

- **Interim Prudential sourcebook: Investment Business (IPRU(INV))**

- **Chapter 1: Application and General Provisions**

- **IPRU (INV) 1.1 Purpose**

- **IPRU(INV) 1.1.1G [deleted]**

Deleted by: LIs [FCA 2013/79](#), [PRA 2013/35](#)

- **IPRU(INV) 1.1.2G**

The *rules* and *guidance* in this sourcebook will assist the *appropriate regulator* to meet the statutory objectives. This sourcebook does so by setting minimal capital and other risk management standards thereby mitigating the possibility that *firms* will be unable to meet their liabilities and commitments to *consumers* and counterparties.

Amended by: LI [FCA 2013/10](#)

- **IPRU(INV) 1.1.3G**

The general scheme of this sourcebook is, wherever appropriate, to apply the financial and other prudential standards which applied to a *firm* immediately prior to it becoming authorised by the *appropriate regulator* under the *Act* . For convenience, the chapter numbers adopted in this sourcebook correspond with those of the rulebooks of *previous regulators*.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 1.1.3AR**

This sourcebook does not apply to *BIPRU firms* except:

1. it does apply to certain *exempt BIPRU commodities firms* .
2. [deleted]

Inserted by: LI [2006/53](#)

Amended by: LIs [2007/28](#), [FCA 2013/79](#), [FCA 2016/9](#)

- **IPRU(INV) 1.1.3BR**

This sourcebook does not apply to *IFPRU investment firms* except it does apply to *exempt IFPRU commodities firms* .

Inserted by: LI [FCA 2013/79](#)

Amended by: LI [FCA 2016/9](#)

- **IPRU(INV) 1.1.4G**

This sourcebook does not apply to *banks*, *building societies*, *insurers*, *the Society of Lloyd's* (except in relation to *underwriting agents*), *friendly societies* and certain other categories of *firm* and *members' advisers*.

- **IPRU(INV) 1.1.5G**

On becoming authorised by the *appropriate regulator* a *firm* will have to comply with the particular chapter of this sourcebook appropriate to its business. The *firm* will be able to seek guidance on this during the authorisation procedure. If subsequently, the business for which a *firm* has *permission* changes it may be necessary for it to comply with a different set of financial resources requirements. *Firms* will be able to discuss this aspect with the *appropriate regulator* during the application process.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 1.1.6G**

The *Supervision manual* sets out provisions relating to the periodic reporting and notification of financial information to the *appropriate regulator* or to the auditing of accounts. However, this sourcebook contains a few additional notification requirements (*notification rules*).

Amended by: Lis [2006/53](#), [FCA 2013/9](#)

- **IPRU(INV) 1.2 Application**

- **IPRU(INV) 1.2.1R**

The *Glossary* applies to the transitional provisions, this chapter ([IPRU\(INV\) 1](#)), ([IPRU\(INV\) 2](#)), ([IPRU\(INV\) 4](#)), ([IPRU\(INV\) 6](#)), ([IPRU\(INV\) 11](#)) and ([IPRU\(INV\) 13](#)).

Amended by: Lis [2003/47](#), [2009/62](#), [FCA 2013/51](#)

- **IPRU(INV) 1.2.2R**

(1) *IPRU (INV)* applies to:

- (a) a *members' adviser*;
- (b) an *investment management firm* ;
- (c) a *personal investment firm* ;
- (d) an *authorised professional firm* ;
- (e) a *securities and futures firm* ;
- (f) a *service company* ;
- (g) the *Society of Lloyd's* (in relation to *underwriting agents*);

(h) [deleted]

(i) a *credit union* which is a *CTF provider* ;

(j) an *exempt CAD firm* ;

(k) a *collective portfolio management firm* ; and

(l) a *collective portfolio management investment firm* .

(2) *IPRU (INV)* does not apply to:

(a) a *lead regulated firm* ; or

(b) a *media firm* ; or

(c) a *BIPRU firm* (unless it is an *exempt BIPRU commodities firm*); or

(d) an *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*).

(3) The definitions in the *Glossary* (which is applicable to the *Handbook* generally) apply to this chapter.

Amended

by: LIs [2003/47](#), [2004/88](#), [2006/53](#), [2007/27](#), [2007/28](#), [FCA 2013/51](#), [FCA 2013/77](#), [FCA 2013/79](#)

▪ **IPRU(INV) 1.2.3G**

For the avoidance of doubt, *IPRU (INV)* does not apply to any of the following:

(a) a *bank* ; or

(b) a *building society* ; or

(ba) a *designated investment firm* ; or

(c) a *friendly society* ; or

(d) an *ICVC* ; or

(e) an *incoming EEA firm* or an *incoming Treaty firm* which does not have a *top up permission*; or

(f) an *insurer* ; or

(g) a *UCITS* qualifier;

(h) [deleted]

Amended by: LIs [2006/53](#), [FCA 2013/51](#), [FCA 2013/79](#)

- IPRU(INV) 1.2.3AR [deleted]

Deleted by: LI [2008/40](#)

- IPRU(INV) 1.2.3BR [deleted]

Deleted by: LI [2008/40](#)

- Obligation to comply
 - IPRU(INV) 1.2.4R

A *firm* of a kind listed in the left-hand column of Table 1.2.4R must comply with the provisions of *IPRU (INV)* shown in the right hand column and, where relevant, the provisions of Chapter 14.

Amended by: LI [2004/56](#)

- IPRU(INV) 1.2.5R

Table

This table belongs to *IPRU (INV)* 1.2.4R

<i>Authorised professional firm</i>	Chapters 1 and 2
<i>Securities and futures firm (which is not a MiFID investment firm)</i>	Chapters 1 and 3
<i>Securities and futures firm (which is an exempt BIPRU commodities firm or an exempt IFPRU commodities firm)</i>	Chapters 1 and 3
[deleted]	[deleted]
<i>The Society of Lloyd's (in relation to underwriting agents) and members advisers</i>	Chapters 1 and 4
<i>Investment management firm</i>	Chapters 1 and 5
<i>An exempt CAD firm or a local firm</i>	Chapters 1 and 9
<i>Service company</i>	Chapters 1 and 6
<i>Collective portfolio management firm</i>	Chapters 1 and 11
<i>Collective portfolio management investment firm</i>	Chapters 1 and 11
[deleted]	[deleted]
[deleted]	[deleted]

<i>Personal investment firm</i>	Chapters 1 and 13
[deleted]	[deleted]
<i>Credit union which is a CTF provider</i>	Chapters 1 and 8

Amended
 by: LIs [2003/47](#), [2004/88](#), [2006/53](#), [2007/02](#), [2007/27](#), [FCA 2013/51](#), [FCA 2013/77](#), [FCA 2013/79](#)

- **Capital substitutes: Transitional Provisions**
 - **IPRU(INV) 1.2.6G**

The financial resource requirements of the Financial Services Act regulators permitted certain types of borrowings or facilities to be treated as part of a *firm's* capital resources. The most common example is that of a subordinated loan which met the relevant conditions. The following provisions permit *firms* to continue to use these borrowings or facilities in the same way as under the relevant *previous regulator's* rules, provided that certain conditions are met.

- **IPRU(INV) 1.2.7R**

1. If a *firm* was, immediately before *commencement* permitted to treat "relevant funds" as part of its capital resources under the financial resource rules of a *previous regulator* applicable to the *firm*, it may treat those funds in an equivalent manner under the corresponding provisions of *IPRU (INV)*, provided that the conditions in (3) are met.
2. For the purposes of this *rule* "relevant funds" are funds provided to the *firm* under the terms of
 - a. a subordinated loan agreement; or
 - b. qualifying undertaking; or
 - c. any other instrument treated in an equivalent manner under the financial resources *rules* applicable to the *firm*.
3. The conditions referred to in (1) are either:
 - a. in the case of a subordinated loan agreement, qualifying undertaking or

other relevant instrument to which the *firm's previous regulator* is not party:

- i. the parties to it treat all rights (including, without limitation, rights to notice) which the agreement, undertaking or instrument grants to the *firm's previous regulator* as having been granted to the *appropriate regulator* ; and
 - ii. if there is a variation of the commercial terms the parties include, in the terms of the instrument executed to effect the variation, provision to substitute reference to the *appropriate regulator* in place of any reference to the *firm's previous regulator*; or
- b. in the case of a subordinated loan agreement, qualifying undertaking or other relevant instrument to which the *firm's previous regulator* is party, the parties treat the rights accorded to the self regulating organisation under the relevant instrument as having been assigned to the *appropriate regulator* immediately before *commencement* .

