Becoming a UK Authorised Bank

Becoming a UK authorised bank

This article continues the Fieldfisher series on alternative lending. This article concerns the process of becoming a bank and some of the main considerations involved in that process.

This is a high level practical guide and does not consider the detailed legal and regulatory requirements that necessarily must be satisfied to become a bank.

Do we need to be a bank and what are the advantages?

In the past decade, thirty six (36) new banks have been authorised in the UK[i].

There is usually only one reason why it might be necessary to be bank[1]: to accept (i.e. be funded by) deposits. If the firm wants to be funded by deposits, then the firm will need to be authorised as a deposit-taker, most likely in the form of a bank[ii].

Technically, it is not just traditional sight or term deposits that constitute "deposits" for regulatory purposes. Other forms of debt (excluding, broadly, debt structured by way of an issuance securities) can amount to a "deposit" and care should be taken to analyse whether any deposit-taking is being carried on.

Whether it is commercially attractive to fund the proposed business (whether that business is lending or some other financial services business) by taking deposits, in turn, will depend on a range of factors: chiefly, the alternative sources of funding; the

[1] There are other businesses such as payments businesses or some sorts of trustee or custodian business where status as a bank may be helpful or necessary.

[i] As at end-February 2022: <https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit/new-banks-authorised-since-2013>.

[ii] There are other types of deposit-takers in the UK: building societies, credit unions and friendly societies. These types of deposit-taking entities are unlikely to be relevant to the types of financial services business undertaken by alternative lenders.

Becoming a UK authorised bank

commercial requirements of the potential funders and other firm-specific factors such as the tenor, structure and currency of lending, customer type, sector or sub-sector and geographical coverage (amongst others).

From a practical perspective, one of the key commercial attractions of deposit funding is that it can enable a lender to "own" their credit policy independently of funders (e.g. wholesale funders) which can speed up the decision-making process and allow the lender to exploit opportunities that would otherwise be unavailable (e.g. because they are outside the eligibility criteria of wholesale funders).

In this context it is worth bearing mind that one of the pre-Brexit advantages of becoming a UK authorised bank was the ability to passport banking services across the European Union under the Capital Requirements Directive passport. A UK bank is no longer able to do so and would need to structure its arrangements appropriately in relation to European customers and/or markets.

There are other advantages to becoming a bank. There is a reputation advantage – being authorised as a bank confers a certain degree of status. Furthermore, in principle, a bank can hold permission to undertake a broad range of other financial services activities on the asset-side of the balance sheet (e.g., consumer or home finance activities; investment business activities) which may be attractive when combined with an ability to fund out of deposits. Quite separately, the Sterling Monetary Framework may prove an attraction for UK authorised banks who can scale sufficiently to access it (e.g. the Liquidity Support Facilities such as the Discount Window Facility).

What are the main downsides?

We have outlined some of the principal attractions of becoming a bank. However, with these benefits come considerable burdens.

The most significant of these is that the firm will become subject to extensive prudential regulation, particularly as to capital but also liquidity and funding. On the conduct side, there is the Senior Managers and Certification Regime and a range of other requirements and restrictions (e.g. on material outsourcing). These are beyond the scope of this note but we mention them as further contextual factors to be considered.

One of the key questions a firm will have to be able to answer is how the business will be viable and profitable and what the "path to profitability" looks like. New banks generally have a high capital burn rate because of heavy investment at a stage when the bank is loss-making. Consequently, a bank at this stage is heavily reliant on equity capital injections to sustain the business (and meet regulatory capital requirements). This may not be sustainable in the longer term and so the regulators will want to see how organic capital generation can be achieved.

In short, whether becoming a bank is the most appropriate option will depend on the firm's business strategy and model. There are a number of alternatives to becoming bank which may be more efficient or appropriate in the circumstances. A firm is not permitted to use the term "bank" or "banking" in its name unless it is authorised as a bank.

At an early stage of interaction with the regulators, the firm would have to explain the rationale for becoming a bank, including as to whether there may be more appropriate ways to deliver the business strategy other than by setting up a bank.

What is involved in becoming a UK bank?

A firm must apply to the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) for permission to undertake deposit-taking business. The responsibility for authorising new banks in the UK is split between the PRA and FCA but the PRA will take the lead in a bank authorisation. Both the FCA and the PRA make their own independent decision on whether or not to authorise a firm as a bank. The PRA makes the final decision, however, it is not permitted to authorise a firm without the FCA's consent. Once authorised, banks are dual-regulated by the PRA and FCA.

There are a number of key documents that must be submitted in addition to the pro forma FCA/PRA application forms[iii]. The key documents which will form part of the application are:

- The Regulatory Business Plan (**RBP**)
- The Internal Capital Adequacy Assessment Process (**ICAAP**)
- The Internal Liquidity Adequacy Assessment Process (**ILAAP**)

[iii] The various forms can be found at: < https://www.bankofengland.co.uk/prudential-regulation/authorisations/new-firm-authorisation>.

