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FSA HANDBOOK SUMMARY

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This paper summarises the content of all the modules of the FSA Handbook and is intended to be a guide to that enormous 8000 page compendium of principles, guidance and specific rules and to help firms understand which parts of the handbook apply to their business. It has been prepared by Jonathan E Halsey CPA, founder and director of The Compliance Exchange www.compliance-exchange.com. It is presented by module in alphabetical order.

APER Statements of Principle and Code of Practice for Approved Persons

Rules and guidance to be followed by Approved Persons performing Controlled Functions, requiring these persons to act with integrity, due skill, care and diligence and observe proper standards of market conduct in carrying out their controlled functions. They must also deal with FSA in an open and co-operative way and disclose to FSA any information of which the FSA would reasonably expect notice.

BIPRU Prudential sourcebook for Banks, Building Societies and Investment Firms

Capital adequacy rules for banks, building societies and “BIPRU investment firms” (i.e. subject to MiFID) and groups containing such firms. It covers credit risk and related mitigation, operational risk, market risk, group risk consolidation, securitisation, large exposure requirements, liquidity standards, settlement and counterparty risk. Credit risk can use an Internal Ratings Based (IRB) approach in some cases. This module also specifies how a firm must publicly disclose its risk management objectives and policies for each separate category of risk – the so called “Pillar 3” disclosures.

BCOBS Banking: Conduct of Business sourcebook

COB rules for “deposit takers” (basic definition of a bank). Specific rules cover communications with banking customers and financial promotions including “distance communications” such as electronic commerce, and mandatory communications such as bank statements. The rules also cover post-sale and cancellation rights.

BSOCS Building Societies sourcebook

A specialist sourcebook for building societies, with rules for lending, treasury investments and liquidity risk management, funding, financial risk management and business model diversification.



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BSOG Building Societies Regulatory Guide

This Guide provides guidance on the Building Societies Act 1986 and on various constitutional and other provisions relating to building societies such as lending limits, accounting records, reporting requirements and electronic communications. It also contains procedural rules for mergers and transfers.

CASS Client Assets sourcebook

This module contains rules for firms that hold or control “client money” (bank cash deposits held in a firm’s name on trust for customers) and “client assets” (securities and other non-cash assets held in a firm’s name with a qualifying custodian on trust for customers). Rules cover requirements for frequent reconciliations, segregation from the firm’s own money and assets and obtaining written confirmation from the bank/custodian that the money is held on trust and ring-fenced in case of the firm’s liquidation.

COAF Complaints against the FSA sourcebook

This module outlines the process for making a complaint about the FSA. Not only firms but also customers of firms, suppliers and industry and trade bodies may complain – anyone who is affected by the FSA in the pursuit of its duties. Complaints are considered by a Complaints Commissioner, appointed by but independent from FSA.

COBS Conduct of Business sourcebook

This module is the core of the handbook and historically has roots going back to the inception of financial regulation under the original self-regulatory organisations. Specific rules are laid out here specifying what a firm must and must not do when dealing with customers, especially but not only retail clients. Subject matter includes client categorisation, financial promotions, client agreements, suitability and appropriateness, investment research and periodic information for customers. COBS 11 covers dealing and managing and includes the rules for best execution, client orders, record keeping, soft commissions, personal account dealing and recording telephone and electronic communications.

COLL Collective Investment Schemes sourcebook

A collective investment scheme is defined as “any arrangement with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements (whether by becoming owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income.” COLL contains the specific rules



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applicable to regulated and recognised open ended funds and unit trusts. Most significant among these is the investment and borrowing powers rules that restrict exposure to investments thus giving funds diversification. Funds that are outside this regime are “unregulated CIS”, the marketing of which are restricted by statute.

COLLG Collective Investment Schemes Information Guide

This module is guidance to the application of COLL, outlining its content and the responsibilities of Authorised Corporate Directors, managers and trustees/depositaries of Authorised, Recognised and Qualified investor schemes. It states how CIS are governed not by UK company law but by the “stand alone” approach adopted for open ended investment companies (“OEICs”). It contains a summary of the scope and content of the UCITS Directive and the application of investment and borrowing powers and limits and how CIS can be passported to other EU member states.

COMP Compensation sourcebook

This module contains the rules governing eligibility under, and levies for, the Financial Services Compensation Scheme (FSCS). FSCS provides compensation to investors where the firm they have invested through is in default. It sets out the scope of who is eligible – basically retail investors and small businesses. Here the limits on compensation payable are tabulated, eg. 100% of the first £85,000 for depositors with banks and 100% of the first £50,000 for investment business customers.