Amended by: LI [FCA 2013/9](#)

- IPRU(INV) 1.2.8G [deleted]

Deleted by: LI [FCA 2015/57](#)

○ Chapter 2: Authorised Professional firms

Amended by: LI [2007/27](#)

- IPRU(INV) 2.1 Application
 - IPRU(INV) 2.1.1R
 0. This chapter applies to an *authorised professional firm* in accordance with *IPRU (INV) 2.1.2R* and *2.1.3R*.
 1. The definitions in the *Glossary* apply to this chapter.

Amended by: LI [2007/27](#)

- IPRU(INV) 2.1.2R

(1) An *authorised professional firm* of a kind falling within (2) must comply with such of [IPRU \(INV\) 3, 5, 9 or 13](#) which in accordance with [IPRU\(INV\) 2.1.4R](#), most appropriately correlates to the type and scale of the business which it conducts.

(2) The type of *authorised professional firm* to which (1) applies is one:

(a) which is also an *exempt CAD firm* ;

(b) which acts as a *market maker* ;

(c) which acts as a *stabilising manager* ;

(d) [deleted]

(da) which acts as a *small authorised UK AIFM* or a *residual CIS operator* ;

(db) which acts as a *depository* ;

(e) which acts as a *broker fund adviser* or otherwise participates in a *broker fund* arrangement;

(f) whose main business, having regard to (3), is not the practice of its profession or professions;

(g) whose permission includes a requirement that it acts in conformity with the financial resources *rules* applicable to another type of *firm* ;
or

(h) whose *permission* includes *establishing, operating or winding up a personal pension scheme* .

(3) For the purposes of (2)(f), a *firm's* professional business practice is not the "main business" of the *firm* unless 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).

(4) An *authorised professional firm* which, in accordance with (1), is required to comply with [IPRU \(INV\) 3, 5, 9 or 13](#) must immediately give notification of that fact to the *FCA* in accordance with [SUP 15.7](#) (Forms and method of notification).

Amended by: LIs [2006/28](#), [2007/27](#), [FCA 2013/9](#), [FCA 2013/51](#)

▪ IPRU(INV) 2.1.3R

An *authorised professional firm* which does not fall within *IPRU (INV) 2.1.2R* must comply with sections 2.2, 2.3 and 2.4 of this chapter.

- **IPRU(INV) 2.1.4R**

This table belongs to *IPRU (INV) 2.1.1R*

TYPE OF BUSINESS ACTIVITY	CHAPTER OF SOURCEBOOK
<p><i>managing investments other than for retail clients ; or OPS activity ; or) [deleted]) [deleted] a) acting as trustee or depositary of a UCITS ; or b) managing an AIF ; or c) acting as trustee or depositary of an AIF ; or acting as a residual CIS operator ; or) establishing, operating or winding up a personal pension scheme ; or) safeguarding and administering investments ;</i></p>	<p><i>Investment management firm — IPRU(INV) 5</i></p> <p><i>Investment management firm(which is an exempt CAD firm) — IPRU(INV) 5 and 9</i></p>
<p><i>advising on, or arranging deals in, packaged products ; or managing investments for retail clients ;</i></p>	<p><i>Personal investment firm — IPRU(INV) 13</i></p>
<p><i>a regulated activity carried on as a member of an exchange ; or acting as a market maker in securities or derivatives ; or) corporate finance business ; or) dealing or arranging deals in securities or derivatives , other than inter-professional investments ; or the provision of clearing services as a clearing firm ; or) spread betting.</i></p>	<p><i>Securities and futures firm(which is an exempt CAD firm) — IPRU(INV) 9</i></p> <p><i>Securities and futures firm(which is not a MiFID investment firm) — IPRU(INV) 3</i></p>

Amended by: LIs [2006/28](#), [2007/27](#), [2007/58](#), [FCA 2013/51](#)

- **IPRU(INV) 2.1.5G**

An *authorised professional firm* will be a *MiFID investment firm* if its business activities include the provision of *investment services and/or activities* for a third party. An *authorised professional firm* will not however be a *MiFID investment firm* if it falls within one of the exclusions contained in Article 2 of *MiFID*. Article 2(1)(c) provides for an exclusion for an *authorised professional firm* which provides *investment services and/or activities* in an incidental manner in the course of a professional activity and that activity is regulated by the *firm's designated professional body*.

Amended by: LI [2007/27](#)

- **IPRU(INV) 2.1.6G**

The *FCA* considers the scope of this exclusion cannot be precisely defined. Ultimately questions of interpretation are for the Court to determine. The *FCA* considers that to satisfy the exclusion the services cannot be the major part of the practice of the *firm*. The *FCA* also considers the following factors to be among those that are relevant:

0. the scale of *regulated activity* in proportion to other professional services provided;

1. whether and to what extent activities that are *regulated activities* are held out as separate services;
2. the impression given as to how the *firm* provides *regulated activities* , for example through its advertising or other promotions of its service.

Amended by: LI [FCA 2013/9](#)

▪ IPRU(INV) 2.1.7G

The activities that a *full-scope UK AIFM* and a *UCITS management company* are allowed to perform are restricted by [article 6](#) of *AIFMD* and [article 6](#) of the *UCITS Directive* to the management of *AIFs* and/or *UCITS* and the additional investment activities permitted by [article 6\(4\)](#) of *AIFMD* and [article 6\(3\)](#) of the *UCITS Directive* (as applicable). As such, an *authorised professional firm* cannot be a *collective portfolio management firm* or a *collective portfolio management investment firm* .

Amended by: LI [FCA 2013/51](#)

▪ IPRU(INV) 2.2 Financial Resources Requirements

▪ IPRU(INV) 2.2.1R

0. A *firm* must be able to meet its liabilities as they fall due.
1. In complying with (1) a *firm* may use any assets which are available to meet any of its liabilities.

▪ IPRU(INV) 2.2.2G

Firms are reminded that:

0. requirements relating to the systems and controls which *firms* must establish and maintain for ensuring compliance with financial resources and other requirements are set out in SYSC .
1. the financial reports that a *firm* is required to make to the *FCA* are set out in [SUP 16](#).

Amended by: LI [FCA 2013/9](#)

▪ IPRU(INV) 2.3 Professional Indemnity Insurance

▪ IPRU(INV) 2.3.1R

A *firm* must effect and maintain at all times adequate professional indemnity insurance cover for all the business activities which it carries on, or for which it is responsible.

▪ IPRU(INV) 2.3.2G

In assessing the adequacy of a *firms'* professional indemnity insurance cover for the purposes of *IPRU(INV)* 2.3.1R, the *FCA* may have regard to a *firm's* compliance with the professional indemnity insurance requirements of its *designated professional body* in force at the time.

Amended by: LI [2004/57](#), [FCA 2013/9](#)

- **IPRU(INV) 2.4 Bonding Requirement for Accountants**
 - **IPRU(INV) 2.4.1R**

This section applies to a *firm* of accountants practising as such in the UK.

- **IPRU(INV) 2.4.2R**

0. If the aggregate value of *client money* and *bonded investments* a *firm* holds for a *client* is over £50,000 then the *firm* must ensure that it holds a bond for the excess over £50,000.
1. A *firm* must:
 - . ensure that the bond is in the form prescribed by the *FCA* ;
 - a. ensure that the *person* specified to act as trustee in the bond is a *designated professional body* or a solicitor practising as such in the UK;
 - b. ensure that the bond is lodged with the trustee; and
 - c. be able at all times to show that the amount of the bond is sufficient to meet the requirements of (1).

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- Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 2.4.3R**

A *firm* must notify the *FCA* immediately:

0. of any bond taken out specifying the amount and where it is lodged; and
1. of the arrangements it has made to comply with *IPRU (INV)* 2.4.2R if a bond is not renewed or is cancelled.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 2.4.4G**

0. *Firms* which hold *client money* or *bonded investments* for more than one *client* , may hold one bond to cover all of the *clients* concerned. The bonding requirements may be

complied with by taking out a global bond. In firms with numerous offices compliance may be achieved in practice by calculating the requirement based on figures supplied by offices which is likely to be at least quarterly. These figures would need to be supplied and assessed soon after the end of each quarter.

1. To ensure the global cover is sufficient, this approach would require an estimated safety margin to be incorporated, to allow for changes in the amounts of *client money*, *investments* or assets held. An additional prudent measure would be to ensure that exceptional amounts of these assets are notified by branch offices so that the *firm* can check whether the safety margin can absorb them and reconsider whether the total global bond cover remains sufficient.

- **IPRU(INV) 2.4.5G**

Firms which do not expect to hold *bonded investments* or *client money* in excess of the value limit need not hold a bond. However, *firms* may wish to make contingency arrangements with a surety whereby a bond facility is available and can be executed and delivered at short notice.

- **Chapter 3: Securities and Futures Firms which are not MiFID Investment Firms or which are Exempt BIPRU Commodities Firms or Exempt IFPRU Commodities Firms**

- **IPRU(INV) 3-AR**

The definitions in the glossary at Appendix 1 apply to this chapter.

