Ashurst London
September 2015

ashurst

FCA supervision of fixed and flexible portfolio firms – September 2015

Type of firm		**Fixed portfolio firm[1]**	**Flexible portfolio firm[2]**
Pillar 1: proactive firm or group supervision FCA will consider the fundamental question: do you have the interests of your customers and the integrity of the market at the heart of how you run your business?	**Business model and strategy analysis** Particular attention to: • Fast growth. • High levels of profitability. • Strategies that depend on cross-selling. • Products with unclear features or pricing. • Inherent conflicts of interest. Periodic analysis, normally across peer groups (focusing on business lines).	√	X[3]
	Proactive engagement • Meetings with key individuals. • Regular reviews of MI. • Annual strategy meeting.		
	Deep-dive assessments Examines particular risks identified through BMSA. Focuses on: • Culture and governance. • Product design. • Sales and transaction process. • Post-sales/services and transaction handling.		
	Firm evaluation Summary of FCA's view of firm/group. Conducted on a one to three-year cycle (with interim reviews).		
Pillar 2: event-driven, reactive supervision	**Key features** • FCA will respond quickly and robustly when things go wrong. • Proportionate responses. • Focus on important issues affecting FCA objectives. • Expectation that firms will have comprehensive and credible plans of action to mitigate risks.	√	√
	Baseline monitoring • Review of regulatory data.		
Pillar 3: issues and product supervision Based around thematic reviews and sector analysis	**Key features** • Centred around thematic reviews. • Aims to achieve sector-wide outcomes. • Greater emphasis on understanding customers' experiences.	√	√

1 Fixed portfolio firms: Small population of firms but require highest level of supervision due to large retail number of retail customers or wholesale firm with significant market presence.

2 Flexible portfolio firms: The majority of firms are flexible portfolio firms which are supervised through a combination of market-based thematic work and programmes of communication, engagement and education activity aligned with key risks. The Customer Contact Centre is the first port of call for these firms as they do not have an allocated supervisor.

3 Does not apply. Pillar 1 supervision only applies to fixed portfolio firms, not flexible portfolio firms due to the market-based nature of flexible portfolio supervision.

Prudential categories	The FCA is the prudential supervisor for a number of firms. Its approach aims to minimise damage when firms experience financial stress. The FCA aims to allow firms to fail in an orderly manner. The FCA groups firms into prudential categories which determine their level of prudential supervision. The FCA interacts with the PRA for dual-regulated firms, although the PRA will typically take the lead for groups that are prudentially regulated by the PRA.		
	P1 firms	P1 firms and groups are those whose failure could cause significant lasting damage to the marketplace, consumers and client assets due to their size and market impact.	P1 and P2 firms are subject to comprehensive capital and liquidity analysis and risk management capability assessment. Prudential returns are also monitored. The FCA Handbook specifies minimum Financial Resources Requirements (FRR): • P1 firms have a capital and (if applicable) liquidity assessment every two years. • P2 firms have a capital and (if applicable) liquidity assessment every three to four years. The FCA also expects firms to have suitable wind-down plans in place so that if a firm were to fail it would do so in an orderly manner without adversely affecting the market or its customers.
	P2 firms	P2 firms and groups are those whose failure would have less of an impact than P1 firms but would nevertheless damage markets or consumers.	
	P3 firms	P3 firms and groups are those whose failure, even if disorderly, is unlikely to have a significant market impact. They have the lowest intensity of supervision.	The FCA does not typically carry out prudential assessments or proactively review or challenge how these firms calculate and meet their FRRs (unless the firm is a CRDIV firm, in which case it is treated similarly to P2 firms). P3 firms are dealt with: • Reactively through an alerts based system which identifies when they breach their prudential regulatory requirements. • Through targeted cross-firm work, which assesses peer groups.
	P4 firms	P4 firms are those with special circumstances – for example, firms in administration – for which bespoke arrangements may be necessary.	N/A