CITY OF LONDON

THE GLOBAL CITY

Hogan Lovells

Expanding into the UK: **a guide for international financial services firms**

Foreword

Thank you for considering the United Kingdom for your expansion. As a leading financial capital with a skilled workforce, open approach, and global connections, we believe the UK is an excellent choice for your business.

We hope that this guide to regulation for financial services firms will support and encourage you to step into the UK. As the Lord Mayor of the City of London and Policy Chairman, we spend a good deal of time visiting other countries and financial centres to build bridges between people, businesses, and economies. An important element of our engagement is showing how the UK is an attractive market for firms to enter, grow, and connect to the world.

Why should firms consider expanding into the UK? Our international competitiveness study shows that the UK is the most attractive global financial centre. London is the top centre for international banking, bond issuance and trading, foreign exchange and insurance. We have also improved our offer on the regulatory and legal regime and harnessing of top global talent. UK regulators are now tasked with ensuring the UK financial services industry retains its competitive edge, a goal we strongly support.

Global investors are confident in the UK's strengths: the UK attracted over £1bn of foreign direct investment into its financial and professional services sector over 2023, creating over 7,000 jobs. Many of those jobs are in the UK's tech sector, the fastest growing jobs market in the City of London. Overall the UK is Europe's most popular destination for FDI.

But it is not enough to explain *why* firms would benefit from expanding into the UK. We also need to explain how they can do that. We have developed this straightforward reference guide with global law firm Hogan Lovells as a first step to understanding the practicalities of getting authorised to do financial services business in the UK.

This guide details the main elements of the regulatory regime, how to become authorised, and dives into sectoral issues. It explains the pathways the regulators use to help firms, particularly those with innovative products, to become authorised.

One of the attractions of the UK is its global connections, and the guide shows the routes firms can take to do business from the UK to other countries. We hope that London can be your gateway to the world.

We don't want you to just read the guide though. If you're interested in coming to the UK, please do contact us on tradeandinvestment2@cityoflondon.gov.UK. We can offer practical support such as connecting you to real estate expertise in London, sharing policy expertise and broad market knowledge and helping you access opportunities and partners across the UK.

We look forward to welcoming you.

Alastair King
The Rt Hon the Lord Mayor of the City of London

Chris Hayward
Policy Chairman of the City of London Corporation

1 Introduction and Overview

Section 1: Introduction and Overview

This Guide is intended to help non-UK businesses who are considering doing financial services business in the UK.

The Guide is structured as follows:

Section 2 – Why the UK?

Section 3 – What are the main elements of the UK regulatory framework?

Section 4 – Who are the financial regulators in the UK?

Section 5 – Do I need to obtain authorisation from a UK regulator?

Section 6 – What are the rules regarding financial promotions and advertising?

Section 7 – How do I obtain authorisation in the UK?

Section 8 – What conditions do I need to satisfy to become authorised in the UK?

Section 9 – What does it mean for me if I am authorised in the UK?

Section 10 – Sandboxes and other initiatives to help new entrants to the UK market.

Section 11 – Sectoral issues (asset management, banking, fintech and insurance).

Section 12 – Practical steps for setting up a UK business.

We have included case studies to help you understand how the UK regulatory regime might apply in particular situations.[1] We have also included links to further information resources which may be helpful to you.

Please note that this Guide focusses on the main issues arising in relation to the UK regulatory perimeter and the process of applying to the UK regulators.

There are a number of specific types of regulated business that we have intentionally omitted from this Guide in the interests of simplicity. Areas that we have not covered include pensions and retirement benefits, funeral plan contracts, stakeholder products, benchmarks, insurance transformation vehicles, credit rating agencies, claims management activities, payment systems,[2] data reporting services and activities connected with Lloyd's of London. We have also not covered the designated activities regime that was introduced under the Financial Services and Markets Act 2023. If you are interested in any of these areas, you should consider seeking specialist advice.

Please also note that this Guide only considers financial regulation and not any other types of regulations that may apply if you are doing business in the UK.

The information in this Guide is correct as at [19 November 2024].

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The information in this Guide is provided as a general guide only and should not be relied on as a substitute for specific legal and/or other professional advice. You should seek appropriate legal and/or other professional advice before taking or refraining from taking any action on the basis of the content contained in this Guide.

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[1] The case studies in this Guide (other than the one included in the FCA guidance) do not relate to any specific financial institution but are representative of actual cases where overseas firms are doing business in the UK.

[2] "Payment systems" are the systems through which transfers of money are made – such as Bacs, CHAPS and LINK. These are part of the UK's financial services infrastructure and are not within the scope of this Guide. "Payment services", as described in more detail in section 5 below, are within the scope of this Guide.

2 Why the UK?

Section 2: Why the UK?

The financial services sector is one of the growth drivers of the UK economy. The UK is a world leader in banking, insurance and asset management, with broad and deep expertise across products and markets and strong regulatory and legal coherence with other jurisdictions.

The UK:

is the world's preferred regulatory regime for financial services;[3]

- is a leader in sustainable finance policy and innovation;
- is the leading hub for fintech investment in Europe;
- is the world's largest centre for international debt issuance;
- is the world's largest specialist insurance and reinsurance market;
- is the largest PE and VC hub in Europe;
- is the world's largest centre for OTC derivatives trading;
- has a deep pool of highly skilled workers; and
- has regulators who are positively committed to innovation and inward investment.

Much of the success of the UK financial services sector is the result of the openness of the UK financial services sector. The UK has intentionally set its regulatory perimeter in such a way as to facilitate access to its markets. In particular:

(a) the UK's approach to allowing overseas firms to do business with UK counterparties without needing a licence from the UK regulators is one of the most open approaches of any major jurisdiction;

(b) in those situations where a UK licence is required, the UK regulators are positively committed to helping overseas firms set themselves up appropriately and obtain that licence, as part of the regulators' commitment to supporting the UK's international competitiveness and growth in the financial services sector; and

(c) the UK has consistently shown a strong commitment to supporting innovation in financial services, for example through the use of sandboxes and other initiatives.[4]

The purpose of this Guide is to help you understand the UK financial services regime and give you practical guidance about how you can access the UK's advantages for the benefit of your business.

[3] Source: State of the Sector 2023 (theglobalcity.UK).

[4] See section 10 below for examples.

City Hall, Belfast

How the City of London Corporation can help your business come to London

As the governing body of the Square Mile, we are dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. Our reach extends far beyond the Square Mile's boundaries and across private, public and voluntary sector responsibilities. We can help your business establish and grow in the UK by:

- Meeting with senior Members for valuable strategic insights and connections;
- Giving you access to City of London Corporation resources, including venues for launches;
- Sharing policy and market insights;
- Helping you access opportunities, and partners, across the UK;
- Connecting with you via a key account manager, with aftercare as you settle into your UK Office;
- Providing real estate expertise with current and in development office spaces;
- Plugging you into the ecosystem with invitations to formal, business and networking events;
- Facilitating introductions to appropriate UK Government and policy leaders.

Other relevant sources of information

- Department for Business and Trade – The Department for Business and Trade is the ministerial department for economic growth. It supports businesses to invest, grow and export, creating jobs and opportunities across the UK.
- HM Treasury – HM Treasury is the UK's economic and finance ministry. It is responsible for financial services policy: including banking and financial services regulation, financial stability, and ensuring competitiveness in the City.
- UK Regulators Network – the UKRN enables effective co-operation between regulators on important issues. It explores cross-cutting issues and builds better ways of working.
- UK government Business Support Service – The Business Support Service can be contacted by email and by phone at the contact details listed on their website.
- London & Partners – London & Partners is a business and destination agency that supports economic growth that is resilient, sustainable and inclusive.
- British Business Bank – The British Business Bank is a government-owned economic development bank which aims to improve access to finance for small businesses.
- Contracts Finder – Contracts Finder lets firms search for information about public sector contracts worth over £12,000.

3

What are the main elements of the UK regulatory framework?

Section 3: What are the main elements of the UK regulatory framework?

The UK framework for financial services is set out in the Financial Services and Markets Act 2000 ("**FSMA 2000**").

In summary, FSMA 2000 contains two main requirements that will be relevant to any person who wishes to do financial services business in the UK:

(a) The "general prohibition":

No person may carry on a "regulated activity" in the UK by way of business unless they are either authorised by one of the two main UK regulators or are an exempt person; and

(b) The "financial promotion restriction":

No person (anywhere in the world) can issue "financial promotions" into the UK unless they are authorised by one of the two main UK regulators or an exemption applies.

We consider each of these restrictions in more detail in sections 5 and 6.

Payment services and electronic money (e-money) services are subject to slightly different requirements to those set out above, with separate (but related) regimes established under the Payments Services Regulations 2017 and the Electronic Money Regulations 2011. We consider the position for payment services and e-money services separately in section 5.

The UK also has a separate regime relating to cryptoassets. Most cryptoassets currently fall outside the UK financial services regime, but if you are providing services which relate to cryptoassets you may be required to register with the FCA for anti-money laundering purposes. The perimeter of UK financial services regime is also in the process of being widened to bring certain cryptoassets within its scope. See section 5 for further information.

What happens if I breach the general prohibition or the financial promotion restriction?

If you breach either the general prohibition or the financial promotion restriction, there are two main consequences:

(a) you will be committing a criminal offence, which is punishable by up to two years in prison and/or a fine; and

(b) any contract entered into as a result of the breach will be unenforceable against the other party to that contract, and the other party will be entitled to (1) recover any money or other property transferred by him under that contract and (2) receive compensation for any losses sustained by him.[5]

The position is similar under the payment services and e-money regimes, which make it a criminal offence, punishable by up to two years in prison and/or a fine, to provide payment services or issue e-money (respectively) without FCA authorisation.

Given the seriousness of these consequences of breaching these requirements, it is essential that you understand where the regulatory perimeter is and whether you require UK authorisation.

[5] It is possible to apply to the courts for an order that a contract entered into as a result of the breach should be enforceable. The court will do this where it is just and equitable in the circumstances of the case.

4

Who are the financial regulators in the UK?

Section 4: Who are the financial regulators in the UK?

The UK regulatory regime is overseen by two main regulators:

The PRA

The PRA is part of the Bank of England. As a broad overview, the PRA has been given the responsibility for the "prudential regulation" for certain types of financial institution – namely banks, building societies, credit unions, insurance companies and certain types of large investment firm.

"Prudential regulation" refers to the regulation of the firm's financial position and of its governance and systems and controls.

Where a firm is regulated by the PRA in respect of prudential matters, that firm is also regulated separately by the FCA in relation to its conduct of business (for example, how it deals with its customers and conducts itself in the market). That firm is therefore known as a "dual-regulated" firm, as it is supervised by both the PRA and the FCA.

The PRA prudentially regulates around 1,300 banks, building societies, credit unions, insurers and major investment firms.

The FCA

The FCA is the sole regulator for all firms that are not authorised by the PRA (including payment institutions and e-money issuers). For these firms (known as "dual-regulated" firms), the FCA is responsible for both prudential regulation and conduct regulation.

The FCA also has supervisory responsibility for certain types of firm that fall outside the FSMA 2000 framework, including payment institutions and e-money institutions.

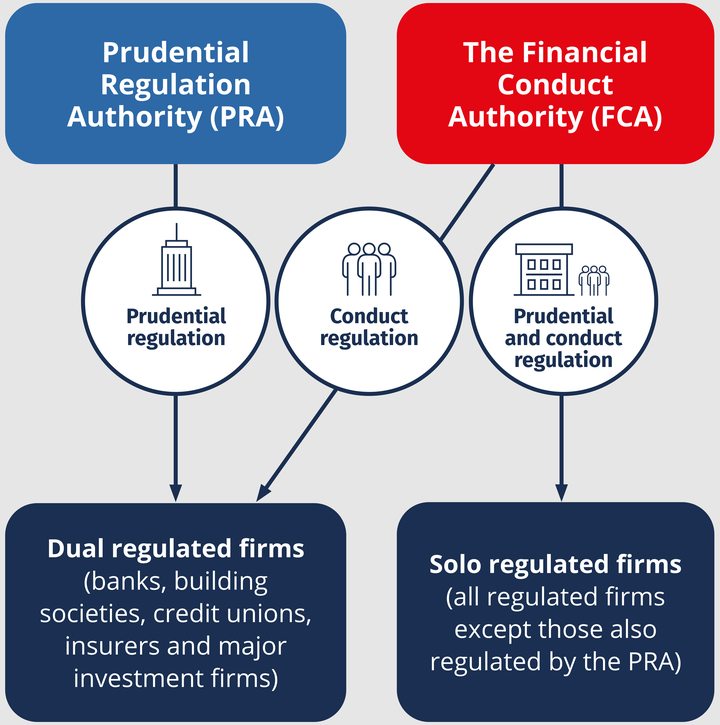
The FCA regulates nearly 45,000 businesses in the UK (which includes where it regulates the conduct of firms authorised by the PRA).[6]

Image credit: FCA

[6] Source: Our perimeter | FCA

Relationship between the PRA and FCA

The relationship of the UK regulators and the firms they supervise can be summarised in the following diagram:



The regulators' statutory objectives

The PRA and FCA are each subject to statutory objectives, which inform the way in which they discharge their respective roles and responsibilities.

The statutory objectives are set out below:

PRA

The PRA has two **primary objectives**:

- The "general objective": promoting the safety and soundness of PRA-authorised persons.
- The insurance objective (which applies to insurance and insurers): contributing to the securing of an appropriate degree of protection for those who are or who may become policyholders.