- **IPRU(INV) 3-1R**

This chapter applies to a *securities and futures firm* which:

- a. is not a *MiFID investment firm* ;
- b. is an *exempt CAD firm* that carries on any *regulated activity* other than *MiFID business* ;
- c. is an *exempt BIPRU commodities firm* ; or
- d. is an *exempt IFPRU commodities firm* .

Amended by: LIs [2007/02](#), [2007/27](#), [2007/28](#), [FCA 2013/79](#)

- **IPRU(INV) 3-1G**

An *exempt BIPRU commodities firm* is subject to the non-capital requirements of *GENPRU* and *BIPRU* as indicated in [BIPRU TP 15](#). An *exempt IFPRU commodities firm* is subject to the non-capital requirements of *IFPRU* and the *EU CRR* .

Amended by: LIs [2007/02](#), [2007/27](#), [2007/28](#), [FCA 2013/79](#)

- **IPRU(INV) 3-1AR**

This chapter does not apply to an *oil market participant* unless it is a member of a *recognised or designated investment exchange* which is, under the rules of that exchange, entitled to trade with other members.

- **IPRU(INV) 3-1AG**

An *oil market participant* to which this chapter does not apply is still subject to the requirement of *Principle 4* to have adequate financial resources.

- **IPRU(INV) 3-1BR**

The provisions on concentrated risk in this chapter:

(a) apply to an *exempt BIPRU commodities firm* if it satisfies the conditions in [BIPRU TP 16](#) (Commodities firm transitionals: large exposures) in the version as at 31 December 2013; and

(b) do not apply to an *exempt IFPRU commodities firm* which applies the *large exposure* requirements in [Part Four](#) (articles 387 to 403) of the *EU CRR*.

Inserted by: LI [2007/28](#)
Amended by: LI [FCA 2013/79](#)

- **IPRU(INV) 3-1BG**

[Part Four](#) (articles 387 to 403) of the *EU CRR* applies to an *exempt IFPRU commodities firm*, unless it qualifies for exemption under [article 493\(1\)](#) of the *EU CRR*.

Inserted by: LI [2007/28](#)
Amended by: LI [FCA 2013/79](#)

- **IPRU(INV) 3-1CG**

The table in [IPRU\(INV\) 3-1DG](#) sets out the parts of the *Handbook* and the *EU CRR* containing provisions on *large exposure* or concentrated risk which apply to a *securities and futures firm*.

Inserted by: LI [2007/28](#)
Amended by: LI [FCA 2013/79](#)

- **IPRU(INV) 3-1DG**

Table

Applicability of the provisions to securities and futures firms

This table belongs to *IPRU(INV) 3-1C G*

(1)	(2)	(3)
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Type of securities and futures firm	Whether conditions in article 493(1) of the <i>EU CRR</i> are satisfied	Part of <i>Handbook</i> and <i>EU CRR</i> applicable for large exposure or concentrated risk requirements
<i>Energy market participant</i> (which is an <i>exempt IFPRU commodities firm</i>) with a waiver from IPRU(INV) 3	Yes	Not applicable
	No	Part Four (articles 387 to 403) of the <i>EU CRR</i> applies
<i>Energy market participant</i> (which is an <i>exempt IFPRU commodities firm</i>) to which IPRU(INV) 3 applies	Yes	IPRU(INV) 3 applies
	No	Part Four (articles 387 to 403) of the <i>EU CRR</i> applies
<i>Oil market participant</i> (which is an <i>exempt IFPRU commodities firm</i>) if it is a member of a <i>recognised investment exchange</i> or a <i>designated investment exchange</i> which is, under the rules of that exchange, entitled to trade with other members to which IPRU(INV) 3 applies	Yes	IPRU(INV) 3 applies
	No	Part Four (articles 387 to 403) of the <i>EU CRR</i> applies
Other <i>oil market participant</i> (which is an <i>exempt IFPRU commodities firm</i>) to which IPRU(INV) 3 does not apply	Yes	Not applicable
	No	Part Four (articles 387 to 403) of the <i>EU CRR</i> applies
<i>Exempt IFPRU commodities firm</i> which is not an <i>energy market participant</i> or <i>oil market participant</i>	Yes	IPRU(INV) 3 applies
	No	Part Four (articles 387 to 403) of the <i>EU CRR</i> applies
<i>Securities and futures firm</i> (which is not a <i>MiFID investment firm</i>)	Not applicable	IPRU(INV) 3 applies

Inserted by: LI [2007/28](#)
Amended by: LI [FCA 2013/79](#)

- **IPRU(INV) 3-2R**

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

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-5R**

A firm must notify the FCA immediately it becomes aware that it is in breach of, or that it expects shortly to be in breach of, rule 3-2.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-6G [deleted]**

Deleted by: LI [2008/40](#)

- **3-10 Keeping of records [deleted]**

Deleted by: LI [2008/40](#)

- **Records to be up-to-date [deleted]**

- 3-10(1) R [deleted]

Deleted by: LI [2008/40](#)

- **Adequacy of records [deleted]**

- 3-10(2) R [deleted]

Deleted by: LI [2008/40](#)

- **Content of records [deleted]**

- 3-10(3) [deleted]

Deleted by: LI [2008/40](#)

- G [deleted]

Deleted by: LI [2008/40](#)

- **3-11 Reconciliation of firm's balances [deleted]**

Deleted by: LI [2008/40](#)

- **Reconciliation [deleted]**

- 3-11(1) R [deleted]

Deleted by: LI [2008/40](#)

- **Circularisation [deleted]**

- 3-11(2) R [deleted]

Deleted by: LI [2008/40](#)

- **Response to requests [deleted]**

- 3-11(3) R [deleted]

Deleted by: LI [2008/40](#)

- **3-12 Risk management and internal control [deleted]**

Deleted by: LI [2008/40](#)

- **Exposure limits [deleted]**

3-12(1) R [deleted]

Deleted by: LI [2008/40](#)

- **Management information [deleted]**

3-12(2) R [deleted]

Deleted by: LI [2008/40](#)

- **3-13 Nature, accessibility and retention of records [deleted]**

Deleted by: LI [2008/40](#)

- **Nature of records [deleted]**

3-13(1) R [deleted]

Deleted by: LI [2008/40](#)

- **Audit trail [deleted]**

3-13(3) R [deleted]

Deleted by: LI [2008/40](#)

- **Prompt access [deleted]**

3-13(3) R [deleted]

Deleted by: LI [2008/40](#)

- **Retention of records [deleted]**

3-13(4) R [deleted]

Deleted by: LI [2008/40](#)

- **Security of records [deleted]**

3-13(5) R [deleted]

Deleted by: LI [2008/40](#)

- **Valuation of positions ***

* For notes on the valuation of positions, see **Appendix 21**

▪ **IPRU(INV) 3-41(9)R**

A *firm* must value a position on a prudent and consistent basis, as well as having regard to the liquidity of the instrument concerned and any special factors which may adversely affect the closure of the position, and must adopt the following general policies:

- a position must be valued at its close out price (close out price means that a long position shall be valued at current bid price and a short position at current offer price); where firm two way prices are not available a *firm* must value its position in accordance with the notes to this rule;*
- a. where a *firm* is entitled to use a risk assessment model in the calculation of its *PRR* on *options* positions, it may value its *options* using the values derived from the model;
- b. where a *firm* does not use a model as described in (b) above and prices are not published for its *options* positions, a *firm* must determine the *mark to market* value as follows:
 - for purchased *options* , the *mark to market* value must be the product of:
 - (aa) the *in the money* amount; and
 - (bb) the quantity underlying the *option* ;
 - i. for written *options* the *mark to market* value must be the initial premium received for the *option* plus the product of:
 - (aa) the amount by which the current *in the money* amount exceeds either the *in the money* amount at the time the contract was written, or zero if the contract was *out of the money* at the time it was written; and
 - (bb) the quantity underlying the *option* ;
- c. a *firm* must calculate the value of a *swap* contract or an *FRA* having regard to the net present value of the *future* cash flows of the contract, using current interest rates relevant to the periods in which the cash flows will arise;
- d. notwithstanding (d) above, a *firm* may refrain from marking a *swap* or an *FRA* to market where it enters into such transactions on a matched principal basis, provided that it is confident that such positions are fully matched;
- e. a *firm* that is a partnership which experiences *exceptional* administrative or technical

difficulties complying with the valuation procedure outlined above should notify the *FCA* immediately; and

- f. in the case of interest rate *swaps*, currency *swaps* and *FRAs*, a *firm* may limit the bid/offer valuation required under (a) to its net position.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-41(9)G**

The *FCA* does not lay down a precise formula for calculating the value of *swaps* and *FRAs* for the purposes of this rule. However, it will expect a *firm* to employ a valuation formula which accords with generally accepted market practice.

