A.2.27 The cross-cutting obligations define how firms should act to deliver good outcomes for retail customers.

Interaction between the cross-cutting obligations and the outcomes rules

2A.3  Consumer Duty: retail customer outcome - products and services

General nature of product governance obligations

2A.3.1  The product governance obligations on firms under Principle 12 are general in nature and should be considered alongside any other legal or regulatory obligations that may apply, for example any marketing restrictions in relation to the product.

Manufacturer product governance arrangements

2A.3.2  A manufacturer must maintain, operate and review a process for the approval of:

(1) a product; and

(2) significant adaptations of a product,

in each case before it is marketed or distributed to retail customers.

2A.3.3  PRIN 2A.3.2R includes any product which is a new product manufactured on or after 31 July 2023, or an existing product. In relation to an existing product “marketing” or “distributing” includes reference to any future activity regardless of whether the product has previously been made available for marketing or distribution.

Manufacturers: product approval process for products that are not closed products

2A.3.4  For each product that is not a closed product, a manufacturer’s product approval procedures must:

(1) specify the target market for the product at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the product;

(2) take account of any particular additional or different needs, characteristics and objectives that might be relevant for retail customers in the target market with characteristics of vulnerability;

(3) ensure that all relevant risks to the target market, including any relevant risks to retail customers with characteristics of vulnerability, are assessed;
(4) ensure that the design of the product:
   (i) meets the needs, characteristics and objectives of the target market;
   (ii) does not adversely affect groups of retail customers in the target market, including groups of retail customers with characteristics of vulnerability; and
   (iii) avoids causing foreseeable harm in the target market;

(5) ensure that the intended distribution strategy is appropriate for the target market; and

(6) require the manufacturer to take all reasonable steps to ensure that the product is distributed to the identified target market.

Manufacturers: product approval process for closed products

2A.3.5

(1) A manufacturer of a closed product must maintain, operate and review a process to assess and regularly review whether any aspect of the product results in the firm not complying with the cross-cutting obligations (PRIN 2A.2) in relation to existing retail customers.

(2) The manufacturer’s process in (1) does not have to comply with PRIN 2A.3.2R, PRIN 2A.3.4R, PRIN 2A.3.7R, PRIN 2A.3.9R, PRIN 2A.3.10R, PRIN 2A.3.11R or PRIN 2A.3.12R.

2A.3.6

The manufacturer’s process must also assess and regularly review whether the closed product affects groups of retail customers in different ways and in particular whether any retail customers in the target market with characteristics of vulnerability are adversely affected by any aspect of the product.

Manufacturer: review

2A.3.7

A manufacturer must regularly review its products taking into account any event that could materially affect the potential risk to the target market. In doing so, the manufacturer must assess at least the following:

(1) whether the product meets the identified needs, characteristics and objectives of the target market, including identified needs, characteristics and objectives of retail customers in the target market with characteristics of vulnerability; and

(2) whether the intended distribution strategy remains appropriate, including whether the product is being distributed to the target market or reaching retail customers outside the target market.

Manufacturer: action following review of products

2A.3.8

Where a manufacturer identifies any circumstances related to the product that may adversely affect retail customers, the manufacturer must:

(1) take appropriate action to mitigate the situation and prevent any further harm; and
(2) where appropriate, promptly inform other relevant persons in the distribution chain about the circumstances that led to action being taken and the remedial action taken.

Manufacturers: testing products

2A.3.9 R

(1) Manufacturers must test their products appropriately, including scenario analyses where relevant.

(2) A manufacturer must, as part of discharging its obligations in (1), assess whether the product meets the identified needs, characteristics and objectives of the target market, including identified needs, characteristics and objectives of retail customers in the target market with characteristics of vulnerability.

(3) Manufacturers must test their products in a qualitative manner and, depending on the type and nature of the product and the related risk of detriment to retail customers, quantitative manner.

2A.3.10 R

If the results of the testing show that the product does not meet the identified needs, characteristics and objectives of the target market, including identified needs, characteristics and objectives of any group or groups of retail customers in the target market with characteristics of vulnerability:

(1) in relation to a new product or a significant adaptation of an existing product, the manufacturer must not bring the new or adapted product to the market;

(2) in relation to an existing product, it must immediately:

(a) cease marketing or distributing the product (whether directly or indirectly);

(b) cease any renewals for existing retail customers, provided that existing retail customers are easily able to move to an alternative product that provides at least the same level of benefit at an equivalent cost to the customer, whether with the firm or with another firm; and

(c) (where the firm intends to continue to market and distribute the product), make such changes as are necessary for the product to meet the identified needs, characteristics and objectives of the target market, including identified needs, characteristics and objectives of any group or groups of retail customers in the target market with characteristics of vulnerability.

Manufacturers: collaborating on manufacture

2A.3.11 R

Where firms collaborate to manufacture a product, they must set out in a written agreement their respective roles and responsibilities in the product approval process in PRIN 2A.3.
Manufacturer: selecting distribution channels and providing information to distributors

(1) A manufacturer must select distribution channels that are appropriate for the target market.

(2) A manufacturer must provide each distributor with adequate information in good time to enable it to comply with the rules applicable to it in this section.

(3) The information to be made available under (2) includes all appropriate information regarding the product and the product approval process from time to time to enable the distributor to comply with PRIN 2A.3.16R.

Distributors: unregulated manufacturer

(2A.3.13) Where a distributor distributes a product manufactured by a person to whom the rules in PRIN 2A.3 do not apply, it must take all reasonable steps to comply with PRIN 2A.3.14R to 2A.3.23G.

Distributor: distribution arrangements

(2A.3.14) A distributor must maintain, operate and review product distribution arrangements for each product it distributes that:

(1) avoid causing and, where that is not practical, mitigates foreseeable harm to retail customers;

(2) support a proper management of conflicts of interest; and

(3) ensure the needs, characteristics and objectives of the target market are duly taken into account.

2A.3.15 PRIN 2A.3.14R includes any product whether a new product distributed on or after 31 July 2023, or an existing product. In relation to an existing product, “distributes” includes reference to any future distribution activity regardless of whether the product has previously been made available for distribution, for example, renewing a contract with an existing retail customer.

Distributors: obtaining information from manufacturers

(2A.3.16) A distributor must ensure that the product distribution arrangements contain effective measures and procedures to obtain sufficient, adequate and reliable information from the manufacturer about the product to:

(1) understand the characteristics of the product;

(2) understand the identified target market;

(3) consider the needs, characteristics and objectives of any retail customers in the target market with characteristics of vulnerability;

(4) identify the intended distribution strategy for the product; and
(5) ensure the product will be distributed in accordance with the needs, characteristics and objectives of the target market.

Distributors: specific distribution strategy

2A.3.17

(1) This rule applies where a distributor sets up or implements a specific distribution strategy to supplement the manufacturer’s strategy under PRIN 2A.3.4R(5).

(2) Any strategy set up or implemented by a distributor must be consistent with:
   (a) the manufacturer’s intended distribution strategy; and
   (b) the identified target market.

Distributors: providing sales information to manufacturers

2A.3.18

To support product reviews carried out by manufacturers, a distributor must, upon request, provide manufacturers with relevant information including, where appropriate, sales information and information on the regular reviews of the product distribution arrangements.

Distributors: review

2A.3.19

(1) A distributor must regularly review its distribution arrangements to ensure that they are still appropriate and up to date.

(2) When reviewing the distribution arrangements, a distributor must verify that it is only distributing each product to the identified target market.

Distributor: action following review of products

2A.3.20

Where a distributor identifies an issue following a review, it must:

1. make appropriate amendments to the product distribution arrangements;
2. where harm has been identified, take appropriate action to mitigate the situation and prevent any further harm; and
3. promptly inform all relevant persons in the distribution chain about any action taken.

Vested rights

2A.3.21

Where a product has existing contracts entered into before 31 July 2023, unless the firm has identified a breach of rules in force at the time, the appropriate action a firm must take under PRIN 2A.3.8R or PRIN 2A.3.20R does not require a firm to waive its vested rights under those existing contracts.

2A.3.22

For the purposes of PRIN 2A.3.21R, vested rights are likely to include the following:
(1) payments already due under the terms of the contract;
(2) remuneration for services wholly or partly provided under the contract; and
(3) contractual charges payable on early termination of the contract.

Whether a right is a vested right or not will depend on all the facts of the case and interpretation of the relevant contract.

Application of the product governance outcome

PRIN 2A.3 does not apply to any firm subject to PROD 3, PROD 4, or PROD 7 for any product they manufacture or distribute that falls within the scope of the relevant PROD chapter.

