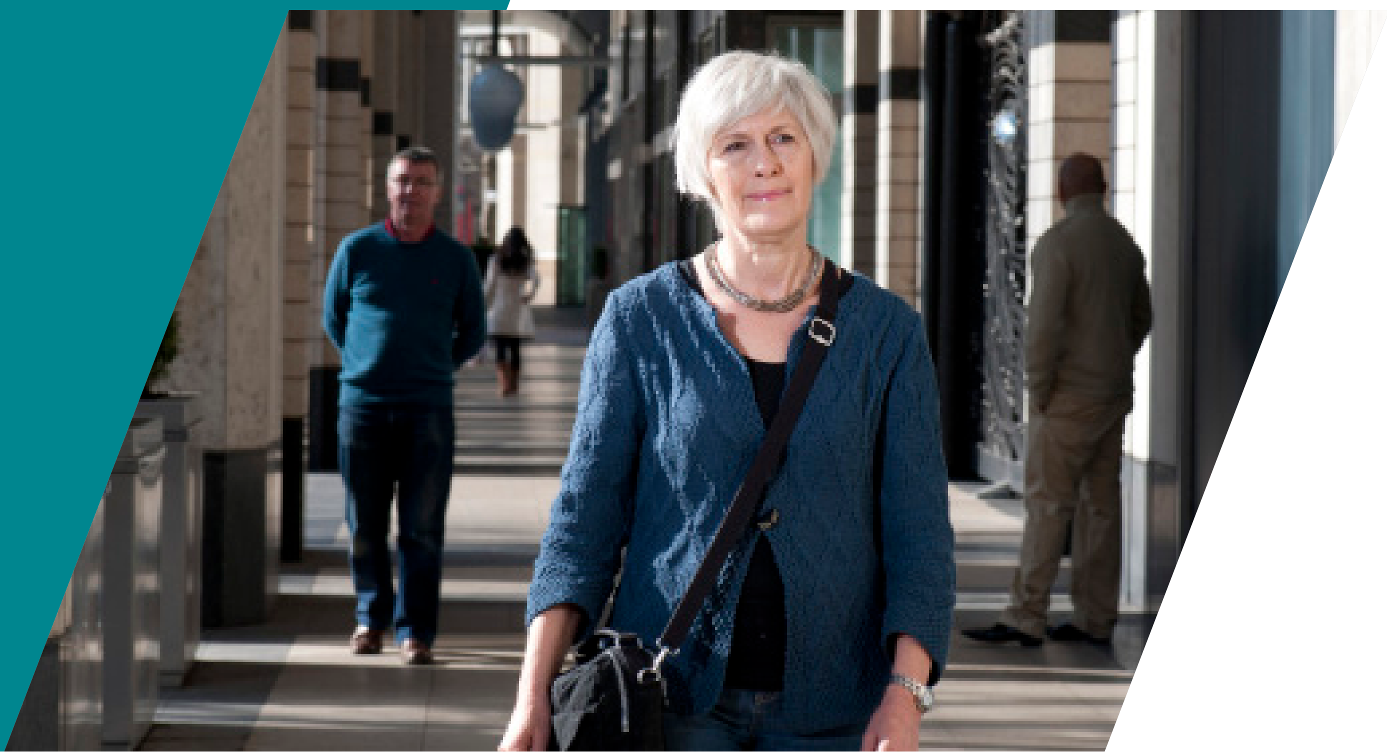
Financial Conduct Authority

Capital resources requirements for Personal Investment Firms (PIFs)

May 2015



Consultation Paper

CP15/17**

Contents

We are asking for comments on this Consultation Paper by 7 September 2015.

You can send them to us using the form on our website at:
www.fca.org.uk/your-fca/documents/consultation-papers/cp15-17-response-form.

Or in writing to:

George Robinson
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 5442
Email: cp15-17@fca.org.uk

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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Abbreviations used in this paper

ADRD	Alternative Disputes Resolution Directive
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
CAD	Directive 2006/49/EC or Capital Adequacy Directive
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
CRD	Capital Requirements Directive (EU Directive 2013/36/EU), which forms part of the CRD IV legislative package
CRR	Capital Requirements Regulation (EU Regulation 575/2013), which forms part of the CRD IV legislative package
EBR	Expenditure Based Requirement
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
IMD	Insurance Mediation Directive
IPRU (INV)	Interim Prudential sourcebook for Investment Businesses
MiFID	Markets in Financial Instruments Directive
MIPRU	Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries
PIF	Personal Investment Firm
PII	Professional Indemnity Insurance
PS09/19	FSA Policy Statement 09/19: Review of the prudential rules for Personal Investment Firms (PIFs): Feedback to CP08/20 and CP09/20 (Chapter 11)

RAE	Relevant Annual Expenditure
RDR	Retail Distribution Review
RMAR	Retail Mediation Activities Return
SIPP	Self-Invested Personal Pension
Treasury	Her Majesty's Treasury

1. Overview

Introduction

1.1 Alongside the Retail Distribution Review (RDR) to improve the standards in the retail investment market, the then regulator (the Financial Services Authority (FSA)), proposed new prudential requirements for personal investment firms (PIFs). These rules were meant to ensure that PIFs are sufficiently able to deliver on their longer-term commitments. However, following subsequent feedback, we deferred implementation of these rules[1] pending further review, which we are doing now in this consultation paper (CP). As before, the aim remains to require a proportionate level of capital resources for PIFs to absorb routine losses and legitimate redress claims against them, as well as to provide time to make appropriate arrangements in the case of market exit.

1.2 Where PIFs provide an ongoing chargeable service, consumers have a reasonable expectation that the businesses they deal with have the capacity to make right any mistakes or errors they make. Holding adequate capital resources ensures that otherwise well-run PIFs do not immediately go out of business should they face a normal number of redress claims relative to the scale of their business. A modest capital requirement provides a surplus for PIFs to absorb these losses.

1.3 Where a PIF does exit the market, our proposed capital requirements will provide increased certainty to help ensure that consumers can more readily access their investment holdings and untangle their portfolios as the PIF winds down its operations. Our proposals cover various PIF business models and are more proportionate to the potential harm a failing PIF can cause.

Current situation

1.4 We have previously committed to consult on capital requirements for PIFs. Accordingly, we have reviewed both the existing rules in force and also the rules in FSA Policy Statement PS09/19[2] that were deferred from implementation until 31 December 2015. In this CP we are seeking views on an alternative method to those two approaches to setting capital resources requirements for PIFs.

1.5 Our approach to the businesses that we regulate prudentially is to make risk-based judgements about how they are run and their financial soundness. This approach applies to the PIF sector and is consistent with the RDR[3] sustainability objective.

1 www.fca.org.uk/firms/firm-types/financial-advisers/pifs

2 PS09/19: *Review of the prudential rules for Personal Investment Firms (PIFs): Feedback to CP08/20 and CP09/20* (Chapter 11) – (November 2009).

3 www.fsa.gov.uk/rdr

1.6 We published a post-implementation review of the RDR[4] in January 2015 that indicated that most PIFs had improved their financial position:

> *"Among advisory PIFs, average revenues have remained stable or have been increasing over the past few years. Profitability of PIFs in the retail investment market has also increased; and the percentage of PIFs posting a loss has decreased. Capital and reserve levels have increased. Taken together, these indicate an industry where advisory PIFs should be better placed to meet their long-term commitments, provided they continue to build up capital reserves from greater profits."*

1.7 It is appropriate, therefore, that we consult on the outcomes of our review now that PIFs have had sufficient time to absorb the changes required by the RDR. Accordingly, we believe that PIFs will have the capacity to make the necessary adjustments to comply with our proposed approach to setting capital resources requirements.

1.8 The current capital requirements will be replaced on 31 December 2015 by the PS09/19 rules unless we revoke the Handbook provisions included in PS09/19. We are consulting, on an alternative approach and associated rule changes, so that we can issue a Policy Statement and Handbook changes in autumn 2015. Subject to this consultation we propose to implement the new requirements from 30 June 2016, with transitional provisions for certain requirements, which we believe will give PIFs adequate time to adjust to them.

Who does this consultation affect?

1.9 This paper will be relevant to:

- firms that provide financial advice – both PIFs and competing firms subject to other prudential regimes - and potential new market entrants;
- consumers and consumer organisations;
- professional and trade bodies representing PIFs and other types of financial advisers;
- providers of investment and protection products and services distributed through PIFs;
- providers of professional indemnity insurance (PII) to PIFs; and
- providers of investment platform, professional and other services to PIFs.

Is this of interest to consumers?

1.10 We set prudential standards and prudentially supervise PIFs as part of our overall regulation of the advisory sector. This is to reduce the potential harm a PIF could cause to consumers should it become financially strained or likely to fail.

4 *Post-implementation review of the Retail Distribution Review – Phase 1*: www.fca.org.uk/your-fca/documents/post-implementation-review-of-the-retail-distribution-review-phase-1

1.11 Consumers are not easily able to assess for themselves the financial viability of their current or a prospective advisory firm. This information asymmetry means consumers have to rely upon the existence and supervision of prudential, conduct and professionalism rules, to help underpin their view of their adviser.

1.12 Accordingly, we think this CP will be of interest to consumers and consumer associations and we would be interested to hear their views.

Background

1.13 The current capital requirements were established under our predecessor, the FSA, and are contained in Chapter 13 of the Interim Prudential Sourcebook for Investment Businesses (IPRU (INV)). For the majority of PIFs they are as follows:

- PIFs with 25 or fewer advisers have a flat requirement whereby they must have capital resources of at least £10,000;
- PIFs with more than 25 advisers, or that are a network, must have the higher of an expenditure-based requirement (EBR) and £10,000.

1.14 The EBR is calculated as 13 weeks (13/52 of the annual amount) of the relevant annual expenditure for a network and four weeks (4/52 of the annual amount) of the relevant annual expenditure for most other PIFs. Annex 4 of this CP covers the exceptions to these requirements. Adjustments are also made to capital resources for assets that are not readily realisable.

1.15 In August 2011 the FSA Board deferred these new requirements for two years to 31 December 2013, to avoid imposing additional changes on PIFs who were then working to comply with the RDR. In September 2013, the FCA, having superseded the FSA, decided to defer implementation again for a further two years until 31 December 2015, pending a review of the requirements, both in the light of its own statutory objectives and any RDR post-implementation review. In the meantime the current rules continue to apply.

1.16 Accordingly, if we do not consult upon new proposals now, the rules made originally under PS09/19 will take effect at the end of this year with the following transitional arrangements.

1.17 The minimum requirement would be revised to:

- £15,000 from 31 December 2015; then
- £20,000 from 31 December 2017.

1.18 The EBR would be revised to:

- Four weeks (4/52) from 31 December 2015; then
- Eight weeks (8/52) from 31 December 2016; then
- Thirteen weeks (13/52) from 31 December 2017.

1.19 Under these deferred requirements, this EBR is not differentiated based on adviser numbers and so would apply to all PIFs if it is higher than the revised minimum requirement.

1.20 This CP contains our proposal for different rules for setting capital resources requirements. This entails revoking the deferred PS09/19 rules and their associated transitional arrangements that would have taken effect on 31 December 2015. Subject to respondents' views and post-consultation approval by the FCA Board these proposed rules will supersede the current rules and the rules in the deferred PS09/19.

Summary of our proposals

1.21 Chapter 3 outlines our proposed rules for establishing the amount of capital resources a PIF must hold. The proposals are based on setting the requirements as a function of regulated income. The vast majority of PIFs are categorised as 'B3' (activities restricted to advising on or arranging retail investment products without holding client money) for the purposes of IPRU (INV).

1.22 Our summarised proposals for this majority of PIFs are to have capital resources requirements that are the higher of:

- **A new minimum capital resources requirement of £20,000**. This will replace the £10,000 minimum of own funds currently required.
- **The introduction of a new income based requirement.** Under this PIFs must hold capital resources that are at least equal to a percentage of the relevant annual income amount earned in the previous year. This will be set at 5% for most PIFs. This calculation replaces the current EBR for PIFs with more than 25 advisers.

1.23 The new requirements will not commence until 30 June 2016. Then there will be a 12 month transitional period during which the minimum requirement will be £15,000.

1.24 There are also other categories of PIFs than B3 firms (see Annex 4 for detailed descriptions). Wherever possible we propose to apply the same broad requirements to all categories of PIF, subject to any minimum requirements that are set by EU law and the interaction with prudential rules in other chapters of the FCA Handbook of rules and guidance when conducting non-PIF business. In particular, for those PIFs which have permission to trade as principal, hold client money or manage portfolios, we propose that the new income based requirement be set at a level of 10% of relevant annual income.

Professional Indemnity Insurance (PII)

1.25 We are not proposing any changes to the current requirements for PIFs to take out and maintain PII or how policy excesses and exclusions are treated.

Longstop

1.26 The FCA has committed to consider the case for a time limit (or longstop) on complaints to the Financial Ombudsman Service (FOS). The terms of that review were potentially constrained by the implications of the Alternative Dispute Resolution Directive (ADRD). Accordingly, along with the Government and the FOS we have examined those ADRD implications and the Government proposes to implement the ADRD in a way that will not prevent us from consulting on the introduction of a time limit.

1.27 In conducting the review we will consider whether the current arrangements are working in the best interests of consumers. This will require us to consider the interaction between a longstop and other relevant factors, such as the PII market and the Financial Services Compensation Scheme (FSCS), together with the capital requirements regime.

1.28 We will publish a further paper on a longstop later this year in light of the revised capital requirements in this CP.

Equality and diversity considerations

1.29 We have assessed the likely equality and diversity impacts of the proposals and do not think they give rise to any concerns, but we welcome comments on this issue.

Next steps

1.30 We are interested in what you think of our proposals. Please let us have your comments by 7 September 2015.

1.31 We will consider your feedback and publish our final rules in a Policy Statement later in 2015.

2.
Review of the capital resources requirement for PIFs

Introduction

2.1 This chapter summarises the findings of our review of both the current regime and the deferred rules. It explains why we think an alternative approach will improve the framework to meet the desired outcome for such a regime and thereby benefit the consumers and PIFs. Chapter 3 covers our proposals for the majority of firms that are normally categorized as B3 and deal in retail investment products.

What do we aim to achieve ?

2.2 Although the majority of PIFs do not hold client money, they have significant potential to cause damage to consumers' finances, either through providing poor advice or by inadvertent mistakes. Our proposals seek to ensure that all PIFs hold a proportionate and consistently calculated level of capital resources, to absorb routine losses and redress claims against them.

2.3 Principle 4[5] of the FCA's Handbook requires that PIFs must maintain adequate financial resources. Most PIFs keep surplus capital resources to meet business expenses, unforeseen events, and pay legitimate redress. However, we believe that the current minimum capital resources requirement of £10,000 is insufficient for that purpose. An average redress claim for a pension or investment-related failure settled by the FSCS is £11,000.[6] A PIF, holding the current minimum capital resources and a PII policy with a £5,000 per claim excess, which then experienced two legitimate claims, would have insufficient capital. We do not want compliant PIFs to fail unexpectedly under normal operating conditions.

2.4 Consumers cannot easily ascertain the financial viability of PIFs. If a firm fails, untangling investments held by multiple platforms and providers would probably be a stressful and potentially costly activity for its consumers. A modest minimum capital resources requirement helps to ensure that otherwise well-run PIFs do not 'fail' when facing even a small claim or event.

2.5 In order to introduce more consistency to the calculation of capital resources requirements between PIFs with different business models, we propose the minimum capital requirement for all PIFs is the higher of a specified minimum and a percentage of income regardless of the number of advisers. As a result, we believe that PIFs will be required to hold capital resources that are more proportionate to their individual market 'footprint' than at present.

5 http://fshandbook.info/FS/html/FCA/PRIN/2/1

6 http://fscs.org.uk/uploaded_files/fscs_annual_report_2014_final_acc.pdf

Why are we consulting on revised capital resources requirements?

2.6 The current rules and the deferred rules, based on the expenditure of the firm, contain aspects that we believe are not consistent with our FCA objectives. This is because the current requirement can result in significant variations in the capital resources requirement when applied to the different business models currently used by PIFs.

2.7 In using an expenditure-based metric, both the current and PS09/19 rules could encourage PIFs to seek out a competitive advantage through adopting business models that attract the lowest capital resources requirement. We do not wish to inadvertently provide incentives for firms to change business models simply to reduce their capital resources requirement, which might artificially distort effective competition between them.

2.8 For example, the current rules differentiate between PIFs depending on the number of their advisers. Under the current rules, PIFs with more than 25 advisers are subject to an expenditure-based approach whereas PIFs below this level are not. The changes we are proposing will not, therefore, differentiate on adviser numbers.

2.9 We want PIFs to use business models that allow competitive forces to work in the interests of consumers. The RDR Post-Implementation Review identified that PIFs charge fees in different ways. That is not the focus of this review, but the cost of retaining capital in a business will be reflected in the overall level of fees charged to consumers. We believe that differentiating PIFs' capital resource requirements on the basis of the number of advisers, or the business or employment model can place one model at an advantage over another.

