

Principles for Businesses

Chapter 1

Introduction

1.1 Application and purpose

Application

- 1.1.1 **G** 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 **G** 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 **G** 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 **G** [deleted]

Link to fit and proper standard

- 1.1.4 **G** 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 **G** 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 **G** *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 **G** 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 **G** **■ PRIN 4 (Principles : MiFID Business)** provides *guidance* on the application of the *Principles* to *MiFID business*.

Consequences of breaching the Principles

1.1.7 **G** 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 **G** 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 **G** 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 **G** *RPPD* contains *guidance* on the responsibilities of providers and distributors for the fair treatment of *customers* under the *Principles*.