

Chapter 12

Appointed representatives

Guidance on steps a firm should take in assessing the financial position of an appointed representative (other than an introducer appointed representative). See ■ SUP 12.4.3 G

1.	The <i>guidance</i> in this annex applies to a <i>firm</i> which intends to appoint, or has appointed, an appointed representative (other than an <i>introducer appointed representative</i>).
2.	All of the items in this annex should be applied, as appropriate, to an individual who is in business on his own.
3.	<i>Partners</i> in <i>partnerships</i> (other than limited partners in <i>limited liability partnerships</i>) have joint and several unlimited liability. It follows that any assessment of the financial position of an appointed representative which is a <i>partnership</i> should take into account the final position of the individual <i>partners</i> as well as the <i>partnership</i> itself.
Accounts	<p>1. Consider whether the type of accounts obtained is appropriate to the type of appointed representative (for example, <i>companies</i> should supply audited accounts prepared in accordance with Companies Act provisions while individuals in business on their own may only prepare unaudited accounts, for example, for submission to HM Revenue and Customs or their bankers).</p> <p>2. Consider whether the accounts have been prepared on a timely basis. Consider the content of the audit report, including all detail and explanations given, and any qualifications which it may contain. Investigate any concerns.</p> <p>3. If relevant, obtain the most recent management accounts to assess whether the appointed representative's financial position has changed materially since the most recent audited accounts.</p> <p>4. If audited accounts are not available, be more circumspect about the accounts as they have not been independently audited. If necessary, consider obtaining third party verification of material balances.</p>
Un-usual items/ re-coverability of debts/ goodwill	<p>1. Investigate fully any unusual items - in particular any amounts outstanding with <i>directors, partners, connected persons</i> or <i>associates</i> and any guarantees.</p> <p>2. Consider whether any amounts due to the appointed representative would be recoverable; and whether the appointed representative would be in a position to pay any debts if it were required to do so at short notice.</p> <p>3. Any balance for goodwill should be ignored since this will normally represent a stream of potential future income which may not be forthcoming if the equity interest in the appointed representative were sold.</p>
Financial stability/ cashflows	<p>1. Critically review the accounts to ensure that the appointed representative is financially stable. The review should take into account the overall position of the appointed representative and its cashflow.</p> <p>2. The review should also consider the nature of the appointed representative's assets and whether or not they are liquid and readily available to the appointed representative, if required. <i>Investments</i> in (for example) unquoted <i>companies</i> or <i>property</i> may be difficult to realise if there were a sudden need for <i>cash</i>.</p>

In- come / finan- cial pressures	<p>1. Assess the overall financial pressures on the appointed representative and <i>connected persons</i>. Account should be taken of the full range of the appointed representative's activities (and not merely those activities in which the appointed representative will be acting for the <i>firm</i>). Careful consideration should be given to any debts arising out of previous activities within the financial services industry.</p> <p>2. If relevant, review the accounts of any <i>associates</i> where there is a possibility that their performance - or any commitments entered into in respect of them - may affect the financial position of the appointed representative.</p> <p>3. Establish whether the appointed representative's income is sufficient both to service any debts and to provide an acceptable level of income to the proprietors.</p>
Credit checks/ dealings gov- ern- ment bodies	<p>1. Undertake a <i>credit</i> reference check on the appointed representative itself (in the case of a <i>company</i>); on the <i>partners</i> (in the case of a partnership); or on the individual (in the case of a <i>sole trader</i>).</p> <p>2. Ask the appointed representative whether it is up to date in its dealings with HM Revenue and Customs (etc).</p>
Forecasts	<p>1. If relevant, obtain a forecast of the next year's figures and review it to ensure that the appointed representative is likely to remain in a satisfactory financial position. This is particularly important where a material change is expected in the appointed representative's operations; or where the appointed representative has only recently been established so that accounts are not available for the previous three complete financial years.</p> <p>2. If the <i>firm</i> decides to appoint the appointed representative, the <i>firm</i> should keep the appointed representative's actual performance under close review so as to assess whether the forecasts were realistic and to enable any problems to be addressed.</p>