

Chapter 5

Financial resources

5.4 Financial resources requirement

Determination of requirement

5.4.1 **R** The **financial resources requirement** for a *firm* is a **liquid capital requirement**, determined in accordance with ■ IPRU-INV 5.4.10R:

- (i) unless the *firm* falls within any of the exceptions in ■ IPRU-INV 5.4.2R; or
- (ii) the *firm* is an *incoming EEA firm* with a *top-up permission* of acting as trustee or depositary of a UCITS.

Exceptions from the liquid capital requirement

5.4.2 **R** The **financial resources requirement** is an **own funds requirement** determined in accordance with ■ IPRU-INV 5.4.3R for a *firm* if its **permitted business** does not include *establishing, operating or winding up a personal pension scheme* and which:

- (i) is an *exempt CAD firm* which is also a *residual CIS operator* or a *small authorised UK AIFM* and that scheme or AIF only invests in *venture capital investments* for **non-retail clients**; or
- (ii) is not an *exempt CAD firm* if:
 - (a) the *firm's permitted business* does not include the holding of customers' monies or assets and it neither executes transactions (or otherwise arranges deals) in **investments** nor has such transactions executed for itself or its customers; or
 - (b) the *firm's permitted business* includes the activities as in (a) above, but only in respect of *venture capital investments* for **non-retail clients**; or
 - (c) the *firm* is a trustee of an *authorised unit trust scheme* whose **permitted business** consists only of trustee activities and does not include any other activity constituting **specified trustee business** or the *firm* is a depositary of an ICVC or ACS or a *depositary* appointed in line with ■ FUND 3.11.12R (Eligible depositaries for UK AIFs) or a UK depositary of a *non-EEA AIF* whose **permitted business** consists only of depositary activities.
 - (d) the *firm's permitted business* limits it to acting a *residual CIS operator* or a *small authorised UK AIFM* where the main purpose of the *collective investment scheme* or *AIF* (as applicable) is to invest in *permitted immovables* whether in the UK or abroad.

Own funds requirement

- 5.4.3** **R** The **own funds requirement** for a *firm* subject to **■ IPRU-INV 5.4.2R** is the higher of:
- (i) £4 million for a *firm* which is a *depository* of an *authorised fund*, if the *authorised fund* is an *AIF*;
 - (ia) €125,000 for a *firm* which is a *depository* appointed in line with **■ FUND 3.11.12R** (Eligible depositories for UK AIFs) or a *UK depository* of a *non-EEA AIF*;
 - (ib) for a *firm* which is a *depository* of a *UCITS scheme*, the higher of:
 - (A) the requirement calculated depending on the selected approach in accordance with articles 315 or 317 of the *EU CRR*; and
 - (B) £4million; and
 - (ii) £5,000 for any other *firm*.
- 5.4.4** **R** The **financial resources requirement** for an *incoming EEA firm* with a *top-up permission* for acting as trustee or depository of a *UCITS* is the **own funds requirement** in **■ IPRU-INV 5.4.3R(ib)**.
- 5.4.5** **G** In accordance with **■ IPRU-INV 5.4.3R(ib)(A)** and **■ IPRU-INV 5.4.4R**, a *firm* which is a *depository* of a *UCITS scheme* has a choice between:
- (a) the basic indicator approach in article 315 of the *EU CRR*; and
 - (b) the standardised approach in article 317 of the *EU CRR*.
- 5.4.6** **G** If a *firm* that is the *depository* of a *UCITS scheme* is seeking to determine its **own funds requirement** on the basis of the standardised approach in article 317 *EU CRR*, it should notify the *FCA* in advance.
- 5.4.7** **G** The effect of **■ IPRU-INV 5.4.4R** is to apply the **financial resources requirement** to an *incoming EEA firm* with a *top-up permission* for acting as trustee or depository of a *UCITS* in relation to its activity in the *UK* of acting as trustee or depository of a *UCITS*.
- 5.4.8** **R** A *firm* which is the *depository* of a *UCITS scheme* must comply with the *rules* in **■ IFPRU 2** as if it were an *IFPRU investment firm* that is not a *significant IFPRU investment firm*.
- 5.4.9** **G** A *firm* to which **■ IPRU-INV 5.4.8R** applies is, in particular, reminded of the *rules* in **■ IFPRU 2** that determine whether a *firm* must apply the *ICAAP rules* on an individual basis or comply with them on a *consolidated basis* or *sub-consolidated basis* (see **■ IFPRU 2.2.45R** to **■ IFPRU 2.2.49R**).

Liquid capital requirement

5.4.10 **R** The **liquid capital requirement** for a *firm* subject to ■ IPRU-INV 5.4.1R is:

- (i) for a *firm* whose **permitted business** includes *establishing, operating or winding up a personal pension scheme*, the higher of (A) £20,000, and (B) the calculation from ■ IPRU-INV 5.9.1R;
- (ii) for any other *firm*, the higher of (A) £5,000 and (B), its *total capital requirement* calculated in accordance with ■ IPRU-INV 5.4.12R.

5.4.11 **G** (1) This guidance applies to a *firm* whose **permitted business** includes *establishing, operating or winding up a personal pension scheme* for the purpose of ■ IPRU-INV 5.9.1R.

(2) A *firm* should:

- (a) value each asset in accordance with generally accepted standards used in the relevant sector for the asset, taking into account its individual characteristics and using all the information reasonably available;
- (b) on a consistent basis across all *clients* who hold the same type of assets, apply the following:
 - (i) a prudent valuation approach; and
 - (ii) a reasonable valuation methodology;
- (c) when determining whether an asset is capable of being readily realised within 30 days, consider whether:
 - (i) the transaction can be concluded within that time limit in the ordinary course of business. For example, if the transaction can be concluded within 30 days but, in practice, takes longer due to factors such as delays in receiving information or permissions from third parties, then the asset can be categorised as a Standard Asset;
 - (ii) a Standard Asset can be realised for a value close to the most recent valuation if no material change to the underlying economic conditions has occurred.

Total capital requirement

5.4.12 **R** A *firm's total capital requirement* is the sum of its:

- (a) **expenditure based requirement** calculated in accordance with ■ IPRU-INV 5.10;
- (b) **position risk requirement** calculated in accordance with ■ IPRU-INV 5.11;
- (c) **counterparty risk requirement** calculated in accordance with ■ IPRU-INV 5.12 to ■ 5.15;
- (d) **foreign exchange requirement** calculated in accordance with ■ IPRU-INV 5.16; and

- (e) **other assets requirement** calculated in accordance with
■ IPRU-INV 5.17.

5.4.13

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A *firm* which discloses clients' money or assets on its balance sheet need not calculate the requirements under ■ IPRU-INV 5.11 to ■ 5.17 on such items where these do not represent assets or liabilities of the *firm* itself.