2.10 Furthermore, we believe EBR rules can also be regarded as a disincentive for PIFs to invest in their business, for example making a capital investment in technology may increase a firm's regular expenditure and therefore the capital resources requirement. In addition, applying capital resources requirements based on an expenditure metric can add to the cost of a depreciating asset or the ongoing salary cost of permanent staff. This could inadvertently act as a constraint in employing, say, more compliance staff or para-planners.

2.11 Finally, the capital resources requirement for PIFs would benefit from simplification. This may also help to encourage new entrants and thereby potentially increase competition.

2.12 We conclude, therefore, that continuing to set capital resources requirements for PIFs on an expenditure basis may not be fully consistent with FCA's objectives, including the promotion of effective competition in the interests of consumers.

> **Q1: Do you agree with our view that the use of an EBR can be viewed as inconsistent between firms and may provide adverse incentives? If not, how would you suggest an EBR could be deployed in a more consistent way?**

Capital resources requirement policy options considered

2.13 In arriving at the proposed policy approach we have considered the following potential options.

Continue with the current rules
This would not result in a requirement proportionate to a firm's activity where it has 25 or fewer advisers. We are concerned that the rules do not mandate enough capital for smaller firms. There is also the 'cliff-edge' effect for a firm with 25 advisers on a £10,000 requirement because if it were to appoint a 26^{th} adviser it would move to an EBR of 4/52.

Develop the EBR approach and other concepts in PS09/19
We considered the approach of the European Regulatory Technical Standard[7] that prescribes the calculation of an EBR-like requirement for firms within the scope of the Capital Requirements Regulation (CRR) and, in particular, an add-on for a firm with tied agents. This is relevant in the context of PIFs, as the EU concept of a tied agent is very similar to that domestically of an appointed representative. However, this standard adopts an arbitrary fixed percentage of the fees of all tied agents and furthermore does not remove the disadvantages of an expenditure based approach that are outlined above.

The PS09/19 rules apply a 13/52 requirement to all firms which, apart from a network, would result in a substantial increase in the requirement for many firms.

The PS09/19 rules also require a firm to adjust for the realisability of its assets so that, for example, illiquid assets are deducted in the capital resources computation. We believe that this is unnecessarily complex.

Income-based requirement
This is the approach used for insurance intermediaries and mortgage advisers who are subject to the Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries (MIPRU). It is based on the amount of relevant regulated business that a firm undertakes and is therefore not biased in favour of any particular business model.

There are different methods to calculate the requirement. We considered the use of a fixed percentage of gross income, which does not differentiate between the business lines that the firm advises on or arranges transactions in respect of. This approach would deliver a capital resources requirement that increased in line with the amount of business that the firm undertakes. This would, therefore, provide a reasonable and simple proxy for the scale of risk that a firm poses in terms of potential harm to consumers and market disruption.

Alternatively, we considered differentiating between the income generated from different product types recommended by a firm, and applying a different percentage to each. In this way we would recognise the different likely consumer redress liabilities that might arise based on the type of business undertaken. However, our concerns with such an approach are that: it would introduce a high level of subjectivity; require continual updating; and could influence product selection.

We considered applying a non-linear factor, for example such as the one used in the recently made rules for SIPP operators. However, we do not believe that there was a case that the requirement for larger firms should tail off in the same way, because the nature of the business risk is different.

7 This came into force on 13 April 2015. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2015_078_R_0001&rid=8

Other options
These are limited because the business models of PIFs are fairly straight forward with most income being generated from their advice activities and expenditure mostly related to advisers, office and administration costs.

We considered whether to base the capital resources requirement on the value of the portfolio of assets that the firm advises on, because many of these are held by platforms. However, we recognise that this is not a particularly practical approach. This is because for many firms it will not be possible to value easily all of the investments under advice.

Our conclusion

2.14 In light of our previously stated aims, we identified income as the most suitable basis for setting a capital requirement for PIFs; and that the most appropriate calibration would be with a simple flat percentage.

Q2: Do you agree with our proposal to set the capital resources requirement for PIFs on the basis of a firm's income? Do you also agree that a simple, single percentage calculation is the most appropriate? If not, what alternative approach will achieve the same objectives of consistency and simplicity?

3. Proposed changes to current rules

Introduction

3.1 Chapter 13 of IPRU (INV) (referred to as Chapter 13) applies to approximately 5,000 PIFs and contains the rules for the calculation of their capital resources requirements. These firms mostly undertake investment business activity limited to providing advice and arranging deals in retail investment products for retail consumers without holding client money.

3.2 PIFs are regulated directly by the FCA, but may also conduct investment business through Appointed Representatives (ARs), in which case they are usually categorised as 'networks' and the network accepts responsibility for the regulated activities of their ARs. These proposed changes to capital resources requirements only apply to firms directly regulated by the FCA. Networks may choose to apply their own differing capital resources requirements on their ARs.

3.3 The detailed Handbook text changes proposed for all categories of PIF are set out in Appendix 1. We have maintained the current categorisation of PIFs so each firm should be able to easily identify how it is affected by the proposals.

PIFs in Category B3

3.4 The vast majority of PIFs are described in the rules as being in category 'B3'.

3.5 In the proposed provisions in sections 13.3 to 13.5 of IPRU(INV), such a PIF will be subject to a minimum capital resources requirement that is the higher of:

- £15,000 from 30 June 2016, then £20,000 from 30 June 2017, or
- 5% of the the PIF's annual income.

3.6 The minimum requirement of £10,000 has been in place for 20 years and in our view is no longer regarded as being a sufficient amount. We suggest that £20,000 is suitable as a new minimum requirement as it broadly reflects the increase in inflation over that 20 year period and is also broadly in line with the capital requirement of €25,000 that applies to a PIF that is within the scope of the Insurance Mediation Directive (IMD).

3.7 The 5% requirement equates to 2.6 weeks of annual income and is currently expected to be broadly in line with 4/52 of expenditure which is the requirement currently applied to larger PIFs that are not a network. The 5% of income is also the same requirement that is applied, under the MIPRU rules, to an insurance intermediary that holds client assets, which we suggest reflects the perceived relative prudential risks of the two activities.

3.8 Annual income is the income for the year from the PIF's designated investment business that is included in its Retail Mediation Activities Return (RMAR) made up to its most recent accounting reference date. Designated investment business can give rise to brokerage, fees, commissions and other related income.

3.9 If the most recent RMAR does not cover a 12-month period then the annual income is derived by scaling up the amount to represent a 12-month period. If the PIF does not yet have a relevant RMAR, due to it being a new firm, then the annual income should be taken from the forecast or other appropriate accounts that the PIF has submitted to the FCA.

3.10 If the PIF is a principal, such as a network, then its annual income must include any amounts that are due to its appointed representatives. Any amounts shared with other persons involved in a transaction, such as other intermediaries or self-employed advisers, should also be included. So this means that the annual income calculation should be the same irrespective of the business model that the PIF chooses to use, and there is no bias towards PIFs that use self-employed advisers compared to those that directly employ salaried staff.

Q3: Is a minimum of £20,000 sufficient for firms to give their consumers' confidence of business sustainability? If not, what would be a more suitable level and why?

Q4: Is a variable requirement of 5% sufficient to give consumers of larger firms the same level of confidence? If not, what would be a more suitable level, and why?

Other categories of PIF

3.11 There are also a small number of PIFs that are currently outside the B3 category, but which also fall within the scope of Chapter 13. A brief description of these various categories and their current capital resources requirements, which are all slightly different, is covered in Annex 4.

3.12 In order to apply consistent treatment to firms posing similar risks, and to help simplify the Handbook, wherever possible we propose to update these other regimes to bring them more in line with our approach to B3 firms for their PIF business, so that they will also be subject to an income based capital resources requirement. As noted in Annex 4, PIFs that also have regulatory permisison to deal as principal, hold client money or manage portfolios (eg. in respect of life policies) can give rise to additional risks, which are currently reflected in their having higher existing requirements than a category B3 PIF that does not hold such additional permissions. Consequently, we propose that the capital resources requirement for PIFs that hold these additional permissions is the higher of:

- £15,000 from 30 June 2016, then £20,000 from 30 June 2017; or
- 10% of the PIF's annual income.

Q5: Do you have any comments on our proposed approach to setting the capital resources requirement to reflect the additional risk for categories of PIF other than B3 that have permission to deal as principal, hold client money or manage portfolios?

PIFs subject to other prudential requirements

3.13 For some PIF firms, however, our proposed rule changes also need to interact with EU directive requirements and with prudential requirements in other chapters of the FCA Handbook of rules and guidance that apply when conducting non-PIF business. Our proposals in these areas are set out below.

PIFs subject to the Markets in Financial Instruments Directive (MiFID)

3.14 Some PIFs are not limited in the type of investment they can advise on or arrange, but instead fall within the scope of the Markets in Financial Instruments Directive (MiFID) and, as a result, are also subject to minimum capital and / or PII requirements that are prescribed by the Capital Requirements Directive (CRD):

- Own funds of €50,000; or PII of €1,500,000 in aggregate and €1,000,000 per claim; or an equivalent combination of capital and PII. If the PIF is also an insurance intermediary, then these amounts are halved but are in addition to the PII requirements set out in MIPRU that derive from the IMD.

3.15 These minimum requirements in respect of MiFID investment business (ie investments other than packaged products) need to remain as they are set by EU law. However, we retain discretion to set further requirements, which we believe should be the same as for a PIF in category B3.

3.16 We therefore propose that the capital requirement for a PIF that also conducts investment business that falls within the scope of MiFID should be the higher of:

- The CRD requirement for own funds or PII or an equivalent mix; and
- The higher of (i) 5% of annual income; and (ii) £15,000 from 30 June 2016, then £20,000 from 30 June 2017.

3.17 There are also some PIFs falling into category B3 that have opted-in to MiFID so that they can use an EU passport to undertake the same activities (ie to provide investment advice to clients) in another Member State without requiring separate authorisation by that Member State. Such PIFs are currently categorised differently in the rules compared to those that automatically fall under MiFID, but we propose that the same requirements should apply to both. Accordingly, as we no longer see any need to differentiate between them, we also propose to delete the Glossary term ('opted-in exempt CAD firm') for firms that opt-in to use the passport as it is not used elsewhere in our Handbook.

Q6: Do you have any comments on our proposed approach to setting the capital resources requirements for PIFs that are subject to MiFID?

PIFs subject to MIPRU

3.18 Some PIFs are also subject to the Prudential sourcebook for Mortgage and Home Finance firms, and Insurance Intermediaries (MIPRU), generally because they undertake home finance or non-investment insurance intermediation. In that case, the proposed capital resources requirement will be the higher of:

- £15,000 from 30 June 2016, then £20,000 from 30 June 2017; or
- 5% of the PIF's annual income (as defined) plus the minimum capital requirement that is calculated under MIPRU (but ignoring the minimum amounts that are specified in MIPRU for the particular activity).

3.19 This requirement recognises that both the Chapter 13 investment business and the MIPRU-scope activities are sectoral. It also ensures that a smaller PIF that undertakes both activities is not subject to the flat–rate minimum requirements of both sourcebooks added together. IPRU (INV) 13.13.4G(2) includes an example of how this requirement would apply in practice.

3.20 This approach means that we propose a consequential amendment to MIPRU 4.2.5R and introduction of related guidance (4.2.5AG) to reflect the change.

> **Q7: Do you have any comments on our proposed approach to setting the capital resources requirements for PIFs that are subject to MIPRU?**

PIF with a permission to operate a self-invested personal pension (SIPP)

3.21 Some PIFs have a permission to operate self-invested personal pensions (SIPP). As a new capital regime for a SIPP operator comes into effect on 1 September 2016,[8] in order to avoid the unnecessary burden of two sets of rule changes in quick succession for PIFs that also operate a SIPP, we propose to continue to apply the current requirements to such PIFs for the period until 31 August 2016.

3.22 Thereafter, from 1 September 2016 onwards, we propose a requirement that is the sum of:

- the requirement that will be applied under the new capital regime for a SIPP operator (under PS14/12); and
- the relevant requirement for the PIF business based on the proposals in this CP.

3.23 This approach recognises that each of these requirements is differentiated across activities and is therefore only based upon the relevant activities in each sector rather than the PIF as a whole.

> **Q8: Do you have any comments on our proposed approach to setting the capital resources requirements for a PIF that has permission to conduct business as a SIPP operator?**

8 www.fca.org.uk/news/ps14-12-new-capital-framework-for-sipp-operators

Types of capital resources

3.24 We propose extending to all PIFs a restriction prohibiting the recognition of subordinated loans and preference shares that exceed 400% of a PIF's capital and reserves (excluding preference share capital) less intangible assets. This restriction currently applies only to networks, PIFs with more than 25 advisers and those who operate a personal pension scheme or carry on discetionary portfolio management. This change will primarily affect those B3s with fewer than 26 advisers and means that they will not be allowed to use any subordinated loans or preference shares that exceed 400% of their capital and reserves (less preference share capital) less intangible assets.

3.25 We also propose to discontinue the provision whereby a PIF can include an unused PASS Loan Agreement Scheme facility in the capital resources computation. These facilities were arranged 20 years ago to help PIFs provide for pension transfer advice liabilities following the Pension Transfer Review and we expect that any such facility obtained by a PIF should have long expired.

Q9: Do you have any comments on our proposal to extend to all PIFs the restriction on the inclusion in the capital resources calculation of subordinated loans and preference shares redeemable within two years?

Q10: Do you have any comments on our proposal to remove the provision that allows a PIF to include a PASS Loan Agreement Scheme facility in the capital resources calculation?

Financial reporting

3.26 PIFs in category B must submit the RMAR. To reflect the changes to the capital resources requirement as explained above, we have amended Section D1 and deleted Section D2 of the RMAR, which will require amendments to the relevant parts of SUP 16.12 and the Notes for Completion of the RMAR.

3.27 Exempt CAD PIFs must submit Form FSA032. To reflect the changes to the capital resources requirement we have made minor amendments to Form FSA032 and the related Guidance Notes.

Q11: Do you have any comments on our proposed amendments to the financial returns?

Revocation

3.28 The consultation and subsequent making of new rules, for PIFs would also involve the revocation of selected sections of the following instruments which have the set of provisions with application originally deferred until 31 December 2015. Subject to a final decision by the FCA Board, in the light of responses to this CP, we propose that:

i. Part 2 of Annex B (IPRU (INV)) to the Capital Resources and Professional Indemnity Insurance Requirements for Personal Investment PIFs Instrument 2009 (FSA 2009/62) is revoked;

ii. Annex E (IPRU (INV)) to the Handbook Administration (No 16) Instrument 2009 (FSA 2009/69) is revoked;

iii. Part 2 of Annex D (IPRU (INV)) to the Handbook Administration (No 18) Instrument 2010 (FSA 2010/19) is revoked;

iv. The Supervision Manual (Retail Mediation Activities Return) (Amendment No 3) Instrument 2010 (FSA 2010/70) is revoked;

v. The Capital Resources Requirements for Personal Investment Firms (PIFs) (Amendment) Instrument 2013 (FCA 2011/44) is revoked;

vi. The Capital Resources Requirements for Personal Investment PIFs (Amendment No 2) Instrument 2013 (FCA 2013/67) is revoked;

vii. Amendments to Chapter 13 (Financial Resource Requirements for Personal Investment Firms (PIFs)) of Annex A (IPRU (INV) to the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014 (FCA 2014/46) are revoked. The other amendments in the instrument are not affected.

4.
Alternatives considered

4.1 The scope of this paper is centred on capital resources requirements for PIFs. We are fully aware that setting minimum regulatory capital requirements is only one way of intervening in this market where we feel that such action is required to support our statutory duties or strategic objectives. Accordingly, as part of our review we did consider some alternative and complementary activities that we have decided not to consult upon at this stage.

Financial Services Compensation Scheme (FSCS)

4.2 In its annual report for 2013/14 the FSCS noted that there had been a 15% increase in claims in the life and pensions sector (mostly for SIPP related activity) and this was the most significant increase in claims activity across the categories they cover. The average compensation paid to consumers of failed firms was approximately £11,000. PIFs are the dominant channel (51%) for distribution of these products.

4.3 There are aspects of the operation of the FSCS that could be impacted by changes to the capital resources regime. These are the size of overall industry levy that spreads the cost of PIF failure and its ability to recover specific failure costs. We believe that achieving a better balance of capital resources requirements could, under normal business conditions, lead to a reduction in the impact of failures and by doing so reduce the need for FSCS involvement. However, as noted in our Cost benefit analysis section it has not been possible to justify this on a historical basis.

4.4 However, we believe that it is valid to attempt to reduce the cost of mutualised failure by changing the distribution of capital, through a change to an income-based size metric as well as the introduction of a higher flat minimum capital resources requirement.

4.5 The cost of failure has to be funded in some way if consumers are to be adequately protected. We suggest that introducing a consistent approach to the setting of capital resources for PIFs as an ex-ante requirement is fairer than simply relying on FSCS alone as an alternative protection. Furthermore, if PIFs can settle legitimate compensation claims without failing then delays and distress caused to consumers should be reduced.

4.6 The FCA has committed to a funding review of the FSCS, by the end of 2016.

Professional Indemnity Insurance (PII)

4.7 PIFs are also subject to a PII requirement in Chapter 13. The rules require a minimum level of indemnity cover and a maximum policy excess. However, a firm can have a policy that has a higher excess or excludes named business activities, providing the firm holds at least a specified amount of additional capital resources. This recognises problems that firms have had in obtaining affordable policies and allows them to mix the levels of PII and capital that they hold.

