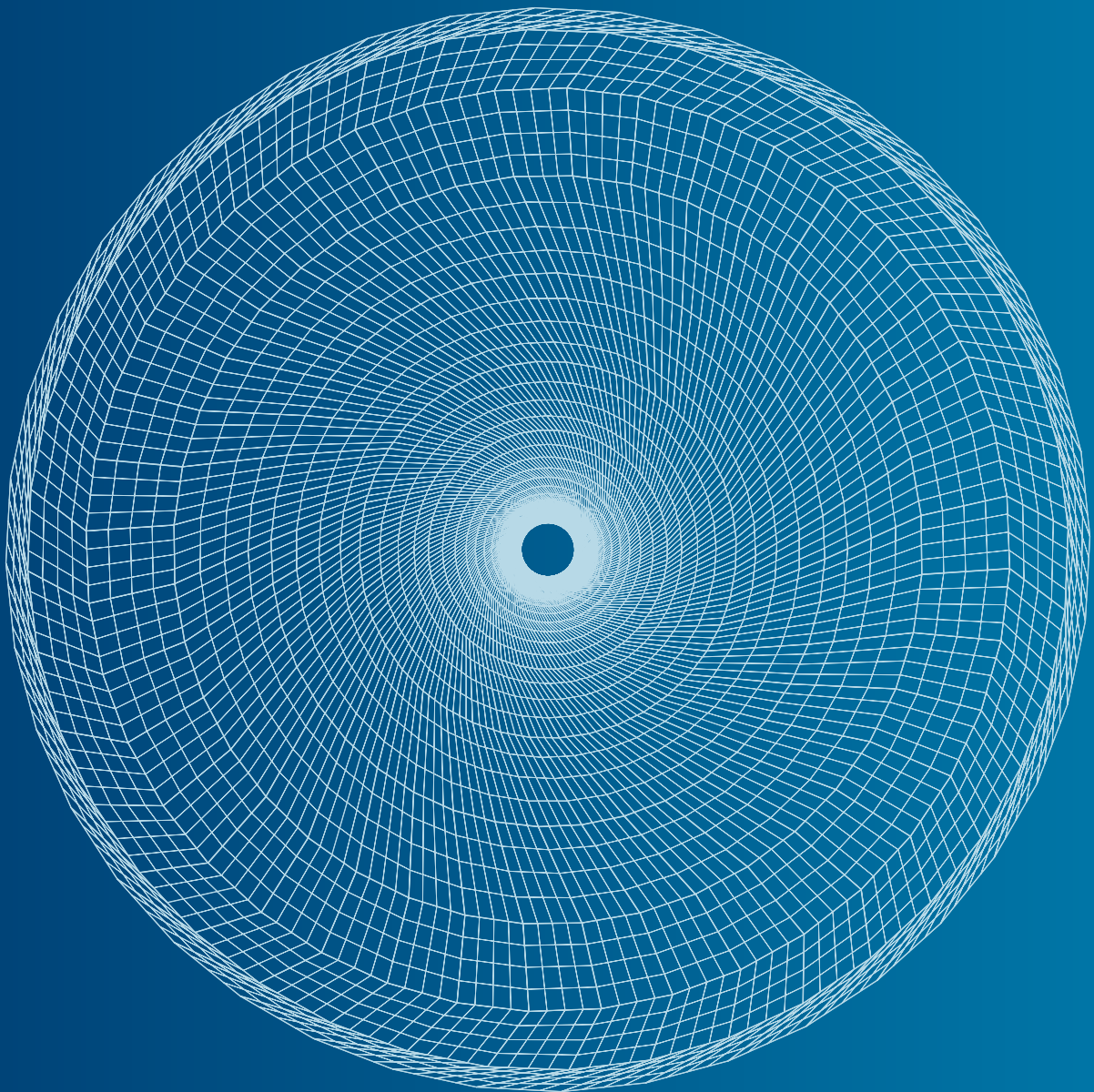


# FCA Innovation Pathways

Authorisation guide for firms developing  
automated advice models



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# Introduction

**Innovation Pathways works with individual firms to help them understand how FCA rules apply to innovative models. These rules include the:**

- Responsibilities of Providers and Distributors for the Fair Treatment of Customers ([RPPD](#))
- Product Intervention and Product Governance Sourcebook ([PROD](#))

We also publish tools and resources based on our experience of supporting firms, so that we can share lessons learned more widely. This guide is one of those tools. Its aim is to help firms prepare for authorisation.