Becoming a UK authorised bank

We describe these in more detail below. One of the main pro forma forms is the controller form. This is extensive and requires supporting documentation (e.g., audited financial statements, letters of good standing, etc.).

The bank authorisation process is costly and requires considerable time and resources. A firm will need to have equity funding committed or in place before taking a submission forward. It will also need to have soundly developed plans for IT infrastructure.

How long does it take?

This depends on a range of factors including:

- how prepared the applicant is
- the level of committed or existing financial resources (e.g., capital) and non-financial resources (e.g. experienced management)
- the complexity of the business model
- the application route taken by the firm
- the resourcing of the PRA

In addition to the preparation time, it is not uncommon for a firm to budget 12 to 15 months in going through the authorisation process.

What application routes are open to an applicant firm?

The main part of a bank authorisation is the submission of the application for authorisation. However, there are two optional parts that a firm may elect for on either or both sides of the application submission:

- pre-application
- mobilisation

We discuss mobilisation further below under 'Which authorisation option should we take?'.

What is the pre-application stage?

The pre-application stage is an optional stage. The purpose of the pre-application stage is to enable firms to develop their business proposition and to deepen their understanding of regulatory process, rules and expectations. The pre-application stage will generally result in a higher quality, more comprehensive application (for example, it will generally help define the applicant's definition of the risk environment). Equally, the regulators will generally give their view on any features of characteristics of the arrangement that might potentially lead to an unsuccessful application.

Becoming a UK authorised bank

The pre-application stage is comprised of three meetings with the regulator:

- an initial meeting ('Why do you want/need to be a bank?' 'What is the proposed business?')
- a feedback meeting ('How will you be profitable?' 'How will you address key risks?')
- a challenge session (appraisal of a near-final RBP)

A firm can expect a high-level agenda from the PRA in advance of, and formal written feedback after, each meeting. If specialists from either regulator are to attend any meeting, the firm will generally be told of this in advance. The firm's advisers are generally welcome to these meetings.

A firm will not move to the challenge session if it has not effectively addressed the feedback from the regulator(s) from the feedback meeting.

The challenge session is technical in nature focusing on capital and liquidity. A firm's senior managers are expected to be able to discuss the draft ICAAP and ILAAP in detail in the challenge session.

It is typical for an applicant firm to spend 12 to 24 months in the pre-application stage before going through the authorisation process.

Should we go through the pre-application stage?

It will generally be helpful to go through the pre-application process. However, to enter the pre-application stage, the firm's business proposition should be sufficiently advanced to have substantive and relatively detailed discussions. If the firm is only at an early conceptual stage, this is likely to be too early to go into the pre-application stage. For example, if the firm is seeking external capital, the PRA would likely expect to be told of the identities of the prospective investors. Indeed, if a firm engages too early, it will not reap the full benefits of the process.

Firms that have existing banking operations (e.g., because they operate as a bank outside the UK) will also likely find the pre-application stage helpful, particularly the challenge session.

Success in the pre-application stage is clearly beneficial but it does not guarantee or imply success in the application phase. The regulators may raise further questions on areas that were covered in the pre-application stage as the regulators consider their assessment to be an ongoing dynamic process.

What would be discussed in an initial pre-application meeting?

The regulators will want to discuss a range of matters in the initial meeting, including:

- who the applicant is, the applicant's proposed legal form and current group structure and business (if any)
- the identity of owners and providers of capital (founders and investors)
- sources of funding – how does the firm propose to fund the business in the various stages of the process
- who will be responsible for running the business (including board composition and senior management)
- the proposed business model of the bank – what products will be offered and to whom?
- high level financial forecasts on a five (5) year horizon
- the firm's high level project plan for setting up the bank

The firm will send the PRA materials in advance of the initial meeting. The firm will present to the PRA at the meeting and all parties will have the opportunity to ask questions. The PRA will highlight issues that are likely to be material, including those that would be an impediment to authorisation.

In our experience, this is not an opportunity for the applicant to find out in general terms the process and requirements in relation to becoming a bank. The PRA will expect the applicant to have dealt with these matters with its professional advisers. An applicant should ensure that is well prepared for the meeting and what is discussed in the meeting is consistent with the RBP that is subsequently submitted.

Becoming a UK authorised bank

Once the application has been submitted how long does it take for a decision to be made?

Once the application is submitted, the PRA and the FCA have six (6) months to make a decision where the regulators consider the application "complete". Where it is "incomplete" (i.e., where further information is needed because of gaps or inadequacies identified by the regulator(s)), the regulators have up to twelve (12) months to make a decision. In practice, few firms submit an application that the regulators consider "complete". The PRA will write to a firm notifying of the outcome of its 'completeness assessment'. Some omissions are likely to be regarded as more material than others and the regulators will apply their judgement in this regard.

