

Chapter 5 Financial Resources

5.1.1 APPLICATION

Application of Chapter 5

5.1.1 R

(1)

- (a) This chapter applies to an investment management firm, other than:
 - (i) an *incoming EEA firm* unless it has a *top-up permission* for acting as trustee or depositary of a UCITS or
 - (ii) a MiFID investment firm (unless it is an *exempt CAD firm* for the purpose of calculating its own funds and if it carries on any regulated activity other than MiFID business).
- (aa) This chapter applies, as set out in Table 5.1.1(1)(aa), to:
 - (i) *exempt CAD firms*;
 - (ii) *OPS firms*;
 - (iii) non-OPS Life Offices and non-OPS Local Authorities; and
 - (iv) individuals admitted to membership collectively.
- (b) [deleted]

| TABLE 5.1.1(1)(aa) APPLICATION OF CHAPTER 5 | | | | |
|---|--|------------------------------|--|---|
| | Exempt CAD firms | OPS Firms (see Note 1 below) | Non-OPS Life Offices and Non-OPS Local Authorities | Individuals admitted to membership collectively |
| Financial resources rules 5.2.1(1) to 5.2.7(5) | No (see Note 3 below) | No | No | Yes |
| Accounting records rules 5.3.1(1) to 5.3.1(6) | No | Yes | Yes | Yes |
| | Individuals whose sole investment business is giving investment advice to institutional or corporate investors | | Firms subject to "lead regulator arrangements" | All other Firms |
| Financial resources rules 5.2.1(1) to 5.2.7(5) | No | | No (see Note 2 below) | Yes |
| Accounting records rules 5.3.1(1) to 5.3.1(6) | No | | Yes | Yes |
| Note 1. Firms are referred to the specific compliance reports for OPS firms required by Chapter 16 of the Supervision Manual. | | | | |
| Note 2. A firm subject to "lead regulator arrangements" whereby a body other than the FCA is responsible for its | | | | |

financial regulation shall comply with the corresponding financial resources rules and financial returns rules of that body, and a breach of such rules shall be treated as a breach of the rules of the FCA.

Note 3. The financial and nonfinancial resources rules for an exempt CAD firm are set out in IPRU(INV) chapter 9. However, rules 5.2.1(1) to 5.2.7(5) apply to an exempt CAD firm for the purpose of calculating its own funds (see IPRU(INV) 9.2.9R(2)(a)) (although the Category A items of Tier 1 capital as set out in Table 5.2.2(1) are replaced by all the items in IPRU(INV) 9.3.1R) and if it carries on any regulated activity other than MiFID business (see IPRU(INV) 9.2.3R).

INTERPRETATION

- (c) The definitions in the glossary at Appendix 1 apply to this chapter.

5.2.1(A) R

An *incoming EEA firm* with a *top-up permission* for acting as trustee or depositary of a UCITS must comply with:

- (a) IPRU(INV) 5.2.1(1)R;
- (b) IPRU(INV) 5.2.1(2)R;
- (c) IPRU(INV) 5.2.1(3)R;
- (d) IPRU(INV) 5.2.2(1)(A)R;
- (e) IPRU(INV) 5.2.3(3)(A)R; and
- (f) IPRU(INV) 5.2.3(3)(E)R.

5.2.1 GENERAL REQUIREMENT

Adequacy of financial resources

5.2.1(1) R

A firm must at all times have available the amount and type of financial resources required by the rules in this chapter.

Basic requirement

5.2.1(2) R

A firm must ensure that, at all times, its financial resources are not less than its financial resources requirement.

Financial resources

5.2.1(3) R

A *firm's* financial resources means:

- (a) its own funds, if the firm is subject to an own funds requirement under rule 5.2.3(2) or IPRU(INV) 5.2.3(3)(A)R; or
- (b) its liquid capital, if the firm is subject to a liquid capital requirement under paragraph (a) of rule 5.2.3(1).
- (c) [deleted]

(d) [deleted]

5.2.2 FINANCIAL RESOURCES

Own funds

5.2.2(1) R

A firm must calculate its own funds in accordance with Table 5.2.2(1), unless the *firm* has a *Part 4A permission* for acting as trustee or depository of a UCITS.

5.2.2(1)(A) R

For a *firm* that has a *Part 4A permission* for acting as trustee or depository of a UCITS, *own funds* has the meaning in article 4(1)(118) of the *EU CRR*.

Liquid capital

5.2.2(2) R

- (a) A firm must calculate its liquid capital in accordance with Table 5.2.2(1).
- (b) In addition to the above, a *firm* whose *permitted business* includes *establishing, operating or winding up a personal pension scheme* must comply with:
 - (i) the requirements in relation to the realisability of *liquid capital* found in Note 2 of Table 5.2.3(4)(a); and
 - (ii) the limitation in respect of Item 14 of Table 5.2.2(1), not to include net trading book profits in the firm's *liquid capital calculation*.

5.2.3 FINANCIAL RESOURCES REQUIREMENT

Determination of requirement

5.2.3(1)(a) R

The financial resources requirement for a firm is a liquid capital requirement, determined in accordance with paragraph (a) of rule 5.2.3(4) unless:

- (i) the *firm* falls within any of the exceptions in rule 5.2.3(2); or
- (ii) the *firm* is an *incoming EEA firm* with a *top-up permission* of acting as trustee or depository of a UCITS.

(b) [deleted]

(c) [deleted]

Exceptions from the liquid capital requirement

5.2.3(2) R

The financial resources requirement is an own funds requirement determined in accordance with paragraph (a) of rule 5.2.3(3) 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

5.2.3(3)(a) R

The own funds requirement for a firm subject to rule 5.2.3(2) is the higher of:

- (i) £4million for a *firm* which is a *depositary* of an *authorised fund* if the *authorised fund* is an *AIF*;
 - (ia) EUR 125,000 for firm which is a depositary appointed in line with FUND 3.11.12R (Eligible depositaries for UK AIFs) or a UK depositary of a non-EEA AIF;
 - (ib) for a *firm* which is a *depositary* 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.

(b) [deleted]

5.2.3(3)(A) R

The *financial resources requirement* for an *incoming EEA firm* with a *top-up permission* for *acting as trustee or depositary of a UCITS* is the *own funds requirement* in *IPRU(INV) 5.2.3(3)(a)R(ib)*.

5.2.3(3)(B) G

In accordance with *IPRU(INV)* 5.2.3(3)(a)R(ib)(A) and *IPRU(INV)* 5.2.3(3)(A)R, 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*.

5.2.3(3)(C) 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.

5.2.3(3)(D) G

The effect of *IPRU(INV)* 5.2.3(3)(A)R 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 *United Kingdom of acting as a trustee or depository of a UCITS*.

5.2.3(3)(E) 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*.

5.2.3(3)(F) G

A *firm* to which *IPRU(INV)* 5.2.3(3)(E)R 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 or sub-consolidated basis (see *IFPRU 2.2.45R* to *IFPRU 2.2.49R*).

Liquid capital requirement

5.2.3(4)(a) R

The liquid capital requirement for a *firm* subject to paragraph (a) of rule 5.2.3(1) 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 Table 5.2.3(4)(a);
- (ii) for any other *firm*, the higher of (A) £5,000 and (B), its total capital requirement calculated in accordance with rule 5.2.3(5).

(b) [deleted]

(c) [deleted]

5.2.3(4)(A) 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 Table 5.2.3(4)(a).
- (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 conducted 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 permission from third parties, then the asset can be characterised 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

5.2.3(5) R

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

- (a) expenditure based requirement calculated in accordance with Table 5.2.3(5)(a);
- (b) position risk requirement calculated in accordance with Table 5.2.3(5)(b);
- (c) counterparty risk requirement calculated in accordance with Table 5.2.3(5)(c);
- (d) foreign exchange requirement calculated in accordance with Table 5.2.3(5)(d); and
- (e) other assets requirement calculated in accordance with Table 5.2.3(5)(e).

5.2.3(6) G

A firm which discloses clients' money or assets on its balance sheet need not calculate the requirements under paragraphs (b) to (e) of rule 5.2.3(5) on such items where these do not represent assets or liabilities of the firm itself.