4.8 There is an interface between the PII and capital resources requirements that we have considered as some firms must hold additional capital resources to meet the PII requirement. The need to hold PII cannot be waived as it is prescribed by the Insurance Mediation Directive (IMD), and most PIFs are within the scope of the IMD because they undertake life assurance transactions.

4.9 The market's previous regulator, the FSA, examined if there was potential for constructive intervention in the PII market. We also noted that this work was based upon the pre-RDR marketplace and recognise that there has been significant change since then.

4.10 However, given that claims for non-compliant advice can often take a long time to arise from when such advice may have been given, the relevant information in order to establish if there has been a difference in claims frequency, nature and amount will not yet be available. Accordingly, it is too soon to conduct a meaningful review of PII's role in the market

Longstop review

4.11 Currently the FCA is reviewing the case for a time limit on complaints to the Financial Ombudsman Service. The review will consider whether the overall architecture is delivering the best outcomes for consumers. The level of PIFs' capital resources, together with other issues raised in this chapter will also be relevant to this review.

Annex 1
List of questions

Q1: Do you agree with our view that the use of an EBR can be viewed as inconsistent between firms and may provide adverse incentives? If not, how would you suggest an EBR could be deployed in a more consistent way?

Q2: Do you agree with our proposal to set the capital resources requirement for PIFs on the basis of a firm's income? Do you also agree that a simple, single percentage calculation is the most appropriate? If not, what alternative approaches will achieve the same objectives of consistency and simplicity?

Q3: Is a minimum of £20,000 sufficient for firms to give their consumers' confidence of business sustainability? If not, what would be a more suitable level and why?

Q4: Is a variable requirement of 5% sufficient to give consumers of larger firms the same level of confidence? If not, what would be a more suitable level, and why?

Q5: Do you have any comments on our proposed approach to setting the capital resources requirement to reflect the additional risk for categories of PIF other than B3 that have permission to deal as principal, hold client money or manage portfolios?

Q6: Do you have any comments on our proposed approach to setting the capital resources requirements for PIFs that are subject to MiFID?

Q7: Do you have any comments on our proposed approach to setting the capital resources requirements for PIFs that are subject to MIPRU?

Q8: Do you have any comments on our proposed approach to setting the capital resources requirements for a PIF that has permission to conduct business as a SIPP operator?

Q9: Do you have any comments on our proposal to extend to all PIFs the restriction on the inclusion in the capital resources calculation of subordinated loans and preference shares redeemable within two years?

Q10: Do you have any comments on our proposal to remove the provision that allows a PIF to include a PASS Loan Agreement Scheme facility in the capital resources calculation?

Q11: Do you have any comments on our proposed amendments to the financial returns?

Annex 2
Cost benefit analysis

Benefits

Sustainability

1. PIFs require an appropriate level of capital resources to absorb routine losses and redress claims against them. PIFs provide a chargeable service and consumers have a reasonable expectation that the PIFs they deal with have the capacity to make right any mistakes or errors that they make. Holding capital resources ensures that otherwise well-run PIFs do not immediately go out of business should they face a normal number of redress claims relative to the scale of their business. A modest regulatory capital requirement allows PIFs to absorb these losses and continue in business. Our review identified that the majority of PIFs hold surplus capital resources in excess of the regulatory requirement. Accordingly, in the context of this CP 'surplus' should be taken to mean the discretionary capital resources held by PIFs above the regulatory minimum.

Reduced consumer detriment caused by failure

2. Where PIFs do exit the market, it can be difficult for consumers to access their holdings, untangle investments and establish a new relationship. PIFs increasingly provide a long-term service and must be adequately resourced to sustain this. Our proposals are designed to ensure that this requirement is set fairly across business models, has been updated to reflect inflation since 1994 when the minimum was set[9] and is more proportionate to the potential harm a failing PIF can cause.

3. In the event of a PIF failure consumers can claim redress from the FSCS. Some of the FSCS' cost is paid by a levy on PIFs and other firms undertaking the same FSCS classified activity. Compelling PIFs to hold proportionate capital resources requirement may not significantly reduce this levy. Our analysis suggests that had our capital resources requirements been in place the reduction would have been in the region of £4m in total over seven years. This is not material in respect of annual pay-outs at the level of £147m (the FSCS three year average). To reduce the levy in a meaningful way would require much higher levels of capital resources to be held by each individual PIF, which we feel is likely to be prohibitive for some smaller firms.

4. We do not believe it is reasonably practicable to quantify the benefits from these proposals. Doing so would require modelling a wide range of firms' behaviours as a reaction to the changed capital resources requirements. In addition it would require the FCA to estimate the impact of firm failures making a number of assumptions that could not be supported without data on, for example, the cost to consumers in the event of PIF failures.

5. As noted earlier we believe that it is appropriate for PIFs that may cause consumer harm to have the resources to put right these wrongs. The overall PIF market already holds sufficient capital resources to accommodate these changes and so there is no overall increased cost for the total market.

9 CPI has changed 45% since 1994. Source: National Office of Statistics.

6. The next section outlines the potential costs of our proposed prudential approach.

Incremental costs of our proposed approach

7. Our proposals impose additional costs on some PIFs. We have analysed these costs and do not believe that they represent a material threat to the affected firms continued participation in the market.

8. All comparisons are made in relation to the current prudential rules for PIFs (as opposed to the rules from PS09/19). Overall these proposals for new capital resources requirements impose very limited costs on the PIF sector as a whole. This is because:

- Most PIFs already hold capital resources in excess of the proposed new requirements; and
- The overall capital resources requirement for the largest group of PIFs will reduce under the new proposals.

Table A

9. Table A shows the sector's changes in total capital resources and the cost of any additional capital (consistent with other FCA consultations) if the proposed requirements are implemented. Collectively the PIF industry holds eight times more capital resources than the current regulatory minimum.

10. Under the current regulations the regulatory minimum capital (if all firms held the minimum only) would be £116m sector wide. However, when considered as a sector, firms are currently reporting that they hold £935m in total. Our proposal raises this minimum from £116m to £187m so in aggregate terms the PIF market would not need to raise more capital.

Minimum requirement

11. There are currently only 100 PIFs reporting that they hold only the minimum capital resources requirement of £10,000 and 80 of these PIFs are earning income of less than £200,000 per annum.

Variable requirement

12. Most PIFs with income over £400,000 per annum will generally see their capital resources requirement decrease compared to the PS09/19 requirements. This is because 5% of income would generally be lower than three months of expenditure.

Table B

13. Table B shows the firms divided into cohorts according to the number of advisers and the effect of our proposals on each cohort's capital resources requirement under three scenarios.

14. The table shows that capital resources retained in the PIF sector are significantly higher than the regulatory minimum for every cohort (row E). We have modelled what would happen to the current surplus in three scenarios:

- Meeting the new requirements by using their capital surplus (row F);
- Meeting the new requirements and maintaining their capital surplus in absolute terms (row G);
- Meeting the new requirements and maintaining a capital surplus of 40% (row H).

15. It is difficult to predict how these scenarios might turn out as the decision to retain capital resources will be based on firm-specific factors and there has been uncertainty in the sector about minimum capital resources requirements for the last four years.

Tables C1 and C2

16. Tables C1 and C2 show the impact of our proposals on those firms that currently report having lower capital resources than the new required levels. We have shown this in cohorts of firms at various income levels.

17. C1 shows the incremental cost to firms that are currently reporting a lower level of capital resources than the new proposals would require. This shows that 684 firms would need to raise £5.8m of capital (see column G). This equates to an annual opportunity cost of £290,000 (using a cost of capital of 5%). If these same firms subsequently hold a surplus of 40%, then the capital increase is about £12.5m (see column K) at an annual cost of £625K (using a cost of capital of 5%).

18. C2 shows the incremental cost by income band on firms reporting less capital than the proposed level and assuming a surplus of 40%.

Costs passed through to consumers

19. As the majority of PIFs hold sufficient capital resources to meet these proposed requirements it may only be those firms who do not currently meet these requirements that seek to pass on the marginal increase in costs through to consumers.

20. As there is a high propensity for firms to hold a discretionary level of capital resources (above the current regulatory minimum) and there are many charging models, these factors would make an assessment of any possible additional cost passed through to consumers unlikely to be accurate.

21. Under our proposals firms are required to hold the same capital resources when earning the same income level thereby removing the EBR differentials currently in force. This levels the cost of minimum regulatory capital resources between firms of the same income. Accordingly we do not believe that our proposals present a significant risk of cost increases to consumers in this market.

Competition

22. Given the analysis carried out we do not believe that our proposals represent a significant risk to the operation of this market. One of our duties is to promote effective competition and we believe that these proposals require a minority of firms to move onto a more sustainable basis potentially providing consumers with greater choice and better protection.

23. A recent Mintel report[10] noted that advisers said that building sustainability and healthy cash flow were in their top six concerns over the coming 18 months. Only 6% ranked meeting capital adequacy requirements as being in their top six concerns. For PIFs with income of less than £400,000 per annum our proposals do not increase the amount of capital resources required by the deferred rules in PS 09/19. Therefore we think the impact will not result in material exits from the market.

10 *Savings and Investing – Intermediary Focus*, (December 2014)

Market entry

New entrants

24. We have analysed a sample of recent PIF applications. Half of the applications were from advisory firms that were moving from appointed representative status to direct regulation. The average capital resources held by these firms was £180,000 and they carried this forward into their new status. Appointed representatives do not have any regulatory capital resources requirement; accordingly the roll-over of capital into the new state indicates that retaining surplus capital in the firm is their preferred investment choice.

25. The remainder of applications came from employees breaking away from existing firms. These firms were being funded at the minimum level as it would be reasonable to expect.

26. We do not believe therefore that these proposals erect a material barrier to entry in this market because firms currently applying for authorisation (with no knowledge of the proposals in this CP) already maintain capital resources well in excess of what would be required by these rules.

Market exit

Smaller firms

27. Of approximately 4,000 PIFs analysed, 684 will need to raise additional capital resources to meet the new requirements (refer to the total number of firms in Table C1); a further 371 firms will need to raise capital resources if they wish to also retain a 40% surplus (the difference between the total number of firms in Table C2 and Table C1). The majority of the additional capital resources needed would have to be raised by PIFs in the lowest income categories.

28. For some of those firms that must raise extra capital, the one-off amount needed is small relative to their yearly revenues. However, as Table C1 indicates, there are 499 firms in the lowest revenue category (income less than £200,000 per annum) that will have to raise between £7,000 and £15,000 of new capital resources on a transitional basis (columns H and L respectively in Table C1). On further examination, 370 of these 499 firms have revenues less than £100,000 per annum and, of that group, 218 firms have income less than £50,000 per annum.

29. We have considered the possible impact on these firms where the increase in the minimum capital resources requirement appears relatively high in relation to their income. The majority of these firms were in existence before the RDR changes were implemented. We believe it is unlikely that they would have committed to those business model changes unless they intended to stay in the market.

30. Accordingly, we expect exits of smaller firms based upon these proposals will be limited. To the extent that they occur, there will be a similarly limited effect on competition and consumer choice. We believe that it is more likely that smaller firms will choose to amalgamate or become network members if the transitional minimum requirements are too difficult to meet. That said, it is not our intention to inadvertently encourage directly authorised firms to migrate into network membership.

31. We believe that PIFs' prior awareness of an increased, ongoing commitment, as demonstrated by moving to RDR compliance and the transitional arrangements, will significantly limit potential detriment caused by market exits.

32. Given an average claim is £11,000 (as noted earlier and is unlikely to vary between firms of different sizes) we view the minimum requirement for smaller firms of £20,000 as proportionate. We do not want firms to fail when faced with legitimate claims for redress and we propose setting the minimum level at the ability to meet two sizeable claims. This means that we do not feel it is appropriate to have a lower level for smaller firms.

Possible impact on the provision of advice in geographical areas

33. We considered the impact of these possible market exits on the availability of advice by location. We examined the geographical distribution of the 684 firms who would need to raise capital resources by their postcode areas. This work showed that these firms were located in 120 postcode areas. There were only five postcode areas where over 40% of the population of PIFs would need to raise capital resources. If some of these firms exit the market, we believe the impact on the provision of advice will not be material, due to the following factors:

- advisers will travel to accommodate consumers' desire for face-to-face advice;
- there are several local alternatives in most of the areas analysed;
- firms that do not intend to leave the market have wider geographical spreads than can be analysed by this postcode approach; and
- many advisers work from home and accordingly the availability of local face-to-face advice is much wider than an analysis of firms' addresses suggests.

34. It is therefore unlikely that there will be a significant reduction in any local availability of advisory services.

Proportionality and fairness

35. We do not envisage that our proposals would adversely prejudice any specific sub-sector within the market.

Conclusion

36. Given the analysis carried out we do not believe that our proposals represent a significant risk to the operation of this market. Our duties include promoting effective competition in the interests of consumers and we believe that these proposals require a minority of PIFs to move onto a more sustainable basis potentially providing consumers with greater choice and better protection.

37. Consumers form long-term relationships and have a reasonable expectation that the PIFs that they are dealing with can fulfil that relationship, or at least do not fail immediately upon experiencing difficulty. Our proposal is based upon a more relevant metric than used in the current rules; levels the requirements between different business models; and updates the monetary minimum values.

Table A: Total changes in capital resources for the PIF sector as a whole if the proposed requirements are implemented[11]

		Total for all PIFs (rounded to closest thousands)
(A)	*Minimum* required capital for all PIFs under current rules	£116,100,000
(B)	*Minimum* required capital under the proposed rules	£187,300,000
(C)	Change in *minimum* capital requirement (B)-(A)	£71,200,000
(D)	*Actual* capital held by all firms at end of 2014	£934,650,000
(E)	Current capital surplus above the current minimum requirement (D)-(A)	£818,550,000
(F)	Implied capital surplus above the proposed requirement (D)-(B)	£747,350,000
(G)	Implied capital held by all PIFs if the current (absolute) surplus is maintained under the proposed requirement (E) +(B)	£ 1,005,850,000
(H)	Implied capital held by all PIFs if a 40% surplus is held above new requirement (B) + 40%	£262,220,000

11 Data from RMAR and FSA032 reports

Table B: Changes in capital resources by PIF size (number of advisers) if our proposals are implemented

	PIF Cohort	1 adviser	2 to 5 advisers	6 to 10 advisers	11 to 25 advisers	26 to 50 advisers	>50 advisers
	Number of PIFs in cohort	**1,600**	**1,534**	**258**	**121**	**16**	**24**
(A)	Minimum required capital under the current rules	£10,000	£10,000	£10,000	£10,000	£575,000	£2,620,800
(B)	Minimum required capital under the proposed rules	£21,480	£27,900	£55,800	£127,300	£350,000	£2,550,000
(C)	Change in minimum capital requirement (B)-(A)	£11,480	£17,900	£45,800	£117,300	-£225,000	-£70,800
(D)	Capital held, at end of 2014	£102,000	£192,100	£312,400	£995,900	£3,151,200	£6,795,800
(E)	Capital surplus above the current minimum requirement, end 2014 (D)-(A)	£92,000	£182,100	£302,400	£985,900	£2,576,200	£4,175,000
(F)	Implied capital surplus if new minimum requirement is funded from existing resources (D)-(B)	£80,520	£164,200	£256,600	£868,600	£2,801,200	£4,245,800
(G)	Implied capital held if current (absolute) capital surplus is maintained under the proposed requirement (B)+(E)	£113,480	£210,000	£358,200	£1,113,200	£2,926,200	£6,725,000
(H)	Implied capital held if a 40% surplus is maintained above new requirement (B)+40%	£30,072	£39,060	£78,120	£178,220	£490,000	£3,570,000

The figures above are £ average per firm, in each size cohort.

The totals in Tables A and B will not be equal, because the tables are based on different sample sizes.

