

## Chapter 7

# Governance and risk management



7.8 Reviewing and documenting the ICARA process

- 7.8.1

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This section applies to a *MIFIDPRU investment firm*.
- 7.8.2

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A *firm* must review the adequacy of its *ICARA process*:

(1) at least once every 12 *months*; and

(2) irrespective of any review carried out under (1), following any material change in the *firm's* business model or operating model.
- 7.8.3

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The effect of ■ MIFIDPRU 7.8.2R(2) is that if there is a significant change in the *firm's* business model or operating model, the *firm* should not wait until the next scheduled review of its *ICARA process*, but should carry out a review promptly. For example, if a *firm* launches a material new product or business line or merges with another business, the *firm* should, as part of its preparation for that event, analyse the impact on the *firm's* *ICARA process*. Similarly, if a *firm's* business undergoes a significant change due to external factors (for example, significant changes in the structure of a market sector), the *firm* should consider the effects on the *firm's* *ICARA process* in a timely manner.
- 7.8.4

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(1) A *firm* must notify the *FCA* of the date on which the *firm* will submit *data item* MIF007 (ICARA assessment questionnaire) in accordance with:

(a) in the case of a *non-SNI MIFIDPRU investment firm*, ■ MIFIDPRU 9.2.2R; and

(b) in the case of an *SNI MIFIDPRU investment firm*, ■ MIFIDPRU 9.2.4R.

(2) The submission date that the *firm* notifies under (1) continues to apply unless the *firm* notifies the *FCA* of a change of the submission date in accordance with (3).

(3) A *firm* may notify the *FCA* of a revised submission date for the purpose of (1), provided that the revised date will not result in the *firm* not submitting *data item* MIF007 to the *FCA* for more than 12 *months*.

(4) The notifications in (1) and (3) must be submitted through the *online notification and application system* using the form in ■ MIFIDPRU 7 Annex 6R.

## 7.8.5

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- (5) The *FCA* may direct a *firm* to submit *data item* MIF007 on a different date from the date in (2) to ensure that the *FCA* has access to appropriate and timely information on the *firm's* financial position.
  - (6) If the *FCA* gives a direction to a *firm* in accordance with (5), the *firm* must submit *data item* MIF007 to the *FCA* on the date specified in that direction until the *FCA* directs otherwise.
- (1) *Firms* may operate different internal arrangements for reviewing the adequacy of their *ICARA process*. When considering the timetable for a review, a *firm* should take into account the following 3 dates:
    - (a) the date on which the underlying data used to carry out the review of the *ICARA process* was prepared (the “reference date”);
    - (b) the date on which the *firm's* review of the *ICARA process* is carried out (the “review date”); and
    - (c) the date on which the *firm* will submit *data item* MIF007 to report on its review of the *ICARA process* (the “submission date”), as notified to the *FCA* under ■ MIFIDPRU 7.8.4R.
  - (2) When deciding on a submission date under ■ MIFIDPRU 7.8.4R, a *firm* should consider the following:
    - (a) the period between the reference date and the review date should be reasonable, taking into account the time that the *firm* is likely to need to carry out a robust assessment of its *ICARA process* to meet the requirements in this section and the importance of using relevant data for these purposes; and
    - (b) the period between the review date and the submission date should also be reasonable, taking into account the importance of the *FCA* receiving timely information in relation to the *firm* and the time that is required for the *firm* to complete *data item* MIF007 accurately and completely.
  - (3) A *firm* should design its internal timetable for the review of its *ICARA process* and the submission of *data item* MIF007 in a reasonable way, reflecting the importance of proper internal risk management. The *FCA* has provided *firms* with flexibility under ■ MIFIDPRU 7.8.4R to adopt a review and reporting timetable that fits best with the *firm's* internal processes. However, under ■ MIFIDPRU 7.8.4R(5), the *FCA* may direct a *firm* to report on an alternative date if the *FCA* considers that the *firm's* proposed review and reporting timetable would not result in the *FCA* receiving the necessary information in an appropriate and timely manner.
  - (4) A *firm* may change the date on which it submits *data item* MIF007 by notifying the *FCA* in accordance with ■ MIFIDPRU 7.8.4R(3). However, a *firm* is not permitted to specify a revised date that would result in the *firm* not submitting *data item* MIF007 to the *FCA* for more than 12 months. For example, a *firm* has a submission date of 1 April each year. The *firm* submits *data item* MIF007 on 1 April 2023. On 1 March 2024, the *firm* wishes to change its submission date to 31 December. The *firm* would not be permitted to change the submission date in this way, as the next submission date would be 31 December 2024, which would be more than 12 months after 1 April 2023. However, the *firm* could have notified the *FCA* on, for example, 1 December

2023 that it intended to change its submission date to 31 December. This is because the next submission of *data item* MIF007 would then have occurred on 31 December 2023, which would be within 12 *months* of the previous submission on 1 April 2023.