Products within scope of PROD include any product significantly adapted since the relevant PROD rules came into force, legacy non-investment insurance products and funeral plans which were existing products as of 29 July 2022.

A closed product not already subject to PROD must follow the closed product rules set out in PRIN 2A.3.5R to PRIN 2A.3.6R and 2A.3.21R to 2A.3.23G.

A closed product will already be subject to PROD if it is:

(1) a financial instrument or structured deposit manufactured by a firm subject to PROD 3 on or after 3 January 2018;
(2) an insurance product manufactured on or after 1 October 2018 or a legacy non-investment insurance product; or
(3) a funeral plan product manufactured on or after 29 July 2022.

PRIN 2A.3 does not apply to both:

(1) units in an authorised fund or the sub-fund of such a scheme, where the relevant authorised fund or sub-fund is in the process of winding up or termination under, or in accordance with, COLL 7.3, COLL 7.4, or COLL 7.4A; and
(2) units or shares in a fund or sub-fund which is not an authorised fund or a sub-fund of such a scheme or AIF, where the relevant fund or sub-fund is in a process of winding up or termination which is equivalent to that referred to in (1).
Compliance with other Handbook provisions

2A.3.29  G

A firm which either:

(1) conducts business in relation to products that would be covered by chapters in PROD if they were manufactured after the date the relevant chapter in PROD came into force; or

(2) is subject to PROD 1.3.2R,

may choose whether to apply either the processes set out in the relevant chapter of PROD that applies to the product (PROD 3 for financial instruments and structured deposits and PROD 4 for insurance products) or the processes set out in PRIN 2A.3. PRIN 2A.3.30E sets out the circumstances where a firm that chooses to comply with the relevant chapter of PROD is likely to be considered in breach of PRIN 2A.3.

2A.3.30  E

(1) This provision applies to:

(a) any firm to which PROD 1.3.2R applies;

(b) a manufacturer of an existing product manufactured before 3 January 2018, which is a financial instrument or a structured deposit; and

(c) a manufacturer of an existing product manufactured before 1 October 2018 which is an insurance product, but which is not a legacy non-investment insurance product.

(2) For firms within (1)(a) or (b), where the firm is following the provisions of PROD 3, contravention of PROD 3 may be relied on as tending to establish contravention of those provisions of PRIN 2A.3 that apply to the firm.

(3) For firms within (1)(c), where the firm is following the provisions of PROD 4, contravention of PROD 4 may be relied on as tending to establish contravention of those provisions of PRIN 2A.3 that apply to the firm.
2A.4 Consumer Duty: retail customer outcome on price and value

What is value?

For the purposes of this outcome:

1. value is the relationship between the amount paid by a retail customer for the product and the benefits they can reasonably expect to get from the product; and

2. a product provides fair value where the amount paid for the product is reasonable relative to the benefits of the product.

Price and value: manufacturers general obligation

A manufacturer must:

1. ensure that its products provide fair value to retail customers in the target markets for those products; and

2. carry out a value assessment of its products and review that assessment on a regular basis appropriate to the nature and duration of the product.

An initial value assessment must be carried out for:

1. a product; and

2. any significant adaptation of a product,

in each case before it is marketed or distributed to a retail customer.

PRIN 2A.4.4R and PRIN 2A.4.3R include any product whether a new product manufactured on or after 31 July 2023, an existing product or a closed product. In relation to an existing product or a closed product, “marketing” or “distributing” includes reference to any future activity regardless of whether the product has previously been made available for marketing or distribution.

In ensuring that a product provides fair value, a manufacturer must be satisfied that this will be the case from the point at which the manufacturer completes the assessment for a reasonably foreseeable period, including, where the product is one that renews, following renewal.
What constitutes a ‘reasonably foreseeable period’ will depend on the type of product. This could include the expected length of time a retail customer in the target market will keep it, including, where relevant, the number of occasions the firm would reasonably expect that a retail customer would renew the product.

Product packages

Where a product is intended to be provided with one or more other products, a manufacturer must ensure that:

1. each component product; and
2. the package as a whole,

provides fair value to retail customers in the target market.

The value assessment

A manufacturer’s assessment of whether or not a product provides fair value must include (but is not limited to) consideration of the following:

1. the nature of the product, including the benefits that will be provided or may be reasonably expected and its quality;
2. any limitations that are part of the product;
3. the expected total price to be paid by the retail customer or that may become due from the retail customer. The expected total price includes:
   a. the price paid or agreed to be paid by the retail customer on entering into a contract for the product, including by way of repayments;
   b. any regular charges or fees payable over the lifetime of the product, for example an annual management charge;
   c. any contingent fees or charges, for example, administrative charges for changes of address, charges for falling into arrears on a loan, or charges for transferring investments; and
   d. any non-financial costs the retail customer is asked or required to provide to the firm; and
4. any characteristics of vulnerability that retail customers in the target market display and the impact these characteristics have on the likelihood that retail customers may not receive fair value from its products.

Guidance on the value assessment: factors that may be considered

A manufacturer may consider one or more of the following in its assessment of whether or not a product is providing fair value:

1. the costs incurred by the firm in manufacturing or distributing the product;
(2) the market rate and charges for a comparable product;

(3) any accrued costs and/or benefits for existing or closed products; and

(4) whether there are any products that are priced significantly lower for a similar or better benefit.

Guidance on the value assessment: benefits and costs

(1) The types of benefits that retail customers may reasonably expect to obtain may include non-financial benefits such as an enhanced level of customer service providing extra assistance to retail customers in using the product.

(2) Examples of non-financial costs include the provision of personal data and the granting of permission to use that data.

Guidance on the value assessment: characteristics of retail customers

In considering the value assessment and how it applies when manufacturers have different groups of retail customer in their target market for a product, they should have regard in particular to the following:

(1) whether any retail customers who have characteristics of vulnerability may be less likely to receive fair value; and

(2) whether the product provides fair value for each of the different groups of retail customer in the target market, including in circumstances where the pricing structure of the product involves different prices being charged to different groups of retail customers.

Guidance on the value assessment: interaction with the Duty and the retail customer outcomes

In ensuring that a product provides fair value, a manufacturer should have regard to how the cross-cutting obligations (PRIN 2A.2) and the other retail customer outcome rules (PRIN 2A.3 to PRIN 2A.6) are met in respect of the product.

Manufacturers: collaboration with another firm or with unregulated persons

Where firms collaborate to manufacture a product, they must set out in a written agreement their respective roles and responsibilities in the value assessment in PRIN 2A.4.

Where a firm collaborates with a person who is not a firm to manufacture a product, it remains fully responsible for discharging all its obligations under PRIN 2A.4.
Manufacturers: information for distributors

The manufacturer of a product must ensure that firms distributing the product have all necessary information to understand the value that the product is intended to provide to a retail customer.

Price and value: distributors general obligation

(1) A distributor must not distribute a product unless its distribution arrangements are consistent with the product providing fair value to retail customers.

(2) Arrangements will be consistent with providing fair value to retail customers where they enable the distributor to obtain enough information from the manufacturer to understand the outcome of the value assessment and in particular to identify:
   (a) the benefits the product is intended to provide to a retail customer;
   (b) the characteristics, objectives and needs of the target market;
   (c) the interaction between the price paid by the retail customer and the extent and quality of any services provided by the distributor; and
   (d) whether the impact that the distribution arrangements (including any remuneration it or (so far as the distributor is aware of it) another person in the distribution chain receives) would result in the product ceasing to provide fair value to retail customers.

Distributors: unregulated manufacturer

Where a distributor distributes a product manufactured by a person to whom the rules in PRIN 2A.4 do not apply, it must take all reasonable steps to comply with PRIN 2A.4.16R.

Distribution chains

(1) A firm which distributes products to retail customers is responsible for ensuring the fair value obligations in relation to distribution are met in respect of any product it distributes to a retail customer.

(2) A firm which distributes products to other distributors must ensure that all information relevant to the value assessment is passed to the distributor at the end of the distribution chain.

(3) A firm which distributes products to other firms in the distribution chain must consider whether they are also a co-manufacturer of the product they are distributing and if they are, apply the manufacturer rules in this section.

When must a manufacturer and a distributor consider the value assessment?

Manufacturers and distributors are responsible for the value assessment as follows:
(1) A manufacturer must consider the fair value assessment at every stage of the product approval process, including in particular when:
   (a) designing the product;
   (b) identifying retail customers in the target market for whom the product needs to provide fair value; and
   (c) selecting distributions methods/channels.

(2) A distributor must consider the fair value assessment when determining the distribution strategy for the product and in particular where the product is to be distributed with another product whether as part of a package or not.

