

FINANCIAL REGULATORY QUICK START GUIDE

GETTING AUTHORISED AS A BANK IN THE UK

OVERVIEW

Any business that wants to become a bank (i.e., to carry on the regulated activity of accepting deposits) in the UK must be authorised by the Prudential Regulation Authority (PRA) (with the consent of the Financial Conduct Authority (FCA)).

Banks in the UK are “dual-regulated”. Once authorised, they are supervised by the PRA for prudential purposes, and by the FCA from a conduct of business perspective.

Potential banks are advised to engage with the PRA’s New Bank Start-up Unit. Getting authorised as a bank is a detailed and structured process, and involves the following stages:

PRE-APPLICATION

The pre-application stage involves attending a series of meetings with the PRA and the FCA in advance of completing and submitting an application.

The pre-application stage is optional, but is highly likely to help the application process proceed more smoothly. It usually consists of three meetings.

The regulators view early stage engagement between themselves and prospective new banks to be extremely important.

- **Initial meeting** — held after the applicant submits a high-level summary of its business proposition to the regulators. The applicant must present its plans to the regulators during the meeting.
- **Feedback meeting** — held after the applicant submits the first draft of its Regulatory Business Plan, taking on board any feedback from the regulators after the initial meeting. It involves meeting case officers from the PRA and the FCA who will scrutinise the applicant’s plans in more detail and identify any areas of concern.
- **Challenge session** — held just before an application is submitted. It involves meeting with senior representatives from the regulators who will provide rigorous and detailed challenge on the near-final Regulatory Business Plan and draft technical documents. Applicants must show that they have sufficiently addressed the regulators’ prior feedback.

The regulators will provide formal written feedback after each meeting, which applicants need to consider carefully and address before the next stage of the application process.

APPLICATION

There are a number of detailed forms to complete, which must be submitted with supporting materials including the Regulatory Business Plan. It can take several months to prepare everything for the application. An application fee of £50,000 is payable.

It is important for the applicant to make sure that it submits all of the required application forms (which must have been fully and correctly completed), and that the information provided is of sufficient quality and detail.

The regulators will consider the applicant’s full business proposition. This will include assessing whether the applicant meets both the PRA’s and the FCA’s Threshold Conditions for banks (see below), setting the capital and liquidity requirements for the prospective new bank, and may also include interviewing senior management and non-executive directors to make sure they are suitable for their roles.

Both regulators will make a decision independently on whether or not to authorise the prospective bank. While the PRA will make the final decision, it may only authorise a firm with the FCA’s consent.

The PRA’s Threshold Conditions	The FCA’s Threshold Conditions
Effective supervision	Effective supervision
Suitability	Suitability
Legal status	Appropriate non-financial resources
Location of offices	Business model
Prudent conduct of business	

GETTING AUTHORISED AS A BANK IN THE UK

MOBILISATION

This is an optional stage, which involves the new bank being authorised earlier in the process to help it secure further investment, recruit staff, invest in IT systems, and commit to third-party suppliers. During mobilisation, the regulators will place a £50,000 limit on the total amount of deposits that the new bank can accept, so that it can only undertake limited business while it completes the process of building out the bank’s full operations. This option is generally suitable for start-up banks.

This phase could take as little as three months, but should take no longer than 12 months. During this period, the new bank is expected to submit regular progress reports.

TIMING

Once the PRA has received the application and the application fee, it

will assign case officers from both regulators to handle the application. The case officers will determine whether the application is considered complete or incomplete. Further information may be requested from the applicant.

If the application is considered complete, the regulators have a six-month statutory deadline in which to determine the application. However, where the application is considered incomplete, this period is extended to 12 months. In the vast majority of cases, applications are deemed incomplete when first received by the regulators.

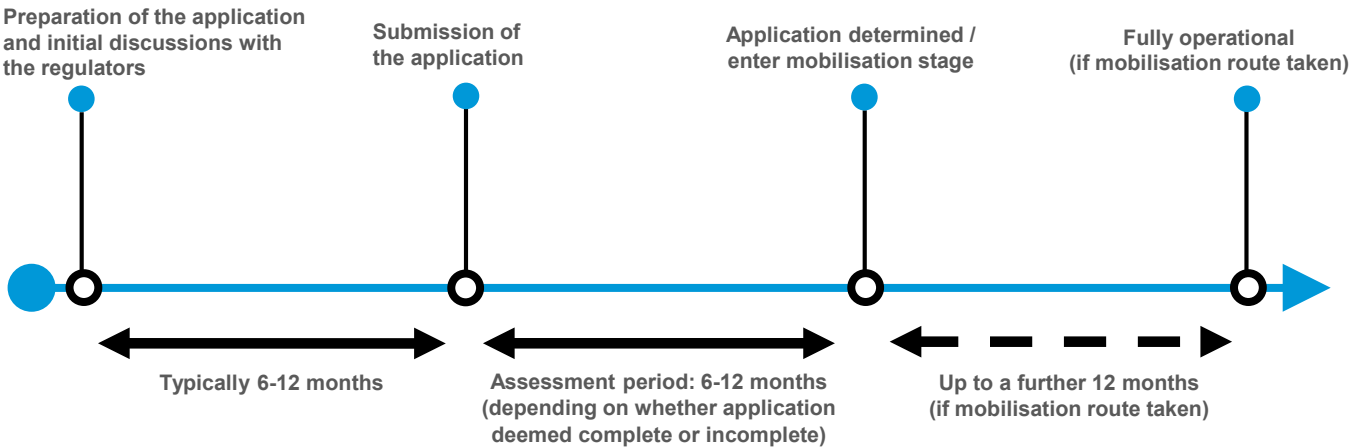
OUTCOME

Successful applicants will receive an authorisation letter and a ‘scope of permission’ notice (which confirms the regulated activities the bank is authorised to perform).

The new bank must then ensure that it complies with all relevant rules set out in both the FCA Handbook and the PRA Rulebook, including the Threshold Conditions, on an ongoing basis. It must also pay annual fees to the regulators, and comply with periodic reporting obligations by submitting regulatory returns.

If the regulators are minded to refuse an application, they will inform the applicant orally and in writing. If the applicant is unable to address their concerns, the regulators will issue a letter detailing which Threshold Conditions and/or specific rules have not been satisfied. If, after hearing any additional representations made by the applicant, the regulators decide to refuse the application, a decision notice will be issued. There are mechanisms by which the applicant may seek to challenge this decision.

TIMELINE



CONTACTS



David Berman
Partner, London
 T +44.20.7710.3080
 E david.berman@lw.com



Nicola Higgs
Partner, London
 T +44.20.7710.1154
 E nicola.higgs@lw.com



Rob Moulton
Partner, London
 T +44.20.7710.4523
 E rob.moulton@lw.com