
FINAL NOTICE

PDHL Limited

PDHL House
Carrs Road
Cheadle
Greater Manchester
SK8 2LA

ACTION

1. By an application dated 21 December 2014 PDHL applied under section 55A of the Financial Services and Markets Act 2000 for Part 4A permission to carry on the regulated activities of debt adjusting and debt counselling.
2. The Application was incomplete.
3. For the reasons listed below, the Authority has refused the Application.

SUMMARY OF REASONS

4. On 30 July 2015, the Authority sent PDHL a letter informing the firm that it was minded to refuse the Application, and on 14 September 2015 the Authority gave PDHL a Warning Notice informing the firm that it proposed to refuse the Application.
5. The Authority gave PDHL the Warning Notice for two main reasons. First, the Authority identified widespread and substantial failings in the advice process used by PDHL from June 2014 to June 2015. The failings (taken individually and together) are of a type and of a level such that the Authority cannot be satisfied that PDHL treats its customers fairly and pays due regard to their interests and information needs. This is of particular concern to the Authority given that the advice process is a key part of a debt management firm's business.
6. Secondly, the Authority identified issues in relation to the adequacy of PDHL's systems

and controls. Specifically, the Authority:

- 1) Considered that PDHL's Board did not have available to it sufficient MI (considering relevance, reliability and timeliness) in order to identify and mitigate risks of regulatory concern arising out of the firm's activities. Further, PDHL failed to keep a record of the information that was provided to its Board.
 - 2) Identified deficiencies in the policies and procedures as implemented by PDHL in relation to the identification and treatment of particularly vulnerable customers. The Authority identified certain of PDHL's customers as particularly vulnerable when PDHL did not identify them as such, and also identified issues in respect of the expertise/knowledge of PDHL's staff who dealt with particularly vulnerable customers. As a result, the Authority considered that PDHL did not properly identify (and potentially deal with) particularly vulnerable customers.
 - 3) Considered that PDHL's QA processes did not adequately detect and ensure the remedying of failures by its advisers to meet regulatory standards.
7. The Authority also identified cases where consumers had been advised to enter debt solutions that were unsuitable for their circumstances. Examples of such cases are set out at paragraph 36 below. The fair treatment of customers by PDHL, and the need for PDHL to pay due regard to their customers' interests, is a particular concern for the Authority.
8. In response to the July Letter, PDHL has made significant changes to its business in order to attempt to address the Authority's concerns, including updating its policies and procedures.
9. However, as PDHL itself admitted in the Oral Representations Meeting, the changes that have been made are not sufficient for the Authority to ensure that PDHL, in relation to the regulated activities for which permission is sought, will satisfy, and will continue to satisfy, the Threshold Conditions. The Authority has reached this conclusion for the following reasons:
- 1) PDHL lacks appropriate human resources. There is a need for senior and Board level recruitment following the recent resignation of PDHL's Managing Director, Head of Customer Services, Risk Manager and Compliance Director. Although a new Head of Customer Services has joined the firm and interim appointments have been made to fill the Managing Director and Compliance Director vacancies, the Authority is concerned that, should it grant the Application, there would be a lack of experienced senior management in place at a time when PDHL's systems and procedures and staff capability require significant improvement.
 - 2) PDHL also lacks appropriate human resources because it only has two members of staff capable of dealing with particularly vulnerable consumers and lacks sufficient QA staff and debt advisers. It informed the Authority that it needs 30 debt advisers in order to service effectively its customers, but currently only has 14 debt advisers that it has assessed as competent.
 - 3) Other non-financial resources of PDHL are inappropriate. The Authority has identified outstanding issues with PDHL's policies and procedures and is not satisfied that the failings it identified in respect of PDHL's advice process and systems and controls have been adequately addressed. This is supported by recent evidence which shows that PDHL's customers remain at risk of not being treated fairly.
 - 4) Further, even if the Authority had not identified such issues, updating its policies

and procedures is not sufficient for PDHL to satisfy the Threshold Conditions, in particular given the significant failings previously identified by the Authority. Instead, the new policies and procedures need to be effectively implemented (i.e. 'embedded') and PDHL needs to demonstrate that, as a result of the changes it has made, it is now compliant with the relevant regulatory requirements. PDHL has accepted that its new policies and procedures are not yet embedded. This supports the view of the Authority which cannot therefore be satisfied that the failings it identified in respect of PDHL's advice process and systems and controls have been effectively remedied.

10. In light of the above, the Authority concludes that it cannot ensure that, if the Application were granted, PDHL would satisfy and continue to satisfy threshold condition 2D (Appropriate resources).
11. The above matters also lead the Authority to conclude that it cannot ensure that, if the Application were granted, PDHL would satisfy, and continue to satisfy, threshold condition 2E (Suitability).
12. By way of a decision notice dated 16 December 2015, the Authority gave PDHL notice that it had decided to refuse the Application. PDHL referred this matter to the Upper Tribunal on 16 December 2015, but withdrew that reference on 9 March 2016.
13. In light of the above, the Authority has refused the Application.

DEFINITIONS

14. The definitions below are used in this Final Notice.

"2013 Order" means the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) Order 2013 (SI 2013/1881).

"2014 Order" means the Financial Services and Markets Act 2000 (Consumer Credit) (Transitional Provisions) (No. 4) Order 2014 (SI 2014/2632).

"the Act" means the Financial Services and Markets Act 2000.

"the Application" means the application dated 21 December 2014 made by PDHL for Part 4A permission, as referred to in paragraph 1 above.

"the Authority" means the Financial Conduct Authority.

"Business Plan" means the business plan provided by PDHL to the Authority as part of the Application.

"CCJ" means County Court Judgment.

"the Compliance Consultant" means the external consultant appointed by PDHL to compile the July Report and the October Report.

"CONC" means the Consumer Credit sourcebook in the Handbook.

"COND" means the section of the Handbook entitled "Threshold Conditions".

"DMP" means debt management plan.

"the Handbook" means the Authority's Handbook of Rules and Guidance.

"IVA" means individual voluntary arrangement.

"the July Letter" means the letter the Authority sent to PDHL on 30 July 2015 informing the firm that it was minded to refuse the Application.

"the July Report" means the report dated 29 July 2015 compiled by the Compliance Consultant on behalf of PDHL.

"Kensington" means Kensington Financial Management Consultants Limited.

"MI" means management information.

"the October Report" means the report dated 25 October 2015 compiled by the Compliance Consultant on behalf of PDHL.

"the OFT" means the body that before 1 April 2014 was known as The Office of Fair Trading.

"the Oral Representations Meeting" means the meeting on 10 November 2015 at which PDHL made oral representations on the Warning Notice to the Authority's Regulatory Decisions Committee.

"PDHL" means the applicant, PDHL Limited.

"QA" means quality assurance.

"the QA Process" means PDHL's quality assurance process introduced in June 2015 as referred to in paragraph 66 below.

"the RAO" means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

"SYSC" means the Senior Management Arrangements, Systems and Controls sourcebook in the Handbook.

"TCF" means treating customers fairly.

"Threshold Conditions" means the conditions set out in Schedule 6 to the Act for which the Authority is responsible.

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber).

"the Visit" means the visit to PDHL's offices by the Authority on 4 to 5 June 2015.

"the Warning Notice" means the warning notice given to PDHL on 14 September 2015.

RELEVANT REGULATORY PROVISIONS

15. Details of the regulatory provisions relevant to this Notice are set out in Annex A.

FACTS AND MATTERS

Background to the firm

16. PDHL has been trading as a debt management firm since July 2007. Between this time and 31 March 2014, PDHL was licensed and regulated by the OFT.

17. On 1 April 2014, PDHL became regulated by the Authority (with interim permission reference 603003). PDHL applied for full permission on 21 December 2014, within the application period directed by the Authority within which PDHL was to make its application.

Overview of PDHL's business

18. PDHL acts as a debt management firm.

19. PDHL's business model entails sourcing indebted customers who are seeking debt advice. PDHL's core business is to offer a range of debt solutions, of which some are provided in-house and others are referred to selected specialist partnerships across the United Kingdom. PDHL states that it will assess a customer's circumstances and provide relevant debt advice. PDHL advises customers on debt solutions such as IVAs, refinancing options or DMPs.

20. In order to advise customers on the available suitable debt solutions (including IVAs, refinancing and DMPs) PDHL has to engage in the regulated activities of debt-counselling (the giving of advice to a consumer about the liquidation of a debt) and debt adjusting (most notably the activity of negotiating the terms of the discharge of debt with a customer's lenders). PDHL's debt advice and debt management services therefore fall under the Authority's consumer credit regime and the firm must be authorised by the Authority to continue to carry out the activities set out in the Business Plan.

21. If the customer agrees to enter into a DMP, PDHL proceeds to negotiate with the customer's creditors to set up repayment plans in respect of those debts where the creditor is willing to co-operate, following which it seeks to receive and administer the customer's payments to creditors.

22. PDHL's principal source of income is from the monthly fees it charges customers who are on active DMPs. PDHL charges a fixed monthly arrangement fee which starts from the first payment made to them by the customer. This fee includes up to four debts. If the client has more than four debts, the client will be charged an additional fee for each and every additional debt. The firm limits its fee to no more than 42% of the monthly payment.

23. Where PDHL arranges a full and final settlement, PDHL charges a fee for arranging such settlement. The fee is based on the reduction or saving made on the settlement.

24. Regarding the number of DMPs administered by PDHL:

- 1) In the five years before submitting the Application to the Authority, PDHL had bought 33 different client back books, totalling 14,823 consumers.
- 2) At the time of making the Application, PDHL stated that it had approximately 14,000 consumers.
- 3) Since submitting the Application, PDHL has bought a number of further client back books from other debt management companies (including approximately 15,000 consumers migrated over from Kensington). The number of DMPs PDHL is currently operating now stands at approximately 25,000.

25. In the Business Plan, PDHL stated that it intends to expand its client base through sales via introducers, agents and its own website and by the acquisition of other debt management companies' client back books.

