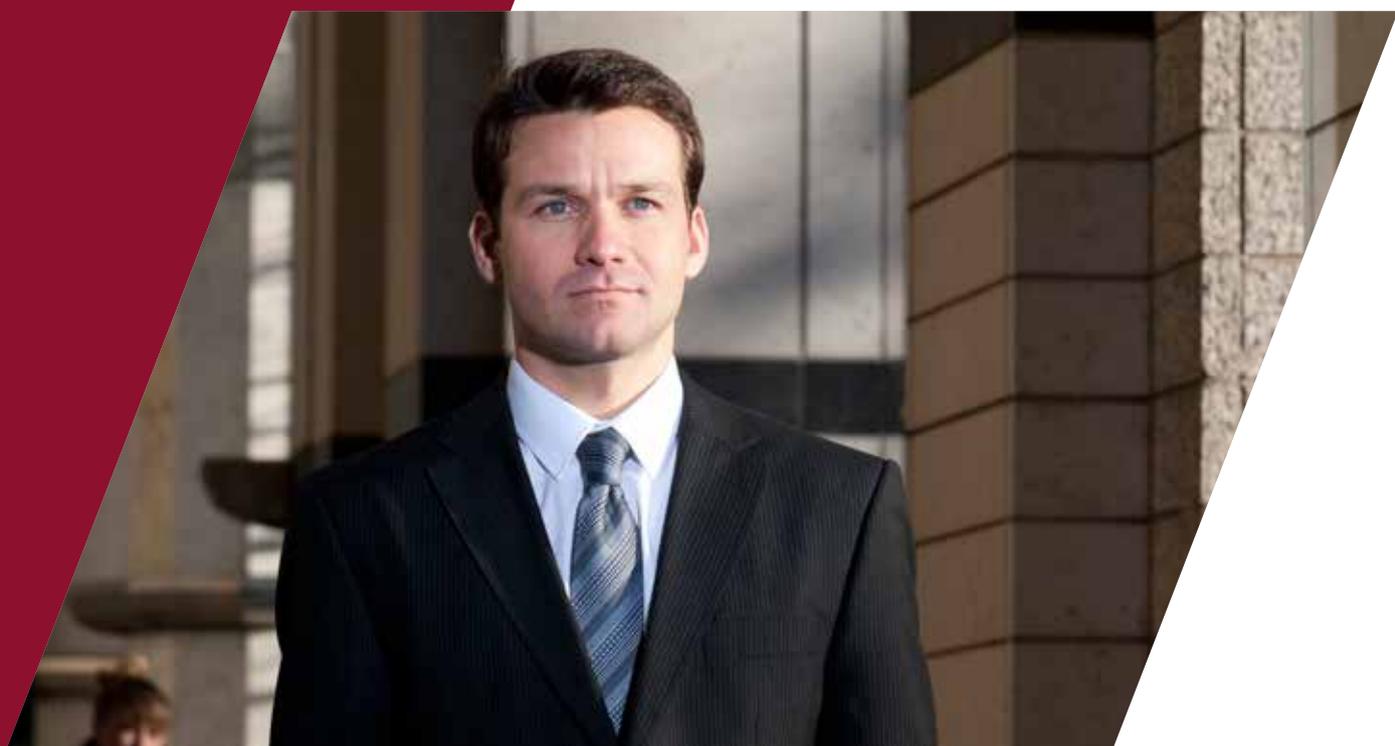


Capital resources requirements for Personal Investment Firms (PIFs): Feedback on CP15/17 and final rules

December 2015



Contents

Abbreviations used in this paper	3
1 Overview	5
2 Summary of feedback and our responses	11
Annex	
1 List of non-confidential respondents	26
Appendix	
1 Made rules (legal instrument)	28

In this Policy Statement we report on the main issues arising from Consultation Paper 15/17 Capital resources requirements for Personal Investment Firms (PIFs) and publish the final rules.

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Abbreviations used in this paper

BIPRU	Prudential sourcebook for Banks, Building Societies and Investment Firms
CAD	Directive 2006/49/EC or Capital Adequacy Directive
CP	Consultation Paper 15/17: Capital resources requirements for Personal Investment Firms (PIFs)
CRD	Capital Requirements Directive (EU Directive 2013/36/EU), which forms part of the CRD IV legislative package
CRD IV	CRR and the CRD
CRR	Capital Requirements Regulation (EU Regulation 575/2013), which forms part of the CRD IV legislative package
EBR	Expenditure Based Requirement
EU	European Union
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
ICAAP	Individual Capital Adequacy Process
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

PS	Policy Statement
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)
RMAR	Retail Mediation Activities Return
SIPP	Self-Invested Personal Pension

1. Overview

Introduction

- 1.1** On 28 May 2015, we published a Consultation Paper (CP)¹ proposing changes to our Handbook of rules and guidance to introduce new capital resources requirements for personal investment firms (PIFs). These provisions are in Chapter 13 of the Interim Prudential sourcebook for Investment Businesses (IPRU (INV)).
- 1.2** In this policy statement (PS), we summarise the feedback we received to the CP and give our responses. We also set out the final rules, which will enter into force on 30 June 2016.

Who does this affect?

- 1.3** 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
 - professional and trade bodies representing PIFs and other types of financial adviser
 - 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
 - consumers and consumer organisations

Is this of interest to consumers?

- 1.4** 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.
- 1.5** It is not easy for consumers to assess the financial viability of their current or a prospective advisory firm. This information asymmetry means consumers have to rely on the existence and

¹ <http://www.fca.org.uk/static/documents/consultation-papers/cp15-17.pdf>

supervision of prudential, conduct and professionalism rules to help underpin their view of their adviser.

- 1.6** Accordingly, we think this PS will be of interest to consumers and consumer associations.

Context

- 1.7** PIFs provide financial advice to retail consumers on investment products, generally without holding client money.² This includes, but is not restricted to: pension planning, investment product selection, and income and estate protection. There are approximately 5,000 directly authorised firms in the PIFs sector and 9,000 appointed representative firms. PIFs provide both restricted and independent advice. Our rule changes relate only to directly authorised PIFs.
- 1.8** The current capital resources rules date back to 1994, and were due to be replaced on 31 December 2015 by the rules originally made by the Financial Services Authority (FSA) in PS09/19.³ Both the existing and the PS09/19 rules use a PIF's fixed expenditure to set the variable capital requirement, albeit the existing rules differentiate based on the number of advisers in the firm. That differentiation means that over 90% of PIFs are currently required to hold only the minimum £10,000 of capital resources, regardless of their income.
- 1.9** Although most PIFs do not hold client money, they can cause damage to consumers' finances either by providing poor advice or by making an inadvertent mistake. Our policy proposals in the CP therefore seek to ensure all PIFs hold a proportionate and similarly calculated level of capital resources to help absorb routine losses and meet redress claims made against them.
- 1.10** In the CP we proposed:
- to revoke the deferred rules (originally made by FSA in PS09/19⁴), and
 - to introduce, with effect from 30 June 2016, a new capital resources requirement that is the higher of:
 - £20,000, or
 - a variable requirement of 5%⁵ of a firm's investment business annual income⁶
- 1.11** Our proposals include a proportionate staged introduction for smaller firms by increasing the minimum capital resources requirement (from the current £10,000) to £15,000 from 30 June 2016, before reaching the required £20,000 from 30 June 2017. This gives firms time to secure any necessary additional financial resources, whilst taking into account the fact that the

² For this purpose, a PIF is broadly defined as a firm for which the most substantial part of its gross income is derived from advising on or arranging deals in investments in relation to packaged products and/or managing investments for retail clients.

³ In November 2009, the FSA published PS09/19. This introduced an expenditure-based capital resources requirement of 13 weeks (13/52) for all PIFs, subject to a minimum of £20,000.

⁴ The instruments to be revoked are listed on page 1 of the Capital resources and professional indemnity insurance requirements for personal investment firms (no 2) instrument 2015 (see Appendix 1).

⁵ For the very few firms that have a permission that allows them to manage portfolios of, deal as principal in, or hold client money for life policies, we propose that the percentage should be 10% to reflect the perceived higher prudential risk that attaches to such activities.

⁶ The method for calculating a firm's investment business annual income is set out in the new rules in IPRU (INV) Section 13.14.

deferred PS09/19 rules created an expectation that the capital resources requirements are to increase.⁷

- 1.12** The current minimum capital resources requirement (£10,000) has almost halved in real terms since it was set in 1994. As a result, it would now be insufficient to meet just one average pension or investment claim following unsuitable advice. We do not want compliant PIFs to fail unexpectedly under normal operating conditions, resulting in claims on the Financial Services Compensation Scheme (FSCS), which would then need to be funded by other firms in the sector.
- 1.13** The current rules for larger PIFs (with over 25 advisers) and the PS09/19 deferred rules for all PIFs include a fixed expenditure-based requirement (EBR). This means PIFs with similar incomes could have a very different requirement depending on their business model. For example, PIFs with self-employed advisers have lower relative fixed costs than those with salaried advisers, resulting in a lower requirement. Use of an EBR can disincentivise firms from investing in their business or taking on employed advisers, as it leads to a capital resources requirement before such investment has had time to generate a return.
- 1.14** Investment business income is a more suitable way to address the capital resources requirement across different business models, providing a better proxy for the scale of risk that an individual PIF poses in terms of potential harm to consumers and market disruption. We propose that 5% of annual income is proportionate for PIFs, where this figure is higher than the minimum of £20,000.

