Chapter 5

Financial resources

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5.9 Liquid Capital Requirement for firms whose permitted business includes establishing, operating or winding up a personal pension scheme

5.9.1 R

Liquid Capital Requirement = Initial Capital Requirement + Capital Surcharge

Calculation of Initial Capital Requirement

ICR = (√AUA) x K1

Where

ICR	means Initial Capital Requirement
AUA	means Assets Under Administration calculated as the sum of the most recent annual valuations over the preceding 12 months of the personal pension schemes administered by the *firm*, and adjusted to include any revaluation of assets that may occur between the date of the most recent annual valuation and the date when the *firm* must calculate its AUA. A *firm* must calculate its AUA quarterly in line with the dates when it has to submit its regulatory capital reporting form in accordance with SUP 16.12 (Integrated Regulatory Reporting). Where it is not possible to value an asset (for example because there is no readily available market price), the most recent market valuation should be used. Where it would be reasonable to assume that the value of the asset has changed by more than 15% since the most recent market valuation, a *firm* should instead use a reasonable estimate. This is without prejudice to any requirement on a *firm* to provide a personal pension scheme member with accurate and timely valuations of their portfolios.
K1	is set subject to the *firm's* AUA as specified in the below table:

AUA	K1 constant to be applied
<£100m	10
£100-£200m	15
>£200m	20

When K1 changes due to an increase in AUA, in accordance with the thresholds in this table, the *firm* must apply the new K1 value within six months following the date on which its AUA exceeded the threshold of its previous K1 value.

Calculation of Capital Surcharge

$$CS = (\sqrt{P}) \times K2 \times ICR$$

Where

CS	means Capital Surcharge
P	means the fraction of *personal pension schemes* administered by the *firm* which contain one or more asset types which do not appear in the list of Standard Assets below, at the most recent quarter end. For example, if a quarter of personal pensions contained non-Standard Assets, this would be inputted in to the formula as 0.25.
K2	is set at 2.5.
ICR	means the Initial Capital Requirement calculated as above.

Standard Assets

The List of Standard Assets is as follows (subject to Note 1):

Cash

Cash funds

Deposits

Exchange traded commodities

Government & local authority bonds and other fixed interest stocks

Investment notes (structured products)

Shares in *Investment trusts*

Managed pension funds

National Savings and Investment products

Permanent interest bearing shares (PIBs)

Physical gold bullion

Real estate investment trusts (REITs)

Securities admitted to trading on a regulated venue

UK commercial property

Units in *regulated collective investment schemes*

NOTE 1: A Standard Asset must be capable of being accurately and fairly valued on an ongoing basis and readily realised within 30 days, whenever required.

NOTE 2: In addition to complying with the provisions of IPRU-INV 5.8, in accordance with IPRU-INV 5.3.2R, a *firm* must hold its *liquid capital* in **financial resources** as follows:

ICR	realisable within 12 months; and
CS	realisable within 30 days

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