Table C 1: Impact on PIFs that currently report less capital resources than the proposed minimum of £20,000 or 5% of income 5% of income

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
Income bracket	New capital requirement based on mid-level income for bracket (£20k or 5% income)	Number of firms in 2014 with capital resources less than proposed new capital requirement	Total amount of capital resources held by these firms in 2014	Average capital resources held by each of these firms in 2014	Total amount of capital required by these firms under proposed new requirement	Total capital shortfall compared to proposed new requirement	Average capital shortfall per firm	New capital requirement based on mid-level income for bracket (£20K or 5% income) +40% surplus	Total amount of capital required by these firms under proposed new requirement + 40% surplus	Total capital shortfall compared to proposed new requirement +40% surplus	Average capital shortfall per firm
	(£000's)		(£000's)	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)
< 200K	20.00	499	6,500.78	13.03	9,980.00	3,479.22	6.97	28.00	13,972.00	7,471.22	14.97
200 - 299	20.00	59	833.66	14.13	1,180.00	346.34	5.87	28.00	1,652.00	818.34	13.87
300 - 399	20.00	29	294.21	10.15	580.00	285.79	9.85	28.00	812.00	517.79	17.85
400 - 499	22.50	15	238.62	15.91	337.5	98.88	6.59	31.50	472.50	233.88	15.59
500 - 599	27.50	18	363.43	20.19	495.00	131.57	7.31	38.50	693.00	329.57	18.31
600 - 699	32.50	7	122.93	17.56	227.50	104.57	14.94	45.50	318.50	195.57	27.94
700 - 799	37.50	7	199.95	28.56	262.50	62.55	8.94	52.50	367.50	167.55	23.94
800 - 899	42.50	5	157.97	31.59	212.50	54.53	10.91	59.50	297.50	139.53	27.91
900 - 999	47.50	6	212.91	35.49	285.00	72.09	12.01	66.50	399.00	186.09	31.01
1M - 2M	75.00	35	1,637.37	46.78	2,625.00	987.63	28.22	105.00	3,675.00	2,037.63	58.22
2M+	105.00	4	178.72	44.68	420.00	241.28	60.32	147.00	588.00	409.28	102.32
Total		**684**	**10,740.55**		**16,605.00**	**5,864.45**			**23,247.00**	**12,506.45**	

Table C 2: Impact on PIFs that currently report less capital resources than the proposed minimum plus a 40% surplus

Income bracket	New capital requirement based on mid-level income for income bracket (20K or 5% income) +40%	Number of firms in 2014 with capital resources lower than proposed new capital requirement +40% surplus	Total amount of capital resources held by these firms in 2014	Total amount of capital required by these firms under proposed new requirement + 40% surplus	Total capital shortfall compared to proposed new requirement +40% surplus
	(£000's)		**(£000's)**	**(£000's)**	**(£000's)**
< 200K	28.00	758	12,581.98	21,224.00	**8,642.02**
200 - 299	28.00	96	1,714.55	2,688.00	**973.45**
300 - 399	28.00	52	833.57	1,456.00	**622.43**
400 - 499	31.50	22	419.94	693.00	**273.06**
500 - 599	38.50	28	690.89	1078.00	**387.11**
600 - 699	45.50	14	405.27	637.00	**231.73**
700 - 799	52.50	10	349.55	525.00	**175.45**
800 - 899	59.50	6	208.37	357.00	**148.63**
900 - 999	66.50	8	336.13	532.00	**195.87**
1M - 2M	105.00	51	3,089.24	5,355.00	**2,265.76**
2M+	147.00	10	924.65	1,470.00	**545.35**
Total		**1055**	**21,554.14**	**36,015.00**	**14,460.86**

Annex 3
Compatibility statement

Introduction and statement of purpose

1. We are required by section 138I (2) (d) of FSMA to explain why we believe our proposed rules are compatible with our strategic objectives, advance one or more of our operational objectives and have regard to the regulatory principles in section 3B of FSMA.

2. With regard to these regulatory principles, we consider these proposals to be the most appropriate way of meeting these principles. This meets the requirements on consultation that are set out in FSMA.

Compatibility with our objectives and general duties

3. The proposals in this CP and draft Handbook text are intended to advance our operational objectives of consumer protection and enhancing the integrity of the UK financial system.

Consumer protection objective

4. This objective requires us to secure an appropriate degree of protection for consumers.

5. The proposals in this CP are based upon our assessment of the financial strengths and weaknesses of PIFs in the advisory market. These firms are a valued and trusted source of advice for many consumers and are responsible for around half of all regulated investment and pension sales. These sales are often accompanied by an ongoing advice service which is important to ensure the achievement of consumers' objectives. Accordingly, it is important for PIFs to have adequate capital resources to ensure that they can continue to deliver on these commitments.

Integrity objective

6. This objective requires us to protect and enhance the integrity of the UK financial system.

7. When PIFs fail and leave a redress legacy this cost is then mutualised by the FSCS by way of ongoing regular levies and occasionally by interim levies. We realise that these levies are often seen as unfair to PIFs that have not failed and have not caused consumer detriment.

8. On the basis that this redress process will remain, our duty as the prudential regulator in this market is to make its operation as fair as possible to market participants whilst remaining proportionate. The capital resources that PIFs are required to hold should reduce the size of the potential FSCS redress. Adequately capitalised PIFs should be able to compensate consumers that have legitimate claims without failing and PIFs that do fail should have more capital resources to contribute towards the cost of their failure.

Competition objective

9. The current basis of calculating a PIF's capital resources requirement is differentiated on the number of advisers and calculated against expenditure or by reference to a minimum level. Using expenditure as a basis for this calculation may not always be proportionate to a PIF's investment business activity and the result can differ significantly between business models. We think that the basis for setting the regulatory capital for PIFs should not be differentiated on the number of advisers supervised and should be consistent between business models.

10. We believe that consistent and proportionate capital resources requirements based upon income are supportive of effective competition in the interests of consumers in this market as they ensure that firms hold sufficient capital resources to meet consumer expectations and this requirement is set on a consistent basis. We suggest that the proposed requirements are not a significant barrier to exit or entry and that they will not have a material impact upon the fees that PIFs charge consumers.

11. There may be some beneficial impacts on competition from improved market confidence.

Compatibility with the need to have due regard to the principles of good regulation

12. Under section 1B (5) of FSMA, we must consider the specific matters set out below, when carrying out our general functions.

Need to use resources in the most efficient and economical way

13. The publication of this CP with a three-month consultation period allows the industry adequate time to consider and prepare to implement the relevant changes. Furthermore, the timing enables the FCA to publish, in due course, a policy statement in response to comments from industry and other stakeholders on our implementation proposals with the aim of implementing the final rules with effect from 30 June 2016 – with transitional provisions for certain requirements.

Principle that a burden or restriction imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected

14. We have undertaken a cost benefit analysis of the material areas of the proposed changes in order to develop this CP. We believe that in in this way we have demonstrated and exercised proportionality albeit that we cannot reasonably quantify the benefits.

Principle that consumers should take responsibility for their own decisions

15. This principle is not directly relevant to this CP, as our proposals do not remove a consumer's responsibility for their financial decisions.

Desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

16. This principle is not directly relevant to this CP, as our proposals do not materially affect the size or operating models of the PIF sector. We believe their effect will be neutral in respect of growth.

Responsibilities of those who manage the affairs of authorised persons

17. This CP does not directly impact on the ongoing responsibilities of authorised persons in the PIF market, albeit we are proposing technical rule changes.

Desirability of exercising our functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons

18. We are currently the prudential regulator of a wide range of PIFs, covering their different business models. In this CP it would be disproportionate to differentiate by business model and counter to the objectives of consistent rules.

Desirability of publishing information relating to persons

19. This principle is not relevant to the proposals in this CP.

Principle that we should exercise our functions as transparently as possible

20. We have engaged with external stakeholders throughout the process of developing our proposals including our timeline for this consultation process.

Expected effect on mutual societies

21. Our proposals in this CP do not differentiate by a PIF's business model. Where a mutual society operates as a PIF these proposals will be applied.

Equality and diversity

22. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conducted an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered. Our equality impact assessment suggests that our proposals do not result in direct discrimination for any of the groups with protected characteristics ie. age, disability, gender, pregnancy and maternity, race, religion and belief, sexual orientation and transgender, nor do we believe that our proposals should give rise to indirect discrimination against any of these groups. We would nevertheless welcome any comments respondents may have on any equality issues they believe may arise.

Annex 4
Other categories of PIF and their current requirements

Exempt CAD firm

Definition

1. These PIFs can undertake the same activities as a B3 firm, but are not limited in the type of investment they can advise on or arrange. Such PIFs are within the scope of the Markets in Financial Instruments Directive (MiFID) and, as a result, are also subject to minimum capital resources and / or PII requirements that are prescribed by the Capital Requirements Directive (CRD).

Current capital resources requirement

2. At present a PIF is subject to a capital resources requirement that is the higher of the following two calculations:

   - The requirement that derives from the CRD, ie own funds of €50,000; or PII of €1,500,000 in aggregate and €1,000,000 per claim; or an equivalent combination of capital and PII. If the PIF is an insurance intermediary, then these amounts are halved but are in addition to the MIPRU PII requirements that derive from the Insurance Mediation Directive (IMD).

   - The highest of: £400 per adviser; or 4/52 of relevant annual expenditure (RAE); or 13/52 of RAE without special adjustments. This is 13/52 of RAE if the PIF is a network.

3. The CRD-derived requirements of the first calculation need to remain the same as they are set by EU law. The second calculation is at our discretion. An 'exempt CAD' firm can undertake the activities of a B3 PIF, but can also be involved with MiFID scope investment business (ie investments other than packaged products). However, we suggest that any additional risk of consumer complaint and subsequent cost to the PIF will be covered by the first calculation.

Opted-in exempt CAD firm

Definition

4. Some B3 PIFs have opted-in to be exempt CAD firms under MiFID so that they can use the MiFID passport to undertake the same activities (eg to provide investment advice to clients) in another Member State without separate authorisation by that Member State. Currently they are described as 'opted-in exempt CAD' firms and are subject to the same CAD-derived requirements as the exempt CAD firms described in the previous paragraph.

Current capital resources requirement

5. At present such a firm that is a PIF is subject to a capital resources requirement that is the higher of:

- the requirements that derive from the CRD (which is set out above for an exempt CAD firm); and
- and the requirement that would apply if it were a category B firm.

6. The effect of our proposals in Chapter 3 of this CP is that the requirement for an opted-in exempt CAD firm would come into line with that for an exempt CAD firm, meaning that we no longer need to differentiate between them. So the definition for the former can be deleted from the Glossary as it is not used elsewhere in the FCA Handbook.

7. For both types of PIF (exempt CAD firm and opted-in exempt CAD firm) the capital resources will continue to be in the form of own funds and this is, as currently, set out in IPRU (INV) section 13.1A.

Category B1 Firms

8. Some PIFs are outside the scope of the MiFID because they execute transactions only in respect of non-MiFID instruments, in particular life policies. These firms include category 'B1' PIFs.

Definition

9. A category B1 PIF is allowed to deal as principal but only in respect of non-MiFID scope investments, which are primarily life policies. This activity can give rise to the firm incuring market and credit risk exposures.

Current capital resources requirement

10. At present the current capital requirement for a category B1 firm is to hold liquid capital[12] that is the higher of:

- £10,000
- £400 per adviser; or
- 13/52 of RAE.

11. The current requirement for this category of PIF is approximately three times as much as for a category B3 with more than 25 advisers (ie an EBR of 13/52 of RAE compared to 4/52 of such).

12 Liquid capital is broadly own funds with deductions for assets that are not readily realisable or liquid, for example the value of motor vehicles and unsecured land and buildings must be deducted.

Category B2

Definition

12. A category 'B2' PIF cannot deal as principal, but is allowed to hold client money and other assets in respect of non-MiFID business, which in most cases will relate to life policies.

Current capital resources requirement

4.12 At present the capital requirement for a category B2 firm is to hold adjusted capital[13] that is the higher of:

- £400 per adviser;
- 13/52 of RAE if it manages portfolios of life policies; or 8/52 of RAE if it has more than 25 advisers; or 4/52 of RAE if it has fewer than 26 advisers.

4.13 It should be noted as a comparison that in MIPRU, for a home finance or insurance intermediary, the multiple of income used for the capital resources requirement is twice the amount for a PIF that holds client money compared with one that does not.

Category B3 (with portfolio management permission)

Definition

4.14 There is the possibility for a category 'B3' PIF to have a permission that also allows it to manage portfolios containing only life policies.

Current capital resources requirement

4.15 At present the requirement for a category B3 firm that has a permisison to manage portfolios is to hold adjusted capital that is the higher of:

- £400 per adviser;
- 8/52 (RAE).

4.16 The current expenditure-based requirement for this type of PIF is 8/52, twice the one-month requirement for a B3 with more than 25 advisers.

PIF with a permission to operate a self invested personal pension (SIPP)

Definition

4.17 Some PIFs have a permission to operate self-invested personal pensions (SIPP).

Current Capital Resources Requiment

4.18 Such a PIF must currently have adjusted capital that is at least the higher of:

- £10,000;
- £400 per adviser.

13 Adjusted capital is broadly own funds with deductions for assets that are not readily realisable or liquid.

- 13/52 of RAE (if the PIF holds client assets) or; 6/52 of RAE (if the PIF does not hold client assets).

4.19 Under PS14/12 a new capital regime for a SIPP operator comes into effect on 1 September 2016, the detail of which is set out in that document. However, this does not deal with the investment business of a PIF outside the SIPP operation.

Appendix 1
Draft Handbook text

CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS FOR PERSONAL INVESTMENT FIRMS INSTRUMENT 2015

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of:

(1) the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
  (a) section 137A (The FCA's general rules);
  (b) section 137T (General supplementary powers); and
  (c) section 139A (Power of the FCA to give guidance); and

(2) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. (1) Subject to (2), this instrument comes into force on 30 June 2016.
   (2) Part 2 of Annexes A, C and D to this instrument comes into force on 1 September 2016.

Revocation

D. (1) Part 2 of Annex B (IPRU(INV)) to the Capital Resources and Professional Indemnity Insurance Requirements for Personal Investment Firms Instrument 2009 (FSA 2009/62) is revoked.

(2) Annex E (IPRU(INV)) to the Handbook Administration (No 16) Instrument 2009 (FSA 2009/69) is revoked.

(3) Part 2 of Annex D (IPRU(INV)) to the Handbook Administration (No 18) Instrument 2010 (FSA 2010/19) is revoked.

(4) The Supervision Manual (Retail Mediation Activities Return) (Amendment No 3) Instrument 2010 (FSA 2010/70) is revoked.

(5) The Capital Resources Requirements for Personal Investment Firms (Amendment) Instrument 2013 (FCA 2011/44) is revoked.

(6) The Capital Resources Requirements for Personal Investment Firms (Amendment No 2) Instrument 2013 (FCA 2013/67) is revoked.

(7) Amendments to Chapter 13 (Financial Resource Requirements for Personal Investment Firms) of Annex A (IPRU(INV) to the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014 (FCA 2014/46) are revoked. The other amendments in the instrument are not affected.

(8) The instruments and sections of instruments in (1) to (7) are revoked with effect from the date this instrument is made.

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes in this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex B
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex C
Supervision manual (SUP)	Annex D

Notes

E. In the Annexes to this instrument, the "notes" (indicated by "Note:") are included for the convenience of readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Capital Resources and Professional Indemnity Insurance Requirements for Personal Investment Firms Instrument 2015.

By order of the Board of the Financial Conduct Authority
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 30 June 2016

Insert the following new definitions and amendments in the appropriate alphabetical position. The text is not underlined.

net current assets in relation to a *firm* at a particular date, the total:

(a) of all assets which are not intended for use on a continuing basis in the *firm's* business (ie, current assets);

(b) less all the liabilities payable by the *firm* within 12 months of that date.

properly secured fully secured by:

(a) a first legal mortgage in favour of the *firm* on land and buildings; or

(b) on a *readily realisable investment* where the *firm* has in its possession or under its control a document of title or a document evidencing title to that investment.

Amend the following definitions as shown:

annual income (1) (in *MIPRU*) the income referred to in *MIPRU* 4.3.

(2) (in *IPRU(INV)* 13) the income referred to in *IPRU(INV)* 13.14 (Calculation of annual income).

own funds (B) In the FCA Handbook:

…

(3A) (in *IPRU(INV)* 13) the own funds of a *firm* calculated in accordance with:

(a) *IPRU(INV)* 13.1A.14R (Own funds) for a *personal investment firm* that is an *exempt CAD firm*; or

(b) *IPRU(INV)* 13.10.2R to *IPRU(INV)* 13.10.2AR (Calculation of own funds) for a *personal investment firm* that is a *category B firm* whose permission includes *establishing, operating or winding up a personal* *pension scheme.*

Delete the following definition. The deleted text is not shown.

opted-in exempt CAD firm

Part 2: Comes into force on 1 September 2016

Amend the following definition as shown:

own funds	(B) In the FCA Handbook:	
	…	
	(3A)	(in *IPRU(INV)* 13) the own funds of a *firm* calculated in accordance with~~:~~
		~~(a)~~ …
		~~(b)~~ ~~*IPRU(INV)* 13.10.2R to *IPRU(INV)* 13.10.2AR (Calculation of own funds) for a *personal investment firm* that is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme.*~~

Delete the following definitions. The deleted text is not shown.

net current assets

net open foreign currency position

properly secured

Annex B

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

4.2 Capital resources requirements

…

Capital resources requirement: firms carrying on regulated activities including designated investment businesses

4.2.5 R The capital resources requirement for a *firm* (other than a *credit union*) carrying on *regulated activities*, including *designated investment business*, and to which *IPRU(INV)* does not apply, is the higher of:

(1) …

(2) the financial resources requirement which is applied by ~~the Interim Prudential sourcebook for investment businesses,~~ the Prudential sourcebook for Investment Firms and the *EU CRR* or the General Prudential sourcebook and the sourcebook for Banks, Building Societies and Investment Firms.

4.2.5A G The capital resources requirement for a *firm* (other than a *credit union*) carrying on *regulated activities*, including *designated investment business*, which is also subject to the Interim Prudential sourcebook for investment businesses is the amount calculated in *IPRU(INV)* 13.13.3R.

…

Annex C

Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU(INV))

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 30 June 2016

In Table, the word in column (1) is replaced by the word or phrase in column (2) where indicated in columns (3) and (4).