The information and feedback that the PRA and FCA provide in the pre-application stage will generally help in getting the application to a standard that reduces the number of further queries and issues raised by the regulators (put differently – it will likely increase the chances of application getting to the standard that the regulator considers "complete").

From beginning to end, the speed of the authorisation process will depend on a range of factors including the complexity of proposed business model, the extent to which regulatory challenges and potential risks have been addressed, how clearly the firm's proposition is articulated in the regulatory business plan and accompanying documentation. For example, a firm that wished to undertake business involving more complex financial products (e.g., derivatives) in addition to traditional "banking book" activities (deposit-taking and lending) would be a more complex application than a firm seeking to undertake only the latter.

Which authorisation option should we take?

There are two application processes that a firm can follow in becoming an authorised bank:

- **Option A** – Authorisation
- **Option B** – Authorisation with Restriction (**AWR**) and Mobilisation

Option A will generally only be appropriate if a firm has the backing, capital and operational infrastructure to be able to function fully as a bank from the point of authorisation. For example, an existing financial institution such a bank setting up a banking subsidiary or, if headquartered outside the UK, setting up a UK banking branch may well be in this position.

Under Option B, the firm from the point of authorisation (i.e., when it is formally granted Part 4A permissions), the

bank operates but with deposit restrictions (a cap on the amount of deposits that may be accepted) [iv] while the bank completes the final operational set up before trading fully. Option B will be appropriate for firms unable to wholly fund the up-front investment or establish the required banking infrastructure (e.g., IT) and corporate governance to trade from the point of authorisation.

Option B may be helpful from a funding perspective. Not infrequently, a condition to further equity finance is that the firm is successful in the authorisation process. Equally, some investors will only invest once the firm has obtained permissions having successfully undertaken the authorisation process. Under Option B, the firm becomes authorised at the point of mobilisation. This puts the firm in the position to satisfy such a condition or attract further investment but allowing further time to build-out in the mobilisation phase before being in position to trade fully at the end of mobilisation. Banks in the mobilisation phase are likely to spend time developing IT infrastructure, finalising policies and procedures and recruiting.

The mobilisation phase is capped at twelve (12) months but a firm may wish to have a shorter mobilisation phase. The average time spent in mobilisation is approximately eight (8) months. Some flexibility can be applied to the 12 month deadline. Equally, if it is considered that the firm is unlikely to meet the mobilisation conditions applied at the point of authorisation, the firm could become subject to a "guillotine clause" which removes the bank's authorisation (at a point when the information on which the conditions were based is considered outdated).

What is the minimum number of key hires we would need to be authorised?

The PRA will expect that at a minimum a firm would have a chief executive officer, a chair of the board (who is independent) and one other person to hold a senior management function (for example, a chief financial officer). The FCA will also expect a person or persons to hold the money laundering reporting function and compliance oversight functions. A recruitment plan and skills matrix should be available.

At the point of authorisation (without mobilisation) or upon exit from mobilisation, the PRA is likely to expect the bank to have two (2) independent non-executive directors.

The PRA will be particularly keen to see that the board of the firm has a strong and credible independent chair.

Ultimately the minimum number of hires will depend on the firm's proposed business model and an assessment of the rules in the PRA's Rulebook and discussions with the PRA about how to satisfy those obligations.

What is the RBP?

