

## Chapter 7

# Governance and risk management

## 7.1 Application

- 7.1.1** G (1) ■ MIFIDPRU 7 applies to the following:
- (a) a *MIFIDPRU investment firm*;
  - (b) a *UK parent entity of an investment firm group* to which consolidation applies under ■ MIFIDPRU 2.5; and
  - (c) a *parent undertaking* that operates a *group ICARA process* in accordance with ■ MIFIDPRU 7.9.5R.
- (2) ■ MIFIDPRU 7.1.3R explains how each section of ■ MIFIDPRU 7 applies to the undertakings in (1).

**7.1.2** G The following table summarises the content of ■ MIFIDPRU 7:

Section	Summary of content
MIFIDPRU 7.2	General requirements relating to a <i>firm's</i> governance arrangements
MIFIDPRU 7.2A	Requirements relating to the risk management function
MIFIDPRU 7.3	Requirements relating to risk, remuneration and nomination committees
MIFIDPRU 7.4	The <i>overall financial adequacy rule</i> and a <i>firm's</i> baseline obligations in relation to the <i>ICARA process</i>
MIFIDPRU 7.5	The requirements of the <i>ICARA process</i> relating to capital and liquidity planning, stress testing and wind-down planning
MIFIDPRU 7.6	<i>Rules and guidance</i> explaining how a <i>firm</i> should assess and monitor the adequacy of its <i>own funds</i>
MIFIDPRU 7.7	<i>Rules and guidance</i> explaining how a <i>firm</i> should assess and monitor the adequacy of its <i>liquid assets</i>
MIFIDPRU 7.8	Requirements relating to the periodic review of the <i>ICARA process</i> and record keeping requirements
MIFIDPRU 7.9	Requirements for <i>firms</i> to monitor <i>group risk</i> and <i>rules</i> explaining when an <i>investment firm group</i> may operate a <i>group-level ICARA process</i>

Section	Summary of content
MIFIDPRU 7.10	Guidance explaining the FCA's general approach to the SREP
MIFIDPRU 7 Annex 1G	General <i>guidance</i> on assessing potential harms that is potentially relevant to all MIFIDPRU investment firms
MIFIDPRU 7 Annex 2G	Additional <i>guidance</i> on assessing potential harms that is relevant for MIFIDPRU investment firms dealing on own account and firms with significant investments on their balance sheet
MIFIDPRU 7 Annex 3R to MIFIDPRU 7 Annex 6R	Notification forms
MIFIDPRU 7 Annex 7G	Table mapping the rules in MIFIDPRU 7 about the ICARA process to their associated <i>guidance</i> provisions

7.1.3



■ MIFIDPRU 7 applies as follows:

Section of MIFIDPRU 7	Application to SNI MIFIDPRU investment firms	Application to non-SNI MIFIDPRU investment firms	Application at the level of an investment firm group
<b>MIFIDPRU 7.2 (Internal governance)</b>	<b>Applies</b>	<b>Applies</b>	<b>Applies to the UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5</b>
<b>MIFIDPRU 7.2A (Risk management function)</b>	<b>Does not apply</b>	<b>Applies to a non-SNI MIFIDPRU investment firm that has a risk management function in accordance with article 23 of the MIFID Org Regulation</b>	<b>Does not apply</b>
<b>MIFIDPRU 7.3 (Risk, remuneration and nomination committees)</b>	<b>Does not apply</b>	<b>Applies if the firm does not qualify for the exclusion in MIFIDPRU 7.1.4R</b>	<b>Does not apply</b>
<b>MIFIDPRU 7.4 (Overall financial adequacy rule and baseline ICARA obligations)</b>	<b>Applies</b>	<b>Applies</b>	<b>Applies if the investment firm group is operating a group ICARA process</b>
<b>MIFIDPRU 7.5 (Capital and liquidity)</b>	<b>Applies</b>	<b>Applies</b>	<b>Applies if the investment firm</b>

Section of MIFID-PRU 7	Application to SNI MIFIDPRU investment firms	Application to non-SNI MIFID-PRU investment firms	Application at the level of an investment firm group
planning, stress testing and wind-down planning)			group is operating a group ICARA process
MIFIDPRU 7.6 (Assessing adequacy of own funds)	Applies	Applies	Applies if the investment firm group is operating a group ICARA process
MIFIDPRU 7.7 (Assessing adequacy of liquid assets)	Applies	Applies	Applies if the investment firm group is operating a group ICARA process
MIFIDPRU 7.8 (Periodic review of the ICARA process and record keeping)	Applies	Applies	Applies if the investment firm group is operating a group ICARA process
MIFIDPRU 7.9 (Group risks and the group ICARA process)	Applies	Applies	Applies if the investment firm group is operating a group ICARA process
MIFIDPRU 7.10 (The FCA's general approach to the SREP)	Applies as guidance	Applies as guidance	Applies as guidance

7.1.4

R

- (1) ■ MIFIDPRU 7.3 (Risk, remuneration and nomination committees) does not apply to a *non-SNI MIFIDPRU investment firm*:
  - (a) where the value of the *firm's* on-balance sheet assets and *off-balance sheet items* over the preceding 4-year period is a rolling average of £100 million or less; or
  - (b) where:
    - (i) the value of the *firm's* on-balance sheet assets and *off-balance sheet items* over the preceding 4-year period is a rolling average of £300 million or less; and
    - (ii) the conditions in (2) are (where they are relevant to a *firm*) satisfied.
- (2) The conditions referred to in (1)(b)(ii) are that the:
  - (a) exposure value of the *firm's* on- and off-balance sheet *trading book* business is equal to or less than £150 million; and
  - (b) exposure value of the *firm's* on- and off-balance sheet derivatives business is equal to or less than £100 million.
- (3) For the purposes of paragraph (1), paragraph (4) applies where a *non-SNI MIFIDPRU investment firm* does not have monthly data covering the 4-year period referred to in that paragraph.

- 7.1.5 **G**
- (4) Where this paragraph applies, a *non-SNI MIFIDPRU investment firm* must calculate the rolling averages referred to in paragraph (2) using the data points that it does have.
- (1) For the purposes of ■ MIFIDPRU 7.1.4R(3), the FCA expects a *non-SNI MIFIDPRU investment firm* to have insufficient data for a period only where it did not carry on any *MiFID business* during that period, or where (for periods prior to the application of *MIFIDPRU*) the firm did not record the relevant data on a monthly basis.
- (2) Where a *firm* does not have all the monthly data points, the *firm* should use the data points it has in the way that paints the most representative picture of the period in question. For example, if a *firm* has monthly data for 2 years of the 4- year period, but prior to that only recorded the relevant data on a quarterly basis, the *firm* could sensibly calculate its rolling average by using the quarterly figure for each of the three monthly data points in each quarter.
- 7.1.6 **R**
- (1) The amounts referred to in ■ MIFIDPRU 7.1.4R must be calculated on an individual basis, and:
- (a) in the case of on-balance sheet assets, in accordance with the applicable accounting framework;
- (b) in the case of *off-balance sheet items*, using the full nominal value.
- (2) The value of the on-balance sheet assets and *off-balance sheet items* in ■ MIFIDPRU 7.1.4R(1)(a) and ■ (b) must be the arithmetic mean of the assets and items over the preceding 4 years, based on monthly data points.
- (3) A *firm* may choose the *day* of the *month* that it uses for the data points in (2), but once that day has been chosen the *firm* may only change it for genuine business reasons.
- 7.1.7 **R**
- (1) When calculating the amounts referred to in ■ MIFIDPRU 7.1.4R(1)(a) and ■ (b), a *firm* must use the total amount of its on-balance sheet assets and off-balance sheet items.
- (2) A *firm* must calculate the exposure values referred to in ■ MIFIDPRU 7.1.4R(2)(a) and ■ (b) by adding together the following items:
- (a) the positive excess of the *firm's* long positions over its short positions in all *trading book financial instruments*, using the approach specified for K-NPR in ■ MIFIDPRU 4.12.2R to calculate the net position for each instrument; and
- (b) the exposure value of contracts and transactions referred to in ■ MIFIDPRU 4.14.3R, calculated using the approach specified for K-TCD in ■ MIFIDPRU 4.14.8R.
- (3) Any amounts in foreign currencies must be converted into sterling using the relevant conversion rate.

(4) A *firm* must determine the conversion rate in (3) by reference to an appropriate market rate and must record which rate was chosen.

**7.1.8** **G** An example of an appropriate market rate for the purposes of ■ MIFIDPRU 7.1.7R(4) is the relevant daily spot exchange rate against sterling published by the Bank of England.

**7.1.9** **R**

(1) This *rule* applies to a *non-SNI MIFIDPRU investment firm* that did not meet the conditions in ■ MIFIDPRU 7.1.4R(1)(a) or ■ (b) but subsequently does.

(2) ■ MIFIDPRU 7.3 (Risk, remuneration and nomination committees) ceases to apply to the *firm* in (1) if:

(a) the *firm* has met the conditions in ■ MIFIDPRU 7.1.4R(1)(a) or ■ (b) for a continuous period of at least 6 *months* (or such longer period as may have elapsed before the *firm* submits the notification in (b)); and

(b) the *firm* has notified the *FCA* that it has met the conditions in (a).

(3) The notification in (2)(b) must be submitted through the *online notification and application system* using the form in ■ MIFIDPRU 7 Annex 3R.

**7.1.10** **G** The effect of ■ MIFIDPRU 7.1.9R(2)(a) is that a *firm* may move between meeting the conditions in ■ MIFIDPRU 7.1.4R(3)(a) and ■ (b) during the 6-*month* period.

**7.1.11** **R** Where a *non-SNI MIFIDPRU investment firm* has met the conditions in ■ MIFIDPRU 7.1.4R(1)(a) or ■ (b) but then ceases to do so, it must comply with ■ MIFIDPRU 7.3 within 6 *months* from the date on which the *firm* ceased to meet the conditions.

**7.1.12** **R**

(1) Where a *non-SNI MIFIDPRU investment firm* ceases to meet the conditions in ■ MIFIDPRU 7.1.4R(1)(a) or ■ (b), it must promptly notify the *FCA*.

(2) The notification in (1) must be submitted through the online notification and application system using the form in ■ MIFIDPRU 7 Annex 3R.

**7.1.13** **G** Where a *firm* ceases to meet the conditions in ■ MIFIDPRU 7.1.4R(1)(a) or ■ (b), but subsequently meets the conditions again within a period of 6 *months*, the *firm* will still be subject to ■ MIFIDPRU 7.3 6 *months* after the date on which it first ceased to meet the conditions. The *firm* will only cease to be subject to ■ MIFIDPRU 7.3 where it meets the conditions in ■ MIFIDPRU 7.1.9R.