

**Prudential sourcebook for Investment Firms**

# Chapter 1

# Application

## 1.1 Application and Purpose

### Application

- 1.1.1** **G** There is no overall application for *IFPRU*. Each chapter or section has its own application statement. However, *IFPRU* broadly applies in the following manner:
- (1) only **■ IFPRU 7** (Liquidity) and **■ IFPRU 9** (Public disclosure) apply to an *exempt IFPRU commodities firm* and **■ IFPRU 8.1** (Prudential consolidation) may apply subject to the conditions in that section; and
  - (1A) **■ IFPRU 10** (Capital buffers) applies to an *IFPRU investment firm*, unless it is an:
    - (a) *exempt IFPRU commodities firm*; or
    - (b) *IFPRU limited-licence firm*; and
  - (2) other than in (1) and (1A), the whole of *IFPRU* applies to an *IFPRU investment firm*.
- 1.1.2** **R** *IFPRU* applies to a *firm* for the whole of its business, except where a particular provision provides for a narrower scope.
- 1.1.3** **G**
- (1) *IFPRU* applies to a *collective portfolio management investment firm* that is an *IFPRU investment firm* in parallel with **■ IPRU(INV) 11** (see **■ IPRU(INV) 11.6**).
  - (2) Generally, *IFPRU* only applies to a *collective portfolio management investment firm's designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However, **IFPRU 2.2** (Internal capital adequacy assessment process) and **IFPRU 2.3** (Supervisory review and evaluation process: Internal capital adequacy standards) apply to the whole of its business.

### Purpose

- 1.1.4** **G**
- (1) The purpose of *IFPRU* is to implement, in part, *CRD* and certain national discretions afforded to the *FCA* as *competent authority* under *EU CRR*.
  - (2) Save as provided in the *Glossary*, any expression in the *Handbook* for the purpose of *IFPRU* which is defined or used in *EU CRR* shall have the meaning given by, or used in, those Regulations.

### Exclusion of certain types of firms

1.1.5 **R** None of the following is an *IFPRU investment firm*:

- (1) an *incoming EEA firm*;
- (2) an *incoming Treaty firm*;
- (3) any other *overseas firm*;
- (4) a *designated investment firm*;
- (5) a *BIPRU firm*;
- (6) an *insurer*; and
- (7) an *ICVC*.

### Types of IFPRU investment firm

1.1.6 **R** An *IFPRU investment firm* includes a *collective portfolio management investment firm* that is not excluded under **R** IFPRU 1.1.5 (Exclusion of certain types of firms).

1.1.7 **G** In accordance with articles 95 and 96 of *EU CRR*, *IFPRU investment firms* are divided into the following categories:

- (1) *full-scope IFPRU investment firm*;
- (2) *IFPRU limited licence firm*; and
- (3) *IFPRU limited activity firm*.

### Alternative classification of IFPRU investment firms

1.1.8 **R** *IFPRU investment firms* are divided into the following classes for the calculation of the *base own funds requirement* and any other provision of the *Handbook* that applies this classification:

- (1) an *IFPRU 50K firm*;
- (2) an *IFPRU 125K firm*;
- (3) an *IFPRU 730K firm*; and
- (4) a *collective portfolio management investment firm*.

### Types of IFPRU investment firm: IFPRU 125K firm

1.1.9 **R** An *IFPRU 125K firm* means an *IFPRU investment firm* that satisfies the following conditions:

- (1) it does not:
  - (a) deal on own account; or

- (b) underwrite issues of *financial instruments* (as referred to in Section A of Annex I of *MiFID*) on a firm commitment basis;
- (2) it holds clients' money or securities for *investment services* it provides or is authorised to do so;
- (3) it offers one or more of the following services (all as referred to in Section A of Annex I of *MiFID*):
  - (a) reception and transmission of investors' orders for *financial instruments*; or
  - (b) the execution of investors' orders for *financial instruments*; or
  - (c) the management of individual portfolios of investments in *financial instruments*;
- (4) it is not a *collective portfolio management investment firm*; and
- (5) it does not operate either a *multilateral trading facility* or an *organised trading facility*, or both.