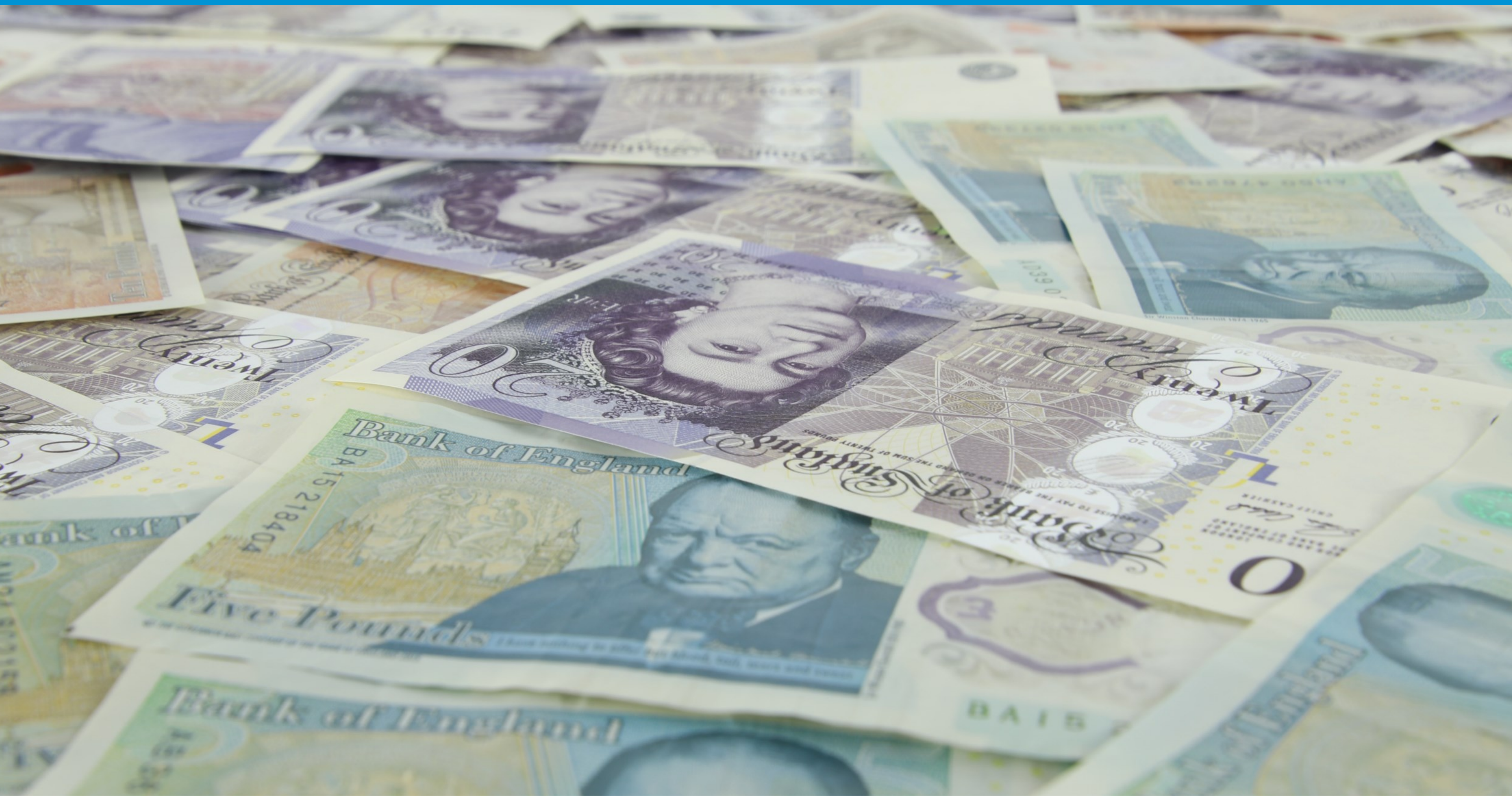
The RBP is the key document which describes the applicant firm's business proposition, including the business model and strategy, its viability and profitability. A poor quality RBP will slow down the authorisation process.

The RBP is necessarily a detailed document including (amongst others):

- information about owners, controllers (persons holding 10% or more of the economic or voting interests in the capital of the firm) and persons having close links to the applicant
- the proposed business model and strategy: products, pricing, delivery channels, target market, target geographies, marketing and promotion
- funding model and profile
- the key risks faced by the business and how these are mitigated
- financial projections (balance sheet and income statement and KPIs broken down by product class and year)
- explanation of the route to profitability (unique characteristics or opportunities; competitive advantage; sources of funding (capital and liabilities));
- the firm's corporate governance arrangements (e.g. board composition and management structure)
- the risk management and control framework (including personnel)
- the customer journey (product types, pricing, client on-boarding (AML/KYC) and complaints handling)
- detail on the conduct risk assessment framework[v]
- consideration of operational resilience (business continuity; IT infrastructure and systems; outsourcing arrangements)

[iv] The limit on the scale of deposit-taking business that may be undertaken reflects the likely lack of infrastructure and an underdeveloped control environment.

Becoming a UK authorised bank



- discussion of policies, procedures and plans (scope of permissions sought, operational and regulatory policies and procedures)
- the mobilisation plan (if Option B is chosen) explaining key activities, milestones and dependencies

It is important that the RBP is subject to independent review to ensure it is clear, and especially that it is consistent and coherent. Some firms find it helpful for external legal advisers to undertake or be engaged in this process.

The PRA prefers that the RBP be used for all stakeholders, including prospective providers of capital/liquidity to the bank.

If the pre-application route is chosen, the RBP will need to be at near-final draft stage for submission to the PRA prior to the feedback meeting (the 2nd pre-application meeting).

What is the ICAAP?

The ICAAP is a technical document setting out what constitutes adequate capital resources for the type and volume of the firm's business and the firm's risk appetite as it affects its capital resources.