The Authority's initial concerns with PDHL

26. In carrying out its assessment of the Application, the Authority visited PDHL's offices on 4 to 5 June 2015 during which it conducted interviews with members of PDHL's Board, senior management and various members of PDHL's staff, reviewed a number of PDHL's customer files and call recordings, and took into account the findings set out in the July Report. As described below, the Authority identified concerns with PDHL's advice process and systems and controls which resulted in the Authority sending PDHL a letter on 30 July 2015 informing the firm that it was minded to refuse the Application, and giving PDHL a Warning Notice on 14 September 2015 informing the firm that it proposed to refuse the Application.

Deficiencies in PDHL's advice processes

27. As a firm carrying on debt management activities, PDHL is required to comply with various obligations in CONC. In particular, CONC 8 sets out the conduct standards expected of authorised firms that give debt advice. Having reviewed a number of PDHL's customer files, the Authority identified that PDHL is failing to comply with these requirements; the Authority is concerned by the nature and extent of the breaches identified, which indicate that PDHL is failing to meet regulatory standards in respect of a key aspect of its regulated business.

28. The evidence out of which the Authority's concerns arise (which are set out more fully below) is as follows:

- 1) A sample of 20 files that the Authority reviewed against applicable regulatory requirements; the Authority identified a number of significant breaches of regulatory requirements in that sample. By virtue of the random way in which the sample was selected by the Authority and the objective analysis that was undertaken of the files, the Authority is able to draw inferences about the level of breaches of regulatory requirements across the 9,819 customer files from which the sample was taken. The level of such failings identified at the firm-wide level by this method is evidence of a widespread failure by PDHL to comply with key regulatory requirements.
- 2) The Authority also considered a number of call recordings that were provided by PDHL to the Authority during a firm visit on 4 and 5 of June 2015. The failings on the part of PDHL's frontline staff that were identified in those calls reinforce the concerns arising from the Authority's sampling exercise.
- 3) The Authority also reviewed a number of files that the Authority's Supervision Department first obtained as part of its ongoing supervisory relationship with PDHL. As with the call recordings, the Authority identified a number of failings in those files that are consistent with, and underscore, the concerns arising out of the Authority's sampling exercise.

29. The Authority's concerns were heightened by the fact that, notwithstanding that PDHL has been subject to the regulatory requirements of the OFT and the Authority for a number of years (which are the same for material purposes), PDHL has failed to identify and address these matters.

Sample of advice given by PDHL between June 2014 and June 2015

30. In order to assess the extent to which PDHL complies with the regulatory obligations aimed at ensuring appropriate outcomes for customers, the Authority undertook a sampling exercise focusing on PDHL's book of clients.

31. The Authority randomly selected, requested and reviewed a sample of 20 customer files from a wider population of 9,819 customer files administered by PDHL.

32. These files were reviewed by the Authority against some of the requirements in CONC and the Handbook (it is not suggested that the Authority conducted an exhaustive consideration of each and every provision in CONC or other parts of the Handbook). The review focussed on the advice given by PDHL's staff in the 13 months preceding the review (i.e. from June 2014 to June 2015 inclusive), the nature of the monitoring and reviews conducted by PDHL and the adequacy of PDHL's record-keeping.
33. The methodology used in selecting and reviewing the sample is such that, from the incidence of failings in the sample, the Authority is able to draw inferences about the level of breaches of regulatory requirements across the 9,819 customer files from which the sample was taken. The statistical methodology used by the Authority provides an upper and lower bound within which, at a 95% confidence level, the level of such failings in the population can reasonably be inferred to lie. For the purposes of this Notice, the Authority has assumed that the lower bound represents the level of failings in the population, i.e. the 9,819 DMPs/customer files from which the sample was drawn.
34. The Authority's findings from its review of the files in this sample have been 'aggregated' by reference to the regulatory requirement in the table below. The table shows the level of such failings identified in the sample and the level of such failings that, at a 95% confidence level, the Authority infers will exist in the wider population.

CONC ref.	Regulatory requirement breached	No. of fails out of 20	Failing level in population
8.3.2R(1)(a)	A firm must ensure that...all advice given and action taken by the firm or its agent or its appointed representative...has regard to the best interests of the customer	12	33%
8.3.2R(1)(b)	A firm must ensure that...all advice given and action taken by the firm or its agent or its appointed representative...is appropriate to the individual circumstances of the customer	13	40%
8.3.2R(1)(c)	A firm must ensure that...all advice given and action taken by the firm or its agent or its appointed representative...is based on a sufficiently full assessment of the financial circumstances of the customer	10	21%
8.3.2R(2)	A firm must ensure that...customers receive sufficient information about the available options identified as suitable for the customers' needs	11	27%
8.3.2R(3)	A firm must ensure that...it explains the reasons why the firm considers the available options suitable and other options unsuitable	10	24%

CONC ref.	Regulatory requirement breached	No. of fails out of 20	Failing level in population
8.3.4R(2)	A firm must ensure that advice provided to a customer, whether before the firm has entered into contract with the customer or after, is provided in a durable medium and...makes clear the actual or potential advantages, disadvantages, costs and risks of each option available to the customer, with any conditions that apply for entry into each option and which debts may be covered by each option	10	21%
8.3.4R(3)(a)	A firm must ensure that advice provided to a customer, whether before the firm has entered into contract with the customer or after, is provided in a durable medium and...warns the customer...of the actual or potential consequences of failing to continue to pay taxes, fines, child support payments and debts which could result in loss of access to essential goods or services or repossession of, or eviction from, the customer's home	6	8%
8.3.4R(3)(c)	A firm must ensure that advice provided to a customer, whether before the firm has entered into contract with the customer or after, is provided in a durable medium and...warns the customer...of the actual or potential consequences of ignoring correspondence or other contact from lenders and those acting on behalf of lenders	6	8%
8.3.7R(2)(a)	A firm must...before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, carry out a reasonable and reliable assessment of...the customer's financial position (including the customer's income, capital and expenditure)	12	33%

CONC ref.	Regulatory requirement breached	No. of fails out of 20	Failing level in population
8.3.7R(2)(b)	A firm must...before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, carry out a reasonable and reliable assessment of...the customer's personal circumstances (including the reasons for the financial difficulty, whether it is temporary or longer term and whether the customer has entered into a debt solution previously and, if it failed, the reason for its failure)	14	39%
8.3.7R(2)(c)	A firm must...before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, carry out a reasonable and reliable assessment of...any other relevant factors (including any known or reasonably foreseeable changes in the customer's circumstances such as a change in employment status)	13	32%
8.5.1R(3)	A firm must ensure that a financial statement sent to a lender on behalf of a customer...is sent only after having obtained the customer's consent to send the statement and the customer's confirmation as to the accuracy of the statement	6	6%
8.8.1R(8)(a)	A firm must send out an annual statement to a customer setting out: a balance showing the amount owed by the customer, including any interest charges at the beginning of the statement period	19	72%
8.8.1R(8)(b)	A firm must send out an annual statement to a customer setting out: fees, charges and other costs applied over the period of the statement...	19	72%
8.8.1R(8)(c)	A firm must send out an annual statement to a customer setting out: a narrative explaining the type of fee applied, how the fee is calculated and to what it applies	19	72%

CONC ref.	Regulatory requirement breached	No. of fails out of 20	Failing level in population
8.8.1R(8)(d)	A firm must send out an annual statement to a customer setting out: the duration or estimated duration of the contract	19	72%
8.8.1R(8)(e)	A firm must send out an annual statement to a customer setting out: the total cost of the firms service over the duration or estimated duration of the contract	19	72%
8.8.1R(9)	Maintain adequate records relating to each debt management plan which the firm has administered for the customer until the contract between the customer and the firm is completed or terminated	20	80%

35. The Authority makes the following observations on the findings in the above table:

- 1) The Authority takes the view that, broadly speaking, there are a number of themes/aims underlying the above rules - these include ensuring that:
 - i. the advice the customer receives is specific to their financial and personal circumstances (and highlights the risks they face), and is not generic advice;
 - ii. the information the customer receives about the available options is sufficient for them to make an informed choice as to how they wish to proceed; and
 - iii. the customer understands and is kept apprised of the steps being taken by the firm on their behalf.

The Authority therefore considers that the provisions of CONC 8 referred to above are significant ones; this is especially so when one considers the difficult circumstances faced by consumers who approach debt management firms and the reliance they place on the expertise and professionalism of such firms. The Authority therefore considers that a firm's failure to comply with these rules is highly relevant to assessing whether it meets the Threshold Conditions.