(1)	(2)	(3)	(4)
FSA	*FCA*	IPRU(INV)	13.1.16R(1), 13.1.18R(3), 13.1.22G(1) and (2), 13.1.28R, 13.12.2DG, Table 13.12.3R(1) and 13.12.4R(4)

Transitional provisions

(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Material to which transitional provision applies		**Transitional provision**	**Transitional provision: dates in force**	**Handbook provision: coming into force**
…					
13	*IPRU(INV)* 13.1A.3R(2)	R	A *firm* applying (b) or (c) above must have *initial capital* of at least £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
13	*IPRU(INV)* 13.1A.4R(2)	R	A *firm* applying (b) or (c) above must have *initial capital* of at least £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
13	*IPRU(INV)* 13.13.2R(2)(a)	R	The *firm* must calculate its capital resources requirement as the higher of: (a) £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
13	*IPRU(INV)* 13.13.3R(2)(a)	R	The *firm* must calculate its capital resources requirement as the higher of: (a) £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016

13	*IPRU(INV)* 13.15.9R and *IPRU(INV)* 13.15.10R	R	These *rules* do not apply to a *category B3 firm* which is not a *network*, has fewer than 26 *financial advisers* or *representatives* and is not permitted to: (a) carry on discretionary portfolio management; (b) *establish, operate or wind up a personal pension scheme*; or (c) delegate the activities in (a) or (b) to an *investment firm*.	From 30 June 2016 to 29 June 2017	30 June 2016

…

1 Chapter 1: Application and General Provisions

…

1.2 APPLICATION

…

CAPITAL SUBSTITUTES: TRANSITIONAL PROVISION

…

1.2.8 G ~~An instrument treated in an equivalent manner would, for example, include (in relation to a *personal investment firm*) a "PASS loan".~~ [deleted]

…

13 Chapter 13: Financial Resources Requirements for Personal Investment Firms

13.1 APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS

APPLICATION

13.1.1 R ~~(1)~~ This chapter applies to a *firm* which is a *personal investment firm* as set out in the table below.

Type of personal investment firm	**Application of this Chapter**

A *personal investment firm* which is an *exempt CAD firm*	13.1, 13.1A, 13.13 and 13.14
A *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme*	13.1 and 13.9 to 13.12
A *personal investment firm* which is a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*,	13.1 and 13.13 to 13.15

(2) ~~For a *personal investment firm* which is an *exempt CAD firm*, the following apply:~~

~~(a) sections 13.1 and 13.1A; and~~

~~(b) if it is not an *opted-in exempt CAD firm*, sections 13.2 to 13.8; or~~

~~(c) if it is an *opted-in exempt CAD firm*, sections 13.9 to 13.12 (but reading references to *category B firm* as references to the *firm*).~~ [deleted]

(3) ~~For a *personal investment firm* which is a *Category B firm*, section 13.1 and sections 13.9 to 13.12 apply.~~ [deleted]

PURPOSE

13.1.2 G This chapter amplifies *threshold condition* ~~4~~ 2D (~~Adequate~~ Appropriate resources) by providing that a *firm* must meet, on a continuing basis, a basic solvency requirement and a minimum capital resources requirement. This chapter also amplifies *Principles* 3 and 4 which require a *firm* to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems and to maintain adequate financial resources by setting out capital resources for a *firm* according to the *regulated activity* or activities it carries on.

…

GENERAL CAPITAL RESOURCES AND SOLVENCY REQUIREMENTS

13.1.4 R A *firm* must at all times:

(1) have and maintain capital resources at least equal to its relevant capital resources requirement ~~of the kinds and amounts specified in, and calculated in accordance with, the *rules* of this chapter~~; and

(2) be able to meet its liabilities as they fall due.

CAPITAL RESOURCES: GENERAL ACCOUNTING PRINCIPLES

13.1.4A R (1) Unless a *rule* provides otherwise, a *firm* must:

(a) recognise an asset or liability; and

(b) measure the amount of that asset or liability,

by using the accounting principles it applies in preparing the *firm's* reporting form in (2).

(2) The accounting principles are referred to in:

(a) the Notes for completion of the Retail Mediation Activities Return *(RMAR)* (under the heading “Accounting Principles”) in *SUP* 16 Annex 18BG for a *category B firm*; and

(b) the Guidance notes for data items in FSA032 (under the heading “Defined terms”) in *SUP* 16 Annex 25AG for an *exempt CAD firm.*

…

ADDITIONAL CAPITAL RESOURCES - EXCLUSIONS

13.1.23 R The amount of additional capital resources that a *firm* must hold as a result of an exclusion under *IPRU(INV)* 13.1.21R ~~should~~ must be calculated by referring to the *firm’s* relevant income in the following table:

Relevant income £000s		Minimum additional capital resources £000s (Notes 1 and 2)
more than	up to	
…	…	…
…		
Note 2 – The calculation of a *firm’s* capital resources is set out in sections 13.1A to ~~13.12~~ 13.15 (see ~~*rule* 13.1.1~~ *IPRU(INV)* 13.1.1R for application of these sections to an *exempt CAD firm* ~~and~~ or a ~~*category*~~ *category B firm*).		

…

ADDITIONAL CAPITAL RESOURCES - EXCESS

13.1.27 R The amount of additional capital resources that a *firm* must hold where the policy’s excess on any claim is more than £5,000 must be calculated by referring to the *firm’s* relevant income and excess obtained in the following table:

All amounts are shown in £000s (Notes 1 and 2)

Relevant income is		Excess obtained, up to and including											
more than	up to	5	10	15	20	25	30	40	50	75	100	150	200 +
…													
…													
Note 2 – The calculation of a *firm's* capital resources is set out in sections 13.1A to ~~13.12~~ 13.15 (see ~~*rule* 13.1.1~~ *IPRU(INV)* 13.1.1R for application of these sections to an *exempt CAD firm* ~~and~~ or a *category B firm*).													

NOTIFICATION REQUIREMENTS

…

13.1.29 G (1) For the purposes of the provisions relating to professional indemnity insurance, "additional capital resources" means readily realisable *own funds* or capital resources under *IPRU(INV)*13.15.3R, depending on the type of *firm*.

(2) The ~~*FSA*~~ *FCA* expects items included in *own funds* or capital resources under *IPRU(INV)*13.15.3R, depending on the type of *firm*, to be regarded as "readily realisable" only if they can be realised, at any given time, within 90 days.

13.1A CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENT FOR AN EXEMPT CAD FIRM

…

~~Initial~~ Requirement to hold initial capital and professional indemnity insurance ~~requirements~~

13.1A.2 R The financial resources requirement for a *personal investment firm* which is an *exempt CAD firm* is the higher of:

(1) the requirement that is applied by section 13.1A; and

(2) ~~(a)~~ the requirement that is applied by sections ~~13.2 to 13.8~~ 13.13 to 13.14. ~~; or~~

~~(b) if it is an *opted-in exempt CAD firm*, the requirement that is applied by sections 13.9 to 13.12 (but reading references to *Category B firm* as references to the *firm*).~~

13.1A.3 R (1) …

(2) ~~If a~~ A *firm* ~~chooses to comply with either~~ applying (b) or (c) above, ~~it~~ must ~~nevertheless~~ have *initial capital* of at least ~~£10,000~~ £20,000.

13.1A.4 R (1) A *firm* that is also an *IMD insurance intermediary* must have professional indemnity insurance at least equal to the limits set out in 13.1.10R and in addition ~~has to~~ must have:

… …

(2) ~~If a~~ A *firm* ~~chooses to comply with either~~ applying (b) or (c) above~~, it~~ must ~~nevertheless~~ have *initial capital* of at least £~~10,000~~ 20,000.

…

Defined benefit pension scheme: defined benefit liability

…

13.1A.12 ~~R~~ G A *firm* should keep a record of and be ready to explain to its supervisory contacts in the ~~*FSA*~~ *FCA* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

Ongoing capital requirements

…

13.1A.15 R Table 13.1A.15R

This table forms part of ~~*rule* 13.1.4~~ *IPRU(INV)* 13.1A.14R.

…	...	**…**
(3)	Long-term subordinated loans (in accordance with *IPRU (INV)* ~~13.5.5AR~~ 13.1A.18R)	**C**
…	…	

...

Subordinated Loans – Exempt CAD firm

13.1A.18 R *IPRU(INV)* 13.1A.19R to *IPRU(INV)* 13.1A.20R apply to an *exempt CAD firm.*

13.1A.19 R A *firm* may include a long-term subordinated loan as *own funds* (see item C(3) table 13.1A.15R) if all the conditions in *IPRU(INV)* 13.1A.20R are satisfied.

13.1A.20 R The conditions referred to in *IPRU(INV)* 13.1A.19R are:

(1) the subordinated loan must be fully paid up;

(2) the subordinated loan must have an original maturity of at least five years or, where there is no fixed term, the subordinated loan must be subject to not less than five years' notice of repayment;

(3) the agreement governing the subordinated loan must only permit repayment, prepayment or termination on:

(a) maturity, or on expiration of the period of notice, if a *firm* has at least 120% of its financial resources requirement after that payment or termination; or

(b) winding up after the claims of all other creditors and all outstanding debts have been settled;

(4) the amount of the subordinated loan used in the calculation of a *firm's* its *own funds* must be reduced on a straight-line basis over the last five years of the term of the subordinated loan;

(5) the subordinated loan is in the standard form prescribed by the *FCA* for long-term subordinated loans (see form 13.1 Form of subordinated loan agreement for *personal investment firms*).

Sections 13.2, 13.4, 13.5 and 13.7 are deleted in their entirety. The deleted text is not shown.

13.9 FINANCIAL RESOURCES TESTS FOR CATEGORY B FIRMS WHOSE PERMISSION INCLUDES ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

13.9.-1 R This section applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme.*

Requirement

13.9.1 R A ~~*Category B*~~ *firm* must meet:

(1) financial Resources Test 1 (the *Own funds* Test) calculated in accordance with section 13.10;

(2) ~~Financial~~ financial Resources Test 1A (the Adjusted *Net current assets* Test) calculated in accordance with section 13.11~~, unless the *firm* is a *low resource firm* which is not permitted to carry on the activity of *managing investments in* respect of portfolios containing only *life policies*~~; and

(3) ~~Financial~~ financial Resources Test 2 (the Expenditure-based Test) calculated in accordance with section 13.12 ~~unless the *firm* is a *low resource firm*~~.

13.9.1A G Table 13B is a summary of the financial resources ~~test~~ tests for a ~~*Category B*~~ *firm*.

Table 13B. This table forms part of ~~*rule* 13.9.1~~ *IPRU(INV)* 13.9.1R.

SUMMARY OF FINANCIAL RESOURCES FOR *CATEGORY B FIRMS*				
Type of *firm*	Financial Resources Test 1 *Own funds* Test	Financial Resources Test 1A Adjusted *Net current assets* Test	Financial Resources Test 2 Expenditure-based Test	*Rule*/section References
~~*Category B1* (including any *Network* in this category)~~	~~£10,000~~	~~Adjusted *net current assets* of £1~~	~~Liquid capital equal to the highest of 13/52 of relevant annual expenditure or £400 per adviser or £10.000~~	~~13.10~~ ~~13.11~~ ~~13.12.1C~~ ~~13.12.2 to~~ ~~13.12.5A~~ ~~0~~
~~Category B2 which is permitted to carry on the activity of *investment management* in respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm*~~	~~£10,000~~	~~Adjusted *net current assets* of £1~~	~~Adjusted capital equal to the higher of 13/52 of relevant annual expenditure or £400 per adviser~~	~~13.10~~ ~~13.11~~ ~~13.12.1D~~ ~~13.12.2 to~~ ~~13.12.5A~~
~~Category B2 with 26+ *advisers*~~	~~£10,000~~	~~Adjusted *net current assets* of £1~~	~~Adjusted capital equal to the higher of 8/52 of relevant annual expenditure or £400 per adviser~~	~~13.10~~ ~~13.11~~ ~~13.12.1E~~ ~~13.12.2 to~~ ~~13.12.5A~~
~~Category B2 with~~	~~£10,000~~	~~Adjusted *net*~~	~~Adjusted capital~~	~~13.10~~

~~1-25 *advisers*~~		~~*current assets* of £1~~	~~equal to the higher of 4/52 of relevant annual expenditure or £400 per adviser~~	~~13.11~~ ~~13.12.1F~~ ~~13.12.2 to~~ ~~13.12.5A~~
~~Category B3 which is permitted to carry on the activity of *managing investments in* respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm*~~	~~£10,000~~	~~Adjusted *net current assets* of £1~~	~~Adjusted capital equal to the higher of 8/52 of relevant annual expenditure or £400 per adviser~~	~~13.10~~ ~~13.11~~ ~~13.12.1E~~ ~~13.12.2 to~~ ~~13.12.5A~~
~~Category B3 with 26+ *advisers*~~	~~£10,000~~	~~Adjusted *net current assets* of £1~~	~~Adjusted capital equal to the higher of 4/52 of relevant annual expenditure or £400 per adviser~~	~~13.10~~ ~~13.11~~ ~~13.12.1F~~ ~~13.12.2 to 13.12.5A~~
~~Category B3 with 1-25 advisers~~	~~£10,000~~	~~N/A~~	~~N/A~~	~~13.10~~
~~*Network* in Category B2 or B3~~	~~£10,000~~	~~Adjusted *net current assets* of £1~~	~~Adjusted capital equal to the higher of 13/52 of relevant annual expenditure or £400 per adviser~~	~~13.10~~ ~~13.11~~ ~~13.12.1D~~ ~~13.12.2 to~~ ~~13.12.5A~~
All ~~*Category*~~ <u>*category*</u> *B firms* that do not hold *client money* or assets, but are *permitted* to *establish, operate or wind up a personal pension scheme*.	£10,000	Adjusted *net current assets* of £1	Adjusted capital equal to the highest of 6/52 of relevant annual expenditure, £400 per adviser, £10,000 ~~and any other expenditure-based requirement set out in 13.12.1~~	13.10 13.11 13.12.1<u>G</u> 13.12.2 to 13.12.5A

			~~applicable to the *firm*~~.	
...				

13.10 FINANCIAL RESOURCES TEST 1- OWN FUNDS REQUIREMENT

Application

13.10-1 R This section applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme.*

Requirement

13.10.1 R A ~~*Category B*~~ *firm's own funds* must at all times be at least £10,000.

Calculation

13.10.2 R A ~~*Category B*~~ *firm's own funds* must be calculated in accordance with table 13.10(2).

Table 13.10(2).

This table forms part of ~~*rule* 13.10.2~~ *IPRU(INV)* 13.10.2R.

Companies	**Sole Traders: Partnerships**
…	…
less - … - ~~Material current year losses~~ *Material current year losses* - ...	less - … - ~~Material current year losses~~ *Material current year losses* - …
Note 1 Retained profits must be audited and interim net profits must be verified by the *firm's* external auditor, unless the *firm* is exempt from the provisions of ~~Part VII of the Companies Act 1985 (section 294A (Exemptions from audit)), or where applicable,~~ Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exempt ion from audit)) relating to the audit of accounts.	

13.10.2A R For the purpose of calculating a ~~*Category B*~~ *firm's own funds*, the following adjustments apply to retained profits or, (for non-corporate entities), current accounts figures~~.~~:

(1) a ~~*Category B*~~ *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;

(2) a ~~*Category B*~~ *firm* must derecognise any *defined benefit asset*;

(3) a ~~*Category B*~~ *firm* may substitute for a *defined benefit liability* its *deficit reduction amount*. The election must be applied consistently in respect of any one financial year;

(4) a ~~*Category B*~~ *firm* must deduct any ~~unrealized~~ unrealised gains on investment property and include these within revaluation reserves;

(5) where applicable, a ~~*Category B*~~ *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

13.10.2B G A *firm* should keep a record of and be ready to explain to its supervisory contacts in the ~~*FSA*~~ *FCA* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme.*

Where a ~~*Category B*~~ *firm* is a sole trader or a partnership:

(1) it can use (to the extent necessary to make up any shortfall in the required resources) any of its personal assets (not being needed to meet liabilities arising from its personal activities and any business activities not regulated by the ~~*FSA*~~ *FCA*);

(2) the *firm's* total financial resources, from whatever source, ~~must~~ should at all times be sufficient to cover its total liabilities.

13.10.3 R (1) ~~Where a *Category B3 firm* with 1-25 *advisers* has a facility under the PASS Loan Agreement Scheme it may make an adjustment in its *own funds* calculation in accordance with (2).~~ [deleted]

(2) ~~a *firm* in (1) can regard as additional to its *own funds* the lower of either:~~

~~(a)~~ ~~the amount of the loan facility agreed (less any loan repayments already made and less the amount of the facility withdrawn or lapsed); or~~

~~(b)~~ ~~the amount of the *firm's* provision for redress (net of any professional indemnity insurance recoverable) at the time of its application for the loan facility.~~ [deleted]

13.11 FINANCIAL RESOURCES TEST 1A - ADJUSTED NET CURRENT ASSETS

Application

13.11.1 R This section ~~does not apply to a *low resource firm*.~~ applies to a *personal investment firm* which is a *Category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme*.

