**GUIDANCE ON STEPS A FIRM SHOULD TAKE IN ASSESSING THE FINANCIAL POSITION OF THE APPOINTED REPRESENTATIVE**

This guide does not apply to an introducer appointed representative.

All of the items shown in the guide should be applied, as appropriate, to an individual who is in business on his own.

Partners in partnerships (other than limited partners in limited liability partnerships) have joint and several unlimited liability. It follows that any assessment of the financial position of an appointed representative which is a partnership should take into account the final position of the individual partners as well as the partnership itself.

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| Accounts | 1. Consider whether the type of accounts obtained is appropriate to the type of appointed representative. For example, companies should supply audited accounts prepared in accordance with Companies Act provisions whilst individuals in business on their own, may only prepare unaudited accounts (for submission to HM Revenue and Customs or their bankers). 2. Consider: whether the accounts have been prepared on a timely basis, the content of the audit report, including all detail and explanations given and any qualifications which it may contain. Investigate any concerns. 3. If relevant, obtain the most recent management accounts to assess whether the appointed representative’s financial position has changed materially since the most recent audited accounts. 4. If audited accounts are not available, be more circumspect about the accounts as they have not been independently audited. If necessary, consider obtaining third party verification of material balances. |
| Unusual items/ recoverability of debits/goodwill | * 1. Investigate fully any unusual items – in particular any amounts outstanding with directors, partners, connected persons or associates and any guarantees.   2. Consider whether any amounts due to the appointed representative would be recoverable; and whether the appointed representative would be in a position to pay any debts if it were required to do so at short notice.   3. Any balance for goodwill should be ignored since this will normally represent a stream of potential future income which may not be forthcoming if the equity interest in the appointed representative were sold. |

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| Financial stability/ cashflows | 1. Critically review the accounts to ensure that the appointed representative is financially stable. The review should take into account the overall position of the appointed representative and its cashflow. 2. The review should also consider the nature of the appointed representative’s assets and whether or not they are liquid and readily available to the appointed representative, if required. Investment in, for example, unquoted companies or property may be difficult to realise if there were a sudden need for cash. |
| Income/financial pressures | 1. Assess the overall financial pressures on the appointed representative and connected persons. Account should be taken of the full range of the appointed representative’s activities (and not merely those activities in which the appointed representative will be acting for the firm). Careful consideration should be given to any debts arising out of previous activities within the financial services industry. 2. If relevant, review the accounts of any associates where there is a possibility that their performance – or any commitments entered into in respect of them – may affect the financial position of the appointed representative. 3. Establish whether the appointed representative’s income is sufficient both to service any debts and to provide an acceptable level of income to the proprietors. |
| Credit checks/ dealings government bodies | Undertake a credit reference check on the appointed representative itself (in the case of a company); on the partners (in the case of a partnership); or on the individual (in the case of a sole trader).  Ask the appointed representative whether it is up to date in its dealings with the HM Revenue and Customs (etc.) |
| Forecasts | If relevant, obtain a forecast of the next year’s figures and review it to ensure that the appointed representative is likely to remain in a satisfactory financial position. This is particularly important where a material change is expected in the appointed representative’s operations; or where the appointed representative has only recently been established so that accounts are not available for the previous three complete financial years.  If the firm decides to appoint the appointed representative, the firm should keep the appointed representative’s actual performance under close review so as to assess whether the forecasts were realistic and to enable any problems to be addressed. |

**GUIDANCE ON INFORMATION FIRMS SHOULD TAKE REASONABLE STEPS TO OBTAIN TO VERIFY AND ASSESS THE FITNESS AND PROPRIETY OF AN APPOINTED REPRESENTATIVE**

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| Information about the appointed representative | 1. Name 2. Address, and, where applicable and different, address of the registered office and the principal place of business 3. Full name of every director, senior manager and controller 4. Accounts for the last three complete financial years (not applicable to an individual unless in business on his own). |
| The appointed representative’s professional reputation | 1. Disciplinary proceedings    1. whether the appointed representative has ever been publicly censored, disciplined, suspended or expelled by the FCA, another regulator, a professional body, or a government body or agency;    2. whether the appointed representative is currently the subject of any disciplinary proceedings by a body referred to in (i) above or is aware that such proceedings are pending;    3. whether the appointed representative has ever been the subject of a formal investigation under the powers in the Companies Acts 1985 to 2006 and    4. whether the appointed representative has had anything equivalent to (i) or (iii) above occur under relevant overseas provisions.       1. Criminal or civil proceedings   Whether the appointed representative is a defendant in any current civil proceedings connected with professional activities in which an allegation of fraud or dishonesty is being made, the subject of any current criminal proceedings, or has been convicted of any criminal offence, either in the United Kingdom or overseas.   1. Insolvency, bankruptcy and winding up   Whether the appointed representative has:   1. been wound up or had a petition presented, or had a meeting called to consider a resolution, for winding it up; or 2. in the case of a company, been the subject of an application to dissolve it or to strike it off the Register of Companies; or 3. made, or proposed to make, a composition or voluntary arrangement with any one or more of its creditors; or 4. had an administrator or trustee in bankruptcy appointed to it or had an application made for such an appointment; or |

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|  | 1. had a receiver appointed to it (whether an administrative receiver or a receiver appointed over particular property); or 2. had an application for an interim order made against it under Section 252 of the Insolvency Act 1986 (or, in Northern Ireland, Section 227 of the Insolvency (Northern Ireland) Order 1989; or 3. if it is a sole trader, been the subject of an application for a sequestration order or a petition for bankruptcy; or 4. ceased trading in circumstances in which any of its creditors did not receive full payment; or 5. had anything equivalent to (i) to (viii) above occur under relevant overseas law. |