- 2) Looking at the final column of the above table (and taking into account both the nature of the rule in question and the level of failing identified), the Authority considers that the level of each failing as identified in the wider population is significant and concerning. The Authority considers this to be so when looking at each rule individually, but even more so when they are viewed collectively.
- 3) Factors that support the Authority's view that the breaches of CONC identified above are serious include that:

- i. It is important that a robust assessment is undertaken, as accurately establishing what the customer can (or cannot) contribute towards their debts may be fundamental in determining what debt solution is best for the customer and, where applicable, whether they can afford it: see for example CONC 8.3.2R(1)(c), 8.3.2R(3), 8.3.7R(2)(a) and 8.3.7R(2)(c). This requires the firm to undertake a reasonable and reliable assessment of the customer's financial position, personal circumstances and other relevant factors and insufficient, or inaccurate, information gathered to inform the advice decision-making process calls into question the appropriateness of the advice then provided.
 - ii. Foreseeable changes in the customer's circumstances must be taken into account to ensure that any recommended debt solutions are (and will remain) appropriate and affordable: see for example CONC 8.3.7R(2)(c).
 - iii. It is important that customers are able to make an informed choice in relation to the options available to the consumer: see for example CONC 8.3.2R(2), 8.3.4R(2), 8.3.4R(3)(a), 8.3.4R(3)(c) and 8.3.7R(5).
- 4) Further, it is important that firms make and retain adequate records of the advice process (see for example CONC 8.8.1R(9) and SYSC 9.1.1R). Absent these records:
- i. a firm is not able to demonstrate to the Authority that it is complying with requirements under the regulatory regime and the Authority is not able to ensure good consumer outcomes have and are being achieved; and
 - ii. the firm is not able to satisfy itself that it properly understands the customer's history, can provide accurate advice that the customer will understand and can identify gaps in their information.
- 5) With regard to the Authority's findings on CONC 8.3.4R(2):
- i. PDHL has not provided the Authority with copies of the actual letters sent to specific customers. The Authority understands that, prior to June 2015, PDHL did not have in place a process to retain copies of this correspondence on its files/systems.
 - ii. The Authority has had sight of the template letters that PDHL was using (having been supplied with the templates by PDHL when querying the lack of correspondence), but has not identified a template letter that sets out (or provides for the setting out of) the advantages/disadvantages, costs/risks of each option and the conditions of entry.
 - iii. Given the above, the Authority has assumed that no such letter was sent to customers in the sample period (and stated this assumption in its letter of 30 July 2015 without challenge from the firm).
36. The Authority identified cases where consumers have been advised to enter into debt solutions that were unsuitable for their circumstances. The fair treatment of customers by PDHL, and the need for PDHL to pay due regard to their customers' interests, is a particular concern for the Authority. By way of example from the case files reviewed (for illustrative purposes only):
- 1) Consumer 818095 was unemployed and receiving £288 Job Seekers Allowance per month and renting a room from a private landlord at a rate of £190 per

month. The Consumer informed PDHL on 7 October 2014 that they had lost their employment but no review of their circumstances was conducted at this time (the Consumer carried on paying the amount of £60 per month, assessed whilst they were employed). An assessment was conducted on 3 December 2014 that revealed that the Consumer had a negative disposable income and they were passed to the 'Care Team'. The 'Care Team' advisor conducted an income and expenditure assessment and reduced the Consumer's £190 monthly expenditure on rent to zero at that point (on the basis that if he claimed housing benefit this would be paid on his behalf). The advisor did not take account of the fact that the benefit claim had not been accepted and that, even if accepted, payment would be delayed. The minimum payment on the DMP was £20 per month but the Consumer asked whether they could pay £10. Whilst accepting that the Consumer was in a 'severe hardship situation', the advisor insisted that the minimum payment remained £20 and advised the Consumer to contact their creditors directly or approach 'Citizens Advice'. The Consumer asked if they could pay £15 instead but this was not accepted. The Consumer agreed to pay £20 per month 25 minutes into the phone call. The DMP failed in February 2015. The DMP was not an appropriate debt solution as the consumer did not have the available income from which to maintain payments under the plan.

- 2) Consumer 805802 was unemployed and receiving £288 Job Seekers Allowance per month with a negative monthly disposable income of at least £470 (the advisor did not ask for further expenses after this figure). The Consumer had split from their spouse and had moved in with their mother. The Consumer was attempting to pay the mortgage on the familial home and the council tax but had built up arrears. After being passed to the 'Care Team' (on account of the negative disposable income) the Consumer was advised that they could not afford a fee-paying DMP and that they should contact 'Citizens Advice'. The Consumer stated that they could pay the minimum £30 payment per month if they borrowed this amount from their mother. The Care Team advisor accepted this position and amended the income and expenditure accordingly. The DMP failed within three months. The DMP was not an appropriate debt solution as the consumer did not have the available income from which to maintain payments under the plan.
- 3) Consumer 19296 was retired and lived with their spouse on sickness benefits and pensions. Their spouse had had cancer for four years and the couple had 'struggled' for six years to pay an interest only mortgage that had left them in negative equity (they had been involved in three possession hearings). In February 2015, the Consumer was paying £25 per week towards the DMP and PDHL was taking in £38.50 per month in fees. The DMP had been operating since May 2010 and PDHL had earned over £2,500 in fees. The debt at that point still stood in excess of £18,000 and the interest had not been frozen with all of the Consumer's creditors. The Consumer's house was repossessed that month and, as a result of their health problems, the couple were being rehoused by the Housing Executive. The nature and complexity of the debt problem means that the DMP was not an appropriate long term debt solution in the circumstances.

Call recordings supplied during the Visit

37. During the Visit, the Authority asked PDHL to supply 10 recordings of recent income and assessment calls made by two advisers during the period 1 January 2015 to 2 April 2015 (when the Advice Team was closed down by PDHL). PDHL was asked to put the calls through its new quality assurance process (i.e. the QA Process), which had been introduced in June 2015. There was no indication from PDHL that these calls had previously been assessed in any way.

38. All of the 10 calls 'failed' the QA Process by triggering 'auto-fails', with failings found in the following areas:

CONC provision relevant to the failing		The QA Process 'Auto Fail' that was registered	No. of files with failure
8.3.2R(1)(c)	Failure to complete a proper assessment of 'Income and Expenditure'	Has the agent completed the income and expenditure compliantly, making notes on any expenditure which is outside guidelines?	7
8.2.4R(1)	Failure to signpost to free advice at an early point in the call	Has the agent signposted the client regarding free services and advised if a free solution comes up we will advise this?	5
8.3.2R(1)(c)	Failure to check on the position of consumer assets	Has the client checked for any assets/claimable pensions (over the value of £300), recorded them on the clients account (with full notes) and checked if the client would be willing to sell them to help clear the debts on the plan?	4
8.3.2R(2), 8.2.4R(1)	Failure to advise the consumer of all relevant solutions (including free advice)	Has the agent advised the client of all relevant solutions (including free services)?	3
8.3.2R(1)(c)	Failure to request the required documentation from the client	Has the agent requested required documentation (e.g. Proof of Income, DAA)? Ensuring the effect it can have on the plan is explained if we do not have the documentation?	3
8.3.2R(1)(c)	Failure to examine the position with regard to priority debts	Has the agent confirmed if the customer has any priority debts, and have these been recorded accurately? Has the agent appropriately explained how these should be dealt with?	3
8.3.2R(1)(c)	Failure to check whether the consumer had any CCJs or other legal action in relation to debts	Has the agent checked with the client if any of the debts have CCJs or any other legal action (e.g. charging orders)	2

CONC provision relevant to the failing		The QA Process 'Auto Fail' that was registered	No. of files with failure
8.3.2R(2), 8.3.4R(2)	Explain the advantages and disadvantages of the different solutions discussed	Has the agent advised the pros and cons of the client's chosen solution?	1
8.3.7R(5)	Ensure the consumer understood the information given	Did the client understand the information that was provided?	1
8.3.2R(1)(a)	Explain how to deal with creditor contact	Has the agent advised on how to deal with creditor contact? (under no circumstances should the client be advised to ignore or disregard the contact)	1

39. The Authority is concerned by the nature and extent of the failures identified by the QA Process. The failings identified by the QA Process in these files are consistent with the widespread failings identified by the Authority's sampling exercise; the concerns articulated by the Authority in paragraph 35 above therefore apply equally here.

Review of PDHL's approach to transferred Kensington customers

40. The Authority also reviewed various files provided by PDHL that relate to consumers whose DMPs were acquired by PDHL from Kensington in February 2015. This was a significant acquisition by PDHL, comprising around 15,000 DMPs and over 50 members of staff. In effect, this saw PDHL almost double the number of active DMPs it administered, as its book of clients grew from approximately 17,000 to over 30,000.

41. In carrying out a review of 13 files where PDHL made contact with consumers transferred (or purportedly transferred) from Kensington, the Authority identified a number of instances where, in the Authority's view, PDHL has not met the standard required by the Authority's rules.

CONC ref.	Regulatory requirement breached	No. of fails out of 13
8.3.2R(1)(a)	A firm must ensure that...all advice given and action taken by the firm or its agent or its appointed representative...has regard to the best interests of the customer	13
8.3.2R(1)(b)	A firm must ensure that...all advice given and action taken by the firm or its agent or its appointed representative...is appropriate to the individual circumstances of the customer	13

CONC ref.	Regulatory requirement breached	No. of fails out of 13
8.3.2R(1)(c)	A firm must ensure that...all advice given and action taken by the firm or its agent or its appointed representative...is based on a sufficiently full assessment of the financial circumstances of the customer	13
8.3.2R(2)	A firm must ensure that...customers receive sufficient information about the available options identified as suitable for the customers' needs	13
8.3.2R(3)	A firm must ensure that...it explains the reasons why the firm considers the available options suitable and other options unsuitable	13
8.3.7R(2)(a)	A firm must...before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, carry out a reasonable and reliable assessment of...the customer's financial position (including the customer's income, capital and expenditure)	9
8.3.7R(2)(b)	A firm must...before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, carry out a reasonable and reliable assessment of...the customer's personal circumstances (including the reasons for the financial difficulty, whether it is temporary or longer term and whether the customer has entered into a debt solution previously and, if it failed, the reason for its failure)	9
8.3.7R(2)(c)	A firm must...before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, carry out a reasonable and reliable assessment of...any other relevant factors (including any known or reasonably foreseeable changes in the customer's circumstances such as a change in employment status)	9
8.5.1R(3)	A firm must ensure that a financial statement sent to a lender on behalf of a customer...is sent only after having obtained the customer's consent to send the statement and the customer's confirmation as to the accuracy of the statement	3

42. The Authority is concerned by these failings on the part of PDHL, which are consistent

with (and reinforce) the concerns arising out of the sampling exercise.

43. That the files provided by PDHL to the Authority (of which these 13 formed a subset) evidence failures to satisfy the regulatory standards, was accepted by PDHL in a meeting with the Authority on 2 July 2015.

