

REGULATORY INTELLIGENCE

Improving the AR regime: New FCA UK economic growth objective

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The recent mini-budget threw the UK economy into chaos. The problems it caused, and its subsequent reversal, highlighted the importance of a stable economy for the UK's growth ambitions. Despite the recent volatility, the Financial Conduct Authority (FCA) is still pressing ahead with its ambitious plans to encourage economic growth.

The [Financial Services and Markets Bill](#), proposed by the FCA and introduced to the UK parliament on July 20, 2022, will likely become law in early 2023, giving the FCA a new objective to encourage UK economic growth. At the Future of UK Financial Services Regulation Summit in September, Sarah Pritchard, FCA executive director, markets, backed up these statements, saying: "we are clear that we want to support long-term competitiveness and growth of the UK economy, and know we can do so by being an effective regulator".

Any improvements that could be leveraged to reshape the UK economy and achieve these ambitious growth plans are deeply needed, therefore, and proposed changes to the Appointed Representatives (AR) regime will help set the UK on its journey to economic success.

Change a long time coming

The move to improve the AR regime dates back to early 2019, when the FCA issued a [Dear CEO](#) letter scolding regulatory hosting firms for "significant shortcomings in the control and oversight of ARs". The regulator's criticism may have been legitimate in 2019, but the landscape looks much improved today. Some of the leading firms have invested heavily in expert people and technology to enhance governance, risk management, onboarding due diligence and continuous monitoring in anticipation of new, stricter rules coming into force.

The FCA has taken its support for ARs one step further, by putting its words into action. Following a similar pattern to the Fintech Sandbox, the regulator is now providing tangible support for start-ups in the AR sector, raising standards for regulatory hosts to support the asset management industry.

Regulatory incubators

The FCA has already helped more than 160 growing businesses to test their fintech offering using its Regulatory Sandbox (launched in 2016), with more than 90% becoming authorised. This initiative sits alongside the FCA's new, innovative Early and High Growth Oversight approach, which aims to support 300 newly authorised businesses by spring 2023. As such, the UK remains the most attractive destination for fintech in Europe, and second only to the United States internationally.

The regulatory hosting sector (an important sub-set of the AR sphere) has many similarities to the FCA Regulatory Sandbox, but focuses its support on asset management rather than fintech entrepreneurs. Indeed, the sector includes around 340 regulatory hosts supporting more than 1,000 ARs that are mainly entrepreneurial start-up financial services businesses, with many focused on the management of alternative investment funds (AIFs) including hedge, private equity, real estate and, increasingly, environmental, social and governance (ESG) funds.

The outcome of the support provided to the sector has been broadly the same: helping the UK remain the most attractive destination in Europe for asset management. The question now is how to maintain this momentum.

A new lease of life for the AR regime

In August, the FCA set out [new rules](#) to improve the AR regime, which will take effect on December 8. The new rules will enhance regulatory scrutiny, creating a higher standard of regulated and expert principal firms. This will in turn lead to growth in the asset management world as the industry will be left with companies which are actually prepared to invest in the people, systems and processes that are needed to guarantee success.

The new rules are centred on ensuring fund entrepreneurs can access institutional quality compliance support from the outset. It is a cost-effective and swift way to provide firms with potentially short-term access to regulated activities while they prepare for full authorisation or grow to a sustainable size when they can afford their own compliance infrastructure.

White collar levelling up

The strengthening of the regulatory hosting sector directly serves to boost UK-wide economic growth with its support for entrepreneurs starting up and growing regulated financial services businesses across the UK. TheCityUK, the industry body representing UK-based



financial and related professional services, estimates that the financial services industry "contributes over 12% of the UK's total economic output, is the largest taxpayer and employs more than 2.2 million people across the country".

If the FCA wants to achieve its ambitious aim of economic growth, it needs to ensure that it makes improvements across the board, and with the financial services sector contributing a strong portion of the UK's total economic output, that seems like a logical place to start. By improving the AR regime, the UK will be able to entice new competition to its shores, and make sure that the UK remains a hub for asset management start-ups, both on the continent and worldwide.

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