[Note: article 29(1) of *CRD*]

#### Types of IFPRU investment firm: IFPRU 50K firm

1.1.10

**R**

An *IFPRU 50K firm* is a *IFPRU investment firm* that satisfies the following conditions:

- (1) the conditions in ■ IFPRU 1.1.9 R(1) and (3);
- (2) it does not hold clients' money or securities for *investment services* it provides and is not authorised to do so;
- (3) it is not a *collective portfolio management investment firm*; and
- (4) it does not operate either a *multilateral trading facility* or an *organised trading facility*, or both.

[Note: article 29(3) of *CRD*]

#### Types of IFPRU investment firm: IFPRU 730K firm

1.1.11

**R**

- (1) An *IFPRU investment firm* that is not a *collective portfolio management investment firm*, an *IFPRU 125K firm* or an *IFPRU 50K firm* is an *IFPRU 730K firm*.
- (2) An *IFPRU investment firm* that operates either a *multilateral trading facility* or an *organised trading facility* or both is an *IFPRU 730K firm*.

[Note: article 28(2) of *CRD*]

#### Meaning of dealing on own account

1.1.12

**R**

- (1) For the purpose of *IFPRU* and the *EU CRR*, dealing on own account means the service of dealing in any *financial instruments* for own account as referred to in point 3 of Section A of Annex I to *MiFID*, subject to (2) and (3).

- (2) In accordance with article 29(2) of *CRD* (Definition of dealing on own account), an *investment firm* that executes investors' orders for *financial instruments* and holds such *financial instruments* for its own account does not, for that reason, deal on own account if the following conditions are met:
- (a) such *position* only arise as a result of the *investment firm's* failure to match investors' orders precisely;
  - (b) the total market value of all such *positions* is no higher than 15% of the *investment firm's initial capital*;
  - (c) (for an *investment firm* that is an *IFPRU investment firm* or an *EEA firm*) it complies with the requirements in articles 92 to 95 (Own funds requirements for investment firms with limited authorisation to provide investment services) and Part Four (Large exposures) of the *EU CRR*;
  - (d) (for any other *investment firm*) it would comply with the requirements in (2)(c) if it had been an *investment firm* on the basis of the assumptions in ■ IFPRU 1.1.13 G (1)(a) and (b); and
  - (e) such *positions* are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.
- (3) In accordance with article 29(4) of *CRD*, the holding on non-trading book positions in financial instruments in order to invest in *own funds* is not dealing on own account for the purposes of  
 ■ IFPRU 1.1.9 R (Types of IFPRU investment firm: IFPRU 125K firm) and  
 ■ IFPRU 1.1.10 R (Types of IFPRU investment firm: IFPRU 50K firm).

### Interpretation of the definition of types of firm and undertaking

- 1.1.13 **G** A *firm* whose head office is not in an *EEA State* is an *investment firm* if it would have been subject to the requirements imposed by *MiFID* (but it is not a *bank, building society, credit institution, local firm, exempt CAD firm* and *BIPRU firm*) if:
- (1) its head office had been in an *EEA State*; and
  - (2) it had carried on all its business in the *EEA* and had obtained whatever authorisations for doing so as are required under *MiFID*.
- 1.1.14 **G** A *firm* also falls into one of the categories of an *IFPRU investment firm* listed in ■ IFPRU 1.1.7 G (Types of IFPRU investment firm) or ■ IFPRU 1.1.8 R (Alternative classification of IFPRU investment firms) if its *Part 4A permission* contains a *requirement* that it must comply with the *rules* in *IFPRU* applicable to that category of *firm*. If a *firm* is subject to such a *requirement*, and it would otherwise also fall into another category of *IFPRU investment firm*, it does not fall into that other category.
- 1.1.15 **G** For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* does any of the activities referred to in *IFPRU* and the *EU CRR* if:

- (1) it does that activity anywhere in the world; or
- (2) its *permission* includes that activity; or
- (3) (for an *EEA firm*) it is authorised by its *Home State regulator* to do that activity; or
- (4) (if the carrying on of that activity is prohibited in a state or territory without an authorisation in that state or territory) that *firm* has such an authorisation.

**1.1.16** **G** For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* offers any of the services referred to in articles 95 and 96 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services) if:

- (1) it offers that service anywhere in the world; or
- (2) any of ■ IFPRU 1.1.15 G(1) to (4) apply.

