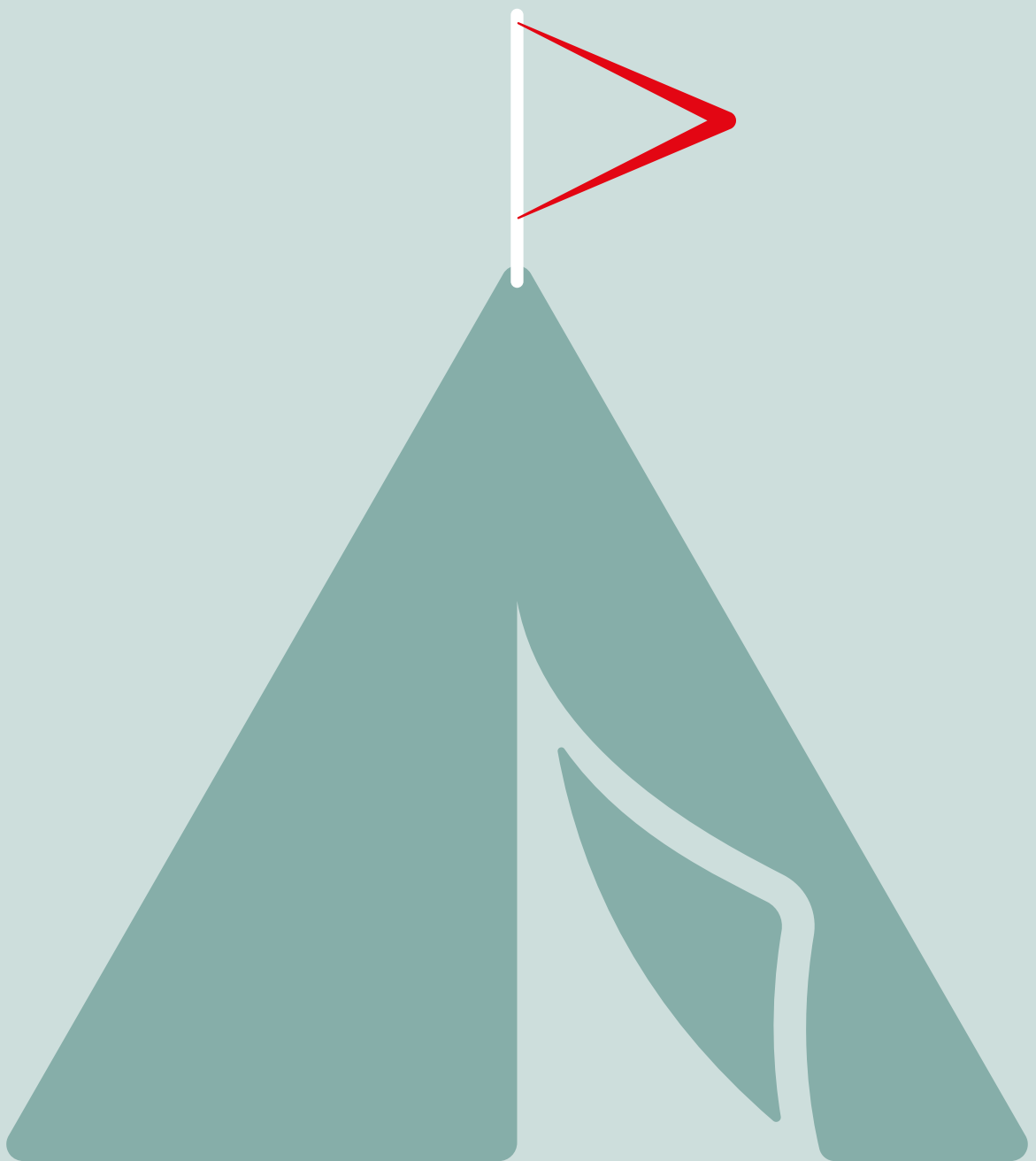




Be Prepared

A GUIDE TO MONITORING REVIEWS FOR DPB
(INVESTMENT BUSINESS) LICENSED FIRMS



Introduction

The DPB (Investment Business) licence gives your firm the opportunity to offer exempt regulated activities (ERAs) to individuals and corporate entities. Financial services is a heavily regulated area and there may be times when your firm is unsure which services it can and can't offer. This guide provides more information about common areas that firms are sometimes unsure about, and practical guidance on preparing for your firm's next monitoring review.

As well as this guide, there are two other resources your firm needs to use:



- **The DPB (Investment Business) Handbook** (referred to as the Handbook in this guide) provides comprehensive guidance on the parameters of holding a DPB (Investment Business) licence including:
 - the agreement between the firm and ICAEW for a licence;
 - the regulated activities that can be conducted under a licence; and
 - how regulated work should be conducted.



- **The DPB Compliance Review Helpsheet** includes a checklist of areas your firm needs to address when you conduct an annual compliance review. This must be done in accordance with the Handbook.

The Handbook, DPB Compliance Review Helpsheet and all the other resources mentioned in this guide, including a copy of this guide are available at [icaew.com/dpb](https://www.icaew.com/dpb).



MONITORING

We monitor all DPB (Investment Business) licensed firms to ensure you are operating within the scope and eligibility criteria of your licence. We also check you have appropriate quality control procedures to identify and carry out ERAs in accordance with your DPB (Investment Business) licence.

As a DPB licensed firm, you can expect to receive a monitoring review from ICAEW every four to eight years depending on the size and activities of your firm.



PREPARING FOR A REVIEW

This guide covers some of the more common areas for your firm to consider when you are preparing for a review. You can add notes to help you to identify any research you need to make, or questions to ask the ICAEW reviewer.

Basic compliance requirements

ELIGIBILITY FOR A DPB (INVESTMENT BUSINESS) LICENCE

The principals of a DPB (Investment Business) licensed firm do not have to be ICAEW members, or members of another professional body (such as ICAS, CAI or ACCA).

If any principals are not members of one of these bodies, they need to apply to become an ICAEW DPB affiliate. This is in addition to any requirement for general affiliate or audit affiliate status. The application form is available from icaew.com/dpb

The principal business of the firm must be the provision of accountancy services.

Please refer to:

- Part 2 of the Handbook for more information.

NOTES

Potential issue(s) identified:

Action plan:

DISCLOSURES MADE TO CLIENTS ABOUT YOUR FIRM'S DPB (INVESTMENT BUSINESS) LICENSED STATUS

Your firm must make certain standard disclosures to any client in order to conduct exempt regulated activities using the DPB (Investment Business) licence.

Disclosures include:

- Status under the Financial Services and Markets Act 2000 (Handbook paragraph 4.03).
- Compensation arrangements (Handbook paragraph 4.10).

These disclosures may be made in the terms of an engagement letter, or subsequent correspondence.

Example disclosures can be found in the ICAEW Engagement Letters Helpsheet and Schedule 1 of the Handbook.

NOTES

Potential issue(s) identified:

Action plan:

ANNUAL DPB (INVESTMENT BUSINESS) COMPLIANCE REVIEW

An annual compliance review is a requirement for a DPB (Investment Business) licensed firms, even if your firm has not carried out any activities under the licence.

Use this review to assess your firm’s procedures and review the scope of client services to check that your firm has identified all activities that fall within the scope of the DPB (Investment Business) licence.

A DPB (Investment Business) compliance review has two parts:

- Review of whole firm procedures.
- Client file reviews.

We recommend you review and complete the ICAEW DPB Compliance Review Helpsheet ([icaew.com/dpb](https://www.icaew.com/dpb)).

As a minimum, the review of whole firm procedures should include brief notes covering:

- competence/training requirements;
- professional indemnity insurance (PII); and
- eligibility.

If your firm conducts ERAs, please select one or more relevant clients for file reviews to check your firm has complied with the requirements of the Handbook.

If your firm does not consider it has conducted ERAs, we strongly recommend you still consider the risk that your firm may have inadvertently strayed into such activities. In readiness for your firm’s monitoring review, select appropriate client file(s) to confirm to the ICAEW reviewer whether or not this is the case.

NOTES

Potential issue(s) identified:

Action plan:

Exempt regulated activities

INTRODUCTION TO FINANCIAL ADVISERS

Introductions to financial advisers are complicated because the precise details of how a firm makes an introduction, what type of product an introduction is for, and whether the financial adviser is independent or restricted, will determine whether it is an ERA.

Introductions may be to a third party, or to a separate entity that your firm or your firm’s principals have a financial interest in.

If an introduction is an ERA, your firm must ensure it has made all of the appropriate disclosures to the client about your licensed status. Any commission must be accounted for in accordance with paragraph 4.15 of the Handbook.

Please refer to:

- The Introductions To Financial Advisers Helpsheet (icaew.com/dpb).

Your firm will need to know whether financial advisers are categorised as independent or restricted by the FCA. In particular, in the case of a restricted adviser, you need to make sure your firm is complying with the ICAEW Code of Ethics, section 241.

INSURANCE DISTRIBUTION ACTIVITIES (IDA)

ICAEW DPB (Investment Business) licensed firms can be involved in insurance distribution activities when the insurance in question is incidental and complementary to the unregulated professional services provided to the client.

Firms may offer fee protection insurance or, less commonly, arrange other types of business-related insurance such as ‘key man’ policies.

Your firm needs to provide your clients with demands and needs statements that are appropriately tailored to the client and policy. You must also pass on the insurance product information document provided by the insurer.

Please refer to:

- Schedules 6 and 8 of the Handbook for more guidance on insurance distribution activities.
- Part 4 of the Handbook (particularly 4.15-4.18 and 4.26-4.27) for the requirements on firms.

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Potential issue(s) identified:

Action plan:

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Potential issue(s) identified:

Action plan:

COMMENTING ON FINANCIAL ADVICE

The ability for a firm to explain or comment on the financial advice given to a client by a financial adviser is the most common reason that firms have a DPB (Investment Business) licence.

Clients often appreciate an impartial view from their trusted adviser and by its nature this service may be quite ‘informal’.

As a DPB (Investment Business) licensed firm, you can endorse advice or suggest that a client seeks alternative advice, but your firm cannot provide alternative advice.

This ERA is often poorly documented. Your firm should adopt good risk management processes:

- Make clear to clients that you are not providing advice.
- Keep records of meetings, telephone calls, emails and letters.

CORPORATE FINANCE

The final key area where firms can benefit from a DPB (Investment Business) licence is corporate finance activities.

It is important to know that much of this work is unregulated because firms can use the sale of body corporate exclusion (Regulated Activities Order Article 70). Effectively this is where a firm acts for a person or group of persons seeking to acquire day-to-day control in a body corporate.

A DPB (Investment Business) licence is typically required if your firm acts for a client seeking to acquire a minority interest in a private company. FCA authorisation is required to advise a client acquiring shares in a listed company.

Please refer to:

- Schedule 5 of the Handbook for detailed guidance in this area, together with eight pages of examples of the activities that firms may get involved in.

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Potential issue(s) identified:

Action plan:

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Potential issue(s) identified:

Action plan:

Activities that require FCA authorisation

This final section includes a couple of areas where licensed firms may inadvertently get involved in activities that require FCA authorisation.

The implications can be quite serious.

- Your firm is likely to find that its professional indemnity insurance (PII) would not cover a claim for work that it was not authorised to do.
- Any claims may cause problems for PII renewal.
- In extreme cases, your firm could end up in the Assigned Risks Pool.

If your firm suspects it may have been involved in activities without the appropriate FCA authorisation, we strongly recommend you contact our Technical Advisory Services team for further guidance on +44 (0)1908 248 250.