FCA objectives

- 1.15** Implementation of the new rules will advance our objectives to secure an appropriate degree of consumer protection, enhance market integrity and promote effective competition.

Consumer protection

- 1.16** The proposed new rules are based on 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.

Market integrity

- 1.17** When PIFs fail and leave a redress legacy, this cost is then mutualised by the FSCS by way of levies. These levies by definition fall on PIFs that have not failed or necessarily caused consumer detriment. We have committed to review the FSCS funding model in 2016, however our duty as the prudential regulator in this market is to make its operation as fair as possible to market

⁷ Our cost benefit analysis identified that, of 4,000 firms analysed, 587 subject to the new minimum requirement currently hold lower resources than the new level.

participants while remaining proportionate. The capital resources that PIFs are required to hold should help reduce the size of the potential FSCS redress. Adequately capitalised PIFs should be better 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.

Promoting effective competition

- 1.18** 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 both different and seemingly similar 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.
- 1.19** We believe that consistent and proportionate capital resources requirements based on income would support effective competition in the interests of consumers in this market. Firms would be required to hold sufficient capital resources to meet consumer expectations and this requirement would be set on a consistent basis. Properly capitalised firms are a feature of a well-functioning market. We suggest that the proposed requirements would not pose a significant barrier to exit or entry, and that they would not have a material impact on the fees that PIFs charge consumers. There may also be some beneficial impacts on competition due to improved market confidence.

Cost benefit analysis

- 1.20** The final rules set out in Appendix 1 to this PS do not differ significantly from the draft rules on which we consulted in the CP. The cost benefit analysis published in Annex 2 of the CP therefore remains unchanged.

Compatibility statement

- 1.21** The final rules set out in Appendix 1 to this PS do not differ significantly from the draft rules on which we consulted in the CP. We therefore consider that the statement of compatibility with our objectives and general duties published in Annex 3 of the CP remains valid.

Equality and diversity considerations

- 1.22** We have assessed the likely equality and diversity impacts of the rules and guidance and do not think they give rise to any concerns.

Summary of feedback and our responses

- 1.23** We received 28 responses to the CP. While most respondents agreed with the broad direction of the proposals, there is a variation in views from some. We have also received ideas to fine-tune the proposed requirement. Salient issues raised include:
- the requirement should be more granular, with higher rates for firms selling more risky products
 - the EBR should be retained to provide capital for a wind-down
 - the requirement should be based on the firm's net income rather than gross income
 - a higher minimum requirement should be imposed
 - the requirement should be based on more than one year's income with a lower rate
 - the proposed limit on subordinated loans should be removed, as it would be a barrier to entry
 - the approach should be changed for firms that are also subject to the Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries (MIPRU)⁸
 - a firm's approach to risk management should be considered, when determining the capital resources requirement, and
 - the review should be combined with consideration of the approach to the long-stop workstream, PII requirements and the approach to FSCS funding
- 1.24** We have considered the responses, and our view is that they do not present any justifiable reasons to change our CP proposals. The proposals were subject to a full cost benefit analysis, assuming a baseline requirement that firms should hold enough capital to survive an average number of legitimate redress claims. Most of the suggestions introduce additional complication without obvious benefit for a regime that must apply to 5,000 firms. In Chapter 2, we provide a full analysis of our responses to the points raised.
- 1.25** Although not raised in the consultation responses, we propose to clarify through guidance in IPRU (INV) 13.14.7G that, for the purpose of the income-based capital computation, a firm should ensure that it includes any of its investment business income that is accounted for by a third-party firm. This is a clarification of policy, rather than a change.

Next steps

What do you need to do next?

- 1.26** All PIFs should review the changes to our Handbook set out in Appendix 1 to establish how the new rules will affect their business and to identify any changes they may need to make to comply with them.

⁸ A PIF is also subject to MIPRU if it undertakes general insurance or home finance intermediation.

What will we do?

- 1.27** The majority of the Handbook changes set out in Appendix 1 will enter into force on 30 June 2016. Further changes to the requirements for PIFs with permission to establish, operate or wind up a personal pension scheme will be made on 1 September 2016 to coincide with the new capital framework for self-invested personal pension (SIPP) operators.⁹

⁹ www.fca.org.uk/static/documents/policy-statements/ps14-12.pdf.

2. Summary of feedback and our responses

- 2.1** In this chapter, we summarise the feedback received to the questions in the CP and set out our responses.

Use of an EBR

- 2.2** The current capital resources requirement, based on the expenditure of the firm, can result in significant variations when applied to the different business models currently used by PIFs. We do not wish to provide incentives for firms to change their business model simply to reduce their requirement, which might artificially distort effective competition between firms and stifle innovation.
- 2.3** Furthermore, we believe EBR rules can 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. Applying capital resources requirements based on expenditure can also add to the cost of a depreciating asset or the ongoing salary cost of permanent staff.
- 2.4** The capital resources requirements for PIFs would also benefit from simplification, which may help to encourage new entrants and thereby potentially increase competition.
- 2.5** We therefore concluded that continuing to set capital resources requirements for PIFs on an expenditure basis may not be fully consistent with the FCA's objectives, including the promotion of effective competition in the interests of consumers.
- 2.6** In the consultation, we asked:

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?

- 2.7** The majority of respondents agreed with the view.
- 2.8** However, two respondents supported the use of the EBR. The main reason given was that it enabled a firm to meet its commitments under normal operating conditions and ensure that sufficient resources are left behind for an orderly wind-up, should it be required. One argued that the concern about the discouragement of investment in infrastructure was overplayed, although it also acknowledged that the FCA had not previously applied the EBR to many PIFs.

- 2.9** Another respondent stated that the inconsistent impact of the EBR between business models could be addressed by permitting items representing investment in the future growth of the business to be excluded from the expenditure calculation, where such expenditure is not part of the firm's normal, ongoing operational cost base.
- 2.10** Finally, another respondent argued that the use of an EBR is an acceptable inconsistency that enables small firms to trade without tying up large amounts of capital in case a complaint is upheld that is not covered by PII. This prevents the capital being otherwise deployed in business development or staffing. They suggested a more realistic approach would be to link the capital resources requirement to the PI excess.

Our response

We note the comments made in respect of the use of the EBR as a means of ensuring a firm has sufficient resources for an orderly wind-down. However, this is not our primary reason for the proposed capital resources requirement; in any event, the level of expenditure can vary considerably between firms. Furthermore, experience in other sectors (for example, investment firms subject to the Capital Requirements Regulation (CRR)) suggests that one quarter's worth of expenditure would not necessarily be sufficient to achieve an orderly wind-down.

Our view is that allowing a firm to exclude expenditure relating to investment in future growth would not be significant enough to affect the inconsistent impact of the EBR on different business models, and, in practice, it would likely be difficult to identify and segregate such expenditure.

In our consultation, we stated that we were not proposing any changes to the current PII regime, which already includes requirements for how policy excesses and exclusions are treated (i.e. to hold additional capital resources which varies dependent on the amount of the policy excess). Any capital injected into the business to meet the requirement can be used for business purposes as we have not proposed or implemented a requirement for capital resources to be held in the form of liquid assets.

Policy options considered for the capital resources requirement

- 2.11** To arrive at the proposed policy approach, we considered a number of potential options as set out in the CP.
- 2.12** In the light of our policy aims, we identified income as the most suitable basis for setting the requirement; and determined that the most appropriate calibration would be a simple flat percentage.
- 2.13** In the consultation we asked:

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?