5.2.4 ANNUAL EXPENDITURE

Determination

5.2.4(1) R

Annual expenditure is:

- (a) the sum of the amounts described as total expenditure in the four quarterly financial returns up to (and including) that prepared at the firm's most recent accounting reference date, less the following items (if they are included within such expenditure):
 - (i) staff bonuses, except to the extent that they are guaranteed;
 - (ii) employees' and directors' shares in profits, except to the extent that they are guaranteed;
 - (iii) other appropriations of profits;
 - (iv) shared commission and fees payable which are directly related to commission and fees receivable which are included within total revenue;
 - (v) interest charges in respect of borrowings made to finance the acquisition of the firm's readily realisable investments;
 - (vi) interest paid to customers on client money;
 - (vii) interest paid to counterparties;
 - (viii) fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;
 - (ix) foreign exchange losses; or
- (b) where the previous accounting period does not include twelve months' trading, an amount calculated in accordance with paragraph (a) above prorated to an equivalent annual amount; or
- (c) where a firm has not prepared four quarterly financial returns since the commencement of its permitted business, an amount based on forecast expenditure included in its budget for the first twelve months' trading, as submitted with its application for membership.

5.2.4(2) G

A firm's financial resources requirement will be recalculated annually when its fourth quarterly financial return is prepared. The firm must maintain financial resources sufficient to meet its new financial resources requirement from the date on which the fourth quarterly financial return is prepared and no later than 80 business days after the firms' accounting reference date. The expenditure based requirement applicable at the accounting reference date will be based on the four quarterly financial returns prepared up to and on that date.

5.2.4(3) R

[deleted]

5.2.5 QUALIFYING SUBORDINATED LOANS

Characteristics of Long Term Qualifying Subordinated Loans

5.2.5(1) R

A long term qualifying subordinated loan (item 11 of Table 5.2.2(1)) must have the following characteristics:

- (a) the loan is repayable only on maturity or on the expiration of a period of notice in accordance with paragraph (c) below or on the winding up of the firm;

- (b) in the event of the winding up of the firm, the loan ranks after the claims of all other creditors and is not to be repaid until all other debts outstanding at the time have been settled;
- (c) either:
 - (i) the minimum original maturity of the loan is 5 years; or
 - (ii) the loan does not have a minimum or fixed maturity but requires 5 years notice of repayment; and
- (d) the loan is fully paid-up.

Amount allowable in the calculation of own funds

5.2.5(2) R

A firm may only take into account the paid-up amount of a long term qualifying subordinated loan in the calculation of its own funds. This amount must be amortised on a straight-line basis over the five years prior to the date of repayment.

Requirements applicable to short-term qualifying subordinated loans

5.2.5(3)(a) R

A short term qualifying subordinated loan (item 15 of Table 5.2.2(1)) must have the characteristics set out in rule 5.2.5(1) save that the minimum period set out in paragraph (c) of rule 5.2.5(1) shall be two years.

(b) A firm must not make any payment of principal or interest which would result in a breach of rule 5.2.1(2).

Form of qualifying subordinated loan agreement

5.2.5(4) R

A qualifying subordinated loan must be in the form prescribed by the FCA for the purposes of this rule.

5.2.5(5) G

Firms wishing to initiate a subordinated loan agreement other than in the prescribed form are advised to contact the FCA.

Conditions applicable to qualifying subordinated loans

5.2.5(6) R

A firm wishing to include a qualifying subordinated loan in its calculation of liquid capital must:

- (a) provide the FCA with a copy of the agreement not less than 10 business days before the loan is to be made; and
- (b) certify to the FCA that the loan agreement complies with the FCA's prescribed subordinated loan agreement.

Requirements on a firm in relation to qualifying subordinated loans

5.2.5(7) R

A firm including a qualifying subordinated loan in its calculation of liquid capital must not:

- (a) secure all or any part of the loan;
- (b) redeem, purchase or otherwise acquire any of the liabilities of the borrower in respect of the loan;
- (c) amend or concur in amending the terms of the loan agreement;
- (d) repay all or any part of the loan otherwise than in accordance with the terms of the loan agreement; or
- (e) take or omit to take any action whereby the subordination of the loan or any part thereof might be terminated, impaired or adversely affected.

5.2.6 QUALIFYING PROPERTY AND QUALIFYING UNDERTAKINGS

Qualifying property and qualifying amount defined

5.2.6(1) R

Qualifying property is any freehold or leasehold (or the equivalent tenure in Scotland or other territories) land and buildings purchased or secured by way of a mortgage (or other form of secured long-term arrangement) where the security for the liability is the property (and does not include any other allowable assets). The qualifying amount is the lowest of:

- (a) 85 per cent of the current market value of the property (if known);
- (b) 85 per cent of the net book value of the property;
- (c) the amount of the liability outstanding under mortgage or other secured long term arrangement, excluding any part of the liability repayable within one year.

5.2.6(2) G

Rule 5.2.6(1) can be illustrated as follows:

| | |
|-------------------------------------|---|
| Current market value | £200,000 |
| Net book value | £100,000 |
| Mortgage | £70,000, including £5,000 payable within one year |
| Qualifying amount is the lowest of: | |
| (a) 85% x £200,000 = | £170,000 |
| (b) 85% x £100,000 = | £85,000 |
| (c) £70,000 - £5,000 = | £65,000 |
| i.e. £65,000 | |

Qualifying undertakings

5.2.6(3) R

A qualifying undertaking is an arrangement between a firm and an approved bank which:

- (a) is in the form prescribed by the FCA for the purposes of this rule; and

- (b) complies with the appropriate limitations set out in paragraph (7) of Part II to Table 5.2.2(1).

5.2.7(1) G

[deleted]

5.2.7(2) R

[deleted]

5.2.7(3) R

[deleted]

5.2.7(4) R

[deleted]

5.2.7(5) R

[deleted]

TABLE 5.2.2(1) CALCULATION OF OWN FUNDS AND LIQUID CAPITAL

PART I METHOD OF CALCULATION

A firm must calculate its own funds and liquid capital as shown below, subject to the detailed requirements set out in Part II.

| Financial resources | Category | Part II Para |
|---|-----------------|---------------------|
| Tier 1 | | |
| (1) Paid-up share capital (excluding preference shares) | A | 2 |
| (1A) Eligible LLP members' capital | | |
| (2) Share premium account | | |
| (3) Reserves | | 2A |
| (4) Non-cumulative preference shares | | |
| Less: (5) Investments in own shares | B | |
| (6) Intangible assets | | 3 |
| (7) Material current year losses | | 4 |
| (8) Material holdings in credit and financial institutions and, for exempt CAD firms only, material insurance holdings. | | 5 and 5A |
| (8A) Excess LLP members' drawings | | |
| Tier 1 capital = (A-B) | C | |
| Plus: TIER 2 | | 1 |
| (9) Revaluation reserves | D | |
| (10) Fixed term cumulative preference share capital | | 1(a) |

| | | | |
|----------------------------|---|-----------|-------------------------|
| (11) | Long-term Qualifying Subordinated Loans | | 1(a); 6 |
| (12) | Other cumulative preference share capital and debt capital but, for exempt CAD firms, only perpetual cumulative preference share capital and qualifying capital instruments | | 6A |
| (13) | Qualifying arrangements | | 7 |
| "Own Funds" = (C+D) | | E | |
| Plus: TIER 3 | | | |
| (14) | Net trading book profits | F | 1(b)(i); 8 |
| (15) | Short-term Qualifying Subordinated Loans and excess Tier 2 capital | | 1(b)(ii); 1(c);9 |
| Less: | (16) Illiquid assets | G | 10 |
| Add: | (17) Qualifying Property | 11 | |
| "Liquid Capital" = (E+F+G) | | | |

PART II DETAILED REQUIREMENTS

| | | |
|--|-------|--|
| 1 Deductions and Ratios (Items 10, 11 and 15) | (a) | Notwithstanding Table 5.2.2(1) for an exempt CAD firm, in calculating own funds, all of Item 8 must be deducted after the total of Tier 1 and Tier 2 capital and the following restrictions apply: |
| | (i) | the total of fixed term cumulative preference shares (item 10) and long-term qualifying subordinated loans (item 11) that may be included in Tier 2 capital is limited to 50 per cent of Tier 1 capital; |
| | (ii) | Tier 2 capital must not exceed 100 per cent of Tier 1 capital. |
| | (b) | [deleted] |
| | (c) | A firm which is not an exempt CAD firm and which is subject to a liquid capital requirement under rule 5.2.3(1)(a) may take into account qualifying subordinated loans in the calculation of liquid capital up to a maximum of 400% of its Tier 1 capital. |
| 2 Non corporate entities | (a) | In the case of partnerships or sole traders, the following terms should be substituted, as appropriate, for items 1 to 4 in Tier 1 capital: |
| | (i) | partners' capital accounts (excluding loan capital); |
| | (ii) | partners' current accounts (excluding unaudited profits and loan capital); |
| | (iii) | proprietors' account (or other term used to signify the sole trader's capital but excluding unaudited profits). |
| | (b) | Loans other than qualifying subordinated loans shown within partners' or proprietors' accounts must be classified as Tier 2 capital under item 12. |
| | (c) | For the calculation of own funds, partners' current accounts figures are subject to the following adjustments in respect of a defined benefit occupational pension scheme: |
| | (i) | a firm must derecognise any defined benefit asset; |
| | (ii) | a firm may substitute for a defined benefit liability the firm's deficit reduction amount. The election must be applied consistently in respect of any one financial year. |

Note

A firm should keep a record of and be ready to explain to its super-

2A Reserves

visory contacts in the FCA the reasons for any difference between the deficit reduction amount and any commitment the firm has made in any public document to provide funding in respect of a defined benefit occupational pension scheme.