The value assessment: general

In determining whether a product provides fair value, or distribution arrangements are consistent with fair value being provided, a firm must not rely on individual retail customers to consider whether they believe the product provides fair value in place of the firm’s own assessment.

Closed products

(1) The obligation on manufacturers in PRIN 2A.4.2R to ensure that a product provides fair value applies to closed products as well as new and existing products.

(2) In the case of a closed product, the reference to a target market in PRIN 2A.4.2R should be read as referring to the retail customers who are customers of the closed product.

Guidance on the value assessment: closed and existing products

The assessment of whether a closed product or an existing product provides fair value should be on a forward-looking basis only. Unless required to do so by any other rule, manufacturers do not need to consider whether their closed products or existing products provided fair value prior to these rules coming into force.

In assessing whether a closed product or an existing product provides fair value, a manufacturer may take into account the benefits provided, the costs charged to the retail customer and the costs incurred by the firm prior to these rules coming into effect.

[Note: See also PRIN 2A.4.29R regarding appropriate action for closed products if the product no longer provides fair value.]

Reviewing the value assessment

(1) A manufacturer must regularly review the value assessment throughout the life of the product to ensure that the product continues to provide fair value to retail customers in the target market.
(2) A distributor must regularly review its distribution arrangements throughout the life of the product to ensure that they remain consistent with the product providing fair value to retail customers in the target market.

2A.4.25 Where a manufacturer identifies in its review of its value assessment that the product no longer provides fair value, it must take appropriate action to:

(1) mitigate, and where appropriate, remediate any harm caused to existing retail customers; and

(2) prevent harm to new retail customers.

2A.4.26 Appropriate action under PRIN 2A.4.25 includes notifying the distributor(s) of the product of the issue and of any changes to the product and the distribution strategy that the manufacturer has put in place to mitigate and prevent further harm.

2A.4.27 Where a distributor identifies that the product no longer provides fair value, whether that is due to aspects of the product or the distribution arrangements, it must take appropriate action to:

(1) mitigate the situation and prevent further occurrences of any possible harm to retail customers, including, where appropriate, amending the distribution strategy for that product (and, where relevant, the package);

(2) redress any foreseeable harm that has been caused to retail customers by faults in the distributor's distribution arrangements; and

(3) inform any relevant manufacturers and other distributors in the chain promptly about any concerns they have and any action the distributor is taking.

2A.4.28 The appropriate action that a distributor may need to take under PRIN 2A.4.27 will depend on the role the distributor has in the distribution chain and in relation to the product being distributed. A distributor who is a co-manufacturer of the product is likely to be able to do more to mitigate the situation than distributors who are not co-manufacturers.

Vested rights

2A.4.29 In the case of a closed product, or an existing product held by a retail customer before 31 July 2023, unless the firm has identified a breach of rules in existence before 31 July 2023, the appropriate action a firm may take does not require a firm to waive its vested contractual rights.

2A.4.30 For the purposes of PRIN 2A.4.29, vested contractual rights include the following:

(1) payments already due under the terms of the contract;
(2) remuneration for services wholly or partly provided under the contract; and

(3) contractual charges payable on early termination of the contract.

2A.4.31 Whether a right is a vested right or not will depend on all the facts of the case and interpretation of the relevant contract.

Application of the price and value outcome

2A.4.32 (1) The rules in PRIN 2A.4 do not apply to:
   (a) a firm which manufactures or distributes a non-investment insurance product or a legacy non-investment insurance product;
   (b) a firm which manufactures or distributes any funeral plan product subject to PROD 7; and
   (c) an authorised fund manager in relation to products subject to COL 6.6.19R to 6.6.26G, COL 8.5.16R to 8.5.22R, or COL 15.7.16R to 15.7.24R.

(2) A firm in (1) must continue to apply PROD 4 and PROD 7 or the relevant COLL rules.

2A.4.33 PRIN 2A.4 does not apply to both:

   (1) units in an authorised fund or the sub-fund of such a scheme, where the relevant authorised fund or sub-fund is in the process of winding up or termination under, or in accordance with, COL 7.3, COL 7.4, or COL 7.4A; and

   (2) units or shares in a fund or sub-fund which is not an authorised fund or a sub-fund of such a scheme or AIF, where the relevant fund or sub-fund is in a process of winding up or termination which is equivalent to that referred to in (1).

2A.4.34 (1) A manufacturer of a funeral plan product which is a closed product and was manufactured before 29 July 2022 must apply the closed product rules and guidance in PRIN 2A.4.


2A.4.35 Where a manufacturer of a closed product which is a funeral plan product manufactured before 29 July 2022 is following the provisions of PROD 7 concerning the fair value of funeral plan products, contravention of PROD 7 may be relied on as tending to establish contravention of those provisions of PRIN 2A.4 that apply to the firm.
Application to pension scheme operators and providers of pathway investments

(1) This rule applies to a firm that is required to comply with COBS 19.5 (Independent Governance Committees (IGCs) and publication and disclosure of costs and charges).

(2) A firm to which this rule applies must use the value for money assessment carried out by the IGC or the governance advisory arrangement when carrying out its value assessment under PRIN 2A.4.2R.

(3) Where a firm disagrees with the value for money assessment carried out by the IGC or the governance advisory arrangement it must:
   (a) explain why it disagrees with the assessment; and
   (b) set out how it considers the relevant scheme or pathway investment provides fair value.

(4) In setting out how it considers the relevant scheme or pathway investment provides fair value the firm must use the framework set out in COBS 19.5.

(5) A firm that is unable to adequately explain why it disagrees with a value for money assessment conducted under COBS 19.5 must apply PRIN 2A.4.25R to the relevant scheme or pathway investment.
2A.5 Consumer Duty: retail customer outcome on consumer understanding

Application

2A.5.1 Other than PRIN 2A.5.15R, this section applies to:

(a) all firms to whom Principle 12 and PRIN 2A apply, involved in the production, approval or distribution of retail customer communications, regardless of whether the firm has a direct relationship with a retail customer, and including where a firm produces, approves or distributes financial promotions or other advertisements, sales-related communications, and post-sale communications (and references to a firm’s communications or a firm communicating are to be read accordingly);

(b) all communications throughout a firm’s interactions with retail customers, including:

(i) before, during, and after any sale of a product; and

(ii) interactions that do not relate to a specific product; and

(c) all communications including verbal, visual or in writing, from a firm to a retail customer, regardless of the channel used or intended to be used for the communication, including electronic communications, such as on social media.

2A.5.2 Retail customers in this section means the retail customers intended to receive the communication.

Communications to retail customers

2A.5.3 A firm must support retail customer understanding so that its communications:

(a) meet the information needs of retail customers;

(b) are likely to be understood by retail customers; and

(c) equip retail customers to make decisions that are effective, timely and properly informed.

(2) A firm must communicate information to retail customers in a way which is clear, fair and not misleading.
With regard to PRIN 2A.5.3R(1):

(1) for product-specific communications, a firm should consider the target market for that product; or

(2) for non product-specific communications, a firm should consider its retail customers.

With regard to PRIN 2A.5.3R(1)(c), for a firm to provide information on a timely basis, it must communicate in good time for retail customers to make effective decisions, including:

(1) before the purchase of a product; and

(2) at suitable points throughout the lifecycle of the product.

In considering the methods of communicating with retail customers, a firm must satisfy itself that the communication channel:

(1) enables the communication of relevant information which retail customers are likely to need in a way that supports effective decision making; and

(2) provides an appropriate opportunity for retail customers to review the information and, where relevant, assess their options.

In supporting the understanding of retail customers through its communications, a firm should:

(1) explain or present information in a logical manner;

(2) use plain and intelligible language and, where use of jargon or technical terms is unavoidable, explain the meaning of any jargon or technical terms as simply as possible;

(3) make key information prominent and easy to identify, including by means of headings and layout, display and font attributes of text, and by use of design devices such as tables, bullet points, graphs, graphics, audio-visuals and interactive media;

(4) avoid unnecessary disclaimers; and

(5) provide relevant information with an appropriate level of detail, to avoid providing too much information such that it may prevent retail customers from making effective decisions.

In supporting the understanding of retail customers, the firm must tailor communications provided to retail customers, taking into account:

the characteristics of retail customers, including any characteristics of vulnerability;

(2) the complexity of the product;
(3) the communication channel(s) used; and

(4) the role of the firm, including whether the firm is providing regulated advice or information only.

Interacting on a one-to-one basis

When a firm is interacting directly with a retail customer on a one-to-one basis, such as in branch, during a telephone conversation or other interactive dialogue, the firm must, where appropriate:

(1) tailor the communication to meet the information needs of that retail customer, taking into account whether they have characteristics of vulnerability; and

(2) ask the retail customer whether they understand the information and if they have any further questions, particularly if the information is reasonably regarded as key information, such as where it prompts that retail customer to make a decision.