## 7.8.6

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Where a *firm* carries out a review of its *ICARA process* in accordance with ■ MIFIDPRU 7.8.2R(2) following a change in its business model or operating model:

- (1) the *firm* must submit *data item* MIF007 to the *FCA* within 20 *business days* of the *governing body* having approved the *ICARA document* resulting from that review in accordance with ■ MIFIDPRU 7.8.8R; and
- (2) the requirement in ■ MIFIDPRU 7.8.4R to notify the *FCA* of the submission date of *data item* MIF007 does not apply to a *data item* submitted under (1).

## 7.8.7

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- (1) A *firm* must document any review carried out under ■ MIFIDPRU 7.8.2R.
- (2) The documentation produced by the *firm* to comply with (1):
  - (a) may consist of multiple documents, provided that the relationship between them is clear, they are prepared on a consistent basis and they can all be provided to the *FCA* promptly if requested; and
  - (b) is collectively referred to as the *ICARA document*.
- (3) The *ICARA document* must include the following:
  - (a) a clear description of the *firm's* business model and strategy and how it aligns with the *firm's* risk appetite;
  - (b) an explanation of the activities carried on by the *firm*, with a focus on the most material activities;
  - (c) where the *firm* has concluded that the *ICARA process* is fit for purpose, a clear explanation of why the *firm* reached this conclusion;
  - (d) where the *firm* has concluded that the *ICARA process* requires further improvement, a clear explanation of:
    - (i) the improvements needed;
    - (ii) the steps needed to make those improvements and the timescale for taking them; and
    - (iii) who within the *firm* is responsible for taking the steps in (ii);
  - (e) a clear explanation of any other changes to the *firm's ICARA process* that have occurred following the review and the reasons for those changes;
  - (f) an analysis of the effectiveness of the *firm's* risk management processes during the period covered by the review;
  - (g) a summary of the material harms identified by the *firm* under ■ MIFIDPRU 7.4.13R and any steps taken to mitigate them;
  - (h) an overview of the business model assessment and capital and liquidity planning undertaken by the *firm* under ■ MIFIDPRU 7.5.2R;

- (i) a clear explanation of how the *firm* is complying with the *overall financial adequacy rule*, including a clear breakdown of the following as at the review date:
  - (i) available *own funds*;
  - (ii) available *liquid assets*; and
  - (iii) the *firm's* assessment of its *threshold requirements*;
- (j) a summary of any stress testing and reverse stress testing carried out by the *firm*;
- (k) the levels of *own funds* and *liquid assets* that, if reached, the *firm* has identified under ■ MIFIDPRU 7.5.5R(1) may indicate that there is a credible risk that the *firm* will breach its *threshold requirements*;
- (l) the potential recovery actions that the *firm* has identified under ■ MIFIDPRU 7.5.5R(2) and ■ 7.5.6G; and
- (m) an overview of the *firm's* wind-down planning under ■ MIFIDPRU 7.5.7R, including:
  - (i) any required actions;
  - (ii) the anticipated timelines for actions to be taken; and
  - (iii) any key assumptions or qualifications.

### Senior management responsibility for the ICARA process

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- (1) The content of the *ICARA document* must be reviewed and approved by the *firm's governing body* within a reasonable period after the review under ■ MIFIDPRU 7.8.2R has been completed.
- (2) As part of its review under (1), the *governing body* must specifically review and approve the key assumptions underlying the *ICARA document*.

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- (1) Under ■ COCON 2.2.2R, *senior conduct rules staff members* must take reasonable steps to ensure that the business of the *firm* for which they are responsible complies with the relevant requirements and standards of the *regulatory system*.
- (2) In particular, ■ COCON 4.2.12G explains that *senior conduct rules staff members* should take reasonable steps to ensure that the business for which they are responsible:
  - (a) has operating procedures and systems with well-defined steps for complying with the detail of relevant requirements and standards of the *regulatory system*; and
  - (b) is run prudently.
- (3) The *FCA* considers that the *ICARA process* is a key requirement of the *regulatory system* for *MIFIDPRU investment firms* and is an essential part of a *firm's* internal systems and procedures for ensuring that the *firm's* business is run prudently. Accordingly, *senior conduct rules staff members* should take an active role in contributing to the analysis required under the *ICARA process* in respect of the business areas for

which they are responsible and in embedding its requirements into those business areas.

- (4) *Firms and senior conduct rules staff members* should refer to the provisions in *COCON*, and in particular the guidance in ■ [COCON 3](#) and ■ [COCON 4](#), for further information on the *FCA*’s general approach to assessing compliance with the relevant conduct rules.

**Record keeping requirements**

7.8.10

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- (1) A *firm* must keep adequate records of the following:
  - (a) its *ICARA document*; and
  - (b) the review and approval of the *ICARA document* by the *firm’s governing body* under ■ [MIFIDPRU 7.8.8R](#).
- (2) A *firm* must retain the records in (1) for at least 3 years from the date on which the relevant document was approved.