



NEWS RELEASE

Survey reveals that 45% of payment firms may not be meeting the FCA's expectations on capital requirements

LONDON – 14 September 2021 – Compliance Services is the UK's leading provider of compliance consultancy and regtech services to payments services and e-money firms. We have identified a common misunderstanding that is leading to a high proportion of these firms unknowingly failing to meet their regulatory obligations relating to the calculation of own funds requirements. In a recent survey, 45% of those firms polled were found to potentially be in breach of the regulations.

In a supervisory engagement with the sector in 2020, the FCA noted a number of shortcomings in how firms had calculated their own funds requirement. An announcement was made in the ['Dear CEO' letter 'Portfolio strategy letter for payment services firms and e-money issuers'](#), issued in July 2020, and firms were reminded to take action to meet the requirements. Compliance Services has identified that, despite this notification, many firms are still falling short of the requirements and misunderstanding exactly what the FCA is looking for.

Compliance Services held a webinar on 14 September 2021 to help firms understand the requirements. During the webinar we posed a question to the delegates asking, "how frequently they reviewed their firms' regulatory capital position". 45% were found not to be meeting the FCA's expectations.

Harpartap Singh, Head of Prudential at Compliance Services commented "The FCA require that firms monitor their regulatory capital position on an ongoing basis, and anything less than monthly is unlikely to be acceptable especially in changing business conditions. Ensuring that payments firms are meeting their regulatory capital requirement is an increasing area of focus for the FCA, so it is important that firms get it right."

It is, also, apparent that many firms are mis-calculating their 'own funds'. Retained profits may only be included in the 'own funds' calculation if the accounts have been audited. Many Authorised Payment Institutions (APIs) are classed a "Small Companies" under the Companies Act 2006 and are not required to undertake a statutory audit. This means that, unless they have chosen to have an audit in spite of the exemption, any profits they have made are not eligible for inclusion in the own funds calculation and this seems to have been catching many firms out.

According to John Burns, Technical Director of Payment Services at Compliance Services 'The cross referencing of the Payment Services Regulations and Capital Requirements Regulations, and the apparent mismatch between the Companies Act and the Capital Requirements Regulations can make the requirements difficult for firms to follow. While this may mean that, technically, some of these firms may not be meeting their required regulatory capital levels, as long as the unaudited profit figures are accurate it shouldn't really affect the financial resilience of the firms in question. However, it is important that firms, and the FCA, are aware of this pitfall, and take steps to avoid it.



Compliance Services own funds webinar can be accessed by visiting their [dedicated registration page](#). Our webinar recording also comes with a free copy of the 'Key Questions to Answer Before Calculating Your Own Funds' Factsheet, which will support firms trying to calculate their own funds.

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About Compliance Services

Compliance Services is one of the UK's leading providers of compliance consultancy and regtech services, particularly to firms that provide payment services and issue e-money. We help firms become authorised by the Financial Conduct Authority or the Prudential Regulation Authority; manage their ongoing compliance and regulatory obligations; and empower their staff with focused compliance training.

We have provided services to one in five of all UK payment and e-money institutions and successfully managed over 100 FCA payments applications for these types of firms. What sets us apart is the quality of our team that includes two ex-FCA payment services regulators.

www.compliance-services.co.uk

About the webinar survey

Compliance Services held a webinar on 14 September 2021 to provide clarity about the own funds requirements. The webinar was attended by 111 individuals from 85 different firms. 57 firms responded to the question "How frequently are you reviewing your firms' regulatory capital position" with only 55% doing this monthly or more frequently.