PDHL's systems and controls

44. High level systems and controls requirements are set out in SYSC. The Authority considers whether a firm is ready, willing and organised to comply with these and other applicable systems and controls requirements when assessing if it has appropriate non-financial resources (COND 2.4.2(3)G).
45. Between 30 March and 29 July 2015 (the date of the July Report), on nine occasions the Authority raised concerns with PDHL, including in respect of complaints from consumers, the firm's proposed growth strategy and the firm's failure to provide information in requested files for the Authority to review.
46. The July Report was commissioned by PDHL after the Authority gave it two notices under section 165 of the Act, dated 17 April 2015 and 6 May 2015, which required PDHL to provide information which was absent from case files provided to the Authority for review. The scope of the July Report was to:
- 1) determine what the reasons were for the failure to address the concerns of the Authority;
 - 2) where necessary, outline identified gaps; and
 - 3) produce high level action plans.
47. In compiling the July Report, the Compliance Consultant visited PDHL, interviewed members of the Board and senior management, and reviewed PDHL's structure and organisation, management information, policies and procedures and monitoring documentation, and correspondence between PDHL and the Authority. In producing the July Report, the Authority infers that the Compliance Consultant looked at PDHL's business as conducted over the period 21 December 2014 until 29 July 2015.
48. In assessing the material relevant to the Application (including that from the Visit and the July Report), the Authority identified issues in relation to the adequacy of PDHL's systems and controls. The Authority's resulting concerns are only heightened by the fact that, notwithstanding that PDHL has been subject to the regulatory requirements of the OFT and the Authority for a number of years, it has failed to identify and address these matters.

Adequacy of management information

49. It is important that firms collate and escalate appropriate information to senior management (in particular the governing body). The importance of MI can be seen from SYSC 3.2.11A(1)G, which states that "[a] firm's arrangements should be such as to furnish its governing body with the information it needs to play its part in identifying, measuring, managing and controlling risks of regulatory concern. Three factors will be the relevance, reliability and timeliness of that information."
50. The July Report found, *inter alia*, that:
- 1) "*There is currently an insufficient formal record of information being presented and discussed in preparation for [Authority] authorisation both at [Audit and Risk*

Committee] and board level".

- 2) *"The quality of MI prepared for the Board, is inadequate and does not provide the Board with assurance that the business is being effectively managed or monitored..."*.
- 3) *"Information provided to the Board is brief and extremely high level; there is no meaningful MI in regard to monitoring, challenge or adequacy of information provided. It is therefore difficult to understand how the boards could have taken comfort from such brief/basic information included in the board reports, which provide little value"*.

51. The Authority considers that the findings of the July Report were effectively confirmed by PDHL's senior management during the Visit. In his interview with the Authority during the Visit, a director of PDHL:

- 1) Explained that the Board's practice was to review a set of MI on a weekly basis in a 'live environment' (the Authority understands this to mean that the Board were looking at 'live data' from various internal systems). As a result, no Board packs or Board MI documents were created (and none are stored as part of any record of what was reviewed and what actions were taken).
- 2) Confirmed that the only meetings where minutes or notes were taken were those where the purchase of back books were discussed and agreed (although he stated there were plans to rectify this).
- 3) Could not evidence what was said or what actions were taken from any of the day-to-day meetings or Board meetings.
- 4) Recognised that failing to keep minutes/notes was a significant defect.

52. Further, the July Report also identified deficiencies in the purpose and role of the Board. The July Report found that:

"...there is no clearly defined purpose for the board structure..."

and

"From the information provided to us and through interview we could find no evidence that the Firm has set out the role and levels of authority for the board members"

and

"...there has been a lack of direction and understanding of the requirements as set out by the [Authority]".

53. The Authority notes that, when interviewed during the Visit, another PDHL director confirmed that PDHL used to have monthly management meetings but that this now occurred 'about every couple of months'.

PDHL's approach to particularly vulnerable customers

54. Under CONC, debt management firms are required to establish and implement clear and effective policies and procedures to identify particularly vulnerable customers and to deal with such customers appropriately (see CONC 8.2.7R).

55. There is no consumer credit rule or guidance as to who is a "particularly vulnerable" customer, but in Occasional Paper No. 8: Consumer Vulnerability, the Authority gave the following definition of a vulnerable customer: "*someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care*". This document was published on 23 February 2015 and the Authority does not suggest it was available to PDHL before this date; however, the Authority considers this does no more than articulate a pre-existing concept. The appropriate treatment of particularly vulnerable customers is of particular concern to the Authority given its consumer protection objective (section 1C of the Act).
56. The Authority identified issues in respect of PDHL's identification and treatment of consumers that could be considered 'particularly vulnerable'. These issues relate to:
- 1) PDHL's identification (and consequently appropriate treatment) in practice of particularly vulnerable customers; and
 - 2) the skills of the staff specifically responsible for dealing with particularly vulnerable customers.

Identification of particularly vulnerable customers

57. These issues arise out of the customer files reviewed as part of the sampling exercise and the file reviews relating to transferred Kensington customers, referred to above.
58. The Authority considers that five of the customers whose files formed part of the sample referred to in paragraphs 30 to 35 were particularly vulnerable customers. It is not clear to the Authority whether (and, if so, when) PDHL identified these customers as particularly vulnerable; however, the Authority notes that they were neither identified as particularly vulnerable in their case notes nor being dealt with by the advisors in PDHL specifically responsible for particularly vulnerable consumers. The Authority considers that these customers ought to have been identified as particularly vulnerable for the following reasons:
- 1) Two customers would be particularly vulnerable due to their financial circumstances (on account of their negative disposable income).
 - 2) One couple would be particularly vulnerable because of the husband's health, the wife's role as his sole carer, their low income, latterly the wife's ill health and their overall lack of financial capability.
 - 3) One customer would be particularly vulnerable for health reasons (on account of spinal cancer).
 - 4) One customer would be particularly vulnerable for health reasons (on account of a heart condition) and their understanding of English.
59. The Authority has also been provided with PDHL's 'Call Monitoring Overview Report' for April 2015, the scope of which was 'to provide qualitative data' based on the monitoring completed by the firm's compliance team (the number of phone calls and advisors is not noted in the document). In the 'Areas of Concern' section, the document states that 'evidence of vulnerability' was recorded 33.33% of the time (the document defines 'vulnerable' as referring to "*...clients who have social, mental, physical problems that stops them accessing, understanding the advice or stops them being able to make an informed decision*"). The Authority notes that the document also states that "[d]ue to a lack of process and training agents are not identifying particularly vulnerable customers" and suggests that "[w]ith the new process and training we should see this increase".

60. On this point, the Authority also notes that the July Report states:

"There is very little evidence that all staff undertake training on regulatory matters such as mandatory disclosure, TCF, vulnerable customers or when the decision should be made to refer the customer to the most appropriate course of action (e.g., referral to debt counsellors, DMP, IVA). For example one former adviser informed us that the classification of a vulnerable customer would be based solely on income".

61. The Authority notes that at the time of the Visit in June 2015, PDHL had identified 16 consumers as 'vulnerable' out of a total population in excess of 30,000. Given the matters set out above, the Authority considers that there is a real risk that the firm has failed to identify and treat appropriately a far higher number of particularly vulnerable customers, to which risk PDHL has paid insufficient regard since at least April 2014.

The adequacy of PDHL's staff dealing with particularly vulnerable customers

62. The Authority also identified issues in respect of the expertise of the PDHL staff involved in dealing with particularly 'vulnerable' consumers. As part of the Visit, the Authority spoke to a member of PDHL's 'Care Team', who explained that she was one of a total of two members of staff responsible for dealing with consumers identified as particularly vulnerable. From these observations, the Authority considers that the member of staff:

- 1) did not know where she should signpost consumers suffering from specific types of vulnerability (for example, cancer to Macmillan Cancer Support);
- 2) was unaware of 'Income Maximisation' steps and had not intervened to support consumers in fuel poverty by, for example, referring them to charitable trusts that might offer a grant to the consumer; and
- 3) confirmed that PDHL did not have other strategies for intervening on behalf of particularly vulnerable consumers, for example, requesting debt write off.

63. In interview the next day the staff member said that PDHL advised customers that there is additional support available if the consumer is suffering from ill health. She explained that the team dealing with particularly vulnerable consumers needed more training to enable them to provide extra information to consumers in this regard. Whilst these answers were an improvement on those she gave the day before, the Authority is concerned that she was not able to properly answer the questions when they were first asked (and, it infers, was only able to improve her answer by having the opportunity to research the points).

Summary

64. The Authority has identified issues in respect of the adequacy of PDHL's systems and controls relating to the identification and appropriate treatment of particularly vulnerable customers. The Authority considers that PDHL has not demonstrated that it has:

- 1) in practice an adequate approach to the identification of particularly vulnerable customers; and
- 2) put in place a sufficient number of appropriately trained staff to deal with particularly vulnerable customers (in particular given the comments above by a member of the Care Team).

65. In light of the above, the Authority considers that PDHL has not established and implemented clear and effective policies and procedures to identify particularly

vulnerable customers and to deal with such customers appropriately (as required by CONC 8.2.7R).

PDHL's quality assurance process

66. During its review of the Application, the Authority identified a number of issues with the adequacy of the QA process which PDHL had been operating in substantially similar form for most (if not all) of the period up to June 2015 and the QA Process introduced in June 2015. These include:

- 1) The July Report considered the issue of QA and stated that "[t]he focus [of the QA team] has been on reviewing each agent but has failed to pick up deficiencies in the client on-boarding process". Upon consideration of the failure rate, the July Report stated "[d]uring our interviews with QA it was noted that there was a very low pass rate for agents and that the majority were considered to be high risk and therefore subject to 5 calls per month. We have been unable to determine what remedial training is in place to ensure that agents meet regulatory requirements or whether senior management have been informed of this risk".
- 2) After reviewing the call recordings provided to the Authority following the Visit, the Authority notes that the QA Process introduced in June 2015 failed to detect a significant failing – namely a failure to present free debt adjusting and debt counselling consistently (CONC 8.2.4R). Although it did identify one failure to present different debt solutions in an impartial manner (CONC 8.3.7R(1)), it failed to identify this same failure in a further four phone calls.

Changes made by PDHL to its business since 30 July 2015

67. As mentioned in paragraph 26 above, on 30 July 2015 the Authority sent PDHL a letter informing the firm that it was minded to refuse the Application. This letter detailed the Authority's concerns and invited PDHL to respond to those concerns.