It is firm-specific and so is tailored to the business model of the firm reflecting the risks to which the business is (or might be) exposed. The ICAAP is primarily a numerical/quantitative document that identifies, analyses and measures the risks and corresponding risk mitigants. It is fundamentally about the firm's capital management. UK banks are required to assess on an ongoing basis the amounts, types and distribution of capital considered adequate to cover the level and nature of the risks to which they are (or might be) exposed.

The PRA will not generally expect to see the ICAAP until the RBP is sufficiently well developed (having taken account of the feedback from the feedback meeting, if in the pre-application stage).

The ICAAP is based on actual balance sheet positions. This presents a "chicken/egg" problem because a start-up bank will not have traded and so will not have actual balance sheet positions, or at least those which would be representative of the business model once the bank is authorised. Therefore the PRA expects the ICAAP submitted with the application to be undertaken on the basis of a forecast balance sheet at the end of year one.

[v] < https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit/new-bank-authorisation-process/conduct-risk-assessment>.

The ICAAP must cover:

- structure of capital and capital ratios
- sources of capital and sources of additional capital
- risk appetite statement, including quantification and linkage to other policies
- control environment
- Pillar 1 capital calculations
- Pillar 2 assessment and quantification of risks
- Stress-testing and scenario analysis

The ICAAP must be 'owned' by the board – it is the board's responsibility and must be approved by the board. It is updated at least annually or more frequently if there are material changes to business strategy or the operating environment.

Some firms understandably become over-focused on Pillar 1 capital requirements but a firm should not ignore Pillar 2 aspects.

What is the ILAAP?

The ILAAP is a technical document which sets out the firm's approach to liquidity and funding.

UK banks are required to identify, measure, manage and monitor liquidity and funding risks arising from their business model.

The principal requirement to which a bank is subject is the Overall Liquidity Adequacy Rule.

The ILAAP must cover:

- governance arrangements as concerns the ILAAP including preparation, review and approval
- compliance with the Liquidity Coverage Ratio and reporting
- assessment of liquidity needs and sources in the short to medium term (under both business as usual and stress conditions)
- evaluation of liquidity buffer and counterbalancing capacity
- control and monitoring of amount of high-quality liquid assets (HQLA)
- whether the firm should have reserve accounts with, or preposition assets at, the Bank of England
- evaluation of the risks to the stability of the funding profile (including as to collateral values, maturity mismatch, asset encumbrance and funding concentrations, market access, etc.)
- risk management assessment (including liquidity and funding)
- liquidity risk internal control framework
- liquidity contingency or contingency funding plan(s)
- funding plans

As is the case with the ICAAP, the ILAAP must be 'owned' by the board – it is the board's responsibility and must be approved by the board. It is updated at least annually or more frequently if there are material changes to business strategy or the operating environment.

What type of capital will we need?

Although permitted, typically new banks do not issue anything other than ordinary equity share capital (as opposed to convertible subordinated debt (Additional Tier 1 instruments) or subordinated long-dated or perpetual debt (Tier 2 instruments)). Under the applicable rules, the firm needs high quality loss-absorbing capital (on a going rather than gone concern basis), which generally rules out debt or convertible debt and results in early stage banks having only ordinary share capital.

How much capital would we need at the point of authorisation?

Bank capital is a complex subject. We have therefore only highlighted the very highest level requirements.

An authorised firm will be given Individual Capital Guidance (ICG) and Individual Liquidity Guidance (ILG) by the PRA.

The bank will have a total capital requirement (TCR) and will need to have capital buffers. The TCR is composed of Pillar 1 and Pillar 2 requirements, the latter being broken down into Pillar 2A and Pillar 2B requirements.

Becoming a UK authorised bank

Under Pillar 1, at a minimum, a bank other than a small specialist bank[vi] must have initial capital ('base capital resources requirement') equal to or in excess of EUR 5,000,000. In the case of a small specialist bank, it must have capital equal to or in excess of the greater of EUR 1,000,000 or GBP 1,000,000. Furthermore, there will be operational risk capital requirements to be met. These are calculated by reference to historical income, but in the case of a new start-up bank this is calculated on the basis of forecast data.

During mobilisation the firm will also have to have capital buffers[vii] of at least GBP 1,000,000. There are three classes of capital buffer: the countercyclical buffer, the capital conservation buffer and the PRA buffer. Riskier business models will require larger capital buffers. In the case of the PRA buffer, the approach of the PRA to start-up banks is to stipulate a buffer that broadly equates to capital resources sufficient to safely wind down (rather than survive) in a severe but plausible stress scenario[viii].

If the capital structure of the firm is more complex (e.g., multiple classes of shares or shares with characteristics beyond those common to ordinary shares), the level of scrutiny by the PRA will be higher and likely to result in greater challenge. Ideally there would be one class of shares fully subordinated to all other capital instruments with full voting rights and equal share rights attaching to each share (as to dividends and return of capital on a liquidation). Differing entitlements as to voting rights or proceeds on share sales are likely to be regarded as more "complex".