Requirement

13.11.2 R A ~~*Category B*~~ *firm* must adjust its *net current assets* as follows:

…

13.11.3 R A ~~*Category B*~~ *firm* must at all times have adjusted *net current assets* of at least £1.

13.12 FINANCIAL RESOURCES TEST 2 - EXPENDITURE-BASED REQUIREMENT

~~13.12.1~~ *Application*

13.12.1A R This section ~~does not apply to a low resource firm.~~ applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme*.

Requirement

13.12.1B R A ~~*Category B*~~ *firm* must have at all times financial resources calculated in accordance with ~~*rules* 13.12.2 5 to 13.12.5~~ *IPRU(INV)* 13.12.2R to *IPRU(INV)* 13.12.5R which equal or exceed the amount specified in ~~*rules* 13.12.1C to F~~ *IPRU(INV)* 13.12.1GR ~~as applicable~~.

13.12.1C R ~~A *Category B1 firm*, including a *Network* must have financial resources calculated in accordance with whichever of (1), (2) or (3) produces the higher amount.~~

~~(1)~~ ~~13/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~

~~(2)~~ ~~an amount equal to £400 multiplied by the number of its *advisers*; or~~

~~(3)~~ ~~£10,000;~~ [deleted]

13.12.1D R ~~(1)~~ ~~A *Category B2 firm* which is permitted to carry on the activity of *investment management* in respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm* must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~

~~(2)~~ ~~A *Network* in *Category B2* or *B3* must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~

~~(3)~~ ~~13/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~

~~(4)~~ ~~an amount equal to £400 multiplied by the number of its *advisers*.~~ [deleted]

13.12.1E R ~~(1)~~ ~~A *Category B2 firm* with more than 25 *advisers* which is not a *Network* and is not permitted to carry on the activity of *managing investments in* respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm* must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~

~~(2)~~ ~~A *Category B3 firm* which is permitted to carry on the activity of *investment management* in respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm* must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~

~~(3)~~ ~~8/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~

~~(4)~~ ~~an amount equal to £400 multiplied by the number of its *advisers*.~~ [deleted]

13.12.1F R ~~(1)~~ ~~A *Category B2 firm* with fewer than 26 *advisers* which is not a *Network* and is not permitted to carry on the activity of *managing investments in* respect of portfolios containing only *life policies* or to delegate such activity of *investment management* to an *investment firm* must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~

~~(2)~~ ~~A *Category B3 firm* which is not permitted to carry on the activity of *investment management* in respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm* must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~

~~(3)~~ ~~4/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~

~~(4)~~ ~~an amount equal to £400 multiplied by the number of its *advisers*.~~ [deleted]

13.12.1G R ~~A *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme* must have financial resources calculated in accordance with (1) or (2):~~

(1) ~~For a~~ A *firm* which holds *client money* or assets~~,~~ must have financial

resources calculated as the highest of:

(a) 13/52 of its relevant annual expenditure, calculated in accordance with ~~13.2.2 to 13.12.2D~~ *IPRU(INV)* 13.12.2R to *IPRU(INV)* 13.12.2DR;

(b) an amount equal to £400 multiplied by the number of its ~~advisers~~ *advisers*; and

…

(2) ~~For a~~ A *firm* which does not hold client money or assets~~,~~ must have financial resources calculated as the highest of:

(a) 6/52 of its relevant annual expenditure, calculated in accordance with ~~13.12.2 to 13.12.2D~~ *IPRU(INV)* 13.12.2R to *IPRU(INV)* 13.12.2DR;

(b) an amount equal to £400 multiplied by the number of its ~~advisers~~ *advisers*; and

(c) £10,000~~; and~~

~~(d) any other expenditure-based requirement set out in 13.12.1 applicable to the *firm*~~.

Calculation of Relevant Annual Expenditure

13.12.2 R A ~~*Category B*~~ *firm* must calculate its relevant annual expenditure by reference to the amount described as total expenditure in its most recently prepared set of *annual financial statements*. If those statements were for a period other than 12 months, the amounts in its profit and loss account must be adjusted proportionately.

13.12.2A R Where a ~~*Category B*~~ *firm* has just begun trading or have not been authorised long enough to submit such statements the *firm* must calculate its relevant annual expenditure on the basis of forecast or other appropriate accounts submitted to the ~~*FSA*~~ *FCA*.

13.12.2B R A ~~*Category B*~~ *firm* may deduct from its relevant annual expenditure items (a) to (f) set out in table 13.12.2, unless the *firm* is a ~~*Category*~~ *category B1 firm*, in which case it may not deduct item (e).

Table 13.12.2

This table forms part of ~~*rule* 13.12.2~~ *IPRU(INV)* 13.12.2R.

…

…

Calculation of Financial Resources to meet Tests 1, 1a or 2

13.12.3 R (1) ~~This *rule* does not apply to a *low resource firm*;~~ [deleted]

(2) A ~~*Category B*~~ *firm* must be able to calculate its financial resources at any time on the basis of the balance sheet the *firm* could draw up at that time. For this purpose:

(a) a ~~*Category*~~ *category B1 firm* must adjust the assets in the balance sheet as specified in Part I of table 13.12.3(1) and include the liabilities after making the adjustments specified in Part II of table 13.12.3(1);

…

(3) ~~the~~ The assets and liabilities in the balance sheet are also subject to the following adjustments:

(a) a ~~*Category B*~~ *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;

(b) in respect of a *defined benefit occupational pension scheme*, a ~~*Category B*~~ *firm* must derecognise any *defined benefit asset*;

(c) a ~~*Category B*~~ *firm* may substitute for a *defined benefit liability* the *firm's deficit reduction amount*. The election must be applied consistently in respect of any one financial year;

(d) where applicable, a ~~*Category B*~~ *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Table 13.12.3(1) Part I

This table forms part of ~~*rule* 13.12.3~~ *IPRU(INV)* 13.12.3R.

~~FIRMS~~ CATEGORY B1 FIRMS	
Calculation of Assets	
ASSETS	**ADJUSTMENTS**
…	
(12) Other Debts	(a) Amounts owing in respect of … (iii) dividends declared by authorised or not *EEA firms* or by companies in respect of *shares* listed on a ~~recognised~~ *recognised investment exchange* or ~~designated investment exchange~~ *designated investment exchange*;

	…
…	

Table 13.12.3(1) Part II

This table forms part of ~~*rule* 13.12.3~~ *IPRU(INV)* 13.12.3R.

~~FIRMS~~* ~~IN~~ *CATEGORY* *~~B1~~* *B2* AND *B3 FIRMS	
Calculation of Liabilities	
…	**…**

Table 13.12.3(2) Part I

This table forms part of ~~*rule* 13.12.3~~ *IPRU(INV)* 13.12.3R.

~~FIRMS~~* ~~IN~~ *CATEGOR~~IES~~Y* *B2* AND *B3* *FIRMS **~~(except low resource firms)~~**	
Calculation of Assets	
…	…

Table 13.12.3(2) Part II

This table forms part of ~~*rule* 13.12.3~~ *IPRU(INV)* 13.12.3R.

~~FIRMS~~* ~~IN~~ *CATEGORY B1* *FIRMS	
Calculation of Liabilities	
…	**…**

Table 13.12.3A

This table forms part of ~~*rule* 13.12.3~~ *IPRU(INV)* 13.12.3R.

DISCOUNTS FOR INVESTMENTS
…

Investment	Discount
…	
B. Equities	
- other *investments* listed on a ~~recognised~~ *recognised investment exchange* or ~~designated investment exchange~~ *designated investment exchange*	25%
- *shares* traded on a ~~recognised~~ *recognised investment exchange* or ~~designated investment exchange~~ *designated investment exchange*	35%
…	

…

Restrictions

13.12.5 R A ~~*Category B*~~ *firm* must calculate:

(1) the aggregate amount of its short term subordinated loans, its preference *shares* which are not redeemable within two years, and for a ~~*Category B*~~ *firm* other than a ~~*Category*~~ *category B1 firm* its long term liabilities which are not secured on its assets, if they do not fall due more than three years from the balance sheet date, and are not due to *connected persons*;

(2) …

13.12.5A R ~~A *Category B*~~ In the calculation of financial resources, a *firm* must treat ~~as a liability in the calculation or its financial resources~~ any amount by which the sum of ~~13.12.5(1)~~ *IPRU(INV)* 13.12.5R(1) exceeds the product of ~~13.12.5(2)~~ *IPRU(INV)* 13.12.5R(2) as a liability.

13.13 CAPITAL RESOURCES REQUIREMENT FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

13.13.1 R This section applies to a *personal investment firm* which is either:

(1) an *exempt CAD firm*; or

(2) a *category B firm* whose permission does not include *establishing,*

operating or winding up a personal pension scheme.

Requirement

13.13.2 R (1) A *firm* to which *MIPRU* does not apply must calculate its capital resources requirement as in (2).

(2) The *firm* must calculate its capital resources requirement as the higher of:

(a) £20,000; and

(b) the amount equivalent to the applicable percentage of its *annual income* specified in table 13.13.2(2)(b), depending on the type of *firm*.

Table 13.13.2(2)(b)

This table forms part of *IPRU(INV)* 13.13.2R.

(A)	(B) Type of *firm*	(C) Applicable percentage of *annual income*
(1)	*Exempt CAD firm*	5%
(2)	*Category B1 firm*	10%
(3)	*Category B2 firm*	10%
(4)	*Category B3 firm* which is permitted to carry on the activity of *managing investments in* respect of portfolios containing only *life policies* or to delegate such activity to an *investment firm*	10%
(5)	*Category B3 firm* not in (4)	5%

13.13.3 R (1) A *firm* to which *MIPRU* also applies must calculate its capital resources requirement as in (2).

(2) The *firm* must calculate its capital resources requirement as the higher of:

(a) £20,000; and

(b) the sum of:

(i) the amount that would have applied to it under *IPRU(INV)* 13.13.2R(2)(b) if it were a *firm* of the type in column (B) of table 13.13.2(2)(b); and

(ii) the capital resources requirement in *MIPRU* 4.2. (Capital resources requirements), after excluding the fixed amounts specified in table 13.13.3(2)(b)(ii).

Table 13.13.3(2)(b)(ii).

This table forms part of *IPRU(INV)* 13.13.3R.

Activity	**Provision**	**Fixed amount**
Insurance mediation activity or *home finance mediation activity*	*MIPRU* 4.2.11R(1)(a) (*firm* not holding *client money* or assets)	£5,000
	MIPRU 4.2.11R(2)(a) (*firm* holding *client money* or assets)	£10,000
Home financing and *home finance administration* (not connected to *regulated mortgage contracts*)	*MIPRU* 4.2.12R(1)(a)	£100,000
Home finance administration (with all assets off balance sheet)	*MIPRU* 4.2.19R(1)	£100,000
Home financing and *home finance administration* (connected to *regulated mortgage contracts*)	*MIPRU* 4.2.23R(1)	£100,000

13.13.4 G (1) *IPRU(INV)* 13.13.4G(2) illustrates how a *firm* that is subject to this section and *MIPRU* calculates its capital resources requirement under *IPRU(INV)*13.13.3R.

(2) Example: A *category B3 firm* with *annual income* of £300,000 under this section and £100,000 from its *home finance mediation activity* (without holding *client money*) should calculate capital resources requirement as specified in table 13.13.4G(2).

Table 13.13.4G(2)2

This table forms part of *IPRU(INV)* 13.13.4G.

Requirement	Calculation	Amount
The capital resources requirement is		

the higher of:		
(1) £20,000; and	£20,000	£20,000
(2) The sum of:		
a) the amount that would have applied to it under *IPRU(INV)* 13.13.2R(2)(b) if it were a firm of the type in column (B) of table 13.13.2(2)(b); and	As this is a *category B3 firm*, the applicable calculation is 5% of £300,000.	£15,000
b) the capital resources requirement in *MIPRU* 4.2. (Capital resources requirements), after excluding the fixed amounts specified in table 13.13.3(2)(b)(ii).	For a *firm* carrying on *home finance mediation activity* without holding *client money*, *MIPRU* 4.2.11R(1) specifies a requirement of 2.5% of £100,000 (excluding the amount of £5,000 in *MIPRU* 4.2.11R(1)(a)).	£2,500
	Total of part (2) of the capital resources requirement, which is £15,000 plus £2,500.	£17,500
	The capital resources requirement is the higher of part (1), which is £20,000, and part (2), which is £17,500.	£20,000

13.14 CALCULATION OF ANNUAL INCOME FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

13.14.1 R This section applies to a *personal investment firm* which is either:

(1) an *exempt CAD firm*;

(2) a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*.

Annual income

13.14.2 R This section applies to a *firm* when it calculates *annual income* for its capital resources requirement.

13.14.3	R	(1)	"*Annual income*" is the *annual income* from the *firm's* relevant *regulated activity* or activities as given in its reporting form in (3) drawn up at its most recent *accounting reference date.*
		(2)	In (1), the most recent *accounting reference date* is the last one for which the *firm* reported *annual income*.
		(3)	The relevant reporting form under *SUP* 16.12 is: (a) the Retail Mediation Activities Return *(RMAR)* (Section B: Profit and Loss Account) for a *category B firm*; and (b) FSA030 (Income Statement) for an *exempt CAD firm*.
		(4)	If the *firm's* most recent reporting form does not cover a 12 *month* period, the *annual income* is derived by converting the amount reported, proportionally, to a 12 *month* period.
		(5)	If the *firm* does not yet have a reporting form under (1), the *annual income* is taken from the forecast or other appropriate accounts which the *firm* has submitted to the *FCA*.
13.14.4	R		*Annual income* must include the following amounts due to the *firm* in respect of its *designated investment business*: (1) brokerage; (2) fees; (3) *commissions;* and (4) other related income (for example, administration charges or profit shares).
13.14.5	G		A *firm* should include in its *annual income* those amounts it may have agreed to pay to other *persons* involved in a transaction, such as other intermediaries or self-employed *advisers.*
13.14.6	G		A *firm* should not include in its *annual income* those amounts due to it that are used in the calculation of its capital resources requirement under *MIPRU* 4.2.11R (Capital resources requirement: mediation activity only) or *MIPRU* 4.2.19R (Capital resources requirement: insurance mediation activity and home financing, or home finance administration).
13.14.7	R		If a *firm* is a *principal*, its *annual income* includes amounts due to its *appointed representative* for activities related to *designated investment business* for which the *firm* has accepted responsibility.
13.14.8	G		If a *firm* is a *network*, its a*nnual income* should include the relevant income due to all of its *appointed representatives* for *designated investment business*.

13.15 CALCULATION OF CAPITAL RESOURCES TO MEET THE CAPITAL RESOURCES REQUIREMENT FOR A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

13.15.1 R This section applies to a *personal investment firm* which is a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme.*

13.15.2 G The calculation of *own funds* by an *exempt CAD firm* is in *IPRU(INV)* 13.1A.14R.

13.15.3 R A *firm* must calculate its capital resources in accordance with table 13.15.3(1).

Table 13.15.3(1)

This table forms part of *IPRU(INV)* 13.15.3R.

Capital resources	
Companies	**Sole traders: Partnerships**
Paid-up *share* capital (excluding preference shares redeemable by shareholders within 2 years) *Eligible LLP members' capital* *Share* premium account Retained profits (see *IPRU(INV)* 13.15.4R) and interim net profits (Note 1) Revaluation reserves Subordinated loans (see *IPRU(INV)* 13.15.7R) *Debt capital*	Balances on proprietor's or partners' - capital accounts - current accounts (see *IPRU(INV)* 13.15.4R) Revaluation reserves Subordinated loans (see *IPRU(INV)* 13.15.7R)
less - Intangible assets - *Material current year losses* - *Excess LLP members' drawings*	less - Intangible assets - *Material current year losses* - Excess of current year drawings over current year profits
Note 1 Retained profits must be audited and interim net profits must be verified by the *firm's* external auditor, unless the *firm* is exempt from the provisions of Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption	

from audit)) relating to the audit of accounts.

13.15.4 R When calculating a *firm's* capital resources, the following adjustments apply to retained profits or, (for *sole traders* or *partnerships*), current accounts figures:

(1) a *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;

(2) a *firm* must de-recognise any *defined benefit asset*;

(3) a *firm* may substitute for a *defined benefit liability* its *deficit reduction amount* and that election must be applied consistently in respect of any one financial year;

(4) a *firm* must deduct any unrealised gains on investment property and include these within revaluation reserves; and

(5) where applicable, a *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

13.15.5 G A *firm* should keep a record of, and be ready to explain to, its supervisory contacts in the *FCA*, the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

Personal assets

13.15.6 G Where a *firm* is a *sole trader* or a *partnership*:

(1) it can use (to the extent necessary to make up any shortfall in the required resources) any of its personal assets (not being needed to meet liabilities arising from its personal activities and any business activities not regulated by the *FCA*);

(2) the *firm's* total financial resources, from whatever source, must at all times be sufficient to cover its total liabilities.

Subordinated loans – Category B firm

13.15.7 R A *category B firm* may include a short-term subordinated loan as capital resources (see table in *IPRU(INV)* 13.15.3R), if all the conditions in *IPRU(INV)* 13.15.8R are satisfied.