For the calculation of own funds the following adjustments apply to the audited reserves figure:

- (a) a firm must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;
- (b) in respect of a defined benefit occupational pension scheme, a firm must derecognise any defined benefit asset;
- (c) a firm may substitute for a defined benefit liability the firm's deficit reduction amount. The election must be applied consistently in respect of any one financial year

Note 1

A firm should keep a record of and be ready to explain to its supervisory contacts in the FCA the reasons for any difference between the deficit reduction amount and any commitment the firm has made in any public document to provide funding in respect of a defined benefit occupational pension scheme.

- (d) a firm must not include any unrealised gains from investment property.

Note

Unrealised gains from investment property should be reported as part of revaluation reserves.

- (e) where applicable, a firm must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Note 2

Reserves must be audited unless the firm is exempt from the provisions of Part VII of the Companies Act 1985 (section 249A (Exemptions from audit)), or where applicable, Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.

3 Intangible assets (Item 6)

Intangible assets comprise:

- (a) formation expenses to the extent that these are treated as an asset in the firm's accounts;
- (b) goodwill, to the extent that it is treated as an asset in the firm's accounts; and
- (c) other assets treated as intangibles in the firm's accounts.

Intangible assets do not include a deferred acquisition cost asset.

4. Material current year losses (Item 7)

Losses in current year operating figures must be deducted when calculating Tier 1 capital if such losses are material. For this purpose profits and losses must be calculated quarterly or monthly, as appropriate. If this calculation reveals a net loss it shall only be deemed to be material for the purposes of this Table if it exceeds 10 per cent of the firm's Tier 1 capital.

5 Material holdings in credit and financial Institutions (Item 8)

Material holdings comprise:

- (a) where the firm holds more than 10 per cent of the equity share capital of the institution, the value of that holding and the amount of any subordinated loans to the institution and the value of holdings in qualifying capital items or qualifying cap-

| | |
|---|---|
| | <p>ital instruments issued by the institution;</p> <p>(b) in the case of holdings other than those mentioned in (a) above, the value of holdings of equity share capital in, and the amount of subordinated loans made to, such institutions and the value of holdings in qualifying capital items or qualifying capital instruments issued by such institutions to the extent that the total of such holdings and subordinated loans exceeds 10 per cent of the firm's own funds calculated before the deduction of item 8.</p> |
| <p>5A Material insurance holdings (Item 8)</p> | <p>(a) A material insurance holding means the holdings of an exempt CAD firm of items of the type set out in (b) in any:</p> <ul style="list-style-type: none"> (i) insurance undertaking; or (ii) insurance holding company; <p>that fulfils one of the following conditions:</p> <ul style="list-style-type: none"> (iii) it is a subsidiary undertaking of that firm; or (iv) that firm holds a participation in it <p>(b) An item falls into this provision for the purpose of (a) if it is:</p> <ul style="list-style-type: none"> (i) an ownership share; or (ii) subordinated debt or another item of capital that forms part of the tier two capital resources that falls into GENPRU 2 or, as the case may be, INSPRU 7, or is an item of "basic own funds" defined in the PRA Rulebook: Glossary. |
| <p>6 Long term qualifying subordinated loans (Item 11)</p> | <p>Loans having the characteristics prescribed by rule 5.2.5(1) may be included in item 11, subject to the limits set out in paragraph (1) above.</p> |
| <p>6A Perpetual cumulative preference share capital</p> | <p>Perpetual cumulative preference share capital may not be included in the calculation of own funds by an exempt CAD firm unless it meets the following requirements:</p> <ul style="list-style-type: none"> (a) it may not be reimbursed on the holder's initiative or without the prior agreement of the FCA; (b) the instrument must provide for the firm to have the option of deferring the dividend payment on the share capital; (c) the shareholder's claims on the firm must be wholly subordinated to those of all nonsubordinated creditors; (d) the terms of the instrument must provide for the loss-adsorption capacity of the share capital and unpaid dividends, whilst enabling the firm to continue its business; and it must be fully paid-up. |
| <p>7 Qualifying arrangements (Item 13)</p> | <p>(a) An exempt CAD firm may only include a qualifying undertaking or other arrangement in item 13 if it is a qualifying capital instrument or a qualifying capital item.</p> <p>(b) A firm which is not an exempt CAD firm may only include qualifying undertakings in its calculation of liquid capital if:</p> <ul style="list-style-type: none"> (i) it maintains liquid capital equivalent to 6/52 of its annual expenditure in a form other than qualifying undertakings; and (ii) the total amount of all qualifying undertakings plus qualifying subordinated loans does not exceed the limits set out in paragraph (1)(c) above. |
| <p>8 Net trading book profits (Item 14)</p> | <p>For firms which are not exempt CAD firms unaudited profits can be included at item 14.</p> <p>The Item must not be included in the <i>liquid capital calculation</i> of a firm whose <i>permitted business</i> includes <i>establishing, operating or winding up a personal pension scheme</i>.</p> |

Note

Non-trading book interim profits may only be included in Tier 1 of the calculation if they have been independently verified by the firm's external auditors, unless the firm is exempt from the provisions of Part VII of the Companies Act 1985 (section 249A (Exemptions from audit)), or where applicable, Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.

For this purpose, the external auditor should normally undertake at least the following:

- (a) satisfy himself that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records;
- (b) review the accounting policies used in calculating the interim profits so as to obtain comfort that they are consistent with those normally adopted by the firm in drawing up its annual financial statements;
- (c) perform analytical review procedures on the results to date, including comparisons of actual performance to date with budget and with the results of prior periods;
- (d) discuss with management the overall performance and financial position of the firm;
- (e) obtain adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities and provisions for bad and doubtful debts have been properly taken into account in arriving at the interim profits; and
- (f) follow up problem areas of which the auditors are already aware in the course of auditing the firm's financial statements.

A firm wishing to include interim profits in Tier 1 capital in a financial return should submit to the FCA with the financial return a verification report signed by its external auditor which states whether the interim results are fairly stated, unless the firm is exempt from the provisions of Part VII of the Companies Act 198 (section 249A (Exemptions from audit)), or where applicable, Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.

Profits on the sale of capital items or arising from other activities which are not directly related to the investment business of the firm may also be included within the calculation of liquid capital, but (unless the firm is exempt as above) only if they can be separately verified by the firm's auditors. In such a case, such profits can form part of the firm's Tier 1 capital as profits.

9 Short term qualifying subordinated loans (Item 15)

Loans having the characteristics prescribed by rule 5.2.5(3) may be included in item 15 subject to the limits set out in paragraph (1) above. Tier 2 capital which exceeds the ratios prescribed by paragraph (1)(a) and (b) may be included in item 15 subject to paragraph (1) above.

10 Illiquid assets (Item 16)

Illiquid assets comprise:

- (a) tangible fixed assets;

Note

In respect of tangible fixed assets purchased under finance leases the amount to be deducted as an illiquid asset shall be limited to the excess of the asset over the amount of the related liability shown on the balance sheet.

- (b) holdings in, including subordinated loans to, credit or financial institutions which may be included in the own funds of such institutions unless they have been deducted under item 8;
- (c) any investment in undertakings other than credit institutions and other financial institutions where such investments are not readily realisable;
- (d) any deficiency in net assets of a subsidiary;
- (e) deposits not available for repayment within 90 days or less (except for payments in connection with margined futures or options contracts);

Note

Where cash is placed on deposit with a maturity of more than 90 days but is repayable on demand subject to the payment of a penalty, then this is not required to be deducted as an illiquid asset but a deduction is required for the amount of the penalty.

- (f) loans, other debtors and accruals not falling due to be repaid within 90 days or which are more than one month overdue by reference to the contractual payment date;
- (g) physical stocks (except where subject to the position risk requirement as set out in Table 5.2.3(5)(b); and
- (h) prepayments to the extent that the period of prepayment exceeds six weeks in the case of a firm subject to the 6/52 expenditure based requirement or thirteen weeks in the case of a firm subject to the 13/52 expenditure based requirement or where a firm is required to meet the requirement in rule 5.2.3(4)(c)(i).
- (i) if not otherwise covered, any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a subsidiary or participation. Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under PRU 2.