The PRA also has two **secondary objectives:**

- **Competition:** facilitating effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.
- **Competitiveness and growth:** facilitating, subject to aligning with relevant international standards, the international competitiveness of the economy of the UK (including, in particular, the financial services sector through the contribution of PRA-authorised persons) and its growth in the medium to long term.

FCA

The FCA has a **strategic objective** of ensuring that the relevant markets function well.

The FCA has three **operational objectives:**

- **Consumer protection:** securing an appropriate degree of protection for consumers.
- **Integrity:** protecting and enhancing the integrity of the UK financial system.
- **Competition:** promoting effective competition in the interests of consumers in the markets for regulated financial services and services provided by recognised investment exchanges.

The FCA also has a **secondary objective**, which is:

- **Competitiveness and growth:** facilitating, subject to aligning with international standards, the international competitiveness of the UK (including, in particular, the financial services sector) and its growth in the medium to long term.

The competition and competitiveness objectives are noteworthy because they encourage the PRA and FCA, so far as this is compatible with the other objectives, to promote competition in the UK and to support growth in the financial services sector. Each regulator therefore welcomes and encourages firms from overseas that wish to establish themselves in the UK and/or do business in the UK, as this will help them further these objectives.

The UK regulators' competitiveness objective has been an important driver of attempts by the regulators to try and make the UK's regime more open and competitive. For example, the UK regulators have been:

- actively trying to simplify regulatory requirements or rules which are overly complex;
- removing requirements that are not achieving their purpose - for example, they removed the bonus cap on bankers' remuneration, which research showed had not achieved its purposes but was acting as a barrier to the competitiveness of the UK financial services sector; and
- actively considering and adopting a proportionate response towards innovation – for example in areas such as Artificial Intelligence ("**AI**") and digital money.

There are also numerous examples of the UK regulators acting to foster an environment for investment and innovation – including the FCA's Innovation Hub (that helps innovative firms to launch products and services that benefit consumers through lower prices, faster service or more choice), the FCA's Regulatory Sandbox (which allows firms to test new products live in the market with real consumers in a controlled environment without having to undergo the full authorisation process) and the specialist units that have been set up to support new applicants for authorisation. Further information on these initiatives is set out elsewhere in this Guide.

Rule-making powers

Each of the PRA and FCA have the power to make rules that are binding on authorised persons, and to take enforcement action against authorised persons and their staff for breaches of those rules.

In section 9, we have set out examples of some of the main rules that would apply to you if you were to become authorised in the UK.

Information and guidance from the regulators

The PRA and FCA both regularly publish information on their respective websites (see PRA website and FCA website) which includes, among other things, consultations and policy statements on proposed rule changes or the introduction of new rules and guidance, as well as its Annual Report and Business Plan.

Both the FCA and the PRA routinely consult on proposals to amend existing rules and guidance, or introduce new rules and guidance. These consultation processes are public and provide an opportunity for stakeholders to give their views on the regulatory direction of travel.

In addition, both the FCA and PRA have established specialist panels with relevant industry knowledge to provide the regulators with external, independent input on important policy issues. This structure ensures that the regulators' rule-making processes take account of practical, industry-informed concerns.

Town hall Leeds

5

Do I need to obtain authorisation from a UK regulator?

Section 5: Do I need to obtain authorisation from a UK regulator?

If you wish to undertake financial services business within the UK, or (in some circumstances) into the UK from a location overseas, you will need to consider whether you need to obtain authorisation (i.e. a licence) from one of the UK regulators.

Compared to many jurisdictions, the UK has an open approach and you may be able to do certain types of business in the UK without requiring authorisation from a UK regulator at all. However, the consequences of breaching the general prohibition are serious (see section 3), and so you should consider carefully whether you need UK authorisation before you start providing financial services in, or into, the UK.

This section contains a high-level overview of the main questions that you would need to address when considering whether you require authorisation. Please note, however, that this is not a comprehensive analysis and you should consider taking appropriate legal advice regarding your specific situation.

> Compared to many jurisdictions, the UK has an open approach.

The four-part test for requiring a licence

As noted in section 3, the general prohibition says that any person who carries on a "regulated activity" in the UK will require authorisation from the PRA or FCA.

In order for something to amount to a regulated activity, it normally has to satisfy all of the following four tests:

- **Test One: it must involve an "activity of a specified kind";**
- **Test Two: it must relate to an "investment of a specified kind";**
- **Test Three: it must be done "by way of business"; and**
- **Test Four: it must be carried on "in the UK".**[7]

In addition, even if all these tests are satisfied, there are also certain exclusions which can prevent an activity from amounting to a regulated activity, and can thereby allow you to operate without having to obtain authorisation.

Victoria Street in Edinburgh Old Town, Scotland

[7] The tests are slightly different if the activity you are carrying on is a "payment service" or the issuing of e-money, and you are not doing that activity as a credit institution. For an explanation of payment services, and the tests for whether you require UK authorisation, see further below in this section.

Test One: What are the “activities of a specified kind”?

The box below shows a list of the main “activities of a specified kind”: [8]

This is not a comprehensive list. There are other activities which are potentially within the scope of UK regulation.

Investment	Description
Accepting deposits*	This is the activity of accepting deposits as a bank. There are exemptions which mean that this does not apply to the taking of security or collateral.
Issuing e-money	E-money is a form of electronic payment product where value is held electronically or magnetically on a payment instrument and used for the purposes of making payment transactions.
Effecting and carrying out contracts of insurance.*	This is, in effect, the activity of providing insurance cover – i.e. acting as the insurer. This also includes reinsurance.
Dealing in investments as principal	This is the activity of buying and selling certain types of investment for your own account.
Dealing in investments as agent	This is the activity of buying and selling certain types of investment for someone else, acting as their agent.
Arranging deals in investments	This concept covers a number of activities which arise when someone is helping to bring about a transaction between two other people in relation to a regulated investment. It includes acting as an intermediary to bring about a particular transaction, or introducing one person to another with a view to them entering into a transaction. Certain marketing activities can come within this description. The concept also includes specific activities of operating certain types of exchanges, such as multilateral trading facilities and organised trading facilities.

Investment	Description
Certain activities relating to consumer credit	These activities include credit broking, entering into regulated credit agreements and regulated mortgage contracts, and operating an electronic system in relation to lending. Broadly speaking, these activities only apply to lending to consumers, as lending to commercial customers is not regulated in the UK.
Certain activities related to debt	These activities include debt adjusting, debt counselling, debt collecting and debt administration.
Managing investments	This is the activity of managing investments that belong to someone else – for example, acting as a discretionary portfolio manager.
Certain activities relating to collective investment schemes/mutual funds	These activities include establishing or operating a collective investment scheme, acting as a fund manager or acting as trustee or depositary of a fund.
Safeguarding and administering investments	This is, in effect, the activity of acting as the custodian of another person’s assets.
Advising on investments	This activity usually includes any situation in which you provide advice to a potential investor on the merits of buying, selling or subscribing for a particular investment.
Insurance distribution activities	These activities include the following activities when carried on in relation to a contract of insurance: arranging deals, advising or dealing as agent (see the descriptions of these activities further above) and “assisting in the administration and performance of a contract of insurance”.

[8] A full list of activities of a specified kind can be found in the FSMA 2000 (Regulated Activities) Order 2001.

(* Any person carrying on this activity will automatically become subject to regulation by the PRA.)

Test Two: What is an “investment of a specified kind”?

The box below shows a list of the main “investments of a specified kind”:

- Deposits
- E-money
- Contracts of insurance
- Securities, which include:
  - Shares
  - Bonds/fixed income, including Islamic finance bonds
  - Gilts
  - Warrants
  - Certificates representing certain securities
  - Units in collective investment schemes (such as mutual funds)
- Derivatives (options, futures and contracts for differences)
- Various forms of regulated credit agreement, including regulated mortgage contracts and consumer credit agreements

This is not a comprehensive list. There are other investments which are potentially within the scope of UK regulation.

Please note that, in considering whether you are carrying on a regulated activity, it is not simply a case of taking any investment from the list above and matching it to the list of activities from Test One above. Some of the activities only match with some of the investments; for example, the activity of “accepting deposits” only matches with the investment type of “deposits”. Other activities apply to more than one investment type: for example, if you perform the activity of “dealing in investments as principal” in relation to any of the investments identified above as securities, derivatives or contracts of insurance, that is likely to amount to a regulated activity.

You will therefore need to assess your proposed activities in relation to the specific type of activity, to determine whether the activities are caught by the UK regulatory regime.

Test Three: Is the activity being carried on “by way of business”?

You only require authorisation if the activities you are carrying on are being done “by way of business”. Thus it is possible, for example, that someone undertaking activities on a purely philanthropic basis may not require authorisation in the UK.

The question of whether an activity is being carried on by way of business can be quite complicated, however, as the legal tests and the factors that are considered relevant can differ as between different regulated activities.

As a general rule, if you are proposing to carry on an activity for commercial gain, you will probably be regarded as doing the activity by way of business. There may, however, be some situations in which regulated activities which are incidental to your main business might not be regarded as being done by way of business. If you think that there is any possibility that your activities might not be seen as being done by way of business, you should seek legal advice on this issue.

Test Four: Is the activity being carried on “in the UK”?

If you carry on a regulated activity from an establishment maintained by you in the UK (for example, from office premises in London), you will almost certainly be regarded as doing that activity in the UK.

There are also situations in which you will be deemed to be doing an activity in the UK – for example, if you carry on an activity from a location outside the UK but the day-to-day management of that activity takes place from a UK establishment.

The question of whether you are doing an activity “in the UK” is more challenging, however, in the case of cross-border business. For example: if a financial adviser based in New York calls a London-based client to give him financial advice, is the regulated activity of “advising on investments” taking place in New York, in London, or in both locations? In this specific example, the UK regulators would regard the advising activity as taking place in the UK – but the analysis about whether an activity is done in the UK can differ as between different activities.[9]

There is only a limited amount of regulatory guidance or case law on the question of where certain regulated activities are regarded as being carried out, so you may need to take legal advice if you are intending to do such activities and do not wish to apply for authorisation in the UK.

Please note, however, that there is a particularly helpful exemption relating to overseas persons which may help you avoid the need for authorisation altogether – see below.

[9] As another example: a New York based portfolio manager who made discretionary investment decisions for a UK client would not be regarded by the UK regulators as doing the regulated activity of “managing investments” in the UK. However, the New York manager would be subject to the financial promotion restriction – see section 6 below – and so would not be able to solicit new customers in the UK unless an exemption to the financial promotion restriction applied.

Exclusions

There are a number of exclusions from the UK regulatory regime. If you can bring yourself within an exclusion, you will not require UK authorisation (although you may still be caught by the financial promotion restriction – in relation to which, see section 6 below).

The exclusions can apply in different ways. Some exclusions relate to specific regulated activities only. For example:

- If you want to "deal in investments as principal" (that is, buy and sell investments for your own account) there is an exemption that allows you to do so without authorisation provided that you do not act as a market maker and do not hold yourself out to the public as being in the business of buying and selling investments.
- If you want to "arrange deals in investments", there is an exemption that allows you to do so without authorisation, provided that the transaction in question is done with or through a person who is authorised in the UK. In effect, bringing a UK authorised person into the arrangements enables you to avoid authorisation.[10]

There are also exclusions that apply to more than one type of regulated activity. The main example of this is the overseas persons exclusion.

Overseas persons exclusion

The overseas person exclusion (commonly known as the "**OPE**") is a general exclusion that is available to an "overseas person" – which is defined as a person who carries on regulated activities but does not do so, or offer to do so, from a permanent place of business maintained by him in the UK. If you are intending to provide services into the UK from an overseas location, therefore, you could potentially benefit from this exclusion.

The OPE applies to a number of regulated activities including:

- dealing in investments (as principal or as agent);
- arranging deals in investments; and
- advising on investments.

If you are an overseas person and wish to rely on the OPE, in most cases it will depend on you being able to either:

- do your business with or through an authorised or exempt person (meaning that a UK-authorised person or exempt person is either the counterparty to the trade or is carrying on the regulated activity of "arranging deals" to help the trade come about), or
- do your business without breaching the financial promotion restriction (see section 6 below). In practice, this usually means that you would have to limit your activities so that they are only carried on with certain types of person – i.e. authorised or exempt persons, or the kind of person who is covered by an exclusion in the financial promotion regime (such as certain types of high net worth or sophisticated customers – see section 6). The OPE is therefore particularly useful if you are an overseas person who wishes to undertake activities with UK customers and counterparties operating in the wholesale markets.

The OPE is a good example of the UK's openness on financial services. In many other jurisdictions, it would not be possible for an overseas person to undertake such activities, even on the wholesale markets, without obtaining a local licence.

If you are able to rely on the OPE, there is no requirement to notify, or register with, the UK regulators. You may simply go ahead and do your business with the UK customer or counterparty.

Case study – US investment bank advising on, and dealing with, UK investors

A US investment bank wishes to give financial advice to UK investors regarding a potential investment opportunity in the US. The UK investors are (i) a hedge fund (which is managed by a UK-authorised investment manager) and (ii) some high net worth individuals who are already invested in the hedge fund and are looking for a co-investment opportunity.

The giving of financial advice to a UK investor would amount to the regulated activity of "advising on investments". However, the US investment bank may be able rely on the OPE. The hedge fund is managed by a UK-authorised investment manager, and so the transaction would be done "with or through" an authorised person. The OPE is therefore available.

The OPE may also be available for the individuals who co-invest in the investment opportunity. The individuals are unlikely to be authorised persons themselves, and so the availability of the OPE will depend on whether the individuals come within any of the financial promotion exemptions. It is possible (depending on the circumstances) that they may qualify as a certified high-net worth individual or sophisticated investor. If they do, the US investment bank may need to undertake certain formalities to ensure that it complies with the financial promotion restriction, but once it does that it can rely on the OPE to provide financial advice to those individuals.

