

# The rent vs. buy approach for asset managers seeking FCA authorisation

This insightful discussion with regulatory industry experts looks at the *directly authorised 'buy' vs appointed representative 'rent'* approach for asset managers seeking Financial Conduct Authority (FCA) authorisation. We explore the key considerations surrounding these two authorisation routes as our panel of experts help you navigate the complex landscape of regulatory compliance. The services discussed in this Q&A are provided by Newgate Compliance and Aldgate Advisers Limited, subsidiaries of Ocorian.

## Meet our experts



**Haydon Thomas (HT)**  
Director  
Newgate Compliance

Haydon Thomas is a seasoned professional with over a decade of regulatory expertise. He served as a supervisor at the FCA, where he led reviews of corporate authorisation applications for a diverse range of market sectors. Haydon holds the Investment Management Certificate, the Full Financial Planning Certificate, and has passed the Association of Chartered Insurance Institute exams. He joined Newgate in 2015 as director of regulatory transactions and leads on taking asset managers through the direct authorisation process at Newgate.



**Phil Vipond (PV)**  
Partner  
EVMS Partners

Phil is a founding partner of EVMS and has over 20 years' experience as a qualified accountant, auditor and advisor to FCA-regulated entities and other UK SMEs. Phil was previously a partner at Rees Pollock and Blick Rothenberg, before setting up EVMS partners. EVMS Partners specialises in assisting asset management firms at all stages, from startups to multi-billion-dollar managers.



**Nimish Shah (NS)**  
Senior Consultant  
Newgate Compliance

Nimish Shah joined Newgate in July 2022 from the FCA, where he worked in wholesale supervision for seven years. Prior to his regulatory career, Nimish was an equity specialist with experience in fund management for a UK insurance firm, equity sales trading at Cantor Fitzgerald, and institutional equity sales at Credit Suisse and Piper Jaffray. Nimish now leads Newgate's appointed representative hosting business (Aldgate), handling client development, onboarding and monitoring.



**Tom Spraggs (TS)**  
Financial Institutions Team Leader  
Protean Risk

Tom is a member of the Executive Committee and a Team Leader within the Financial Institutions team, which delivers technical expertise, insurance solutions, and a client centric service to firms in the financial services sector. He has over a decade of experience with a specialisation in Asset Management and works closely with clients to offer them a bespoke solution tailored to their needs. Tom holds a certification from the Chartered Insurance Institute and a Diploma in Insurance. Protean Risk offers insurance solutions for firms in the investment industry, financial services, and technology sectors, such as PSD2 Safeguarding, cyber and data risks, directors' and officers' liability, and professional indemnity.

## Who are Newgate Compliance?

Newgate Compliance (UK and Channel Islands) are a compliance consultancy service delivering innovative, pragmatic compliance and regulatory solutions. Newgate have supported over 200+ wholesale clients obtain FCA direct authorisation by a team of many ex-regulators who can help navigate the technical minefield of financial modelling.

## Who are Aldgate Advisers Limited?

Aldgate Advisers Limited is a sister company of Newgate Compliance staffed by the same team of ex-regulators. Aldgate's regulatory licencing solution allows you to go to market quickly under their regulatory umbrella acting as a principal firm you can rely on.

## What is the difference between being directly authorised or using the appointed representative (AR) model?

**NS** An AR is effectively 'renting' the principal firm's permissions and is restricted to only those regulated activities that the principal is authorised to carry on. The principal firm accepts responsibility for monitoring the AR. In our case, Aldgate Advisers Limited (Aldgate) is the principal and is authorised and regulated by the FCA and can provide AR coverage to certain firms. Aldgate charges a monthly fee 'rent' to cover the cost of monitoring and for accepting the AR's regulatory risk.

**HT** Through direct authorisation, the firm becomes an 'authorised' person under law and is allowed to conduct regulated financial activities. The firm goes through the cost 'buy' of direct authorisation once and then owns, in theory the 'house.'

**PV** From an accounting perspective, the primary financial responsibility for a firm going through direct authorisation is maintaining sufficient regulatory capital and reporting it to the FCA. This is usually straightforward for well-capitalised asset managers.

Directly authorised firms must consistently monitor their capital and submit quarterly financial reports to the FCA to demonstrate compliance. Accurate and timely maintenance of financial records is crucial for these submissions. An accounting firm with expertise can integrate FCA submissions within regular quarterly tasks, including management accounts and VAT returns.