Illiquid assets do not include a defined benefit asset or a deferred acquisition cost asset.

11 Qualifying property (Item 17)

This item comprises the qualifying amount calculated in accordance with rule 5.2.6(1).

Table 5.2.3(3)(b)

[deleted]

TABLE 5.2.3(4)(a) Liquid Capital Requirement for firms whose permitted business includes establishing, operating or winding up a personal pension scheme.

Table 5.2.3(4)(a) Liquid Capital Requirement for firms whose permitted business includes establishing, operating or winding up a personal pension scheme.

$$\text{Liquid Capital Requirement} = \text{Initial Capital Requirement} + \text{Capital Surcharge}$$

Calculation of Initial Capital Requirement

$$\text{ICR} = (\sqrt{\text{AUA}}) \times \text{K1}$$

Where

ICR

AUA

means Initial Capital Requirement

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 revelation 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

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

Where

CS

P

means Capital Surcharge

means the fraction of *personal pension schemes* administered by the *firm*

| | | | | | |
|-----------|--|-----|----------------------------------|----|---------------------------|
| K2 ICR | <p>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 <i>personal pensions schemes</i> contained non-Standard Assets, this would be inputted in to the formula as 0.25.</p> <p>is set at 2.5</p> <p>means the Initial Capital Requirement calculated as above</p> <p>Standard Assets</p> <p>The List of Standard Assets is as follows (subject to Note 1):</p> <ul style="list-style-type: none"> Cash Cash funds <i>Deposits</i> Exchange traded commodities Government & local authority bonds and other fixed interest stocks Investment notes (structured products) Shares in <i>Investment trusts</i> Managed pension funds National Savings and Investment products Permanent interest bearing shares (PIBs) Physical gold bullion Real estate investment trusts (REITs) <i>Securities</i> admitted to trading on a regulated venue UK commercial property Units in <i>Regulated collective investment schemes</i> <p>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.</p> <p>NOTE 2: In addition to complying with the provisions of Table 5.2.2(1), in accordance with <i>rule 5.2.2(2)(b)</i>, a <i>firm</i> must hold its <i>liquid capital</i> in financial resources as follows:</p> <table style="margin-left: 20px; border: none;"> <tr> <td style="padding-right: 20px;">ICR</td> <td>realisable within 12 months; and</td> </tr> <tr> <td>CS</td> <td>realisable within 30 days</td> </tr> </table> | ICR | realisable within 12 months; and | CS | realisable within 30 days |
| ICR | realisable within 12 months; and | | | | |
| CS | realisable within 30 days | | | | |

TABLE 5.2.3(5)(A) EXPENDITURE BASED REQUIREMENT

PART I CALCULATION OF REQUIREMENT

A firm's expenditure based requirement is a fraction of its annual expenditure determined in accordance with Part II of this Table.

PART II FRACTIONS

| |
|---|
| 1: The fraction is 6/52 where: |
| (a) the firm is an authorised unit trust manager; or |
| (aa) the firm is an authorised contractual scheme manager; or |
| (b) the firm acts only as an authorised corporate director of an ICVC; or |
| (c) the firm is an investment manager (including the operator of an unregulated collective investment scheme in relation to which the firm carries on the activity of an investment manager), unless paragraph 2 applies. |
| 2: The fraction is 13/52 where the firm is an investment manager as in paragraph 1(c) above, or is a custodian, and the firm either: |
| (a) itself holds customers' monies or assets; or |
| (b) procures the appointment as custodian of its customers' monies or assets of an associate of the firm which is not an approved bank. |
| Note: Paragraph 1(a) above includes a firm which acts as an authorised unit trust manager and, in addition, as both or either: |
| (a) an authorised corporate director of an ICVC. |
| (b) an authorised contractual scheme manager. |

TABLE 5.2.3(5)(B) POSITION RISK REQUIREMENT

PART I CALCULATION OF REQUIREMENT

A firm's position risk requirement is determined by calculating on a daily mark to market basis, the sum of the weighted value of each position held by the firm. The weighted value for each position must be calculated by multiplying its current market value by the appropriate factor set out in Part II.

Note: This requirement does not attach to items deducted in full as illiquid assets.

PART II WEIGHTINGS

| Instrument | Maturity | Requirement | | |
|---|--|-------------|-----------|----------|
| | | 0-2 years | 2-5 years | >5 years |
| A Debt | | | | |
| Central Government | | 2% | 5% | 13% |
| Qualifying debt securities | | | | |
| · fixed rate | | 8% | 8% | 15% |
| · floating rate | | 10% | 10% | 15% |
| Non-qualifying debt securities | | | | |
| · fixed rate | | 10% | 20% | 30% |
| · floating rate | | 30% | 30% | 30% |
| B Equities | | | | |
| · Traded on a recognised or designated investment exchange. | 25% | | | |
| · other | 100% | | | |
| C Stock position in physical commodities | | | | |
| · Physical positions associated with firm's investment business | 30% of realisable value | | | |
| D Derivatives | | | | |
| · Exchange traded futures and written options | 4 x initial margin requirement. | | | |
| · otc futures and written options | Apply the appropriate percentage shown in Sections A, B, & C above to the market value of the underlying position. | | | |

| | |
|---|---|
| · Purchased options | Apply the appropriate percentage shown in Sections A, B & C above to the market value of the underlying position but the result may be limited to the market value of the option. |
| · Contracts for differences | 20% of the market value of the contract. |
| E Other investments | |
| · units in regulated collective investment schemes | 25% of realisable value (see Section F). |
| · with profit life policies | 20% of surrender value. |
| · other | 100% of the value of investment or underlying instrument. |
| F Determination of disallowed value of [deleted] | |

TABLE 5.2.3(5)(C) COUNTERPARTY RISK REQUIREMENT (CRR) FCA

| | | |
|----------|---|--|
| 1 | Receivables | <p>In the case of receivables due to the firm in the form of fees, commission, interest, dividends and margin in exchange-traded futures or options contracts, which are directly related to items included in the trading book, the CRR is calculated as follows: $CRR = A \times RF$, where A = the amount of the sum due; and RF = the appropriate risk factor derived from Table 5.2.3(5)(c)(ii).</p> <p>Note This requirement attaches only to balances arising from proprietary activity falling within the definition of the trading book.</p> <p>Note This requirement does not attach to items deducted in full as illiquid assets.</p> |
| 2 | Delivery of cash against documents | <p>Where a firm enters into a trading book transaction and the transaction is to be settled by delivery of cash against documents, the firm's CRR in respect of that transaction is calculated as follows: $CRR = (SP - MV) \times RF$, where SP = agreed settlement price; MV = current market value; RF = the appropriate risk factors derived from Table 5.2.3(5)(c)(i). The CRR should only be calculated where the difference between SP and MV would involve a loss if borne by the firm.</p> |
| 3 | Free deliveries | <p>Where a firm enters into a trading book transaction and the firm pays for the securities before it receives documents of title or delivers documents of title before receiving payment, the CRR in respect of that transaction is calculated as follows: $CRR = V \times RF$, where V = (i) the full amount due to the firm (i.e. the contract value) where the firm has delivered securities to a counterparty and has not received payment; or (ii) the market value of the securities, where the firm has made payment to a counterparty for securities and has not received documents of title; and RF = the appropriate risk factor derived from Table 5.2.3(5)(c)(ii).</p> |
| 4 | Settlement outstanding 30 days | In the case of trading book transactions entered into by a firm |

| | | |
|---|--|--|
| | or more | where the firm pays for the securities before it receives documents of title or delivers documents of title before receiving payment and settlement has not been effected within 30 days of falling due, $CRR = V$. |
| 5 | Repos/Stock Lending and Reverse Repos/Stock Borrowing | <p>Where a firm enters into a transaction based on securities included in the trading book under the terms of a repurchase agreement or a securities lending agreement the firm's CRR in respect of that transaction is calculated as follows: $CRR = V \times RF$, where RF = the appropriate risk factor derived from Table 5.2.3(5)(c)(ii); and for repos/stock lending: V = the excess of the market value of the securities over the value of the collateral provided under the agreement, if the net figure is positive; or for reverse repos/stock borrowing: V = the excess of the amount paid or the collateral given for the securities received under the agreement, if the net figure is positive.</p> |
| 6 | otc derivatives | <p>In the case of a transaction entered into by a firm as principal in an otc derivative the CRR is calculated as follows: $CRR = A \times RF$, where A = the appropriate credit equivalent amount derived from Table 5.2.3(5)(c)(iii); and RF = the appropriate risk factor derived from Table 5.2.3(5)(c)(ii). This calculation shall not apply to contracts for interest rate and foreign exchange which are traded on a recognised investment exchange or designated investment exchange where they are subject to a daily margin requirement and foreign exchange contracts with an original maturity of 14 calendar days or less. A firm may net off contracts with the same counterparty in the same otc derivative contract for settlement on the same date in the same currency provided that the firm is legally entitled under the terms of the contracts with such a counterparty to net such contracts by novation.</p> |