68. PDHL responded by way of letter dated 20 August 2015. PDHL stated in that letter that "[t]he bulk of concerns expressed in [the 30 July 2015 letter] are historic failings and PDHL fully acknowledges the serious nature of those failings and regrets them having taken place". PDHL also stated in that letter that, since the Visit, "PDHL has made considerable progress in addressing all of the issues raised in [the 30 July 2015 letter]", and that the changes it was making to its business would be completed and externally validated by mid-November 2015. PDHL concluded that at such time it would be able to demonstrate that all of the Authority's concerns had been fully addressed and that it was meeting the Threshold Conditions.

69. On 25 October 2015 the Compliance Consultant provided PDHL with the October Report. The October Report was commissioned by PDHL as a follow-up to the July Report. The scope of the Report was to:

- 1) review PDHL's Remediation Plan (i.e. PDHL's plan for remedying the failings identified by the Authority);
- 2) review the work undertaken by PDHL and an external consultant to determine if PDHL meets the Threshold Conditions; and
- 3) provide a report expressing an opinion as to the completeness of the actions taken.

70. The overall conclusion of the October Report was that PDHL would meet the Threshold

Conditions but for its lack of sufficient resources at senior management level. The October Report noted that the Board had been seriously impacted by the recent departures of key personnel, including the Managing Director, Head of Customer Services, Risk Manager and Compliance Director. A new Head of Customer Services has joined the firm and PDHL has informed the Authority that interim appointments have since been made to fill the Managing Director and Compliance Director vacancies. However, the Authority is required to consider whether, as at the date of this Decision Notice, it can ensure that PDHL will satisfy, and continue to satisfy, the Threshold Conditions. In the Authority's view, the new appointees' lack of experience of PDHL and its systems, processes and staff, and their lack of familiarity with the firm's shortcomings that need to be addressed, as well as the issues set out in paragraphs 71 to 78 below, mean that the Authority cannot be satisfied that PDHL now satisfies the Threshold Conditions.

71. The October Report also concluded that PDHL lacks sufficient staff and skills in other areas of the firm, in particular in relation to QA and the provision of debt advice. Regarding QA, the October Report noted that PDHL does not have an internal audit function and is looking to recruit two more QA analysts. Regarding debt advice, the October Report stated that PDHL currently only has 14 debt advisers that it has assessed as competent, significantly fewer than the 30 debt advisers which, in the Oral Representations Meeting, PDHL informed the Authority that it needs in order to service effectively its customers. The debt advisers who failed the assessment included some team leaders, reinforcing the Authority's view that PDHL does not have appropriate resources.
72. The Authority has reviewed the October Report and, whilst acknowledging the changes that PDHL has made to its business in an attempt to address the concerns detailed in the Authority's letter of 30 July 2015, considers that it demonstrates that PDHL has not been able to sufficiently address the Authority's concerns as detailed in the July Letter and the Warning Notice.
73. For example, one of the key findings of PDHL's advice process identified by the Authority from its review of the sample files, as detailed in paragraph 34, was the failure by PDHL to comply with the requirements of CONC 8.3.4R and provide a written summary of the advice given to the customer. The October Report noted that PDHL's QA team continued to concentrate on telephone calls only, and so could not provide assurance that PDHL is complying with CONC 8.3.4R.
74. Another example concerns the MI provided to the Board. As described in paragraph 50 above, the July Report considered that the MI provided to the Board was insufficient. In contrast, the October Report concluded that the Board was being provided with too much information, with the result that senior management had to spend time sifting through the MI to identify relevant material. As this is likely to frustrate the Board's ability to identify and address important concerns effectively and promptly, the Authority considers that the Board is still not being provided with appropriate MI.
75. In addition, the Authority has reviewed the material provided to the Compliance Consultant by PDHL and considers that some of this material makes it clear that the Authority's concerns have not been addressed. For example, one of the documents provided was a Board meeting information pack, dated 22 October 2015. This pack included the Compliance Board Report for September 2015 which highlighted a number of serious regulatory concerns, including:
 - PDHL's agents did not know what TCF meant nor what the Authority's Principles for Businesses are, and showed a lack of knowledge of assets and benefits.

- Suitable advice was achieved in up to 84.13% of cases (i.e. in over 15% of cases unsuitable advice was given), and only 35% of calls passed (i.e. 65% of calls failed to meet the required standards).
- Information obtained in respect of customers' income and expenditure, and therefore their disposable income, is not accurate.
- An audit review concluded that vulnerability was not identified in four out of 18 instances, showing that PDHL's agents and team leaders are not picking up on vulnerability.
- PDHL's agents provided incorrect information to the client in over 25% of the calls reviewed.
- An external consultant considered that PDHL's customers were getting the right outcomes, but that PDHL was achieving this by accident and, if the same agents were to act in the same way with new customers, the outcome may not be in the customers' best interests.

76. The Authority has also had sight of an email from an external consultant to PDHL dated 12 October 2015, which was included with the material provided to the Compliance Consultant. The third party had listened to two calls, both of which related to cases which were among those considered by the Authority when it reviewed a sample of PDHL's advice (see paragraph 31 above). The external consultant concluded that the calls did not evidence that suitable advice was provided, for the following reasons:

- *"In both cases the expenditure details of the customer were acquired in a haphazard manner.*
- *One of the customers [was] not informed that free debt counselling services are available.*
- *IVA was identified as the preferred solution in both cases and became almost a hard-sale.*
- *In one call, the customer repeatedly said his overtime was not guaranteed but it was used in the I&E [i.e. the details of the customer's income and expenditure].*
- *Fees were not disclosed to the customer in one instance."*

77. The issues outlined above, which evidence serious issues in a range of areas which are integral to debt counselling and debt adjusting, demonstrate that, despite the changes made by PDHL and its determination to improve its compliance with regulatory requirements, PDHL has still not remedied the failings identified by the Authority in the Warning Notice and that PDHL's customers remain at risk of not being treated fairly.

78. Further, even if the Authority had not identified such issues, updating its policies and procedures at this late stage in the application process is not sufficient for PDHL to satisfy the Threshold Conditions, in particular given the significant concerns previously identified by the Authority and the time that PDHL has already had in which to resolve some basic failings in how it carries on its regulated activities. Instead, the new policies and procedures need to be effectively implemented (i.e. 'embedded') and PDHL needs to demonstrate that, as a result of the changes it has made, it is now compliant with the relevant regulatory requirements. However, the October Report concluded, and PDHL has accepted, that its new policies and procedures are not yet embedded. Until this process has taken place, neither the senior management of PDHL nor the Authority have sufficient basis to be satisfied that the new policies and procedures are being

implemented in the manner required to meet the relevant regulatory requirements. Once they have been implemented, PDHL would then need to conduct meaningful and effective analysis, including outcome testing (which may not be concluded until 2016), before it can assure the Authority that its concerns have been resolved. This is on the assumption that PDHL will detect and remedy all issues promptly and satisfactorily, and the past conduct of the firm does not provide the Authority with confidence that this will be achieved rapidly.

79. The Authority is therefore not satisfied that the failings it identified in respect of PDHL's advice process and systems and controls have been effectively remedied, so that PDHL will satisfy, and will continue to satisfy, the Threshold Conditions. Indeed, PDHL has admitted it is not currently meeting the required regulatory standards as, during the Oral Representations Meeting, it stated that it did not consider that it was currently satisfying the Threshold Conditions (although it considered it was "*nearly there*").

IMPACT ON THE THRESHOLD CONDITIONS

80. The Authority considers that, having regard to all the circumstances, it cannot at this time be satisfied that PDHL will satisfy, and continue to satisfy, the Threshold Conditions, in particular, threshold conditions 2D (Appropriate resources) and 2E (Suitability).

Threshold condition 2D: Appropriate resources

81. Threshold condition 2D requires that a firm's resources must be appropriate in relation to the regulated activities that it carries on or seeks to carry on. As COND 2.4.2G(2) and 2.4.2G(2A) provide, 'appropriate resources' includes financial resources, non-financial resources and means of managing its resources, such as human resources, effective means by which to manage risks, and any systems, controls, plans or policies that the firm maintains. In this context, the Authority will interpret the term 'appropriate' as meaning sufficient in terms of quantity, quality and availability. Consideration will be given to whether these resources are sufficient to enable the firm to comply with the requirements imposed or likely to be imposed on the firm by the Authority in the course of the exercise of its functions.

82. The Authority concludes that it cannot ensure that PDHL satisfies, and will continue to satisfy, the appropriate resources threshold condition in light of the failings identified above in relation to PDHL's advice process, systems and controls and human resources.

83. As regards PDHL's advice process:

- 1) As set out more fully in paragraphs 34 to 35 above, the Authority identified widespread and substantial failings in PDHL's advice process. The failings are of a type and of a level such that, in the Authority's view, the Authority cannot be satisfied that PDHL treats its customers fairly and pays due regard to their interests and information needs.
- 2) The failings that the Authority has identified are supported by (i.e. consistent with and reinforced by) the outcomes of further file reviews conducted by the Authority: see paragraphs 38 to 39 (call recordings on the Visit) and 41 to 42 (Kensington book files) above.
- 3) The changes made by PDHL to its business had not adequately addressed these failings by November 2015 (see paragraphs 72 to 76 above). Whilst further progress may be being made in this regard, PDHL is not able to provide evidence that they have now been satisfactorily resolved.

- 4) The Authority's concerns are heightened by the fact that PDHL:
 - i. holds an interim permission and has therefore been required to comply with the Authority's regulatory requirements and standards since 1 April 2014; and
 - ii. was before April 2014 licenced and regulated by the OFT, which applied effectively the same standards to debt management firms as the Authority has applied to them since April 2014.
- 5) The rules that PDHL has breached are designed to ensure that those offering debt advice do so in a way that gives due regard to the needs of the firm's customers (in circumstances where those customers find themselves in a difficult/stressful situation and are likely to place significant reliance on the firm's expertise).