COND Threshold Conditions

The threshold conditions represent the minimum conditions which an authorised firm is required to satisfy, and continue to satisfy, in order to be given and to retain its permission to conduct investment business. An authorised person must be either an individual, a body corporate, a partnership or an unincorporated association. Its head and registered office must be in the UK, any “close links” must not be likely to prevent the FSA's effective supervision of the firm, it must have adequate resources (both financial and personnel) and must be “suitable” – i.e. fit and proper.

CRAG Credit Ratings Agencies Regulatory Guide

This module contains guidance made pursuant to European legislation under regulation 6 of the Credit Rating Agencies Regulations 2010 (SI 2010/906). Organisations that issue credit ratings which are disclosed publicly or distributed by subscription must be registered with the “competent authority” (FSA) and comply with provisions relating to conflicts of interest, employees and analysts, methodologies and models, outsourcing, and disclosure and presentation of information.



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CRED Credit Unions sourcebook

This module contains specific rules for credit unions, which have to comply with the FSA principles for businesses, the approved persons regime, the threshold conditions, certain conduct of business rules, complaints procedures and specific investment and borrowing limits. They are subject to special capital and liquidity requirements. For instance no member or depositor may have any interest that exceeds the greater of £ 10,000 or 1.5 per cent of the total shareholdings in the credit union. CUs must also have insurance against fraud or other dishonesty.

DEPP Decision Procedure and Penalties manual

A description of the FSA's procedures for taking statutory notice decisions, the FSA's policy on the imposition and amount of penalties and the conduct of interviews, this manual addresses the constitution and operations of the Regulatory Decisions Committee (RDC), the body (quasi-independent from FSA) that issues warning notices and supervisory notices to firms. A decision by the RDC to give a decision notice or supervisory notice may lead to a reference to the Tribunal under the Act. The conduct of proceedings before the Tribunal is not however a matter for the RDC.

DISP Dispute Resolution: Complaints sourcebook

This module addresses procedures for dealing with customer complaints. Eligible complainants are defined as consumers, micro-enterprises and charities and trustees with annual income below £1 million. It explains how effective and transparent procedures for the reasonable and prompt handling of complaints must be established, implemented and maintained by firms, including the requirement that a final response must be made to a complaint within eight weeks of receipt and that firms must tell complainants that they have a right to refer their complaint to the Financial Ombudsman Service if they are not satisfied. The Ombudsman must attempt to resolve complaints at the earliest possible stage.

DTR Disclosure Rules and Transparency Rules

These rules are part of the listing rules for UK financial instruments that are admitted to trading on a regulated market such as the London Stock Exchange. It lays out procedures for listed companies to make public announcements of price sensitive information through Regulated Information Services or, where a RIS is not open for business, to at least two national newspapers in the United Kingdom or two newswire services. An issuer must have an audit committee and include a corporate governance statement in its directors' report. These rules also cover notification obligations of issuers, persons discharging managerial responsibilities and their connected persons in respect of transactions conducted on their own account in shares of the issuer, or derivatives or any other financial instrument relating to those shares.



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EG Enforcement Guide

This guide, elaborating on DEPP, describes the FSA's approach to exercising its enforcement powers, including how FSA uses its information gathering and investigation powers, conduct of investigations, settlement arrangements (eg. 30% discount for prompt co-operation) and publicising of enforcement actions via Final Notices at its website. Enforcement tools include financial penalties, public censures, variation or cancellation of permission to conduct investment business, banning individuals and approved persons and suspending or cancelling listed securities.

ELM Electronic Money sourcebook

Electronic money is monetary value, as represented by a claim on the issuer, which is:

- (a) stored on an electronic device;
- (b) issued on receipt of funds; and
- (c) accepted as a means of payment by persons other than the issuer.

This sourcebook lays out the rules, such as that only credit institutions may issue e-money unless FSA has waived this for certain small or local schemes. It also contains rules covering asset-liability management, foreign exchange risk, large exposure risk and liquidity and interest rate risk. There is a maximum limit of £1000 for money stored on any single device.

EMPS Energy Market Participants – Handbook Guide

This is a guide to the select type of investment business firm that deals solely in “energy investments” which include weather derivatives, greenhouse gas emissions allowances, tradable renewable energy credits, futures and options on such items and units in energy collective investment schemes. Certain parts of the handbook apply to EMPs such as PRIN, SYSC, COND, APER and GEN. CASS and MAR and certain parts of COBS are also applicable.