Testing, monitoring and adapting communications

(1) Where appropriate, a firm must:

(a) test communications before communicating them to retail customers; and

(b) (as set out in PRIN 2A.9) regularly monitor the impact of the communications once they have been communicated, to identify whether they are supporting good outcomes for retail customers.

(2) Where a firm has identified any issues in its communications through PRIN 2A.5.10R(1), it must:

(a) investigate the issue;

(b) correct any deficiencies through:

(i) adapting its communications; and

(ii) (where appropriate) adapting its products or processes, for example its sales processes, if it is aware or ought to reasonably be aware that adapting its communications would not be sufficient in isolation to support good outcomes for retail customers; and

(c) (where appropriate) follow the requirements in relation to remedies and other action in PRIN 2A.2.5R and PRIN 2A.10.

With regard to the firm’s role, it would be more appropriate for the firm to:

(1) test communications if the firm is or ought to reasonably be responsible for:

(a) the production of those communications; or

(b) adapting those communications after testing; and
(2) monitor the impact of communications where the firm has direct interactions with retail customers, such as through the provision of customer services (whether outsourced in whole or in part).

2A.5.12 G

In determining whether testing of a communication is appropriate, a firm should consider factors such as:

(1) the purpose of the communication and, in particular, if it is designed to prompt or inform a decision, and the relative importance of that decision;

(2) the context of the communication, its timing, and its frequency (for example, it is likely to be more appropriate to test communications that could impact many retail customers);

(3) the information needs of retail customers;

(4) the characteristics of vulnerability of retail customers;

(5) whether the scope for harm to retail customers is likely to be significant, including if the information being conveyed were misunderstood or overlooked by retail customers; and

(6) whether, to support good outcomes for retail customers, it is more important to communicate information urgently, rather than carrying out testing beforehand.

2A.5.13 G

A firm should adapt its communications in accordance with ■ PRIN 2A.5.10R(2)(b)(i) to support retail customer understanding if it identifies that:

(a) there are areas of common misunderstanding among retail customers; or

(b) retail customers are not experiencing good outcomes, including particular groups of retail customers such as those with characteristics of vulnerability.

(2) For the purposes of ■ PRIN 2A.5.13G(1)(a), if there is a notably different response by retail customers than was reasonably anticipated by the firm or ought to have been reasonably anticipated, including a notably lower response rate, following a communication prompting retail customers to take action, then this would suggest that the communication has not been understood.

2A.5.14 R

Where a firm identifies or becomes aware of a communication produced by another firm in its distribution chain that is not delivering good outcomes for retail customers, it must promptly notify the issue to the relevant firm in the distribution chain, such as a manufacturer.

Providing information to other firms

2A.5.15 R

A firm must provide information in good time to another firm in the same distribution chain, where such information is:
(1) requested by the other *firm* and is reasonably required; or

(2) otherwise considered to be reasonably required by the *firm*,

so that it can be communicated to *retail customers*. 
2A.6 Consumer Duty: retail customer outcome on consumer support

Application

(1) Other than in PRIN 2A.6.6R, this section applies:

(a) to all firms to whom Principle 12 and PRIN 2A apply, who are responsible for interacting directly with, and providing support to, retail customers, such as through its customer services functions and including where the firm outsources its interactions with retail customers to a third party (in whole or part);

(b) regardless of the channel used or intended to be used when interacting with, or providing support to, retail customers, including via electronic communications such as on social media; and

(c) to all support provided by a firm to retail customers, such as in the course of or in connection with the firm providing customer services, including:

(i) before, during, and after any sale of a product; and

(ii) support that does not relate to a specific product.

(2) PRIN 2A.6.6R applies to all firms to whom Principle 12 and PRIN 2A apply.

Design and delivery of customer support

A firm must design and deliver support to retail customers such that it:

(1) meets the needs of retail customers, including those with characteristics of vulnerability;

(2) ensures that retail customers can use their product as reasonably anticipated;

(3) ensures that it includes appropriate friction in its customer journeys to mitigate the risk of harm and give retail customers sufficient opportunity to understand and assess their options, including any risks; and

(4) ensures that retail customers do not face unreasonable barriers (including unreasonable additional costs) during the lifecycle of a product, such as when they want to:

(a) make general enquiries or requests to the firm;
(b) amend or switch the product;
(c) transfer to a new product provider;
(d) access a benefit which the product is intended to provide;
(e) submit a claim;
(f) make a complaint; or
(g) cancel a contract, agreement or arrangement or otherwise terminate their relationship with the firm.

2A.6.3 For the purposes of PRIN 2A.6.2R(4):

(1) unreasonable barriers are those which are likely to cause retail customers to take unreasonable additional steps to progress their objectives, including:
   (a) steps which are:
      (i) unreasonably onerous or time consuming;
      (ii) complex for a retail customer to carry out; or
      (iii) difficult for a retail customer to understand; and
   (b) asking retail customers for unnecessary information or evidence;

(2) where a firm has included appropriate friction in its customer journeys to comply with PRIN 2A.6.2R(3), this would not amount to an unreasonable barrier; and

(3) unreasonable additional costs includes where retail customers incur unreasonable exit fees or other charges, delays, distress or inconvenience.

2A.6.4 A firm would be unlikely to meet its obligations in PRIN 2A.6.2R if its support to retail customers causes or would be likely to cause:

(1) prospective retail customers to be prioritised over existing retail customers;

(2) unreasonable delays when retail customers attempt to engage with the firm, including disproportionally longer call waiting times to cancel or make changes to an existing product than to purchase a new product; or

(3) unreasonable delays to:
   (a) any payments due to retail customers after they have been agreed;
   (b) the firm requesting necessary information or evidence from retail customers; or
   (c) the firm processing information or evidence received from retail customers.
Dealing with representatives

2A.6.5 R

(1) Where a person is authorised by a retail customer or by law to assist in the conduct of the retail customer’s affairs (such as a power of attorney), the firm must provide the same level of support to that person that they would have provided to the retail customer.

(2) PRIN 2A.6.5R(1) does not apply where the person assisting in the conduct of the retail customer’s affairs is also a firm.

Dealing with requests from other firms

2A.6.6 R

A firm must deal with reasonable requests from another firm in an effective way and in good time to enable the other firm to support retail customers.
Expected standards under Principle 12 and PRIN 2A

Principle 12 and the obligations in PRIN 2A must be interpreted in accordance with the standard that could reasonably be expected of a prudent firm:

1. carrying on the same activity in relation to the same product; and

2. taking appropriate account of the needs and characteristics of retail customers based on the needs and characteristics of retail customers in the relevant target market or of individual retail customers as the context requires.

What is reasonable depends on all the relevant circumstances, including:

1. the nature of the product being offered or provided, in particular:
   a. the risk of harm to retail customers. For example, if a product is higher risk, firms should take additional care to ensure it meets retail customers’ needs, characteristics and objectives and is targeted appropriately;
   b. the product’s relative complexity. Retail customers may find it more difficult to assess the features, suitability or value offered by more complicated products. Long-term products where the outcome is not easy to predict, or non-standard charging structures, or other features which may not be easy for retail customers to understand may require greater care from a firm to promote, monitor and support consumer understanding;
   c. the costs, fees and charges involved with the product;
   d. the relative utility to retail customers of the product as a whole and of specific features, options, or services within the product, if subject to separate fees or charges;

2. the characteristics of the retail customer or retail customers including (to the extent that a firm either knows about or should reasonably have known about them), in particular:
   a. their reasonable expectations in relation to the product; and
   b. their resources, degree of financial capability or sophistication, characteristics of vulnerability and corporate structure (where relevant).

3. the firm’s role in relation to the product, including:
(a) the firm’s relationship with the retail customer. Acting reasonably does not require a firm to assume a fiduciary duty or require an advisory service where it does not already exist;

(b) whether the firm has provided or will provide advice to the retail customer. What is reasonable may be different where advice is being provided;

(c) the firm’s role in the product’s distribution chain, in particular its role in determining or materially influencing outcomes for retail customers in relation to the product;

(d) the stage in the firm’s relationship with the retail customer. There will be times when retail customers are particularly exposed to harm, for example when they fall into arrears or are considering long-term investment decisions. The actions a firm needs to take to be acting reasonably in such circumstances may be greater than when a retail customer is making decisions which carry a lesser risk of adverse outcomes.

Acting in a way that could reasonably be expected of a prudent firm requires more than adopting a single solution that is reasonable. It includes (among other things) considering whether the preferred solution provides good outcomes for all retail customers affected or only some; and if only some, why it does not work for all, and how best to identify additional actions which might mitigate the outcome for those adversely affected.