- 2.14** A large majority of the respondents agreed with the proposal to set the capital resources requirement for PIFs on the basis of a firm's income. Most also agreed with the proposal to use a simple, single percentage, while some suggested alternative approaches.
- 2.15** One respondent argued that the proposals do not recognise the risk to consumers that is posed by different adviser business models. In particular, firms with a bias towards finding new customers are treated the same as those that focus on providing a long-term customer service. The respondent suggested that the former firms are subject to increased transactional bias and are more likely to experience complaints and therefore to call upon their capital reserves. Applying different percentages to income arising from new business, as opposed to ongoing service fees, would address this anomaly. The respondent is also concerned that there is no differentiation between the types of advice given, such as on 'vanilla' products and in relation to more esoteric investments. They question the lack of any volume-based tiering, whereby the percentage for smaller firms (where the respondent argues complaints are much less predictable and more likely to result in default) should be more than for larger firms.
- 2.16** Another respondent commented on the proposed approach to use a simple percentage calculation. The respondent believes the approach is flawed as it is not appropriate for smaller firms, due to the income that is generated from a sale usually being a small percentage of the redress paid to a client. A firm that has traded for 20 years could reasonably be expected to require more capital resources than one that has traded for only 12 months. The respondent suggested further discrimination between firms so that those who restrict their activities to packaged investment and insurance products are subject to a preferential rate compared to those whose activities extend further. They proposed that all PIFs should have an initial capital requirement of £100,000 in addition to 2.5% of annual income for the previous six-year period. Those PIFs whose business activities include non-mainstream pooled investments should hold further capital; and where a firm exits without passing its liabilities to another PIF, the FSCS should be able to access these capital resources for a period of six years after a firm gives up its permissions.
- 2.17** Two other respondents suggested the FCA should tier percentages at higher levels as larger firms with bigger income streams are generally subject to greater levels of regulatory supervision and monitoring, and may be less likely to engage in behaviour that would result in failure of the business.
- 2.18** One respondent suggested that income should be net of regulatory fees. Another argued the requirement should focus on the actual revenues retained by the PIF, so if the firm uses self-employed advisers, it would be more appropriate to base the computation on the amount of revenue after deduction of payments to those advisers.
- 2.19** Another respondent argued that setting the requirement on the basis of income could punish successful firms with high turnovers, and suggested a higher minimum requirement for larger firms (tiered as turnover increases). Complaints data could be used to determine requirements: firms that receive few complaints should hold less capital. Further, in the respondent's view, firms processing large amounts of new business pose a bigger risk for customer complaints and subsequent failure than firms with a predominantly recurring income.
- 2.20** One respondent suggested an income-based approach fails to take into account the resources required in an orderly wind-up situation, which are mainly based on expenditure. It risks forcing

low-cost firms to hold a disproportionately high level of capital resources compared to high cost firms. In the respondent's view, this is more inconsistent in terms of risk than the EBR.

- 2.21** Another respondent is not convinced that consistency and simplicity are the most important objectives when seeking to set the requirement to protect against the failure of a firm; they suggest a focus on appropriate risk management should be at the heart of the regime.
- 2.22** Finally, a respondent highlighted that smaller firms, currently on the £10,000 minimum requirement, could see a large increase in their requirement: in particular, those with between 10 and 25 advisers and significant income. It was suggested that we should allow a one-year transitional period, during which the income-based requirement is 3% rather than 5%.

Our response

We note the comments made and that the majority of respondents agreed with the proposal to set the requirement on a simple percentage of the firm's relevant income. We recognise the arguments that respondents have made, such as introducing a different percentage based on the type of investment product, or tapering the percentage of income; however, our view is that these alternatives introduce an unnecessary level of complication for a regime that is designed to set a proportionate capital resources requirement for 5,000 intermediary firms.

We will therefore take forward the approach that we proposed in the CP.

We do not propose to introduce a transitional rule for larger firms currently on the £10,000 requirement, as the data obtained for our cost benefit analysis shows that most of them already hold sufficient capital to meet the average new income-based requirement. Furthermore, the Financial Services and Markets Act 2000 (FSMA) already provides for the situation where a firm finds a requirement unduly burdensome: it can apply for a rule waiver, which will be assessed against the statutory conditions in Section 138A of the FSMA.

PIFs in Category B3

- 2.23** The vast majority of PIFs are in category B3¹⁰. We proposed that such a firm will be subject to a capital resources requirement that is the higher of:
- £15,000 from 30 June 2016, then £20,000 from 30 June 2017
 - 5% of the PIF's annual investment business income
- 2.24** In the consultation, we asked:

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?

¹⁰ A category B3 firm is one whose activities are restricted to advising on or arranging retail investment products without holding client money.

- 2.25** Two-thirds of respondents agreed with the proposal; others gave the following alternative views.
- 2.26** One respondent argued that £20,000 is insufficient to give consumers confidence about business sustainability; it does not appear sufficient before a firm risks failure and consumers need to rely on the FSCS. They propose a materially increased minimum requirement of £40,000, indexed against RPI to ensure that it maintains relevance, given the recent history of multiple material claims in respect of the likes of Keydata Investment Services.
- 2.27** Two respondents noted that the CP failed to explain the basis upon which the figure of £10,000 was set 20 years ago. Their experience is that an orderly wind-down of a firm takes around six months. They suggested that no analysis appeared to have been undertaken of the level of defaults among PIFs or the level of claims against them. In the absence of such information, the respondent did not consider it possible to judge whether the minimum capital requirement is sufficient for firms to give their consumers confidence about business sustainability.
- 2.28** Another respondent suggested that capital resources held within firms may be used for other purposes. Consumer confidence would be improved if firms were required to invest their regulatory capital in long-term investment vehicles controlled by the FCA or FSCS.
- 2.29** One respondent argued that £20,000 is not proportionate to the liabilities a firm may incur due to the value of investments arranged by PIFs. They compared the requirement to that for a McDonald's franchisee, where the minimum required is around £160,000 for a small branch, rising to £400,000.
- 2.30** Another respondent agreed the level of £10,000 should be reviewed, but cannot see any reason for the increase other than it has been at the same level for a prolonged period. Their other concern with the proposed level is the barrier. They suggested that complaints do not arise within the early years of establishing a new firm, and they urge us to implement transitional arrangements for firms to allow them to have a reduced minimum requirement upon entry.
- 2.31** One respondent considered £20,000 to be insufficient given PII excess levels are typically £10,000, and proposed £40,000 would be better. Another respondent also suggested £40,000 would be more effective, with a two- or three-year timeframe after authorisation to overcome barrier-to-entry arguments, as claims for mis-selling take a number of years to arise.
- 2.32** Another respondent suggested the proposed minimum of £20,000 does not take into account their position as a small limited company with one regulated adviser. The annual turnover is £200,000, of which only about £100,000 is linked to regulated advice and £20,000 represents 20% of regulated turnover, which is very challenging.
- 2.33** Finally, one respondent asked what happens when a firm holds the minimum capital resources requirement and then has to pay out on a compensation claim. Would they then be in breach as they have less than the minimum requirement, or would they be given time to recover to the minimum amount?

Our response

We note the comments and suggestions made – in particular, to increase the minimum requirement so that it would cover more potential claims against the firm. However, we have to set the requirement at a level that will be

proportionate for the population of 5,000 firms and will not be an unreasonable barrier to entry for new firms.

We will therefore take forward the approach that we proposed in the CP and set the minimum requirement at £20,000.

If a firm pays out a claim that results in it having less than the minimum capital resources, then it would be in breach of the rules. The matter should be discussed with the supervisor or the Contact Centre, who would expect that the firm could explain how, and by when, it would be able to restore a compliant capital resources position. In practice, we expect that a firm would usually have some advanced notice of a claim being payable and should therefore have the opportunity to provide adequately in its accounts so that the payment, when made, did not reduce its capital resources below the requirement. It should be noted that our cost benefit analysis in the CP identified that approximately three-quarters of the firms analysed held at least a 40% surplus over their proposed new capital resources requirement.

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?

- 2.34** One-third of respondents agreed with the proposal; others gave alternative views, which included the following.
- 2.35** Three asked for clarification why a rate of 5% has been selected as it is double the rate for firms in scope of MIPRU, where a similar model has been used for some time. They suggested more work was needed on a wider, more radical rethink of the relationship between firms' capital resources, PII, and claims on the FSCS. They wondered if firms should hold run-off PII or a bond for a period after ceasing to trade. They recommended we enhance the FCA cancellation and authorisation teams as these are the gatekeepers managing the quality of the firms that enter or exit the sector.
- 2.36** Another respondent believed the percentage was too high and suggested a lower percentage would be fairer on larger firms, while being more than adequate in the event of losses or client complaints.
- 2.37** A respondent suggested most consumers would be surprised at the low levels of capital resources required and that the CP does not adequately explain why we believe the proposals are sufficient. They find it impossible to judge what the most suitable level should be. They ask why the capital requirements differ for PIFs and Capital Requirements Directive (CRD)-scope firms.
- 2.38** Another respondent commented that, without any available data to evidence the number of firms that have defaulted, it is difficult to argue whether 5% is suitable. It could be considered unjustifiably high and may jeopardise how firms invest in their business.
- 2.39** One respondent said a calculation on a sliding scale, depending on the size of the firm, would be appropriate. They also put forward the assertion that a firm should not be considered in breach if they use the required capital resources to meet compensation costs if they are replaced within six months.