Other general exclusions

You may also be able to benefit from other general exclusions if you are outside the UK. These include exclusions in respect of activities undertaken with affiliates or in connection with the sale of a body corporate (subject to certain conditions).

[10] There are other conditions that would need to be satisfied in relation to this exclusion. In particular, you would not be allowed to receive any pecuniary reward or other advantage for which you do not account to your client. In addition, this exemption is not available at all in relation to contracts of insurance.

Payment services and e-money services

The UK has separate but related regulatory regimes that apply to payment services[11] and the activity of issuing e-money. Being a payment institution or e-money[12] institution is different from being an authorised person that can do regulated activities of the kind described further above in this section – and this can have implications for how the UK regulatory regime applies to you.

If you are already authorised by the PRA as a bank, you do not need to apply separately to provide payment services or issue e-money.

However, if you are not a bank, you will need to become authorised by the FCA under the Payment Services Regulations 2017 ("**PSRs**") or Electronic Money Regulations 2011 ("**EMRs**"), depending on which activity you are engaged in:

- Payment services: Anyone who provides a payment service as a "regular occupation or business" activity in the UK needs to be authorised or registered with the FCA as a payment institution (unless they are a bank or an e-money institution licenced under the EMRs).
- E-money: Anyone who issues e-money in the UK must be authorised with the FCA as an e-money institution, unless they are a bank with permission to issue e-money under FSMA 2000.[13]

The tests for payment services and e-money services are slightly different to the four-part test set out further above in this section in relation to regulated activities, but in substance they are very similar: it is essentially a question of what kind of activity you are doing, whether it amounts to a business activity and whether it is done in the UK. Currently, the FCA takes the view that you will not be providing payment services or issuing e-money in the UK unless you are operating from an establishment in the UK, which means that such services provided remotely via the internet (for example) will not fall within scope.

In some cases you may need to be authorised under both FSMA 2000 and the PSRs/EMRs. For example, if you are a consumer credit provider who also provides payment services (such as a credit card provider), you will need both (i) FCA authorisation with a consumer credit permission and (ii) a payments licence.

What activities or investments are not regulated in the UK?

There are certain activities and investments which may be regulated in other jurisdictions but which are outside the scope of regulation in the UK. The box below gives some examples of each:

Activities which are outside the scope of regulation in the UK

- Lending (other than to consumers)
- Leasing (other than to consumers)
- Issuing guarantees

Investments which are outside the scope of regulation in the UK

- Physical assets (such as art, fine wine, vehicles)
- Land/real estate (unless ownership is held through securities – such as shares in a company that owns the land)
- Currency, when traded on a "spot" basis
- Cryptoassets (unless they already come within the definition of an existing form of regulated investment) – but see also the next section, below.

[11] Payment services are defined in the PSRs. There are numerous activities that come within this description, but the main ones to note are: (a) services enabling cash to be placed on, or withdrawn from, a payment account; (b) the execution of payment transactions (including through direct debits, standing orders and payment cards); (c) money remittance; (d) payment initiation services; and (e) certain account information services.

[12] E-money means electronically (including magnetically) stored monetary value as represented by a claim on the e-money issuer which: (a) is issued on receipt of funds for the purpose of making payment transactions; (b) is accepted by a person other than the e-money issuer; and (c) is not excluded by regulation.

[13] E-money institutions are permitted to provide payment services as a result of their e-money authorisation and do not require separate authorisation under the PSRs.

Cryptoassets

Cryptoassets are in a special category under the UK regulatory regime. They are not included as a distinct type of "specified investment", as described in section 5 above, but they are subject to certain specific regulatory requirements in the UK.

The main points to note in relation to cryptoassets are as follows:

- **Cryptoassets can come within existing definitions of specified investments**

Some cryptoassets are capable of coming within one of the existing definitions of "specified investment". For example, a digital token that gave the holder an entitlement to an equity interest in a company would be regarded as a "security" under the existing definitions and would be a specified investment. Some cryptoassets can also amount to e-money, which is also a form of specified investment. Such cryptoassets are already within the existing regulatory perimeter and you will require authorisation if you wish to undertake activities in the UK in relation to them.

Although cryptocurrencies are not currently regulated in the UK, cryptocurrency derivatives that reference cryptocurrencies or other cryptoassets are a form of specified investment and you will require authorisation if you wish to undertake specified activities in the UK in relation to them. The marketing, distribution and sale of derivatives or exchange traded notes that reference unregulated cryptoassets (including cryptocurrencies) to retail clients is prohibited.[14]

- **Registration for anti-money laundering purposes**

The FCA is the supervisor of UK cryptoasset business under the UK Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the "**MLRs**").

If you want to offer certain services relating to cryptoassets by way of business in the UK, you must first register with the FCA under the MLRs. The services caught by this requirement are:

- exchanging, or arranging or making arrangements with a view to exchanging cryptoassets for money or vice versa, or one cryptoasset for another cryptoasset;
- operating a machine which uses automated processes to exchange money for cryptoassets or vice versa (such as an ATM); and
- providing custodian services for: (1) cryptoassets on behalf of customers; or (2) private cryptographic keys to hold, store and transfer cryptoassets.

As a result, if you are an exchange or custodian wallet provider dealing with cryptoassets, you are likely to be caught by the registration requirement.

In the context of this requirement, the UK regulatory rules provide a technical definition of the term "cryptoasset", which the Bank of England has elaborated on here. The FCA website includes a detailed flowchart to help firms determine whether they are subject to the FCA registration requirement.

Further information about the process for applying to register can be found on the FCA's cryptoasset registration website. See also section 7 below.

- **Financial promotions relating to cryptoassets**

Although most cryptoassets do not come within the definition of "specified investments", most cryptoassets are caught by the financial promotion restriction (in relation to which, see section 6 below).

This means that, in practice, anyone who is not authorised by the FCA or registered with the FCA under the MLRs (as described in (b) above) will find it difficult to issue financial promotions to UK customers in relation to cryptoassets.

- **Future expansion of the scope of regulation to include other cryptoassets**

The UK government has announced its intention to change the scope of the regulatory perimeter to bring other cryptoassets within the regulatory regime.

The first phase will see the UK regulatory regime extended to include fiat-backed stablecoins. A second phase will bring most other forms of cryptoassets in scope. When this happens, most firms engaging in activities relating to cryptoassets will need to fully authorised by the FCA.

[14] This does not affect derivatives or exchange-traded notes referencing cryptoassets that already amount to "specified investments".

Shopping mall, Leeds City centre

Can I be an exempt person instead of an authorised person?

As noted above, if you carry on a regulated activity in the UK and do not benefit from any exclusions, you either need to be an authorised person or an exempt person. The position of authorised persons is considered further above. In the remainder of this section, we consider whether you could be an exempt person instead of an authorised person.

There are two main types of exempt person:

- **Appointed representatives**

An appointed representative ("**AR**") is a person who is not authorised by the FCA but is given exempt status because someone who is authorised by the FCA (known as the AR's "principal") has agreed in writing to accept full responsibility to the FCA for the regulated activities that the AR undertakes. The AR effectively carries on regulated activities in the UK under the umbrella of the principal.[15]

These arrangements are commonly used in groups of companies, where an authorised person in the group agrees to accept responsibility for an affiliate to save the affiliate the time and expense of getting authorised separately.

However, there are also authorised persons in the UK who provide a service of acting as principal for unconnected third parties in return for a fee. These persons are known as "hosting companies".

If you are looking to set up a business in the UK on a short term or trial basis, you could consider asking a hosting company to appoint you as its AR. This has the advantage of being relatively swift and inexpensive (relative, at least, to the speed and cost of obtaining full authorisation from the FCA). However, ARs are only allowed to perform a relatively small range of regulated activities (in particular, arranging deals and advising) and the operational arrangements with the principal are normally quite restrictive. Nevertheless, some entrants to the UK do use the AR route as a means to obtain a foothold in the market, and then subsequently apply to the FCA for full authorisation (and terminate the AR arrangement once they are authorised).

- **Recognised bodies**

FSMA 2000 contains a regime under which certain bodies apply to the FCA for "recognition" rather than authorisation. The recognition route is really only available in respect of financial markets infrastructure firms – such as exchanges, clearing houses and central securities depositories. The process for obtaining recognition is longer and more complex than obtaining authorisation, and financial markets infrastructure firms are subject to a different regulatory regime if they obtain recognition.

If you are considering establishing a financial markets infrastructure firm in the UK, you should take legal advice on whether it is better to apply for recognition or authorisation.

> If you carry on a regulated activity in the UK and do not benefit from any exclusions, you either need to be an authorised person or an exempt person.

[15] The AR regime does not apply in relation to payment or e-money services, but the regimes for those activities have an equivalent which allows authorised payment institutions or e-money institutions to register persons with the FCA as "PSD" or "EMD" agents (respectively) to enable these people carry out these activities without becoming authorised themselves

6
What are the rules regarding financial promotions and advertising?

Section 6: What are the rules regarding financial promotions and advertising?

The financial promotion restriction says that a person must not, in the course of business, communicate a financial promotion that is capable of having an effect in the UK, unless either:

- the communication is made, or approved, by a UK authorised person; or
- an exemption applies.

The purpose behind this rule is to provide an additional layer of protection for UK-based customers. As noted in section 4 above, certain activities can be carried on with UK customers without the need for a person to be authorised by a UK regulator.

In the example given in footnote 9 (above), a New York based portfolio manager can provide a discretionary portfolio management service to a London-based customer without needing UK authorisation. However, as a result of the financial promotion restriction, he cannot solicit customers in the UK unless either:

- the communication is approved by a UK authorised person (as part of which, the authorised person would have to ensure that the content of the communication complies with UK regulatory requirements); or
- an exemption applies (which normally means that the financial promotion is being directed at someone who is sufficiently sophisticated not to require protection).

The effect of this rule is that non-sophisticated UK customers are protected from being solicited by overseas persons who are outside the jurisdiction of the UK regulators.

What is a financial promotion?

A financial promotion is more precisely described as an invitation or inducement to engage in investment activity.

The definition of "investment activity" broadly corresponds to the list of "specified activities" identified in Test One under the four-part test in section 5 above.[16] However, for these purposes any exemptions in the definition of the regulated activity are disregarded – which means that you can find yourself in a position where you do not need to be authorised to do an activity but you are caught by the financial promotion restriction in relation to that activity – meaning that you cannot issue financial promotions in relation to it.

There is no definition of the expressions "invitation" or "inducement" from the definition of "financial promotion", but there is guidance in the FCA Handbook about what the FCA considers those expressions to mean. In that guidance, the FCA has said that inducements would normally contain a promotional element, and that communications of purely factual information would not normally amount to a financial promotion. However, context is all important, and the circumstances of each communication would need to be considered carefully.

A financial promotion can take many forms. It can be made verbally or in writing (including via social media). Financial promotions include marketing communications directed at clients, but they can also include other types of communication that are capable of being promotional in nature – including content on an overseas person's website that is accessible from the UK.

Spiral staircase, London City hall

[16] There are some exceptions to this rule:
(a) payment services (as described in section 5) and activities relating to e-money are not "specified activities"; and
(b) activities relating to cryptoassets come within the concept of "investment activities" for the purposes of the financial promotion restriction, but they are not "specified activities" for the purposes of determining whether authorisation is required.

Approval of financial promotions by UK authorised persons

If you are not authorised in the UK, you can communicate a financial promotion in the UK if someone who is authorised in the UK approves the financial promotion for that purpose.

There are authorised persons in the UK who offer to approve financial promotions for third parties as a service. However, such persons are becoming subject to increased regulatory scrutiny and any person who approves a financial promotion for a non-authorised person has to have special permission from the FCA in order to do this. In practice, you may find it difficult to find an authorised person to approve financial promotions for you. In that case, you would need to rely on an exemption instead.

Please note that it is not possible for a third party to approve a financial promotion which is not in written form (for example, in letters, emails or website content). They cannot, for example, approve the content of a verbal communication, even if the person engaging in that communication follows a script.

Exemptions from the financial promotion restriction

There is a broad range of exemptions from the financial promotion restriction. If you are not an authorised person, you can use these exemptions to allow you to communicate financial promotions to UK investors.

The box below sets out some of the main exemptions that are likely to be relevant if you are not UK-authorised and wish to communicate with customers or counterparties in the UK:

Examples of exemptions to the financial promotion restriction

1

Communications to investment professionals.

This allows promotions to:

- any person or entity that is authorised by the PRA or FCA;
- any exempt person;
- any person whose ordinary business activities involve them in carrying on controlled activities (for example, institutional investors who do not need authorisation in respect of their own activities); and
- certain directors, officers and employees of such entities.

This exemption means, for example, that you can communicate freely with entities who are regulated in the UK.

2

Communications to certified high net worth or sophisticated investors.

There are different versions of this exemption, and they apply to promotions made to individuals who satisfy certain criteria (such as financial thresholds). Some versions of the exemption are only available in relation to certain types of investment (such as unlisted securities). In most cases, you will need to undertake certain formalities before making the communication (such as obtaining a certificate regarding the net worth of the individual).

3

Communications to high net worth companies and unincorporated associations.

This allows promotions to corporates and non-corporate entities who satisfy certain financial criteria.

4

Communications to previously overseas customers

- This allow overseas firms to make promotions to customers with whom they have an existing relationship dating from a time when the customer was located outside the UK, but where the customer is now located in the UK.