FEES Fees manual

This module covers the fees and levies payable by regulated entities to FSA to finance its running costs (around 500 million per year). Non-payment of fees can result in disciplinary action including revocation of permission. Late payments are subject to a £250 administrative fee. The manual contains a lengthy table setting out fee blocks and tariffs applicable to different activity groups. Fees increase where a firm has more assets under management, in bands or buckets.

FINMAR Financial Stability and Market Confidence Sourcebook

The financial stability objective was added to the original four statutory objectives of the FSA via the Financial Services Act 2010 in response to the banking crisis. This sourcebook gives FSA additional

powers to gather information from banks and other firms if FSA considers it relevant to the stability of the UK financial system. Firms must also disclose net short positions where these exceed one quarter of 1% of the issued capital of a company, excluding any interest held in the capacity of a market maker. Ongoing disclosures must be made when disclosable short positions are held in a UK financial sector company. The sourcebook cross-refers to the Banking Act 2009 that allows FSA to step in to stabilise failing banks when such banks are unable to help themselves.

FIT Fit and Proper test for Approved Persons

Fitness and propriety criteria apply to all regulated firms and their approved persons. The FSA will have regard to a number of factors when assessing the fitness and propriety of a person to perform a particular controlled function. The most important considerations will be the person's:

- (1) honesty, integrity and reputation;
- (2) competence and capability; and
- (3) financial soundness.

GEN General Provisions

This module contains miscellaneous general provisions applicable to all firms. In particular firms may not imply that FSA has approved or endorsed them, for instance by not having an adverse finding in a ARROW report. Every letter (or electronic equivalent) which a firm sends to a retail client, with a view to or in connection with the firm carrying on a regulated activity must state "Authorised and regulated by the Financial Services Authority". Firms are licensed to use the FSA logo on their communications if they are regulated. Firms are prohibited from taking out insurance against any financial penalty levied by FSA.

GENPRU General Prudential sourcebook

This lengthy and detailed sourcebook contains capital adequacy rules for firms, both on a solo basis and a consolidated basis. Firms must at all times maintain overall financial resources, including capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. Firms are required to identify and manage various types of risk referred to as the "Pillar 2 Rule":

- (a) credit risk;
- (b) market risk;
- (c) liquidity risk;
- (d) operational risk;
- (e) insurance risk;
- (f) concentration risk;
- (g) residual risk;

- (h) securitisation risk;
- (i) business risk;
- (j) interest rate risk;
- (k) pension obligation risk ; and
- (l) group risk.

The sourcebook has guidance on how to calculate capital resources requirements for different types of firm – insurers, banks, building societies and BIPRU investment firms.

ICOBIS Insurance: Conduct of Business sourcebook

This sourcebook sets out the specific COB rules applicable to non-investment insurance business – effecting insurance contracts, mediating, underwriting and financial promotions for insurance. Rules cover inducements, record keeping, communications to clients, information about the firm, its services and remuneration, identifying client needs and advising, product information, cancellation and claims handling.

INSPRU Prudential sourcebook for Insurers

This sourcebook contain capital adequacy and risk management rules peculiar to insurers, covering:

- Capital resources requirements and technical provisions for insurance business
- Credit risk in insurance
- Market risk
- Liquidity risk management
- Operational Risk Management
- Group Risk: Insurance Groups
- Individual Capital Assessment
- General provisions applying INSPRU and GENPRU to Lloyd's
- Actions for damages

IPRU(FSOC) Interim Prudential sourcebook for Friendly Societies

This sourcebook contains the prudential and notification requirements for friendly societies, including “financial prudence” requirements covering margins of solvency, adequacy of assets, separation between long-term insurance business assets and other assets, linked long-term contracts and liquidity. There is also a section on prudential reporting with rules about the annual actuarial investigation and actuary’s report, various abstracts and financial returns, auditor’s report and intra-group transactions.



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IPRU(INNS) Interim Prudential sourcebook for Insurers

Leftover from the original interim period when FSA first took on regulatory responsibility for insurers, this 457 page document contains the residual rules still applicable to long-term insurance business. Though most chapters have been deleted in the transition to INSPRU, chapter 9 remains, containing the rules, forms and appendices relating to financial reporting for all insurers – not just long-term.

