IFPR Newsletter

IFPR implementation observations: the internal capital adequacy and risk assessment (ICARA) process and reporting

To support firms as they adapt to the IFPR, we are carrying out a multi-firm review on IFPR implementation. On 27 February 2023 we published our observations from the first part of that review.

The publication sets out what we observed and what good looks like with particular focus on capital, liquidity, and wind-down planning. We believe sharing our observations will help firms to better understand the requirements and improve their adequate financial resources assessments.

Trading counterparty default – transactions outside the trading book

The K-factor requirement for trading counterparty default (K-TCD) is contained in section 4.14 of MIFIDPRU. Under MIFIDPRU 4.14.1R(2) the K-TCD requirement applies to the transactions listed in MIFIDPRU 4.14.3R where the transactions:

- are recorded in the trading book of a firm dealing on own account (whether for itself or on behalf of a client); or
- in the case of the transactions specified in MIFIDPRU 4.14.3R(2)-(7), are carried out by a firm that has the necessary permissions to deal on own account.

The transactions specified in MIFIDPRU 4.14.3R(2)-(7) include various forms of securities financing transactions, such as margin lending transactions. Therefore relevant transactions such as margin lending carried out by a firm with permission to deal on own account would be within the scope of K-TCD requirement, even if not recorded in a firm's trading book.

For example, suppose a MIFIDPRU firm had permission to deal on own account on a matched principal basis, transacting client orders, but in the name of the firm. It then choose to finance the margin payment of those transactions on behalf of the client. As margin lending transactions by a firm that has permission to deal on own

account are within the scope of MIFIDPRU 4.14, the firm should calculate a K-TCD requirement on such transactions.

IFPR reporting

We remind firms that MIF001 to MIF007 should all be completed in 000s.

MIF003

Where a firm does not carry out the activity it should leave the field blank and not enter a zero.

Where a firm does carry out an activity, it must complete MIF003 even if that activity does not lead to a K-factor requirement.