

Prudential sourcebook for Investment Firms

Chapter 1

Application

1.2 Significant IFPRU firm

Purpose

1.2.1

G

Throughout *CRD* and the *UK 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 *UK* legislation related to 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 *UK*);
- (7) article 6(4) of the *UK CRR* on the scope of liquidity reporting on an individual basis;
- (8) article 11(3) of the *UK CRR* on the scope of liquidity reporting on a consolidated basis; and
- (9) article 450 of the *UK 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

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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

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- (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*.