13.15.8 R The conditions referred to in *IPRU(INV)* 13.15.7R are:

(1) the subordinated loan must have an original maturity of at least two years or, if it has no fixed term, it is subject to not less than two years' notice of repayment;

(2) the agreement governing the subordinated loan must not permit payment of interest unless a *firm* has at least 120% of its capital resources requirement after that payment;

(3) the agreement governing the subordinated loan must only permit repayment, prepayment or termination on:

(a) maturity, or on expiration of the period of notice, if a *firm* has at least 120% of its capital resources requirement after that payment or termination; or

(b) winding up after the claims of all other creditors and all outstanding debts have been settled;

(4) the agreement governing the subordinated loan is in the standard form for short term subordinated loans prescribed by the *FCA* (see form 13.1 Form of subordinated loan agreement for *personal investment firms*); and

(5) the restrictions in *IPRU(INV)* 13.15.9R and *IPRU(INV)* 13.15.10R are complied with.

Restrictions

13.15.9 R A *Category B firm* must calculate:

(1) the aggregate amount of its short term subordinated loans and its preference *shares* which are not redeemable within two years;

(2) the amount of the *firm's* total capital and reserves excluding preference *share* capital, less the amount of its intangible assets, multiplied by 400%.

13.15.10 R A *category B firm* must treat as a liability in the calculation or its capital resources any amount by which the sum of *IPRU(INV)* 13.15.9R(1) exceeds the product of *IPRU(INV)* 13.15.9R(2).

Delete Appendix 13(1) (Defined terms for Chapter 13) in its entirety. The deleted text is not shown here.

Annex A: LIMITED LIABILITY PARTNERSHIPS: ELIGIBLE MEMBERS' CAPITAL

…

Purpose

1.5 G The following *rules* allow inclusion of members' capital within a *firm's* capital if it meets the conditions in this annex:

Chapter	***IPRU(INV) rule***	**How *eligible LLP members' capital* should be treated for the purposes of the *IPRU(INV) rule***
…		
13	~~Table 13.3.2(1)~~ Table 13.10(2) Table 13.15.3(1) ~~13.1A.7~~ 13.1A.6	*Eligible LLP members' capital* may be counted as *own funds* relating to companies in Table ~~13.3.2(1) and Table~~ 13.10(2). *Eligible LLP members' capital* may be counted as capital resources relating to companies in *IPRU(INV)* 13.15.3(1). *Eligible LLP members' capital* may be counted as *initial capital* within *IPRU(INV)* ~~13.1A.7~~ 13.1A.6.

Part 2: Comes into force on 1 September 2016

13 Chapter 13: Financial Resources Requirements for Personal Investment Firms

13.1 APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS

APPLICATION

13.1.1 R This chapter applies to a *firm* which is a *personal investment firm* as set out in the table below.

Type of personal investment firm	**Application of this Chapter**
…	…
A *personal investment firm* which is a *category B firm* ~~whose permission includes *establishing, operating or winding up a personal pension scheme*~~	13.1 and ~~13.9 to 13.12~~ 13.13 to 13.15
~~A *personal investment firm* which is a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*,~~ [deleted]	~~13.1 and 13.13 to 13.15~~ [deleted]

…

Sections 13.9 to 13.12 are deleted in their entirety. The deleted text is not shown.

13.13 CAPITAL RESOURCES REQUIREMENT FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM ~~WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME)~~

…

13.13.1 R This section applies to a *personal investment firm* which is:

(1) …

(2) *a category B firm* ~~whose permission does not include *establishing, operating or winding up a personal pension scheme*~~.

…

<u>13.13.5</u> <u>R</u> <u>A *firm* whose permission includes *establishing, operating or winding up a personal pension scheme* must calculate its capital resources requirement as the sum of:</u>

<u>(1)</u> <u>the capital resources requirement that is applied under *IPRU(INV)* 13.13.2R(2) or *IPRU(INV)* 13.13.3R(2); and</u>

<u>(2)</u> <u>the financial resources requirement calculated in accordance with *IPRU(INV)* 5 (Investment Management Firms).</u>

…

13.14 <u>CALCULATION OF ANNUAL INCOME FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM ~~WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME)~~</u>

13.14.1 R This section applies to a *personal investment firm* which is:

(1) …

(2) *a category B firm* ~~whose permission does not include *establishing, operating or winding up a personal pension scheme*~~.

…

13.15 <u>CALCULATION OF OWN FUNDS TO MEET THE CAPITAL RESOURCES REQUIREMENT FOR A CATEGORY B FIRM ~~WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME)~~</u>

13.15.1 R This section applies to a *personal investment firm* which is a *category B firm* ~~whose permission does not include *establishing, operating or winding up a personal pension scheme*~~.

…

Annex A: LIMITED LIABILITY PARTNERSHIPS: ELIGIBLE MEMBERS' CAPITAL

…

Purpose

1.5 G The following *rules* allow inclusion of members' capital within a *firm's* capital if it meets the conditions in this annex:

Chapter	***IPRU(INV) rule***	**How *eligible LLP members' capital* should be treated for the purposes of the *IPRU(INV) rule***
…		
13	~~Table 13.10(2)~~	~~*Eligible LLP members' capital* may be counted as *own funds* relating to companies in Table 13.3.2(1) and Table 13.10(2)~~.
	Table 13.15.3(1)	*Eligible LLP members' capital* may be counted as capital resources relating to companies in *IPRU(INV)*13.15.3(1).
	13.1A.6	*Eligible LLP members' capital* may be counted as *initial capital* within *IPRU(INV)* 13.1A.6.

Annex D

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 30 June 2016

16.12 Integrated Regulatory Reporting

…

16.12.11 R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

Description of *data item*	*Firms'* **prudential category and applicable** *data items* **(note 1)**					
	IFPRU investment firms and *BIPRU firms*		*Firms* **other than** *BIPRU firms* or *IFPRU investment firms*			
	IFPRU	*BIPRU*	*IPRU(INV)* **Chapter 3**	*IPRU(INV)* **Chapter 5**	*IPRU(INV)* **Chapter 9**	*IPRU(INV)* **Chapter 13**
…						
Capital adequacy	…	…	…	…	…	FSA032 (note 15) or Section~~s~~ D1 ~~and D2~~ RMAR (note 15)
…						
Note 15	FSA029, FSA030, FSA032 and FSA039 only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*. Sections A, B, C, D1, ~~D2~~ and F RMAR only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*.					
…						

…

16.12.12 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.4R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data Item	*IFPRU 730K firm*	*IFPRU 125K firm* and *collective portfolio management investment firm*	*IFPRU 50K firm*	*BIPRU firm*	*UK consolidation group* or *defined liquidity group*	*Firm* other than *BIPRU firms* or *IFPRU investment firms*
…						
Section D1 ~~and D2~~ RMAR						Half yearly (note 2) Quarterly (note 3)
…						

16.12.13 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.12R, unless indicated otherwise.

Data item	**Daily**	**Weekly**	**Monthly**	**Quarterly**	**Half yearly**	**Annual**
…						
Section ~~D6 RMAR Sections~~ D1 ~~and D2~~ RMAR				30 *business days*	30 *business days*	
…						

…

16.12.15 R The applicable *data items* referred to in *SUP* 16.12.4R according to type of *firm* are set out in the table below:

Description of *data item*	*Firms*' prudential category and applicable *data items* (note 1)							
	IFPRU investment firms and *BIPRU firms*		*Firms* other than *BIPRU firms* or *IFPRU investment firms*					
	IFPRU	*BIPRU*	*IPRU (INV)* Chapter 3	*IPRU (INV)* Chapter 5	*IPRU (INV)* Chapter 9	*IPRU (INV)* Chapter 11 (*collective portfolio management firms* only)	*IPRU (INV)* Chapter 12	*IPRU (INV)* Chapter 13
…								

Capital adequacy	…	…	…	…	…	…	…	Section D1 ~~and D2~~ RMAR or FSA032 (note 15)
…								
Note 15	FSA029, FSA030, FSA032 and FSA039 only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*. Sections A, B, C, D1~~, D2~~ and F RMAR only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*.							

…

16.12.16 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.15R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	*Firms'* prudential category					
	IFPRU 730K firm	*IFPRU 125K firm* and *collective portfolio management investment firm*	*IFPRU 50K firm*	*BIPRU firm*	*UK consolidation group* or *defined liquidity group*	*Firm* **other than** *BIPRU firms* or *IFPRU investment firms*
…						
Section~~s~~ D1 ~~and D2~~ RMAR						Half yearly (note 2) Quarterly (note 3)
…						

16.12.17 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.16R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
…						
Section~~s~~ D1 ~~and D2~~ RMAR				30 *business days*	30 *business days*	

…						

…

16.12.19 A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of *data item*	*Firm's* **prudential category and applicable data item (note 1)**				
	IPRU(INV) **Chapter 3**	*IPRU(INV)* **Chapter 5**	*IPRU(INV)* **Chapter 9**	*IPRU(INV)* **Chapter 13**	
…					
Capital adequacy	…	…	…	FSA032 or Section~~s~~ D1 ~~and D2~~ RMAR (notes 5 and 7)	
…					
Note 7	FSA029, FSA030, FSA032 and FSA039 only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*. Sections A, B, C, D1, ~~D2~~ and F RMAR only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*.				

16.12.20 R The applicable reporting frequencies for submission of *data items* referred to in *SUP* 16.12.4R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

…	
Section~~s~~ D1 ~~and D2~~ RMAR	Half yearly (note 2) Quarterly (note 3)
…	

16.12.21 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.20R.

Data item	Quarterly	Half yearly	Annual
…			
~~Sections~~ Section D1 ~~and D2~~ RMAR	30 *business days*	30 *business days*	
…			

…

16.12.22A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of *Data item*	*Firms'* prudential category and applicable *data item* (note 1)				
	IFPRU	*BIPRU firm*	*Exempt CAD firms* **subject to** *IPRU(INV)* **Chapter 13**	*Firms* **(other than** *exempt CAD firms*) **subject to** *IPRU(INV)* **Chapter 13**	*Firms* **that are also in one or more of** *RAGs* **1 to 6 and not subject to** *IPRU(INV)* **Chapter 13**
…					
Capital Adequacy	COREP (Note 29)	FSA003 (Note 2)	FSA032	Section D1 ~~and D2~~ RMAR (Note 23)	
…					

…

16.12.23A R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Frequency				
	Unconsolidated *BIPRU investment firm* and *IFPRU investment firm*	Solo consolidated *BIPRU investment firm* and *IFPRU investment firm*	*UK Consolidation Group* or *defined liquidity group*	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
…					
~~Sections~~ <u>Section</u> D1 ~~and D2~~ RMAR				Half yearly	Quarterly
…					

16.12.24A R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.23AR, unless indicated otherwise.

Data Item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
…						
~~Sections~~ Section D1 ~~and D2~~ RMAR				30 *business days*	30 *business days*	
…						

…

16.12.25A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of *data item*	*Firms'* **prudential category and applicable** *data item* **(note 1)**						
	IFPRU investment firms and *BIPRU firms*		*Firms* **other than** *BIPRU firms* or *IFPRU investment firms*				
	IFPRU	*BIPRU*	*IPRU(INV)* **Chapter 3**	*IPRU(INV)* **Chapter 5**	*IPRU(INV)* **Chapter 9**	*IPRU(INV)* **Chapter 13**	
…							
Capital adequacy	…	…	…	…	…	~~Sections~~ Section D1 ~~and D2~~ RMAR (note 17) or FSA 032 (note 15)	
…							

…

16.12.26 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.25AR are set out according to the type of *firm* in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	*Firms'* prudential category					
	IFPRU 730K firm	*IFPRU 125K firm*	*IFPRU 50K firm*	*BIPRU firm*	*UK consolidation group* or *defined liquidity group*	*Firms* other than *BIPRU firms* or *IFPRU investment firms*
…						

~~Sections~~ Section D1 ~~and D2~~ RMAR						~~Half yearly (note 2)~~ Quarterly (note 3)
…						

16.12.27 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.26R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
…						
~~Sections~~ Section D1 ~~and D2~~ RMAR				30 *business days*	30 *business days*	
…						

…

SUP 16 Annex 18AR, Section D1: Regulatory Capital and Section D2: Financial Resources are deleted and replaced with the text shown in the following page. The deleted text is not shown and the new text is not shown underlined.

FCA Restricted

SECTION D1: Regulatory Capital

		A	B	C
		Home Finance	Non-investment insurance	Retail investments
1	Is the firm exempt from these capital requirements in relation to any of its retail mediation activities?			

Home finance and non-investment insurance intermediaries - MIPRU

		Client money	Non-client money
2	Base requirement		
3	5% of annual income (firms holding client money)		
4	2.5% of annual income (firms not holding client money)		
5	**Capital requirement (higher of above)**		
6	Other FCA capital resources requirements (if applicable)		
7	Additional capital resources requirements for PII (if applicable)		
8	**TOTAL CAPITAL RESOURCES REQUIREMENT**		
9	**CAPITAL RESOURCES**		
10	**CAPITAL RESOURCES EXCESS/DEFICIT**		

Personal investment firm (retail investment activities only) - IPRU(INV) 13

		A
11	Category of personal investment firm	
12	Capital resources requirement	
13	Additional capital resources requirement for PII (if applicable)	
14	Other FCA capital resources requirements (if applicable)	
15	**TOTAL CAPITAL RESOURCES REQUIREMENT**	
16	Capital resources	
17	Surplus/deficit of capital resources	

Capital resources per MIPRU 4 (home finance and non-investment insurance intermediation)

Incorporated firms

24	Share capital	
25	Reserves	
26	Interim net profits	
27	Revaluation reserves	
28	Eligible subordinated loans	
29	**less** Investments in own shares	
30	**less** Intangible assets	
31	**less** interim net losses	
32	**CAPITAL RESOURCES**	

Unincorporated firms and limited liability partnerships

33	Capital of a sole trader or partnership	
34	Eligible subordinated loans	
35	Personal assets not needed to meet non-business liabilities	
36	**less** Intangible assets	
37	**less** interim net losses	
38	**less** excess of drawings over profits for a sole trader or p'ship	
39	**CAPITAL RESOURCES**	

Personal investment firm - capital resources per IPRU(INV) 13

		A
40	Paid up share capital (excluding preference shares redeemable by shareholders within 2 years)	
41	Eligible LLP members' capital	
42	Share premium account	
43	Audited retained profits	
44	Verified interim profits	
45	Revaluation reserves	
46	Short term subordinated loans	
47	Debt capital	
48	Balances on proprietor's or partners' capital accounts	
49	Balances on proprietor's or partners' current accounts	
50	Personal assets	
51	Less intangible assets	
52	Less material current year losses	
53	Less excess of current year drawings over current year losses	
54	Less excess LLP members drawings	
55	**CAPITAL RESOURCES**	

Amend the following text as shown.

16 Annex 18BG **Notes for Completion of the Retail Mediation Activities Return ('RMAR')**

…

Accounting Principles

15. Subject to paragraph 15A below, which is in respect of section K only, the following principles should be adhered to by *firms* in the submission of financial information (sections A to E and section K).

(a) Unless a rule requires otherwise, amounts to be reported within the *firm's* balance sheet and profit and loss account should be determined in accordance with:

(i) the requirements of all relevant statutory provisions (e.g. Companies ~~Acts 1985 to~~ Act 2006, and secondary legislation made under the ~~these Acts~~ this Act) as appropriate;

…

…

Section B: Profit & Loss Account

…

Sub-section B1 – regulated business revenue: covers the data required on the *firm's* revenue from its *regulated activities* within the scope of the RMAR.

…

Section D: ~~Capital Resources~~ Regulatory Capital

Note: *Home purchase*, *reversion* and *regulated sale and rent back activity* should be included under the heading of home finance in this section of the RMAR.

In this section there are separate calculations of capital resources and capital resources requirements for the different types of business covered by the data requirements. The calculations are the same, however, for both *home finance mediation activity* and *insurance mediation activity* relating to *non-investment insurance contracts.*

(i) ~~Section **D1**~~ The left column of the form covers the appropriate capital resources and connected requirements in *MIPRU* chapter 4 for *firms* carrying on *home finance mediation activity* ….

(ii) For such a *firm* that is also subject to *IFPRU* or *GENPRU* and *BIPRU*, the requirement is the higher of the two capital resources requirements that apply (see *MIPRU* 4.2.5R) and is compared with the higher of the two capital resources calculations (see *MIPRU* 4.4.1R).

(iii) For such a *firm* that is also subject to *IPRU (INV)*, the requirement is as computed in *IPRU (INV)* 13.13.3R and is compared with the higher of the two capital resources calculations (see *MIPRU* 4.4.1R).

(iv) Standard 'version 1' credit unions are exempt from the capital requirements under the Credit Unions sourcebook (*CREDS*). For other credit unions, the capital resources requirement should be the higher of the amounts required under *MIPRU* and *CREDS*.

(vi) *Firms* that carry on *designated investment business* and are subject to the RMAR, but do not meet the definition of *personal investment firm* are not subject to the requirements of *IPRU(INV)* Chapter 13. Such *firms*, eg, stockbrokers that advise on *retail investments* as an incidental part of their business, remain subject to the financial resources requirements associated with their principal *regulated activities*.

