



## **Association of Mortgage Intermediaries' response to FCA's discussion paper DP14/1 on Recovering the costs of administering the regulatory gateway through application fees**

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI). AMI is the trade association representing over 80% of UK mortgage intermediaries.

Intermediaries active in this market act on behalf of the consumer in selecting an appropriate lender and product to meet the individual consumer's mortgage requirements. Our members also provide access to associated protection products.

Our members are authorised by the Financial Conduct Authority (FCA) to carry out mortgage and insurance mediation activities. Firms range from sole traders through to national firms and networks, with thousands of advisers.

AMI welcomes the opportunity to respond to FCA's discussion paper on recovering the costs of administering the regulatory gateway through application fees.

### Overview

The current format for recovering the costs of processing the applications from firms seeking authorisation has been largely unchanged since its original inception over 10 years ago. As such, we welcome a review of the charging structure for application fees.

Whilst each application will always be different we agree with the established format of trying to segment such applications by the probable level of complexity that they will pose to FCA. However, it would seem that there is scope for considering whether some applications, in particular those from appointed representatives (ARs) to become directly authorised (DA), could warrant being placed into a cheaper very simple category. This could better reflect the lower level of work required for such applications.

Furthermore, there is also the potential that some complex applications from firms such as deposit acceptors are very complex and the application charge does not represent an accurate or fair apportionment of these costs. In these cases it is clear that the current apportionment of costs means that the additional costs fall on the whole of the periodic fee payers, not just those fee payers that correspond with the equivalent complex categorisation.

AMI does recognise that regulated firms do benefit from a robust and thorough gateway system being operated by the FCA. We would welcome a system that also provides for a fairer apportionment of the costs that new applicants and existing regulated firms pay.

## **Questions**

**Q1: What are your views on the principle that the costs of processing applications should be shared between applicants and existing firms, rather than recovering all the costs from applicants?**

We agree that existing industry firms benefit from FCA having a robust authorisation process which ensures that only quality applicants achieve full authorisation. However, the current 65%/35% split in application costs, in favour of the new entrants, would appear to be unfairly weighted.

As stated in DP14/1 the variation in costs between having only one party pay for the process is very marginal. DP14/1 shows a 0.4% increase in periodic fees if only existing firms paid or a 0.8% discount if only the applicant paid.

This would mean that any amendment to the current proportional split would be even less relevant. Furthermore as smaller firms only pay the minimum periodic fee of £1,000, any shift in the percentage split would not impact on these firms.

It is clear that any authorisation process will act as a barrier to entry for some firms. It is important to ensure that such barriers are proportionate but it does not mean that barriers should not exist.

We do not believe that current authorisation costs and addition costs incurred by larger mortgage broker firms are disproportionate or that they would act as a deterrent to enter the mortgage market.

However, that is not to say that these costs are not seen as significant. This is particularly the case for smaller firms and especially for self-employed sole traders or for small AR firms wishing to become DA firms. We would welcome the introduction of a lower cost very straightforward category to accommodate such firms.

**Q2: Do you have any views on the advantages and disadvantages of charging no application fees? For example, might it encourage innovation and wider participation in markets? Alternatively, might it encourage unrealistic applications from firms with little prospect in practice of meeting our threshold conditions?**

We believe that some form of application fee must exist to reduce frivolous applications and ensure only quality applications are submitted. Furthermore it is important to remember that existing firms have had to pay such costs for their authorisations.

Although we embrace innovation in the Financial Services sector, if a firm is deterred from entering the market due to the requirement to pay an application fee, it

must be questionable whether they have a robust enough model and sufficient financial capacity to enter the market in the first place. Existing firms would have passed such a test when they were authorised.

**Q3: Are you able to offer us any evidence about the significance of our application fees in comparison with the overall cost of setting up a new business and the other costs involved in preparing a firm for authorisation?**

No comment – our members are existing businesses.

**Q4: Are you able to give us any insights into the significance of our application fees in relation to the wider costs of meeting our threshold conditions and complying with our ongoing regulatory and reporting requirements?**

No comment – our members are existing businesses.

**Q5: Do you have any views on whether we should weight cost recovery more heavily towards the more complex applications, holding down or even reducing the fees for straightforward applications?**

FCA's 2014 business plan stated that FCA *'takes a proportionate regulatory approach, prioritising our work on the areas and firms that pose a higher risk to our objectives'*.

Complex firms are more likely to pose a higher risk to FCA's three core objectives, which are:

- to secure an appropriate degree of protection for consumers;
- to protect and enhance the integrity of the UK financial system; and
- to promote effective competition in the interests of consumers.

It would seem appropriate that FCA takes a proportionate approach to the way it charges both new and existing firms for its authorisation process.

In line with FCA's thinking we would envisage that a £1,500 straightforward application fee would be a significant cost for a small sole trader. However, a £25,000 complex application fee for a new challenger bank would be a relatively insignificant cost compared to the other costs involved in setting up such a venture.

We would further assume that the current 35%/65% split in costs between new entrants and existing firms results in existing firms paying a higher proportion of the costs incurred by complex firms' applications. This would seem to be corroborated by the FCA stipulating that it would only charge £600 for a very straightforward case. This suggests that some applicants currently paying £1,500, due to being classed as a straightforward application, are not costing this much due to the relative simplicity of their application. Given our assumption that a higher proportion of the periodic fees fund complex applications, than those of straightforward applicants, our view is that complex applicants should be paying more towards the cost of authorising complex firms.

**Q6: Do you have any other comments arising out of the illustrations presented through the scenarios in Table 3.1?**

Our view is that complex applications should pay more to better address the balance between applicants and periodic fee payers. The only options in table 3.1 which begin to address this issue are scenarios 5, 6, and 7. However, since these options apply costs fully to the applicants, and as stated above, we believe that both new and existing firms should contribute towards the costs of application, none of these options are considered to be viable alternatives.

**Q7: Do you have any comments on the issues we present in chapter 4 and/or any other suggestions for recovering the costs of authorisation?**

See above

**Q8: Do you have any comments arising out of the illustrations presented through the scenarios in Table 4.1?**

In Q6 we stated that none of the options in table 3.1 would have met our view of what is needed to improve the current authorisation fee structure. Table 4.1 does provide for a greater portion of costs being paid by Complex firms but still allows for both applicants and periodic fee payers to contribute to the costs.

Overall, given the scenarios presented, our preference would be for the application of scenario A. - Align with lowest consumer credit fees.

Scenario A recognises that there are applications that do not cost the level of fees being required for a straightforward application. Furthermore, this option allows for Moderately Complex and Complex applicants to pay a greater degree of costs, which in turn allows for a fairer proportional split of the costs recovered from applicants (61%) and the costs paid by periodic fee payers (39%).

We believe that Scenario A provides a fairer apportionment of costs than under the current structure.

**Q9: Do you have any views on the appropriateness and practicality of charging for changes in control**

We believe that such costs should be absorbed by those firms that are benefiting from the change. We would see no substantial reason why this should not happen. If such a fee is a cause of concern due to potential non-compliance then fitness and propriety of the person/firm should need to be called into question.

AMI  
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