The *FCA* may permit by modification or waiver of this rule an alternative arrangement if it is satisfied that neither the *firm* nor its *counterparties* will be put at risk by the adoption of that alternative procedure.

Amended by: LI [FCA 2013/9](#)

- **3-60 Firms to which Rules 3-61 to 3-182 apply**

- **Broad scope firms**
 - **IPRU(INV) 3-60(1)R**

Rules 3-61 to 3-182 apply to a *broad scope firm* except that rules 3-80 to 3-178 do not apply to a *venture capital firm* or in respect of *bidding in emissions auctions* carried on by a *firm* that is exempt from *MiFID* under [article 2\(1\)\(i\)](#).

Amended by: LI [2012/35](#)

- **Arrangers**

- **IPRU(INV) 3-60(2)R**

Rules 3-61 to 3-182 apply to an *arranger*, except that:

- . Rule 3-61 and rules 3-63 to 3-182 do not apply to a *corporate finance advisory firm* or a *derivative fund manager*; and
- a. rules 3-80 to 3-178 do not apply to a *venture capital firm*.

- **Corporate finance advisory firms**

- **IPRU(INV) 3-60(3)R**

Rule 3-61 and rules 3-63 to 3-182 do not apply to a *corporate finance advisory firm* which must instead

comply with the following two capital requirements at all times:

- . *tangible net worth* must exceed £10,000; and
- a. net current assets must exceed £10,000.

- IPRU(INV) 3-60(3A)R

(a) Net current assets for the purposes of rule 3-60(3)R(b) shall be as calculated for the purposes of producing a balance sheet in accordance with the following provisions, as applicable:

- (i) Format 1 of the Balance Sheet Format of Schedule 4 to the Companies Act 1985; or
- (ii) Schedule 1 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409); or
- (iii) Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI [2008/410](#)); or
- (iv) Schedule 1 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 ([SI 2008/1912](#)); or
- (v) Schedule 1 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 ([SI 2008/1913](#)).

Amended by: LIs [2008/22](#), [2008/41](#)

- Advisers and local/traded options market makers
 - IPRU(INV) 3-60(4)R

Rules 3-61 to 3-182 do not apply to an *adviser* or *local /traded options market maker* which must instead comply with the following capital requirements at all times:

- . *tangible net worth* must be positive;
- a. in the case of an *adviser* , net current assets must be positive; and
- b. in the case of a *local /traded options market maker*, the *firm* must be able to meet its liabilities as they fall due.

Amended by: LI [2008/22](#)

- IPRU(INV) 3-60(4A)R

(a) Net current assets for the purposes of rule 3-60(4)R(b) shall be as calculated for the purposes of producing a balance sheet in accordance with the following provisions as applicable:

- (i) Format 1 of the Balance Sheet Format of [Schedule 4](#) to the Companies Act 1985; or
- (ii) Schedule 1 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI [2008/409](#)); or
- (iii) Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI [2008/410](#)); or
- (iv) Schedule 1 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI [2008/1912](#)); or
- (v) Schedule 1 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI [2008/1913](#)).

Inserted by: LI [2008/22](#)

Amended by: LI [2008/41](#)

- Derivative fund managers
 - IPRU(INV) 3-60(5)R

Rule 3-61 and rules 3-63 to 3-182 do not apply to a *derivative fund manager* which must instead comply with the following two capital requirements at all times:

- *tangible net worth* must exceed £10,000; and
- a. net current assets, excluding investment in any pooled fund or *unregulated collective investment scheme* which it managed, must exceed £10,000.

Amended by: LI [2008/22](#)

- IPRU(INV) 3-60(5A)R

(a) Net current assets for the purposes of rule 3-60(5)R(b) shall be as calculated for the purposes of producing a balance sheet in accordance with the following provisions as applicable:

- (i) Format 1 of the Balance Sheet Format of [Schedule 4](#) to the Companies Act 1985;
- (ii) Schedule 1 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI [2008/409](#)); or
- (iii) Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI [2008/410](#)); or
- (iv) Schedule 1 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI [2008/1912](#)); or
- (v) Schedule 1 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI [2008/1913](#)).

Inserted by: LI [2008/22](#)
Amended by: LI [2008/41](#)

- **Dematerialised instruction transmitters**
 - IPRU(INV) 3-60(6)R

Rules 3-61 to 3-182 apply to a *dematerialised instruction transmitter* .

- **Firms that establish, operate or wind-up personal pension schemes**
 - IPRU(INV) 3-60(7)R

Current version: effective from Apr 1 2013 - Aug 31 2016.

Rules 3-61 to 3-182 apply to a *firm whose permission includes establishing, operating or winding-up a personal pension scheme* .

Inserted by: LI [2006/28](#)

- **Exempt CAD firms**
 - IPRU(INV) 3-60(8)R

Rules [3-61](#) to [3-182](#) do not apply to an *exempt CAD firm* , unless it carries on any *regulated activity* other than *MiFID business* .

Inserted by: LI [2007/02](#)

- **Exempt BIPRU commodities firms**
 - IPRU(INV) 3-60(9)G

An *exempt BIPRU commodities firm* should determine whether it is a *broad scope firm* or one of the other categories in this *rule* .

Inserted by: LI [2007/28](#)

- **Exempt IFPRU commodities firm**

Inserted by: LI [FCA 2013/79](#)

- **IPRU(INV) 3-60(10)G**

An *exempt IFPRU commodities firm* should determine whether it is a *broad scope firm* or one of the other categories in this *rule* .

Inserted by: LI [FCA 2013/79](#)

- **3-61 The Basic Computation**

- **IPRU(INV) 3-61(1)R**

A *firm* must, at all times, maintain *financial resources* in excess of its *financial resources requirement* .

- **IPRU(INV) 3-61(2)R**

A *firm* must calculate its *financial resources* and its *financial resources requirement* in accordance with the table below and rules 3-62 to 3-182.

R Table 3-61. The basic financial resources calculation

Financial resources	Financial resources requirement
Capital ("A")	Primary requirement ("E")
the sum of -	the sum of -
<ul style="list-style-type: none"> ▪ capital ordinary share ▪ capital preference share ▪ account share premium ▪ account profit and loss ▪ reserves, other approved ▪ partners' current 	<ul style="list-style-type: none"> ▪ requirement base ▪ adjustment total liquidity ▪ charged assets ▪ <i>liabilities</i> contingent ▪ in <i>subsidiaries</i> deficiencies

<ul style="list-style-type: none"> ▪ and capital accounts, and ▪ <i>eligible LLP</i> ▪ <i>members' capital</i> <p>Intangible assets ("B")</p> <p>A - B = <i>tangible net worth</i> ("C")</p>	
<p>Eligible capital substitutes ("D")</p> <p>the sum of-</p> <ul style="list-style-type: none"> ▪ <i>subordinated</i> ▪ <i>loans</i> ▪ <i>approved bank</i> ▪ <i>bonds</i> ▪ <i>approved</i> ▪ <i>undertakings</i> 	<p>Total PRR ("F")</p> <p>Total CRR("G")</p>
C + D = <i>financial resources</i>	E + F + G = <i>financial resources requirement</i>

Amended by LI: [2006/55](#)

- **3-62 Tangible net worth**

- **Calculation**

- **IPRU(INV) 3-62(1)R**

A firm may include calculate its *tangible net worth* in accordance with table 3-61, subject to (2),(3) and (4) below.

- **Redeemable shares**

- **IPRU(INV) 3-62(2)R**

A firm may include redeemable *share* capital as part of *tangible net worth* only if:

- the *firm's* memorandum and articles of association or a shareholders' agreement contain provisions that:

- i. redemption may not occur if the *firm's financial resources* after redemption would be less than or equal to 120% of its *financial resources requirement* ; and

- ii. dividends may not be paid if the *firm's financial resources* after payment would be less than or equal to

120% of its *financial resource requirement* ; and

iii. in the case of a shareholder's agreement, any assignee of the shares is subject to the provisions of the agreement; and

a. the *firm* , before issuing any preference shares, notifies the *FCA* of its intention to do so.

Amended by: LI [FCA 2013/9](#)

- **Notice of redemption**
 - **IPRU(INV) 3-62(3)R**

A *firm* must provide the *FCA* with six months' written notice of redemption of any of its redeemable shares.

Amended by: LI [FCA 2013/9](#)

- **Approved reserves**
 - **IPRU(INV) 3-62(4)R**

A *firm* may not include reserves other than retained profits as part of *tangible net worth* .

- **IPRU(INV) 3-62(4)G**

A *firm* wishes to include other reserves will need to apply for a modification or waiver of this rule.

- **Profit and loss account/partners' current and capital accounts**
 - **IPRU(INV) 3-62(5)R**

For the calculation of *tangible net worth* , 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;
- a. in respect of a *defined benefit occupational pension scheme* , derecognise any *defined benefit asset* .