The second significant accounting change involves mandatory audits, as required by the FCA to ensure the reliability of the accounts used in regulatory capital calculations. While audits entail additional costs and some disruption, they provide fresh insight into your systems, controls, finances, and

a comparison with industry peers. A competent auditor also identifies tax and regulatory risks from past or future events. Simultaneously, during your annual audit, your auditor will report to the FCA on any breaches of client asset rules.

### The key differences between the two routes include:

- The AR doesn't need FCA authorisation as it operates under the permissions of the principal firm. It must remain solvent from a prudential perspective.
- Directly authorised firms must meet specific capital and liquid asset requirements to weather financial cycles, mitigate risks, and ensure an orderly wind-down if necessary, depending on their activities.
- AR firms adhere to the approved persons regime, while authorised firms are subject to the Senior Managers & Certification Regime (SMCR) and must have someone approved for the compliance officer and MLRO functions.
- Under the AR route, the principal firm bears responsibility for ensuring the AR follows compliance policies, conducting compliance monitoring, approving financial promotions, and overseeing client onboarding, investment advice, and personal account dealing requests.
- For directly authorised firms it is their responsibility to have these policies and procedures in place.
- ARs don't submit regulatory returns to the FCA, whereas authorised firms use the FCA's RegData system to report their financial positions and meet capital requirements.

## What is the decision making process when selecting an authorisation route?

**NS** Clients typically come to us already with a legal opinion, and we then execute the structure based on the law firm's advice. As mentioned, the AR operates within the boundaries set by the principal, requiring permission for activities like financial promotions and new client onboarding. AR firms can offer investment advice, arrange investment deals, and make introductions, including marketing. However, they can't manage investments or execute deals directly, which is a key factor in the decision-making process. Aldgate lacks the permission for managing and executing trades and refers such queries to an affiliate firm.

**HT** Timing plays a crucial role in decision making. Becoming an AR can be achieved in a few months, whereas submitting an authorisation application to the FCA typically takes 6 to 9 months. Secondly, there are no application fees for AR status with the FCA, whereas directly authorised firms must meet capital requirements and pay a non-refundable application fee, which varies based on their intended activities.

Operating as an AR allows a firm to accumulate retained earnings, which can later be used to meet FCA capital and liquidity requirements if they choose to pursue the direct authorisation route. It also provides valuable experience in a regulated environment, which can support future applications.

A firm's adequacy in terms of human resources, including the number of personnel and their knowledge/experience in the financial services sector, is also a critical consideration. AR status can often suffice with minimal human resources, such as one director, whereas directly authorised firms are typically expected to have at least two directors, as per FCA requirements.

**PV** A common consideration for firms moving from AR to directly authorised is the short timescales in which reporting to the FCA is required. For example, if authorisation is received in the last month of the financial year, the whole year needs to be audited within around 4 months of the year-end. Some firms only discover they need to appoint an auditor shortly after their year-end leaving very little time to make an appointment and complete the work.

## What are the key risks & opportunities of each regulatory route?

**NS** In terms of opportunities, going down the AR route allows a swift time to market with no need for a dedicated compliance function. The charging structure is straightforward with no long-term commitments. On the other side of things, being an AR means limited regulated activities and you are obligated to follow the principal's monitoring. Monthly fees over the long term could mean you're paying out more than if you'd gone down the direct authorisation route from the outset.

**HT** Simply put, the key risk with being directly authorised is being responsible for compliance. In contrast however, the opportunity is unlimited.

It is worth noting that the key triggers for moving to directly authorised comes down to the firm growing in size and scale, having built up the retained earnings required and outgrowing the activities covered by their principal.

**PV** I second Haydon's thoughts, the key driver for moving to a directly authorised structure is that it gives you full control over your own business, including the fundamental relationship that you have with your clients.

*"Simply put, the key risk with being directly authorised is being responsible for compliance. In contrast however, the opportunity is unlimited."*

## What onerous rules have the FCA brought in around AR authorisation?

**NS** The revised FCA regulations for the principal/AR model specifically pertain to principals, necessitating frequent and meticulous monitoring of their ARs. In light of these changes, principals are expected to intensify their monitoring efforts to comply with the rules, with principals as a result becoming more risk-averse and conduct more thorough assessments before taking on a new AR. Considering the potential consequences, such as the FCA taking action against principal firms with inadequate systems and controls, which could lead to business restrictions, it is advisable for AR firms to explore the possibility of a direct FCA authorisation application. This approach would grant them greater control over their future.