There are also exemptions that apply in relation to certain types of activity. For example, written communications relating to deposit taking and certain types of insurance contract can be made to anyone in the UK provided that the communication contains certain information regarding the product. It is therefore relatively easy to comply with the financial promotion restriction in relation to such products.

There are numerous other exemptions that apply in specific situations, so if you need to communicate with a person in the UK in relation to regulated business, you should consider taking legal advice about the availability of those exemptions.

River Aire and bridge, Leeds city centre

Cryptoassets

Most cryptoassets do not come within the definition of "specified investments", which means that you do not need to be authorised in the UK in order to carry on activities in relation to them. However, most types of cryptoasset are caught by the financial promotion restriction.

Where an investment is caught by the financial promotion restriction, this normally means that it cannot be promoted in the UK by a non-authorised person (that is, someone who is not authorised by the PRA or FCA) unless the content has been approved by an authorised person or an exemption applies. That rule does apply in relation to cryptoassets, but in addition it is possible for a non-authorised person to make a financial promotion relating to cryptoassets if that person is registered with the FCA under the MLRs for cryptoasset activities (as described in section 5). Such a person can also approve financial promotions relating to cryptoassets for other persons to communicate on their behalf, as long as the content of the communication was prepared by them and the communication is in written form.

Where either an authorised person or a person registered only under the MLRs makes or approves a financial promotion relating to cryptoassets, they will need to comply with the relevant FCA rules regarding the content of such promotions. It is unusual for the financial promotion regime to apply to an investment that is not a "specified investment" and to which the licensing requirement would not apply. This approach is being taken in the interests of consumer protection.

The effect of this rule is that, in practice, anyone who is not authorised by the FCA or registered under the MLRs will find it difficult to issue financial promotions to UK retail customers in relation to cryptoassets.

Restrictions relating to the promotion of investment funds

In addition to the main financial promotion restriction, the UK regime contains a separate restriction regarding financial promotions that relate to investment funds. Even firms that are authorised in the UK cannot promote units in investment funds unless either:

(a) those investment funds are "regulated funds" – meaning, in effect, that they meet certain requirements that allow them to be promoted to retail customers; or

(b) the promotion is made only to certain categories of investor who are considered sufficiently sophisticated to invest in non-regulated funds.

The UK recently introduced an Overseas Funds Regime ("**OFR**"), which is a new gateway designed to allow certain investment funds established outside the UK to be promoted in the UK, including to retail customers. Please see the "Asset management and fund management" box in section 11 below for further details.

Restrictions relating to the promotion of payments and e-money activities

Both the payment services and e-money regimes provide that it is an offence to hold yourself out as being permitted to engage in either activity without the relevant authorisation. There are no exemptions from these prohibitions.

7

How do I obtain authorisation in the UK?

Section 7: How do I obtain authorisation in the UK?

This section sets out how you can obtain authorisation from the FCA or PRA, if you need to.

Different detailed requirements may apply to different types of business, however, and the general information below should be read together with the relevant links embedded within this Guide.

Which regulator do I apply to?

The identity of the regulator you should apply to will depends on the type of activities that you intend to undertake in the UK:

If you intend to set up a bank or an insurance company, or an investment firm that will do substantial amounts of own account trading, you should apply to the PRA.

If you intend to set up another type of institution that will carry on regulated activities, you should apply to the FCA.

If you intend to set up a "payment institution" (as described in section 5), you should apply to the FCA – but there are different registration requirements.[17]

If you intend only to provide certain types of cryptoasset-related services, you do not need full FCA authorisation but you do need to register with the FCA for money laundering purposes. See section 5 for details of which cryptoasset-related services are caught by this requirement.

Applying to the PRA

To obtain authorisation from the PRA, you will have to complete the application forms on the PRA website. There are separate forms for bank, credit union, and insurer applications.

The PRA provides business-specific guidance on its authorisation process; see, for example, the PRA webpage for new bank authorisations.

In support of your application, you must provide detailed information regarding the business you intend to undertake. This will include preparing a Regulatory Business Plan with information about your proposed activities, your structure, organisation, governance, risk and compliance arrangements, IT systems, key personnel and your controllers/beneficial owners.

The PRA provides guidance on its expectations in relevant supervisory approach documents, such as Supervisory Statement 2/19.

The PRA (in a joint initiative with the FCA) has created Start-Up Units, which are there to proactively assist applicants in understanding the regulators' expectations and to help them through the application process. There is a New Bank Start-Up Unit and a separate New Insurer Start-up Unit. The PRA and FCA positively encourage potential applicants to contact these units, including at a time when they might only be considering whether to apply at all.

The PRA generally expects applicant firms to meet with it three times before submitting their applications. You would be expected to provide the PRA with a draft of your business plan, which will be analysed and challenged through these meetings. More information about the pre-application stage is available on the PRA website.

PRA applications must be accompanied by the applicable fee (which is set out in the PRA Rulebook).

[17] Payment services are not "regulated activities" and so do not come within (b) above. However, the regulator you would apply to would still be the FCA.

The PRA has a statutory period of 6 months to consider an authorisation application. This period starts to run from the point at which the PRA receives an application that it considers to be complete. The PRA can extend the timeframe until up to 12 months from the date of application if it requires additional information.

Applying to the FCA for authorisation to carry on regulated activities

The FCA application process is similar to that of the PRA. You must submit your application via the FCA's online Connect platform.

You will be required to provide a detailed Regulatory Business Plan and financial projections and other relevant information. Among other things, you must provide information about your intended activities (including financial projections and intended marketing activities), how your business is organised and operated (including in relation to its IT arrangements), information about key individuals involved in your business, owners and close links, and about your business's risk management and regulatory compliance arrangements. You must also provide detailed information about how you will meet your prudential capital requirements.

Your application must be accompanied by the applicable fee. The level of fee varies depending on the type of firm. The FCA's pricing categories are detailed on its website.

The FCA has a statutory period of 6 months to consider an authorisation application (except for applications from payments and e-money firms or firms doing only insurance distribution activities, in which case the period is 3 months). This period starts to run from the point at which the FCA receives an application that it considers to be complete. In all cases, the FCA can extend the timeframe until up to 12 months from the date of application if it requires additional information.

Further information regarding the FCA's approach to authorisation applications is set out on the FCA's "How to apply for authorisation or registration" website and on the FCA's "Authorisation" website.

Like the PRA, the FCA provides assistance to potential applicants. For example, the FCA:

- offers a pre-application support service (known as PASS) which supports wholesale markets firms with their applications; and
- operates an Early and High Growth Oversight team which provides closer supervision and support to certain newly authorised firms focussed on growth or scaling innovative technology.

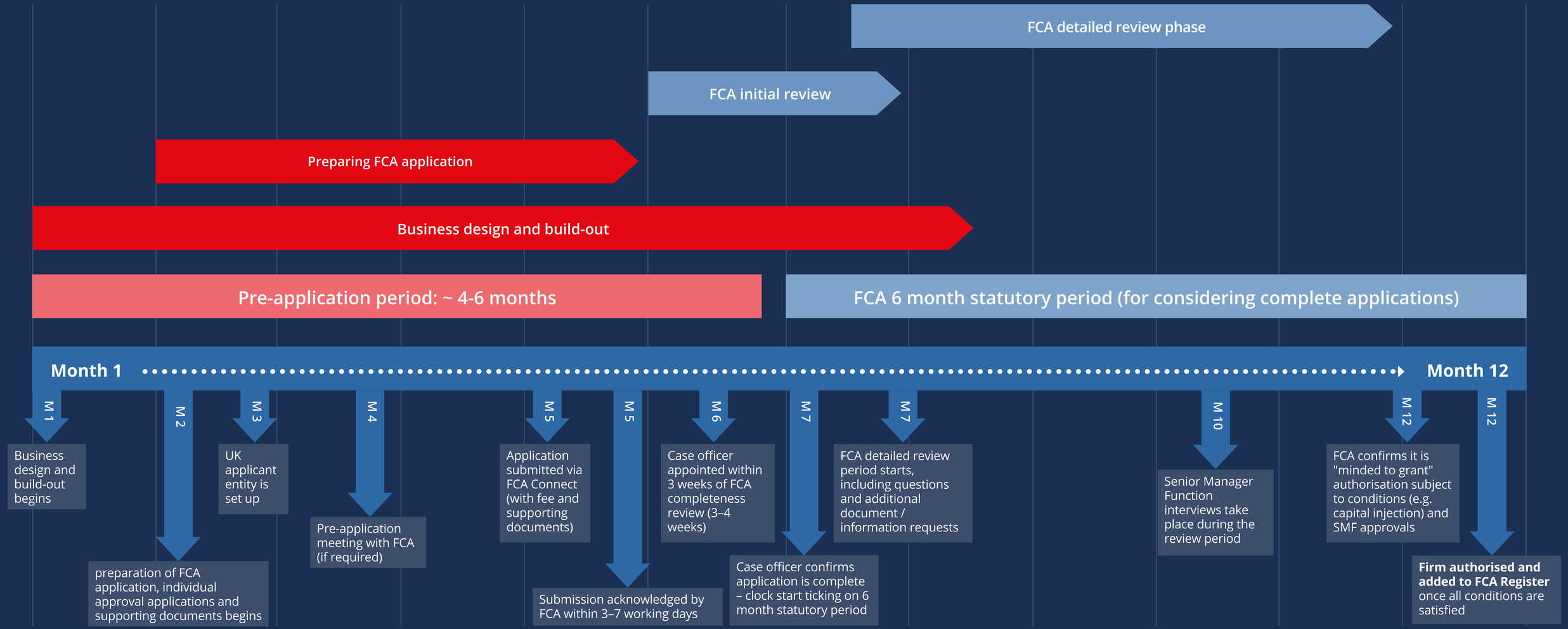
> Both the PRA and the FCA have a statutory period of six months to consider an authorisation application. This period starts from the point at which the the regulator in question receives an application that it considers to be complete.

Example of an application for authorisation

We have set out below an example of an application, to illustrate the timelines, the sequence of events and the main items of supporting documentation that would be required.

In this example, we have assumed that you are seeking authorisation as an investment firm that does business with retail customers (such as a securities dealing platform). We have chosen this as our example because the application would be made to the FCA only (not the PRA, which would be more complicated) and it would probably be seen as having a middling level of complexity. Please note that the details of the application, the supporting documentation and the timelines and sequencing would vary according to the exact type of business that you wished to undertake.

The timeline for a typical application is as follows:



The key points to note in relation to the timelines are as follows:

- FCA timelines: The FCA has a statutory period of 6 months to consider your application, starting at the point at which it determines that it has received a complete application (that is, containing all the relevant information and supporting documentation). In relation to this:
  - If your application is incomplete when it is received, the 6 month period does not start running. The FCA will tell you if this is the case.
  - If at any time during the process the FCA considers that it requires further additional information from you, the FCA can suspend the running of the 6 month deadline until the additional information is received. The deadline can be extended until a maximum of 12 months from the date of the original application. If approval is not given within 12 months, you will have to start a new application.
  - The FCA has up to 6 months to consider the application, but it does not need to take the full six months. It can give its approval in a shorter timeframe, and it often does so – particularly if it has been able to address its concerns during pre-application discussions with you.
- Pre-application preparatory work: In order to ensure that the application received by the FCA is considered complete, most applicants will undertake detailed preparatory work before submitting the response. This will include preparing the supporting information. This process can typically take 3-6 months for an application of medium complexity, but the period can be shorter or longer than this depending on the complexity.
- Early engagement with the FCA: The FCA positively encourages potential applicants to contact it ahead of submitting an application. This can be done during the pre-application preparatory work phase. The FCA may wish to hold a pre-application meeting, and may ask you to submit draft documents ahead of those meetings (such as the regulatory business plan or compliance monitoring documents). It is usually worth engaging with the FCA, if possible. If the FCA is able to get itself comfortable with key aspects of the application before you formally submit the application, this may help the FCA to approve the application more quickly.
- Senior managers and certification of staff: If you are a firm, you will need to decide who your senior managers will be. The holders of senior management functions (see section 9, below) will need to be approved by the FCA. The FCA may ask to hold interviews with the proposed holders of those functions.
- Application fee: The application fee payable will depend on your intended business activities. You pay the fee when you formally submit the application.
- Submission method: You must submit your application electronically, via the FCA's online Connect platform. There are separate application forms for the different types of applicant firm, and they contain detailed questions. In some cases, you will have to submit additional specialist forms, such as IT controls forms.
- Documentation: All application documents (including supporting documents) must be in final form on the date of the submission, and must have been approved by your governing body. See below for examples of what information would be required in the context of an application such as the one in this example of an investment firm.

Examples of supporting documentation for an application by an investment firm

Regulatory business plan
Compliance monitoring programme
Consumer Duty policy
Anti-money laundering policy
Structure chart (organisation and personnel)
IT architecture diagram
3 year forecast balance sheet, P&L and cash flow forecast
Capital resources calculation and Internal Capital Adequacy Assessment process (ICARA)
Fitness and propriety and conduct policies
Outsourcing policy and outsourcing agreements
Record management policy

Applying to the FCA for authorisation or registration as a payment institution or e-money institution

The process for applying to become a payment institution or e-money institution is explained on the FCA website. You must apply using the FCA's online Connect platform and pay the applicable fees.

You will be required to provide information about your financial forecasts, and your arrangements regarding capital, safeguarding, risk management, wind down arrangements and professional indemnity insurance. You will also be required to provide copies of your policies and procedures.

The FCA has published an approach document setting out its expectations for payments and e-money firms.

Certain limited payment services do not require authorisation. If you seeking to provide only account information services, you can follow a lighter touch registration process that does not require full authorisation.