TABLE 5.2.3(5)(C)(i) COUNTERPARTY RISK FACTOR - CASH SETTLEMENTS

| Number of working days after due settlement date | Risk Factor |
|--|-------------|
| 0-4 | 0% |
| 5-15 | 8% |
| 16-30 | 50% |
| 31-45 | 75% |
| 46 or more | 100% |

TABLE 5.2.3(5)(C)(ii) COUNTERPARTY RISK FACTOR - CASH SETTLEMENTS

| Type of counterparty | Risk | Solvency Ra- | Risk Factor |
|----------------------|------|--------------|-------------|
|----------------------|------|--------------|-------------|

| | Weighting | tio | |
|--|------------------|------------|------|
| 1. A counterparty which is, or the contract of which is, explicitly guaranteed by <i>category a body</i> . | NIL | 8% | NIL |
| 2. A counterparty which is, or the contract of which is, explicitly guaranteed by <i>category b body</i> . | 20% | 8% | 1.6% |
| 3. Any other counterparty. | 100% | 8% | 8% |

TABLE 5.2.3(5)(C)(iii) OTC DERIVATIVES CALCULATION OF CREDIT EQUIVALENT AMOUNT

| A | By attaching current market values to contracts (marking to market), obtain the current replacement cost of all contracts with positive values. | | | | | | |
|--------------------------|--|-----------------------------------|--------------------------------|-----------------------------------|------------------|-----|----|
| B | To obtain a figure for potential future credit exposure, the notional principal amounts or values underlying the firm's aggregate positions are multiplied by the following percentages: <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Residual Maturity</th> <th style="text-align: left;">Interest-Rate Contracts</th> <th style="text-align: left;">Foreign-Exchange Contracts</th> </tr> </thead> <tbody> <tr> <td>One year or less</td> <td>nil</td> <td>1%</td> </tr> </tbody> </table> | Residual Maturity | Interest-Rate Contracts | Foreign-Exchange Contracts | One year or less | nil | 1% |
| Residual Maturity | Interest-Rate Contracts | Foreign-Exchange Contracts | | | | | |
| One year or less | nil | 1% | | | | | |
| C | The credit equivalent amount is the sum of current replacement cost and potential future credit exposure. | | | | | | |
| Note | Except in the case of single-currency "floating/floating interest rate" swaps in which only the current replacement cost will be calculated, bought OTC equity options and covered warrants shall be subject to the treatment accorded to exchange rate contracts. | | | | | | |

TABLE 5.2.3(5)(D) FOREIGN EXCHANGE REQUIREMENT

Calculation of Requirement

| | |
|-------------|--|
| (1) | A firm's foreign exchange requirement is determined by calculating the excess of its foreign exchange position (FEP) above 2 per cent of its own funds and multiplying this excess by 8 per cent. |
| (2) | The FEP is the greater of: (a) the total in the reporting currency of the net short positions in each currency other than the reporting currency; and (b) the total in the reporting currency of the net long positions in each currency other than the reporting currency; where the conversion to the reporting currency is performed using spot rates. |
| Note | For this purpose, long and short positions in the same currency can be netted to produce the net position. |
| (3) | In calculating the FEP, a firm must include relevant foreign exchange items. |
| | EXCHANGE POSITION FOR HEDGING PURPOSES Any positions which the firm has taken in order to hedge against the adverse effect of exchange rates on an item already deducted in the calculation of liquid capital may not be excluded from the calculation of net open currency positions |

TABLE 5.2.3(5)(E) OTHER ASSETS REQUIREMENT

PART I CALCULATION OF REQUIREMENT

The requirement to be met in respect of the assets set out in Part II of this Table, other than those to which position risk requirements and counterparty risk requirements apply or which have been deducted in full as illiquid assets, and in respect of off-balance sheet items set out in Part II of this Table, must be calculated as follows:

| | |
|----|---|
| A | = AV x RF where |
| A | = the amount of the requirement; |
| AV | = the current asset value; and |
| RF | = the appropriate risk factor derived from Part II of this Table. |

PART II RISK FACTORS

| Assets and Off-Balance Sheet Items | Risk Factor |
|--|--|
| Assets | |
| Cash at bank and in hand and equivalent items | NIL |
| Assets secured by acceptable collateral including deposits and certificates of deposit with lending institutions | NIL |
| Amount due from trustees of authorised unit trusts or depositaries of authorised contractual schemes | NIL |
| Note | |
| This only applies to firms who are authorised unit trust managers in relation to authorised unit trusts or authorised contractual scheme managers in relation to authorised contractual schemes they manage. | |
| Amount due from depositaries of ICVCs | NIL |
| Note | |
| This only applies to firms who are authorised corporate directors in relation to ICVCs they operate | |
| Other receivables due from or explicitly guaranteed by or deposits with category a bodies | NIL |
| Other receivables due from or explicitly guaranteed by or deposits with category b bodies | 1.6% |
| Pre-payments and accrued income (See paragraph 10 of Part II of Table 5.2.2(1)) | 8% |
| Defined benefit asset | NIL |
| Deferred acquisition cost asset | NIL |
| All other assets | 8% |
| OFF-BALANCE SHEET ITEMS | |
| Full Risk Items e.g. | |
| Charges granted against assets | 8% x counterparty weight (see Table 5.2.3(5)(c)(ii)) |
| Guarantees given | |
| Medium Risk Items e.g. | |
| Undrawn credit facilities granted by the firm with an original maturity of more than one year | 4% x counterparty weight (see Table 5.2.3(5)(c)(ii)) |
| Low Risk Items e.g. | |
| Undrawn credit facilities granted by the firm with an original maturity of one year or less | NIL |

Note

- (1) In determining the appropriate other assets requirement (OAR) for guarantees given in a group context, a firm should follow the calculation below:
- (a) Categorise the guarantee agreements into:
 - (i) those with the character of credit substitutes; or
 - (ii) those not having the character of credit substitutes; or
 - (iii) agreements to provide guarantees.
 - (b) Calculate the weighted value.
 - (i) For guarantees falling under (1)(a)(i), the weighted value will be 100% of the estimated current year liability under the guarantee.
 - (ii) For guarantees falling under (1)(a)(ii) the weighted value will be 50% of the estimated current year liability under the guarantee.
 - (iii) For guarantees falling under (1)(a)(iii), the weighted value will be nil.
 - (c) The OAR is calculated as:
Weighted value x 8% x counterparty weighting (Table 5.2.3(5)(c)(ii))
- (2) For the purpose of this requirement, in assessing whether the guarantee has the characteristics of a credit substitute the following factors should be considered:
- (a) do the agreements allow for periodic or ad-hoc calling of funds;
 - (b) have the guarantees been drawn upon on a regular basis;
 - (c) do firms in the group rely on such guarantees to meet their working capital or regulatory capital requirements.
- (3) Where a firm is part of a group including other FCA regulated entities which together have entered into cross group guarantee arrangements which give rise to an OAR, the estimate of the potential liability under the guarantee may be apportioned between the regulated entities for the purpose of calculating each firm's OAR.

5.3.1 [DELETED]

5.3.1(1) R

[deleted]

- (1) [deleted]
- (2) [deleted]
- (3) [deleted]

- (a) [deleted]
- (b) [deleted]

5.3.1(2) G

[deleted]

5.3.1(3) R

[deleted]

5.3.1(4) R

[deleted]

- (1) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]
- (5) [deleted]

5.3.1(5) G

[deleted]

5.3.1(6) R

[deleted]

5.5.1 FINANCIAL NOTIFICATION

5.5.1(1) R

[deleted]

5.7 CONSOLIDATED SUPERVISION

Under the Financial Conglomerates and Other Financial Groups Instrument 2004, the rules in Chapter 14 shall (with respect to a particular firm, group or financial conglomerate) apply from the first day of its financial year beginning in 2005 in place of rules 5.7.1(1) to 5.7.5(4).