*Please note that this is only a guide, it's not an exhaustive list of requirements and it doesn't set out all the regulatory obligations firms must meet. Firms must make sure that they meet these obligations and may want to consider getting legal advice.*

This guide applies to firms that are developing automated advice models that need authorisation, as well as those seeking a change in permissions. The guide identifies key themes that firms should consider before applying and is based on the experience of firms that have previously applied.

We aim to avoid duplicating existing material (including the [authorisation section of the FCA website](#)). Potential applicants should read our '[how to apply](#)' page for details on the authorisation process, including which forms are required and our commitments to applicants.

We hope that this guide will help firms developing automated advice models to be better prepared for the authorisations process and able to submit an application that minimises the amount of additional information required during the process.

# Authorisation

At a high level, firms should be ready, willing and organised to comply, on a continuing basis, with the requirements and standards under the [regulatory system](#). Your firm will be assessed against the Threshold Conditions as part of this process:

- Location of offices
- Effective supervision
- Appropriate resources
- Suitability
- Business model

Further guidance is available in the [COND section of our Handbook](#).

Once authorised, your firm will have to pay regulatory fees and levies. You can [use our calculator](#) to help you determine these costs.



## Business model

- Try to describe your business model in plain and simple language. It's better to assume no prior knowledge when explaining your model. We strive to use plain language in our communications and encourage firms to do this too, both in their interaction with us and [with consumers](#).
- Where possible, please provide screenshots and/or a link to a test site as part of your application. This helps us develop a better understanding of your model.
- You must tell us if you intend to make changes to your business model during the authorisations process. Early insight into any changes will enable us to assess the revised business model and prevent any unnecessary delays.
- Our assessment of your business model against the Threshold Conditions may include other unregulated business activities if we believe that they may impact on your regulated activities.



## Costs and charges

- It's important that your application shows how your business will make money. This includes costs, charges or deductions from investments, any commission payable, any introducer fees, and for firms that are seeking to provide regulated advice, an adviser charging structure.
- How these costs and charges are communicated to the consumer is equally important.

### Adviser charging structures

- Where relevant, you should review our rules on adviser charging in [COBS 6.1A](#) which includes disclosure rules. If your firm is making a personal recommendation in respect of its own retail investment products, then there are additional rules to consider (COBS 6.1A.9R – COBS 6.1A.10AG).
- If you plan to have ongoing interaction with your customers, then please provide details of this service. For instance, if you intend to offer suitability reviews then please make clear the frequency of these reviews. You should demonstrate knowledge of your ongoing responsibilities to your client.

### Inducements

- You should also review our rules on inducements (for example, fees, commissions and non-monetary benefits) in [COBS 2.3](#), and for MiFID business, [COBS 2.3A](#).

## Financial promotions

- You should review our rules on financial promotions ([COBS 4](#)) and make sure that all financial promotions/advertising is fair, clear and not misleading.
- Our [financial promotions pages](#) contain more information, including good and bad practice case studies.

## Consumer journey

- You should provide an outline of your proposed consumer journey and, if you plan to provide regulated advice, you should demonstrate how you will make sure that any products recommended are suitable for the consumer.
- Your consumer journey should consider what data is required from them to ensure suitable outcomes. You should make sure that this journey is easily understood by your customers.
- You should have a credible oversight and monitoring plan to make sure that your service continues to deliver suitable consumer outcomes.
- You should consider your target market. Firms that can clearly define their target market are better able to demonstrate that their model delivers fair consumer outcomes.
- If you have a hybrid model, where human and digital elements work together, then please ensure that you fully explain the precise roles of each.
- It is likely that we will want to see how your model works as part of the authorisations process.