84. As regards PDHL's systems and controls in relation to MI:

- 1) In light of the findings of the July Report, which were effectively confirmed by PDHL's senior management during the Visit (see paragraphs 50 to 53 above), the Authority considered that the Board did not have available to it sufficient MI (considering relevance, reliability and timeliness) in order to identify and mitigate risks of regulatory concern arising out of the firm's activities. In light of the findings of the October Report, the Authority continues to consider that the MI provided to the Board is not of appropriate quality, and in particular considers that the Board is being provided with too much unrefined information, so that senior management have to spend time sifting through the MI to identify relevant material. The Authority considers this is likely to frustrate the Board's ability to identify and address important concerns effectively and promptly.
- 2) Without appropriate MI being escalated to senior management, the Authority considers that senior management will not have an adequate awareness of the performance of PDHL and will not be able to satisfy itself that PDHL's affairs are being conducted in a sound and prudent manner with the interests of consumers being given adequate consideration.

85. As regards PDHL's systems and controls in relation to particularly vulnerable customers:

- 1) CONC 8.2.7R requires that a firm must establish and implement clear and effective policies and procedures to identify particularly vulnerable customers and to deal with such customers appropriately. Given the matters described in paragraphs 57 to 65, the Authority's view is that PDHL does not meet this requirement in practice.
- 2) The Authority is concerned that the number of particularly vulnerable customers identified by the firm is too low. This is not only on the face of the figures, but also because the Authority has (as set out in paragraph 58) identified particularly vulnerable customers that the firm has not identified and treated appropriately.
- 3) The Authority's concerns as to the expertise and knowledge of PDHL's specialist staff (see paragraph 62 above) similarly leads the Authority to conclude that the firm has not yet implemented effective policies and procedures in this area.

86. As regards PDHL's systems and controls in relation to QA:

- 1) The July Report contains recent evidence of failings in respect of the sufficiency

of the QA process which PDHL had in place in the period up to June 2015. Specifically, it raises concerns as to the low pass rate of advisers subjected to that QA process: see paragraph 66 above. Given that PDHL has been subject to the OFT's/the Authority's regulatory requirements for a number of years, this state of affairs is of significant concern.

- 2) The October Report provides evidence of even more recent failings in respect of the QA Process. Specifically it notes that PDHL's QA team continued to concentrate on telephone calls only, and so could not provide assurance that PDHL is complying with the requirements of CONC 8.3.4R to provide a written summary of the advice given to the customer (see paragraph 73 above).

87. The Authority acknowledges the recent changes that PDHL has made to its policies and procedures but concludes that PDHL has not done enough to address its failings in relation to PDHL's systems and controls (see paragraph 78 above). The Authority also considers that, as the new policies and processes have not yet been embedded, PDHL is not yet in the position to determine whether they are, in fact, adequate (or requiring further revisions), and so the Authority cannot be satisfied that they are fit for purpose.

88. As regards PDHL's human resources:

- 1) PDHL lacks sufficient resources at senior management level following recent departures of key personnel. Although a new Head of Customer Services has joined the firm and PDHL has informed the Authority that it has made interim appointments to cover the positions of Managing Director and Compliance Director, in the Authority's view the new appointees' lack of experience of PDHL and its systems, processes and staff, and their lack of familiarity with the firm's shortcomings that need to be addressed, means that the Authority cannot at this time ensure that PDHL will satisfy the Threshold Conditions.
- 2) PDHL also lacks sufficient resources in other areas of the firm. It informed the Authority, in the Oral Representations Meeting, that it needs 30 debt advisers in order to service effectively its customers but currently only has 14 debt advisers that it has assessed as competent. It also only has two members of staff capable of dealing with particularly vulnerable consumers and lacks sufficient QA staff.

89. In summary, the Authority considers that the above matters demonstrate that PDHL does not have appropriate non-financial resources and does not have effective means by which to manage risks. As such, the Authority cannot ensure that, were the Application to be granted, PDHL would satisfy, and would continue to satisfy, threshold condition 2D.

Threshold condition 2E: Suitability

90. Threshold condition 2E requires that, *inter alia*, a firm must be fit and proper having regard to all the circumstances, including the need to ensure that its affairs are conducted in an appropriate manner, having regard in particular to the interests of consumers and the integrity of the UK financial system.

91. The matters referred to in paragraphs 83 to 88 also raise issues in respect of the suitability of PDHL. In particular, the Authority considers that the firm has:

- 1) Not made arrangements to put in place an adequate system of internal control to comply with the requirements and standards for which the Authority is responsible under the regulatory system (see COND 2.5.6(1A)G). This is evidenced by PDHL's failure to identify and remedy promptly the issues as to its

systems and controls around MI, QA and particularly vulnerable customers.

- 2) Not taken reasonable care to ensure that robust information and reporting systems have been developed, tested and properly installed (see COND 2.5.6(16)G). This is evidenced by the failings in respect of the adequacy of the MI and QA.

92. In the circumstances, the Authority considers that the firm has not demonstrated that it can ensure that its affairs are conducted in an appropriate manner, having regard in particular to the interests of consumers (COND 2.5.1A(1)(c)). The Authority therefore cannot ensure that, were the Application to be granted, PDHL would satisfy, and would continue to satisfy, threshold condition 2E.

REPRESENTATIONS

93. Annex B contains a brief summary of the key representations made by PDHL and how they have been dealt with. In making the decision which gave rise to the obligation to give this Notice, the Authority has taken into account all of the representations made by PDHL, whether or not set out in Annex B.

IMPORTANT NOTICES

94. This Final Notice is given under section 390 of the Act.

Publication

95. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the Authority must publish such information about the matter to which this Notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

96. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

97. For more information concerning this matter generally, contact Garry Hunter, Manager, *Credit Authorisations Department* at the Authority (direct line: 020 7066 2518 / email: garry.hunter@fca.org.uk).

Peter Hinchliffe
Acting Chair, Regulatory Decisions Committee

ANNEX A

RELEVANT REGULATORY PROVISIONS

Statutory Provisions

1. The Authority's operational objectives, set out in section 1B(3) of the Act, include the consumer protection objective. Section 1C(1) of the Act provides that the Authority's consumer protection objective is: securing an appropriate degree of protection for consumers.
2. Section 55A(1) of the Act provides for an application for permission to carry on one or more regulated activities to be made to the appropriate regulator. Section 55A(2) defines the "appropriate regulator" for different applications.
3. Section 55B(3) of the Act provides that, in giving or varying permission, imposing or varying a requirement, or giving consent, under any provision of Part 4A of the Act, each regulator must ensure that the person concerned will satisfy, and continue to satisfy, in relation to all of the regulated activities for which the person has or will have permission, the threshold conditions for which that regulator is responsible.
4. The Threshold Conditions are set out in schedule 6 of the Act. In brief, the Threshold Conditions relate to:
 - 1) Threshold condition 2B: Location of offices
 - 2) Threshold condition 2C: Effective supervision
 - 3) Threshold condition 2D: Appropriate resources
 - 4) Threshold condition 2E: Suitability
 - 5) Threshold condition 2F: Business model

Handbook Provisions

Principles for Businesses ("PRIN")

5. This section of the Handbook sets out the fundamental obligations of all firms under the regulatory system.
6. Principle 3 provides that a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

Guidance on the Threshold Conditions ("COND")

7. This section of the Handbook sets out the minimum standards for becoming and remaining authorised.
8. COND 1.3.2G(2) states that, in relation to threshold conditions 2D to 2F, the Authority will consider whether a firm is ready, willing and organised to comply on a continuing basis with the requirements and standards under the regulatory system which will apply to the firm if it is granted Part 4A permission.
9. COND 1.3.3BG provides that, in determining whether the firm will satisfy, and continue to satisfy, the Threshold Conditions, the Authority will have regard to all relevant matters, whether arising in the United Kingdom or elsewhere.

10. COND 1.3.3CG provides that, when assessing the Threshold Conditions, the Authority may have regard to any person appearing to be, or likely to be, in a relevant relationship with the firm, in accordance with section 55R of the Act (Persons connected with an applicant). For example, a firm's controllers, its directors or partners, other persons with close links to the firm (see COND 2.3), and other persons that exert influence on the firm which might pose a risk to the firm's satisfaction of the Threshold Conditions, would be in a relevant relationship with the firm.

Threshold condition 2D (Appropriate resources)

11. COND 2.4.2G(2) states that the Authority will interpret the term 'appropriate' as meaning sufficient in terms of quantity, quality and availability, and 'resources' as including all financial resources (though only in the case of firms not carrying on, or seeking to carry on, a PRA-regulated activity), non-financial resources and means of managing its resources; for example, capital, provisions against liabilities, holdings of or access to cash and other liquid assets, human resources and effective means by which to manage risks.
12. COND 2.4.2G(2A) states that "non-financial resources" for the purposes of the Threshold Conditions include any systems, controls, plans or policies that the firm maintains and the human resources that the firm has available.
13. COND 2.4.2G(3) states that high level systems and control requirements are in SYSC. The Authority will consider whether the firm is ready, willing and organised to comply with these and other applicable systems and controls requirements when assessing if it has appropriate non-financial resources for the purpose of threshold condition 2D.
14. COND 2.4.4G states that, when assessing whether a firm has appropriate resources, the Authority will have regard to matters including:
 - (d) Whether the firm has taken reasonable steps to identify and measure any risks of regulatory concern that it may encounter in conducting its business and has installed appropriate systems and controls and appointed appropriate human resources to measure them prudently at all times.
 - (f) Whether the resources of the firm are commensurate with the likely risks it will face.

