

Chapter 10

Prudential rules for debt management firms



10.2 Prudential resources requirements

General solvency requirement

10.2.1 **R** A *firm* must, at all times, ensure that it is able to meet its liabilities as they fall due.

General prudential resource requirement

10.2.2 **R** A *firm* must ensure that, at all times, its prudential resources are not less than its prudential resources requirement.

Prudential resources: relevant accounting principles

10.2.3 **R** A *firm* must recognise an asset or liability, and measure its amount, in accordance with the relevant accounting principles applicable to it for the purpose of preparing its annual financial statements unless a *rule* requires otherwise.

Prudential resources requirement: firms carrying on other regulated activities

10.2.4 **R** The prudential resources requirement for a *firm* carrying on a *regulated activity* or activities in addition to those covered by this chapter, is the higher of:

- (1) the requirement which is applied by this chapter; and
- (2) the prudential resources requirement which is applied by another *rule* or requirement to the *firm*.

Prudential resources requirement

10.2.5 **R** On its *accounting reference date* in each year, a *firm* must calculate:

- (1) the total value of its *relevant debts under management* outstanding on that date; and
- (2) the sum of:
 - (a) 0.25% of the first £5 million of that total value;
 - (b) 0.15% of the next £95 million of that total value; and
 - (c) 0.05% of any remaining total value.

- 10.2.6** **R** The total value of a *firm's relevant debts under management* outstanding referred to in **■ CONC 10.2.5 R (1)** is the sum of all the *firm's customers' relevant debts under management*.
- 10.2.7** **G** The definition of *relevant debts under management* refers to a debt due under a *credit agreement* or a *consumer hire agreement* in relation to which the *firm* is carrying on *debt adjusting* or an activity connected to that activity. The reference to "debt due" covers not only amounts that are payable at the time the prudential resources requirement is calculated but also amounts the *borrower* or *hirer* is presently obliged to pay under the *credit agreement* or the *consumer hire agreement* in the future.
- 10.2.8** **R** The prudential resources requirement for a *firm* to which this chapter applies is the higher of:
- (1) £5,000; or
 - (2) the sum calculated in accordance with **■ CONC 10.2.5 R (2)**;
- for the period until (subject to **■ CONC 10.2.13 R**) its next *accounting reference date*.
- 10.2.9** **R** To determine a *firm's* prudential resources requirement for the period beginning on the date on which it obtains *Part 4A permission* and ending on the day before its next *accounting reference date*, the *firm* must carry out the calculation in **■ CONC 10.2.5 R (2)** on the basis of the total value of *relevant debts under management* the *firm* projects will be outstanding on the day before its next *accounting reference date*.
- What is not included as relevant debts under management**
- 10.2.10** **G** Activities carried on by a *person* acting as an insolvency practitioner (within section 388 of the Insolvency Act 1986 or, as the case may be, article 3 of the Insolvency (Northern Ireland) Order 1989) or by a *person* acting in reasonable contemplation of that *person's* appointment as an insolvency practitioner are excluded from the *regulated activity of debt adjusting*. A debt in relation to which a *person* is acting in such a capacity is, therefore, excluded from the calculation of its *relevant debts under management* (but a debt in relation to which the same *person* is not acting in such capacity and is carrying on *debt-adjusting* is included in the calculation).
- Determining the prudential resources requirement**
- 10.2.11** **G** If a *firm* has 1000 *relevant debts under management* and each of those debts is £10,000, the total value of the *firm's relevant debts under management* is £10,000,000. If the *firm* does not carry on any other *regulated activity* to which another higher prudential resources requirement applies, its prudential resources requirement is £20,000. This is calculated as follows:
- (1) $0.25\% \times £5,000,000 = £12,500$; and
 - (2) $0.15\% \times £5,000,000 = £7,500$.

10.2.12 **G** If during the following year 20% (£200) of each *relevant debt under management* is paid off by the *borrower* or *hirer* leaving an outstanding balance of £800 on each *relevant debt under management*, and during that year the *firm* does not carry on *debt adjusting* in relation to any further debts due under *credit agreements* or *consumer hire agreements*, the total value of the *firm's relevant debt under management* is £8,000,000. If the *firm* does not carry on any other *regulated activity* to which another higher prudential resources requirement applies, its prudential resources requirement is £17,000. This is calculated as follows:

(1) $0.25\% \times £5,000,000 = £12,500$; and

(2) $0.15\% \times £3,000,000 = £4,500$.

Recalculating the prudential resources requirement

10.2.13 **R** If a *firm* experiences a greater than 15% increase in the total value of its *relevant debts under management* compared to the value used in its last prudential resources requirement calculation, it must recalculate its prudential resources requirement using the new total value of its *relevant debts under management*.

10.2.14 **R** A *firm* must notify the *FCA* of any change in its prudential resources requirement within 14 *days* of that change.