In this article we will look at some of the common FCA permissions and what they mean in lay man terms for wholesale investment firms. These permissions are sometimes referred to as Part IV permissions. So, when you apply for authorisation, these are the typical permissions you will seek permissions from the FCA, depending on your business model. Please note that this is not an exhaustive list of FCA permissions available to investment firms.

Agreeing to carry on a regulated activity

'Agreeing to carry-on regulated activity' is in itself is a permission and all regulated firms will have this permission in their permissions profile.

Advising on investments (except on Pension Transfers and Pension Opt Outs)

Firms that conduct suitability assessments and provide personal recommendations to clients typically will need this permission. This applies to Investment Managers, Financial Advisors (IFA's), and any investment firms that provide personal recommendations as part of their investment services to clients.

Arranging (bringing about) deals in investments

For Brokers/Dealers this would be the case where they simply receive and transmits buy or sell orders but do not execute the transactions themselves on behalf of clients, for example an Introducing Broker. This permission is also relevant for corporate finance firms that are captured under the extended meaning of this permission of bringing together two or more investors, thereby bringing about a transaction between those investors.

Making arrangements with a view to transactions in investments

Generally, involves facilitating or assisting a person with a view to enter into transactions in investment. For example, introducing customers to a financial advisor for investment advice or to help arrange transactions in investments (but not bring about transactions). Note that often there can be a fine line in terms of distinction between this permission and 'Arranging (bringing about) deals in investments' and many times you will see investment firms seeking authorisation for both permissions.

Dealing in investments as agent

Generally, involves executing transactions on behalf of clients on an agency basis whereby the executing firm is not exposed to position risk. For example, an investment manager buying or selling financial instruments (share, bonds, etc) for a client's portfolio on behalf of a client. Another example would be a Broker that executes client transactions on an agency basis. In this example if the transaction was to be executed in the Brokers name, the firm is likely to be principal to the trade which is a separate permission.

Dealing in investments as principal

The full effect of this permission is for proprietary traders and market makers who operate buy and sell orders on their own account (own trading book) whereby they are exposed to position risk, a type of market risk on their Balance Sheets. For example, a CFD Dealer or a LME Metals Dealer who directly enters into positions with client on its own book and makes a market will be dealing as principal.

These firms are generally known as IFPRU730K Full Scope firms for prudential purposes and are required to have stringent risk management systems and controls and are required to hold capital against market risk on open positions on their trading books. Sometimes firms act as riskless principal to trades whereby a Broker enters a principal transaction with a liquidity provider on behalf of a client. This is also known as dealing on own account on behalf of a client. Such transactions are known to be done on a matched principal basis where the Brokers exposure to market risk on positions is incidental and de minimis as it is netted off to the client. Matched principal brokers are exempt for detailed prudential requirements through a limitation to their permissions whereby they are only allowed to trade on this basis and be exempt from several detailed regulatory capital and liquidity requirements. These firms are generally classed under IFPRU125K Limited License or BIPRU50K depending on whether they hold client money or client assets.

Arranging safeguarding and administration of assets

- Investments firm that make use of a custodian to hold client assets will require this permission.
- Safeguarding and administration of assets (without arranging)
- Investment firms that hold client assets themselves will require this permission i.e. they will be custodian to client assets themselves and will have to undertake all duties of safeguarding and administering client assets.

Operating a Multilateral Trading Facility (MTF)

An MTF is a type of Trading Venue that came to life originally under MIFID to help bring about transparency on dark pools. It is a type of venue where multiple third-party buying and selling happens between members of the MTF under strict adherence to the rules established by the MTF operator in a rule book. The MTF operator cannot use their discretion in matching orders between members and nor can they engage in principal or matched principal trading on the MTF. In summary, the operator takes a passive approach as far as engagement on the platform is concerned. The operator is however under obligation to monitor transactions to prevent market abuse on the platform, monitor conflicts, report on quality of execution on the platform, and undertake MIFID II reporting requirements. The operator is also under obligation to provide system infrastructure and ensure business continuity and be able to address contingencies.

Operating an Organised Trading Facility (OTF)

An OTF is also a type of trading venue like a MTF but was created under MiFID II to focus on dark pools around 'non-equity' products. As such, an OTF is limited to trading only 'non-equity' products such as fixed income products and derivatives (note however that a MTF can trade all types of products equity and non-equity). An OTF is allowed to use a level of discretion (a MTF cannot use discretion) in matching orders between its members, engage in principal dealing (on own account) in illiquid sovereign debt products, and engage in matched principal trading in bonds, structure finance products, emission allowance, and derivatives, which have not been declared subject to clearing obligations under EMIR. These elements make an OTF different to a MTF.

Did you know?

All FCA and PRA regulated firms are listed on the FCA's public register (see link below) where you can view regulatory permissions and information on Senior Managers approved by the FCA.

https://register.fca.org.uk/