Threshold condition 2E (Suitability)

15. COND 2.5.1A(1)G states that the applicant ('A') must be a fit and proper person having regard to all the circumstances, including:
 - (c) The need to ensure that A's affairs are conducted in an appropriate manner, having regard in particular to the interests of consumers and the integrity of the UK financial system.
 - (d) Whether A has complied and is complying with requirements imposed by the Authority in the exercise of its functions, or requests made by the Authority, relating to the provision of information to the Authority and, where A has so complied or is so complying, the manner of that compliance.
16. COND 2.5.2G(2)G states that the Authority will also take into consideration anything that could influence a firm's continuing ability to satisfy threshold condition 2E. Examples

include the firm's position within a UK or international group, information provided by overseas regulators about the firm, and the firm's plans to seek to vary its Part 4A permission to carry on additional regulated activities once it has been granted that permission.

17. COND 2.5.4G(2) states that examples of the kind of general considerations to which the Authority may have regard when assessing whether a firm will satisfy, and continue to satisfy, threshold condition 2E include, but are not limited to, whether the firm can demonstrate that it conducts, or will conduct, its business in compliance with proper standards and its affairs with the exercise of due skill, care and diligence.
18. COND 2.5.6G provides that examples of the kind of particular considerations to which the Authority may have regard when assessing whether a firm will satisfy, and continue to satisfy, this threshold condition include, but are not limited to, whether:
 - (1) The firm has been open and co-operative in all its dealings with the Authority and any other regulatory body (see Principle 11 (Relations with regulators)) and is ready, willing and organised to comply with the requirements and standards under the regulatory system (such as the detailed requirements of SYSC and, in relation to a firm not carrying on, or seeking to carry on, a PRA-regulated activity only, the Prudential Standards part of the Handbook) in addition to other legal, regulatory and professional obligations; the relevant requirements and standards will depend on the circumstances of each case, including the regulated activities which the firm has permission, or is seeking permission, to carry on.
 - (1A) The firm has made arrangements to put in place an adequate system of internal control to comply with the requirements and standards for which the Authority is responsible under the regulatory system.
 - (7) The [firm](#) has put in place procedures which are reasonably designed to:
 - (a) ensure that it has made its [employees](#) aware of, and compliant with, those requirements and standards under the [regulatory system](#) that apply to the [firm](#) for which the [Authority](#) is responsible and the [regulated activities](#) for which it has or will have [permission](#);
 - (b) ensure that its [approved persons](#) (whether or not employed by the [firm](#)) are aware of those requirements and standards under the [regulatory system](#) applicable to them;
 - (c) determine that its [employees](#) are acting in a way compatible with the [firm](#) adhering to those requirements and standards; and
 - (d) determine that its [approved persons](#) are adhering to those requirements and standards.
 - (14) The governing body of the firm is organised in a way that enables it to address and control the regulated activities of the firm, including those carried on by managers to whom particular functions have been delegated.
 - (16) The firm has taken reasonable care to ensure that robust information and reporting systems have been developed, tested and properly installed.

19. This section of the Handbook is the specialist sourcebook for credit-related regulated activities. As provided in CONC 1.1.2G, the purpose of CONC is to set out the detailed obligations that are specific to credit-related regulated activities and activities connected to those activities carried on by firms. These build on and add to the high-level obligations, for example, in PRIN, the General Provisions section of the Handbook ("GEN") and SYSC, and the requirements in or under the Consumer Credit Act 1974.
20. CONC 8.2.4R states that a [debt management firm](#) must prominently include:
- (1) in its first written or oral communication with the [customer](#) a statement that free [debt counselling](#), [debt adjusting](#) and [providing of credit information services](#) is available to [customers](#) and that the [customer](#) can find out more by contacting the Money Advice Service; and
 - (2) on its web-site the following link to the Money Advice Service web-site (<https://www.moneyadviceservice.org.uk/en/tools/debt-advice-locator>).
21. CONC 8.2.7R states that a [firm](#) must establish and implement clear and effective policies and procedures to identify particularly vulnerable [customers](#) and to deal with such [customers](#) appropriately.
22. CONC 8.3.2R states that a [firm](#) must ensure that:
- (1) all advice given and action taken by the [firm](#) or its agent or its [appointed representative](#):
 - (a) has regard to the best interests of the [customer](#);
 - (b) is appropriate to the individual circumstances of the [customer](#); and
 - (c) is based on a sufficiently full assessment of the financial circumstances of the [customer](#);
 - (2) [customers](#) receive sufficient information about the available options identified as suitable for the [customers'](#) needs; and
 - (3) it explains the reasons why the [firm](#) considers the available options suitable and other options unsuitable.
23. CONC 8.3.4R states that a [firm](#) must ensure that advice provided to a [customer](#), whether before the [firm](#) has entered into contract with the [customer](#) or after, is provided in a [durable medium](#) and:
- (2) makes clear the actual or potential advantages, disadvantages, costs and risks of each option available to the customer, with any conditions that apply for entry into each option and which debts may be covered by each option;
 - (3) warns the [customer](#):
 - (a) of the actual or potential consequences of failing to continue to pay taxes,

finances, child support payments and debts which could result in loss of access to essential [goods](#) or services or repossession of, or eviction from, the [customer's](#) home;

- (b) of the actual or potential consequences of not continuing to make [repayments](#) under [credit agreements](#) or [consumer hire agreements](#);
- (c) of the actual or potential consequences of ignoring correspondence or other contact from [lenders](#) and those acting on behalf of [lenders](#);
- (d) that action to recover debts may be commenced, which may involve further cost to the [customer](#); and
- (e) that by entering into a [DMP](#) or another non-statutory repayment plan there is no guarantee that any current recovery or legal action will be suspended or withdrawn.

24. CONC 8.3.7R states that a [firm](#) must:

- (1) provide the [customer](#) with a source of impartial information on the range of [debt solutions](#) available to the [customer](#) in the relevant country of the [UK](#);
- (2) before giving any advice or any recommendation on a particular course of action in relation to the [customer's debts](#), carry out a reasonable and reliable assessment of:
 - (a) the [customer's](#) financial position (including the [customer's](#) income, capital and expenditure);
 - (b) the [customer's](#) personal circumstances (including the reasons for the financial difficulty, whether it is temporary or longer term and whether the [customer](#) has entered into a [debt solution](#) previously and, if it failed, the reason for its failure); and
 - (c) any other relevant factors (including any known or reasonably foreseeable changes in the [customer's](#) circumstances such as a change in employment status).
- (3) refer a [customer](#) to an appropriate [not-for-profit debt advice body](#) in circumstances where the [customer](#):
 - (a) has problems related to debt requiring immediate attention with which the [firm](#) is unable or unwilling to assist the [customer](#); or
 - (b) does not have enough disposable income to pay the firm's fees.
- (5) seek to ensure that a customer understands the options available and the implications and consequences for the customer of the firm's recommended course of action.

25. CONC 8.5.1R states that a [firm](#) must ensure that a financial statement sent to a [lender](#) on behalf of a [customer](#):

- (1) is accurate and realistic and must present a sufficiently clear and complete account of the [customer's](#) income and expenditure, debts and the availability of surplus income;
- (2) state any fees or charges being made by the [firm](#);
- (3) is sent only after having obtained the [customer's](#) consent to send the statement and the [customer's](#) confirmation as to the accuracy of the statement;
- (4) is provided to the [customer's lenders](#) as soon as practicable after the [customer](#) has confirmed its accuracy; and
- (5) is also sent to the [customer](#), together with any accompanying correspondence.

26. CONC 8.5.4R states that a [firm](#) must:

- (1) take reasonable steps to verify the [customer's](#) identity, income and outgoings;
- (2) seek explanations if a [customer](#) indicates expenditure which is particularly high or low; and
- (3) where applicable, notify a [customer](#) that a particular [lender](#) will not deal with the [firm](#) (for whatever reason), as soon as possible after the [firm](#) becomes aware that the [customer](#) owes a debt to that [lender](#).

27. CONC 8.8.1R states that a [firm](#) in relation to a [customer](#) with whom it has entered into a [DMP](#) must:

- (8) provide a statement to the customer at the start of the DMP, and at least annually or at the customer's reasonable request, setting out:
 - (a) a balance showing the amount owed by the customer, including any interest charges at the beginning of the statement period;
 - (b) fees, charges and other costs applied over the period of the statement, including any upfront fee or deposit, such as an initial arrangement fee, an arrangement fee, any periodic or management or administrative fee, any cancellation fee and any other costs incurred under the contract;
 - (c) a narrative explaining the type of fee applied, how the fee is calculated and to what it applies;
 - (d) the duration or estimated duration of the contract;
 - (e) the total cost of the firm's service over the duration or estimated duration of the contract; and
- (9) maintain adequate records relating to each DMP which the firm has administered for the customer until the contract between the customer and the firm is completed or terminated.

Senior Management Arrangements, Systems and Controls ("SYSC")

28. This section of the Handbook sets out the responsibilities of directors and senior management.

29. SYSC 3.2.11A(1)G states that a firm's arrangements should be such as to furnish its governing body with the information it needs to play its part in identifying, measuring, managing and controlling risks of regulatory concern. Three factors will be the relevance, reliability and timeliness of that information.
30. SYSC 3.2.2G states that a [firm's](#) reporting lines should be clear and appropriate having regard to the nature, scale and complexity of its business. These reporting lines, together with clear management responsibilities, should be communicated as appropriate within the [firm](#).
31. SYSC 9.1.1R states that a firm must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable the appropriate regulator (or any other relevant competent authority under MiFID or the UCITS Directive to monitor) the firm's compliance with the requirements under the regulatory system, and in particular to ascertain that the firm has complied with all obligations with respect to clients.

ANNEX B

REPRESENTATIONS

1. PDHL's representations (in italics), and the Authority's conclusions in respect of them, are set out below.

Regulation by the OFT

2. *PDHL operated under a license from the OFT between 1 July 2007 and 31 March 2014 and at no time did the OFT express concern about the manner in which PDHL's business was conducted.*
3. The lack of concern expressed by the OFT about PDHL's business does not mean that the OFT considered PDHL to be acting in compliance with its regulatory standards or indeed that PDHL was complying with them. The rules in CONC which the Authority considers PDHL has failed to comply with are not materially different to the OFT's debt management guidance that PDHL was previously subject to. The fact that PDHL has been subject to broadly the same regulatory standards since 2007 heightens the seriousness of its failure to put in place appropriate processes, systems and controls prior to and during the course of its application for authorisation.