Proof of capital will need to be provided to the PRA (e.g., auditor's confirmation that the capital is in place or each of the following: bank statement, SH01 Companies House form and board minutes evidencing agreement to issue and allot share capital).

What will the regulators assess when we submit the application?

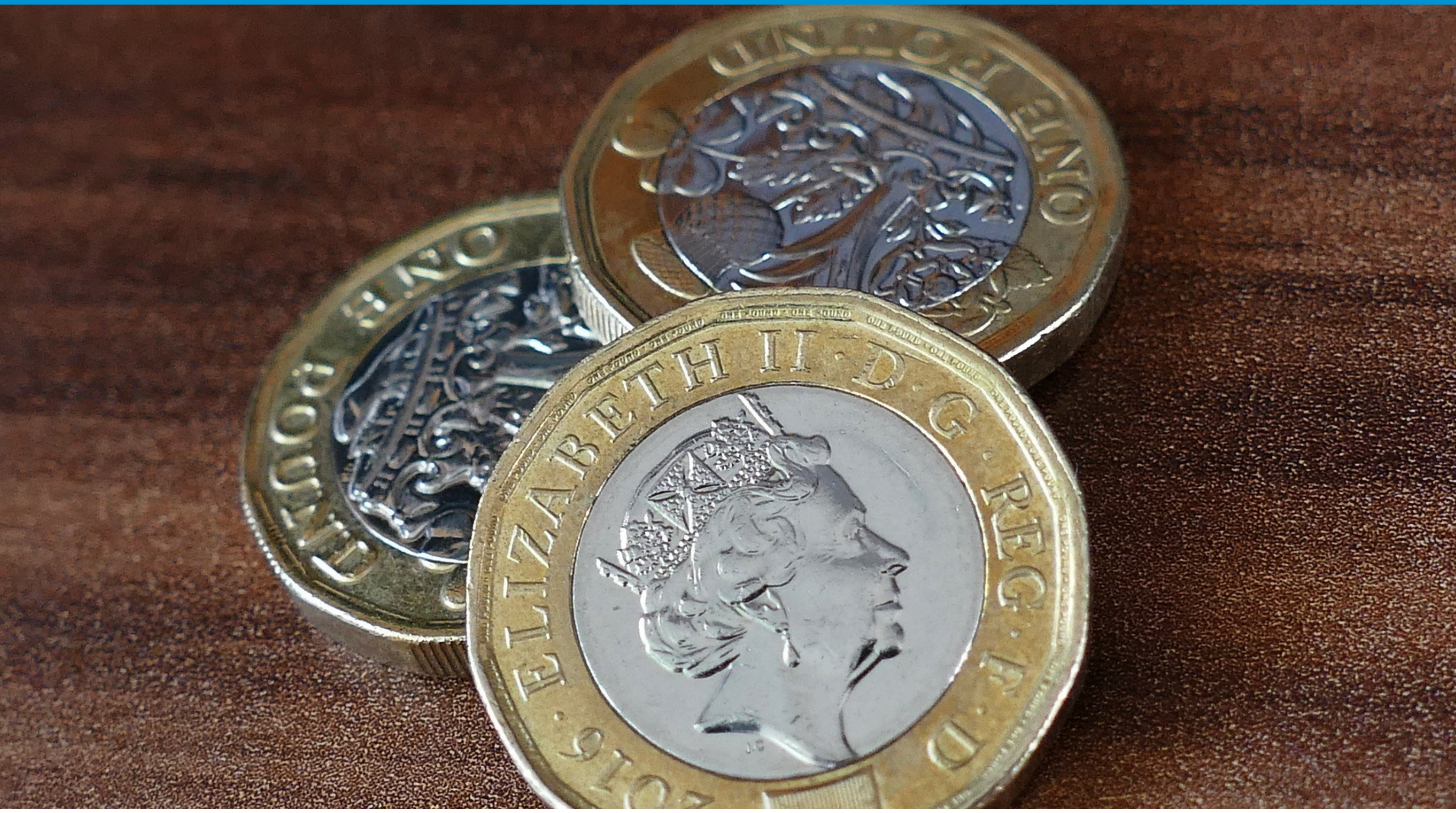
Both the PRA and the FCA will deploy specialists to assess the application. The PRA and the FCA have different focus areas: the PRA will focus on the prudential aspects (i.e., those features which go to the safety and soundness of the firm and its potential impacts on financial stability).

[vi] A "small specialist bank" is a firm having a base capital resource requirement which is equal to or in excess of the higher of EUR 1m and GBP 1m but less than EUR 5m and that carries out one or more of the following activities: (1) provides current and savings accounts; (2) lending to SMEs and/or (3) lending secured by mortgages on residential property.