~~(ii) Section D6 covers the appropriate capital resources and connected requirements for *personal investment firms* that carry on *retail investment activities*. Those *firms* that carry on *designated investment business* and are subject to the *RMAR*, but do not meet the definition of *personal investment firm* (i.e. are not subject to *IPRU(INV)*) Chapter 13, are **not** subject to this section. Such *firms*, e.g. smaller stockbrokers that advise on *retail investments* as an incidental part of their business, remain subject to the financial resources requirements associated with their principal *regulated activities.* These additional capital resources requirements are not calculated as part of the *RMAR*, although will be relevant for the comparison required under *MIPRU* 4.2.5R.~~

~~Some *credit unions* are exempt from the capital resources requirements in *MIPRU*, under the terms set out in 4.1.8R of that sourcebook, although they have a capital resources requirement under the Credit Unions sourcebook ('*CREDS*'). For other *credit unions*, the capital resources requirement should be the highest of the amounts required under *MIPRU*, *CREDS* or *IPRU(INV)* (if applicable).~~

~~*Firms* are required to complete the Sections that are applicable for the types of business they undertake. *Personal investment firms* must complete section D6 to arrive at the totals required in D1 (if D1 is relevant to them). They should calculate their capital resources for the purpose of Section D6 as per Chapter 13 of (*IPRU(INV)*).~~

Guide for the completion of individual fields

~~**Section D1: firms within the scope of *MIPRU* chapter 4**~~

Is the *firm* exempt from these capital requirements in relation to any of its retail mediation activities?	The *firm* should indicate here if any *Handbook* exemptions apply in relation to the capital resources requirements in *MIPRU* or *IPRU(INV)* 13. Examples of *firms* that may be subject to exemptions include: • Lloyd's *managing agents* (*MIPRU* 4.1.11R); • solo consolidated *subsidiaries* of *banks* or *building societies*; • small *credit unions* (as defined in *MIPRU* 4.1.8R); and • *investment firms* not subject to *IPRU(INV)* 13 (unless they additionally carry on *home finance mediation activity* or *insurance mediation activity* relating *to non-investment insurance contracts*).
Home finance and non-investment insurance intermediation- MIPRU	
…	
~~Additional capital resources requirements for PII (if applicable)~~	~~If the *firm* has any increased excesses on its PII policies, the total of the additional capital resources requirements required by the tables in *MIPRU* 3.2.13R or *MIPRU* 3.2.14R should be recorded here. See also section E of the RMAR.~~
Other *FCA* capital resources requirements (if applicable)	… If the *firm* carries on *designated investment business* as well as *home finance mediation activity, insurance mediation activity* or both, requirements under ~~both~~ *IPRU(INV)*, *IFPRU*, *GENPRU* or *BIPRU* and *MIPRU* must be considered, ~~as it is the higher of the requirements that needs to be met~~ to determine the appropriate requirement (see general ~~note~~ notes (i) to (iii) above). ~~So if~~ If the resulting requirement ~~under *IPRU(INV)* or *BIPRU*~~ for a *firm* is higher than the base *MIPRU* requirement, then you should include the difference here.
Additional capital resources requirements for PII (if applicable)	If the *firm* has any increased excesses on its PII policies, the total of the additional capital resources requirements required by the tables in *MIPRU* 3.2.13R or *MIPRU* 3.2.14R should be recorded here. See also section E of the

	RMAR.
TOTAL CAPITAL RESOURCES REQUIREMENT	~~Appropriate totals from above~~ Total of lines 5,6 and 7.
~~TOTAL~~ CAPITAL RESOURCES	This should be the ~~total of the~~ capital resources calculated in accordance with *MIPRU* 4 ~~in this section (D1)~~ for incorporated or unincorporated *firms* as applicable. For *firms* that are additionally subject to *IPRU(INV)*, *IFPRU*, *GENPRU* ~~*BIPRU*~~ or ~~*CRED*~~ *CREDS*, this should be the higher of the ~~amount calculated in this section ('total~~ capital resources per MIPRU 4~~')~~ and the financial resources determined by *IPRU (INV)*, *IFPRU*, ~~*BIPRU*~~ *GENPRU* or ~~*CRED*~~ *CREDS*. See *MIPRU* 4.4.1R.
~~TOTAL~~ CAPITAL RESOURCES EXCESS/DEFICIT	This should show the ~~amount of~~ difference between the capital resources that the *firm* has ~~in relation to~~ and its capital resources requirement.
Personal investment firm (retail investment activities only) – IPRU(INV) 13	
Note: *Firms* that carry on retail *investment activities*, but no other *designated investment* business, are subject to this section.	
Category of *personal investment firm*	If the *firm* is subject to *IPRU(INV)* 13, it should enter here its category as defined in the *Glossary*, ie, *category B1 firm* etc.
Capital resources requirement	The capital resources requirement should be calculated in accordance with *IPRU(INV)* 13.15.3R. The minimum capital resources requirement is £20,000.
Additional capital resources requirement for PII (if applicable)	If the *firm* has increased excesses or exclusions on its PII policies, the total of the additional capital resources requirements required by *IPRU(INV)* 13.1 should be recorded here. See also Section E of the RMAR.
Other *FCA* capital resources requirements (if applicable)	The *FCA* may, from time to time, impose additional requirements on individual *firms*. If this is the case for your *firm*, you should enter the relevant amount here. This excludes capital

	resources requirements in relation to PII, which are recorded above.
Total capital resources requirement	The total of lines 12, 13 and 14.
Capital resources	Capital resources should be calculated in accordance with *IPRU(INV)* 13.15.3R.
Surplus/deficit of capital resources	This is the difference between the capital resources (line 16) and the total capital resources requirement (line 15)
~~Eligible capital~~ Capital resources per MIPRU 4 (home finance and non-investment insurance intermediation)	
Incorporated firms	
…	
Interim net profits	Interim net profits should be verified by the *firm's* external auditor, net of tax or anticipated dividends and other appropriations ~~to be included as capital~~. …
…	
~~Subordinated~~ Eligible subordinated loans	Subordinated loans should be included in capital resources on the basis of the provisions in *MIPRU* 4.4.7R and *MIPRU* 4.4.8R.
…	
Less interim net losses	Interim net losses should be reported where they have not already been incorporated into ~~audited~~ reserves or interim net profits. The figures do not have to be audited to be included.
Unincorporated firms and limited liability partnerships	
…	
~~Subordinated~~ Eligible subordinated loans	Subordinated loans should be included in capital resources on the basis of the provisions in *MIPRU* 4.4.7R and *MIPRU* 4.4.8R.
Personal assets not needed to meet non-	*MIPRU* 4.4.5R and *MIPRU* 4.4.6G allow a *sole trader* or *partner* to use personal assets to

business liabilities	cover liabilities incurred in the *firm*'s business unless: (1) those assets are needed to meet other liabilities arising from: (a) personal activities; or (b) another business activity not regulated by the *appropriate regulator*; or (2) the *firm* holds *client money* or other *client* assets. This field may be left blank if the *firm* satisfies the capital resources requirement without relying on personal assets.
…	
~~Personal assets not needed to meet non-business liabilities~~	~~*MIPRU* 4.4.5R and 4.4.6G allow a *sole trader* or *partner* to use personal assets to cover liabilities incurred in the *firm*'s business unless:~~ ~~(1) those assets are needed to meet other liabilities arising from:~~ ~~(a) personal activities; or~~ ~~(b) another business activity not regulated by the *appropriate regulator*; or~~ ~~(2) the *firm* holds *client money* or other *client* assets.~~ ~~This field may be left blank if the *firm* satisfies the capital resources requirements without relying on personal assets.~~
Capital resources per IPRU(INV) 13.15.3R	
IPRU(INV) requires that all ~~non-*MiFID*~~ *personal investment firms* have financial resources of at least £20,000 at all times. This section is designed to evaluate *firms*' adherence to this requirement. The amounts entered here should be in accordance with IPRU(INV) 13.15.3R.	
…	

…

In SUP 16 Annex 24R, FSA032: Capital Adequacy (for *exempt CAD firms* subject to *IPRU(INV)* Chapter 13 is deleted and replaced with the following text. The deleted text is not shown and the new text is not underlined.

		A
	Regulatory Capital	
	Own Funds	
1	Ordinary share capital which is fully paid	
5	Perpetual non-cumulative preference share capital which is fully paid	
3	Share premium account	
4	Reserves (excluding revaluation reserves)	
45	Audited retained earnings	
46	Externally verified interim net profits	
47	Partners' capital	
2	Eligible LLP Members' Capital (in accordance with the provisions of IPRU (INV) Annex A)	
48	Sole trader capital	
8	Less: Investments in own shares at book value	
9	Intangible assets	
10	Material current year losses	
12	Excess of current year's drawings over current year profits	
13	Revaluation reserves	
14	Perpetual cumulative preference share capital and debt capital	
15	Long-Term subordinated loans (in accordance with IPRU (INV) 13.1A.18 to 13.1A.20)	
16	Fixed term preference share capital (if not redeemable by shareholders within 5 years)	
11	Less: Material holdings in credit and financial institutions and material insurance holdings	
17	Own Funds	
	Regulatory capital test	
23	How do you meet your regulatory capital requirement?	
	Capital requirement	
24	Own funds requirement (will always be a minimum of £20k even if PII / combination indicated)	
25	Additional capital resources requirement for PII (if applicable)	
26	Other regulatory capital / own funds requirements (if applicable)	
27	Own Funds	
28	Surplus / (deficit)	
	Professional Indemnity Insurance	
49	Does your firm hold PII?	
32	If not, does your firm hold a Comparable Guarantee or is it otherwise exempt from the requirement to hold PII?	
34	Does your firm conduct insurance mediation activities?	
35	Has your firm renewed its PII cover since the last reporting date?	
36	If your policy excludes all business activities carried on prior to a particular date (i.e. a retroactive start date), then insert the date here.	
37	Is the cover compliant?	

38

	A	B	C	D	M	E	F	G	H	J	K
	PII Basic information									PII detailed information	
					Currency of	Limit of indemnity required		Limit of indemnity received			
PII policy	Annualised premium	Insurer (from list)	Start date	Renewal date	indemnity limits	Single	Aggregate	Single	Aggregate	Business line	Policy excess
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											

		A
39	Annual income as stated on the most recent proposal form	
40	Amount of additional capital required for increased excess(es) (Where applicable, total amount for all PII policies)	
41	Total amount of additional own funds required for policy exclusion(s)	
42	Total of additional own funds required	
43	Total of readily realisable own funds	
44	Excess / (deficit) of readily realisable own funds	

Amend the following text as shown.

16 Annex 25AG **Guidance notes for data items in SUP 16 Annex 24R**

…

FSA032 – Capital Adequacy (for *exempt CAD firms* subject to *IPRU(INV)* Chapter 13)

…

Defined Terms

Terms referred to in these notes where defined by the Companies ~~Acts 1985 and~~ Act 2006~~, as appropriate,~~ or the provisions of the firm's accounting framework (usually UK GAAP or IFRS) bear that meaning for these purposes. The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology without departing from their full meaning or effect.

- The data item should comply with the principles and requirements of the firm's accounting framework, which will generally be UK GAAP (including relevant provisions of the Companies ~~Acts1985~~ ~~and~~ Act 2006 ~~as appropriate~~) or IFRS.

…

Description	Data element	G
Regulatory Capital		
Ordinary share capital which is fully paid up	1A	Item 1 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Perpetual non-cumulative preference share which is fully paid	5A	Item 2 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Share premium account	3A	Item 3 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Reserves excluding revaluation reserves	4A	Item 4 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Audited retained earnings	45A	Item 5 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Externally verified interim net profits	46A	Item 6 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Partners' capital	47A	Item 7 in *IPRU(INV)* ~~13.1A.7R~~

Eligible LLP members' capital (in accordance with the provisions of *IPRU(INV)* Annex A)	2A	Item 8 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
Sole trader capital	48A	Item 9 in *IPRU(INV)* ~~13.1A.7R~~ 13.1A.6R
…		
Regulatory capital test(s)		
How do you meet your regulatory capital requirement?	23A	The rules allow a firm to specify the method in which it will meet the regulatory capital requirement. A firm can: • use capital to meet the regulatory requirement; or • use PII to meet the regulatory requirement; or • use a combination of capital and PII to meet the regulatory requirement. A firm should select from the drop-down options. (If a firm uses PII to meet the regulatory requirements it will nevertheless always require a minimum ~~£10,000~~ of £20,000 of *own funds* ~~initial capital~~. ~~For the purposes of this question, the minimum initial capital held by the firm can be ignored~~.)
Capital requirement		
Own funds requirement	24A	The *own funds* requirement ('OFR') should be calculated in accordance with section *IPRU(INV)* 13.1A (excluding the calculation under *IPRU(INV)* 13.13 if that is higher). Where a firm chooses to meet the regulatory requirements using PII the OFR will be a minimum of ~~£10,000~~ £20,000.
Additional ~~*own funds*~~	25A	If the firm has any ~~increased~~

capital resources requirement for PII (if applicable)		excesses over the minimum prescribed or exclusions ~~on~~ in its PII policies, this should be the total of the additional capital resources requirements required by *IPRU(INV)* ~~13.1.4~~ 13.1.27R and/or 13.1.23R, respectively.
Other appropriate ~~regulator~~ regulatory capital/*own funds* requirements (if applicable)	26A	~~Firms subject to a requirement under *IPRU(INV)* 13.2-8 or 13.9-12 should include that requirement as calculated by reference to the firm's own funds calculated under *IPRU(INV)* 13.1A to the extent it exceeds the own funds requirement in 24A. This excludes capital requirements in relation to PII.~~ ~~For example, where an ECF is subject to an expenditure based requirement (EBR) the firm would need to express the EBR in terms of 'own funds' by adjusting for the extent to which the own funds exceeds it's Test 2 financial resources. Where the adjusted requirement exceeds the own funds requirement reported in 24A, the difference between both requirements should be reported here.~~ Under *IPRU(INV)* 13.1A.2R, a *firm* will be potentially subject to a requirement under *IPRU(INV)* 13.13.2R and should include that requirement here to the extent it exceeds the own funds requirement in 24A. This section excludes capital resources requirements in relation to PII.
Surplus / (deficit)	28A	This is the ~~amount of~~ difference between the firm's *own funds* as calculated under *IPRU(INV)* 13.1A ~~in relation to~~ and its ~~*own funds*~~ capital resources requirement. A firm's ~~*own funds*~~ capital resources requirement is the total of 24A, 25A and 26A. So, such a firm should

		compare this requirement with the *own funds* ~~calculated~~ in 27A to compute the surplus/(deficit).
~~*Adjusted net current Assets*~~		~~The purpose of this test is to ensure that the firm has adequate working capital to be able to meet its liabilities as and when they fall due. It does this by taking the firm's net current assets (from FSA029), and applying the following actions:~~ ~~(1) excluding assets which cannot be realised or recovered within twelve months;~~ ~~(2) excluding amounts receivable from connected persons (to the extent that they are not properly secured, except certain allowable deposits);~~ ~~(3) valuing investments at current market value.~~
~~Adjusted net current assets requirement (if applicable)~~	~~29A~~	~~All personal investment firms except low resource firms should at all times have adjusted net current assets of at least £1.~~ ~~Low resource firms should enter 'n/a' here.~~
~~Adjusted net current assets (if applicable)~~	~~30A~~	~~Adjusted net current assets should be calculated in accordance with *IPRU(INV)* 13.11.~~
~~Surplus / (deficit) (if applicable)~~	~~31A~~	~~This shows whether the firm's net current assets are positive.~~
…		

~~FSA032 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13) validations~~

~~Internal validations~~

~~Data elements are referenced by row, then column.~~

~~Validation number~~	~~Data element~~		
~~1~~			~~[deleted – replaced by validation 9]~~
~~2~~	~~22A~~	~~=~~	~~18A – 19A – 20A-21A~~
~~3~~	~~28A~~	~~=~~	~~27A – 24A – 25A – 26A~~
~~4~~	~~30A~~	~~=~~	~~22A~~
~~5~~	~~31A~~	~~=~~	~~30A~~
~~6~~			~~29A~~
~~7~~			~~[deleted~~
~~8~~	~~44A~~		~~]~~
~~9~~	~~17A~~		~~[deleted – replaced by validation 10]~~
		~~=~~	~~43A – 42A~~
~~10~~	~~42A~~	~~=~~	~~1A + 5A + 3A + 4A + 45A + 46A + 47A + 2A + 48A – 8A~~
~~11~~	~~42A~~	–	
			~~9A – 10A – 12A + 13A + 14A + 15A + 16A – 11A~~
		~~=~~	~~25A~~
		~~=~~	~~40A + 41A~~

…

Part 2: Comes into force on 1 September 2016

16 Annex 18BG Notes for Completion of the Retail Mediation Activities Return ('RMAR')

…

Guide for the completion of individual fields

…	
Personal investment firm (retail investment activities only) – IPRU(INV) 13	
…	
Other FCA capital resources requirements (if applicable)	The *FCA* may, from time to time, impose additional requirements on individual *firms*. If this is the case for your *firm*, you should enter the relevant amount here. This excludes capital resources requirements in relation to PII, which are recorded above.

	A *firm* that has a permission to operate a personal pension will be subject to an additional capital requirement under *IPRU (INV)* 5, this should be included here.
…	

…

Financial Conduct Authority

PUB REF: 005003

25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk