

## Prudential sourcebook for MiFID Investment Firms

### MIFIDPRU TP 2

#### Own funds requirements: transitional provisions

		Application
2.1	R	MIFIDPRU TP 2 applies to a <i>MIFIDPRU investment firm</i> on an individual basis.
2.2	R	MIFIDPRU TP 2.23R applies to a <i>UK parent entity</i> when it is applying MIFIDPRU 4 on the basis of its <i>consolidated situation</i> in accordance with MIFIDPRU 2.5.
		Purpose
2.3	G	MIFIDPRU TP 2 contains temporary transitional provisions that permit certain <i>MIFIDPRU investment firms</i> to apply a lower <i>own funds requirement</i> than would otherwise apply under MIFIDPRU 4.3. These provisions are designed to provide a smooth transition for <i>firms</i> from their regulatory capital requirements under previous prudential regimes to the requirements under MIFIDPRU.
2.4	G	<p>(1) MIFIDPRU TP 2 permits a <i>firm</i> (or, in the case of MIFIDPRU TP 2.23R, a <i>UK parent entity</i>) to substitute an alternative requirement for one or more of its standard <i>permanent minimum capital requirement</i>, its <i>fixed overheads requirement</i> or its <i>K-factor requirement</i>. Where a <i>firm</i> does so, the alternative requirement also replaces the standard requirement for the purposes of calculating the <i>firm's own funds requirement</i> under MIFIDPRU 4.3.</p> <p>(2) For example, under MIFIDPRU TP 2.21R, a former <i>exempt BIPRU commodities firm</i> may substitute alternative requirements for its <i>fixed overheads requirement</i> and its <i>K-factor requirement</i>. During the transitional period, the <i>own funds requirement</i> of the <i>firm</i> under MIFIDPRU 4.3.2R would be the highest of:</p> <ul style="list-style-type: none"> <li>(a) its <i>permanent minimum capital requirement</i>;</li> <li>(b) the alternative requirement substituted for its standard <i>fixed overheads requirement</i>; and</li> <li>(c) the alternative requirement substituted for its standard <i>K-factor requirement</i>.</li> </ul>
		References to "UK CRR"
2.5	R	Any reference in MIFIDPRU TP 2 to the "UK CRR" is as a reference to the <i>UK CRR</i> in the form in which it stood on 31 December 2021.
		Duration of transitional arrangements
2.6	R	MIFIDPRU TP 2 applies until 1 January 2027, except in the circumstances set out in MIFIDPRU TP 2.19R or MIFIDPRU TP 2.20R(4).
		Transitional provisions for fixed overheads requirement and K-factor requirement for former IFPRU investment firms and BIPRU firms
2.7	R	<p>(1) This rule applies to a <i>MIFIDPRU investment firm</i> that, under the rules in force on 31 December 2021, was classified as:</p> <ul style="list-style-type: none"> <li>(a) an <i>IFPRU investment firm</i> (other than an <i>exempt IFPRU commodities firm</i>); or</li> <li>(b) a <i>BIPRU firm</i> (other than an <i>exempt BIPRU commodities firm</i>).</li> </ul> <p>(2) A <i>firm</i> may substitute the alternative requirement in (3) for each of:</p> <ul style="list-style-type: none"> <li>(a) its <i>fixed overheads requirement</i> under MIFIDPRU 4.5; and</li> <li>(b) to the extent applicable, its <i>K-factor requirement</i> under MIFIDPRU 4.6.</li> </ul>

		<p>(3) Subject to (4), the alternative requirement is an amount equal to twice the following, if it had continued to apply to the <i>firm</i>:</p> <p>(a) for a former <i>IFPRU investment firm</i>, the own funds requirement in Chapter 1 of Title I of Part Three of the <i>UK CRR</i>; or</p> <p>(b) for a former <i>BIPRU firm</i>, the variable capital requirement in <a href="#">GENPRU 2.1.40R</a> and <a href="#">2.1.45R</a>.</p> <p>(4) The alternative requirement in (3) is subject to:</p> <p>(a) for a former <i>IFPRU investment firm</i> (other than a <i>collective portfolio management investment firm</i>), article 93(1) of the <i>UK CRR</i>, with the reference to the initial capital requirement in that provision being read as a reference to the base own funds requirement that would have applied under <a href="#">IFPRU 3.1</a> if it had continued to apply to the <i>firm</i>;</p> <p>(b) for a former <i>BIPRU firm</i> (other than a <i>collective portfolio management investment firm</i>), the base capital requirement that would have applied under <a href="#">GENPRU 2.1.47R</a> and <a href="#">2.1.48R</a>; or</p> <p>(c) for a <i>collective portfolio management investment firm</i>, the base own funds requirement that applies under <a href="#">IPRU(INV) 11.3.1R(1)</a>.</p>
2.8	G	<p>(1) The effect of <a href="#">MIFIDPRU TP 2.7R(2)</a> is that even where <a href="#">MIFIDPRU TP 2.7R</a> applies, it does not affect the calculation of a <i>MIFIDPRU investment firm's permanent minimum capital requirement</i> under <a href="#">MIFIDPRU 4.4</a>. <a href="#">MIFIDPRU TP 2.13R</a> to <a href="#">MIFIDPRU 2.18R</a> set out the circumstances in which separate transitional arrangements may also apply to the <i>permanent minimum capital requirement</i> of a former <i>IFPRU investment firm</i> or <i>BIPRU firm</i>.</p> <p>(2) Therefore, where the <i>permanent minimum capital requirement</i> (where applicable, as limited by <a href="#">MIFIDPRU TP 2.13R</a> to <a href="#">2.18R</a>) is higher than the alternative requirement in <a href="#">MIFIDPRU TP 2.7R(3)</a>, the <i>firm</i> must still ensure that it has sufficient <i>own funds</i> to meet that higher <i>permanent minimum capital requirement</i> in accordance with <a href="#">MIFIDPRU 4.3</a>.</p>
2.9	G	<p>Where a <i>MIFIDPRU investment firm</i> applies the transitional arrangements in <a href="#">MIFIDPRU TP 2.7</a>, the alternative requirement under <a href="#">MIFIDPRU TP 2.7R(3)</a> reflects how the previous requirements under the <i>UK CRR</i> or <i>GENPRU</i> would have applied to the <i>firm</i> on an ongoing basis. The <i>firm</i> should therefore recalculate the alternative requirement under the <i>UK CRR</i> or <i>GENPRU</i> regularly. The <i>FCA</i> considers that it would be appropriate for the <i>firm</i> to carry out such calculations at least as frequently as it reports information on its <i>own funds requirement</i> to the <i>FCA</i> under <a href="#">MIFIDPRU 9</a>.</p>
Transitional provisions for fixed overheads requirement and K-factor requirement for former exempt CAD firms		
2.10	R	<p>(1) This <i>rule</i> applies to a <i>MIFIDPRU investment firm</i> that under the rules in force on 31 December 2021 was classified as an <i>exempt CAD firm</i>.</p> <p>(2) A <i>firm</i> may substitute the alternative requirement in (3) for each of:</p> <p>(a) its <i>fixed overheads requirement</i> under <a href="#">MIFIDPRU 4.5</a>; and</p> <p>(b) to the extent applicable, its <i>K-factor requirement</i> under <a href="#">MIFIDPRU 4.6</a>.</p> <p>(3) The alternative requirement is:</p> <p>(a) from 1 January 2022 to 31 December 2022, an amount equal to the <i>firm's permanent minimum capital requirement</i> after any transitional relief that may apply under <a href="#">MIFIDPRU TP 2.12R</a> has been taken into account; and</p> <p>(b) from 1 January 2023 to 31 December 2026:</p> <p>(i) in relation to the <i>firm's fixed overheads requirement</i>, the relevant percentage specified in (4) of the <i>firm's fixed overheads requirement</i> (as that requirement would be determined if the substitution in (2)(a) did not apply); and</p> <p>(ii) in relation to the <i>firm's K-factor requirement</i>, the relevant percent</p>

age specified in (4) of the *firm's K-factor requirement* (as that requirement would be determined if the substitution in (2)(b) did not apply).

- (4) The relevant percentage is:
- (a) from 1 January 2023 to 31 December 2023: 10%;
  - (b) from 1 January 2024 to 31 December 2024: 25%;
  - (c) from 1 January 2025 to 31 December 2025: 45%; and
  - (d) from 1 January 2026 to 31 December 2026: 70%.

Transitional provisions for K-factor requirement for firms not in existence before 1 January 2022

- 2.11 R (1) This rule applies to a *MIFIDPRU investment firm* that immediately before 1 January 2022:
- (a) was not in existence; or
  - (b) did not have a *Part 4A permission* that permitted the *firm* to carry on any *investment services and/or activities*.
- (2) A *firm* may substitute the alternative requirement in (3) for its *K-factor requirement* under [MIFIDPRU 4.6](#) (to the extent that such a requirement applies).
- (3) The alternative requirement is an amount equal to twice the *fixed overheads requirement* of the *firm* calculated in accordance with [MIFIDPRU 4.5](#) from time to time.

Transitional provisions for permanent minimum capital requirement: former exempt CAD firms

- 2.12 R (1) This rule applies to a *MIFIDPRU investment firm* that under the rules in force on 31 December 2021 was classified as an *exempt CAD firm*.
- (2) A *firm* may substitute the alternative requirement in (3) for its *permanent minimum capital requirement* under [MIFIDPRU 4.4](#).
- (3) The alternative requirement is as follows:
- (a) from 1 January 2022 to 31 December 2022: £50,000;
  - (b) from 1 January 2023 to 31 December 2023: £55,000;
  - (c) from 1 January 2024 to 31 December 2024: £60,000;
  - (d) from 1 January 2025 to 31 December 2025: £65,000; and
  - (e) from 1 January 2026 to 31 December 2026: £70,000.
- (4) This rule is subject to [MIFIDPRU TP 2.19R](#).

Transitional provisions for permanent minimum capital requirement: former IFPRU investment firms

- 2.13 R (1) Subject to (2), this rule applies to a *MIFIDPRU investment firm* that under the rules in force on 31 December 2021 was classified as an *IFPRU 50K firm*.
- (2) This rule does not apply to a firm to which [MIFIDPRU TP 2.18R](#) applies.
- (3) A *firm* may substitute the alternative requirement in (4) for its *permanent minimum capital requirement* under [MIFIDPRU 4.4](#).
- (4) The alternative requirement is as follows:
- (a) from 1 January 2022 to 31 December 2022: £50,000;
  - (b) from 1 January 2023 to 31 December 2023: £55,000;
  - (c) from 1 January 2024 to 31 December 2024: £60,000;
  - (d) from 1 January 2025 to 31 December 2025: £65,000; and
  - (e) from 1 January 2026 to 31 December 2026: £70,000.
- (5) This rule is subject to [MIFIDPRU TP 2.19R](#).

- 2.14 R (1) Subject to (2), this rule applies to a *MIFIDPRU investment firm* that:

		<ul style="list-style-type: none"> <li>(a) under the <i>rules</i> in force on 31 December 2021 was classified as an <i>IFPRU 125K firm</i>; or</li> <li>(b) is a <i>collective portfolio management investment firm</i> that would be subject to a <i>permanent minimum capital requirement</i> of £150,000 under <a href="#">MIFIDPRU 4.4.3R</a> if this rule did not apply.</li> </ul>
		(2) This rule does not apply to a <i>firm</i> to which <a href="#">MIFIDPRU TP 2.18R</a> applies.
		(3) A <i>firm</i> may substitute the alternative requirement in (4) for its <i>permanent minimum capital requirement</i> under <a href="#">MIFIDPRU 4.4</a> .
		(4) The alternative requirement is as follows: <ul style="list-style-type: none"> <li>(a) from 1 January 2022 to 31 December 2022: £125,000;</li> <li>(b) from 1 January 2023 to 31 December 2023: £130,000;</li> <li>(c) from 1 January 2024 to 31 December 2024: £135,000;</li> <li>(d) from 1 January 2025 to 31 December 2025: £140,000; and</li> <li>(e) from 1 January 2026 to 31 December 2026: £145,000.</li> </ul>
		(5) This rule is subject to <a href="#">MIFIDPRU TP 2.19R</a> .
2.15	R	<ul style="list-style-type: none"> <li>(1) This rule applies to a <i>MIFIDPRU investment firm</i> that under the <i>rules</i> in force on 31 December 2021 was classified as an <i>IFPRU 730K firm</i>.</li> <li>(2) A <i>firm</i> may substitute the alternative requirement in (3) for its <i>permanent minimum capital requirement</i> under <a href="#">MIFIDPRU 4.4</a>.</li> <li>(3) The alternative requirement is as follows: <ul style="list-style-type: none"> <li>(a) from 1 January 2022 to 31 December 2022: £730,000;</li> <li>(b) from 1 January 2023 to 31 December 2023: £735,000;</li> <li>(c) from 1 January 2024 to 31 December 2024: £740,000;</li> <li>(d) from 1 January 2025 to 31 December 2025: £745,000; and</li> <li>(e) from 1 January 2026 to 31 December 2026: £750,000.</li> </ul> </li> <li>(4) This rule is subject to <a href="#">MIFIDPRU TP 2.19R</a>.</li> </ul>
		Transitional provisions for permanent minimum capital requirement: former BIPRU firms
2.16	R	<ul style="list-style-type: none"> <li>(1) This rule applies to a <i>MIFIDPRU investment firm</i> that under the <i>rules</i> in force on 31 December 2021 was classified as a <i>BIPRU firm</i> (other than an <i>exempt BIPRU commodities firm</i> or a <i>collective portfolio management investment firm</i>).</li> <li>(2) This rule does not apply to a <i>firm</i> to which <a href="#">MIFIDPRU TP 2.18R</a> applies.</li> <li>(3) A <i>firm</i> may substitute the alternative requirement in (4) for its <i>permanent minimum capital requirement</i> under <a href="#">MIFIDPRU 4.4</a>.</li> <li>(4) The alternative requirement is as follows: <ul style="list-style-type: none"> <li>(a) from 1 January 2022 to 31 December 2022: £50,000;</li> <li>(b) from 1 January 2023 to 31 December 2023: £55,000;</li> <li>(c) from 1 January 2025 to 31 December 2025: £65,000; and</li> <li>(d) from 1 January 2024 to 31 December 2024: £60,000;</li> <li>(e) from 1 January 2026 to 31 December 2026: £70,000.</li> </ul> </li> <li>(5) This rule is subject to <a href="#">MIFIDPRU TP 2.19R</a>.</li> </ul>
2.17	G	<ul style="list-style-type: none"> <li>(1) The transitional arrangements in <a href="#">MIFIDPRU TP 2.13R</a> to <a href="#">2.16R</a> permit the relevant <i>MIFIDPRU investment firms</i> to substitute an alternative requirement for their <i>permanent minimum capital requirement</i>. Those provisions do not affect the <i>fixed overheads requirement</i> or, where applicable, the <i>K-factor requirement</i> for such <i>firms</i>.</li> </ul>

- (2) The effect of (1) is that where the *fixed overheads requirement* or the *K-factor requirement* of the relevant *MIFIDPRU investment firm* (in each case, as modified by any other relevant transitional arrangements in this section) is higher than the alternative requirement substituted for the *firm's permanent minimum capital requirement*, the *firm's own funds requirement* under MIFIDPRU 4.3 will still be the higher of those other two requirements.

Transitional provisions for permanent minimum capital requirement: former IFPRU and BIPRU firms that relied on IFPRU 1.1.12R or BIPRU 1.1.23R (former "matched principal" firms)

- 2.18 R (1) This *rule* applies to a *firm* that, under the *rules* in force on 31 December 2021, was classified as one of the following:
- (a) an *IFPRU 50K firm*, due to the application of IFPRU 1.1.12R (Meaning of dealing on own account);
  - (b) an *IFPRU 125K firm*, due to the application of IFPRU 1.1.12R (Meaning of dealing on own account); or
  - (c) a *BIPRU firm*, due to the application of BIPRU 1.1.23R (Meaning of dealing on own account).
- (2) A *firm* may substitute the alternative requirement in (3) for its *permanent minimum capital requirement* under MIFIDPRU 4.4.
- (3) The alternative requirement is as follows:
- (a) from 1 January 2022 to 31 December 2022:
    - (i) for a former *BIPRU firm* or a former *IFPRU 50K firm*: £50,000; or
    - (ii) for a former *IFPRU 125K firm*: £125,000;
  - (b) from 1 January 2023 to 31 December 2023: £190,000;
  - (c) from 1 January 2024 to 31 December 2024: £330,000;
  - (d) from 1 January 2025 to 31 December 2025: £470,000; and
  - (e) from 1 January 2026 to 31 December 2026: £610,000.

Disapplication of permanent minimum capital requirement transitional provisions because of changes to a firm's permissions

- 2.19 R The transitional arrangements in MIFIDPRU TP 2.12R to 2.16R and MIFIDPRU TP 2.18R cease to apply if there is a change to the *permissions* of the relevant *MIFIDPRU investment firm*, or any *limitation* or *requirement* that applies to the *firm*, on or after 1 January 2022 that increases the *permanent minimum capital requirement* that would apply to the *firm* under MIFIDPRU 4.4.

Transitional provisions for own funds requirement: former local firms

- 2.20 R (1) Subject to (4), this *rule* applies to a *MIFIDPRU investment firm* that:
- (a) was in existence before 25 December 2019; and
  - (b) under the *rules* in force on 31 December 2021, was classified as a *local firm*.
- (2) A *firm* may substitute the alternative requirement in (3) for its *own funds requirement* under MIFIDPRU 4.3.
- (3) The alternative requirement is as follows:
- (a) from 1 January 2022 to 31 December 2022: £250,000;
  - (b) from 1 January 2023 to 31 December 2023: £350,000;
  - (c) from 1 January 2024 to 31 December 2024: £450,000;
  - (d) from 1 January 2025 to 31 December 2025: £550,000; and
  - (e) from 1 January 2026 to 31 December 2026: £650,000.
- (4) This *rule* ceases to apply to a *firm* where:
- (a) there is a change to the *permissions* of the *firm*, or any *limitation* or *requirement* that applies to the *firm*, on or after 1 January 2022; and



		(b)	if the change in (a) had occurred immediately before 1 January 2022, the <i>firm</i> would have ceased to meet the definition of a <i>local firm</i> .
	Transitional provisions for fixed overheads and K-factor requirements: exempt commodities firms		
2.21	R	(1)	This rule applies to a MIFIDPRU investment firm that, under the rules in force on 31 December 2021, was classified as: <ul style="list-style-type: none"> <li>(a) an exempt IFPRU commodities firm; or</li> <li>(b) an exempt BIPRU commodities firm.</li> </ul>
		(2)	A firm may substitute the alternative requirement in (3) for each of: <ul style="list-style-type: none"> <li>(a) its fixed overheads requirement under MIFIDPRU 4.5; and</li> <li>(b) to the extent applicable, its K-factor requirement under MIFIDPRU 4.6.</li> </ul>
		(3)	Subject to (5), the alternative requirement is: <ul style="list-style-type: none"> <li>(a) from 1 January 2022 to 31 December 2022: an amount equal to the firm's permanent minimum capital requirement;</li> <li>(b) from 1 January 2023 to 31 December 2026:               <ul style="list-style-type: none"> <li>(i) in relation to the firm's fixed overheads requirement, the relevant percentage specified in (4) of the firm's fixed overhead requirement (as that requirement would be determined if the substitution in (2)(a) did not apply); and</li> <li>(ii) in relation to the firm's K-factor requirement, the relevant percentage specified in (4) of the firm's K-factor requirement (as that requirement would be determined if the substitution in (2)(b) did not apply).</li> </ul> </li> </ul>
		(4)	The relevant percentage is: <ul style="list-style-type: none"> <li>(a) from 1 January 2023 to 31 December 2023: 10%;</li> <li>(b) from 1 January 2024 to 31 December 2024: 25%;</li> <li>(c) from 1 January 2025 to 31 December 2025: 45%; and</li> <li>(d) from 1 January 2026 to 31 December 2026: 70%.</li> </ul>
		(5)	Subject to (6), if the firm was subject to IPRU(INV) 3 on 31 December 2021, the alternative requirement can never be lower than the amount of the financial resources requirement that would have applied to the firm if it had continued to be subject to IPRU(INV) 3 in the form in which that chapter stood on that date.
		(6)	When determining the amount of the financial resources requirement under IPRU(INV) 3 for the purposes of (5), a firm may determine the delta of an option as follows: <ul style="list-style-type: none"> <li>(a) if an option is traded on an exchange, the firm must use the delta provided by that exchange; or</li> <li>(b) if the delta is not available from the exchange, or if the option is an over-the-counter option, the firm may use its own estimates of delta where the conditions in MIFIDPRU 4.12.10R are met.</li> </ul>
2.22	G		MIFIDPRU TP 2.21R(5) means that the alternative fixed overheads requirement and alternative K-factor requirement of an exempt IFPRU commodities firm or an exempt BIPRU commodities firm under the transitional arrangements are subject to a floor if the firm was previously subject to IPRU(INV) 3. The base requirement under IPRU(INV) 3-71R (in the form in which it stood on 31 December 2021) is calculated by reference to the highest of an absolute minimum requirement, an expenditure requirement and a volume of business requirement. The firm should therefore recalculate the alternative requirement under IPRU(INV) 3 regularly. The FCA considers that it would be appropriate for the firm to carry out such calculations at least as frequently as it reports information on its own funds requirement to the FCA under MIFIDPRU 9.
	Transitional provisions for consolidated own funds requirement		

2.23	R	<p>(1) This <i>rule</i> applies to a <i>UK parent entity</i> that is required to apply prudential consolidation to an <i>investment firm group</i> in accordance with MIFIDPRU 2.5.</p> <p>(2) A <i>UK parent entity</i> may substitute the alternative requirements in (3) for the following, as they result from applying MIFIDPRU 4 to its <i>consolidated situation</i>:</p> <p>(a) the consolidated <i>fixed overheads requirement</i>; and</p> <p>(b) the consolidated <i>K-factor requirement</i>.</p> <p>(3) Subject to (8), the alternative requirement is:</p> <p>(a) in relation to the <i>fixed overheads requirement</i>, an amount calculated in accordance with the formula in (4); and</p> <p>(b) in relation to the <i>K-factor requirement</i>, an amount calculated in accordance with the formula in (6).</p> <p>(4) The formula for calculating the alternative requirement for the consolidated <i>fixed overheads requirement</i> is:</p> $A = B - C$ <p>where:</p> <p>A = the alternative requirement for the consolidated <i>fixed overheads requirement</i>.</p> <p>B = the consolidated <i>fixed overheads requirement</i> that results from applying MIFIDPRU 4 to the <i>consolidated situation</i> in accordance with MIFIDPRU 2.5 without applying MIFIDPRU TP 2.</p> <p>C = the transitional credit, determined in accordance with (5).</p> <p>(5) For the purposes of (4), the transitional credit (C) is the sum of the output of the following formula as applied to each <i>MIFIDPRU investment firm</i> in the <i>investment firm group</i>:</p> $C = D - E$ <p>where:</p> <p>D = the individual <i>fixed overheads requirement</i> that would apply to the <i>MIFIDPRU investment firm</i> under MIFIDPRU 4, ignoring any transitional relief under MIFIDPRU TP 2.</p> <p>E = the alternative requirement that applies to the <i>MIFIDPRU investment firm</i> under MIFIDPRU TP 2 in place of the individual <i>fixed overheads requirement</i>. If no alternative requirement applies to the <i>firm</i> in place of its individual <i>fixed overheads requirement</i>, the value of E is equal to D.</p> <p>(6) The formula for calculating the alternative requirement for the consolidated <i>K-factor requirement</i> is:</p> $F = G - H$ <p>where:</p> <p>F = the alternative requirement for the consolidated <i>K-factor requirement</i>.</p> <p>G = the consolidated <i>K-factor requirement</i> that results from applying MIFIDPRU 4 to the <i>consolidated situation</i> in accordance with MIFIDPRU 2.5 without applying MIFIDPRU TP 2.</p> <p>H = the transitional credit, determined in accordance with (7).</p> <p>(7) For the purposes of (6), the transitional credit (H) is the sum of the output of the following formula as applied to each <i>MIFIDPRU investment firm</i> in the <i>investment firm group</i>:</p> $H = J - K$ <p>where:</p> <p>J = the <i>K-factor requirement</i> that would apply to the individual <i>MIFID-</i></p>
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*PRU investment firm* under MIFIDPRU 4, ignoring any transitional relief under MIFIDPRU TP 2.

K = the alternative requirement that applies to the *MIFIDPRU investment firm* under MIFIDPRU TP 2 in place of the individual *K-factor requirement*. If no alternative requirement applies to the *firm* in place of its individual *K-factor requirement*, the value of K is equal to J.

- (8) The alternative requirement can never be lower than the following:
- (a) in relation to the consolidated *fixed overheads requirement*, the sum of the following in relation to the *investment firm group*:
    - (i) for each *MIFIDPRU investment firm* that is subject to an alternative requirement under MIFIDPRU TP 2 in place of its individual *fixed overheads requirement*, that alternative requirement; and
    - (ii) for every other *MIFIDPRU investment firm*, the *firm's* individual *fixed overheads requirement*;
  - (b) in relation to the consolidated *K-factor requirement*, the sum of the following in relation to the *MIFIDPRU investment firms* in the *investment firm group*:
    - (i) for each *MIFIDPRU investment firm* that is subject to an alternative requirement under MIFIDPRU TP 2 in place of its individual *K-factor requirement*, that alternative requirement; and
    - (ii) for other *MIFIDPRU investment firms*, the individual *K-factor requirement*.

Interaction between alternative fixed overheads requirement and basic liquid assets requirement

- 2.24 R (1) This rule applies where:
- (a) a *firm* is applying an alternative requirement for its *fixed overheads requirement* under any of the following:
    - (i) MIFIDPRU TP 2.7R(2)(a);
    - (ii) MIFIDPRU TP 2.10R(2)(a);
    - (iii) MIFIDPRU TP 2.21R(2)(a); or
  - (b) a *UK parent entity* is applying an alternative requirement for its consolidated *fixed overheads requirement* under MIFIDPRU TP 2.23R(2)(a).
- (2) Where this rule applies to a *firm* in (1)(a), the requirement in MIFIDPRU 6.2.1R(1) applies as if the reference to the *fixed overheads requirement* is a reference to the alternative requirement.
- (3) Where this rule applies to a *UK parent entity* in (1)(b), the requirement in MIFIDPRU 6.2.1R(1), as it applies on a *consolidated basis*, applies as if the reference to the *fixed overheads requirement* is a reference to the alternative requirement.
- 2.25 G (1) The effect of MIFIDPRU TP 2.24R is that where a *firm* is applying an alternative requirement for its *fixed overheads requirement* under a transitional provision in this annex, the amount of *core liquid assets* that it must hold under MIFIDPRU 6.2.1R(1) is calculated by reference to the alternative requirement. This does not affect any amount of *core liquid assets* that the *firm* must hold under MIFIDPRU 6.2.1R(2) in relation to guarantees provided to *clients*.
- (2) MIFIDPRU TP 2.24R also applies on an equivalent basis to a *UK parent entity* that is applying an alternative requirement for its consolidated *fixed overheads requirement*.
- (3) The following is an example of how MIFIDPRU TP 2.24R applies in practice:
- (a) A former *exempt CAD firm* is calculating its *basic liquid assets requirement* under MIFIDPRU 6.2.1R after MIFIDPRU has been in force for 18 months. The *firm's fixed overheads requirement* (calculated without



any transitional relief) is 900. The *firm* has provided total guarantees to clients of 100.

- (b) Under MIFIDPRU TP 2.10R(2)(a), the *firm* can apply an alternative requirement of 10% of its standard *fixed overheads requirement* in accordance with MIFIDPRU TP 2.10R(4)(a). The alternative requirement is therefore 90 (i.e. 10% of 900).
- (c) Under MIFIDPRU TP 2.24R, the *firm* calculates the amount of core liquid assets that it requires under MIFIDPRU 6.2.1R(1) by reference to the alternative requirement. This means that the *firm* must hold *core liquid assets* of 30 for these purposes (i.e. one third of 90).
- (d) Under MIFIDPRU 6.2.1R(2), the *firm* must also hold *core liquid assets* of 1.6% of the total amount of the guarantees it has provided to clients. In this case, that means that the *firm* must hold a further 1.6 in *core liquid assets* (i.e. 1.6% of 100). This amount is not affected by the transitional relief in MIFIDPRU TP 2.24R.
- (e) The *firm* would therefore need to hold *core liquid assets* of 31.6 to satisfy its *basic liquid assets requirement*.

Interaction between alternative requirements under MIFIDPRU TP 2, own funds wind-down trigger and own funds threshold requirement