Applying to the FCA for cryptoasset registration under the MLRs

You must register with the FCA if you want to provide cryptoasset services that come within scope of the MLRs (see section 5 for details).

The process for registering under the MLRs is different to that for applying for authorisation. The FCA has published a flowchart to help firms determine whether they are required to register with the FCA, and practical examples of good and poor quality applications. You can request a pre-application meeting with the FCA.

If you are registering under the MLRs, you will need to provide certain information about your intended activities, how your business is organised and operated (including in relation to your IT arrangements), information about key individuals involved in the business, owners and close links, and information about your business's risk management and regulatory compliance arrangements.

You should submit your application via the FCA's online Connect platform. The application must be accompanied by the applicable registration fee.

The FCA has a statutory period of 3 months to determine a registration application. This period begins when the FCA confirms that it deems the application to be complete. Incomplete applications will result in the FCA's review period being extended.

Further information is available on the FCA's Cryptoassets: AML / CTF regime website.

Harbourside, Bristol

8

What conditions do I need to satisfy to become authorised in the UK?

Section 8: What conditions do I need to satisfy to become authorised in the UK?

The threshold conditions

In order to be an authorised person in the UK, you must satisfy certain "threshold conditions" set out in FSMA 2000.[18] (If you are planning to set up a new business in the UK to obtain authorisation, the threshold conditions apply to the new business – that is, the entity that is applying for authorisation.)

Threshold condition	Description
Effective supervision	You must be capable of being effectively supervised by the UK regulators, having regard to all the circumstances, including (i) the nature of your business, (ii) who you have "close links" with and (iii) whether you are subject to the laws of a territory outside the UK where those laws would prevent effective supervision. In this context, a "close link" is someone with whom you are affiliated – such as another member of the same group of companies. You will be required to disclose to the regulators who your beneficial owners are – usually in respect of any beneficial owner who owns or controls more than 10% of the shares or voting rights in your firm, either directly or indirectly. Once you are authorised, no new person may obtain that level of control over you without first obtaining the consent of the regulators.
Appropriate resources[19]	Your resources must be appropriate in relation to the regulated activities that you carry on. This includes both financial and non-financial resources.
Suitability	You must be a "fit and proper" person having regard to all the circumstances. The relevant circumstances include (i) whether those who manage your affairs have adequate skills and experience; (ii) the need to ensure that your affairs are conducted in an appropriate manner; (iii) whether you are complying with the rules and requirements imposed by the regulators; and (iv) the need to minimise the extent to which it is possible for your business to be used for a purpose connected with financial crime.
Business model	Your business model (that is, your strategy for doing business) must be suitable for a person carrying on the regulated activities that you are carrying on.
Location of offices	If you are a body corporate that is incorporated in the UK, your head office and (if you have one) registered office must be in the UK. There are exceptions to this rule. Once you are authorised, no new person may obtain that level of control over you without first obtaining the consent of the regulators.
Legal status*	If you carry on a regulated activity which consists of, or includes, accepting deposits or issuing e-money, you must be a body corporate or a partnership.

(* This threshold condition only applies to firms who are authorised by the PRA.)

[18] If you are authorised or registered by the FCA as a payment institution or e-money institution, you are not an "authorised person" and are not subject to the requirements in this section 8. You will instead be subject to the requirements of the PSRs or EMRs (respectively), which contain certain conditions that you must satisfy if you wish to be authorised as a payment institution or e-money institution. These conditions include that (a) you must be a body corporate constituted under the law of a part of the UK; (b) you must have robust governance arrangements and adequate internal controls; and (c) your directors/senior managers must be fit and proper; and (d) your owners must be fit and proper and are not likely to prevent the FCA supervising you effectively.

[19] For firms who are authorised by the PRA, this threshold condition is characterised as requiring you to conduct your business in a prudent manner. The threshold condition goes on to state that you must have, in particular, appropriate financial and non-financial resources.

The threshold conditions must be met on an ongoing basis, not just when you obtain your authorisation. As a result, if you are an authorised person and you fail to meet any of the threshold conditions (or are at risk of failing to do so), you are required to notify the relevant regulator.

The regulator can withdraw your authorisation if you cease to meet the threshold conditions.

"Ready, willing and able"

Both the PRA and FCA require that you must be ready, willing and able to comply with applicable PRA and FCA rules and guidance from the point at which you become authorised. Neither regulator will allow you to obtain authorisation and only then put the necessary operational arrangements in place to run the business.

You will also be expected to start using your authorisation as soon as you are given it.

Salford Quays, Manchester

Do I need to set up a new legal entity in the UK?

Most applicants for authorisation would typically set up a new legal entity in the UK – such as a limited company incorporated in the UK as a subsidiary of the overseas firm.

There are, however, some situations in which the UK regulators will allow an entity which is established overseas but which has a branch office in the UK to apply for that branch to be authorised, without having to set up a separate UK entity. This is usually only permitted where the branch intends to provide services to the wholesale and institutional markets – see further below for the levels of retail business that are permitted for branches of banks and insurers.

If you are already established as an entity overseas, obtaining authorisation for a UK branch can have advantages – such as:

- you might not be required to hold additional capital in the UK to meet the UK financial resources requirements (as you would have to do if you set up a UK subsidiary and had to capitalise it);
- the requirements for senior management (see section 9) are usually considered to be less onerous than would be the case if you set up a UK subsidiary; and
- the branch may be able to make use of governance and organisational support from your head office overseas rather than you having to establish separate arrangements in the UK on a stand-alone basis.

The PRA's approach to authorising branches

The PRA has well-established processes and criteria for determining whether to grant authorisation to a UK branch of an overseas bank or overseas insurance company. There are certain criteria that will normally apply before the PRA will consider this:

Outline of criteria for banks

- The firm should meet general expectations to be effectively supervised as a branch, taking into account:
  - whether the firm meets the UK's threshold conditions;
  - whether the home jurisdiction's regulatory regime is sufficiently equivalent to the UK regime;
  - whether there is sufficient supervisory co-operation with the home state supervisor; and
  - the efficacy of arrangements for resolution in the home state.[20]
- Retail activity should be below certain thresholds, which are currently:
  - less than £100m of FSCS-covered retail, small company, transactional and instant account balances;[21]
  - fewer than 5,000 retail and small company customers; and
  - less than £500 million in total potential liability to FSCS in respect of covered deposits.
- The firm should not be systemically important. Factors to be considered include whether it holds an average of total gross assets below £15 billion.

Outline of criteria for insurers

- The firm should meet general expectations to be effectively supervised as a branch, taking into account whether the firm meets the UK's threshold conditions and complies with the PRA rulebook and legislative requirements.
  - The home jurisdiction's regulatory regime must be "broadly" equivalent to the UK regime and there must be sufficient supervisory co-operation with the home state supervisor.[22]
- The home jurisdiction's winding up regime should guarantee appropriate priority for UK policyholders in the event of the insurer's insolvency and winding up.
- The branch should have less than £500m of insurance liabilities covered by the FSCS.
- The size of the branch, as compared with the size of the firm, should allow the firm to be effectively supervised by the home state regulator.
- The firm's reinsurance arrangements should allow the PRA to conduct effective supervision and not present undue risk to the branch.
- The branch must meet the PRA's rules and expectations regarding corporate governance and senior manager functions.

Details of the criteria and the PRA's approach can be found here in respect of insurance companies and here in respect of banks.

Where the PRA is considering whether to allow the authorisation of a branch, it may impose additional requirements – such as requiring the branch to appoint additional senior management function holders, or imposing additional branch liquidity requirements, or preventing the branch from undertaking certain types of business activity.

Where the PRA agrees to authorise a branch office, there are separate rules in the PRA rulebook that apply specifically in relation to such offices.[23]

[20] According to the list published by the Bank of England in September 2024, there are currently more than 120 banks who have authorised branches in the UK. The home jurisdictions of those banks (who will have satisfied the PRA's requirements regarding equivalence and supervisory co-operation) include Australia, Bahrain, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Hong Kong, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Luxembourg, Malaysia, Malta, Netherlands, Norway, Qatar, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates and the United States of America.

[21] The FSCS is the UK's compensation scheme for failed financial services firms.

[22] According to the list published by the Bank of England in July 2024, there are currently more than 100 overseas insurers who have authorised branches in the UK. The home jurisdictions of those banks (who will have satisfied the PRA's requirements regarding equivalence and supervisory co-operation) include Belgium, Bermuda, Brazil, Denmark, France, Germany, India, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Netherlands, Norway, Spain, Sweden, Switzerland and the United States of America.

[23] See Third Country Firms in respect of banks and Third Country Branches in respect of insurance companies.

Case study: UK branch of an Australian bank

A bank is established and incorporated in Australia and deals primarily in the wholesale markets. It wishes to establish a branch operation in the UK, from which it intends to service institutional investors and participate in the UK markets.

As the Australian bank does not intend to deal with retail customers, it is capable of satisfying the criteria for authorisation of a third country bank and does not need to worry about the thresholds for retail customers.

The bank will also need to satisfy the PRA that the other criteria are met. In this case, other Australian banks have been granted authorisation of their branches, so it is likely that the PRA has already satisfied itself that the Australian regime is sufficiently equivalent and that it can expect an appropriate level of co-operation from the Australian regulators.

The bank has to demonstrate to the PRA that it has an appropriate business model and adequate governance arrangements and operational arrangements for the branch. These will be described in the regulatory business plan which is submitted as part of the application for authorisation.

Among the issues covered will be the question of which member of its senior management will perform the senior management function of acting as branch manager, which will require them to be registered with the PRA (see section 9 for details of the registration requirements for senior managers).

The PRA considers the application against its criteria and concludes that the risk profile of the branch is within its tolerances and grants authorisation for the branch.

The FCA's approach to authorising branches

The FCA can authorise a branch office of an overseas firm (although historically it has done this less often than the PRA has in respect of banks and insurance companies). There are certain types of activity where the FCA cannot authorise a branch (for example, where the firm is seeking authorisation under the PSRs as a payment institution or EMRs as an e-money institution).

In all other cases, the FCA will consider a number of factors in determining whether or not to authorise a branch. Details of the FCA's approach to international firms can be found on the FCA's website.

What are the minimum requirements for a UK operation?

Overseas entrants to the UK financial services market sometimes want to know what the minimum requirements are for their UK operation – so that, for example, they can set up the UK business at a relatively small scale and take any decision to expand subsequently, based on the success of the initial operation.

The answer to this question varies from activity to activity. Banks and insurance companies will inevitably have to establish large and sophisticated operations in the UK from the outset. However, payment institutions, e-money institutions and firms undertaking relatively simple regulated activities in the UK may be able to operate with fewer resources in the UK.

The main points to note are as follows:

- Numbers of personnel: For certain types of firm, the FCA requires that there should be at least two independent minds applied to the formulation and implementation of the firm's policies. This is sometimes known as the "four eyes" rules, and, in effect, requires there to be two members of senior management in the regulated firm.
- Responsibilities of personnel: There are certain senior management responsibilities that the firm must always appoint someone to fulfil. For example, one member of senior management will always be required to fulfil the role of money-laundering reporting officer.
- Nationality/location of personnel: The UK does not impose any nationality requirements for the personnel or senior management of an authorised person – for example, that they be of British nationality. However, as a matter of practice the regulators do expect that most of the senior management of a UK authorised firm should be ordinarily resident in the UK.
- Outsourcings/dependencies: A UK authorised person is able to outsource certain functions to third parties, including third parties outside the UK and including affiliates. Any outsourcing must comply with the relevant PRA or FCA rules regarding outsourcings, and the UK authorised person remains responsible for any functions that it outsources.

Payment institutions and e-money institutions are also required to put in place robust arrangements to safeguard funds they receive from customers, to ensure that those funds they remain available to be returned to those customers in the event the institution fails.

Case study:
UK sales office of a Swiss asset manager

A Swiss asset manager offers a range of investment products that are designed with the life insurance industry in mind. The asset manager wishes to establish a sales office in the UK so that it can promote its products and services to UK insurance companies.

As the asset manager will be operating out of a place of business in the UK, it will need authorisation from the FCA. The asset manager therefore sets up a UK subsidiary company and applies for it to be authorised.

In its business plan for the FCA, the asset manager explains that the UK subsidiary will be a sales office, whose primary function will be to identify potential customers and introduce them to the parent company in Switzerland.

The UK subsidiary is able to operate on the following basis:

- The UK subsidiary has two permanent staff based in the UK. Both are registered with the FCA as directors of the subsidiary. One of them is responsible to the FCA for compliance and money-laundering reporting.
- An officer of the Swiss parent company is also appointed to the Board of the UK subsidiary. That officer is registered with the FCA as a senior manager, but does not need to relocate to the UK, as the majority of the UK subsidiary's Board members are already in the UK.
- The UK subsidiary outsources certain functions to its parent company – such as compliance monitoring and financial reporting. The UK subsidiary enters into a formal outsourcing agreement with the parent company, as required by the FCA rules, and the senior managers of the UK subsidiary then monitor the performance of the parent company to ensure that the regulatory obligations of the UK subsidiary are being met.
- The UK subsidiary has relatively low capital requirements, as it is not undertaking any capital-intensive activities.
- The UK subsidiary has to follow the FCA's conduct of business rules when undertaking its business in the UK. However, as the UK subsidiary's customers consist of insurance companies, who are themselves regulated in the UK, the conduct rules are relatively light and easy to comply with.

9

What does it mean for me if I am authorised in the UK?

Section 9: What does it mean for me if I am authorised in the UK?