Inserted by: LI [2005/21](#)

- **IPRU(INV) 3-62(6)R**

A *firm* may, for the purposes of calculating *tangible net worth*, 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.

Inserted by: LI [2005/21](#)

- IPRU(INV) 3-62(7)G

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*.

Inserted by: LI [2005/21](#)

Amended by: LI [FCA 2013/9](#)

- IPRU(INV) 3-62(8)R

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 excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Inserted by: LI [2006/16](#)

- 3-63 Eligible capital substitutes

- Calculation

- IPRU(INV) 3-63(1)R

A *firm* must calculate its *eligible capital substitutes* in accordance with table 3-61, subject to (2) to (9) below.

- Approved eligible capital substitutes

- IPRU(INV) 3-63(2)R

A *firm* may treat a subordinated loan, *approved bank bond* or approved undertaking as an *eligible capital substitute* only if it is:

- . drawn up in accordance with the relevant standard form obtained from the *FCA*; and
- a. signed by authorised signatories of all the parties.

Amended by: LI [FCA 2013/9](#)

- IPRU(INV) 3-63(2)G

If a *firm* wishes to use a form which differs from the standard form it will need to seek a modification to, or modification or waiver of, this rule.

A *firm* may, under the provisions of IPRU(INV) 1.2.5R continue to treat a subordinated loan, bank bond or approved undertaking as an eligible capital substitute if it was entitled to do so immediately prior to the *specified day*, and the other conditions set out in IPRU(INV) 1.2.5R are met.

- **Approved lenders**
 - **IPRU(INV) 3-63(3)R**

A *firm* may treat a subordinated loan as an *eligible capital substitute* only if the lender is:

- . **the *firm's controller*;**
- a. **a *regulated banking institution* ;**
- b. **an *approved person* ; or**
- c. **a *regulated financial institution* .**

- **IPRU(INV) 3-63(3)G**

If the *firm* wishes to include as an *eligible capital substitute* a subordinated loan from a lender not within the above list, it will need to apply for a modification or modification or waiver of 3-63.

- **Notice of repayment and termination**
 - **IPRU(INV) 3-63(4)R**

A *firm* must provide the *FCA* with five *business days* written notice of any repayment, prepayment or termination of a subordinated loan, *approved bank bond* or approved undertaking, except when the *firm's financial resources* after payment of interest or principal etc would be less than or equal to 120% of its *financial resources requirement* , in which case the *firm* must not repay, prepay or terminate any subordinated loan, *approved bank bond* or approved undertaking otherwise than in accordance with the terms of the relevant agreement.

Amended by: LI [FCA 2013/9](#)

- **Amounts repayable within three months**
 - **IPRU(INV) 3-63(5)R**

A *firm* may not treat any amount of a subordinated loan which is repayable within three months as an *eligible capital substitute* .

- **Limit on eligible capital substitutes**
 - **IPRU(INV) 3-63(6)R**

The total amount of *eligible capital substitutes* which a *firm* may take into account in its *financial resources* must not exceed four times *tangible net worth* .

- **Limit on approved bank bonds**
 - **IPRU(INV) 3-63(7)R**

The total of *approved bank bonds* which a *firm* may treat as an *eligible capital substitute* must not exceed:

- . 30% of the base requirement; and
- a. *CRR* on *exchange-traded-margined-transactions* plus concentrated risk to one *counterparty* arising from *exchange-traded-margined-transactions* calculated under rules 3-173A and 3-175.

- **Limit on approved undertakings**
 - **IPRU(INV) 3-63(8)R**

A *firm* may only treat approved undertakings as an *eligible capital substitute* to the extent that its *approved bank bonds* are less than 30% of its base requirement.

- **Approved undertakings**
 - **IPRU(INV) 3-63(9)R**

A *firm* may treat an undertaking as an *eligible capital substitute* only if the provider of the undertaking is:

- . a *regulated banking institution* ; or
- a. a *regulated financial institution* ;

- **IPRU(INV) 3-63(9)G**

A *firm* that wishes to include an undertaking where the provider is neither of the above, it will need to seek a modification or waiver from the *FCA* .

Amended by: LI [FCA 2013/9](#)

- **3-70 Primary requirement**
 - **Definition of primary requirement — General rule**
 - **IPRU(INV) 3-70R**

A *firm's primary requirement* is the sum of:

- . the base requirement calculated in accordance with rule 3-71;
- a. the total liquidity adjustment calculated in accordance with rule 3-75;
- b. charged assets calculated in accordance with rule 3-76;
- c. *contingent liabilities* calculated in accordance with rule 3-77; and
- d. deficiencies in *subsidiaries* calculated in accordance with rule 3-78;

- **Base requirement — General rule**
 - **IPRU(INV) 3-71R**

A *firm's base requirement* is the highest of:

- . the absolute minimum requirement, calculated in accordance with rule 3-72;
- a. the expenditure requirement, calculated in accordance with rule 3-73; or
- b. the volume of business requirement, calculated in accordance with rule 3-74.

- **Absolute minimum requirement — General rule**
 - **IPRU(INV) 3-72R**

A *firm's absolute minimum requirement* is:

- (a) for an *arranger* : £10,000;
- (b) for a *financial bookmaker* : £50,000;
- (c) for an *agency broker* : £50,000;
- (d) for a *firm* which handles *client money* and assets relating to *margined transactions* and segregates all *money* received from clients as *client money* : £50,000;
- (e) for a non *clearing floor member* : £50,000;
- (ea) for a *dematerialised instruction transmitter* : £50,000;

(eb) for a *firm* that is exempt from *MiFID* under [article 2\(1\)\(i\)](#) and whose *permitted activities* include *bidding in emissions auctions* : £50,000;

(f) for a *broad scope firm* other than one within (b) to (eb) above: £100,000.

Amended by: LIs [2012/31](#), [2012/35](#)

- 3-73 Expenditure requirement
 - General rule
 - IPRU(INV) 3-73(1)R

A *firm* 's expenditure requirement is:

- . for an *investment manager* ; an *introducing broker* who is not responsible for its *counterparties* ' performance; a *venture capital firm* which is an *arranger* ; a *model A clearing firm* ; a *dematerialised instruction transmitter* ; or a *firm* that does not hold *client money* or assets but whose *permission* includes *establishing, operating or winding-up a personal pension scheme* : 6/52nds of *relevant annual expenditure* ; or
- a. for any other *firm* : 1/4 of *relevant annual expenditure* .

Amended by: LI [2006/28](#)

- Calculation of relevant annual expenditure
 - IPRU(INV) 3-73(2)R

Subject to (3), (4) and (5) below, a *firm* must calculate its *relevant annual expenditure* with reference to the *firm*'s most recent *annual financial statements* , as follows:

- . its total revenue; and
 - a. any loss before taxation;
- less the aggregate of the following items:
- b. profit before taxation;
 - c. *bonuses*;
 - d. *profit shares* and other appropriations of profit, except for fixed or guaranteed remuneration of a partner which is payable even if the *firm* makes a loss for the year;

- e. paid *commissions shared* , other than to *employees , directors , half commission men or appointed representatives of the firm* ;
- f. fees, brokerage and other charges paid to *clearing houses, exchanges, approved exchanges* and *intermediate brokers* for the purposes of executing, registering or clearing transactions;
- g. interest payable to *counterparties* ;
- h. interest payable on borrowings to finance the *firm's investment business and associated business* ; and
- i. *exceptional or extraordinary items* , provided that it first notify the *FCA* in writing of the nature and amount of the item(s) concerned.

Amended by LI: [2006/23](#), [FCA 2013/9](#)

- **Absence of annual financial statements**
 - **IPRU(INV) 3-73(3)R**

If a *firm* does not have *annual financial statements* , it must:

- . where it has just commenced trading, base its *relevant annual expenditure* on budgeted or other accounts which it submitted to the *FCA* as part of its application; or
- a. where its accounts do not represent a 12 month period, calculate *relevant annual expenditure* on a proportionate basis agreed by the *FCA* .

Amended by: LI [2006/23](#), [FCA 2013/9](#)

- **Adjustments to relevant annual expenditure**
 - **IPRU(INV) 3-73(4)R**

A *firm* must use a *relevant annual expenditure* adjusted to take account of its circumstances where:

- . there has been a significant change in the circumstances or activities of the *firm* ; or
- a. the *firm* has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to the *firm* .

Amended by: LI [2007/27](#)

- **IPRU(INV) 3-73(4)G**

FCA would for example consider an application to vary a *firm's* permitted activity as a significant change.

FCA would consider 10% of a *firm's* expenditure incurred on its behalf by third parties to be material.

If a *firm* is in any doubt, it should always seek guidance from the *FCA*.

