Interim Prudential sourcebook for investment businesses

Chapter 5

Financial resources



5.5 **Annual expenditure**

Determination

5.5.1 Annual expenditure is:

- (a) the sum of the amounts described as total expenditure in the four quarterly financial returns up to (and including) that prepared at the firm's most recent accounting reference date, less the following items (if they are included within such expenditure):
 - (i) staff bonuses, except to the extent that they are guaranteed;
 - (ii) employees' and directors' shares in profits, except to the extent that they are guaranteed;
 - (iii) other appropriations of profits;
 - (iv) shared commission and fees payable which are directly related to commission and fees receivable which are included within total revenue:
 - (v) interest charges in respect of borrowings made to finance the acquisition of the firm's readily realisable investments;
 - (vi) interest paid to customers on client money;
 - (vii) interest paid to counterparties;
 - (viii) fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;
 - (ix) foreign exchange losses; or
- (b) where the previous accounting period does not include twelve months' trading, an amount calculated in accordance with paragraph (a) above prorated to an equivalent annual amount; or
- (c) where a *firm* has not prepared four quarterly **financial returns** since the commencement of its permitted business, an amount based on forecast expenditure included in its budget for the first twelve months' trading, as submitted with its application for membership.

5.5.2

A firm's financial resources requirement will be recalculated annually when its fourth quarterly **financial return** is prepared. The *firm* must maintain financial resources sufficient to meet its new financial resources requirement from the date on which the fourth quarterly financial return is prepared and no later than 80 business days after the *firm's* accounting reference date. The expenditure based requirement applicable at the accounting reference date will be based on the four quarterly financial returns prepared up to and on that date.