Once you become authorised in the UK, you become subject to the supervision of the relevant regulators and will be required to comply with their rules.[24] There are rules that apply to the authorised persons themselves and rules that apply to their staff and senior managers. The main points to note are set out below.

Permissions

The PRA or FCA will issue you with a set of permissions, which will specify precisely which activities you can undertake and which investment types you can undertake them in relation to. Your permission will also identify, for each regulated activity, what type of customer you can carry on those activities with – for example, whether you can deal with retail customers or are limited to dealing only with professional clients. Your permission may also specify whether you can hold client money.

If the PRA or FCA wish to, they can impose restrictions or limitations on your permission – for example, to put limits on the volumes of business you can undertake.

What rules and requirements will I be subject to?

There are different levels of obligation that you will be subject to under the UK regulatory regime.

Threshold conditions

You must continue to meet the threshold conditions (as described in section 8) on an ongoing basis.

Core principles

The FCA has 11 core principles (known as the "**Principles for Businesses**") that apply to the firms that it supervises.

The PRA also has core principles (known as "**Fundamental Rules**"), which apply to dual-regulated firms. These overlap to a large degree with the FCA Principles, but reflect the PRA's statutory objectives.

PRA Fundamental Rules

Fundamental Rule 1: A firm must conduct its business with integrity.

Fundamental Rule 2: A firm must conduct its business with due skill, care and diligence.

Fundamental Rule 3: A firm must act in a prudent manner.

Fundamental Rule 4: A firm must at all times maintain adequate financial resources.

Fundamental Rule 5: A firm must have effective risk strategies and risk management systems.

Fundamental Rule 6: A firm must organise and control its affairs responsibly and effectively.

Fundamental Rule 7: A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice.

Fundamental Rule 8: A firm must prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services.

FCA Principles for Businesses

1. **Integrity:** A firm must conduct its business with integrity.

2. **Skill, care and diligence:** A firm must conduct its business with due skill, care and diligence.

3. **Management and control:** A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

4. **Financial prudence:** A firm must maintain adequate financial resources.

5. **Market conduct:** A firm must observe proper standards of market conduct.

6. **Customers' interests:** A firm must pay due regard to the interests of its customers and treat them fairly.

7. **Communications with clients:** A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

8. **Conflicts of interest:** A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.

9. **Customers – relationships of trust:** A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.

10. **Clients' assets:** A firm must arrange adequate protection for clients' assets when it is responsible for them.

11. **Relations with regulators:** A firm must deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice.

12. **Consumer Duty:** A firm must act to deliver good outcomes for retail customers.

[24] Payment institutions and e-money institutions are subject to similar requirements and various sections of the FCA Handbook - including the Principles for Businesses - will apply to them. See further below for a description of the requirements that apply if you are authorised or registered as a payment institution or e-money institution and do not do any other activities that would be regarded as "regulated activities" in the UK.

You will be expected to embed the relevant principles across your business. If there is no specific PRA or FCA rule relating to a particular matter, you will be expected to comply with the principle.

Failure to comply with the principles is regarded as a breach of the regulator's rules and can expose an authorised person to enforcement action. However, the use of principles-based approach also means that UK authorised firms have some flexibility about how to comply.

Rules

In addition to the threshold conditions and principles, the PRA and FCA also set their own rules, which, as an authorised person, you will be legally required to comply with.

The FCA's rules and guidance are set out in the FCA Handbook, which is organised into a number of separate sourcebooks. The FCA also publishes a glossary of the defined terms that are used in the rules and guidance. The PRA's rules are set out in the PRA Rulebook, which is organised thematically into a number of separate rulebooks.

Additional regulatory guidance

In addition to guidance set out in the FCA Handbook, the FCA also publishes policy statements, final guidance, and dear CEO letters that help flesh out the FCA's expectations as to how you should comply with its rules. Similarly, the PRA issues guidance that supplement its rules.

Overview of the regulatory requirements

At a high level, the regulators' rules are likely to cover the following areas:

- **Financial resources**

Both the FCA and PRA rules set minimum capital resources requirements. The amount of capital you are required to hold would depend on how you are categorised from a regulatory perspective, and the type of business you are undertaking.

- **Governance and systems and controls**

An authorised person is required to have adequate governance and systems and controls. The exact nature of the requirements varies from firm to firm, and a proportionate approach is applied, but typically you should expect to be subject to rules regarding:

(i) the way you are organised;

(ii) how you manage risk;

(iii) what control functions you have (including compliance) and how you operate;

(iv) how you manage conflicts of interest, between yourself and your clients and between different clients;

(v) any delegation or outsourcing of functions to third parties;

(vi) record keeping; and

(vii) operational resilience.

When you apply for authorisation, the regulators will expect a full explanation of your approach to these issues and evidence that you are able to implement them. You will typically have to provide copies of your processes and your monitoring procedures.

- **Conduct of business**

Conduct rules will apply to you when you are dealing with customers and counterparties. The rules differ from activity to activity, but typically cover matters such as communications with customers, disclosure of fees and charges, having written agreements in place with customers, and rules when providing specific services (such as the order execution rules when executing a transaction for a client, or rules requiring financial advice to be suitable for the client).

The conduct rules are calibrated according to the nature of the activity and the status of the customer. The conduct rules are less onerous and prescriptive, for example, when the customer concerned is a professional client rather than a retail customer.

In 2023, the FCA introduced a new set of rules which were designed to set higher and clearer standards of consumer protection across financial services. The FCA's Principles for Businesses (see further above in this section) include a new principle – known as the Consumer Duty – that requires authorised persons to "deliver good outcomes for retail clients". These principles are supplemented by detailed rules and guidance, focussing on four key areas: (i) quality of products and services; (ii) the price and value of products and services; (iii) consumer understanding; and (iv) support for consumers. If you are intending to deal with retail customers in the UK, you will need to ensure that you can comply with the requirements of the Consumer Duty.

- **Staffing arrangements**

The rules relating to staffing and personnel include:

(i) a requirement for your senior managers to be approved by the regulators (see further below);

(ii) a requirement for other members of your staff to be certified by you on an annual basis as being fit and proper to perform their role;

(iii) restrictions on remuneration (see under next heading, below); and

(iv) competency requirements for your staff when they are performing certain functions (such as advising on investments). These can include the need to obtain professional qualifications.

- **Remuneration**

There are rules to ensure that arrangements for the remuneration of staff are appropriate and consistent with sound risk management and the fair treatment of customers. Where a firm is regulated by both the PRA and the FCA, it is subject to both PRA requirements and FCA requirements in respect of remuneration.

The rules relating to remuneration are complex, and vary according to the nature of the business, but in broad terms your remuneration arrangements are expected to conform with certain requirements – for example, that the variable element of a staff member's remuneration should reflect their performance and should be subject to clawback in certain situations.

Where the UK has gone further than some other jurisdictions is by removing the "bonus cap", which had previously required that for banks and certain investment firms there should be a maximum ratio between the fixed and variable components of a person's remuneration. Following the removal of the cap, UK banks now have additional flexibility regarding how they remunerate their staff.

- **Reporting**

As an authorised person, you would be required to make regular reports to the regulators on various matters. You would also be required to proactively disclose to the regulators anything relating to you which the regulators would reasonably expect notice.

[25] There is no requirement for non-executive directors to be approved by the regulators, unless they also perform one of the other specified functions (such as being a chair of a relevant committee, which is a role often performed by non-executive directors).

[26] This is the function of having a significant influence on the management or conduct of the authorised person, and which is performed by an employee or officer of another undertaking which is a part of the authorised person's group (such as its parent company).

[27] This is the function of performing role of a SID and having particular responsibility for leading the assessment of the performance of the person performing the Chair function.

Senior management approvals

Individuals who perform certain "senior management functions" ("**SMFs**") must be pre-authorised by the FCA and/or (if applicable) the PRA before they can perform those functions.

The list of SMFs for which regulatory approval is required includes:

Chief executive function	Chief finance function
Executive director function[25]	Chief risk function
Head of key business area function	Group entity function[26]
Chair function	Various committee chair functions (for example, chair of the risk committee, audit committee or remuneration committee)
Senior independent director (SID) function[27]	Compliance oversight function
Money laundering reporting function	Other overall responsibility function
Head of overseas branch function	Chief operations function

This list contains the main examples of SMFs that may be relevant to an authorised person. Not all of the SMFs above will be applicable to each type of authorised person. In addition, there are other SMFs not specified in this list which may apply in the circumstances of a particular type of authorised person.

As an authorised person, you would also be required to allocate certain prescribed responsibilities to your senior managers to ensure that there is an individual who is accountable for those responsibilities.

Consequences of holding an SMF

An individual who has been approved by the PRA or FCA to hold an SMF becomes personally subject to the jurisdiction of the relevant regulators. Senior managers are expected to comply with separate conduct rules that applies to them as individuals.

The FCA and the PRA have the power to take enforcement action against individuals who breach certain aspects of the senior managers regime (such as breaching the relevant conduct rules). The penalties under the enforcement procedure include public censure, the withdrawal of their permission to hold an SMF and financial penalties. If the FCA or PRA determines that an individual is not fit and proper, they may impose a prohibition order on that person, preventing them from working in the UK financial services industry.

The process for applying to perform an SMF

Applications for approval must be made using specific SMCR forms, and submitted online via Connect. Prior to submitting an approval application in respect of a member of your senior management, you must undertake a "fit and proper" assessment of the candidate, including running a criminal records and financial background check in certain circumstances.

Approval must be obtained before the individual can begin performing the relevant role (although exceptions can be made in emergency situations). Changes to existing functions and termination of a function must also be notified.

The regulators have a statutory period of 90 calendar days to decide whether to approve an application. In practice, the majority of approvals tend to be granted more quickly than this, and in many cases within a number of days for straightforward, complete applications.

Further information is set out on the FCA website and on the PRA website.

Supervision and enforcement

Each of the regulators actively supervise the firms that they regulate. Both the PRA and FCA say that they take a proportionate approach to supervising the firms they regulate, taking into account the risks posed by the relevant businesses.[28]

The PRA and FCA have powers to require authorised persons to provide information and documents to them and to conduct formal investigations into authorised persons.

The PRA and FCA also have the power to carry out enforcement action against authorised persons and against their senior managers and staff, and to impose penalties on them. The penalties imposed by the regulators can include private warnings, public censure, financial penalties against authorised persons or senior managers and, in appropriate cases, either cancelling an authorisation or prohibiting an individual from performing certain functions.

Fees and levies

As an authorised person, you would be required to pay fees to the relevant regulators. Details of the relevant fees are set out on the relevant webpages of the FCA and PRA.

Authorised persons are also subject to levies in the certain situations. The UK operates a Financial Services Compensation Scheme ("FSCS"), which provides compensation for customers in the event of a financial institution being unable to meet its obligations. The FSCS is funded by authorised firms in the form of a levy. Broadly speaking, the amount payable by an authorised person depends on the type of business undertaken and that person's market share. Further information on the FSCS and the levy arrangements can be found on the FSCS website.

Payment service providers

The FCA is the relevant supervisory authority for payment institutions and e-money institutions. Under the PSRs and EMRs, the FCA has similar powers to those it enjoys under FSMA 2000 in relation to firms that carry on regulated activities.

The requirements for payment institutions and e-money institutions cover broadly the same areas as those for firms authorised under FSMA 2000. If you are a payment institution or an e-money institution, you must:

(a) have sufficient financial resources, including meeting minimum capital requirements;

(b) implement governance arrangements and internal control mechanisms, that cover (among other things):

  (i) administrative risk management and accounting procedures that are proportionate, appropriate, sound and adequate;

  (ii) monitoring, handling and following up security incidents and security-related customer complaints, including incident reporting;

  (iii) anti-money laundering requirements;

  (iv) any delegation or outsourcing of functions to third parties;

  (v) record keeping;

  (vi) arrangements that enable you to safeguard customer funds; and

  (vii) operational resilience;

(c) comply with relevant conduct of business requirements under the PSRs and EMRs (where relevant) as well as certain parts of the FCA Handbook (including the Consumer Duty);

Continued on next page

[28] More detail on the approach of the regulators to supervision can be found at the following links:
- PRA: PRA's approach to supervision of the banking and insurance sectors, which contains links to separate approach documents regarding banking and insurance respectively.
- FCA: Our approach to supervision.

(d) have adequate staffing arrangements, ensuring that directors and persons responsible for the management of the business are of good repute and are appropriately experienced and knowledgeable;29

(e) pay certain fees and levies that reflect the scale of your business; and

(f) make regular reports to the regulators on various matters.

Payment institutions and e-money institutions are also required to proactively disclose to the regulators anything relating to them which the regulators would reasonably expect notice of.

One important difference between payment institutions/e-money institutions and the majority of firms that operate under FSMA 2000, is that payment services/e-money customers do not receive FSCS protection. Payment institutions and e-money institutions are required to "safeguard" customer funds in third party bank accounts for as long as such funds remain with the institution. This is to ensure that the funds remain available to the customer in the event the payment institution or e-money institution fails. This is an area of particular focus for the FCA.

What business can I do from the UK into other countries?

If you become an authorised person, this will enable you to carry on regulated activities in the UK only. However, the UK is proactively looking to develop relations with other countries with a view to allowing greater market access on a mutual basis.

