

Chapter 13

Financial Resources Requirements for Personal Investment Firms



13.15 CALCULATION OF OWN FUNDS TO MEET THE CAPITAL RESOURCES REQUIREMENT FOR A CATEGORY B FIRM

Application

13.15.1 **R** This section applies to a *personal investment firm* which is a *category B firm*.

13.15.2 **G** The calculation of *own funds* by an *exempt CAD firm* is in **■ IPRU-INV 13.1A.14R.**

13.15.3 **R** A *firm* must calculate its capital resources in accordance with table 13.15.3(1).

Table 13.15.3(1)

This table forms part of **■ IPRU-INV 13.15.3R.**

Capital resources	
Companies	Sole traders: Partnerships
Paid-up <i>share</i> capital (excluding preference shares redeemable by shareholders within two years)	Balances on proprietor's or partners' <ul style="list-style-type: none"> - capital accounts - current accounts (see IPRU-INV 13.15.4R)
<i>Eligible LLP members' capital</i>	Revaluation reserves
<i>Share premium account</i>	Subordinated loans (see IPRU-INV 13.15.7R)
Retained profits (see IPRU-INV 13.15.4R) and interim net profits (Note 1)	
Revaluation reserves	
Subordinated loans (see IPRU-INV 13.15.7R)	
<i>Debt capital</i>	
less	less
- Intangible assets	- Intangible assets
- <i>Material current year losses</i>	- <i>Material current year losses</i>
- <i>Excess LLP members' drawings</i>	- Excess of current year drawings over current year profits
Note 1	

Capital resources

Retained profits must be audited and interim net profits must be verified by the *firm's* external auditor, unless the *firm* is exempt from the provisions of Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.

13.15.4 **R** When calculating a *firm's* capital resources, the following adjustments apply to retained profits or (for *sole traders* or *partnerships*) current accounts figures:

- (1) a *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;
- (2) a *firm* must de-recognise any *defined benefit asset*;
- (3) a *firm* may substitute for a *defined benefit liability* its *deficit reduction amount* and that election must be applied consistently in respect of any one financial year;
- (4) a *firm* must deduct any unrealised gains on investment property and include these within revaluation reserves; and
- (5) where applicable, a *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

13.15.5 **G** A *firm* should keep a record of, and be ready to explain to its supervisory contacts in the *FCA*, the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

Personal assets

13.15.6 **G** Where a *firm* is a *sole trader* or a *partnership*:

- (1) it can use (to the extent necessary to make up any shortfall in the required resources) any of its personal assets (not being needed to meet liabilities arising from its personal activities and any business activities not regulated by the *FCA*);
- (2) the *firm's* total financial resources, from whatever source, must at all times be sufficient to cover its total liabilities.

Subordinated loans – Category B firm

13.15.7 **R** A *category B firm* may include a short-term subordinated loan as capital resources (see table in **IPRU-INV 13.15.3R**), if all the conditions in **IPRU-INV 13.15.8R** are satisfied.

13.15.8

R

The conditions referred to in ■ IPRU-INV 13.15.7R are:

- (1) the subordinated loan must have an original maturity of at least two years or, if it has no fixed term, it is subject to not less than two years' notice of repayment;
- (2) the agreement governing the subordinated loan must not permit payment of interest unless a *firm* has at least 120% of its capital resources requirement after that payment;
- (3) the agreement governing the subordinated loan must only permit *repayment*, prepayment or termination on:
 - (a) maturity, or on expiration of the period of notice, if a *firm* has at least 120% of its capital resources requirement after that payment or termination; or
 - (b) winding up after the claims of all other creditors and all outstanding debts have been settled;
- (4) the agreement governing the subordinated loan is in the standard form for short term subordinated loans prescribed by the FCA (see form 13.1 Form of subordinated loan agreement for *personal investment firms*); and
- (5) the restrictions in ■ IPRU-INV 13.15.9R and ■ IPRU-INV 13.15.10R are complied with.

Restrictions

13.15.9

R

A *Category B firm* must calculate:

- (1) the aggregate amount of its short-term subordinated loans and its preference *shares* which are not redeemable within two years;
- (2) the amount of the *firm's* total capital and reserves excluding preference *share* capital, less the amount of its intangible assets, multiplied by 400%.

13.15.10

R

A *category B firm* must treat as a liability in the calculation of its capital resources any amount by which the sum of ■ IPRU-INV 13.15.9R(1) exceeds the product of ■ IPRU-INV 13.15.9R(2).