- 2.40** One respondent suggested that a single calibration of the requirement at 5% of income cannot be appropriate, given the differing risks in businesses due to size and nature. Another suggested a tiered approach with a 5% ceiling, although they acknowledged that this would add some complexity to the framework.
- 2.41** Finally, one respondent suggested 5% would be excessive and not reflect the scale of larger businesses with established and tested risk assessment procedures, PII policies, and good track records. A single rate does not distinguish between the relative risks of the products. They suggested using a firm's net revenues with the percentage tiered such that higher-risk income is on a higher rate. They also suggested that firms with a good regulatory track record should have a lower tariff with an overall cap on the requirement.

Our response

We note the comments and suggestions made – in particular, that there should be a different percentage for different products or levels of income. However, as we stated in the response under Question 2, these alternatives introduce an unnecessary level of complication for a regime that is designed to set a proportionate capital resources requirement for 5,000 intermediaries.

We also note that some respondents suggested a lower percentage than 5%. However, our cost benefit analysis in the CP suggested this to be a proportionate percentage.

We will therefore take forward the approach we proposed in the CP to use a rate of 5%.

One respondent suggested a firm should not be considered in breach if they use the required capital resources to meet compensation costs if replaced within six months. Our view is that such a firm would be in breach of the rules, although it should have adequate time to prepare for such costs and make adequate provision in advance so that the payment does not create a breach. Otherwise, the matter should be discussed with the supervisor or the Contact Centre, who would expect that the firm could explain how, and by when, it would be able to restore a compliant capital resources position. It should also be noted that our cost benefit analysis in the CP identified that approximately three-quarters of the firms analysed held at least a 40% surplus over their proposed new capital resources requirement.

Other categories of PIF

- 2.42** A small number of PIFs outside the prudential category of B3 fall within the scope of Chapter 13 of IPRU (INV). We proposed that such firms 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
 - 10% of the PIF's annual investment business income

2.43 In the consultation, we asked:

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?

2.44 Two-thirds of respondents agreed with the proposal; others gave alternative levels for the requirement.

2.45 One respondent agreed that the extra risk involved should increase the requirement. However, they would like to see a tiered rate to reduce barriers to entry and allow effective competition.

2.46 Another respondent suggested firms that handle client money or have discretionary powers represent a higher level of risk as they may have access to client money, and a requirement based on a percentage of custody assets would therefore be appropriate.

2.47 Two respondents observed there is no information in the CP explaining the derivation of the figures in the proposals. The CP refers to the firms having additional risks but no assessment appears in the CP. In particular, they queried what work has been done to ascertain whether an income metric accurately reflects the potential exposure to misappropriation claims on client assets and the potential risk associated with a firm defaulting on a principal contract.

2.48 Finally, a respondent noted that for the smallest firms there is no increased minimum requirement compared to B3 firms, despite the elevated risk such firms represent in terms of handling client money. They suggested the requirements of all such firms are substantially raised over those B3 firms which are comparable in size.

Our response

We note the comments made – in particular, in respect of the minimum requirement that is not differentiated from that for a category B3. However, we do not think it would be proportionate to double the minimum amount for such firms.

We said in the CP that, to simplify the Handbook and apply consistent treatment to firms posing similar risks, wherever possible we would bring the regimes for the other categories of firm more in line with our approach for B3 firms so that they will be subject to an income-based requirement. These firms can give rise to additional risks and our analysis identified that 10% was an appropriate requirement to reflect this.

We will therefore take forward the approach that we proposed in the CP.

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

2.49 Some PIFs are not limited in the type of investment they can advise on or arrange, but instead fall within the scope of the MiFID. As a result, they are also subject to minimum capital and PII

requirements prescribed by the CRD. We therefore proposed that the 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
- the higher of (i) 5% of annual investment business income; and (ii) £15,000 from 30 June 2016, then £20,000 from 30 June 2017

2.50 In the consultation, we asked:

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

2.51 The vast majority of respondents agreed with the proposal.

2.52 Two respondents asked whether there was any likelihood that the income-based approach would be extended to firms within the scope of the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

Our response

We will take forward the approach that we proposed in the CP.

We have no plans to introduce an income-based approach for BIPRU firms, whose requirements are driven by our implementation of the requirements under the CRD IV. However, the future of the requirements for BIPRU firms is currently under review as part of the requirement under the CRR on the European Commission to report on what should be an appropriate prudential regime for all MiFID investment firms.

PIFs subject to MIPRU

2.53 Some PIFs are also subject to MIPRU, 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
- 5% of the PIF's annual investment business income (as defined) plus the minimum capital requirement calculated under MIPRU (but ignoring the minimum amounts that are specified in MIPRU for the particular activity)

2.54 In the consultation, we asked:

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

- 2.55** Two-thirds of respondents agreed with the proposal; some of those who disagreed suggested alternative levels for the requirement.
- 2.56** Three respondents pointed out that the current MIPRU requirement for such firms is the higher of the amount calculated in MIPRU and the other relevant sourcebook: i.e. IPRU (INV) or BIPRU. Under the proposed changes, firms subject to IPRU (INV) and MIPRU will be subject to the sum of the requirements of the two sourcebooks. For firms subject to BIPRU, the current higher-of approach will be maintained. This appeared to be an inconsistent approach and will impact most PIFs, as they will be involved in insurance mediation.
- 2.57** Another respondent stated he had seen no evidence of increased risk where a firm operates under IPRU (INV) and MIPRU to change from the current higher-of approach to an aggregated amount. They suggested that a cap should apply to the higher of the IPRU (INV) and MIPRU calculations or a tapered level above a minimum amount.
- 2.58** One respondent noted the requirement to make a provision of 2.5% of the value of indemnity commission paid in the previous 12 months increases the requirement for indemnity business to 5%. This seemed to be unrepresentative of the risk that business of this nature represents.

Our response

The current requirement for a firm subject to both MIPRU and IPRU (INV) is the higher of the two, because the latter requirement is set by reference to the whole business of the firm, whether it is £10,000 or an EBR. The proposed IPRU (INV) requirement is sectoral as it is based on the investment income of the firm, which excludes any MIPRU-scope business. Therefore, our view is that it is more appropriate to apply an additive requirement for firms that are subject to both IPRU (INV) and MIPRU. As the requirement for a firm subject to BIPRU and MIPRU has not changed, we will keep the higher-of requirement for it.

We are removing the requirement for a firm to retain a provision of at least 2.5% of its indemnity commission received over the previous 12 months.

We will therefore take forward the approach that we proposed in the CP.

PIFs with a permission to operate a SIPP

- 2.59** Some PIFs have permission to operate SIPPs. As a new capital regime for a SIPP operator comes into effect on 1 September 2016, to avoid the unnecessary burden of two sets of rule changes in quick succession for PIFs that operate a SIPP, we proposed to continue to apply the current requirements for the period until 31 August 2016.
- 2.60** Thereafter, from 1 September 2016 onwards, we proposed 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)
 - the relevant requirement for the PIF business based on the proposals in the CP
- 2.61** In the consultation, we asked:

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?

- 2.62** The vast majority of respondents agreed with the proposal.
- 2.63** One respondent noted that the approach is similar to that for firms undertaking investment business alongside mortgage or insurance mediation: i.e. adding the requirements of the relevant sourcebooks together. They therefore questioned the thinking behind the need to make the requirement a sum of the two individual requirements, rather than use a higher-of approach.

Our response

From 1 September 2016, the requirements under IPRU (INV) for both PIF operations and SIPP operations will be based on the relevant activity rather than the firm's activities as a whole. The SIPP capital requirement covers operation of the schemes, and the PIF element captures investment advice, including advice on investing in a SIPP where relevant. As such, our view is that the requirement would be more appropriate as the sum of the two sectoral requirements, rather than a higher-of requirement.

We will therefore take forward the approach that we proposed in the CP.

Types of capital resources

- 2.64** We proposed to extend to all PIFs a restriction prohibiting the recognition in the capital resources computation of subordinated loans and preference shares that exceed 400% of a PIF's capital and reserves (excluding preference share capital) less intangible assets.

- 2.65** In the consultation, we asked:

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?

- 2.66** Two-thirds of respondents agreed with the proposal.
- 2.67** Of those disagreeing, four suggested there is a potential risk that this restriction may have an impact on smaller new firms wishing to enter the market. They suggested a large percentage of such firms has relied on subordinated loans in the early years while the business is becoming established, and the proposed restrictions could be a barrier to new start-ups in future.
- 2.68** Another respondent stated the majority of smaller PIFs used a subordinated loan from the principal of the firm, predominantly on the advice of their accountant. Placing any restriction on the subordinated loan will limit the methods of initial capital injection, which could result in the

principal acting against the advice of their professional accountant and attracting tax charges on withdrawal. This will be seen as a further regulatory cost.