The UK has also adapted its regulatory framework to allow the UK to more easily enter into arrangements of this nature. For example:

(a) the UK has published a Guidance Document regarding the UK's equivalence framework for financial services, which the UK uses to assess the equivalence of other jurisdictions. There are current provisions in the UK law which allow preferential treatment of persons from other jurisdictions where the relevant regulatory requirements are considered equivalent to those of the UK. The Guidance Document also gives a clear and transparent explanation of the UK's approach to equivalence questions;

(b) under the Financial Services and Markets Act 2023, HM Treasury has been given the power to make amendments to UK legislation that are necessary to implement future mutual recognition agreements; and

(c) the 2023 Act also introduced an obligation on the PRA and FCA, when exercising their rule-making powers, to consider the effect of their proposed actions on any deference decisions that the UK has already made in favour of third parties.[30] This demonstrates the UK's commitment to being able to develop and maintain access arrangements with other jurisdictions.

The most significant recent example of the UK securing additional market access rights with another country is the 2023 Berne Financial Services Agreement, under which the UK and Switzerland have agreed to use outcomes-based mutual recognition of domestic laws and regulations to enable cross-border trade in financial services for wholesale and sophisticated clients. The sectors covered by the agreement are: asset management, corporate banking, financial markets infrastructure, insurance and investment services.

The UK is actively looking to enter into agreements of a similar nature with other countries.

Birmingham Cityscape

[29] For several years the FCA has spoken of extending the more formal Senior Managers Regime that applies to FSMA authorised firms to payment institutions and e-money institutions and is expected to do this at some point.

[30] Deference is a mechanism under one which one jurisdiction defers to another jurisdiction, based on the quality of the other jurisdiction's regulatory regime, and allows preferential treatment to market participants from the other jurisdiction.

10 Sandboxes and other initiatives to help new entrants to the UK market

Section 10: Sandboxes and other initiatives to help new entrants to the UK market

The UK has been at the forefront of developing innovative solutions to help regulated firms develop their offerings in the face of changing markets – particularly through the use of "sandboxes". These provide an environment in which firms are able to innovate and try new products and technologies, and in some cases amend the regulatory requirements to enable this to happen.

FCA sandboxes and initiatives

The FCA has developed several different sandboxes and initiatives to assist market entrants:

- **The FCA's Regulatory Sandbox**

The Regulatory Sandbox gives firms the ability to test products and services in a live, controlled environment. The FCA will help firms identify existing rules and guidance that might be relevant to their business model, and will provide informal steers on how the rules apply to them. The FCA will also consider giving individual guidance, allowing its rules to be waived or modified, or issuing "no enforcement" letters in respect of particular activities. The idea is that the Regulatory Sandbox will assist firms in bringing new and innovative products to market.

To participate in the Regulatory Sandbox, you need to be an authorised person. However, the FCA will accept an application from you to join the Regulatory Sandbox if you are in the process of applying to become authorised. The FCA might, for example, issue you with a restricted licence, to allow a product to be tested, without you at that stage having to meet all the requirements that would apply to a regulated firm.

Since the Regulatory Sandbox was introduced in 2014, the FCA has supported over 800 firms and more than 150 firms and products have been accepted for testing.31

The Regulatory Sandbox has certain eligibility criteria, which include that the proposal includes genuine innovation and helps consumers (either individuals or businesses).

Details of the Regulatory Sandbox, the eligibility criteria and how to apply can be found at the FCA's Regulatory Sandbox webpage.

- **The FCA's Digital Sandbox**

The Digital Sandbox offers GDPR-compliant32 datasets and APIs in a secure environment, mentorship from industry experts and access to the fintech Community to help enable experimentation and scaling for proof of concepts. A typical Digital Sandbox project runs from 3 to 12 months. There are eligibility criteria to be able to join the Digital Sandbox.

Details of the Digital Sandbox, the eligibility criteria and how to apply can be found at the FCA's Digital Sandbox webpage.

The UK has been at the forefront of developing innovative solutions to help regulated firms develop their offerings in the face of changing markets - particularly through the use of "sandboxes".

[31] Source: Innovation Hub: Market insights | FCA

[32] The General Data Protection Regulation ("GDPR") is one of the UK's main legislative provisions dealing with data protection.

• **Innovation Pathways**

The FCA offers a service known as Innovation Pathways, under which it offers help to potential market entrants in understanding the FCA rules, the implications for their business models and what they need to do in order to launch a regulated business in the UK. The service includes one-to-one discussions to offer feedback and guidance, access to FCA subject matter experts and pre-authorisation meetings. The FCA says it welcomes applications related, but not limited to, AI and quantum, financial inclusion, open finance and tokenisation.

Innovation Pathways has eligibility criteria, which include that the proposals include genuine innovation and help consumers (either individuals or businesses). Applicants who meet the eligibility criteria do not need to be ready to test or launch to qualify for the service and the FCA can assist from the idea stage onwards, provided that the proposals are developed to a point where the FCA can realistically help.

Details of Innovation Pathways, the eligibility criteria and how to apply can be found at the Innovation Pathways webpage.

Case study

The FCA's website includes a case study relating to Amplified Global, a tech start-up that uses AI and machine learning to review documents for customers.

The start-up company began by using the Innovation Pathways service to obtain initial input from the FCA. It then used the Digital Sandbox to test its software with synthetic data sets. Finally, it entered the FCA's Regulatory Sandbox to test its product in a controlled environment.

The FCA service Innovation Pathways helps potential market entrants in understanding the FCA rules, the implications for their business models and what they need to do to launch a regulated business in the UK.

London skyline

- **AI Lab**

In October 2024, the FCA launched its AI Lab initiative, to add an AI focus to its innovation services. The AI Lab is aimed at helping firms overcome the obstacles in developing and implementing AI solutions.

The current initiatives under the AI Lab include:

- **AI Spotlight:** Projects selected for the AI Spotlight will be featured on a dedicated Digital Spotlight webpage that will showcase applications of AI across financial services.
- **AI Sprint:** The AI Sprint is an event hosted by the FCA that aims to bring together industry, academia, regulation, technology and consumer representatives to inform the regulatory approach to AI. The FCA intends that AI Sprints will be held on a regular basis.
- **AI Input Zone:** The AI Input Zone is intended to be an online feedback platform through which stakeholders can express their views to the FCA. The FCA says that it welcomes views on the most transformative use cases of AI, how the FCA's current regulatory framework works and how the FCA may need to adapt in the future.
- **Supercharged Sandbox:** The FCA is looking to enhance its Digital Sandbox infrastructure through greater computing power, enriched datasets and increased AI testing capabilities.

Further information and application packs for these initiatives can be found on the FCA's AI Lab webpage.

- **Fintech bridges and Innovation Co-operation Agreements**

The FCA has entered into innovation and fintech co-operation agreements with financial services regulators from various jurisdictions including Australia, Canada, Hong Kong, India, Japan, South Korea, Singapore and the USA to facilitate the entry of innovative overseas firms to the UK.

The co-operation agreements set out a framework for referrals to be made between overseas jurisdictions and the UK to reduce barriers of entry. Innovative businesses in overseas jurisdictions will need to meet the eligibility criteria of their home regulator's equivalent to the FCA's Innovation initiatives.

Once referred by your home regulator, and ahead of applying for authorisation to operate in the UK, you will have access to a contact person who will help you to understand the regulatory framework, and how it applies to you.

Details of the Innovation and fintech co-operation agreements and a list of the current co-operation agreements can be found at the FCA Innovation: engagement webpage.

The Digital Securities Sandbox

In 2024, the UK launched the Digital Securities Sandbox ("**DSS**").

The DSS is a regime that allows firms to use developing technology, such as distributed ledger technology, in the issuance, trading and settlement of securities such as shares and bonds. Firms that successfully apply to enter the DSS will be able to operate under a set of rules and regulations that has been modified to facilitate this.

The DSS goes further than previous initiatives, in that it allows for existing legislation to be modified or disapplied (as opposed to the earlier sandboxes, which allow the regulators to waive their own rules but not wider legislation). This initiative gives the UK authorities the ability to adapt and respond to innovation and changes more quickly than many other financial centres.

The DSS launched on 30 September 2024 and will last for five years. The intention is that the DSS will help regulators design a permanent technology-friendly regime for the securities market.

Details on the DSS, including the eligibility criteria, the approval process and the regulators' approach to supervision, enforcement and the use of developing technology can be found on the dedicated webpage on the Bank of England website.

Digital Regulation Cooperation Forum – AI and Digital Hub

In April 2024, the UK launched the AI and Digital Hub under the Digital Regulation Cooperation Forum ("**DRCF**") for a 12-month pilot. The DRCF is formed of four UK regulators: the FCA, the Information Commissioner's Office ("**ICO**"), the Competition and Markets Authority and the Office of Communications (Ofcom).

The AI and Digital Hub is a free service provided by the DRCF to provide informal advice on cross-regulatory queries that fall within the scope of at least two of the four regulators – for example, a query relating to both financial services regulation (FCA) and data privacy (ICO). Provided your product, service or business model is innovative and focussed on AI or digital and you can demonstrate a benefit to consumers, businesses and/or the UK economy, you may be able to benefit from free informal advice from the regulators on your cross-regulatory queries.

Further information can be found on the DRCF's AI and Digital Hub webpage.

11 Sectoral issues

Section 11: Sectoral issues

We have set out some of the main considerations that currently apply in relation to specific sectors of financial services and that may be of interest if you are considering doing business in the UK in those sectors.

The UK has consistently shown a strong commitment to supporting innovation in financial services.

Asset management

The UK is a leading centre for asset management, with around 2,600 firms and about £11 trillion of assets under management.[33] It is the world's largest asset management centre outside the USA.

If you are considering setting up an asset management business in the UK, you should be aware of the following:

- **Types of asset manager:** There are different categories of manager, depending on which types of investment fund you wish to manage. The main categories are as follows:
  - UK UCITS Man Co: As noted in section 6, there are restrictions on promoting investment funds to retail customers. A UK UCITS fund is one of the types of investment fund that can be promoted to retail customers, and if you wish to manage one of those funds you will need to be authorised as a UK UCITS Man Co. In addition, the UK UCITS funds that you manage will themselves need to be authorised by the FCA. Details of how to apply to become a UK UCITS Man Co and what permissions you will need can be found on this FCA webpage.
  - Alternative Investment Fund Manager ("**AIFM**"): All investment funds other than UK UCITS funds are regarded as alternative investment funds, so if you wish to manage any such funds you will need to be authorised as an AIFM. There are different categories of AIFM:

Full-scope UK AIFMs: This category applies to all AIFMs other than "small AIFMs".[34] Details of how to apply and what permissions you will need can be found on this FCA webpage.

» Small AIFMs: There are two different types of small AIFM: "small authorised" and "small registered". A "small authorised AIFM" is a firm whose AUM do not exceed the relevant thresholds and is authorised and regulated by the FCA in its own capacity. Alternatively, a limited number of types of small AIFM are permitted to operate in the UK without being authorised by the FCA – namely: internally-managed bodies corporate; managers of unregulated collective investment schemes holding the majority of their assets in land; and managers of certain types of European venture capital or social entrepreneurship funds. For further details of small authorised AIFMs, see this FCA webpage; for small registered AIFMs, see this FCA webpage.

- **Authorisation of funds:** If you wish to establish an investment fund in the UK and promote it to retail investors in the UK, you will need to apply for separate authorisation of the fund. See this FCA webpage for details
- **Overseas fund regime ("OFR"):** The OFR is a gateway which allows certain investment funds established outside the UK to be promoted in the UK, including to retail clients. For the time being, the OFR is only available for certain funds which have been authorised in the EU or European Economic Area under the UCITS Directive. In time, the OFR may be expanded to include funds from other jurisdictions. Details on how to apply to recognise a fund under the OFR can be found at this FCA webpage, which also includes a link to the FCA's online applications portal, FCA Connect.
- **Restriction on the activities of fund managers:** There are limitations on what activities a UK fund manager can undertake. A full-scope external UK AIFM is only allowed to engage in the activities of fund management, portfolio management, investment advice, providing custody of units in funds and receiving and transmitting orders in relation to financial instruments. It cannot engage in any other regulated activities. Other categories of fund manager, however, are not subject to the same restriction. If you are considering setting up a fund manager in the UK, and wish to engage in other regulated activities, you may need to take legal advice on your position.
- **Environmental, Social and Governance ("ESG") considerations:** In recent years, interest in responsible and sustained investment has been growing, and there has been a renewed focus on ESG from the regulators (both in the UK and globally). In the UK, the FCA has issued the Sustainability Disclosure Requirements ("**SDR**"). The SDR set out a general anti-greenwashing rule applicable to all FCA-authorised firms as well as a number of restrictions that apply specifically to asset managers, particularly in relation to the use of sustainability labels and how the characteristics of products are described.
- **Stewardship and corporate governance:** The UK's Financial Reporting Council has published a Stewardship Code, and UK-authorised asset managers are required to disclose whether they comply with the Code.

[33] Source: FCA Discussion Paper DP23/2: Updating and improving the UK regime for asset management.

[34] A small AIFM is an AIFM who either: (a) manages portfolios of alternative investment funds ("AIFs") whose assets under management ("AUM") in total do not exceed €100 million; or (b) manages portfolios of alternative investment funds whose AUM in total do not exceed €500 million when the portfolios of AIFs consist of AIFs that are unleveraged and have no redemption rights exercisable during a period of 5 years following the date of initial investment in each AIF

Banking

The UK is one of the world's major banking centres. It is the world's largest centre for cross-border banking, representing 15% share of international bank lending. With around 170 foreign banks active in London, it is one of the most globally connected banking hubs.