Protected characteristics and characteristics of vulnerability

In relation to the needs and characteristics of retail customers, a firm should, among other things:

(1) pay appropriate regard to the nature and scale of characteristics of vulnerability that exist in any relevant target market;

(2) pay appropriate regard to the impact of characteristics of vulnerability on the needs of retail customers in any relevant target market;

(3) when dealing with a particular retail customer pay appropriate regard to the needs and characteristics of that retail customer, such as characteristics of vulnerability;

(4) assist frontline staff to understand how to actively identify information that could indicate vulnerability and, where relevant, seek information from retail customers with characteristics of vulnerability that will allow staff to respond to their needs; and

(5) set up systems and processes in a way that supports and enables retail customers with characteristics of vulnerability to disclose their needs.

(1) Firms should be aware that groups of retail customers with specific protected characteristics may have, or be more likely to have, characteristics of vulnerability, for example older customers. In addition, where health is a driver of vulnerability it will likely have substantial overlap with the protected characteristic of ‘disability’ under the Equality Act 2010. Firms should be mindful of this when...
considering whether they are compliant with Principle 12 and PRIN 2A and their obligations under the Equality Act 2010 or equivalent legislation.

(2) Firms should keep themselves appraised of any evidence that may emerge that retail customers with specific protected characteristics are more likely to have characteristics of vulnerability. Firms should take account of any such evidence when considering whether they are compliant with Principle 12 and PRIN 2A and their obligations under the Equality Act 2010 or equivalent legislation.
2A.8 Governance and culture

Governance, strategy and policies

2A.8.1 A firm must:

1. ensure that Principle 12 and the obligations in this chapter are reflected in their strategies, governance, leadership and people policies, including incentives at all levels; and

2. ensure that retail customer outcomes are a central focus of:
   
   a. the firm’s risk control arrangements under SYSC; and
   
   b. the firm’s internal audit function.

Staff incentives

2A.8.2 A firm should not use staff incentives, performance management or remuneration structures in a way that conflicts with their obligations under Principle 12 and PRIN 2A. Firms should be aware that these structures are capable of causing harm to retail customers and should design their structures in a way that is consistent with ensuring good outcomes for retail customers.

Governing body report

2A.8.3 A firm must prepare a report for its governing body setting out the results of its monitoring under PRIN 2A.9 and any actions required as a result of the monitoring.

2A.8.4 At least annually, the governing body of a firm must:

1. review and approve the firm’s report on the outcomes being received by retail customers;

2. confirm whether it is satisfied that the firm is complying with its obligations under Principle 12 and PRIN 2A; and

3. assess whether the firm’s future business strategy is consistent with its obligations under Principle 12 and PRIN 2A.

2A.8.5 When approving the firm’s report under PRIN 2A.8.4R(1), the governing body of the firm must also agree:
(1) any action required to address any identified risk that retail customers may not receive good outcomes;

(2) any action required to address any identified instance where retail customers have not received good outcomes; and

(3) any amendments to the firm’s business strategy to ensure that it remains consistent with meeting the firm’s obligations under Principle 12 and PRIN 2A.
2A.9 Monitoring of consumer outcomes

General

2A.9.1 This section sets out the general obligation on firms to monitor under Principle 12 and PRIN 2A the outcomes that retail customers are experiencing from their products.

2A.9.2 The purpose of the monitoring obligation is to enable firms to identify whether there are any risks that they are not meeting the requirements of the cross-cutting obligations and the retail customer outcomes, and consequently they are not acting to deliver good outcomes for retail customers.

2A.9.3 The frequency of monitoring, and the nature of the information a firm must collect to effectively monitor the outcomes received by retail customers depends on the type of firm and its role in the distribution chain, the nature of the product, and the target market.

2A.9.4 (1) The monitoring obligation applies proportionately to a firm’s role in the distribution chain. Where a firm does not have direct contact with retail customers it should monitor the outcomes of the service it provides, having regard to any information it has about the outcomes experienced by retail customers at the end of the distribution chain.

(2) A firm that does not have direct contact with retail customers should act reasonably to obtain information about the outcomes experienced by retail customers of the products the firm has distributed.

2A.9.5 To the extent that a firm is also required to carry out specific monitoring or reviews under any of the outcomes in PRIN 2A.3 to PRIN 2A.6, the specific monitoring or reviews form part of the general monitoring required by this section and firms may utilise the information gathered through these processes in preparing the report required under PRIN 2A.8.3R.

2A.9.6 In relation to communications, PRIN 2A.5.10R to PRIN 2A.5.14R set out specific requirements on the testing and monitoring of communications.

2A.9.7 Where a firm’s compliance with any other rules replaces their requirement to comply with provisions of PRIN 2A, or tends to show compliance with
provisions of PRIN 2A, the firm may use any monitoring or reviews it carries out under those other rules in complying with its monitoring obligations under this section.

Requirement to monitor retail customer outcomes

A firm must regularly monitor the outcomes retail customers receive from:

(1) the products the firm manufactures or distributes;
(2) the communications the firm has with retail customers; and
(3) the customer support the firm provides to retail customers.

The monitoring carried out by a firm must enable it to determine at least:

(1) whether retail customers are being, or have been, sold products that have been designed to meet their needs, characteristics and objectives;
(2) whether the products that retail customers purchase provide fair value and appropriate action has been taken to address products identified as not providing fair value;
(3) whether retail customers are equipped with the right information to make effective, timely and properly informed decisions; and
(4) whether retail customers receive the support they need.

The firm’s monitoring must also enable it to identify:

(1) whether the firm is complying with Principle 12 and the cross-cutting obligations in PRIN 2A.2;
(2) whether for any product the firm manufactures or distributes, any group of retail customers is experiencing different outcomes compared to another group of retail customers of the same product; and
(3) whether any retail customers have suffered harm as a result of the firm’s acts or omissions.

Action required of firms

A firm must have in place processes to identify the root causes of any failure to deliver the outcomes listed in PRIN 2A.9R for retail customers.

Where a firm identifies that:

(1) retail customers are not receiving the outcomes listed in PRIN 2A.9R, or there is a risk that retail customers will not receive these outcomes;
(2) any group of retail customers for a product are receiving worse outcomes than another group of retail customers for the same product;

(3) the firm is not complying with Principle 12 and the cross-cutting obligations in PRIN 2A.2,

it must take appropriate action to address the situation.

2A.9.13 **G** PRIN 2A.9.12R does not require a firm to take action to remove the effects of risks inherent in a product that the firm reasonably believed the retail customer understood and accepted.

2A.9.14 **G** Firms should have regard to PRIN 2A.10 in considering what may be appropriate action under PRIN 2A.9.12R.

**Record keeping**

2A.9.15 **G** SYSC 3 and SYSC 9 contain high level requirements in relation to record keeping. Firms will need to decide, in line with these requirements, what records they need to keep in relation to their obligations under Principle 12, the cross-cutting obligations and the consumer outcomes.

**Obligation to notify the FCA**

2A.9.16 **G** Firms are reminded of their obligations under Principle 11 to inform the FCA of anything relating to the firm of which the FCA would reasonably expect notice.

2A.9.17 **R** A firm in a distribution chain must notify the FCA if it becomes aware that any other firm in that distribution chain is not or may not be complying with Principle 12 or PRIN 2A.
2A.10 Redress or other appropriate action

**Purpose**

The purpose of this section is to set out the conduct required of firms where they identify foreseeable harm has been caused to retail customers.

**Appropriate action**

Where a firm is considering what action may be appropriate under PRIN 2A.2.5R:

1. if a complaint or MiFID complaint has been received a firm shall follow the rules in DISP as applicable;

2. if no complaint or MiFID complaint has been received the following rules and guidance apply with the modifications set out below:

   a. DISP 1.1A.20R as if it read:

   Once foreseeable harm has been identified by a MiFID investment firm, the firm must:

   1. investigate the circumstances which led to the foreseeable harm competently, diligently and impartially, obtaining additional information as necessary;

   2. assess fairly, consistently and promptly:

      a. the subject matter of the foreseeable harm;

      b. [does not apply]

      c. what remedial action or redress (or both) may be appropriate;

      d. if appropriate, whether it has reasonable grounds to be satisfied that another firm may be solely or jointly responsible for causing the foreseeable harm;

   3. comply promptly with any offer of remedial action or redress accepted by the retail customer.

   b. DISP 1.1A.21G as if it read:

   Factors that may be relevant in the assessment of the foreseeable harm under DISP 1.1A.20R(2) include the following:
(1) all the evidence available and the particular circumstances of the foreseeable harm;
(2) similarities with complaints received by the firm and with other instances in which foreseeable harm has been caused without a complaint;
(3) relevant guidance published by the FCA, other relevant regulators, the Financial Ombudsman Service or former schemes; and
(4) appropriate analysis of decisions by the Financial Ombudsman Service concerning complaints which were similar in their fact pattern or outcomes to the circumstances which led to the foreseeable harm in question.