- 2.69** Finally, another respondent did not deem the proposal to have met the objective of ensuring the capital is permanent, suggesting that a 400% limit seemed arbitrary and high. The respondent proposed that, if restrictions are to be made, preference shares redeemable within two years be excluded from the calculation and no maximum be applied to subordinated loans, which contain sufficient safeguards to enable such capital to be considered permanent for the FCA's purposes.
- 2.70** Two respondents pointed out the apparent inconsistency between firms categorised prudentially as exempt CAD firms that can only use long-term subordinated loans and category B3 firms that can only use short-term loans. They wondered whether the requirements should, in fact, be consistent between the two types of firm.

Our response

We note the comments made by respondents. Our considered view is that it is appropriate to impose a limit on the amount of subordinated loans and redeemable preference shares that can be included in a firm's capital resources. It is important, even for new start-up firms, for a minimum percentage to be in the form of share capital and reserves¹¹, rather than loan capital; and the percentage we proposed is proportionate, so that this amount can absorb losses and still allow the firm to continue trading solvently.

We will therefore take forward the approach we proposed in the CP.

Exempt CAD firms are subject to certain provisions of the CRD¹², which prescribe that only a long-term subordinated loan can be included in capital resources, whereas category B3 firms are not subject to any such external European Union (EU) requirement and our policy view is that short-term subordinated loans are sufficient. We note, however, that the rules do not prevent a category B3 firm from holding longer-term subordinated loans if it wishes to; the requirement is that the loan agreement should have a duration of at least two years.

- 2.71** We also proposed to discontinue the provision whereby a PIF can include an unused PASS Loan Agreement Scheme facility¹³ in the capital resources computation.
- 2.72** In the consultation, we asked:

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?

¹¹ For a partnership or a sole trader, the equivalent amount would be the balance on the relevant capital account.

¹² Note that this category of firm is called 'Exempt CAD' because such firms were caught by Articles 7 and 8 of the Capital Adequacy Directive (CAD); however, the CAD was repealed as part of the CRD IV legislation and so these firms are instead now caught by Article 31 of the Capital Requirements Directive (CRD).

¹³ 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.

2.73 All respondents agreed with the proposal.

Our response

We will take forward the approach that we proposed in the CP.

Financial reporting

2.74 PIFs in category B must submit the Retail Mediation Activities Return (RMAR). To reflect the changes to the capital resources requirement, we have changed the RMAR, which will require amendments to the relevant parts of SUP 16.12 and the Notes for Completion of the RMAR.

2.75 PIFs that are exempt CAD firms must submit Form FSA032. To reflect the changes to the capital resources requirement, we have amended Form FSA032 and the related Guidance Notes.

2.76 In the consultation, we asked:

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

2.77 The vast majority of respondents agreed with the proposed amendments.

2.78 One respondent suggested the proposals do not go far enough in terms of streamlining and improving the Section D link with Sections A and B, drawing data from previous returns and other sections where possible. At present, the current amendments are a missed opportunity to make RMAR less time-consuming and costly for advisers.

2.79 Another respondent made the following comments on Forms D1 and FSA032:

- D1: Question 11 – category of personal investment firm: could this be a drop-down menu making it easier and consistent for firms to select?
- D1: Question 12 – capital resources requirement: it would be preferable if the same approach was taken to this section as for the MIPRU section, Questions 2–5, i.e. record the base requirement and the income requirement, and show a clearer approach to the higher-of calculation.
- D1: Question 46 – short-term subordinated loans: this implies (by referring only to short-term subordinated loan) that category B PIFs cannot use long-term subordinated loans; and, under Q 28 for MIPRU firms, the reference is to ‘eligible subordinated loans’. Can a consistent approach be used across all references to make it easier for firms?
- FSA032: Question 15 – long-term subordinated loans: this implies (by referring only to a long-term subordinated loan) that exempt CAD firms are not able to use short-term loans.

Our response

We note the comments in respect of a fuller review of the RMAR, but this is beyond the scope of this consultation.

We will be able to include a drop-down menu in Gabriel to support Question 11 prior to the rules coming into effect.

As the computation that supports the requirement in Question 12 is more complicated than for the MIPRU requirement, we will not amend Form D1. However, we have changed the supporting Guidance Note that refers to the relevant rules.

As explained in our response to Question 9, the requirements in respect of subordinated loans for exempt CAD and category B3 firms are different because EU requirements apply to the former, but we chose not to propose imposing the stricter EU requirements to the latter.

We will take forward the approach that we proposed in the CP.

Other comments

- 2.80** We also received a number of comments that were not in response to a particular question. Most of these general points were about the approach that we have taken and how the proposals compare to those in other sectors. Some respondents also suggested that any review of the capital resources requirement should be undertaken in conjunction with consideration of the PII requirements, the FSCS rules, and the long-stop review.
- 2.81** One respondent suggested that the impact of the proposal on its capital resources requirement would be extreme due to its very large size. The key message though is that the simple 'one-size-fits-all' approach is insufficient for larger institutions because it does not reflect the actual risk profile. They also suggest the approach is inadequate for smaller firms if the purpose is to help manage the failure of the firm. They believe that better analysis and understanding of the risks and experience of a firm is required to design an appropriate capital resources regime and they request an alternative option, allowing for the underlying risk of a business (similar to the Individual Capital Adequacy Assessment Process (ICAAP) for a BIPRU firm), should be included in the rules.
- 2.82** Two respondents raised the following specific points on the draft Handbook text:
- a.** IPRU (INV) is only available as a PDF. Is it possible for this to be accessed and viewed in a similar way to the other prudential sourcebooks?
 - b.** Section 13.1A: Capital Resources and Professional Indemnity Insurance Requirement for an Exempt CAD Firm: The format of IPRU (INV) Chapter 13 has often caused confusion to firms trying to understand the various requirements. Could the content relating to exempt CAD firms under 13.1A be incorporate into Chapter 13.13, which deals with capital resources requirements for both exempt CAD firms and other PIFs?
 - c.** 13.13.4: The worked example to show how a firm should include income under MIPRU

activities refers to home finance mediation activities only. The majority of PIFs will be within the scope of MIPRU, but in relation to insurance mediation. Could the worked example therefore include a reference to insurance mediation income?

- d. Annex A: Limited Liability Partnerships: Eligible Members' Capital: There is a reference to Tier 1 capital in Annex A, rules 1.4, 1.5 and 2.5. Tier 1 capital is not a term that applies to PIFs. Could this term be clarified for PIFs or an appropriate alternative used?

Our response

We are taking the proposed changes forward independent of work on other related areas, such as the FSCS rules, because we believe that the new rules will create a more stable, and more equitable, capital regime.

We note the comments in respect of the application of an ICAAP approach. We do not think that it would be proportionate to introduce such a regime into the rules, but if any firm feels that the new rules are unduly burdensome then they would be able to apply for a rule modification to allow such an approach and we would consider it under the terms of the statutory conditions in Section 138A of the FSMA.

We respond to the Handbook text points as follows:

- a. This is a matter that is beyond the scope of this consultation.
- b. The requirements for an exempt CAD firm as set out in Section 13.1A are self-contained. They have not been changed significantly by this consultation, so it was not proportionate to amend the ordering and presentation of the requirements at this stage.
- c. The example refers to a firm that undertakes home finance mediation. However, it could equally apply to a firm that undertakes insurance mediation; as this is only an example, we have not amended it.
- d. We accept the point and, consistent with the approach already adopted in rule 1.4 of Annex A, have amended rule 2.5 so that it refers to 'Tier 1 or equivalent grade capital'.

Annex 1

List of non-confidential respondents

1. Apex CB Financial Planning Ltd
2. APFA
3. Baigrie Davies & Co
4. Bromwich Financial Planning Limited
5. Brunsdon Financial Services Ltd
6. Compliance and Training Solutions Limited
7. Compliance News Limited
8. Felce Management Company Limited
9. First Financial Advisers Limited
10. Foster Denovo Limited
11. Francis Clark Financial Planning Ltd
12. Independent Financial Strategies Limited
13. ICAEW
14. Oakfield Financial Services Limited
15. Page Russell Limited
16. Phoenix Group
17. Policy Services Ltd
18. Prudential
19. Quro Financial Solutions Ltd
20. St James Place Wealth Management plc
21. Sense Network Limited
22. SimplyBiz Services Limited

- 23. Strategic Solutions Financial Services
- 24. Tenet Group Limited
- 25. threesixty Services LLP
- 26. Wealth Management Association

Appendix 1

Made rules (legal instrument)

**CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE
REQUIREMENTS FOR PERSONAL INVESTMENT FIRMS (NO 2)
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) and to paragraph D.(8), this instrument comes into force on 30 June 2016.
- (2) Part 2 of Annexes A, C and D to this instrument come 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 (FSA 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) in 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

- E. 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

- F. 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

- G. This instrument may be cited as the Capital Resources and Professional Indemnity Insurance Requirements for Personal Investment Firms (No 2) Instrument 2015.

