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Dear Chair of the Board,

Governance requirements of a significant IFPRU firm

Under the Capital Requirements Directive 2013/36/EU (CRD IV), the largest firms (classified as ‘significant’¹) are required to have additional governance arrangements in place to support their risk management framework².

We have completed a number of Supervisory Review and Evaluation Process (SREP) cycles on P1 and P2 significant IFPRU firms and have found that many firms have not complied with these CRD IV governance requirements or have applied a narrow interpretation in their implementation. This potentially represents a serious gap in firms’ governance for which there needs to be plans to restore compliance within a reasonable period.

Consequently, we have recently undertaken a cross firm review to assess the extent to which firms are following these governance requirements. As part of this review, we surveyed a sample of 37 significant IFPRU firms to assess their implementation of these requirements. The review has identified some areas where a narrow interpretation has been applied and there is a potential for non-compliance with the requirements, which we wish to highlight to all significant IFPRU firms. These are issues that we expect all significant IFPRU firms, including your firm, to address as a result of this letter.

The primary objective of the review is to ensure the structures to support the requirements are in place in order to allow the FCA in future to focus on the effectiveness of the governance arrangements rather than their form. The findings of this review will also be used to inform our consideration of waiver applications with respect to the thresholds applicable for determining a significant IFPRU firm that relate to one or more of the governance requirements in relation to committees³, including applications when existing waivers expire.

¹ The requirements apply to firms defined as “significant IFPRU firms” in IFPRU 1.2.3R; the FCA designed the thresholds to capture 66% of the overall impact of IFPRU investment firms measured by firm’s assets, liabilities, fee income, client assets and client money. See [Consultation Paper CP13/6 \(Chapter 5\)](#) and [Policy Statement PS13/10](#).

² See appendix 1 for a list of the requirements in scope.

³ As per [IFPRU 1.2.9G \(1\) b, c & d](#).

Top issues to be addressed

1. A separate chair and CEO of the board

The chairperson of the board of an institution must not simultaneously carry out the functions of a chief executive officer within the same institution, unless justified by the institution and authorised by the FCA. We have found instances where firms have not appointed a chair and therefore the CEO has carried out the duties expected of a chair.

2. Board risk, nominations and remuneration committees

- Significant IFPRU firms must have these three committees in place at the relevant entity level. We have found several instances where the committees relied upon are formed elsewhere in the group. These arrangements are not permitted in the absence of a waiver⁴ from the thresholds that apply in determining a significant IFPRU firm which relates to one or more of these committees.
- These committees must be solely comprised of non-executives.
- Some firms have combined the risk and audit committee. This is not permitted for significant IFPRU firms (see SYSC 7.1.18AAG).

3. Removal of the head of the risk management function

Many firms' board's terms of reference allowed the board to remove the head of risk management. However it was unclear whether this was a matter reserved for the board and that the head of risk management could not be removed through other means without formal consent from the board.

Actions to be taken

We remind you of your obligation to ensure your firm complies with CRD IV requirements for significant IFPRU firms, and with specific reference to the points highlighted in this letter. As an IFPRU investment firm, a SREP of your firm will take place within the next 36 months.

Additionally we would like to draw your attention to the handbook notice that we published in regards to stress testing requirements for significant IFPRU firms⁵.

In parallel with this letter, the FCA is publishing a letter addressed to the CEO of investment firms prudentially classified as P3; the objective of which is to remind them of their obligations to have an ICAAP that follows CRDIV and EBA guidelines on common procedures and methodologies for the SREP. For information on how the FCA will conduct our SREP in line with these published EBA guidelines please see the implementation pages on our website⁶.

Yours faithfully,



Andrew Bailey
Chief Executive

⁴ Under [IFPRU 1.2.9G](#). In its application for such waiver, the FCA expects a firm to demonstrate, taking into account size, nature, scope and complexity of its activities in the context of it being a member of a group and the internal organisation of the group, that it should not be considered as significant.

⁵ [Handbook notice No.32 - April 2016](#)

⁶ See <https://www.the-fca.org.uk/firms/crd-iv>

Appendix 1 - Governance requirements in scope of this review

| Requirement | CRD IV Article | FCA Handbook ref |
|--|----------------|-----------------------------------|
| Board Risk Committee composed exclusively of non-executive directors (NEDs) | 76 | IFPRU 1.2.1G (1) & SYSC 7.1.18R |
| Board Nominations Committee composed exclusively of NEDs | 88 | IFPRU 1.2.1G (2) & SYSC 4.3A.8R |
| Board Remuneration Committee composed exclusively of NEDs | 95 | IFPRU 1.2.1G (4) & SYSC 19A.3.12R |
| Head of the risk management function has direct access to the board* | 76(5) | SYSC 7.1.21R |
| Head of the risk management function cannot be removed without the approval of the board * | 76(5) | SYSC 7.1.22R |
| A separate Chair and CEO of the board * | 88(1) | SYSC 4.3A.2R |

* These three requirements apply to all IFPRU investment firms not just those classified as significant.