[vii] Which are designed to protect the firm in a "severe but plausible" stress scenario (as many bank did during the COVID-19 pandemic). The severity of the "severe but plausible stress" scenario is assessed by reference to an 'anchor scenario' published by the PRA.

[vii] This is generally assessed as amount equal to six months projected operating expenses.

Becoming a UK authorised bank



The FCA will focus on conduct aspects going to the protection of customers from harm, the protection and enhancing of the integrity of the UK financial systems and markets (particularly as concerns money laundering, terrorist financing and financial crime) and promotion of effective competition.

In any event, the regulators will assess whether the firm meets each of regulator's "threshold conditions", which a firm needs to meet on authorisation and continue to meet thereafter[ix].

In practice, satisfying the threshold conditions covers a broad range of matters, including the following topics:

- business model analysis
- capital and liquidity assessment
- owner/controller assessment
- analysis of conduct risk of harm and customer journey
- review of IT, outsourcing and business continuity arrangements
- review of recovery planning and orderly exit (solvent wind-down) and resolution planning
- assessing risk management framework and controls
- governance assessment (including Senior Manager and Certification Regime function holders)
- capital instrument assessment

Is there an application fee?

There is £25,000 due to each of the PRA and the FCA (an aggregate fee of £50,000) to be paid at submission of the application.

Where are the potential pitfalls?

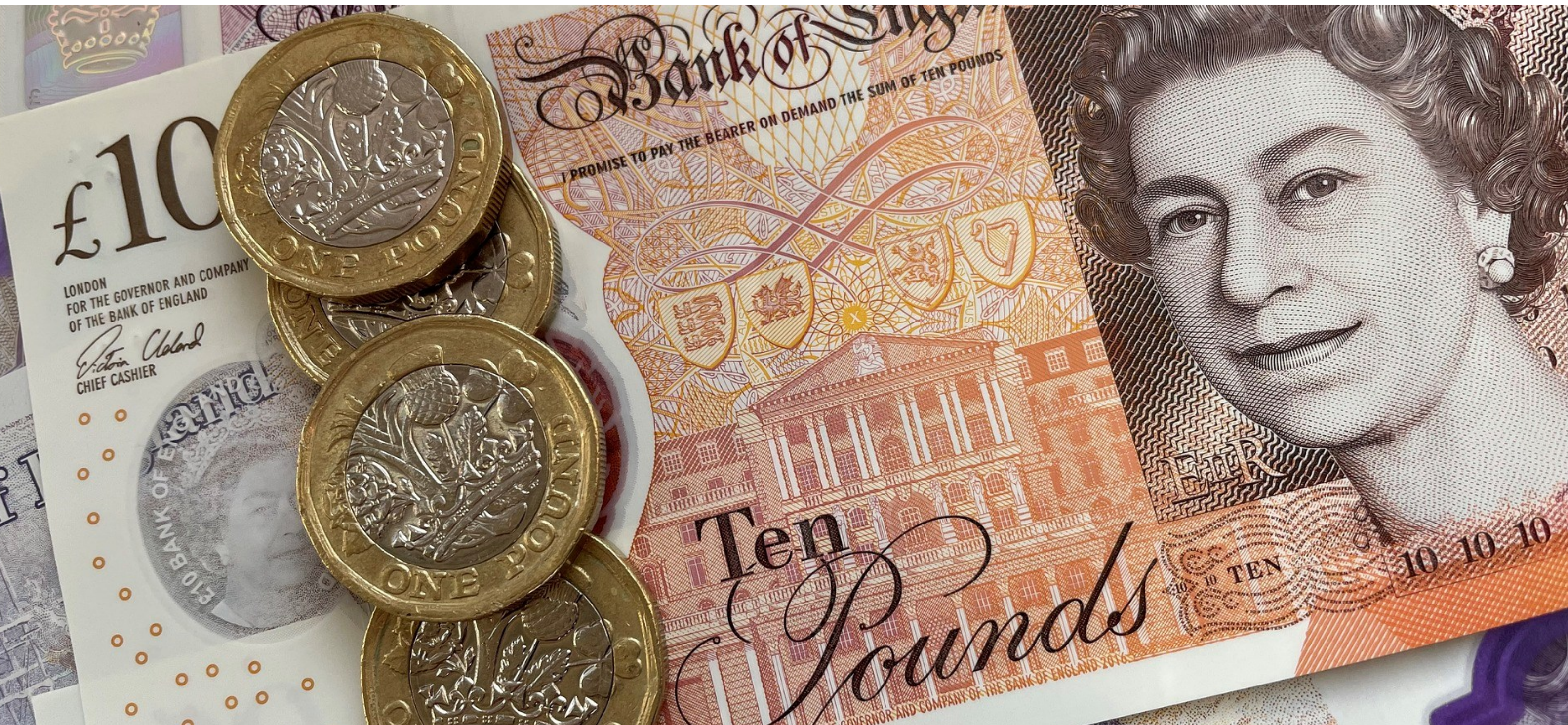
UK banks are held to high regulatory standards and the potential pitfalls are extensive in number and nature. The regulators expect firms to have a clearly thought out business proposition with an understanding of how that business is to operate profitably in compliance with legal