By order of the Board
3 December 2015

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 (i.e. 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).
- material current year losses* (in *IPRU(INV)* 13) losses of an amount equal to 10 per cent or more of the amount by which the *own funds* or the capital resources under *IPRU(INV)* 13.15 of an *undertaking* exceed the *own funds* or the capital resources under *IPRU(INV)* 13.15 needed to meet ~~financial resources test 4~~ the minimum capital resources requirement – depending on the type of firm – as prescribed in chapter 13.
- own funds* ...
- (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.

opted-in exempt CAD firm an ~~exempt CAD firm~~ which complies with the requirements in regulation 4C (or any successor provision) of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2007 (SI 2007/126). [deleted]

Part 2: Comes into force on 1 September 2016

Amend the following definition as shown:

own funds ...

(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;~~

(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.

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 (i.e. current assets);~~

(b) ~~less all the liabilities payable by the firm within 12 months of that date. [deleted]~~

net open foreign currency position ~~(in IPRU(INV) 13) a firm's net long position or net short position, whichever is the higher, in a currency other than that in which the firm's books of account are maintained. [deleted]~~

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. [deleted]~~

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.

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 ~~resource~~ 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 the 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)
<i>FSA</i>	<i>FCA</i>	IPRU(INV)	13.1.18R(3), 13.1.22G(1) and (2), 13.1.28R, 13.1A.16R(1), 13.12.2DG, Table 13.12.3R(1) and 13.12.4AR(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
...					
<u>13</u>	<u><i>IPRU(INV)</i></u> <u>13.1A.3R(2)</u>	<u>R</u>	<u><i>A firm applying (b) or (c) above must have initial capital of at least £15,000.</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>
<u>14</u>	<u><i>IPRU(INV)</i></u> <u>13.1A.4R(2)</u>	<u>R</u>	<u><i>A firm applying (b) or (c) above must have initial capital of at least £15,000.</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>
<u>15</u>	<u><i>IPRU(INV)</i></u> <u>13.13.2R(2)(a)</u>	<u>R</u>	<u><i>The firm must calculate its capital resources requirement as the higher of:</i></u> <u><i>(a) £15,000.</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>
<u>16</u>	<u><i>IPRU(INV)</i></u> <u>13.13.3R(2)(a)</u>	<u>R</u>	<u><i>The firm must calculate its capital resources requirement as the higher of:</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>

			(a) £15,000.		
17	<u>IPRU(INV)</u> <u>13.15.9R and</u> <u>IPRU(INV)</u> <u>13.15.10R</u>	R	<p>These rules do not apply to a <u>category B3 firm which is not a network, has fewer than 26 financial advisers or representatives and is not permitted to:</u></p> <p><u>(a) carry on discretionary portfolio management;</u></p> <p><u>(b) establish, operate or wind up a personal pension scheme;</u></p> <p><u>or</u></p> <p><u>(c) delegate the activities in (a) or (b) to an investment firm.</u></p>	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 (4) This chapter applies to a firm which is a personal investment firm as set out in the table below.

<u>Type of personal investment firm</u>	<u>Application of this Chapter</u>
<u>A personal investment firm which is an exempt CAD firm</u>	<u>13.1, 13.1A, 13.13 and 13.14</u>
<u>A personal investment firm which is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme</u>	<u>13.1 and 13.9 to 13.12</u>
<u>A personal investment firm which is a category B firm whose permission does not include establishing, operating or winding up a personal pension scheme</u>	<u>13.1 and 13.13 to 13.15</u>

- (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 <u>IPRU(INV) 13.1.1R</u> for application of these sections to an <u>exempt CAD firm</u> and <u>or a category B firm</u>).		

...

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 <i>firm's</i> capital resources is set out in sections 13.1A to 13.12 <u>13.15</u> (see rule 13.1.1 <u>IPRU(INV) 13.1.1R</u> for application of these sections to an <i>exempt CAD firm</i> and <u>or a category B firm</u>).													

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 <i>IPRU (INV) 13.5.5AR 13.1A.18R</i>)	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 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.

Amend the following as 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 13.9.4~~ IPRU(INV) 13.9.1R.

SUMMARY OF FINANCIAL RESOURCES FOR CATEGORY B FIRMS				
Type of <i>firm</i>	Financial Resources Test 1 <i>Own funds</i> Test	Financial Resources Test 1A <i>Adjusted Net current assets</i> Test	Financial Resources Test 2 Expenditure-based Test	<i>Rule/section</i> References
<i>Category B1</i> (including any <i>Network</i> 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 <i>investment management</i> in respect of portfolios containing only <i>life policies</i> or to delegate such activity to an <i>investment firm</i>	£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 <i>net current assets</i> 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 1-25 advisers	£10,000	Adjusted <i>net current assets</i> 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 which is permitted to carry on the activity of <i>managing investments in</i> respect of portfolios containing only <i>life policies</i> or to delegate such activity to an <i>investment firm</i>	£10,000	Adjusted <i>net current assets</i> 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 <i>net current assets</i> 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
<i>Network</i> in Category B2 or B3	£10,000	Adjusted <i>net current assets</i> 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 <i>Category category B firms</i>	£10,000	Adjusted <i>net current assets</i>	Adjusted capital equal to the	13.10

that do not hold <i>client money</i> or assets, but are <i>permitted</i> to <i>establish, operate or wind up a personal pension scheme</i> .		of £1	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 applicable to the <i>firm</i> .	13.11 13.12.1G 13.12.2 to 13.12.5A
...				

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	less
- ...	- ...
- Material current year losses <u>Material current year losses</u>	- Material current year losses <u>Material current year losses</u>
- ...	- ...

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 exemption 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).~~

- (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) 13.12.2D;~~
 - (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 <u>FIRMS</u>	
Calculation of Assets	
ASSETS	ADJUSTMENTS
...	
(12) Other Debts	(a) Amounts owing in respect of ... (iii) dividends declared by authorised or not <i>EEA firms</i> or by companies in respect of <i>shares</i> listed on a recognised <u>recognised investment exchange</u> or designated investment exchange <u>designated investment exchange</u> ; ...
...	

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 <u>B2 AND B3 FIRMS</u>	
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 CATEGORIES <u>CATEGORY B2 AND B3 FIRMS</u> (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 <u>FIRMS</u>	
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 <u>recognised investment exchange</u> or designated investment exchange <u>designated investment exchange</u>	25%
- shares traded on a recognised <u>recognised investment exchange</u> or designated investment exchange <u>designated investment exchange</u>	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 of 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.

Insert the following new sections after IPRU(INV) 13.12. The text is not underlined.

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 <i>firm</i>	(C) Applicable percentage of <i>annual income</i>

(1)	<i>Exempt CAD firm</i>	5%
(2)	<i>Category B1 firm</i>	10%
(3)	<i>Category B2 firm</i>	10%
(4)	<i>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</i>	10%
(5)	<i>Category B3 firm not in (4)</i>	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
<i>Insurance mediation activity or home finance mediation activity</i>	<i>MIPRU 4.2.11R(1)(a) (firm not holding client money or assets)</i>	£5,000
	<i>MIPRU 4.2.11R(2)(a) (firm holding client money or assets)</i>	£10,000
<i>Home financing and home finance administration (not connected to regulated mortgage contracts)</i>	<i>MIPRU 4.2.12R(1)(a)</i>	£100,000

<i>Home finance administration</i> (with all assets off balance sheet)	MIPRU 4.2.19R(1)	£100,000
<i>Home financing and home finance administration</i> (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)

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 <i>IPRU(INV)</i> 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 <i>category B3 firm</i> , the applicable calculation is 5% of £300,000.	£15,000
(b) the capital resources requirement in <i>MIPRU</i> 4.2. (Capital resources requirements), after excluding the fixed amounts specified in table 13.13.3(2)(b)(ii).	For a <i>firm</i> carrying on <i>home finance mediation activity</i> without holding <i>client money</i> , <i>MIPRU</i> 4.2.11R(1) specifies a requirement of 2.5% of £100,000 (excluding the amount of £5,000 in <i>MIPRU</i> 4.2.11R(1)(a)).	£2,500
	Total of part (2) of the capital	£17,500

	resources requirement, which is £15,000 plus £2,500.	
	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 designated investment business* 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 G For the purpose of *IPRU(INV)* 13.14.3R, a *firm* should ensure that the amount of *annual income* adequately reflects the level of its *designated investment business* when deciding whether to add any income not included under any of the reporting forms in *IPRU(INV)* 13.4.3R(3). In doing so, the *firm* should have regard to its circumstances, for example, where such income is being accounted for by a third party.
- 13.14.8 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.
- 13.14.9 G If a *firm* is a *network*, its *annual 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 <i>share</i> capital (excluding <i>preference shares</i> redeemable by <i>shareholders</i> within two years) <i>Eligible LLP members' capital</i> <i>Share</i> premium account Retained profits (see <i>IPRU(INV)</i> 13.15.4R) and interim net profits (Note 1) Revaluation reserves Subordinated loans (see <i>IPRU(INV)</i> 13.15.7R) <i>Debt capital</i>	Balances on proprietor's or partners' - <i>capital accounts</i> - <i>current accounts</i> (see <i>IPRU(INV)</i> 13.15.4R) Revaluation reserves Subordinated loans (see <i>IPRU(INV)</i> 13.15.7R)
less - Intangible assets - <i>Material current year losses</i> - <i>Excess LLP members' drawings</i>	less - Intangible assets - <i>Material current year losses</i> - Excess of current year drawings over current year <i>profits</i>
<p>Note 1</p> <p>Retained profits must be audited and interim net profits must be verified by the <i>firm's</i> external auditor, unless the <i>firm</i> 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.</p>	

- 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 of 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.