Appropriateness of the Authority's action

4. *The Authority's action is inappropriate, unnecessary and has been taken in haste without due regard to the systems and controls the business is installing in response to the requirements of CONC, which were first brought into force in April 2014 and most recently updated in August 2015. Time is required to model PDHL's business around the new CONC regime and to install conforming structures.*
5. The Authority does not consider its action to be inappropriate, unnecessary or to have been taken in haste. As mentioned in paragraph 3 above, the CONC regime is not materially different to the OFT's regime, and the updates to CONC in August 2015 have not materially altered the standards that PDHL has to meet. As PDHL has been subject to broadly the same regulatory standards since 2007 it has had sufficient time to put in place appropriate processes and systems and controls. Further, PDHL submitted the Application in December 2014 but it was not until after the Visit in June 2014 that it started to make changes to its business. If PDHL had started to make changes earlier, there would have been more chance that the revised policies and procedures would be embedded by the time the Authority determined the Application.
6. In addition, in considering whether to grant the Application, the Authority has had regard to whether PDHL would be capable of continuing to meet its regulatory obligations. The Authority considers that the delay in addressing compliance failings, during a period in which these have been pointed out by the Authority and the firm is relying on expert external consultants, causes concern over the firm's ability to act in compliance with its regulatory obligations when the additional scrutiny is not taking place.

PDHL's interim permission

7. *In accordance with Article 58(1)(a) of the 2013 Order, PDHL's interim permission will continue until the Application is determined. Pursuant to Article 58(3)(c) of the 2013 Order, the Application will be determined when a decision notice takes effect. Section 133A(4) of the Act provides that, if the matter is referred to the Tribunal, the Authority must not take the action specified in a decision notice until the reference, and any appeal against the Tribunal's determination, has been finally disposed of. Should the*

Authority issue a decision notice, PDHL will refer the matter to the Tribunal and PDHL's interim permission will therefore continue while the Tribunal is considering the matter.

8. *Under section 133(4) of the Act, the Tribunal may consider any evidence relating to the subject-matter of the reference, whether or not it was available to the decision-maker at the material time. Therefore, should the Tribunal determine the Application, it will consider whether PDHL is meeting the Threshold Conditions at that time, by which point PDHL's new policies and procedures will be embedded.*
9. *If the effect of giving a decision notice is that PDHL's interim permission ceases, this would be likely to lead to PDHL going into administration and would have a detrimental effect on PDHL's 25,000 customers (as the Money Advice Service does not have the capacity to take on so many customers), its staff and creditors. It is therefore disproportionate and unnecessary to give a decision notice, in particular as PDHL is nearly in the position of meeting the Threshold Conditions.*
10. Article 58(3)(c) of the 2013 Order was amended by Article 2 of the 2014 Order and now provides that, in respect of firms with an interim permission, the date on which an application for full authorisation is determined is the date on which the decision notice is given. The Authority's view is that this means that PDHL's interim permission ceases to have effect from the date of this Notice. This is the legal consequence of the Authority's decision to refuse the Application. However, it is not an action of the Authority; the only action the Authority is taking is to refuse the Application. Therefore, the Authority's view is that should PDHL refer the matter to the Tribunal, the Authority's decision to refuse the Application will not take effect until the Tribunal directs the Authority to take such an action (if the Tribunal makes such a direction), but this does not impact on the status of PDHL's interim permission, which the Authority considers ceases on the giving of this Notice. It is for PDHL to consider if any action may be pursued in the Tribunal or elsewhere that may defer the legal impact of this Notice on PDHL's interim permission.
11. The Authority has taken into account PDHL's view that, if its interim permission ceases, this would have a detrimental impact on the firm's customers, staff and creditors and that the Authority's decision is disproportionate and unnecessary. However, the Authority considers that, at this time, it cannot ensure that PDHL will satisfy, and will continue to satisfy, the Threshold Conditions and so, in all the circumstances, it is appropriate and necessary to refuse the Application. The Authority is of the view that the Money Advice Service would be able to assist any customer of PDHL who contacts it,

PDHL should be given credit for the work it has undertaken to meet regulatory expectations

12. *Since submitting the Application, PDHL has undertaken a large amount of work to meet the Authority's regulatory expectations, including: responding to section 165 information requests; commissioning the July Report; retaining an external consultant to assist with devising and implementing a remediation plan; and giving voluntary undertakings not to grow the business further whilst addressing some of the Authority's concerns and to return and cap fees relating to Kensington customers. PDHL should be given credit for this work.*
13. The Authority acknowledges that PDHL has made efforts to meet the Authority's regulatory standards. However, as PDHL itself admitted in the Oral Representations Meeting, it is not currently meeting the Threshold Conditions. In addition, the Authority has had regard to whether PDHL would be capable of continuing to meet its regulatory obligations should it approve the Application, and considers that the delay in addressing compliance failings, during a period in which these have been pointed out by the

Authority and the firm is relying on expert external consultants, causes concern over the firm's ability to act in compliance with its regulatory obligations when the additional scrutiny is not taking place. The Authority therefore considers it is appropriate not to approve the Application.

PDHL will satisfy the Threshold Conditions

14. *The Authority's view that PDHL will not satisfy the Threshold Conditions is neither justified by, not consistent with, the significant changes which PDHL has been making to its business and which are continuing to be made.*
15. *Since the July Report PDHL has undergone a significant re-organisation both in terms of business structures and personnel which demonstrate a commitment to reform and the adoption of new structures which will bring the business in line with the requirements of CONC. This is supported by the findings in the October Report.*
16. The Authority acknowledges that PDHL has made significant changes to its business since the July Report but its view is that these have not yet satisfactorily addressed the failings outlined in the Warning Notice. In considering whether to approve the Application, the Authority has to decide whether PDHL is meeting the Threshold Conditions at the date of this Notice, and the Authority cannot ensure that PDHL will satisfy the Threshold Conditions if there is only a possibility that PDHL will meet the Threshold Conditions in the future. PDHL stated in the Oral Representations Meeting that it is not currently meeting the Threshold Conditions, and the Authority shares that view for the reasons set out in this Notice.

Anomalies in the Authority's findings from its sample review

17. *There are anomalies in the Authority's findings from its sample review as extrapolated and applied to the whole of the PDHL customer base. For example, where 13 out of 20 files reviewed are alleged to have failed a compliance test, the prediction for the whole population is variously 40% and 32%.*
18. The reason for the different percentages, despite the same number of files having been found to be in breach, is that the sample of 20 files was broken down into two sub-populations and the Authority weighted the findings for each sub-population to reflect the composition of the 9,907 files constituting the whole population.

Report from the Compliance Consultant dated 13 December 2015

19. *On 9 December 2015, the Authority told PDHL that it would issue its decision in respect of the Application on 16 December 2015. On 14 December 2015, PDHL submitted to the Authority a further report, dated 13 December 2015, from the Compliance Consultant. This report, based upon information provided by PDHL and reviewed by the Compliance Consultant prior to 11 December 2015, concludes that PDHL now meets threshold conditions 2D (appropriate resources) and 2E (suitability) and the regulatory requirements relating to a debt management firm set out in CONC 8. Although PDHL did not specifically ask the Authority to treat the submission as an additional representation, that is how the Authority has treated it.*
20. The Authority has reviewed the report and, having regard to the timing of this submission and the requirement in section 55V(2) of the Act that the Authority must determine an application within 12 months from the date on which it received the application, considers there is insufficient time for the Authority to satisfy itself that the changes described by the report have addressed the Authority's concerns. This is because the history of the Application suggests that the conclusions set out in the report cannot be fully relied upon without some further verification and, even if the

changes described in the submission were all sufficient to resolve previous failings (which, as described below, does not appear to be the case), they would need to be implemented and embedded in order for the Threshold Conditions to be met.

21. Further, the Authority is of the view that the report does not establish that PDHL has satisfactorily resolved all the failings identified in this Notice. In particular, the Authority notes:

- PDHL now has a pool of 18 debt advisers considered to be competent, which should shortly increase to 21, but this is still far fewer than the 30 debt advisers that PDHL informed the Authority that it needs in order to service effectively its customers.
- The report concludes that PDHL now operates upon a solid management base. However, the Managing Director is acting in an interim capacity, has been in this role for only a short period of time and appears also to be the firm's MLRO and have responsibility for compliance. This, together with the firm's reliance on external support, leads the Authority to question the report's conclusion and also does not give the Authority confidence that PDHL would be able to comply with relevant regulatory requirements without significant external input.
- It is not clear from the report whether PDHL now has sufficient QA staff and, if so, whether this is as a result of recruitment, training or buying in of services.
- New guidelines have been provided to debt advisers which the report considers should ensure that appropriate advice is provided to customers, but the Authority has not been given sufficient time to review whether these guidelines are appropriate and effective.
- The report states that three recent customer cases were reviewed and appropriate advice was given in each case. The Authority is not satisfied that this is an adequate basis for a proper assessment of PDHL's capability. It also has not been given sufficient time to carry out its own review of these cases to verify the findings.
- The report does not provide evidence that the Authority's concerns, set out in this Notice, regarding the identification and treatment of particularly vulnerable consumers have been addressed.

22. Overall, while the Authority notes PDHL's continuing activity and its commitment to achieving compliance with the relevant regulatory requirements, this report does not fully resolve the Authority's concerns. The report's very late submission and contents do not give the Authority confidence that the necessary actions have been implemented and embedded (i.e. will be followed in the ordinary course of business). For a written submission at this very late stage to cause the Authority to overcome evidence of existing failings and be satisfied that a firm is satisfying, and will continue to satisfy, the Threshold Conditions from its own resources, the Authority would expect to see evidence that is clear, unconditional and capable of being evaluated on the basis of the written submission alone. PDHL's submission of 14 December 2015 does not provide such evidence.