## What key frustrations do AR clients typically have with their principal?

**NS** Typically, it's inadequate service characterised by slow responses to questions, delays in reviewing and approving matters, and being perceived as an impediment to the AR's business operations. Several factors could contribute to this, such as being overly strict and imposing unreasonable demands on the AR's oversight of their activities.

## Can you provide details around the onboarding process of AR & DA?

**NS** For ARs, Aldgate seeks to collate information to be satisfied that:

- The ARs business model is viable, will not inherently cause foreseeable harm to consumers or the wider market and falls within our internal risk appetite. A business plan and financial model will be required along with details of professional indemnity insurance to be held by the AR.
- The individuals can demonstrate they are fit and proper through competence, financial soundness, honesty, integrity, and reputation. This will involve a referencing process, credit and criminal record checks, companies house checks and other open-source searches.
- Aldgate is capable of putting a risk-based monitoring plan in place to supervise the AR;

- All relevant employees are trained on Newgate's Gateway system to facilitate the regular share of information.

Aldgate and the AR must have a written agreement setting out the agreed business activities and must notify the FCA of the AR arrangement at least 30 days before the appointment formally takes place. The end-to-end process can take 3–4 months.

**HT** For direct authorisation, Newgate sends a shopping list of items we need from the client to complete the application pack on their behalf which includes a business plan, financial model, application forms for those undertaking Senior Management Functions, corporate and individual controller applications. We then put the documentation in a format to demonstrate to the FCA the firm meets the minimum threshold conditions for authorisation. In practice it can take 2–4 weeks to put the application pack together. Once the application is submitted it takes around 6 weeks to have a case officer assigned. The whole process to gain direct authorisation will take at least 6–9 months.

## Are there common misconceptions around the direct authorised route?

**HT** I think so. The main one being the amount of time it will take for the firm to comply with its compliance and anti-money laundering obligations as a directly authorised firm. This is why firms seeking direct authorisation should engage with Newgate to help relieve the perceived burden.

## Are there specific types of asset management activities that are better suited for the AR model rather than direct authorisation, & vice versa?

**NS** Aldgate ARs can advise, promote and arrange. As mentioned, under the AR model managing is not permitted. The workaround to this is to have a separate AIFM, which the AR acts as investment adviser to. This can be more costly in the long run, but quicker and more efficient for start-up asset managers. Newgate is part of Ocorian, who have offshore AIFMs that can facilitate full management of fund vehicles.

## What are the potential financial implications for an asset manager when deciding between the two authorisation routes in terms of licensing fees, ongoing costs etc?

**HT** Firms should take into consideration initially the business they wish to conduct, then decide if the monthly AR cost stacks up against the initial FCA and consultancy fee for the direct authorisation route. The initial FCA application fee depends on the type of application, typically £2,500 for an adviser and up to £10,000 for investment management. Firms will also need to consider additional fees for accountancy and audit support as PV outlined. Newgate and Aldgate align their fees with industry standards and remain competitive within the market. We offer a high level of service from a team led by several ex-UK regulators.

### Key insurance policy considerations

- Are you adequately protected in respect of your overall limit of liability? A specialist insurance broker can provide analysis based on your risk factors and offer benchmarking against your peers.
- What is the excess payable under the policy? Do you have the capital to cover this portion of any claim that arises?
- Are there any sub-limits under the policy? Many insurers will sub-limit regulatory cover meaning that despite a high limit being purchased this key risk may have a significantly reduced limit attached to it.
- Are there prior consent conditions under the policy? Such conditions require any costs to be approved by insurers prior to being incurred, which can be an onerous hurdle in the event of a claim. There is coverage in the insurance market which allows for retrospective approval for such costs or, on broader policies, gives an allocated amount that can be spent on emergency defence costs, without such consent being needed.

**TS** Insurance costs also need to be factored in. Many principal firms are requesting their ARs take out professional indemnity (PI) insurance as part of their on-boarding requirement (typically between £1–2 million in our experience). This being due to the importance of ensuring that the AR holds responsibility for services provided to clients and provide ARs with a very beneficial risk management tool. While the insurance does come at a cost, it provides significantly more capital in the event of a claim compared to holding capital as a precaution. The PI policy operates by providing protection to the entity in the event of allegations of or actual wrongdoing arising.