Amended by: LI [2007/27](#), [FCA 2013/9](#)

- **Recent authorisation**

- **IPRU(INV) 3-73(5)R**

If a *firm* has not been authorised long enough to have prepared *annual financial statements* after authorisation, it must base its *relevant annual expenditure* on budgeted or other accounts which it submitted to the *FCA* as part of its application.

Inserted by: LI [2006/23](#)

Amended by: LI [FCA 2013/9](#)

- **Application**

- **IPRU(INV) 3-74(1)R**

The volume of business requirement applies only to a *firm* which settles *marginised transactions* for *counterparties*.

- **Margined transactions**

- **IPRU(INV) 3-74(2)R**

A *firm's* volume of business requirement is 3.5% of the aggregate gross amounts of any initial margin (as calculated in (3) below) of the *firm's counterparties* at the relevant time.

- **Initial margin**

- **IPRU(INV) 3-74(3)R**

A *counterparty's* initial margin for the purposes of (2) above is the sum of the following amounts:

- in respect of *exchange traded* transactions, the *counterparty's initial margin requirement*; and
- a. in respect of *OTC* transactions, the amount of margin that the *counterparty* is required by the *firm* to deposit.

- **3-75 Liquidity adjustment**
 - **General rule**
 - **IPRU(INV) 3-75(1)R**

A *firm's* total liquidity adjustment is the sum of amounts specified as liquidity adjustments below.

- **Intangible assets**
 - **IPRU(INV) 3-75(2)R**

The liquidity adjustment for intangible assets is nil (these must be deducted from capital to arrive at *tangible net worth* under 3-62). Intangible assets do not include a deferred acquisition cost asset.

Amended by: LI [2006/16](#)

- **Tangible fixed assets**
 - **IPRU(INV) 3-75(3)R**

The liquidity adjustment for tangible fixed assets is the total net book value of such assets, with the exception of land and buildings used as *security for non recourse loans* or other loans which a *firm* must treat under (4) and (5) below.

- **Land and buildings used as security for non recourse loans**
 - **IPRU(INV) 3-75(4)R**

The liquidity adjustment for land or buildings used as security for a *non recourse loan* is the difference between the net book value of the land or building and the loan principal outstanding, except where the loan principal outstanding is higher than the net book value in which case there is no liquidity adjustment.

- **Land and buildings used as security for other loans**
 - **IPRU(INV) 3-75(5)R**

The liquidity adjustment for land or buildings used as security for loans other than *non recourse loans* is the difference between the net book value of the land or building and the lower of:

- 85% of a professional valuation of the land and buildings (which must have been carried out in the last two years); or

- a. the principal outstanding,

except where both (a) and (b) are higher than the net book value in which case there is no liquidity adjustment.

- **Physical stocks**
 - **IPRU(INV) 3-75(6)R**

The liquidity adjustment for physical stocks is the balance sheet value of such stocks, except for stock positions associated with the *firm's investment business* which are:

- *physical commodities* for which the full contract price has been paid;
- a. work in progress and finished goods which result from the processing of *physical commodities*; or
- b. raw materials which will be combined with *physical commodities* to produce a finished processed commodity,

in which case there is no liquidity adjustment (but see *PRR* rules).

- **Investments in connected companies**
 - **IPRU(INV) 3-75(7)R**

The liquidity adjustment for an *investment* in a *connected company* is the balance sheet value of the *investment*, except where the *investment* is a *marketable investment* which is not in a *subsidiary*, in which case there is no liquidity adjustment but such *investment* must be subject to the *PRR* rules.

- **Other investments**
 - **IPRU(INV) 3-75(8)R**

Other *investments* have no liquidity adjustment but instead are subject to the *PRR* rules.

- **Prepayments**
 - **IPRU(INV) 3-75(9)R**

The liquidity adjustment for a prepayment is the balance sheet value of that prepayment, except that there is no liquidity adjustment to the extent

that it relates to goods and services to be received or performed in the next three months (or six weeks in the case of an *investment manager* ; an *introducing broker* who is not responsible for its *counterparties'* performance; a *venture capital firm* which is an *arranger* ; or a *model A clearing firm*).

- Debtors arising from investment business or dealing activities
 - IPRU(INV) 3-75(10)R

Debtors arising from *investment business* or *dealing activities* have no liquidity adjustment but instead are subject to the *CRR* rules.

- Other debtors
 - IPRU(INV) 3-75(11)R

3-75(11) R

The liquidity adjustment for debtors other than debtors arising from *investment business* or *dealing activities* is the balance sheet value of the debtor, except that there is no liquidity adjustment in the following circumstances:

- . amounts due from *connected companies* which are *adequately secured* and are repayable within 90 days;
- a. unsecured amounts due at the request of the *firm* from a *connected company* which is a *regulated banking institution* within 90 days;
- b. unsecured amounts due at the request of the *firm* from a *connected company* which is a *regulated financial institution* within seven days;
- c. having given prior written notice to the *FCA* , unsecured amounts receivable at the request of the *firm* from a *connected company* within seven days under an *approved treasury arrangement* , up to a maximum of the *firm's* excess of *financial resources* over its *financial resources requirement* before taking into account the *approved treasury arrangement* ;
- d. amounts receivable in respect of cash dividends declared by either *exchange traded* companies or *authorised*

persons which have been outstanding for 30 days or less from the date the dividends were due to be paid;

- e. amounts accrued or receivable in respect of interest on *marketable investments* which have been outstanding for 30 days or less from the date the interest was due to be paid;
- f. amounts receivable on U.K. value added tax which have been outstanding for 30 days or less from the date that the value added tax return was due to be received by HM Customs & Excise; and
- g. amounts receivable on taxation other than U.K. value added tax which have been agreed with the appropriate tax authorities and have been outstanding for 30 days or less from the date that the amounts were due to be received.

Amended by: LI [FCA 2013/9](#)

- **Cash deposits**
 - IPRU(INV) 3-75(12)R

The liquidity adjustment for a cash deposit is the balance sheet value of the deposit, except for *qualifying deposits* and those other deposits which are subject to rule 3-180.

- **Other assets**
 - IPRU(INV) 3-75(13)R

The liquidity adjustment for assets other than those specifically stated above is the balance sheet value of the asset concerned. Other assets do not include a *defined benefit asset* or a deferred acquisition cost asset.

Amended by: LI [2006/16](#)

- **Charged assets - General rule**
 - IPRU(INV) 3-76R

A *firm* must calculate the *primary requirement* for charged assets as the aggregate balance sheet value of each asset of the *firm* over which a third party has the right of *saleor* retention on default by the *firm* except:

- . to the extent of any liability of the *firm* plus a reasonable margin in respect of the charged asset; or
- a. where the asset is collateral for a transaction which is subject to the *CRR* rules.

- **Contingent liabilities — General rule**
 - **IPRU(INV) 3-77R**

A *firm* must calculate a *primary requirement* for each of its *contingent liabilities*.

- **Deficiencies in subsidiaries — General rule**
 - **IPRU(INV) 3-78R**

A *firm* must calculate the *primary requirement* for deficiencies in *subsidiaries* as an amount equal to any deficiency in shareholders' funds at any time of a *subsidiary* of the *firm* except to the extent that:

- . provision has already been made by the *firm* ; or
- a. the *firm* has already calculated a liquidity adjustment or *CRR* because the deficiency arises or partially arises out of a liability of the *subsidiary* to the *firm* .

- **3-79 Secondary requirement**

Amended by LI: ([2001/57](#))

- **Risk Profile**
 - **IPRU(INV) 3-79(1)R**

A *firm* must include in its secondary requirement any amount specified in any *requirement* to cover an unusual risk profile.

Inserted by: LI [2001/57](#)

- **Operational risks**
 - **IPRU(INV) 3-79(2)R**

A *firm* must include in its secondary requirement any amount specified in any *requirement* to cover the inadequate management of operational risk to which a *firm* is exposed.

Inserted by: LI [2001/57](#)
Amended by: LI [2007/27](#)

- **IPRU(INV) 3-79(2)G**

In assessing whether to impose a *requirement* on a *firm* to cover an unusual risk profile or operational risks, the *FCA* will consider various criteria. In addition, the *FCA* will take into account material group risks to a *firm*, where these have not been captured in a group financial resources test. Secondary requirements may be applied, for example, where there has been a major failure on the part of a *firm* to maintain adequate controls, as a means of providing an additional capital buffer whilst these problems are addressed.

Inserted by: LI [2001/57](#)
Amended by: LI [2007/27](#), [FCA 2013/9](#)

- **Position risk requirement**
 - **3-80 General Principles of PRR**
 - **Application**
 - **IPRU(INV) 3-80(1)R**

Rules 3-80 to 3-169B apply to any arranger or broad scope firm, except a venture capital firm or a corporate finance advisory firm.