- 2.25A R (1) Where a *firm* is applying an alternative requirement for its:
- (a) *fixed overheads requirement* under any of the following: MIFIDPRU TP 2.7R(2)(a), MIFIDPRU TP 2.10R(2)(a), or MIFIDPRU TP 2.21R(2)(a);
  - (b) *K-factor requirement* under any of the following: MIFIDPRU TP 2.7R(2)(b); MIFIDPRU TP 2.10R(2)(b); MIFIDPRU TP 2.11R(2); or MIFIDPRU TP 2.21R(2)(b);
  - (c) *permanent minimum capital requirement* under any of the following: MIFIDPRU TP 2.12R(2), MIFIDPRU TP 2.13R(3), MIFIDPRU TP 2.14R(3), MIFIDPRU TP 2.15R(2), MIFIDPRU TP 2.16R(3), or MIFIDPRU TP 2.18R(2); or
  - (d) *own funds requirement* under MIFIDPRU TP 2.20R(2);
- that *firm* may substitute the alternative requirement for the corresponding requirement when calculating its *own funds threshold requirement* in accordance with MIFIDPRU 7.6.4G.
- (2) Where a *firm* is applying an alternative requirement for its *fixed overheads requirement* under any of the provisions listed in (1)(a), the *firm's own funds wind-down trigger* is:
- (a) the alternative requirement for its *fixed overheads requirement*; or
  - (b) another amount specified by the FCA in a *requirement* applied to the *firm*.
- (3) Where a *firm* is applying an alternative requirement for its *own funds requirement* under MIFIDPRU TP 2.20R(2), the *firm's own funds wind-down trigger* is:
- (a) the lower of its *fixed overheads requirement* and the alternative requirement for its *own funds requirement*; or
  - (b) another amount specified by the FCA in a *requirement* applied to the *firm*.
- 2.25B G (1) The effect of MIFIDPRU TP 2.25AR(1) is that a *firm* may substitute an alternative requirement under a transitional provision in this annex for its corresponding requirement when calculating its *own funds threshold requirement*. This is illustrated by the example in (2).
- (2) MIFIDPRU TP 2.12R(2) permits a MIFIDPRU investment *firm* (that was classified under the rules in force on 31 December 2021 as an exempt CAD *firm*) to substitute the alternative requirement in TP 2.12R(3) for its *permanent minimum capital requirement* under MIFIDPRU 4.4. MIFIDPRU TP 2.25AR(1) further allows such *firm* to substitute the alternative requirement for its *permanent min-*

*imum capital requirement* when determining its own funds wind-down threshold requirement in accordance MIFIDPRU 7.6.4G.

Continuing validity of UK CRR market risk permissions

- 2.26 R (1) This rule applies to any permission listed in column (A) of the table in MIFIDPRU TP 2.27R, where that permission was granted to a *firm* by the FCA for the purposes of the UK CRR before 1 January 2022.
- (2) Where this rule applies, a permission in column (A) of the table in MIFIDPRU TP 2.27R is deemed to have the effect described in column (B) in the same row of that table.
- 2.27 R This table belongs to MIFIDPRU TP 2.26R.

(A)		(B)
UK CRR permission granted before 1 January 2022		Effect of permission under MIFIDPRU on or after 1 January 2022
Articles 329, 352(1) or 358 UK CRR: permission to use own estimates for delta for the purposes of the standardised approach for the market risk of options		The permission in column (A) is deemed to be a valid notification under MIFIDPRU 4.12.10R for equivalent purposes
Article 331 UK CRR: permission to use sensitivity models to calculate interest rate risk		The permission in column (A) is deemed to have been granted on equivalent terms for its remaining duration under MIFIDPRU 4.12.66R
2.28	G	<p>(1) MIFIDPRU 4.12.10R requires a MIFIDPRU investment firm that wishes to use its own estimates of delta for the purposes of the standardised approach for the market risk of options to notify the FCA that it meets certain minimum standards before doing so. Previously, firms that were subject to the UK CRR were required to seek the FCA's permission before using their own estimates of delta for these purposes. The effect of MIFIDPRU TP 2.25R and 2.26R is that any permission granted for these purposes to a former CRR firm that has subsequently become a MIFIDPRU investment firm will be treated as a valid notification for the purposes of MIFIDPRU 4.12.10R. This means that the firm does not need to submit a new notification under MIFIDPRU 4.12.10R to use its own estimates of delta under that rule for which the firm previously had permission.</p> <p>(2) The effect of MIFIDPRU TP 2.26R and 2.27R is that a former CRR firm that was granted a permission to use interest rate sensitivity models under article 331 UK CRR and that has subsequently become a MIFIDPRU investment firm can treat that permission as having been granted on equivalent terms for the purposes of the corresponding requirement under MIFIDPRU. The duration of the original permission is not affected. For example, if a firm was granted permission to use an interest rate sensitivity model on 1 June 2021 for a one-year duration, that permission will be treated from 1 January 2022 as if it had been granted under MIFIDPRU, but will still expire on 1 June 2022.</p>