

Chapter 4

Capital resources

4.1 Application and purpose

Application

4.1.1 **R** This chapter applies to a *firm* with *Part 4A permission* to carry on any of the following activities, unless an exemption in this section applies:

- (1) *insurance distribution activity*;
- (2) *home finance mediation activity*;
- (3) *home financing*;
- (4) *home finance administration*.

4.1.2 **G** As this chapter applies only to a *firm* with *Part 4A permission*, it does not apply to an *incoming EEA firm* (unless it has a *top-up permission*). An incoming EEA firm includes a firm which is passporting into the United Kingdom under the *IDD*.

4.1.3 **G** The definition of *insurance distribution activity* refers to several activities 'in relation to a *contract of insurance*' which includes a contract of reinsurance. This chapter, therefore, applies to a reinsurance intermediary in the same way as it applies to any other *insurance intermediary*.

Application: banks, building societies, insurers and friendly societies

4.1.4 **R** This chapter does not apply to:

- (1) a *bank*; or
- (2) a *building society*; or
- (3) a solo consolidated *subsidiary of a bank or a building society*; or
- (4) an *insurer*; or
- (5) a *friendly society*.

4.1.5 **G** The capital resources of the *firms* above are calculated in accordance with the appropriate prudential sourcebook.

Application: firms carrying on designated investment business only

4.1.6 **R** This chapter does not apply to a *firm* whose *Part 4A permission* is limited to *regulated activities* which are *designated investment business*.

4.1.7 **G** A *firm* which carries on *designated investment business*, and no other *regulated activity*, may disregard this chapter. For example, a *firm* with *permission* limited to *dealing in investments as agent* in relation to *securities* is only carrying on *designated investment business* and the Interim Prudential sourcebook for investment businesses or the Prudential sourcebook for Banks, Building Societies and Investment Firms, as appropriate, will apply. However, if its *permission* is varied to enable it to arrange motor insurance as well, this activity is not *designated investment business* so the *firm* will be subject to the higher of the requirements in this chapter and those sourcebooks (see ■ MIPRU 4.2.5 R).

Application: professional firms

- 4.1.10** **R**
- (1) This chapter does not apply to an *authorised professional firm*:
 - (a) whose main business is the practice of its profession; and
 - (b) whose *regulated activities* covered by this chapter are incidental to its main business.
 - (2) A *firm's* main business is the practice of its profession if the proportion of income it derives from professional fees is, during its annual accounting period, at least 50% of the *firm's* total income (a temporary variation of not more than 5% may be disregarded for this purpose).
 - (3) Professional fees are fees, commissions and other receipts receivable in respect of legal, accountancy, actuarial, conveyancing and surveying services provided to clients but excluding any items receivable in respect of *regulated activities*.

Application: social housing firms

4.1.13 **G** There are special provisions for a *social housing firm* when it is carrying on *home financing* or *home finance administration* (see ■ MIPRU 4.2.7 R).

Application: MCD firms

4.1.13A **R** This chapter does not apply to a *firm* which only carries on one or more of the following:

- (1) *home finance mediation activity* exclusively for *second charge regulated mortgage contracts*; or
- (1A) *home finance mediation activity* exclusively for *legacy CCA mortgage contracts*; or
- (2) *home financing* exclusively for *second charge regulated mortgage contracts*; or

(3) *home finance administration* exclusively for *second charge regulated mortgage contracts*; or

(4) *home finance administration* exclusively for *legacy CCA mortgage contracts*.

4.1.13B **R** For a *firm* that carries on a combination of *home finance mediation activity*, *home financing* and *home finance administration*, this chapter will only apply to the extent its activities relate to *specified investments* other than *second charge regulated mortgage contracts*.

Purpose

4.1.14 **G** This chapter:

(1) sets out that a *firm* must meet, on a continuing basis, a basic solvency requirement and a minimum *capital resources requirement* (see ■ COND 2.4 (Appropriate resources)); and

(2) amplifies *Principle 4* which requires a *firm* to maintain adequate financial resources by setting out capital requirements for a *firm* according to the *regulated activity* or *regulated activities* it carries on.

4.1.15 **G** Capital has an important role to play in protecting consumers and complements the roles played by professional indemnity insurance and *client money* protection (see the *client money rules*). Capital provides a form of protection for situations not covered by a *firm's* professional indemnity insurance and it provides the funds for the *firm's* PII excess, which it has to pay out of its own finances (see ■ MIPRU 3.2.11 R and ■ MIPRU 3.2.12 R for the relationship between the *firm's* capital and its excess).

4.1.16 **G** More generally, having adequate capital gives the *firm* a degree of resilience and some indication to consumers of creditworthiness, substance and the commitment of its owners. It reduces the possibility of a shortfall of funds and provides a cushion against disruption if the *firm* ceases to trade.

4.1.17 **G** There is a greater risk to consumers, and a greater adverse impact on market confidence, if a *firm* holding *client money* or other *client* assets fails. For this reason, the capital resources *rules* in this chapter clearly distinguish between *firms* holding *client* assets and those that do not.

Purpose: social housing firms

4.1.18 **G** *Social housing firms* undertake small amounts of home finance business even though their main business consists of activities other than *regulated activities*. Their *home financing* is only done as an adjunct to their primary purpose (usually the provision of housing) and is substantially different in character to that done by commercial lenders. Furthermore, they are *subsidiaries* of local authorities or registered social landlords which are already subject to separate regulation. The FCA does not consider that it would be proportionate to the risks involved with such business to impose significant capital requirements for these *firms*. The capital resources requirement for *social housing firms* therefore simply provides that, where

their *Part 4A permission* is limited to *home financing* and *home finance administration*, their net tangible assets must be greater than zero.

4.1.19

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A registered social landlord is a non-profit organisation which provides and manages homes for rent and sale for people who might not otherwise be able to rent or buy on the open market. It can be a housing association, a housing society or a non-profit making housing company. The Homes and Communities Agency and the Tenant Services Authority were set up by Parliament in 2008 and cooperate in providing financial assistance for social housing.