- **Obligation to calculate PRR ***

* For guidance notes as to which methods to apply, see **Appendix 20**

- **IPRU(INV) 3-80(2)R**

A firm must calculate a minimum PRR in respect of any position according to one of the methods available to it under the rules below, as appropriate, but may calculate a higher PRR in any other way at its option.

- **IPRU(INV) 3-80(2)G**

Notwithstanding the methods available for calculating the *PRR*, a *firm* may, in respect of any individual position, calculate a *PRR* which is more conservative than that calculated under the appropriate rule. However, in that case, the *firm* will need to be able to demonstrate that, in all circumstances, the calculation being employed does give rise to a higher *PRR* for the position.

- **Frequency of calculation**

- **IPRU(INV) 3-80(3)R**

A firm must be able to monitor its total PRR on an intra-day basis and must re-calculate it in a full and detailed manner before executing any trade which is likely to increase it to such a level that the firm's financial resources requirement might exceed the firm's financial resources .

- **Marking to market**

- **IPRU(INV) 3-80(4)R**

A firm must mark to market its positions, whether or not on the balance sheet, in accordance with the valuation rule 3-41(9) at least once every business day and more frequently as appropriate.

- **Marketable investments**

- **IPRU(INV) 3-80(4A)R**

A firm must calculate the PRR for any position which is a marketable investment as 8% of the mark to market value of the position, other than in respect of a derivative (whatever the nature of the underlying instrument) or off balance sheet contract, when the PRR is 8% of the value of the notional position underlying the contract.

- **Non marketable investments**

- **IPRU(INV) 3-80(5)R**

A firm must calculate the PRR for any position which is not a marketable investment as 100% of the mark to market value of the position, other than in respect of a derivative (whatever the nature of the underlying instrument) or off balance sheet contract, when the PRR is 100% of the value of the notional position underlying the contract.

- **Instruments for which no percentage risk addition has been specified**

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-80(6)R**

A firm must calculate the PRR for any on or off balance sheet position in a marketable investment for which no percentage risk addition is specified under the PRR rules as an appropriate percentage of the current mark to market value of any position or notional position underlying the contract and must notify

the *FCA* of the terms of the instrument and the proposed *PRR* treatment.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-80(6A)E**
 0. In 3-80(6) "an appropriate percentage" is:
 - a. 100%; or
 - b. A percentage which takes account of the characteristics of the instrument concerned and of discussions with the *FCA* or a predecessor regulator;
 1. Compliance with (1) may be relied on as tending to establish compliance with 3-80(6).
 2. Contravention of (1) may be relied on as tending to establish contravention of 3-80(6).

Amended by: LI [FCA 2013/9](#)

- **Group hedging arrangements**
 - **IPRU(INV) 3-80(7)R**

A firm may amend its *PRR* to take account of a group hedging arrangement to which the *firm* is party, provided the group hedging arrangement is recorded by an agreement in writing between all the relevant parties and the *firm* first notifies the *FCA* in writing of the terms of the arrangement and of the proposed amendment to the *PRR*.

Amended by: LI [FCA 2013/9](#)

- **Alternative treatments**
 - **IPRU(INV) 3-80(8)R**

Where a *firm* has the alternative of treating a position under two or more different methods or treatments within methods, it must treat the position under one of those methods.

- **Simpler approach to *PRR* calculation**
 - **IPRU(INV) 3-80(9)R**

As a simpler approach to calculating *PRR*, a *firm* may calculate the *total PRR* by multiplying all positions in *marketable investments* by the

relevant percentage stated in the table below and summing the results.

TABLE 3-80(9)
Position risk requirement - simpler approach

C: Stock positions in *physical commodities*

Stock positions in <i>physical commodities</i> associated with a <i>firm's investment business</i>	30% of realisable value
--	-------------------------

D: Certain *derivatives* and foreign exchange

<i>Exchange traded futures</i> and written <i>options</i>	4 x <i>initial margin requirement</i>
<i>OTC futures</i> and written <i>options</i>	Apply the percentage shown in C above to the <i>mark to market</i> value of the underlying position
Purchased <i>options</i>	Apply the percentage shown in C above to the <i>mark to market</i> value of the underlying position but the result may be limited to the <i>mark to market</i> value of the <i>option</i>
<i>Contracts for differences</i>	20% of the <i>mark to market</i> value of the contract
Foreign exchange exposure	10% of the net open long position

F: Other investments

Single premium unit linked bonds and units in a <i>regulated collective investment scheme</i>	50% of realisable value
Any other <i>investments</i>	100% of <i>mark to market</i> value of <i>investment</i> or underlying instrument

Notes	
	Percentage
1	A percentage means, unless otherwise indicated, a percentage of the <i>mark to market</i> value of the aggregate of the long and the short positions in the particular category.
	Netting
2	The long or (short position) in a particular instrument is the net of any long or short positions held in that same instrument (i.e. a long position in ICI shares can be offset on a <i>share for share</i> basis against a short position in ICI shares) but positions in similar instruments (e.g. ICI shares against BP shares) cannot be offset in this way.
	Stock positions in physical commodities
3	A stock position in <i>physical commodities</i> is the <i>mark to market</i> value of the sum of -
	(i) commodities where the full contract price has been paid;
	(ii) work in progress and finished goods which result from the processing of commodities; and

	(iii)	raw materials which will be combined with commodities to produce a finished processed commodity.
4		A stock position in <i>physical commodities</i> is regarded as being associated with a <i>firm's investment business</i> if the contract associated with the <i>physical commodity</i> was made for <i>investment</i> rather than commercial purposes. Indications of this are -
	(i)	the contract is <i>exchange traded</i> or
	(ii)	the performance of the contract is guaranteed by an <i>exchange</i> an <i>approved exchange</i> or a <i>clearing house</i> .

- **Models approach to PRR calculation**
 - **IPRU(INV) 3-80(10)G**

A *firm* that wishes to use its internal model to calculate *PRR* in respect of all, or some, of its positions will need to apply for a modification or waiver of the relevant *FCA* rules.

Further guidance on the criteria which such models must meet, and the review process, can be obtained from the *FCA* .

Amended by: LI [FCA 2013/9](#)

- **Foreign Currency Exposures and Foreign Currency Derivatives Methods**
 - **IPRU(INV) 3-150R Summary of foreign currency exposures and derivatives methods**

A *firm* must calculate an additional *PRR* under the *foreign currency exposures* or *foreign currency derivatives method* where it has any asset or liability or any off-balance sheet contract which is denominated in a currency other than the currency of its books of account. For these purposes, gold must be treated as another currency.

- **3-151 Types of exposures to be treated as foreign currency exposures**
 - **General rule**
 - **IPRU(INV) 3-151(1)R**

A *firm* must apply the *foreign currency exposures* or *foreign currency derivatives method* to the following positions, identifying each currency separately including the currency of its books of account:

- any currency *future* at the nominal value of the contract;
- a. any currency *option* ;

- b. any forward contract for the purchase or *sale* at the contract value, including any future exchange of principal associated with cross-currency *swap*s, but excluding any purchase or *sale* of known but unaccrued future income or expense;
- c. any other balance sheet asset or liability; and
- d. any other off balance sheet commitment to purchase or sell an asset denominated in that currency.

- **Dual currency bonds**
 - **IPRU(INV) 3-151(2)R**

In respect of a *dual currency bond*, a *firm* must include within the *foreign currency exposures method* a notional *forward contract*:

- . for the purchase of the redemption currency derived from the *dual currency bond*, for an amount determined by reference to the terms of issue of the *dual currency bond*; or
- a. for the *sale* of the issue currency, for an amount equal to the *mark to market* value of the *dual currency bond*, with a deemed settlement date equal to the maturity of the bond.

- **Determining the currency of investments**
 - **IPRU(INV) 3-151(3)R**

For the purposes of determining the currency in which a position in an *investment* is denominated, a *firm* must apply the following principles:

- . where the price of an instrument is quoted in only one currency, a position in that instrument must be treated as an asset or liability in that currency;

- a. where the price of an instrument is quoted in more than one currency, a position in that instrument must be treated as an asset or liability in the currency in which the *firm* accounts for the instrument; and
- b. notwithstanding (a) and (b) above, a position in an American depository receipt or similar form of instrument must be treated as a position, translated at current spot rate, in the currency of the underlying instrument.

- **3-152 Application of foreign currency exposures and derivatives methods to foreign currency derivatives**
 - **Risk assessment models**
 - **IPRU(INV) 3-152(1)G**

A *firm* may seek a modification or waiver from the *FCA* to use a risk assessment model in respect of its currency *options* to calculate notional positions which may be included in the *foreign currency exposures method* , provided the model forms part of the day to day management supervision of the *firm's options* business and meets other criteria (further guidance on the criteria for the approval of such models can be obtained from the *FCA*).