Amend the following as shown.

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	<i>IPRU(INV) rule</i>	How eligible LLP members’ capital should be treated for the purposes of the <i>IPRU(INV) rule</i>
...		
13	<p>Table 13.3.2(1) Table 13.10(2)</p> <p><u>Table 13.15.3(1)</u></p> <p>13.1A.7 <u>13.1A.6</u></p>	<p><i>Eligible LLP members’ capital</i> may be counted as <i>own funds</i> relating to companies in Table 13.3.2(1) and Table 13.10(2).</p> <p><u><i>Eligible LLP members’ capital</i> may be counted as capital resources relating to companies in <i>IPRU(INV) 13.15.3(1).</i></u></p> <p><i>Eligible LLP members’ capital</i> may be counted as <i>initial capital</i> within <i>IPRU(INV)</i> 13.1A.7 <u>13.1A.6.</u></p>

...

2. CONDITIONS FOR USE OF MEMBERS’ CAPITAL

Limited liability partnership excess drawings

2.5 R A *firm* which is a *limited liability partnership* must in calculating its ~~tier one~~ Tier 1 or equivalent grade capital in accordance with the requirements of any chapter of this sourcebook deduct the amount by which the aggregate of the amounts withdrawn by its members exceeds the profits of that *firm* (“*excess LLP members’ drawings*”). Amounts of *eligible LLP members’ capital* repaid in accordance with the specific conditions are not to be included in this calculation.

...

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
...	...
<i>A personal investment firm which is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme</i>	13.1 and 13.9 to 13.12 <u>13.13 to 13.15</u>
<i>A personal investment firm which is a category B firm whose permission does not include establishing, operating or winding up a personal pension scheme,</i>	13.1 and 13.13 to 13.15

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

Amend the following as 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.~~*

...

13.13.5 R *A firm whose permission includes ~~establishing, operating or winding up a personal pension scheme~~ must calculate its capital resources requirement as*

the sum of:

- (1) the capital resources requirement that is applied under *IPRU(INV)* 13.13.2R(2) or *IPRU(INV)* 13.13.3R(2); and
- (2) the financial resources requirement calculated in accordance with *IPRU(INV)* 5 (Investment Management Firms).

...

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)

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 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)

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	<i>IPRU(INV)</i> rule	How eligible LLP members' capital should be treated
---------	-----------------------	---

		for the purposes of the <i>IPRU(INV)</i> 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 <i>IPRU(INV)</i> 13.15.3(1).
	13.1A.6	Eligible LLP members' capital may be counted as <i>initial capital</i> within <i>IPRU(INV)</i> 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

...

Regulatory Activity Group 3

...

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

...

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	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
...						
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.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					
...						
Section D6 RMAR Sections D1 and D2 RMAR				30 <i>business days</i>	30 <i>business days</i>	
...						
...						

...

Regulated Activity Group 4

...

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
COREP/ FINREP	Refer to EU CRR and applicable technical standards				Refer to EU CRR and applicable technical standards	
...						

Sections Section 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.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					
...						
Sections Section D1 and D2 RMAR				30 business days	30 business days	
...						
...						

...

Regulated Activity Group 6

...

16.12.19 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 <i>data item</i>	<i>Firm's</i> prudential category and applicable data item (note 1)			
	<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 13
...				
Capital adequacy	FSA032 or Sections Section D1 and D2 RMAR (notes 5 and 7)

...				
...				
Note 7	FSA029, FSA030, FSA032 and FSA039 only apply to a <i>firm</i> subject to <i>IPRU(INV)</i> Chapter 13 which is an <i>exempt CAD firm</i> . Sections A, B, C, D1, D2 and F RMAR only apply to a <i>firm</i> subject to <i>IPRU(INV)</i> Chapter 13 which is not an <i>exempt CAD firm</i> .			

- 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.

...	
Sections Section 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.

<i>Data item</i>	Quarterly	Half yearly	Annual
...			
Sections Section D1 and D2 RMAR	30 <i>business days</i>	30 <i>business days</i>	
...			

Regulated Activity Group 7

...

- 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 <i>data item</i>	<i>Firms' prudential category and applicable data item</i> (note 1)				
		<i>IFPRU</i>	<i>BIPRU firm</i>	<i>Exempt CAD firms</i> subject to <i>IPRU(INV)</i> Chapter 13	<i>Firms</i> (other than <i>exempt CAD firms</i>) subject to <i>IPRU(INV)</i> Chapter 13

					Chapter 13
...					
Capital Adequacy	COREP (Note 29)	FSA003 (Note 2)	FSA032	Section D1 and D2 RMAR (Note 23)	
...					
...					

...

16.12.23 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.

<i>Data item</i>	Frequency				
	Unconsolidated <i>BIPRU investment firm</i> and <i>IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm</i> and <i>IFPRU investment firm</i>	<i>UK Consolidation Group</i> or <i>defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards				
...					
<u>Sections</u> <u>Section D1</u> and D2 RMAR				Half yearly	Quarterly
...					
...					

16.12.24 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.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					

...						
Sections Section D1 and D2 RMAR				30 business days	30 business days	
...						
...						

Regulated Activity Group 8

...

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 <i>data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>					
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>			
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IPRU (INV) Chapter 3</i>	<i>IPRU (INV) Chapter 5</i>	<i>IPRU (INV) Chapter 9</i>	<i>IPRU (INV) Chapter 13</i>
...						
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.

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined</i>	<i>Firms other than BIPRU firms or IFPRU</i>

					<i>liquidity group</i>	<i>investment firms</i>
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
...						
Sections <u>Section D1 and D2</u> 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 .

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					
...						
Sections <u>Section D1 and D2</u> RMAR				30 <i>business days</i>	30 <i>business days</i>	
...						
...						

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.

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 ~~IPRU(INV)~~ IFPRU or GENPRU ~~or~~ 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) 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, e.g., 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

<p><u>Is the firm exempt from these capital resources requirements in relation to any of its retail mediation activities?</u></p>	<p><u>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:</u></p> <ul style="list-style-type: none"> • <u>Lloyd's managing agents (MIPRU 4.1.11R);</u> • <u>solo consolidated subsidiaries of banks or building societies;</u> • <u>small credit unions (as defined in MIPRU 4.1.8R); and</u> • <u>investment firms not subject to IPRU(INV) 13 (unless they additionally carry on home</u>
---	---

	<i>finance mediation activity or insurance mediation activity relating to non-investment insurance contracts).</i>
<u>Home finance and non-investment insurance intermediation- MIPRU</u>	
...	
<u>Additional capital resources requirements for PII (if applicable)</u>	If the <i>firm</i> has any increased excesses on its PII policies, the total of the additional capital resources requirements required by the tables in <i>MIPRU 3.2.13R</i> or <i>MIPRU 3.2.14R</i> should be recorded here. See also section E of the RMAR.
Other <i>FCA</i> capital resources requirements (if applicable)	... If the <i>firm</i> carries on <i>designated investment business</i> as well as <i>home finance mediation activity, insurance mediation activity</i> or both, requirements under both <i>IPRU(INV)</i> , <i>IFPRU</i> , <i>GENPRU</i> or <i>BIPRU</i> and <i>MIPRU</i> 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 <i>IPRU(INV)</i> or <i>BIPRU</i> for a <i>firm</i> is higher than the base <i>MIPRU</i> requirement, then you should include the difference here.
<u>Additional capital resources requirements for PII (if applicable)</u>	If the <i>firm</i> has any increased excesses on its PII policies, the total of the additional capital resources requirements required by the tables in <i>MIPRU 3.2.13R</i> or <i>MIPRU 3.2.14R</i> should be recorded here. See also section E of the RMAR.
TOTAL CAPITAL RESOURCES REQUIREMENT	Appropriate total from above <u>Total of lines 5, 6 and 7.</u>
TOTAL CAPITAL RESOURCES	This should be the total of the capital resources calculated in accordance with <i>MIPRU 4</i> in this