## Suitability and permissions

- We consider our rules on suitability to be neutral in relation to the mode of distribution or method of communicating with the client. By this we mean that the same regulatory standards apply whether your service is automated or otherwise. You need to be clear how your model will meet the rules on suitability if you are giving advice or offering a discretionary investment management service.
- Where your model provides a suitability report, use plain language as far as possible to ease understanding for the consumer, while still meeting the requirements of [COBS 9.4](#) and for MiFID business, [COBS 9A](#).
- Be as clear as possible in your application whether your model is offering advice, investment management and/or guidance. We will want you to demonstrate your understanding of the requirements associated with each of these offerings.
- If your model will offer advice and/or investment management, then you will need to show how you will establish the risk a customer is willing and able to take with their money. This is a key part of the suitability assessment. You should be clear how your approach is fit for purpose. If you use a risk profiling tool provided by a separate company, then it is important that you understand how this works, including any limitations it may have. You may wish to review [FG11/05](#). This sets out that poor outcomes can occur if firms use tools that are not fit for purpose, if they don't understand how a tool works or its limitations, or if they fail to mitigate a tool's limitations within the suitability assessment.
- If you make use of any third-party arrangements, then include details of the due diligence that you carried out on these providers.

## Financials

- It's important to submit financial forecasts as part of your application. We require a 12-month forecast broken down monthly (P&L, Balance Sheet, Cashflow and Regulatory Capital) and projected balance sheet figures for years 2 and 3. Please make sure that your projections are reasonable, with supporting explanations for the underlying assumptions.
- We recommend that firms seek a bank account as soon as possible.



## Senior managers & certification regime (SM&CR)

- The [SM&CR](#) sets a new standard of conduct in financial services, ensuring greater personal accountability at all levels, minimum standards of conduct, and that staff in key jobs are fit and proper to perform their roles.
- The regime consists of 3 key parts: the Certification Regime, the Conduct Rules and the Senior Managers Regime.
- Certification Regime: The Certification Regime applies to employees whose role means it's possible for them to cause significant harm to the firm, its customers or the market more generally. These roles are called 'Certification Functions'. These people won't need to be approved by us. Instead, firms will need to check and certify that they are fit and proper to perform their role at least once a year.
- You need to demonstrate that these individuals are fit and proper to hold the roles that they are seeking, including relevant skills, knowledge and experience. Our [SM&CR pages](#) set out some positive and negative indicators for fitness and propriety.
- Conduct Rules: The Conduct Rules set minimum standards of individual behaviour in financial services. By applying the Conduct Rules to a broad range of staff, we aim to improve individual accountability and awareness of personal conduct issues across firms.
- Senior Managers Regime: The most senior people ('Senior Managers') who perform key roles ('Senior Management Functions') will need our approval before starting their roles.



## Technology, resilience and security

- If your business is reliant on technology, then you will need to provide sufficient detail about your IT systems. We will want to know how your customers will access services during an IT outage and the safeguards that you have put in place. We may ask you to complete an additional form regarding your IT systems.
- You should also carefully consider your security features. We will want to see that you have considered aspects such as password protection and encryption.
- It's important that you identify any third parties that you rely on for the day-to-day running of your business. [Read more about outsourcing and operational resilience.](#)

## Financial crime and anti-money laundering

- You have a responsibility to operate with appropriate anti-money laundering and counter-terrorist financing controls. Having effective 'KYC' (know your customer) processes when taking on new clients can help support effective monitoring, such as identifying if the client is sourcing money from high-risk countries.
- You should make sure that the person carrying out the SMF17 money laundering reporting function has sufficient knowledge and experience to carry out this role.



# Timelines

**You should be aware of the timelines for our authorisation process. The statutory limit is 6 months if the application is complete. If the application is incomplete, the statutory limit is either 12 months from the date the application was received, or 6 months from the date the application became complete (whichever is earlier).**

Applications can be determined more quickly than the statutory timeframes set out above. The biggest cause of delays is incomplete applications being submitted. Some common causes of delays or rejected applications include:

- Failure to submit all the required information or out-of-date/obsolete information submitted.
- Missing information about the capital adequacy of the business submitted.
- Missing information about the competence of individuals who are applying for a Senior Manager function.

Please bear in mind that some applications are ultimately unsuccessful, though firms have the right to challenge this decision. To minimise the risk of this, please fully consider your application before submission.

© Financial Conduct Authority 2022  
12 Endeavour Square London E20 1JN  
Telephone: +44 (0)20 7066 1000  
Website: [www.fca.org.uk](http://www.fca.org.uk)

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