(c) DISP 1.4.1R as if it read:

Once foreseeable harm has been identified by a firm, it must:

(1) investigate the circumstances which led to the foreseeable harm competently, diligently and impartially, obtaining additional information as necessary;
(2) assess fairly, consistently and promptly:
   (a) the subject matter of the foreseeable harm;
   (b) [does not apply]
   (c) what remedial action or redress (or both) may be appropriate;
   (d) if appropriate, whether it has reasonable grounds to be satisfied that another firm may be solely or jointly responsible for causing the foreseeable harm;

taking into account all relevant factors.

(3) offer redress or remedial action when it decides this is appropriate;

(4) explain to the retail customer promptly and in a way that is fair, clear and not misleading that harm has been identified, its assessment of the harm, its decision as to what action is appropriate and the fact that the retail customer has a right to make a complaint if it is not satisfied with that decision;

(5) comply promptly with any offer of remedial action or redress accepted by the retail customer.

(d) DISP 1.4.2G as if it read:

Factors that may be relevant in the assessment of the foreseeable harm under DISP 1.4.1R(2) include the following:

(1) all the evidence available and the particular circumstances of the foreseeable harm;
(2) similarities with complaints received by the firm and with other instances in which foreseeable harm has been caused without a complaint;
(3) relevant guidance published by the FCA, other relevant regulators, the Financial Ombudsman Service or former schemes; and

(4) appropriate analysis of decisions by the Financial Ombudsman Service concerning complaints which were similar in their fact pattern or outcomes to the circumstances which led to the foreseeable harm in question (the procedures for which are described in DISP 1.3.2AG).

2A.10.3 R A firm, MiFID investment firm or third country investment firm which identifies that it has caused retail customers foreseeable harm but which does not have a client relationship with that customer or the means to contact them shall take all reasonable steps to notify a customer of the matters in DISP 1.4.1R as modified by PRIN 2A.10.2R(2).

2A.10.4 G Reasonable steps for the purposes of 2A.10.3R might include (among other things) contacting the distributor of the relevant product and asking whether information can be passed on to the retail customer.

2A.10.5 R Where a firm, MiFID investment firm or third country investment firm identifies that a retail customer has been caused harm but concludes that another firm in the distribution chain was the sole or joint cause of that harm, it shall promptly notify that other firm and provide appropriate information about the harm caused.
This section applies where:

1. A firm has purchased or purchases a product book from another firm; and

Where the product book was purchased before 31 July 2023, the firm must comply with Principle 12 and PRIN 2A.

Unless:

- The firm was a co-manufacturer of the product; or
- The firm has significantly adapted the product on or after 31 July 2023,

the requirement in (1) to comply with PRIN 2A.3 and PRIN 2A.4 is a requirement on the firm to use its best endeavours to comply with the applicable rules in those chapters.

A firm that is required to apply PRIN 2A.3 or PRIN 2A.4 to a product book on a 'best endeavours' basis should continue to have regard to the RPPD and should read references in the RPPD to Principles 6 and 7 as referring to Principle 12.

(1) This rule applies where a product book is sold for the first time after 31 July 2023.

(2) The firm selling the product book must provide relevant information to the purchasing firm to enable the purchasing firm to comply with Principle 12 and PRIN 2A from the date of purchase.

(3) A firm which purchases a product book after 31 July 2023 must carry out sufficient due diligence to ensure they understand in particular:

- Whether any group or groups of retail customers of the product have characteristics of vulnerability or as a group have in common a specific protected characteristic in the same form (for example customers of the same sex or race);
(b) the outcome of the selling firm’s product approval process for the product book and the outcome of any product reviews carried out by the selling firm under \( \text{PRIN 2A.3} \);  
(c) the benefits the product is intended to provide and the costs the retail customer pays for the product; and 
(d) the basis on which the product has been assessed as providing fair value under \( \text{PRIN 2A.4} \).

(4) The due diligence conducted by the purchasing firm must be sufficient to enable the purchasing firm to comply with Principle 12 and \( \text{PRIN 2A} \) in respect of the product book.

Where a firm purchases a product book after 31 July 2023 and the first sale of that product book took place before 31 July 2023, the firm must apply \( \text{PRIN 2A.11.2R} \).
Chapter 3

Rules about application
3.1 Who?

3.1.1 PRIN applies to every firm, except that it does not apply to a firm in relation to its carrying on of auction regulation bidding.

3.1.1A PRIN also applies:

1. to an electronic money institution, an authorised payment institution, a small payment institution or a registered account information service provider; and

2. [deleted]

3.1.1B (1) Principle 7 applies to a registered person communicating a financial promotion relating to one or more qualifying cryptoassets (in reliance on the exemption in article 73ZA of the Financial Promotion Order) as it applies to an authorised person communicating a financial promotion relating to one or more qualifying cryptoassets (PRIN 3.2.2R), disregarding the effect of PRIN 3.2.10R.

2. For the purpose of (1), relevant references in this sourcebook to a firm include reference to a registered person.

3.1.2 [deleted]

3.1.3 [deleted]
3.1.4 [deleted]

3.1.5 [deleted]

3.1.6 A firm will not be subject to a Principle or PRIN 2A to the extent that it would be contrary to the requirements of an EU measure passed or made before IP completion day, to the extent that those requirements continue to have effect after IP completion day under the EUWA.

3.1.7 PRIN 4 provides specific guidance on the application of the Principles and PRIN 2A for MiFID business.

3.1.8 The Principles will not apply to the extent that they purport to impose an obligation which is inconsistent with requirements which implemented the Payment Services Directive, the Consumer Credit Directive or the Electronic Money Directive. For example, there may be circumstances in which Principle 12 and PRIN 2A may be limited by the conduct of business obligations derived from the Payment Services Directive and the Electronic Money Directive and applicable to payment service providers and electronic money issuers (see Parts 6 and 7 of the Payment Services Regulations and Part 5 of the Electronic Money Regulations) or derived from the Consumer Credit Directive (see, for example, the information requirements in the Consumer Credit (Disclosure of Information) Regulations 2010 (SI 2010/1013)).

3.1.9 PRIN applies to a TP firm, except that Principle 4 only applies to the extent that a TP firm is subject to rules relating to capital adequacy.

3.1.10 (1) Only Principles 1, 2, 3, 9, 11, 12 and PRIN 2A apply to a TP UCITS qualifier and a TP AIFM qualifier, and only with respect to the activities in PRIN 3.2.2R (Communication and approval of financial promotions).

(2) Where Principle 12 and PRIN 2A do not apply, Principle 7 also applies to a TP UCITS qualifier and a TP AIFM qualifier with respect to the activities in PRIN 3.2.2R.

3.1.11 For the purposes of PRIN 3.1.9R, a TP firm should refer to GEN 2.2.30R and GEN 2.2.31G to determine which rules relating to capital adequacy apply to it.

3.1.12 Principle 12 and PRIN 2A only apply where a client is a retail customer, or there is distribution chain which involves a retail customer.

3.1.13 Principle 12 and PRIN 2A apply to:

(1) a TP firm; and

(2) a Gibraltar-based firm.
3.2 What?

3.2.1A PRIN (other than Principle 12 and PRIN 2A) applies with respect to the carrying on of:

(1) regulated activities;

(2) activities that constitute dealing in investments as principal, disregarding the exclusion in article 15 of the Regulated Activities Order (Absence of holding out etc);

(3) ancillary activities in relation to designated investment business, home finance activity, regulated funeral plan activity, credit-related regulated activity, insurance distribution activity and accepting deposits; and

(4) activities directly arising from insurance risk transformation.

3.2.1B Other than with respect to a firm that is a credit union, PRIN also applies with respect to:

(1) the provision of payment services;

(2) issuing of electronic money (where not the activity of issuing electronic money specified in article 9B of the Regulated Activities Order); and

(3) activities connected to the provision of payment services and to the issuing of electronic money (whether or not the activity of issuing electronic money specified in article 9B of the Regulated Activities Order).

3.2.1C Issuing of electronic money will therefore be covered under either

PRIN 3.2.1AR(1) where it is the regulated activity of issuing electronic money specified in article 9B of the Regulated Activities Order, or under

PRIN 3.2.1BR where it is not that regulated activity.

