Chapter 4

Own funds requirements

4.6 Overall K-factor requirement

4.6.1 R The *K-factor requirement* of a *MIFIDPRU investment firm* is the sum of each of the following that apply to the *firm*:

(1) K-AUM requirement;

(2) K-CMH requirement;

(3) K-ASA requirement;

(4) K-COH requirement;

(5) K-NPR requirement;

(6) K-CMG requirement;

(7) K-TCD requirement;

(8) K-DTF requirement; and

(9) K-CON requirement.

4.6.2 G (1) The *rules* and *guidance* in MIFIDPRU 4.7 to MIFIDPRU 4.16 explain how a *MIFIDPRU investment firm* should calculate each component of its overall *K-factor requirement*.

(2) The manner in which *firms* carry on activities that are potentially relevant to one or more *K-factor metrics* may vary considerably. It is not practical for the *FCA* to give an exhaustive set of *rules* and *guidance* covering every conceivable business arrangement that *firms* may operate when carrying on such activities.

(3) If a *firm* is unsure whether a particular arrangement is within scope of one or more components of the *K-factor requirement*, the *FCA* expects the *firm* to apply a purposive approach to the interpretation of the requirement, as required by GEN 2.2.1R. Among other factors, the *FCA* would therefore expect the *firm* to consider:

(a) whether the arrangement is sufficiently analogous to another arrangement that is clearly covered by any *rules* or associated *guidance*;

(b) the risks that the relevant component of the *K-factor requirement* is designed to address and whether the same or similar risks arise in relation to the arrangement in question; and

(c) where the component of the *K-factor requirement* is calculated by reference to a specific *investment service and/or activity*, the approach that the *firm* has adopted to applying other *rules* or *guidance* elsewhere in the *Handbook* to the arrangement, where those *rules* or *guidance* refer to the same *investment service and/or activity*.

(4) The *FCA* expects that if asked, a *firm* will be able to justify the approach that the *firm* has taken to applying the *K-factor requirement* to a particular activity.

(5) *MIFIDPRU investment firms* are reminded that even if an activity does not contribute towards the *K-factor requirement*, they should still consider, in accordance with the requirements in ■ MIFIDPRU 7, whether that activity may give rise to potential material risks of harm or may be relevant to the *firm's* wind-down analysis.