	<p>section (D1) for incorporated or unincorporated <i>firms</i> as applicable.</p> <p>For <i>firms</i> that are additionally subject to <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>GENPRU</i> <i>BIPRU</i> or <i>CREG</i> <i>CREDS</i>, this should be the higher of the amount calculated in this section (“total capital resources per <i>MIPRU</i> 4²”) and the financial resources determined by <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>BIPRU</i> <i>GENPRU</i> or <i>CREG</i> <i>CREDS</i>. See <i>MIPRU</i> 4.4.1R.</p>
TOTAL CAPITAL RESOURCES EXCESS/DEFICIT	This should show the amount of difference between the capital resources that the <i>firm</i> has in relation to and its capital resources requirement.
<u>Personal investment firm (retail investment activities only) – IPRU(INV) 13</u>	
<u>Note: Firms that carry on retail investment activities, but no other designated investment business, are subject to this section.</u>	
<u>Category of personal investment firm</u>	<u>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.</u>
<u>Capital resources requirement</u>	<u>The capital resources requirement should be calculated in accordance with IPRU(INV) 13.13.2R to IPRU(INV) 13.13.4G unless the firm has permission for establishing, operating or winding up a personal pension scheme in which case the requirement is set out in IPRU(INV) 13.9 to IPRU(INV)13.12.</u>
<u>Additional capital resources requirement for PII (if applicable)</u>	<u>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.</u>
<u>Other FCA capital resources requirements (if applicable)</u>	<u>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.</u>
<u>Total capital resources requirement</u>	<u>The total of lines 12, 13 and 14.</u>

<u>Capital resources</u>	<u>Capital resources should be calculated in accordance with <i>IPRU(INV)</i> 13.15.3R.</u>
<u>Surplus/deficit of capital resources</u>	<u>This is the difference between the capital resources (line 16) and the total capital resources requirement (line 15)</u>
<u>Eligible capital resources per MIPRU 4 (home finance and non-investment insurance intermediation)</u>	
Incorporated firms	
...	
Interim net profits	Interim net profits should be verified by the <i>firm's</i> external auditor, net of tax or anticipated dividends and other appropriations to be included as capital. ...
...	
Subordinated <u>Eligible subordinated loans</u>	Subordinated loans should be included in capital <u>resources</u> on the basis of the provisions in <i>MIPRU</i> 4.4.7R and <i>MIPRU</i> 4.4.8R.
...	
Less interim net losses	Interim net losses should be reported where they have not already been incorporated into audited reserves or <u>interim net profits</u> . The figures do not have to be audited to be included.
Unincorporated firms and limited liability partnerships	
...	
Subordinated <u>Eligible subordinated loans</u>	Subordinated loans should be included in capital <u>resources</u> on the basis of the provisions in <i>MIPRU</i> 4.4.7R and <i>MIPRU</i> 4.4.8R.
<u>Personal assets not needed to meet non-business liabilities</u>	<u><i>MIPRU</i> 4.4.5R and <i>MIPRU</i> 4.4.6G allow a sole trader or partner to use personal assets to cover liabilities incurred in the <i>firm's</i> business unless:</u> <u>(1) those assets are needed to meet other liabilities arising from:</u>

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

...

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.

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

Regulatory Capital		A
<i>Own Funds</i>		
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	

23	Regulatory capital test How do you meet your regulatory capital requirement?	
----	--	--

<i>Capital requirement</i>		
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)	

<i>Professional Indemnity Insurance</i>		
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 H									J K L		
	PII Basic information									PII detailed information		
PII policy	Annualised premium	Insurer (from list)	Start date	Renewal date	Currency of indemnity	Limit of indemnity required Single	Limit of indemnity required Aggregate	Limit of indemnity received Single	Limit of indemnity received Aggregate	Business line	Policy excess	Policy exclusions
1												
2												
3												
4												
5												
6												
7												
8												
9												
10												

39	Annual income as stated on the most recent proposal form	A
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 25G **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 ~~Acts 1985 and Act 2006 as appropriate~~) or IFRS.

...

Description	Data element	Guidance
Regulatory Capital		
Ordinary share capital which is fully paid up	1A	Item 1 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Perpetual non-cumulative preference share which is fully paid	5A	Item 2 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Share premium account	3A	Item 3 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Reserves excluding revaluation reserves	4A	Item 4 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Audited retained earnings	45A	Item 5 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>

Externally verified interim net profits	46A	Item 6 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Partners' capital	47A	Item 7 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Eligible LLP members' capital (in accordance with the provisions of	2A	Item 8 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Sole trader capital	48A	Item 9 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
...		
Regulatory capital test(s)		
How do you meet your regulatory capital requirement?	23A	<p>The rules allow a firm to specify the method in which it will meet the regulatory capital requirement. A firm can:</p> <ul style="list-style-type: none"> • 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. <p>A firm should select from the drop-down options.</p> <p>(If a firm uses PII to meet the regulatory requirements it will nevertheless always require a minimum £10,000 <u>of £20,000</u> of <i>own funds</i> initial capital. For the purposes of this question, the minimum initial capital held by the firm can be ignored.)</p>
<i>Capital requirement</i>		

Own funds requirement	24A	<p>The <i>own funds</i> requirement ('OFR') should be calculated in accordance with section <i>IPRU(INV)</i> 13.1A (<u>excluding the calculation under <i>IPRU(INV)</i> 13.13 if that is higher</u>).</p> <p>Where a firm chooses to meet the regulatory requirements using PII the OFR will be a minimum of £10,000 £20,000.</p>
Additional own funds capital resources requirement for PII (if applicable)	25A	<p>If the firm has any increased excesses <u>over the minimum prescribed</u> or exclusions on <u>in</u> its PII policies, <u>this should be</u> the total of the additional capital <u>resources</u> requirements required by <i>IPRU(INV)</i> 13.1.4 <u>13.1.27R</u> and/or <u>13.1.23R</u>, respectively.</p>
Other appropriate regulator <u>regulatory</u> capital/ own funds requirements (if applicable)	26A	<p>Firms subject to a requirement under <i>IPRU(INV)</i> 13.2-8 or 13.9-12 should include that requirement as calculated by reference to the firm's own funds calculated under <i>IPRU(INV)</i> 13.1A to the extent it exceeds the own funds requirement in 24A. This excludes capital requirements in relation to PII.</p> <p>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 its 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.</p> <p><u>Under <i>IPRU(INV)</i> 13.1A.2R, a firm will be potentially subject to a requirement under <i>IPRU(INV)</i> 13.13.2R and should include that requirement here to the extent it exceeds the own funds requirement</u></p>

		<p>in 24A.</p> <p><u>This section excludes capital resources requirements in relation to PII.</u></p>
Surplus / (deficit)	28A	<p>This is the <u>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</u> requirement. A firm's <u>own funds capital resources</u> requirement is the total of 24A, 25A and 26A. So, such a firm should compare this requirement with the <u>own funds calculated</u> in 27A to compute the surplus/(deficit).</p>
<i>Adjusted net current Assets</i>		<p>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:</p> <p>(1) <u>excluding assets which cannot be realised or recovered within twelve months;</u></p> <p>(2) <u>excluding amounts receivable from connected persons (to the extent that they are not properly secured, except certain allowable deposits);</u></p> <p>(3) <u>valuing investments at current market value.</u></p>
Adjusted net current assets requirement (if applicable)	29A	<p>All personal investment firms except low resource firms should at all times have adjusted net current assets of at least £1.</p> <p>Low resource firms should enter 'n/a' here.</p>
Adjusted net current assets (if applicable)	30A	<p>Adjusted net current assets should be calculated in accordance with <u>IPRU(INV) 13.11.</u></p>
Surplus / (deficit) (if applicable)	31A	<p>This shows whether the firm's net current assets are positive.</p>

...

~~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	
...	
Capital resources requirement	The capital resources requirement should be calculated in accordance with <i>IPRU(INV)</i> 13.13.2R to <i>IPRU(INV)</i> 13.3.4G unless the firm has permission for establishing, operating or winding up a personal pension scheme in which case the requirement is set out in <i>IPRU(INV)</i> 13.9 to <i>IPRU(INV)</i>13.12.
...	
Other <i>FCA</i> capital resources requirements (if applicable)	The <i>FCA</i> may, from time to time, impose additional requirements on individual <i>firms</i> . If this is the case for your <i>firm</i> , you should enter the relevant amount here. This excludes capital resources requirements in relation to PII, which are recorded above. <u>A <i>firm</i> that has a permission to operate a personal pension will be subject to an additional capital requirement under <i>IPRU(INV)</i> 5; this should be included here.</u>
...	

...

Financial Conduct Authority



PUB REF: 005120

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