If you are considering setting up a bank in the UK, particular points to note include:

- **Some traditional banking services are not regulated in the UK:** In the UK, it is relatively easy for an overseas bank to provide banking services to UK customers without needing to obtain UK authorisation. Lending (other than to consumers) is not a regulated activity in the UK. Deposit taking is only within the scope of the UK regulatory regime if it actually takes place from a UK establishment and it is relatively easy for an overseas bank to comply with the financial promotion restriction in relation to deposit taking. This contrasts with the position in the EU, where overseas banks will soon be required to establish subsidiaries in the EU in order to be able to provide deposit-taking services to EU-based customers (including institutional and wholesale customers).[35]
- **Branch authorisations:** The UK has well-established criteria and processes for authorising the UK branches of overseas banks (as opposed to requiring the overseas bank to establish a UK subsidiary). See section 8 for details.
- **Resolvability:** Banks are subject to particular requirements regarding their "resolvability" – that is, the ease with which they can be wound down in an orderly manner, restructured or disposed of, as an alternative to banks going into insolvency. UK banks are required to plan ahead for possible resolution, including having resolution plans, and the Bank of England makes periodic assessments of the resolvability of each bank.

With around 170 foreign banks active in London, it is one of the most globally connected banking hubs.

- **Ring-fencing:** If a bank has more than £25 billion of core (retail and small business) deposits, it becomes subject to the UK's ring-fencing regime. Under this regime, core banking services – taking deposits, making payments and providing overdrafts for UK retail customers and small businesses – must be financially, operationally and organisationally separated from investment banking and international banking activities. A new entrant to the UK market is unlikely to meet these criteria, but could exceed the threshold through organic growth once established in the UK. HM Treasury and the PRA are currently working to relax certain aspects of the current regime.

If you wished to establish a new bank in the UK, you would be required to make your application to the PRA. The PRA has established a New Bank Start-Up Unit to assist with such applications, and would encourage you to contact this unit even if you are only considering whether to apply at all. The webpages that can be accessed through this link set out more detail on the regulators' expectations.

You can find detailed information on the authorisation process, including the steps in the process and the supporting documentation you would be required to provide, at this Bank of England webpage.

[35] The EU rules are being introduced as part of the revised Capital Requirements Directive.

Fintech

Fintech is a broad sector, which can cover a range of different activities and firm types. There is no separate regulatory regime relating specifically to fintechs, but the following points are worth noting if you are considering setting up a fintech business in the UK:

- **Regulatory co-operation and assistance:** The UK government and UK regulators are keen to foster an environment for innovation and growth, particularly in relation to the fintech sector. This can be seen through the initiatives that they have put in place to assist fintechs, such as through:
  - services such as the FCA's Innovation Hub;
  - the use of the FCA's Regulatory Sandbox to allow live testing of innovative products; and
  - the introduction of the Digital Securities Sandbox, which allows the UK to be flexible and adapt existing laws rapidly in response to innovative proposals.

The UK is a leading centre for asset management, with around 2,600 firms and about £11 trillion of assets under management. It is the world's largest asset management centre outside the USA.

- **The regulatory approach to fintech:** As the fintech sector is not subject to a separate regulatory regime, fintech firms are regulated the same way as other financial services firms – that is, by reference to the activities they undertake. The FCA says that it is a technology-agnostic, principles-based and outcomes-focussed regulator. In the context of fintech, this means that the FCA is more interested in understanding the substantive issues, based on the evidence available and then applying regulation in a proportionate way. The FCA also seeks to proactively communicate its position on new technologies – see, for example, its publication regarding AI.
- **Cryptoassets:** Cryptoassets present certain policy concerns to the regulators – as a result of which there are initiatives (as described in section 5) to bring crypto-related activities within the regulatory perimeter. In addition, crypto service providers are required to register with the FCA under the money-laundering regulations. However, the UK's proposals for regulating cryptoassets are currently narrower, for example, than the draft proposals under the EU's Markets in Crypto Assets (MICA) Regulation.

The UK's approach to allowing overseas firms to do business with UK counterparties without needing a licence from the UK regulators is one of the most open approaches of any major jurisdiction.

Insurance

The UK is home to the most dynamic and innovative insurance market. Its commercial specialty (re)insurance market – the London Market – is the largest globally and the destination of choice for mitigating and managing complex risk.

London's reach enables it to serve insurance needs in any location. Close to 70% of the London Market's premium is sourced outside of the UK.

The London Market is also home to the world-renowned Lloyd's of London, as well as over 350 brokerage and insurance firms, offering companies flexibility and choice.

The London Market's world-leading expertise and deep pools of capital mean it is capable of insuring a wide range of established and emerging risks. For more than a century it has been providing protection against climate-related risks. It has since expanded its offerings to include risks related to AI, cybersecurity, geopolitical events, and supply chain management.

Insurance companies

Particular points to note for insurers are as follows:

- **UK perimeter:** Compared to some other jurisdictions, the UK takes a relatively generous approach to the question of whether an overseas insurer needs to be authorised in the UK in order to provide insurance cover to a UK customer. If you are considering dealing with UK customers, you may wish to take advice on whether you require UK authorisation in the first place.
- **Competitiveness reforms:** The UK government and the PRA are currently considering a number of reforms to improve the insurance market and make the rules more proportionate. The UK is in the process of replacing the rules derived from the EU's Solvency II Directive with a new "Solvency UK" regime which is expected to simplify some requirements and allow improved flexibility and encourage entry into the UK insurance market. The changes include reductions to the existing reporting and administrative requirements, and changes which may improve the capital position for some UK insurers.
- **Restrictions on activities:** An insurance company is not allowed to carry on any commercial activities other than insurance business and activities directly arising from that business. There is a similar restriction for reinsurers. There is no such restriction, however, for insurance intermediaries.

If you wish to establish a new insurance company in the UK, the regulator to apply to is the PRA. The PRA has taken a number of steps to make it easier to apply to become an insurance company, including setting up a New Insurer Start-up Unit. The PRA would encourage you to contact this unit even if you are only considering whether to apply at all.

If you are applying to establish an insurance company:

(f) The PRA is creating a new "mobilisation" regime, effective from 31 December 2024, to facilitate entry and expansion for new insurers into the UK market. The new regime is an optional stage, beginning at the point of authorisation, during which a new insurer can operate with business restrictions while it completes the final aspects of its development. New insurers will be offered a period of up to 12 months to finish building out their business, including securing additional funding (if required) while operating with business restrictions, proportionate regulatory requirements, and being subject to lower minimum capital requirements.[36] If you would consider using the new mobilisation regime, you are encouraged to contact the PRA.

(g) The PRA operates an Accelerated Authorisation Pathway for certain sub-sets of London Market wholesale participants. The PRA says that, although the statutory deadlines for authorisation (see section 7) remain the same, it will aim to determine these applications in a significantly shorter period.

The webpages relating to the a New Insurer Start-up Unit include detailed information on the process and the regulators' expectations.

Insurance distribution

- If you do not wish to set up an insurance company but wish to carry on insurance distribution activities – such as insurance broking, advising on insurance and assisting in the administration and performance of insurance contracts – you would apply to the FCA for authorisation.
- If you are seeking to become authorised as a general insurance intermediary, price comparison website or Lloyds and London Market Intermediary, you can find information on how to apply at this FCA webpage.[37]
- If you are seeking to become authorised as a distributor in respect of life insurance that has an investment element (known as "investment-based insurance products" or "IBIPs"), there is no specific FCA webpage relating to those activities, but you would be regarded by the FCA as a consumer investments firm. Information on applying to become a consumer investment firm can be found at this FCA webpage.

> The UK is home to the most dynamic and innovative insurance market. Its commercial specialty (re)insurance market – the London Market – is the largest globally and the destination of choice for mitigating and managing complex risk. Close to 70% of the London Market's premium is sourced outside of the UK."

[36] Details of the proposed arrangements can be found in chapter 7 of the Bank of England's Policy Statement PS2/24 – Review of Solvency II: Adapting to the UK insurance market.

[37] In this context, the term "general insurance" would include a situation where you are selling life insurance that amounts to a so-called "pure protection contract" – that is, where the contract only provides benefits payable on death or incapacity and has no investment element.

12

Practical steps for setting up a UK business

Section 12: Practical steps for setting up a UK business

Legal form – vehicles/companies

Before starting to do business in the UK, you will need to consider what the most appropriate legal structure is for your business – for example, whether you wish to set up a private limited company or a partnership. You may also be able to obtain authorisation for the UK branch of an overseas company (see section 8) and not need to establish a new UK entity at all.

More detailed information about setting up in the UK is available on the .

Information about running a company, including the annual and event-triggered submissions that a business must make, is available on the Companies House website. These reporting obligations are in addition to the obligations to make reports to the FCA and/or PRA under those regulators' own rules.

Detailed information on the requirements for auditors are set out in Companies House accounts guidance on the Gov.UK website.

Setting up a business bank account in the UK

If a company establishes a presence in the UK (whether as a UK incorporated entity, a third country branch or a registered overseas company), it is likely to require a full UK business bank account, to allow it to make and receive payments in the UK without foreign exchange fees. Information on opening a UK bank account can be found at the following webpage: Open a UK business bank account.

Tax

In the UK, the taxation regime for businesses is administered by HM Revenue and Customs ("**HMRC**"). Different types of business entity can be subject to different taxation requirements. In broad terms, however, the main taxes from a business perspective include the following:

(a) Corporation Tax, which is a tax on company profits, based on the company's reported profit in its annual financial statements (with certain adjustments). Corporation Tax applies to businesses that are structured as a UK limited company, or as an overseas company with a UK branch or office. The UK benefits from the lowest Corporation Tax rate in the G7, with the current rate being 25% on all profits over £50,000, and 19% below this threshold. A company must register with HMRC for Corporation Tax purposes, within three months of starting to trade in the UK.

(b) Value Added Tax ("**VAT**"), which is a sales tax that is charged on most goods and services purchased in the UK. It is charged at by businesses at the point of sale. Most goods and services are charged at a standard rate of 20%. You must register for VAT if your taxable turnover exceeds £85,000.

(c) Pay As You Earn ("**PAYE**"), which is a tax on employees' earnings and is deducted by the employer from employees' pay and paid to HMRC, and National Insurance contributions, which are social security payments that are payable by employees and employers to HMRC and are collected and paid by employers. Information on current National Insurance contribution rates is available on the Gov.UK website.

HMRC provides guidance notes and information on specific topics on its website including, for example, how to set up an account to access HMRC's online filing system. HMRC can also be contacted for guidance in relation to topics ranging from tax for employers to VAT.

Employment considerations

New businesses will need to put in place arrangements to comply with UK employment law. Information can be found at the following links:

(a) The "Employing people" section of the Gov.UK website contains information on numerous topics, including: contracts of employment and working hours; dismissing staff and redundancies; health and safety at work; payroll arrangements; pensions; recruiting and hiring; statutory leave and time off; and trades unions and workers' rights.

(b) The UK operates a national minimum wage, as well as a national living wage. Information about these requirements is set out on the Gov.UK website.

(c) An employer is required to check that a prospective employee has the right to work in the UK. The Gov.UK website explains what checks to undertake, and how to undertake them. Non-UK individuals may need to obtain a visa sponsor licence; information about how to do this is set out on the Gov.UK website.

(d) The Department for Business and Trade's website includes information about a range of widely used UK recruitment search services.

(e) UK employers are required to enrol certain staff into a workplace pension, and to pay money into it. This is known as "automatic enrolment". Further information on the scope of automatic enrolment, and the steps that a UK firm must take, are set out on the Pension Regulator's website.

Visas and Immigration

If you are looking to employ someone from outside the UK, you will usually need to apply and pay for a licence to sponsor workers under a visa arrangement such as the Skilled Worker Visa. A licence is not required where you are looking to employ Irish citizens, those with settled or pre-settled status under the EU Settlement Scheme and those with indefinite leave to remain in the UK. The eligibility requirements, job suitability requirements, sponsor responsibilities, licence types and application process are outlined on the Gov.UK website.

If you are from outside the UK and are looking to set up an innovative business in the UK, you may be eligible for an Innovator Founder Visa. To be eligible, among other requirements, your business must be something that is different from anything else on the market and your business or business idea must have been endorsed by an approved endorsing body (see list of endorsing bodies approved by the UK government).

If you are a leader or a potential leader in academia or research or in digital technology (including fintech), you may also be eligible for a Global Talent Visa if you have won an eligible award or obtained an endorsement.

Business premises

The Department for Business and Trade provides useful information on its website regarding the types of office space available and the process for leasing or buying it. Information about business rates (including available reliefs) is available from the Gov.UK website.

The Department for Business and Trade's Find a UK Specialist website includes contact details for specialists who can help firms identify appropriate commercial property.

Business insurance

Firms must obtain employers' liability insurance as soon as they become an employer. Further information on business insurance is available on the Gov.UK website, and information on how to find professional advice on business insurance is available from the Department for Business and Trade's Find a UK Specialist website.

Grants, incentives and support

The UK government offers a range of grants, incentives and support designed to encourage businesses to do business in the UK. For example, the UK provides schemes that are designed to help small or medium sized companies grow, by offering tax relief to individuals who buy and hold shares, bonds or assets in the new business for a specific period of time. Further information on this particular scheme is available on the Gov.UK website.

A list of available government grants, and related eligibility criteria, are set out on the Gov.UK website.

How the City of London Corporation can help your business

Meeting with senior Members for valuable strategic insights and connections

Connecting with you via a key account manager, with aftercare as you settle into your UK Office

Giving you access to City of London Corporation resources, including venues for launches

Providing real estate expertise with current and in development office spaces

Sharing policy and market insights

Plugging you into the ecosystem with invitations to formal, business and networking events

Helping you access opportunities, and partners, across the UK.

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THE GLOBAL CITY

About the Global City campaign:

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

www.theglobalcity.uk

About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here

www.cityoflondon.gov.uk

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