5.7.1

[deleted]

5.7.2

[deleted]

5.7.3

[deleted]

5.7.4

[deleted]

5.7.5

[deleted]

APPENDIX 1 INTERPRETATION - GLOSSARY OF TERMS FOR CHAPTER 5 (FORMER IMRO FIRMS)

The following words or terms throughout Chapter 5 are to have the meanings given to them below if not inconsistent with the subject or context. If a defined term does not appear in the IPRU(INV) 5 glossary below, the definition appearing in the main Handbook Glossary applies.

| Term | Meaning |
|--|---|
| accounting reference date | means: <ul style="list-style-type: none">(a) the date to which a firm's accounts are prepared in order to comply with the relevant Companies Act legislation. In the case of a firm not subject to Companies Act legislation, the equivalent date selected by the firm; and(b) in the case of an OPS firm which is not subject to the relevant Companies Act legislation, the date to which the accounts of the OPS in respect of which the firm acts are prepared. |
| admission procedures | means the procedures set out in the Authorisation Manual together with any other procedures which the Board resolves, either generally or in relation to any specific case, should apply to the admission of firms and the admission of approved persons. |
| annual accounts | means accounts prepared to comply with relevant Companies Act legislation and their equivalent in Northern Ireland or other statutory obligations. |
| Annual expenditure | has the meaning given in rule 5.2.4(1) (Determination). |
| authorised contractual scheme | a co-ownership scheme or a limited partnership scheme. |
| authorised contractual scheme manager. | means the authorised fund manager of an authorised contractual scheme |
| authorised unit trust manager | means the manager of an authorised unit trust scheme. |
| best execution | in relation to the effecting of a transaction, means the effecting of that transaction in compliance with COBS 11.2. |
| Board | means the board of directors of the FCA or any duly authorised committee of such board. |
| category a body | means: <ul style="list-style-type: none">(a) the government or central bank of a zone a country; or(b) EU or Euratom (the European Atomic Energy Community); or(c) the government or central bank of any other country, provided the receivable in question is denominated in that country's national currency. category b body means: <ul style="list-style-type: none">(a) the EIB or a multi-lateral development bank; or(b) the regional government or local authority of a zone a country; or(c) an investment firm or credit institution authorised in a zone a country; or(d) a recognised clearing house or exchange; or(e) an investment firm or credit institution authorised in any other country, which applies a financial supervision regime at least equivalent to the Capital Adequacy Directive. |
| Client Money Rules | CASS 4.1 to 4.3. |
| co-ownership scheme | (as defined in section 235A(2) of the Act (Contractual schemes)) a collective investment scheme which satisfies the conditions in section 235A(3) and which is authorised for the purposes of the Act by an authorisation order. |
| company | means a body corporate or an unincorporated association and, where the context permits, includes a partnership. |

| | |
|--|--|
| compliance officer | means the individual from time to time appointed by a firm as responsible for compliance matters. |
| connected company and connected credit institution | <p>means, in relation to a firm which:</p> <ul style="list-style-type: none"> (a) is a body corporate, a body corporate or credit institution satisfying any of the following conditions: <ul style="list-style-type: none"> (i) the same person is the controller of each body corporate or credit institution; or (ii) if a group of two or more persons are controllers of each body corporate or credit institution, the group either consists of the same persons or could be regarded as consisting of the same persons by treating a member of either group as replaced by: <ul style="list-style-type: none"> (A) that member's close relative; or (B) a person with whom the member is in partnership; or (C) a body corporate of which the member is an officer; or (iii) both bodies corporate are members of the same group; or (b) is not a body corporate or credit institution which is controlled: <ul style="list-style-type: none"> (i) by the firm; or (ii) by a partner in the firm; or (iii) by a close relative or partner in the firm or, if the firm is a sole trader, by a close relative of the sole trader; or (iv) collectively by any of the partners in the firm or their close relatives. |
| controller | <p>(as defined in section 422 of the Act (Controller))</p> <p>in relation to a firm or other undertaking ("A"), means a person who:</p> <ul style="list-style-type: none"> (a) holds 10% or more of the shares in A; or (b) is able to exercise significant influence over the management of A by virtue of his shareholding in A; or (c) holds 10% or more of the shares in a parent undertaking ("P") of A; or (d) is able to exercise significant influence over the management of P by virtue of his shareholding in P; or (e) is entitled to exercise, or control the exercise of, 10% or more of the voting power in A; or (f) is able to exercise significant influence over the management of A by virtue of his voting power in A; or (g) is entitled to exercise, or control the exercise of, 10% or more of the voting power in P; or (h) is able to exercise significant influence over the management of by virtue of his voting power in P. <p>and in this definition</p> <ul style="list-style-type: none"> (A) "person" means: <ul style="list-style-type: none"> (a) the person; or (b) any of the person's associates; or (c) the person and any of his associates. (B) "associate", in relation to a person (H) holding shares in an undertaking ("C") or entitled to exercise or control the exercise of voting power in relation to another undertaking ("D") means: <ul style="list-style-type: none"> 1. the spouse of H 2. a child or stepchild of H (if under 18); 3. the trustee of any settlement under which H has a life interest in possession (or in Scotland a life interest); 4. an undertaking of which H is a director; (e) a person who is an employee or partner of H; (f) if H is an undertaking: <ul style="list-style-type: none"> (i) a director of H; |

- (ii) a subsidiary undertaking of H;
- (iii) a director or employee of such a subsidiary undertaking;
- and
- (g) if H has with any other person an agreement or arrangement with respect to the acquisition, holding or disposal of shares or other interests in C or D or under which they undertake to act together in exercising their voting power in relation to C or D, that other person;
- (a) "settlement" includes any disposition or arrangement under which property is held on trust (or subject to a comparable obligation);
- (b) "shares" means:
 - (a) in relation to an undertaking with a share capital, allotted shares;
 - (b) in relation to an undertaking with capital but no share capital, rights to share in the capital of the undertaking;
 - (c) in relation to an undertaking without capital, interests:
 - (i) conferring any right to share in the profits, or liability to contribute to the losses, of the undertaking; or
 - (ii) giving rise to any obligation to contribute to the debts or expenses of the undertaking in the event of a winding up.

corporate finance
business

means:

- (a) designated investment business carried on by a firm with or for:
 - (i) any issuer, holder or owner of designated investments, if that business relates to the offer, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, those investments, or any related matter;
 - (ii) any eligible counterparty or professional client, or other body corporate, partnership or supranational organisation, if that business relates to the manner in which, or the terms on which, or the persons by whom, any business, activities or undertakings relating to it, or any associate, are to be financed, structured, managed, controlled, regulated or reported upon;
 - (iii) any person in connection with:
 - (A) a proposed or actual takeover or related operation by or on behalf of that person, or involving investments issued by that person (being a body corporate), its holding company, subsidiary or associate; or
 - (B) a merger, de-merger, reorganisation or reconstruction involving any investments issued by that person (being a body corporate), its holding company, subsidiary or associate;
 - (iv) any shareholder or prospective shareholder of a body corporate established or to be established for the purpose of effecting a takeover or related operation, where that business is in connection with that takeover or related operation;
 - (v) any person who, acting as a principal for his own account:
 - (A) is involved in negotiations or decisions relating to the commercial, financial or strategic intentions or requirements of a business or prospective business; or
 - (B) (provided he is acting otherwise than solely in his capacity as an investor) assists the interests of another person with or for whom the firm, or another authorised person or overseas person, is undertaking business as specified in (a)(i),(ii),(iii) or (iv), by himself undertaking all or part of any transactions involved in such business;
 - (vi) any person undertaking business with or for a person as specified in (a)(i), (ii), (iii), (iv) or (v) in respect of activities described in those

- sub-paragraphs;
- (b) designated investment business carried on by a firm as a principal for its own account where such business:
 - (i) is in the course of, or arises out of, activities undertaken in accordance with (a); and
 - (ii) does not involve transactions with or for, or advice to, any other person who is a retail client in respect of such business;
 - (c) designated investment business carried on by a firm as principal for its own account if such business:
 - (i) is in the course of, or arises out of
 - (A) the offer, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, shares, share warrants, debentures or debenture warrants issued by the firm, or any related matter; or
 - (B) a proposed or actual takeover or related operation by or on behalf of the firm, or involving shares, share warrants, debentures or debenture warrants issued by the firm; or
 - (C) a merger, de-merger, reorganisation or reconstruction involving any shares, share warrants, debentures or debenture warrants issued by the firm; and
 - (ii) does not involve giving advice on investments to any person who is a retail client;

in this definition, "share warrants" and "debenture warrants" means any warrant which relates to shares in the firm concerned or, as the case may be, debentures issued by the firm.

| | |
|-----------------------------------|---|
| counterparty | means any person with or for whom a firm carries on regulated business or an ancillary activity. |
| counterparty risk requirement | has the meaning given in Table 5.2.3(5)(c) (Counterparty risk requirement). |
| customer | see the meaning given to the term in the Glossary |
| customer investment | means an investment, or a document of title or a certificate or other record evidencing title to an investment, (other than an investment falling within articles 83, 84 and 85 of the RAO) which is legally or beneficially owned by a customer of a firm. |
| customer transaction | does not include an own account transaction. |
| EEA parent | means a firm's direct or indirect parent which has its head office in the EEA. |
| EIB | means the European Investment Bank. |
| expenditure based requirement | means the requirement calculated in accordance with Table 5.2.3(5)(a) (Expenditure based requirement). |
| finance officer | means the most senior individual from time to time directly responsible for the firm's finances and for compliance with the requirements of the Supervision Manual. |
| financial resources | has the meaning given in rule 5.2.1(3) (Financial resources). |
| financial resources requirement | has the meaning given in rule 5.2.3(1) (a) to (c) (Determination of requirement). |
| financial resources rules | has the meaning given in rules 5.2.1 to 5.2.7. |
| financial return | means quarterly financial return or monthly financial return as the case may be. |
| foreign exchange position | has the meaning given in Table 5.2.3(5)(d) (Foreign exchange requirement). |
| funds under management | [deleted] |
| Group of connected counterparties | means: <ul style="list-style-type: none"> (a) two or more natural or legal persons who constitute a single risk because one of them, directly or indirectly, has control over the other or others; or (b) two or more natural or legal persons between whom there is no relationship of |

| | |
|----------------------------|---|
| | control as in (a) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to exercise financial problems, the other or all of the others would be likely to encounter difficulties in performing its or their obligations. |
| IADB | means the Inter-American Development Bank. |
| IBRD | means the International Bank for Reconstruction and Development. |
| IFC | means the International Finance Corporation. |
| investigation | means an investigation authorised pursuant to the Enforcement Guide. |
| investment | means a designated investment. |
| investment business | means designated investment business. |
| investment firm | has the meaning given to investment firm in the main Glossary except that it excludes persons to which the MiFID does not apply as a result of articles 2 or 3 of MiFID. Note: An investment firm is not necessarily a firm for the purposes of the rules. |
| investment management firm | see the meaning given to the term in the Glossary |
| investment manager | means a person who, acting only on behalf of a customer, either: (a) manages an account or portfolio in the exercise of discretion; or (b) has accepted responsibility on a continuing basis for advising on the composition of the account or portfolio. |
| investment services | means activities undertaken in the course of carrying on designated investment business or undertaken as an ISA manager. |
| ISA cash deposit | means a cash deposit within Regulation 8 of the Individual Savings Account Regulations 1998 (SI 1998/1870) which is held within a cash component ISA. |
| limited partnership scheme | (as defined in section 235A(5) of the Act (Contractual schemes)) a collective investment scheme which satisfies the conditions in section 235A(6) and which is authorised for the purposes of the Act by an authorisation order. |
| liquid capital | has the meaning given in rule 5.2.2(1) (Calculation of own funds and liquid capital). |
| liquid capital requirement | has the meaning given in rule 5.2.3(4) (a) to (c) (Liquid capital requirement). |
| marketable investment | means: (a) an investment which is traded on or under the rules of an exchange; (b) a debt instrument which may be transferred without the consent of the issuer or any other person (including a collateralised mortgage obligation); (c) a commodity; (d) a warrant, option, future or other instrument which entitles the holder to subscribe for or acquire: (i) an investment or commodity in (a) to (c); or (ii) any currency; or (iii) any combination of (i) and (ii); (e) a contract for differences (including interest rate and currency swaps) relating to fluctuations in: (i) the value or price of an investment or commodity in (a) to (d); or (ii) any currency; or (iii) the rate of interest in any currency or any index of such rates; or (iv) the level of any index which is derived from the prices of an investment or commodity in (a) to (c); or (v) any combination of (i) to (iv); (f) warrants, options, futures or other instruments entitling the holder to obtain the rights of those contracts in (d) or (e); (g) a unit in a regulated collective investment scheme. |
| marketing group | means a group of persons: (a) who are allied together (either formally or informally) for the purposes of marketing packaged products of the group; and (b) each of whom, if it holds itself out in the UK as marketing any packaged products to retail clients, does so only as an investment manager or in relation |

| | |
|--|---|
| | to those of the marketing group. |
| member state | means a member state of the EEA. |
| monthly financial return | means the return referred to in the Supervision Manual. non-retail client means a professional client or an eligible counterparty. |
| OPS or occupational pension scheme | means any scheme or arrangement which is comprised in one or more instruments or agreements and which has, or is capable of having, effect in relation to one or more descriptions or categories of employment so as to provide benefits, in the form of pensions or otherwise, payable on termination of service, or on death or retirement, to or respect of earners with qualifying service in an employment of any such description or category. |
| OPS activity | see the meaning given to the term in the Glossary |
| OPS firm | means: <ul style="list-style-type: none"> (a) a firm which: <ul style="list-style-type: none"> (i) carries on OPS activity but not with a view to profit; and (ii) is one or more of the following: <ul style="list-style-type: none"> (A) a trustee of the occupational pension scheme in question; (B) a company owned by the trustees of the occupational pension scheme in question; (C) a company which is: <ul style="list-style-type: none"> (I) an employer in relation to the occupational pension scheme in question in respect of its employees or former employees or their dependants; or (II) a company within the group which includes an employer within (I); or (III) an administering authority subject to the Local Government Superannuation Regulations 1986; or (b) a firm which: <ul style="list-style-type: none"> (i) has satisfied the requirements set out in (a) at any time during the past 12 months; but (ii) is no longer able to comply with those requirements because of a change in the control or ownership of the employer referred to in (a)(ii) during that period. |
| otc derivative | means interest rate and foreign exchange contracts covered by Annex III to the previous version of the Banking Consolidation Directive (i.e. Directive (2000/12/EC) and off balance sheet contracts based on equities which are not traded on a recognised or designated investment exchange or other exchange where they are subject to daily margin requirements, excluding any foreign exchange contract with an original maturity of 14 calendar days or less. |
| other assets requirement | has the meaning given in Table 5.2.3(5) (e) (Other assets requirement). |
| overseas person | see the meaning given to the term in the Glossary |
| own funds | has the meaning given in rule 5.2.2(1) and <i>IPRU(INV)</i> 5.2.2(1)(A)R, as applicable. |
| own funds requirement | has the meaning given in rule 5.2.3(3)(a) and <i>IPRU(INV)</i> 5.2.3(3)(A)R (Own funds requirement), as applicable. |
| parent | means any parent undertaking as defined in section 1162 of the Companies Act 2006 and any undertaking which effectively exercises a dominant influence over another undertaking. |
| participation | has the meaning given to the term in the Glossary. |
| permitted business | means regulated activity which a firm has permission to carry on. |
| plan investment | means an investment included in a PEP or in any ISA component. |
| position risk requirement | has the meaning given in Table 5.2.3(5)(b) (Position risk requirement). |
| prescribed subordinated loan agreement | means the subordinated loan agreement prescribed by the appropriate regulator for the purposes of rule 5.2.5(4). |
| qualifying amount | has the meaning given in the Supervision Manual. |