[ix] A factsheet discussion these is available here: < https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/new-bank/thresholdconditionsfactsheet>.

and regulatory requirements. This must be credibly demonstrated in the application and in communications that are open and cooperative.

Below are some things an applicant firm should be alert to.

- **Unrealistic assumptions and overoptimistic forecasts.** The application will necessarily be based on certain core assumptions. Whilst some of these may be more readily ascertained than others (e.g. from data, market research or historical performance), others will be less so. In any event, these assumptions need to be realistic as the PRA is likely to provide robust challenge where they are not. Equally, over-optimistic forecasts are an immediate 'red flag' to the PRA that the forecasts have not been subject to appropriate challenge which is often symptomatic of poor governance. This is a difficult balance to strike – an over-conservative approach can make the proposed model unattractive from a profit generation perspective whilst an over-optimistic may be unattractive from a risk management or capital perspective. If the balance is not struck, this can slow down the process or result in a refusal of the application.
- **Getting and keeping financial backers**. High quality capital resources for the new bank will be imperative and a key focus area of the PRA. Some firms lose their financial backers or exhaust their financial resources in the process or at an early stage. Capital resources, particularly in the early high-growth (often) loss-making stage, will be critical. The PRA's expectations are only likely to be satisfied where the capital is sufficiently committed and the firm is able to show that it has a "run-way" such that it doesn't put itself in the position of breaching capital requirements before fresh capital can be injected.
- **Corporate governance.** The PRA has identified a number of common challenges for start-up banks on the corporate governance side, including: dominant individuals (which may prevent or stifle independent challenge); insufficient safeguards or controls with respect to majority shareholders or other potential conflicts of interest; recruitment of sufficiently skilled and experienced individuals; diversity of thought and the provision of appropriate management information to the board. To the extent applicable, these risks and the corresponding mitigants should be addressed (ideally in the RBP).



Becoming a UK authorised bank

- **Being open and cooperative.** Through the application process, the regulators may seek certain systems or controls to be implemented or commitments on capital or corporate governance. Firms that are unwilling or unable to cooperate with these requests are unlikely to succeed. In addition to demonstrating flexibility, a firm should provide timely responses to questions or information requests from the regulator (s).
- **Consistency.** The documents and information provided to the regulators should be comprehensive, cogent and consistent. For example, the RBP needs to align with the ILAAP and ICAAP – it is not uncommon for changes in one not be reflected in the others. Equally important, the documents should not only be consistent as amongst themselves but they should be consistent with what the applicant has told the regulator in discussions. Evolution and iteration is permissible but introducing concepts afresh without appropriate introduction can also be a symptom of weak corporate governance.
- **Getting the ICAAP right.** In line with point about consistency above, it is common for the ICAAP to suffer from inconsistencies, for example, in the statement of capital measures and metrics (risk weighted assets, Common Equity Tier 1 or TCR). Equally the firm should be clear about the nature of reference data, for example, whether it is actual data or forecast data. The ICAAP can raise a host of different issues, for example, where existing financial sector entities in the same group as the applicant have to be consolidated with the firm for regulatory purposes. External advice should be sought on such matters.
- **Getting the risk control environment right.** Early stage banks can grow quickly, particularly around year 2 post-mobilisation (year 3 post-authorisation). This can result in problems for firms which do not implement risk management controls commensurate with the level of business undertaken by the firm. It is important to think about how the firm will evolve, particularly as the risk control framework is likely to be untested at the point of authorisation.
- **Taking a longer view: authorisation is just the beginning.** In the same vein, it is not uncommon for a firm to become focused on the point at which it will become authorised. This is understandable given the resources required to be deployed to reach that point. However, this can result in insufficient attention being paid to the near-to-medium term journey of the bank post-authorisation. Minds should be addressed to what the business looks like as it evolves over time.

Contacts

Simon Lafferty
Director, Financial Regulation
+44 330 460 6497
simon.lafferty@fieldfisher.com

Stephen Moller
Partner, Derivatives & Structured Finance
+44 330 460 6498
stephen.moller@fieldfisher.com

Oliver Abel Smith
Partner, Banking & Finance
+44 330 460 6462
oliver.abelsmith@fieldfisher.com