**ANNUAL COMPLIANCE REPORT**

**IFA Ltd**

**(Incorporating appointed representative – XYZ Ltd)**

**Prepared By**

Compliance officer (SMF3, SMF16 and SMF17)

**Date completed: February 2024**

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21. **Executive Summary**

The purpose of this report is to summarise the completion of our compliance monitoring programme during the period under review, to identify area of strength and weakness, and to commit to improvement programmes where weakness is identified.

The regulatory and client risk for the current period for the Firm is assessed as low.

The Firm holds sufficient regulatory capital on its balance sheet to accommodate its regulatory capital threshold and its known outstanding, anticipated claims. It has Professional Indemnity Insurance cover in place.

The principal business activity remains independent financial advice. The firm carries out an initial and an annual review service to the clients which pay it ongoing fees.

Generic key procedures are up to date.

The Firm has had no complaints and no data or money laundering breaches during the period.

The firm has 3 advisers, and they are assessed as competent. I am also a Senior Manager and have assessed myself as competent. The T&C plan has been updated.

The firm completed its consumer duty action plan on 31 July 2023 and has and continues to implement appropriate relevant processes.

**2. Scope of Firm’s Business**

There were no changes to the Firm’s scope or categories of business during the reporting period.

**3. Composition of the Firm**

There were no changes to the Firm’s Close Links or Controllers during the reporting period.

**4. Permitted Adviser Functions**

There were no changes to permitted adviser functions during the period.

**5. Statements of Principle**

The Firm has aimed to conduct business in accordance with FCA Principles applicable to the business and its representatives.

**6. Complaints**

The Firm has had no complaints this period. The Firm has fit for purpose complaints procedures in place.

**7. Training & Competence**

The following points are noted:

* CPD has been carried out to the required regulatory thresholds.
* File reviews were externally carried out, with the following outcomes.

|  |  |  |  |
| --- | --- | --- | --- |
| **Date review completed** | **% Standard grade** | **% sub-standard grade** | **Number unsuitable** |
| 26/05/22 | 25% | 75% | 0% |

The following *advising staff* were deemed competent this period:

|  |  |  |
| --- | --- | --- |
| **Staff member** | **Signed off by** | **Designation** |
| James Bond | Self | SMF3, SMF16, SMF17 |
| B | James | SMF3 |
| C | James | SMF3 |

The following senior managers were deemed competent this period:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Staff member** | **Cert/SMF/Con** | **Responsibilities** | **Signed off by** | **Designation** |
| James Bond | SMF16/Cert/Con | Advice, various SMF roles | Self | SMF3 |
| Y | SMF17/Cert/Con | Advice, various SMF roles | Self | SMF3 |
| Z | SMF-IM/Cert/Con | Advice, various SMF roles | Self | SMF3 |

**8. Anti-Money Laundering**

I remained the Money Laundering officer within the Firm for the review period.

The Firm has complied with the rules in relation to Money Laundering and have procedures in place outlining the requirements for verification of identity and source of funds.

There have been no suspicions reported within the Firm, and therefore no reports to the National Crime Agency (NCA).

An internal anti-money laundering risk assessment was last carried out in 2020. A new review is due in 2023.

The Firm assesses itself as low risk from an AML perspective.

**9. Compliance reviews**

Key tasks have been to

* Risk manage the regulatory element of the business.
* Maintain regulatory documentation.
* Introduce, review and implement key regulatory processes and documents,
* Complete the compliance monitoring plan
* Complete and maintain T&C plan where required

Compliance meetings were held monthly during the period.

| **Date** | **Activity focus** |
| --- | --- |
| January - March 2023 | Governance: Compliance Management meeting, Compliance report, Management information, Update to strategic plans including T&C and compliance plans |
| April – June 2023 | Advice: File review of new business and annual reviews, including feedback |
| July – September 2023 | Investment: Review of platform and product due diligence including IMC meetings |
| October – December 2023 | Training & Competence: Review of CPD and other KPIs. Completion of SM&CR documentation for competency assessment. |

Up to date procedures were supplied in March 2023 by Essentials and again updated during 2023. Procedures remain f0r for purpose in 2024.

**10. Compliance oversight, support and review**

I held the Firm’s Compliance Oversight function during the period under review.

