

FCA review - managing risks from inactive appointed representatives

April 2026

Introduction

Are you a principal firm?

If so, read on and then let's talk.

Summary

The FCA has published the findings from a review of how principal firms manage potential risks arising from inactive appointed representatives (ARs). The review sets out good practices and areas for improvement across four key themes: reporting of AR regulated revenue, engagement with inactive ARs, monitoring of consumer-facing materials, and the adequacy of AR agreements.

The FCA is clear in its findings that acting

as a principal firm cannot be a passive role. Principals are responsible for the regulated activities of their ARs throughout the entirety of their relationship and the FCA expects them to demonstrate that responsibility through active oversight.

Below we set out some of the key findings.

AR agreements must meet regulatory requirements

The FCA emphasised that robust, compliant AR agreements are a foundational component of effective oversight. They support principals in exercising appropriate control over AR activities throughout the lifecycle of the relationship.

Some AR agreements reviewed by the FCA did not meet regulatory requirements, including where principals were not clearly accepting responsibility for the regulated activities carried on by their ARs, or were not including required contractual terms.

Good practice: *undertake a legal review of your AR contracts.*

Lack of AR regulated revenue reported

The FCA found that certain business models and sectors are more likely to produce ARs that carry on no regulated activities for a period of time. In other cases, the lack of reported activity reflected weaknesses in how principals classified or reported regulated and non-regulated business, rather than a genuine absence of regulated activity.

Firms must oversee all regulated activities and accurately represent revenue generated and its origins.

Good practice: *Set clear expectations at onboarding, maintain a clear understanding of AR activity, and implement active, data-led oversight with early intervention where needed.*

Areas for improvement: *Principals must demonstrate effective oversight and maintain a clear, up-to-date understanding of their ARs' business models.*

Lack of engagement with inactive ARs

Some principals allowed ARs to remain for

extended periods without either carrying on regulated activities or engaging with the AR to understand why. Others had not reassessed whether the AR relationship remained appropriate.

The FCA reminds firms that where concerns cannot be resolved within a reasonable timeframe, principals must consider whether further action is needed. This can include termination of the arrangements.

Good practice: *Suspend an AR where the principal is actively investigating and there is a realistic prospect of resolution. But note that suspension should not be used as an indefinite alternative to reassessing the appropriateness of the AR relationship.*

Insufficient monitoring of consumer-facing materials

Some principals did not adequately monitor how their ARs presented themselves to consumers. The FCA found that this can extend to misleading consumers about their regulatory status, particularly where ARs had not carried on regulated activities for some time. The risk of consumer harm in this area is an important consideration.

Good practice: *Ensure that references on AR websites use accurate regulatory terminology to avoid consumer confusion over status and permissions.*

What does this mean for principal firms?

Managing your AR network is not a box-ticking

exercise. The FCA's review makes clear that principals who cannot demonstrate active, evidenced oversight of their ARs – including those that appear inactive – are at real regulatory risk.

Can your AR framework withstand FCA scrutiny when it matters and is it working right now?

Let's talk: +44 2030 623 340

Next steps

Ready to explore how our expertise can help build your business? Reach out today -our team is standing by to craft solutions tailored specifically for your needs.

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