



Friday, 24 May 2019

## Appointed Representatives: FCA concerned about oversight and risks

The FCA has raised concerns about appointed representative (AR) arrangements entered into by firms in the investment management sector (including AIFMs, asset managers and advisor-arrangers). The FCA has identified significant shortcomings in the way that principal firms oversee their ARs, and has found that principal firms often do not adequately assess the risks that the activities of ARs pose to the principal firm's business. In particular, the FCA has stated that it has significant concerns about the use of the "Host AIFM model" under which an AR provides advice to the AIFM, as its principal, and often markets and deals in the units of the AIF.

The FCA has issued a Dear CEO letter to firms that have ARs, highlighting areas where the FCA considers that principal firms are failing to meet their regulatory obligations and setting out steps that such principals should be taking now to address any shortcomings.

The FCA has said that it will continue to assess the risks in this area, including through visits to relevant firms, and may take enforcement action where appropriate. The FCA also stated that its findings may also be relevant to other parts of the financial services industry.

### AREAS OF CONCERN

The FCA highlighted a number of areas where it considers that many firms in the investment management sector may be failing to meet their regulatory obligations. These include:

- Lack of active and proactive oversight of ARs (including at the on-boarding stage) and failure to put in place sufficient resources to monitor the activities of ARs.
- Weak and under-developed governance arrangements, including a lack of effective risk frameworks and internal controls.
- Failure to assess risks to the principal firm arising from the AR's activities and therefore potentially a failure on the part of the principal firm to hold sufficient financial resources to meet these risks (with liquidity being a particular concern).
- Deficiencies in the identification and recording of conflicts of interest.

# TRIVERS SMITH

---

Other specific issues identified by the FCA include little or no checking of an AR's compliance with regulatory requirements, an AR acting outside the principal's core areas of expertise, a misunderstanding by the principal of the AR's business models and a lack of ongoing or timely reviews of the client files or trading activity of the AR.

## ACTION TO BE TAKEN

The steps that the FCA expects firms to take to address its concerns include:

- Ensuring that the Dear CEO letter is shared with the board (or equivalent).
- Assessing how the firm is meeting its obligations in respect of its ARs, as set out in the FCA's Handbook.
- Identifying and addressing any shortcomings in the firm's risk-management frameworks, processes and practices.
- Where the firm is unable to comply with the FCA requirements or to manage the risks associated with its AR relationships, considering ending those relationships.

Principal firms should therefore examine their current and prospective arrangements with ARs as well as their internal risk and governance policies and procedures (including, where appropriate, revisiting their ICAAP) to ensure that any shortcomings are addressed and appropriately documented as soon as possible. Appointed representatives and users of AIFM hosting services should expect to see increasing controls over their activities, with potential implications on costs.

The FCA's findings and Dear CEO letter can be found [here](#) and [here](#).

## FOR FURTHER INFORMATION, PLEASE CONTACT

---

10 Snow Hill  
London EC1A 2AL  
T: +44 (0)20 7295 3000  
F: +44 (0)20 7295 3500  
[www.traverssmith.com](http://www.traverssmith.com)



**Tim Lewis**  
Partner, Financial Services and Markets  
E: [tim.lewis@traverssmith.com](mailto:tim.lewis@traverssmith.com)  
T: +44 (0)20 7295 3321



**Jane Tuckley**  
Partner, Financial Services and Markets  
E: [jane.tuckley@traverssmith.com](mailto:jane.tuckley@traverssmith.com)  
T: +44 (0)20 7295 3238



**Phil Bartram**  
Partner, Financial Services and Markets  
E: [phil.bartram@traverssmith.com](mailto:phil.bartram@traverssmith.com)  
T: +44 (0)20 7295 3437



**Stephanie Biggs**  
Partner, Financial Services and Markets  
E: [stephanie.biggs@traverssmith.com](mailto:stephanie.biggs@traverssmith.com)  
T: +44 (0)20 7295 3433