

Financial resources for investment firms

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This guide is for:

- investment firms that give advice on and/or arrange deals in investments, including firms that also advise on or arrange regulated mortgage contracts and general insurance products.

Firms that only sell mortgage or general insurance products should see our factsheet: *Financial resources for mortgage and general insurance firms*.

It explains:

- what minimum amount of funds you must have to meet the Financial Services Authority's (FSA) basic financial resources requirements;
- which of the FSA's financial rules apply depending on which business you do;
- the implications of not holding sufficient funds; and
- what to do if you find that you do not have enough funds to meet the FSA's requirements.

It also explains:

- about reporting your financial information to the FSA;
- where accounting standards and FSA financial requirements interact; and
- where to go for further information.

This guide gives a summary of key minimum financial standards that investment firms need to meet to be allowed to carry out the services of advising on and arranging of investments, regulated mortgage contracts and general insurance products.

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The financial rules shown below apply to you if your firm is:

- not a network;
- not allowed to carry out discretionary portfolio management or delegate those kind of activities to an investment firm;
- only allowed to arrange transactions in life policies, advise on investments and to receive and transmit orders in relation to securities and units in collective investment schemes; and
- has fewer than 26 financial advisers or representatives.

- You must have £10,000 of own funds IPRU(INV) 13.10.2R to support your business.

Own funds IPRU(INV) 13.10.2R are also known as regulatory capital.

Note: If you are a sole trader, you can use personal assets to meet any shortfall in your own funds IPRU(INV) 13.10.2R requirement. However, it is not necessarily enough to have £10,000 in a bank account as deductions for personal liabilities can mean that the amount actually available to your business is less than £10,000.

- You must meet your liabilities as they fall due.
- You will need to set aside additional funds if your professional indemnity insurance (PII) has an excess higher than £5000. These funds have to be available within 90 days.
- You will need further funds to cover any liabilities from business lines that your professional indemnity insurance excludes. These funds also have to be available within 90 days.

More detailed explanations of the rules and how to calculate whether you have the required funds can be found in IPRU(INV) 13.10.1R to 13.10.3R.

IMPORTANT: If you do not have enough funds to meet these requirements you risk losing your permission to continue doing regulated business. Therefore, if you find that you do not have enough funds to meet the regulatory requirements it is essential that you tell the FSA's firm contact centre immediately, including information about how you plan to correct the shortfall. Having less than the required funds is a breach of FSA rules and so the FSA will expect you to take urgent action to protect your customers.

Investment firms that also do mortgage and/or general insurance intermediation

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If you also advise on and arrange mortgage and general insurance products you will need to do a further calculation. This is because you have to compare whether the mortgage and general insurance financial rules require you to hold more than the £10,000 required by IPRU(INV). The table below summarises the minimum financial requirements for different levels of annual income from mortgage and general insurance intermediation.

Annual income (as defined in MIPRU 4.3.3R) from m&gi business	Minimum financial requirement	Brief explanation	Rule reference(s)
For investment firms that also do mortgage and/or general insurance mediation (m&gi) but do not hold client money			
< £400,000	£10,000	The rules say that the minimum financial requirement is the higher of £10,000 or 2.5% of annual income from m&gi business.	IPRU(INV) 13.10.1R and MIPRU 4.2.11R (1)
>£400,000	2.5% of annual income from m&gi business		
For investment firms that also do mortgage and/or general insurance mediation (m&gi) and hold client money in relation to that business (but not in a non-statutory trust)			
<£200,000	£10,000	The rules say that the minimum financial requirement is the higher of £10,000 or 5% of annual income from m&gi business	IPRU(INV) 13.10.1R and MIPRU 4.2.11R (2)
>£200,000	5% of income from m&gi business		
For investment firms that also do mortgage and/or general insurance mediation (m&gi) and hold client money in a non-statutory trust in relation to insurance mediation business			
<£1,000,000	£50,000	The rules say that the minimum financial requirement is the higher of £50,000 or 5% of annual income from m&gi business.	IPRU(INV) 13.10.1R and CASS 5.4
>£1,000,000	5% of annual income from m&gi business		

You will only need to calculate the additional requirements in relation to any PII excesses and exclusions once, according to the rules in IPRU(INV) Chapter 13. You should note when calculating the amount of own funds that IPRU(INV) 13.10.2R requires the deduction of goodwill.

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- If you are an investment firm, as outlined above, you need to set aside at least £10,000 of own funds IPRU(INV) 13.10.2R to be allowed to do regulated investment business.
- If your PII has any excesses over £5000 or excludes any business lines you will need to hold further funds. These funds must be ready realisable within 90 days.
- If, at any time, your firm does not meet the required minimum financial standards, or believes it may not do in the foreseeable future, you must contact the FSA immediately.
- If you also carry out mortgage or insurance intermediation, you will need to compare whether the mortgage and general insurance financial rules require you to hold more than the £10,000 required by IPRU(INV). The amount of capital required to be held under the mortgage and general insurance rules depends on the amount of income earned from those activities, whether the firm holds client money, and if it does hold client money, the type of bank account that the client money is held in.
- If you hold client money as part of doing general insurance mediation then higher financial requirements will apply.

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Reporting your financial situation to the FSA

You must provide the FSA with a range of information on a six monthly basis by completing the Retail Mediation Activity Report (RMAR). This information includes certain financial data that needs to be submitted in sections A (the balance sheet), B (profit and loss account) and D (regulatory capital). You can find more information on how to complete the RMAR, including worked examples, on our website.

<http://www.fsa.gov.uk/smallfirms>

Accounting Standards and FSA financial requirements

There are a number of areas where you need to be aware of the impact that certain accounting decisions can have on the calculation of your own funds IPRU(INV) 13.10.2R. These areas typically relate to the treatment of goodwill, directors' loans and the tax treatment of liabilities. Take a look at the guide to appointing an accountancy firm and examples of poor advice given to firms for more information.

<http://www.fsa.gov.uk/financialadviser>