

**THE ASSOCIATION OF
FOREIGN EXCHANGE
AND PAYMENT COMPANIES**



FCA Update
November 2020

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AFEP had a productive update with the FCA on the first week of November (2020) and we wanted to highlight a few areas that the FCA are focused on or will be important in the coming months.

1. Vulnerabilities in firms

As the economic outlook worsens we are likely to see more businesses collapse and therefore there is an increased credit risk to member firms. It is also possible that as clients/customer businesses fail, clients start to speculate. It is important that members understand their clients' reason for trading and manage this appropriately within the clients' credit terms and the firms risk policies. All firms should be undertaking stress and scenario analysis to ensure they have sufficient liquidity and capital to enable them to continue to operate should foreseeable events occur. It is also important to remember the permissions of your firm to ensure that you are not completing transactions for which you are not authorised (i.e. forwards fall within the MIFID payment exclusions set out in PERG 13).

2. Banking margins

The FCA are aware of the difficulties caused by the sudden change in banking margins in March and they are alert to the fact that any future changes could disrupt the sector and we understand they will take steps to manage this risk. That being said, it is important that with Brexit looming firms are prepared for market changes.

3. Wind Down Plans

Wind Down plans are particularly important from the FCAs perspective as they want to encourage an orderly exit from the market should it become necessary. They have a focus on managed failure and encourage open dialogue with firms prior to any market exit.

4. FCA contact with firms

The FCA are seeing a lot of firms in the API or EMI space being optimistic on their financial position or business resilience e.g. 'we can find funding' or 'we'll find a way'. The FCA don't accept this as a course of action and want to see pragmatism from firms. They will continue to follow up with firms on the back of the COVID19 impact study based on a number of factors including, size of the firm, business model, financial stability and the firms complexity or overall impact within the payment ecosystem.

5. FCA next steps

The FCA are working on a number of policy areas including:

- eIDAS certificates for Open Banking – an update on the AFEP LinkedIn group – join if you haven't already!
- PSD2 updates to account for Brexit
- Ongoing working within Financial Stability and Operational Resilience
- Working with HMT on the Payments Landscape review [click here](#), and they are proactively working to raise standards within the API and EMI space.



6. Money Laundering Review

The FCA updated AFEP on the results of their in depth review into AML within our sector which happened over the summer. There were a number of key findings and the FCA are continuing to work with many of the firms to concerned and with trade bodies, to ensure best practice is shared and no further s166's have to be issued.

The FCA found significant issues around the following areas:

- Customer Risk Assessments – that they were non existent or didn't sufficiently cover the FinCrime risks
- Enhanced Due Diligence needs to be more targeted to FinCrime, Money Laundering not just fraud
- Improved Compliance monitoring regimes, more testing and checks

We are currently working with the FCA to produce guidance and an update for members (most likely via a webinar) on their findings and practical case studies for how firms can make improvements and avoid enforcement action.

As ever if you have any questions or are seeing any particular themes from the FCA, please don't hesitate to let Liz know.