Our compliance monitoring programme is completed in four risk-based assessment segments as follows

|  |  |  |  |
| --- | --- | --- | --- |
| **Assessment** | **Outcome** | | |
| **Governance** | The firm is governed effectively. I have delegated strategic governance and regulatory responsibilities to Axelle to manage SMF span of control issues. I have undertaken my designated responsibilities. Management information was largely effective in in collation, analysis and distribution. I will attest to effective assessment of my SMF competence in due course. | | |
| **Advice** | An external review identified systematic issues around cost-of-living identification (KYC) and risk confirmation (RWL). The external review identified no poor advice delivery. Overall assessment was that clients are being serviced in line with remit. | | |
| **Investment** | The firm has an internal investment desk effectively managed by in-house investment expert Ben. An external review identified that investment controls are operationally effective at client level, but not well documented at a firm level, leaving us potentially exposed from a regulatory perspective. We are working to resolve this. Funds were satisfactorily monitored at internal investment committee meetings. | | |
| **T&C** | The firm has a fit for purpose T&C plan which was completed in the period under review. Relevant staff were assessed as competent. | | |
|  |  | | |
| **GRADE COLOUR CODE** | Poor, leading to poor client outcomes | Client outcomes OK, but work to do | Client outcomes OK, no issues |

**11. Consumer Duty**

It is now a requirement to produce an annual consumer duty report for the Board. As a relatively small core firm, we have acted proportionately and include our consumer duty report in this, our annual compliance report, as follows.

I have assumed Consumer duty responsibilities in my senior manager role and my Statement of Responsibilities has been updated accordingly. Our consumer duty champion is ……

The firm completed its action plan for consumer duty by 31 July 2023. We have an implementation plan for completion by 31 July 2024.

The following projects remain outstanding

|  |  |  |
| --- | --- | --- |
| **Project number** | **Project name** | **Target completion date** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |

The firm believes it is operating on a consumer duty friendly basis is collecting the following management information (MI) to demonstrate this.

|  |  |
| --- | --- |
| **MI** | **Consumer duty purpose** |
| New business register | Product spread – adviser competence, advice risk – avoidance of client detriment risk |
| Annual review register | Delivery of service remit – value for money |
| Complaints record | Poor advice – avoidance of client detriment risk |
| CPD records | Topic spread – adviser competence – avoidance of client advice risk |
| Clients lost | Client dissatisfaction – value for money – service delivery |
| Vulnerable clients | Effective management of vulnerable clients |
| Clients at risk for sustainable income | Management of client funds and expectations |
| Advice File reviews | Advice risk - avoidance of client detriment risk |
| Survey feedback | Checking client understanding of service and delivery |

To date the MI collected in respect of the above is as follows at 31 December 2023:

| **New Business register** | |
| --- | --- |
| Percentage non-core high-risk products |  |
| Spread of core product types |  |
| Investment |  |
| Pensions |  |
| Protection |  |

| **Annual review register** | |
| --- | --- |
| Percentage of completions |  |

| **Complaints** | |
| --- | --- |
| Number of open advice related complaints |  |
| Number of service-related complaints |  |

| **CPD** | |
| --- | --- |
| Adequacy of spread of CPD activities per adviser |  |
| A |  |
| B |  |
| C |  |
| D |  |
| E |  |

| **Clients lost** | |
| --- | --- |
| Number of clients lost due to service |  |
| Number of clients lost due to costs |  |

| **Vulnerable clients** | |
| --- | --- |
| Percentage of vulnerable clients |  |
| Of the above split of clients with temporary / permanent vulnerabilities |  |

| **Clients at risk of running out of assets** | |
| --- | --- |
| Number of clients drawing down on assets where there is an indication that the assets won’t last. |  |

| **Client advice reviews** | |
| --- | --- |
| Percentage of reviews returning above standard grades |  |
| Percentage of reviews returning below standard grades |  |
| Number of failed advice reviews |  |

| **Survey feedback** | |
| --- | --- |
| Percentage of responders |  |
| Percentage of clients indicating an element of service dissatisfaction |  |

**Summary of consumer duty data**: the above indicates we are delivering competent and capable services to clients, who are satisfied with our service performance.

**12. Conflicts of Interest**

I have identified no existing or potential instances of conflicts of interest although it is recognised as a small firm with only x executive directors, there is an unavoidable conflict.

This conflict is managed principally through effective delegation to external, independent bodies.

**13. Reporting and Rule Breaches**

There have been no recorded rule breaches during the review period.

**14. Relationship with Regulator**

The firm has had to respond to various routine general FCA desk-based monitoring / reviews. These have all been submitted on time, and we have heard nothing back from the regulator.

**15. Regulatory Updates**

The Firm has kept up to date with regulatory developments by reading bulletins provided by FCA, and TCD.

**16. Investment**

The firm has its own investment desk. It held 6 investment committee meetings during the period. Funds are monitored at these times and were considered to be preforming as expected. Where this was not the case, funds are switched out on a revolving door basis. We do not have a centralised investment proposition at portfolio level, each client having a bespoke portfolio selected from an up to date “buy / sell list”.

The firm uses Transact (main), Aegon, Reassure and Utmost as its platforms to facilitate the use of its product and fund allocations. Due diligence was carried out on Transact in 2022 with no need to change suppliers identified.

1. **SM&CR**

I assess myself as competent for my senior manager role, as do my fellow senior managers.

1. **Key Management Information**

The Firm’s Key Performance Indicators cover quality of advice, range of business written, client support and complaints. This is at firm level. The Firm does not adhere stringently to specific thresholds.

For the purpose of this review, the following firm-wide KPI’s are relevant.

| **Key Data** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Main platforms** | Transact (main), Aegon, Reassure, Utmost | | | | | |
| **Number of advisers** | 3 | | | | | |
| **Percentage Annual Reviews completed** | 93% | | | | | |
| **Financial numbers** | **Complaints** | 0 | | **Turnover** | ±£1m | |
| **PI Excess** | £5,000 | | **Y/E** | 30/06 | |
| **Data Breaches** | Nil | | **Cash at Bank** | ±£510,000 | |
|  |  | | | | | |
| **Staff** | **Advisers** | 3 | | **Directors** | 1 | |
| **SMF16** | JB | | **SMF17** | JB | |
| **Administrators** | 2 | | | | |
| **Practice Manager** | MP | | | | |
| **Advisers all assessed as competent?** |  | **Non advising conduct staff all assessed as competent?** | | |  |

1. **Professional indemnity insurance**

The firm successfully renewed its PI insurance and has secured a compliant excess. Additional regulatory capital is supported on the balance sheet.

1. **2024 FCA regulatory risk outlook**

We have identified 3 risks the Firm should be aware of and seek to manage as best it can – the following represents our view of the *FCA* risk:

| **Item** | **Risk area** | **Our current ability to manage this** |
| --- | --- | --- |
| 1 | Consumer duty delivery | Acceptable |
| 2 | Review of capital adequacy thresholds for firms involved with DB pension transfers and other high risk business with foreseeable claims settlement risk, and the position of wind down liquidity adequacy | Acceptable |
| 3 | Identification and servicing of vulnerable clients | Acceptable |

*Internal Regulatory heat map 2023:*

We have identified a number of key risk areas and assessed these risks as follows

| **Item** | **Risk area** | **Assessment** | **Commentary if risk is not managed** |
| --- | --- | --- | --- |
| 1 | Regulatory span of control | Risk managed |  |
| 2 | Record keeping | Risk managed |  |
| 3 | Client servicing | Risk managed |  |
| 4 | High-risk advice | Risk managed |  |
| 5 | Recruitment | Risk managed |  |
| 6 | Investment portfolio procedures | Risk not managed | Work to do on documenting procedures and demonstrating effective control |
| 7 | Corporate governance | Risk managed |  |
| 8 | Maintenance of competence | Risk managed |  |
| 9 | Data security | Risk managed |  |
| 10 | MI collection and analysis | Risk managed |  |
| 11 | Risk profiling | Risk managed |  |
| 12 | Research due diligence | Risk managed |  |
| 13 | Suitability letters | Risk not managed | We have noted review outcomes and will adapt procedures to resolve |
| 14 | Firm specific procedures | Risk managed |  |
| 15 | Investment philosophy | Risk managed |  |
| 16 | Capital adequacy | Risk managed |  |
| 17 | Process adherence | Risk managed |  |

These are input into a risk matrix below and our assessments elaborated thereafter. We have graded each on a probability / impact axis. Thus, if the FCA or FOS intervened, what is the probability of either body finding an issue, and if so, what would the impact be on the firm? The colour coding is that used by most risk grading systems – Red, Amber, Green with red representing high risk and green, low.

Please note that it is possible for risk to be adequately managed, but the absolute risk remains Red or Amber, because of the significance of impact, no matter how improbable.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **REGULATORY RISK HEAT MAP** | | | | | | |
| **Probability** | Highly likely |  |  |  |  |  |
| Likely |  |  |  |  |  |
| Possible |  |  |  | **6, 9, 11 13** |  |
| Remote |  | **5, 12** | **10,14, 15, 17** | **1, 2, 3, 4, 8,** | **7, 16** |
|  |  | Minor | Important | Significant | Critical | Catastrophic |
|  |  | **Impact** | | | | |

**Compliance officer (SMF3, SMF16, SMF17)**

**February** **2024**