| | |
|--|---|
| qualifying capital instrument | <p>means that part of a firm's capital which is a security of indeterminate duration, or other instrument, that fulfils the following conditions:</p> <ul style="list-style-type: none"> (a) it may not be reimbursed on the bearer's initiative or without the prior agreement of the appropriate regulator; (b) the debt agreement must provide for the firm to have the option of deferring the payment of interest on the debt; (c) the lender's claims on the firm must be wholly subordinated to those of all non-subordinated creditors; (d) the documents governing the issue of the securities must provide for debt and unpaid interest to be such as to absorb losses, whilst leaving the firm in a position to continue trading; and (e) only fully paid-up amounts shall be taken into account. |
| qualifying capital item | <p>means that part of a firm's capital which has the following characteristics:</p> <ul style="list-style-type: none"> (a) it is freely available to the firm to cover normal banking or other risks where revenue or capital losses have not yet been identified; (b) its existence is disclosed in internal accounting records; and (c) its amount is determined by the management of the firm and verified by independent auditors, and is made known to, and is monitored by, the FCA. <p>Note: Verification by internal auditors will suffice until such time as EU provisions making external auditing mandatory have been implemented.</p> |
| qualifying property | has the meaning given in rule 5.2.6(1) (Qualifying property and qualifying amount defined). |
| qualifying subordinated loan | has the meaning given in rule 5.2.5 (1) to (7) (Qualifying subordinated loans). |
| qualifying undertaking | has the meaning given in rule 5.2.6(3) (Qualifying undertakings). |
| quarterly financial return | means the return referred to in the Supervision Manual. |
| readily realisable investment | <p>means a unit in a regulated collective investment scheme, a life policy or any marketable investment other than one which is traded on or under the rules of a recognised or designated investment exchange so irregularly or infrequently:</p> <ul style="list-style-type: none"> (a) that it cannot be certain that a price for that investment will be quoted at all times; or (b) that it may be difficult to effect transactions at any price which may be quoted. |
| recognised overseas clearing house | means an overseas clearing house which is declared by a recognition order made under section 290 or 292 of the Act for the time being in force to be a recognised clearing house. |
| recognised overseas investment exchange | means an overseas investment exchange which is declared by a recognition order made under section 290 or 292 of the Act for the time being in force to be a recognised investment exchange. |
| registered individual registrable activity | <p>means an approved person.</p> <p>in relation to a firm, means any one of the following:</p> <ul style="list-style-type: none"> (a) holding the post of director or chief executive; (b) acting as an investment manager in the course of the permitted business of the firm; (c) acting in a senior capacity with responsibility either alone or jointly with one or more other individuals for the management, supervision and control of a part of the firm's permitted business (including the compliance officer and the finance officer); (d) procuring or endeavoring to procure other persons to enter into investment agreements, or giving advice to persons with whom he deals about entering into investment agreements or exercising rights conferred by investments, in the course of the permitted business of the firm; (e) committing the firm or its customers in market dealings or in transactions in securities or in other investments in the course of the firm's permitted business. |

| | |
|---------------------------------|---|
| regulated activity | see the meaning given to the term in the Glossary |
| regulated business | means designated investment business. |
| regulated friendly society | <p>means, as respects investment business carried on for or in connection with any of the purposes mentioned in Schedule 1 to the Friendly Societies Act 1974, or, as the case may be, to the Friendly Societies Act (Northern Ireland) 1970, means a society which is a friendly society within the meaning of section 7(1)(a) of the Friendly Societies Act 1974 and is registered within the meaning of that Act or is a friendly society within the meaning of section 1(1)(a) of the Friendly Societies Act (Northern Ireland) 1970 and is registered or deemed to be registered under that Act; and</p> <p>(a) under its rules, has its registered office at a place situated in Great Britain or, as the case may be, Northern Ireland; and</p> <p>(b) carries on investment business in the UK.</p> |
| relevant foreign exchange items | <p>means:</p> <p>(a) all assets less liabilities, including accrued interest, denominated in the currency (all investments at market or realisable value);</p> <p>(b) any currency future, at the nominal value of the contract;</p> <p>(c) any forward contract for the purchase or sale of the currency, at the contract value, including any future exchange of principal associated with currency swaps;</p> <p>(d) any foreign currency options at the net delta (or delta-based) equivalent of the total book of such options;</p> <p>(e) any non-currency option, at market value;</p> <p>(f) any irrevocable guarantee;</p> <p>(g) any other off-balance sheet commitment to purchase or sell an asset denominated in that currency.</p> |
| reporting currency | means the currency in which the firm's books of account are maintained. |
| specified trustee business | <p>1. means any investment business carried on in the UK by a trustee firm, but excluding each of the following activities:</p> <p>(a) Dealing or arranging deals in investments</p> <p style="padding-left: 20px;">(i) where the deal is transacted or arranged by a trustee firm with or through a PTP; or</p> <p style="padding-left: 20px;">(ii) where the dealing or arranging is done in the course of, or is incidental to, an activity of management falling within paragraph (b) below; or</p> <p style="padding-left: 20px;">(iii) where the trust is a unit trust scheme and the deal is or the arrangements are made with a view to either an issue or sale of units in such a scheme to, or a redemption or repurchase or conversion of such units or a dealing in investments for such a scheme carried out by with or through, the operator or on the instructions of the operator; or</p> <p style="padding-left: 20px;">(iv) where the trustee firm, being a bare trustee (or, in Scotland, a nominee) holding investments for another person, is acting on that person's instructions; or</p> <p style="padding-left: 20px;">(v) where any arrangements do not or would not bring about the transaction in question.</p> <p>(b) Managing Investments</p> <p style="padding-left: 20px;">(i) where the trustee firm has no general authority to effect transactions in investments at discretion; or</p> <p style="padding-left: 20px;">(ii) if and to the extent that all day-to-day decisions in relation to the management of the investments or any discrete part of the investments are or are to be taken by a PTP; or</p> <p style="padding-left: 20px;">(iii) if and to the extent that investment decisions in relation to the investments or any discrete part of the investments are or are to be taken substantially in accordance with the advice given</p> |

- by a PTP; or
 - (iv) where the trustee firm is a personal representative or executor and is acting in that capacity; or
 - (v) where the trust is a unit trust scheme and all day-to-day investment decisions in the carrying on of that activity are or are to be taken by the operator of the scheme.
 - (c) Investment Advice
 - (i) where the relevant advice:
 - (A) does not recommend the entry into any investment transaction or the exercise of any right conferred by any investment to acquire, dispose of, underwrite or convert such an investment; and
 - (B) is accompanied by a recommendation that independent advice be obtained; or
 - (ii) if and to the extent that the relevant advice is in substance the advice of a PTP; or
 - (iii) where the relevant advice is given by the trustee firm acting in the capacity of personal representative or executor.
 - (d) Establishing, operating or winding up a collective investment scheme including acting as trustee of an authorised unit trust scheme but only to the extent that such activities do not otherwise constitute specified trustee business.
 - (e) Any trustee activity undertaken as trustee of an issue of debentures or government or public securities
 - (i) where the issue is made by a company listed on a recognised investment exchange or on a designated investment exchange (or by a wholly-owned subsidiary of such a company); or
 - (ii) where the issue is listed or traded either on a recognised investment exchange or on a designated investment exchange or on the Société de la Bourse de Luxembourg; or
 - (iii) where the issue is made by a government, local authority or international organisation; or
 - (iv) where the aggregate amounts issued (pursuant to the trust deed or any deed supplemental thereto and ignoring any amounts redeemed, repurchased or converted) exceed the sum of £10,000,000.
2. For the purpose of this definition of "specified trustee business":
- (a) a transaction is entered into through a person if that person:
 - (i) enters into it as agent; or
 - (ii) arranges for it to be entered into as principal or agent by another person and the arrangements are such that they bring about the transaction in question;
 - (b) investment transaction means a transaction to purchase, sell, subscribe for or underwrite a particular investment and "investment decision" means a decision relating to an investment transaction;
 - (c) debentures means any securities falling within article 77 of the RAO;
 - (d) government or public securities means any securities falling within article 78) of the RAO;
 - (e) government, local authority or international organisation means:
 - (i) the government of the United Kingdom, of Northern Ireland, or of any country or territory outside the United Kingdom;
 - (ii) a local authority in the United Kingdom or Anywhere; or
 - (iii) an international organisation the members of which include the United Kingdom or another EEA State.

| | | |
|---------------------------|-----|--|
| | (f) | in determining the size of an issue of debentures or government or public securities made in a currency other than sterling, the amount of the issue shall be converted into sterling at the exchange rate prevailing in London on the date of issue. |
| statutory rules | | means the rules made by the FCA under the Act. |
| total capital requirement | | has the meaning given in rule 5.2.3(5) (Total capital requirement). trading book in relation to a firm's business or exposures, means: <ul style="list-style-type: none"> (a) its proprietary positions in financial instruments: <ul style="list-style-type: none"> (i) which are held for resale and/or are taken on by the firm with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices or from other price or interest-rate variations; (ii) arising from matched principal broking; (iii) taken in order to hedge other elements of the trading book; (b) exposures due to unsettled securities transactions, free deliveries, OTC derivative instruments, repurchase agreements and securities lending transactions based on securities included in (a)(i) to (iii) above, reverse repurchase agreements and securities borrowing transactions based on securities included in (a)(i) to (iii) above; and (c) fees, commission, interest and dividends, and margin on exchange-traded derivatives which are directly related to the items included in (a) and (b) above. |
| trust beneficiary | | means a beneficiary under a trust (not being the settlor) who benefits from the performance by a firm as trustee of investment services relating to the management of the trust assets (in accordance with section 2372 of the Act (Other definitions)). |
| trustee activity | | means, in relation to a firm, any activity undertaken in the course of or incidental to the exercise of any of its powers, or the performance of any of its duties, when |
| UCITS qualifier | | see the meaning given to the term in the Glossary |
| unit trust manager | | means the manager of a unit trust scheme. |
| zone a country | | see definition of Zone A country in the Glossary |
| zone b country | | means a country which is not a zone a country. |