3.2.2 PRIN also applies with respect to the communication and approval of financial promotions which:

(1) if communicated by an unauthorised person without approval would contravene section 21(1) of the Act (Restrictions on financial promotion); and
(2) may be *communicated by a firm* without contravening section 238(1) of the Act (Restrictions on promotion of collective investment schemes).

### 3.2.2-A

*PRIN* applies to the communication of promotions concerning *payment services* and *electronic money*.

### 3.2.2A

[deleted]

### 3.2.3

Subject to PRIN 3.2.4R, *Principles 3, 4* and (in so far as it relates to disclosing to the FCA) 11 (and this chapter) also:

1. apply to *firms* with respect to the carrying on of *unregulated activities* (for *Principle 3* this is only in a prudential context); and
2. for *firms* and other *persons* that are subject to the *Principles*, take into account any activity of other members of a *group* of which the *firm* is a member.

### 3.2.4

In relation to an *Annex II benchmark administrator* which:

1. administers only *benchmarks* which are subject to Annex II to the *benchmarks regulation*; and
2. does not have *permission* to carry on any other *regulated activities* in relation to which *Principle 11* applies,

*Principle 11* (in so far as it relates to disclosing to the FCA) applies only to the *regulated activity* of administering a *benchmark*.

### 3.2.5

The FCA only expects an *Annex II benchmark administrator* subject to PRIN 3.2.4R to disclose information under *Principle 11* which is relevant to the *firm’s* compliance with its obligations under the *benchmarks regulation*.

### Principle 12 and PRIN 2A: additional application provisions

1. *Principle 12* and *PRIN 2A* apply to a *firm’s retail market business*, including in respect of *existing products* and *closed products*.

2. (a) Subject to (b), *Principle 12* and *PRIN 2A* apply to a *firm* with respect to the communication or approval of a *financial promotion* (see *PRIN 3.2.2R*), but only if the *financial promotion* is addressed to, or disseminated in such a way that it is likely to be received by, a *retail customer*.

   (b) *Principle 12* and *PRIN 2A* do not apply to the communication or approval of a *financial promotion* to the extent that the *financial promotion* relates to an activity that is excluded from the definition of *retail market business* by virtue of limbs (1) to (6) of that definition.
(3) If the firm is a credit union, and except insofar as Principle 12 and PRIN 2A apply by virtue of (2), then Principle 12 and PRIN 2A do not apply to the following activities:

(a) payment services and activities connected to the provision of payment services, except where the activity is an ancillary activity in relation to a regulated activity other than issuing electronic money; and

(b) activities connected to or ancillary activities in relation to issuing electronic money, but only insofar as the activity is not an ancillary activity in relation to another regulated activity.

Where Principle 12 and PRIN 2A apply to the activities of a firm operating in a distribution chain, Principle 12 and PRIN 2A apply only to the extent that the person is responsible in the course of carrying out those activities for determining or materially influencing retail customer outcomes.

Subject to PRIN 3.2.7R, Principle 12 and PRIN 2A do not apply to activities to the extent that those activities are not included in a rule which sets out the scope of protections offered to retail customers by COBS, ICOBS, MCOB, BC0BS, CMCOB, FPCOB, PROD or CONC.

[deleted]

**Interaction between Principle 12 and Principles 6 and 7**

Principles 6 and 7 do not apply to a firm's activities to the extent that Principle 12 and PRIN 2A apply.

Activities to which Principles 6 and 7 rather than Principle 12 and PRIN 2A may apply include, for example, services provided to professional clients.

Principle 12 and PRIN 2A have a broader application than Principles 6 and 7, for example they apply to firms in the distribution chain for whom the retail customer may not be a client.
3.3 Where?

Territorial application of the Principles

<table>
<thead>
<tr>
<th>Principle</th>
<th>Territorial application</th>
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<tbody>
<tr>
<td><em>Principles 1, 2 and 3</em></td>
<td>in a prudential context, apply with respect to activities wherever they are carried on; otherwise, apply with respect to activities carried on from an establishment maintained by the firm (or its appointed representative) in the United Kingdom, or in respect of regulated claims management activities, apply with respect to activity carried on in Great Britain, even if the establishment from which it is carried on is not located in the UK (see PERG 2.4A), unless another applicable rule or onshored regulation which is relevant to the activity has a wider territorial scope, in which case the Principle applies with that wider scope in relation to the activity described in that rule or onshored regulation.</td>
</tr>
<tr>
<td><em>Principle 4</em></td>
<td>applies with respect to activities wherever they are carried on.</td>
</tr>
<tr>
<td><em>Principle 5</em></td>
<td>if the activities have, or might reasonably be regarded as likely to have, a negative effect on confidence in the UK financial system, applies with respect to activities wherever they are carried on; otherwise, applies with respect to activities carried on from an establishment maintained by the firm (or its appointed representative) in the United Kingdom, or in respect of regulated claims management activities, applies with respect to activity carried on in Great Britain, even if the establishment from which it is carried on is not located in the UK (see PERG 2.4A).</td>
</tr>
<tr>
<td><em>Principles 6, 7, 8, 9 and 10</em></td>
<td>Principle 8, in a prudential context, applies with respect to activities wherever they are carried on; otherwise these Principles apply with respect to activities carried on from an establishment maintained by the firm (or its appointed representative) in the United Kingdom, or in respect of regulated claims management activities, apply with respect to activity carried on in Great Britain, even if the establishment from which it is carried on is not located in the UK (see PERG 2.4A), unless another applicable rule or onshored regulation which is relevant to the activity has a wider territorial scope, in which case the Principle applies with that wider scope in re-</td>
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### PRIN 3: Rules about application

**Section 3.3: Where?**

<table>
<thead>
<tr>
<th>Principle</th>
<th>Territorial application</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principle 11</strong></td>
<td>applies with respect to activities wherever they are carried on.</td>
</tr>
<tr>
<td><strong>Principle 12 and PRIN 2A</strong></td>
<td>apply with respect to activities carried on with retail customers located in the United Kingdom unless another applicable rule or onshored regulation which is relevant to the activity has a different territorial scope, in which case Principle 12 and PRIN 2A apply with that scope in relation to the activity described in that rule or onshored regulation.</td>
</tr>
</tbody>
</table>

#### 3.3.2 [deleted]

#### 3.3.3 R PRIN 3.3.1R applies to electronic money institutions, payment institutions and registered account information service providers as if the references to a firm were references to a person within that description, and references to an appointed representative were to an agent of such a person within the meaning of the Payment Services Regulations.

#### 3.3.4 R Notwithstanding PRIN 3.3.1R, PRIN applies to:

1. a **TP firm** with respect to activities carried on from an establishment maintained by the firm (or its appointed representative) in the United Kingdom;
2. a **TP firm** with respect to services provided into the United Kingdom by the firm (or its appointed representative) from an establishment in an EEA State; and
3. a **TP AIFM qualifier** or a **TP UCITS qualifier** with respect to the firm’s activities in relation to the AIF or scheme in question, in the United Kingdom.
3.4 General

Clients and the Principles

3.4.1 PRIN 3.4.1R, PRIN 3.4.2R and PRIN 1 Annex 1 do not apply with respect to:

(1) credit-related regulated activities; or
(2) regulated claims management activities; or
(3) regulated funeral plan activities; or
(4) payment services; or
(5) the issuing of electronic money (where not a regulated activity).

3.4.1 For business other than MiFID or equivalent third country business, the only requirement of Principle 7 relating to eligible counterparties is that a firm must communicate information to eligible counterparties in a way that is not misleading.

3.4.1A Principle 7 applies in full to MiFID or equivalent third country business.

3.4.2 For the purposes of PRIN, a firm intending to carry on, or carrying on, activities that do not involve designated investment business, may treat a client as an eligible counterparty in accordance with PRIN 1 Annex 1 R.

3.4.3 [deleted]

Guarantors etc

3.4.3A (1) Paragraph (2) applies in relation to an individual who:

(a) has provided, or is to provide, a guarantee or an indemnity (or both) in relation to a regulated credit agreement, a regulated consumer hire agreement or a P2P agreement; and
(b) is not the borrower or the hirer.

(2) If the individual is not a customer, they are to be treated as if they were a customer for the purposes of Principles 6 and 7 and as if they were a retail customer for the purposes of Principle 12 and PRIN 2A.
(3) For the purposes of this rule, a guarantee does not include a legal or equitable mortgage or a pledge.

**Actions for damages**

A contravention of the rules in PRIN does not give rise to a right of action by a private person under section 138D of the Act (and each of those rules is specified under section 138D(3) of the Act as a provision giving rise to no such right of action).