**1.1.17** **G** For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* has an authorisation to do any of the activities referred to in articles 95 and 96 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services) if any of ■ IFPRU 1.1.15 G(1) to (4) apply.

## 1.2 Significant IFPRU firm

### Purpose

1.2.1

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Throughout *CRD* and the *EU CRR* there are various policies which have restricted application based on a *firm's* scope, nature, scale, internal organisation and complexity. These policies are provided in the following:

- (1) article 76 of *CRD* on the establishment of an independent risk committee;
- (2) article 88 of *CRD* on the establishment of an independent nominations committee;
- (3) article 91 of *CRD* on the limitations on the number of directorships an individual may hold;
- (4) article 95 of *CRD* on the establishment of an independent remuneration committee;
- (5) article 100 of *CRD* on supervisory stress testing to facilitate the *SREP* under article 97 of *CRD*;
- (6) articles 129 and 130 of *CRD* on applicability of the capital conservation buffer and the countercyclical capital buffer (provided that an exemption from the application of these articles does not threaten the stability of the financial system of the *EEA State*);
- (7) article 6(4) of the *EU CRR* on the scope of liquidity reporting on an individual basis;
- (8) article 11(3) of the *EU CRR* on the scope of liquidity reporting on a consolidated basis; and
- (9) article 450 of the *EU CRR* on disclosure on *remuneration*.

1.2.2

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The articles in ■ IFPRU 1.2.1 G do not always carry the same wording in describing what may be significant in terms of a *firm's* scope, nature, scale, internal organisation and complexity, but the articles have a general policy to restrict the application of those requirements to *institutions* which pose higher risks by virtue of broadly their size, types of business and complexity of activities. The *FCA's* policy is to apply an objective definition with pre-defined thresholds to determine which *firms* are considered as significant for the purpose of these articles. In order to clarify which *firms* these policies apply to, ■ IFPRU 1.2.3 R defines the factors which determine if a *firm* is a *significant IFPRU firm*.

**Definition of significant IFPRU firm**

1.2.3

**R**

A *firm* is a *significant IFPRU firm* if it meets, at any time, one or more of the following conditions:

- (1) its total assets exceeds £530 million;
- (2) its total liabilities exceeds £380 million;
- (3) the annual fees and commission income it receives in relation to the *regulated activities* carried on by the *firm* exceeds £160 million in the 12-month period immediately preceding the date the *firm* carries out the assessment under this *rule* on a rolling basis;
- (4) the *client money* that it receives or holds exceeds £425 million; and
- (5) the assets belonging to its *clients* that it holds in the course of, or connected with, its *regulated activities* exceeds £7.8 billion.

1.2.4

**R**

- (1) This *rule* defines some of the terms used in ■ IFPRU 1.2.3 R.
- (2) "Total assets" means the *firm's* total assets
  - (a) set out in the most recent relevant report submitted to the *FCA* under ■ SUP 16.12 (Integrated regulatory reporting); or
  - (b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- (3) "Total liabilities" means the *firm's* total liabilities:
  - (a) set out in the most recent relevant report submitted to the *FCA* under ■ SUP 16.12 (Integrated regulatory reporting); or
  - (b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- (4) The *client money* means the *money* that a *firm* receives or holds in the course of, or in connection with, all of the *regulated activities* defined in paragraphs (1) to (4) of the *Glossary* that it carries on:
  - (a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP*, as applies to the *firm* in ■ SUP 16.12 (Integrated regulatory reporting); or
  - (b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- (5) "Assets belonging to its *clients*" means the assets to which the custody rules apply:



- (a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP*, as applies to the firm in
  - [SUP 16.12](#) (Integrated regulatory reporting); or
- (b) (if the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