NOTES

Potential issue(s) identified:

Action plan:

FINANCIAL PROMOTIONS

A financial promotion is an invitation or inducement to engage in investment activity, communicated by a person in the course of business. This would need to be approved by an authorised firm unless there is an exemption available in the Financial Promotions Order.

Exemptions are available for DPB (Investment Business) licensed firms that wish to communicate information to their clients about ERAs that the firm can provide.

If this communication is in a brochure or on your firm’s website there is specific wording about the firm’s status in Schedule 1 to Part 4 of the Handbook that should accompany the promotion.

There are other exemptions available to firms, but this is a complicated area and it will depend on whether the promotion is solicited or unsolicited, real time or non-real time.

For example, you can talk about investments as part of a conversation (real time) initiated by a client (solicited) on a one-off basis.

If you wanted to initiate a one-off conversation about an investment with a client then you would need a specific clause to cover this in your terms of engagement, which the client has signed up to.

Written (non-real time) promotions may be possible in some circumstances, but certainly not as part of a marketing campaign to all your clients.

One of the key benefits of the DPB (Investment Business) licence is the ability for your firm to work closely with FCA authorised firms. This is a common reason why firms may want to make financial promotions. An FCA authorised firm should be able to advise you about any communications that you want to make to your clients, and approve these communications for you if required. If you are in doubt, you should take legal advice or consult the ICAEW Technical Advisory Services team.

NOTES

Potential issue(s) identified:

Action plan:

ADVISING ON INVESTMENTS

Any firm (licensed or not) can provide generic advice on investments. This might be a discussion on the tax consequences of pensions or the differences between unit trusts and ISAs.

No licensed firm may give/agree to give any advice to individuals acting in a personal capacity relating to a security or contractually based investment where the transaction would be made:

- with a person carrying out the business of selling, subscribing or underwriting that security or contractually based investment; or
- on a public market; or
- in response to an invitation to subscribe for that security which is or is to be admitted for dealing on a public market.

This covers listed shares or other investments where the contract is directly with a product provider and prevents advice being given to buy units in a collective investment scheme or to acquire rights under a personal pension scheme.

As noted above, your firm can introduce clients to financial advisers for these products. It is important to adopt good risk management processes, so that any further involvement by the firm when the client chooses investments cannot be construed as advice.



HANDBOOK SCHEDULE 1 IS A FULL LIST OF PROHIBITED ACTIVITIES.

Your firm will need FCA authorisation to provide any of these services.

ICAEW DPB (INVESTMENT BUSINESS) LICENCE

This guide is part of the support we provide for our DPB (Investment Business) licensed firms. The ICAEW DPB (Investment Business) licence is already giving over 2,000 firms the ability to work with FCA authorised individuals as part of their accountancy services for clients. Visit icaew.com/dpb to find out how your firm can apply for a ICAEW DPB (Investment Business) licence.

NOTES

Potential issue(s) identified:

Action plan:

ICAEW's regulatory role is distinct from its representative role. Managed by our Professional Standards department and overseen by the independent ICAEW Regulatory Board, we protect the public interest by making sure our firms, members, students and affiliates maintain the highest standards of professional competency and conduct. Our role is to:

- authorise our members and firms to undertake work regulated by law: audit, local audit, investment business, insolvency work, and probate;
- monitor firms and insolvency practitioners to ensure they undertake work correctly and to the highest standards;
- investigate complaints and hold members and firms accountable where they fall short of standards;
- lobby and comment on proposed changes to the law and regulation affecting our stakeholders; and
- provide guidance, advice and award-winning training films to ensure our stakeholders comply with laws, regulations and professional standards.

There are over 1.8m chartered accountants and students around the world – talented, ethical and committed professionals who use their expertise to ensure we have a successful and sustainable future.

Over 181,500 of these are ICAEW Chartered Accountants and students. We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We've been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

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