IPRU(INV) Interim Prudential sourcebook for Investment Businesses

This sourcebook contains the prudential and notification requirements for investment firms, other than BIPRU firms. It is therefore now only applicable to a small number of firms - Authorised Professional Firms, Securities and Futures Firms and Investment firms which are not MiFID Investment Firms or which are Exempt BIPRU Commodities Firms, Lloyd's Firms, Service Companies, credit unions which are CTF providers, Exempt CAD firms and Personal Investment Firms.

LR Listing Rules

Formerly the preserve of the Listing Authority of the London Stock Exchange, responsibility for the Listing Rules transferred over to FSA in 2005. These rules govern the listing of securities on a regulated market, which is, to give the full definition “a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of MiFID”. The rules govern issuers and their sponsors and address many aspects of conduct for publicly traded companies including suspension, cancellation and restoration of listing, notifications and how price-sensitive information is to be released to the public.

MAR Market Conduct sourcebook

This module contains a code of conduct focussing on the definition and prohibition of market abuse in all its various forms - insider dealing, improper disclosure, misuse of information, manipulating transactions, manipulating devices, dissemination, misleading behaviour and distortion. Also included are the stabilisation rules allowing a sponsor to undertake transactions that would otherwise amount to market abuse whilst trying to stabilise the price when a security is coming on to the market. Firms are required to support the functions of the Takeover Panel. Special rules apply to multilateral trading facilities and systematic internalisers and any off-market trades must be made public as close to real-time as possible, on a reasonable commercial basis, and in a manner which is easily accessible to other market participants.



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MCOB Mortgages and Home Finance: Conduct of Business sourcebook

This sourcebook sets out the specific COB rules applicable to firms with mortgage business customers. There are rules governing how real time communications are made with customers or potential customers such as not calling at unsociable hours or on unlisted 'phone numbers. Other specific rules cover advising and selling standards, pre-application disclosure, disclosure at the offer stage, disclosure at start of contract and after sale, equity release advising and selling standards, equity release product disclosure, Annual Percentage Rate, responsible lending, and responsible financing of home purchase plans, charges and treating customers fairly in regard to arrears and repossessions. In particular firms must not put pressure on a customer through excessive telephone calls or correspondence, or by contact at an unreasonable hour.

MIPRU Prudential sourcebook for Mortgage Firms and Home Finance Firms, and Insurance Intermediaries

This sourcebook contains the prudential requirements peculiar to mortgage and home finance firms and insurance intermediaries. Such firms must appoint a senior Approved Person to have responsibility for insurance mediation activity and all persons involved in this activity must have knowledge, ability and good repute. Professional indemnity insurance is mandatory and such firms must meet the usual capital resources requirements.

OMPS Oil Market Participants – Handbook Guide

Oil market participants only carry on limited activities related to oil such as oil collective investment schemes, options, CFDs and futures where the commodity in question is oil (mineral oil of any description and petroleum gases, whether in liquid or vapour form, including products and derivatives of oil). This guide clarifies which sections of the handbook apply to such activities, including PRIN, SYSC, COND, APER, FIT, GEN and COBS 18.2 (Energy market activity and oil market activity).

PERG Perimeter Guidance manual

This manual provides guidance as to what is and what is not regulated investment business i.e. whether authorisation is needed for certain activities. The activities which are regulated activities are specified in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. The manual explains where various exclusions arise, particularly in relation to:

- Trustees, nominees or personal representatives
- Professions or business not involving regulated activities
- Sale of goods and supply of services
- Group and joint enterprises
- Sale of a body corporate



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- Employee share schemes
- Overseas persons
- Incoming electronic commerce activities (ECA) providers
- Certain travel insurance mediation activities
- Insurance mediation activities

PR Prospectus Rules

Where transferable securities are offered to the public in the United Kingdom an approved prospectus must be made available to the public. These rules define what information must be included in the prospectus, the process of obtaining FSA approval for the prospectus and the method of publishing it.

PRIN Principles for Businesses

The eleven principles for business apply to all regulated firms. They relate to:

1. Integrity
2. Skill, care and diligence
3. Management and control
4. Financial prudence
5. Market conduct
6. Customers' interests
7. Communications with clients
8. Conflicts of interest
9. Customers: relationships of trust
10. Clients' assets
11. Relationships with regulators (UK and abroad)

A contravention of the Principles does not give rise to a right of action by a private person, because they are too general to be legally enforceable but they may be used in disciplinary actions.