- 1.2.5** **R** A *firm* must regularly assess whether it, at any time, becomes a *significant IFPRU firm*.
- 1.2.6** **R**
- (1) If a *firm*, at any time, becomes aware that it is likely to become a *significant IFPRU firm*, it must forthwith make arrangements to establish and have in place sound, effective and comprehensive strategies, processes and systems to achieve compliance with the requirements that apply to a *significant IFPRU firm*.
  - (2) The *firm* in (1) must comply with the requirements that apply to a *significant IFPRU firm* on the expiry of a period of three *months* from the date it meets any one of the conditions in ■ [IFPRU 1.2.3 R](#).
- 1.2.7** **R** If a *firm* that is a *significant IFPRU firm* ceases to meet any of the conditions in ■ [IFPRU 1.2.3 R](#), it must continue to comply with the *rules* and requirements applicable to a *significant IFPRU firm* until the first anniversary of the date on which the *firm* ceased to be a *significant IFPRU firm*.
- 1.2.8** **G** The *FCA* may, on a case-by-case basis, require a *firm* which does not meet any of the conditions in ■ [IFPRU 1.2.3 R](#) to comply with the *rules* and requirements that apply to a *significant IFPRU firm* if the *FCA* considers it appropriate to do so to meet its strategic objective or to advance one or more of its operational objectives under the *Act*.
- 1.2.9** **G**
- (1) A *firm* may apply to the *FCA* under section 138A of the *Act* to waive any one or more of the conditions in ■ [IFPRU 1.2.3 R](#) if it believes that one or more of the governance requirements in (2) that apply to a *significant IFPRU firm* may be disproportionate to it. In its application for such *waiver*, the *FCA* expects the *firm* to demonstrate, taking into account size, nature, scope and complexity of its activities in the context of it being a member of a *group* and the internal organisation of the *group*, that it should not be considered as significant.
  - (2) The governance requirements referred to in (1) are:
    - (a) ■ [SYSC 4.3A.6 R](#) on the limitations in the number of directorships; or
    - (b) ■ [SYSC 4.3A.8 R](#) on the nomination committee; or
    - (c) ■ [SYSC 7.1.18 R](#) on the risk committee; or
    - (d) ■ [SYSC 19A.3.12 R](#) on the remuneration committee.

- (3) The effect of such *waiver* is that the *firm* would not be a *significant IFPRU firm* only for the purpose of the particular governance requirement in (2) that the *waiver* is expressed to apply to. For the avoidance of doubt, such *firm* would still be a *significant IFPRU firm* for the purpose of the other *rules* in the *FCA Handbook* that apply to a *significant IFPRU firm*.



## 1.3 Supervisory benchmarking of internal approaches for calculating own funds requirements

- 1.3.1** **R** Except for *operational risk*, a *firm* that is permitted to use *internal approaches* for the calculation of risk weighted exposure amounts or own fund requirements must report annually to the *FCA*:
- (1) the results of the calculations of its *internal approaches* for its *exposures* or positions that are included in the benchmark portfolios; and
  - (2) an explanation of the methodologies used to produce those calculations in (1).
- [Note: article 78(1) of *CRD*]
- 1.3.2** **G** A *firm* must submit the results of the calculations referred to in **IFPRU 1.3.1 R (1)**, in line with the template set out in the Commission Regulation adopted under article 78(8) of *CRD*, to the *FCA* and to *EBA*.
- 1.3.3** **R** Where the *FCA* has chosen to develop specific portfolios in accordance with article 78(2) of *CRD*, a *firm* must report the results of the calculations separately from the results of the calculations for *EBA* portfolios.
- [Note: article 78(2) of *CRD*]

## 1.4 EU CRR permissions

- 1.4.1** **R** A *firm* which has applied for, or has been granted, a permission under the *EU CRR* must notify the *FCA* immediately if it becomes aware of any matter which could affect the continuing relevance or appropriateness of the application or permission.
- 1.4.2** **G** The reference to 'permission' in **■** IFPRU 1.4.1 R includes any approval, consent or agreement referred to under the *EU CRR* for which the *FCA* has been conferred powers as *competent authority* by the *EU CRR*.



## 1.5 Notification of FINREP reporting

- 1.5.1** **R** A n *IFPRU investment firm* must notify the *FCA*:
- (1) if it is, or becomes, a *FINREP firm*; and
  - (2) when it ceases to be a *FINREP firm*.
- 1.5.2** **R** A *firm* must notify the *FCA* if it adjusts its *firm's accounting reference date* under the Commission Regulation made under article 99 of the *EU CRR*.

## 1.6 Actions for damages

### 1.6.1

**R** A contravention of the *rules* in *IFPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision given rise to no such right of action).