

FCA and Financial Services Newsletter – November 2014



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In the news

In this update we look at the finalised Fees and Levies for the upcoming year. There is a reminder about the new CASS rules as well as COREP and Asset Encumbrance.

Fees and Levies

These have now been finalised for the upcoming year in Policy Statement (PS14/11) and the good news for broker dealers who are in block A.13, is they will see the anticipated reduction in fees suggested in the consultation paper. For this block fees will be £2.81 per £1,000 of income, down from £6.89 in the current year.

In response to the consultation paper, despite the drop for this block, there were further protests from trade bodies for brokers who said that the total amount allocated to them by the FCA was still too high. The FCA have not changed their position however, and have explained their justification of the amount in their 'How we raise our fees' document.

CASS Reminder

There are significant changes to the Client Assets regime which come into effect over the course of 2014 and 2015. We published a newsletter summarising the major changes which is available on our website. The first significant changes come into effect on 1 December 2014, so if your firm is authorised to hold client money/assets, you should be currently preparing for the new rules.

COREP and Asset Encumbrance

Reporting to the EBA is now well under way for companies caught under CRD IV

and the COREP regime. Regulation for companies under CRD IV is set to increase, with the imminent introduction of a new set of reports on Asset Encumbrance.

Like COREP, these are reports which need submitting in XBRL format through GABRIEL. We have written a special newsletter summarising the main points on Asset Encumbrance, which is available on our website. All firms currently subject to COREP will be subject to Asset Encumbrance reporting

Other proposed changes High Earners

There is a proposal in consultation paper CP14/19 to include smaller firms in data collection of high earners. The rule previously applied only to firms within the scope of the PRA, but now extends to those under the FCA as well.

Under the proposed changes, reports will need to be submitted for firms which have people who are paid more than €1m per year, so is unlikely to catch the majority of smaller and medium sized firms.

There are also proposals for a new Benchmarking Report but this will only apply to Financially Significant firms, which captures very large institutions.

Remuneration Rules

You may recall there were rules introduced earlier in the year around remuneration for investment firms. These are now proposed to be tightened further in order to avoid excessive bonuses and risk taking (CP14/14), but this still only applies to very

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large firms (those with over £50bn of assets).

FATCA

The Foreign Accounts Tax Compliance Act (FATCA) was introduced by the IRS to ensure US citizens are declaring their worldwide income. Companies in the UK are obliged to report to the IRS (through HMRC) on income and accounts with their clients who are US citizens.

There are two types of entity for the purposes of FATCA – Financial Institutions (FIs) and Non Financial Foreign Entities (NFFEs).

NFFEs do not need to register or report, but they do have to certify their status as a NFFE when dealing with a Financial Institution. FIs do need to register with the IRS, will receive a reference number known as a “GIIN”.

Many firms will have no US Clients and have no operations in the US. Despite this, FATCA will still apply to these firms, as they may find that their bank, or other large institutions they deal with will ultimately no longer deal with them if they don’t have a GIIN or equivalent registration.

These large institutions tend to have operations in the US, and the IRS is therefore able to enforce FATCA by penalising them for non-compliance.

The first reports by Financial Institutions need to be made to HMRC by 31 May 2015.

Although FATCA applies to the US, it is expected that other countries will soon follow suit, and in several years there could be dozens of countries requiring reports.

Shipleys has experience with FATCA Registration so please get in touch if you require further assistance.

In the news

HSBC has announced that they have set aside \$1.8bn to cover the costs of regulatory compliance issues. Of this provision, \$378m is a provision for foreign currency investigations and \$589m is to compensate UK customers for the mis-selling of PPI.

It shows that several years down the line, banks are still suffering the effects of PPI, with the total cost of mis-selling now estimated at £22bn in the UK. Lloyds have set aside £1.8bn this year to compensate customers for PPI claims.

JP Morgan has become the latest bank to be put under investigation over currency trading, showing that regulators continue to clamp down on bad behaviour by the large banks.

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the above.

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