**Reference to "regulators" in Principle 11**

Where Principle 11 refers to regulators, this means, in addition to the FCA, other regulators with recognised jurisdiction in relation to regulated activities, payment services and electronic money whether in the United Kingdom or abroad.
Chapter 4

Principles: MiFID business
4.1 Principles: MiFID business

4.1.1 ■ PRIN 3.1.6 R gives effect to the provisions of the EUWA concerning the continuing application of the principle of the supremacy of EU law. It ensures that the Principles and ■ PRIN 2A do not impose obligations upon firms which are inconsistent with a relevant EU measure. If a Principle or ■ PRIN 2A does purport to impose such an obligation ■ PRIN 3.1.6 R disapplies that Principle or provision of ■ PRIN 2A, but only to the extent necessary to ensure compatibility with the relevant EU measure. This disapplication has practical effect only for certain matters covered by MiFID, which are explained in this section.

Where?

4.1.2 Under ■ PRIN 3.3.1 R, the territorial application of a number of Principles and ■ PRIN 2A to a UK MiFID investment firm is extended to the extent that another applicable rule or onshored regulation which is relevant to an activity has a wider territorial scope.

4.1.3 Principles 4, 5 and 11 will have the same scope of territorial application for MiFID business as for other business.

What?

4.1.4 (1) Certain requirements derived from MiFID are disapplied for:

(a) eligible counterparty business;

(b) transactions concluded under the rules governing a multilateral trading facility between its members or participants or between the multilateral trading facility and its members or participants in relation to the use of the multilateral trading facility;

(c) transactions concluded on a regulated market between its members or participants.

(2) Under ■ PRIN 3.1.6 R, these disapplications may affect Principles 1, 2, 6, 9, 12 and ■ PRIN 2A. ■ PRIN 3.1.6 R applies only to the extent that the application of a Principle or ■ PRIN 2A would be contrary to the UK’s obligations under a relevant EU measure in respect of a particular transaction or matter. In line with MiFID, these limitations relating to eligible counterparty business and transactions under the rules of a multilateral trading facility or on a regulated market only apply in relation to a firm’s conduct of business obligations to its clients derived from MiFID. They do not
(3) **Principles** 3, 4, 5, 7, 8, 10 and 11 are not limited in this way.
Principles for Businesses

PRIN TP 1
Transitional provisions

<table>
<thead>
<tr>
<th>Material to which the transitional provision applies</th>
<th>Transitional Provision</th>
<th>Transitional Provision: dates in force</th>
<th>Handbook provision: coming into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PRIN 1 Annex 1 R 1.2(2)</td>
<td>A <em>firm</em> need not comply with PRIN Ann 1R 1.2(2) in relation to an <em>eligible counterparty</em> if the <em>client</em> was correctly categorised as a <em>market counterparty</em> on 31 October 2007 and the <em>firm</em> complied with COB 4.1.12 R (2) (Large intermediate customer classified as market counterparty).</td>
<td>From 1 November 2007 indefinitely</td>
<td>1 November 2007</td>
</tr>
<tr>
<td>2 Principle 12 and PRIN 2A R</td>
<td>Principle 12 and PRIN 2A apply in relation to ancillary activities or other connected activities in accordance with PRIN 3.2 where those activities are carried on after 31 July 2023 regardless of whether the underlying activities were carried on before or after 31 July 2023.</td>
<td>From 31 July 2023 indefinitely</td>
<td>31 July 2023</td>
</tr>
<tr>
<td>3 Principle 12 and PRIN 2A G</td>
<td>An example of how PRIN TP 1.1 paragraph 2 applies is that a <em>firm</em> which has accepted a deposit prior to 31 July 2023 would be subject to Principle 12 and PRIN 2A in respect of customer services or other ancillary activities related to that deposit carried on after 31 July 2023.</td>
<td>From 31 July 2023 indefinitely</td>
<td>31 July 2023</td>
</tr>
<tr>
<td>4 Principle 12 and PRIN 2A R</td>
<td>Except to the extent specified in PRIN TP5 and TP6, the provisions listed in column 2 only apply to a <em>closed product</em> from 31 July 2024.</td>
<td>From 31 July 2023 indefinitely</td>
<td>31 July 2023</td>
</tr>
<tr>
<td>5 PRIN 2A.3 and PRIN 2A.4 R</td>
<td>A <em>manufacturer</em> of a <em>closed product</em> must review the <em>closed product</em> by 31 July 2024 and ensure it meets the requirements of PRIN 2A.3 and PRIN 2A.4, including taking any appropriate mitigating action required by those <em>rules</em>.</td>
<td>From 31 July 2023 to 31 July 2024</td>
<td>31 July 2023</td>
</tr>
<tr>
<td>6 PRIN 2A.11.4R R</td>
<td>Where a <em>firm</em> proposes to sell a book of <em>closed products</em> between 31 July 2023 and 30 July 2024 inclusive: (1)the purchasing <em>firm</em> will only be</td>
<td>From 31 July 2023 to 31 July 2024</td>
<td>31 July 2023</td>
</tr>
</tbody>
</table>
### Material to which the transitional provision applies

<table>
<thead>
<tr>
<th>Material to which the transitional provision applies</th>
<th>Transitional Provision</th>
<th>Transitional Provision: dates in force</th>
<th>Handbook provision: coming into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIN 2A.8.3R-2A.8.5R and PRIN 2A.9</td>
<td>required to comply with Principle 12 and PRIN 2A from 31 July 2024;</td>
<td>From 31 July 2023 indefinitely</td>
<td>31 July 2023</td>
</tr>
<tr>
<td></td>
<td>(2) the selling firm is not required to provide the information specified in PRIN 2A.11.4R(3)(b) and (d); and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3) the selling firm must provide relevant information to enable the purchasing firm to comply with the obligations that will apply to it from 31 July 2024.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Where a firm has both existing and closed products the first annual report compiled by the firm under PRIN 2A.8.3R-2A.8.5R using its monitoring under PRIN 2A.9 need only refer to the firm’s new and existing products.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
- PRIN 2A.8.3R-2A.8.5R and PRIN 2A.9
- PRIN TP 1/2
- www.handbook.fca.org.uk
- Release 31
- Nov 2023
Principles for Businesses

Schedule 1
Record Keeping Requirements

Sch 1.1 G
There are no record keeping requirements in PRIN.
Principles for Businesses

Schedule 2
Notification requirements

Sch 2.1 G

The aim of the *guidance* in the following table is to give the reader a quick over-all view of the relevant requirements for notification and reporting.

It is not a complete statement of those requirements and should not be relied on as if it were.

Sch 2.2 G

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Matter to be notified</th>
<th>Contents of notification</th>
<th>Trigger event</th>
<th>Time allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 11 (PRIN 2.1.1 R)</td>
<td>Anything relating to the firm of which the appropriate regulator would reasonably expect notice</td>
<td>Appropriate disclosure</td>
<td>Anything relating to the firm of which the appropriate regulator would reasonably expect notice</td>
<td>Appropriate</td>
</tr>
</tbody>
</table>
Principles for Businesses

Schedule 3
Fees and other required payments

Sch 3.1 G

There are no requirements for fees or other payments in PRIN.
Principles for Businesses

Schedule 4
Powers Exercised

Sch 4.1 G
[deleted]

Sch 4.2 G
[deleted]
Principles for Businesses

Schedule 5
Rights of action for damages

Sch 5.1 G

The table below sets out the rules in PRIN contravention of which by an authorised person may be actionable under section 138D of the Act (Actions for damages) by a person who suffers loss as a result of the contravention.

Sch 5.2 G

If a "Yes" appears in the column headed "For private person?", the rule may be actionable by a "private person" under section 138D (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001 No 2256)). A "Yes" in the column headed "Removed" indicates that the FCA has removed the right of action under section 138D(3) of the Act. If so, a reference to the rule in which it is removed is also given.

Sch 5.3 G

The column headed "For other person?" indicates whether the rule may be actionable by a person other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of person by whom the rule may be actionable is given.

Sch 5.4 G

<table>
<thead>
<tr>
<th>Chapter/Appendix</th>
<th>Section/Annex</th>
<th>Paragraph</th>
<th>Right of Action</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>For private person?</td>
</tr>
<tr>
<td>All rules in PRIN</td>
<td></td>
<td></td>
<td>No</td>
</tr>
</tbody>
</table>

PRIN 4.4.4 R
Principles for Businesses

Schedule 6
Rules that can be waived

Sch 6.1A G
As a result of section 138A of the Act (Modification or waiver of rules) the FCA has power to waive all its rules, other than rules made under section 137O (Threshold condition code), section 247 (Trust scheme rules), section 248 (Scheme particular rules), section 261I (Contractual scheme rules) or section 261J (Contractual scheme particulars rules) of the Act.