For directly authorised firms, the Investment Firms Prudential Regime removed the ability to offset PI against many firm's capital requirements. This has led to businesses questioning the need for it – especially in times of such economic uncertainty – but the risk to a firm's balance sheet of not having such protection is great.

Unfortunately, the cost of a claim does not necessarily apportion itself to the size of a business and over time legal fees can amass regardless of how spurious or straightforward a claims situation may be. Whether that is third party liability from a client or from a regulatory inquiry. PI protects the business from incurring such costs as well as any ultimate settlement (with insurers' agreement).

### Could you provide examples of regulatory & operational challenges that might be faced when transitioning from & AR to directly authorised?

**NS** The main challenge is being responsible for your own compliance and money laundering functions. Newgate can provide extensive support in terms of compliance monitoring, training, and consulting.

**PV** Whether an AR or directly authorised, firms need to consider the operational challenge of the Automatic Exchange of Information (AEOI) agreement which require financial institutions to review the accounts they maintain and report certain account holders to local tax authorities every year. The term AEOI includes United States

Foreign Account Tax Compliance (FATCA), Crown Dependencies and Overseas Territories and the Common Reporting Standard (CRS). AEOI applies if you are a UK financial institution and are resident in the UK or any part of a non-resident financial institution located in the UK.

As an AR, your obligations in relation to AEOI may well have been dealt with by your principal. However, on moving to a directly authorised structure, firms should ensure that they have suitable arrangements in place to meet these requirements.

UK investment managers, whether authorised or not, will be considered financial institutions under AEOI. However, as they do not hold investors' money

directly, they should not have any reporting or registration requirements. The fund vehicle will have a responsibility to collect, maintain and report information on its investors to the relevant tax authority.

While compliance with the regime will normally be undertaken by the administrators of the fund, the respective responsibilities of each party should be set out clearly in advance. There is no requirement for a UK investment manager to register or report, but this may not be the case for management entities based outside of the UK. The correct classification of the manager under AEOI will need to be determined and disclosed as part of the KYC requirements when opening a UK bank account.



## Case study Sankofa Investment Partners Limited

### Part 1: Becoming an AR

#### The client challenge:

In 2021, Sankofa's founders embarked on setting up a Guernsey-based equity fund but faced the challenge of securing a swift and cost-effective method for fund management. The conventional route involved direct authorisation from the FCA, a process taking 6 to 9 months, demanding substantial resources and expertise. Moreover, managing investments as an AR was not feasible.

#### Aldgate's solution:

Aldgate, an FCA-regulated entity offering investment advice and promotion services, proved pivotal. Sankofa was onboarded as an AR by Aldgate. FCA approval granted Sankofa the ability to advise the Guernsey fund manager and attract potential investors in just 8 weeks. Aldgate furnished essential compliance tools through their online portal (The Gateway) as part of a monthly hosting package.

### Part 2: Transition to direct authorisation

#### The client challenge:

Two years later, Sankofa sought full autonomy in managing their fund and separately managed accounts due to their successful track record.

#### Newgate's solution:

Newgate guided the founders through the intricate process of applying to the FCA as a Small, Authorised UK AIFM. This involved advising on permissions and structuring, compiling the requisite documentation, and handling the entire process, from submission to addressing FCA queries. Upon FCA approval, Sankofa now benefits from Newgate's ongoing compliance support, ensuring regulatory adherence. This transition took 8 months, during which Sankofa continued as an AR of Aldgate, achieving their long-term goals.

## How can we help with your authorisation process?

Regulatory pressures are continuing to get tougher. As such, it is imperative to have a partner with the right infrastructure, resources, and compliance knowledge to support you.

Whether you're seeking support from a regulatory hosting platform that demonstrates your proactive

compliance and is flexible as your business scales, or you're seeking support from a team who has supported 200+ wholesale clients obtain FCA authorisation, we can help.

For more information on our end-to-end regulatory support, please reach out to the team.

## About Ocorian

We empower our corporate, capital markets, fund and private clients to focus on their investment objectives by delivering leading administration, fiduciary, compliance and legal services.



**20+**

Office locations



**1,500+**

Staff worldwide



**15,000+**

Structures  
under administration



**8,000+**

Clients



**50+**

Years of providing  
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