PROF Professional Firms sourcebook

Professional firms such as accountants and lawyers may sometimes engage in investment business though this is not their main line of business. They are regulated by their own designated professional body such as The Institute of Chartered Accountants in England and Wales, The Law Society of England & Wales and The Institute of Actuaries. FSA recognises that many of these firms are exempted from FSA regulation because they are instead regulated by their professional body. Exempt professional firms must make clear to their customers that they are not authorised by FSA although FSA is required to maintain a list of unauthorised persons.



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RCB Regulated Covered Bonds

There is a particular type of investment called a “covered bond”. It has a complex definition but basically is a bond in relation to which the claims attaching to that bond are guaranteed to be paid by an owner from an asset pool it owns. The issuer must apply to FSA to register the bond with sufficient information for FSA to determine that the asset pool has sufficient quality and that various risk factors have been taken into account. These rules address certain required formalities for RCBs such as notifications and fees payable.

REC Recognised Investment Exchanges and Recognised Clearing Houses sourcebook

Exchanges and clearing houses in the UK must apply to FSA for “recognition”. An applicant for recognised body status needs to demonstrate to the FSA that it is able to meet the recognition requirements. This sourcebook lays out the criteria such bodies need to meet in relation to a list of subject areas including financial resources, fitness and propriety, systems and controls, whistleblowing, safeguards for investors, access to facilities, transaction recording, ability to monitor for market abuse, maintenance of standards, discipline and complaints handling.

RPPD Responsibilities of Providers and Distributors for the Fair Treatment of Customers

A non-binding guide for providers and distributors of products and services to retail customers. Depending on the precise nature of a firm's business, this could mean addressing the fair treatment of customers at the stages of design and governance; identifying target markets; marketing and promotion; sales and advice processes; after-sales information and service; and complaints handling.

SERV Service companies – Handbook Guide

“Service companies” are limited to agreeing and arranging transactions for non-retail customers and may not approve financial promotions. They are, in the main, technology companies who provide order routing, post-trade processing, or other services to market participants which assist them to deal in investments or arrange (bring about) deals in investments among themselves. A light-touch regulatory regime applies to service companies as set out in this Special guide. Rules that do apply include PRIN, SYSC, COND, APER, FIT and GEN.

SUP Supervision manual

This manual contains supervisory provisions including those relating to auditors, waivers, individual guidance, notifications and reporting. It articulates FSA’s regulatory tools – diagnostic, monitoring, preventative and remedial. FSA uses desk-based reviews, liaison with other agencies or regulators, meetings with management and other representatives of a firm, on-site inspections, reviews and



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analysis of periodic returns and notifications, reviews of past business, transaction monitoring, use of auditors and use of skilled persons.

SYSC Senior Management Arrangements, Systems and Controls

This module is the core statement of financial regulation. It is the *raison d'être* for the FSA, at a high and general level. Senior management is responsible for apportioning responsibility, implementing systems and controls appropriate to the scale, nature and complexity of the business, managing all the various risks faced by financial businesses and handling conflicts of interest. The Remuneration Code and stress testing guidelines are also included in this volume.

TC Training and Competence sourcebook

T&C requirements apply to individuals within firms that service retail customers and consumers. Persons who give investment advice to or manage investment portfolios must be competent and possess the relevant skills as evidenced by their having passed appropriate exams and qualifications. Firms are required to assess the competence of employees both initially and on a continuing basis by maintaining training in technical knowledge and its application, skills and expertise and changes in the market, products, legislation and regulation.

UNFCOG Unfair Contract Terms Regulatory Guide

This Guide explains the FSA's policy on how it uses its powers under the Unfair Terms Regulations in relation to contracts for carrying on regulated activities. Terms are regarded as unfair if, contrary to the requirement of good faith, they cause a significant imbalance in the parties' rights and obligations to the detriment of the consumer. The regulations state that an unfair term is not binding on a consumer but that the contract will continue to bind the parties if it is capable of continuing in existence without the unfair term.

UPRU Prudential sourcebook for UCITS Firms

This sourcebook is aimed at operators of regulated collective investment schemes that qualify as Undertakings under European law. The financial resources requirement for a UCITS firm is the higher of:

- (1) subject to a maximum requirement of €10,000,000:
 - (a) initial capital requirement of €125,000; plus
 - (b) if the funds under management exceed €250,000,000, an additional amount of 0.02% of the excess; or
- (2) 13/52 of its annual audited fixed expenditure.