Amended by: LI [FCA 2013/9](#)

- **Obligatory use of foreign currency derivatives method**
 - **IPRU(INV) 3-152(2)R**

A *firm* must apply the *foreign currency derivatives* to any currency *option* which is less than 5% " *in the money* " .

- **Optional use of foreign currency derivatives method**
 - **IPRU(INV) 3-152(3)R**

Subject to (2) above, a *firm* may apply the *foreign currency derivatives method* to any *exchange traded* currency *option* or *future* instead of applying the *foreign currency exposures method* .

- **Obligatory use of foreign currency exposures method**

- IPRU(INV) 3-152(4)R

A firm must apply the foreign currency exposures method to any OTC currency future .

- **Calculation of "in the money"**

- IPRU(INV) 3-152(5)R

For the purposes of this rule, a firm must determine the extent to which the option contract is "in the money" by reference to the difference between the exercise price and the current forward rate for the final date on which the option may be exercised as a percentage of that forward rate.

- **3-153 Foreign currency derivatives method**

- **Exchange traded futures and options**

- IPRU(INV) 3-153(1)R

A firm must calculate the PRR of an exchange traded foreign currency future or option as 100% of the initial margin requirement of the exchange or approved exchange or, where the initial margin requirement is zero, under (2) below.

- Where the exchange or approved exchange calculates the margin requirement on an overall basis, the PRR must equal that margin requirement.*
- Where the exchange offsets futures and options in the margin calculations, the firm may take into account such offsetting.*

- **OTC foreign currency options**

- IPRU(INV) 3-153(2)R

A firm must calculate the PRR of an OTC foreign currency option as 5% of the nominal value of the contract, adjusted as follows:

- . long position: the *PRR* may be restricted to the *mark to market* value of the *option* ; and
- a. short position: the *PRR* may be reduced (but to no less than zero) by any excess of the exercise value over the *mark to market* value for a *call option* or vice versa for a *put option* .

- **3-154 Foreign currency exposure method**

- **Application**

- **IPRU(INV) 3-154(1)R**

A firm must apply the foreign currency exposure method to any foreign currency exposure for which the firm has not calculated a PRR under the foreign currency derivatives method .

- **Calculation of PRR**

- **IPRU(INV) 3-154(2)R**

A firm must calculate a PRR for its foreign currency exposures as 5% of the aggregate of its net open long positions in each currency, including the currency of the firm's books of account when this is a long open position.

- **Calculation of net open position**

- **IPRU(INV) 3-154(3)R**

- . *A firm must calculate a net open position for all currencies including the currency of the firm's books of account by netting all foreign currency exposures to which the method applies.*

- a. *The net open position for the currency of the firm's books of account may be calculated as the difference between the aggregate net open long positions and aggregate net open short positions of all other currencies.*

- **Commodities Method**

- **3-166 Types of positions to be included in the commodities method**

- **General rule**

- **IPRU(INV) 3-166(1)R**

A *firm* must calculate *PRR* on all positions in commodities in accordance with one of the four approaches set out in rules 3-167 to 3-169A. All spot, physical trading, *derivative* and other off balance sheet items whose price is affected by changes in commodities prices must be included in the calculation.

- **IPRU(INV) 3-166(1)G**

In general, a commodity is a physical product which is or can be traded on the secondary market. Commodities include precious metals (except gold, which is to be treated as a foreign currency), agricultural products, minerals and base metals, oil and other energy products.

- **IPRU(INV) 3-166(2)R**

A *firm* must calculate the *PRR* for each commodity separately, except that:

- different sub-categories of the same commodity that are deliverable against each other may be treated together; and
- a. commodities which are close substitutes for each other, and whose price movements over a minimum period of one year can be shown by the *firm* to exhibit a stable and reliable correlation of at least 0.9, may be treated together.

- **IPRU(INV) 3-166(2)G**

The onus is on the *firm* to show that the correlation referred to in (b) above exists on a continuing basis.

- **IPRU(INV) 3-166(3)R**

- Positions which are purely *stock financing* may be omitted from the calculation of *PRR* on commodities positions under rule 3-166 and a *firm* may net notional long and short government *securities* arising from *swaps*, *FRAs*, *futures* and *options* on interest rates and debt *securities*, cash borrowings, *qualifying deposits*, the cash legs of "repurchase or

similar agreements", forward foreign exchange and foreign currency futures against each other, provided:

- i. they are in the same currency;
- ii. the interest rates are within 15 basis points;

iii.

(aa) if the maturity dates are less than one month, the dates are the same;

(bb) if the maturity dates are between one month and one year, the dates are within seven days of each other; or

(cc) if the maturity dates are over one year, the dates are within 30 days of each other;

iv. for a cash borrowing, the next interest rate refix date is within two years and repayment is within two years; and

v. for a *qualifying deposit*, the next interest rate refix date is within three months.

- a. In respect of a cash borrowing or *qualifying deposit*, the maturity date is the earlier of the *repayment date* and the next interest rate refix date.
- b. "Repurchase or similar agreement" means a *repurchase, reverse repurchase, securities or physical commodities lending, securities or physical commodities borrowing, sale and buy back, buy and sale back, undocumented sale and buy back, or undocumented buy and sale back agreement*.

- IPRU(INV) 3-166(3)G [deleted]

Deleted by: LI [FCA 2013/79](#)

- 3-167 Simplified approach
 - IPRU(INV) 3-167(1)R

All positions in commodities or commodity *derivatives* must be expressed in terms of the standard unit of measurement for that commodity (such as tonnes, barrels or kilos).

- IPRU(INV) 3-167(2)R

A *firm* must multiply the position in each commodity by the current spot price for the commodity converted to the *firm's* reporting currency at current spot rates, and calculate the *PRR* as the sum of:

- the overall net position multiplied by 15%; and
- a. the gross position multiplied by 3%.

- IPRU(INV) 3-167(3)R

A *firm* must sum the results for each commodity to arrive at the total *PRR* for positions treated under the simplified approach.

- 3-168 Maturity ladder approach
 - IPRU(INV) 3-168(1)R

All positions in each commodity or commodity *derivatives* must be expressed in terms of the standard unit of measurement for that commodity (such as tonnes, barrels or kilos) or in terms of value. A *firm* must allocate net positions on any given day to the appropriate maturity band in the table below. Physical stock must be assigned to the first band.

Table 3-168

Maturity Bands for Maturity Ladder Approach	
0-1 month	1-2 years
1-3 months	2-3 years

3-6 months	over 3 years
6-12 months	

- **IPRU(INV) 3-168(2)R**

A firm may then offset long and short positions within and between maturity bands in accordance with the following:

- For markets which have daily delivery dates, a *firm* may offset contracts in the same commodity against each other provided that the expiry dates are within 10 *business days* of each other.
- a. For each maturity band, the *firm* must sum all the open long positions, and sum all the open short positions. The *firm* may then subtract the shorts from the longs to form the overall net position. The amount subtracted is the "matched amount". The *firm* must multiply twice the matched amount by the spread rate of 1.5%, and then by the spot price for the commodity to arrive at the spread risk charge.
 - G If the total of all longs in a maturity band is 100, and the total of all shorts is 75, the "matched amount" is 75 and the overall net position 25. Algebraically, if the total of all longs is A, and the total of all shorts is -B, the "matched amount" is $\min\{A,B\}$, and the overall net position is $A-B$.
- b. The *firm* may then carry backwards or forwards all or part of the overall net position within a band to an adjacent maturity band for further netting allowances. Where this is the case, the *firm* must calculate:
 - a carry charge by multiplying the amount carried by the carry rate of 0.6%, and
 - i. a spread charge, in accordance with (b) above, where the carried position is matched against a position in an adjacent maturity band.

The *firm* may repeat the procedure for carrying positions through to other maturity bands as appropriate. An additional carry charge and spread

charge must be calculated at each stage of the process.

- c. The *firm* must multiply any positions remaining after the permitted offsetting by the outright rate of 15%, and then by the spot price of the commodity to arrive at the outright charge.
- d. The total *PRR* for each commodity is the sum of the spread risk charge, the carry charge, and the outright charge converted to the *firm's* reporting currency at current spot rates.

- **IPRU(INV) 3-169R Extended maturity ladder approach**

A *firm* may adopt the same approach as that outlined under rule 3-168(2), but apply the rates in the table below, if the *firm* :

- . undertakes significant commodities business, and
- a. has a diversified commodities portfolio.

Table 3-169

	Precious metals	Base metals	Soft commodities	Other commodities
Spread rate %	1.0	1.2	1.5	1.5
Carry rate %	0.3	0.5	0.6	0.6
Outright rate %	8.0	10.0	12.0	15.0

- **Models approach**
 - **IPRU(INV) 3-169AG**

A *firm* may seek a modification or waiver from the *FCA* to use a VaR model as the basis for calculating the *PRR* on its commodity positions.

The *FCA* will grant a modification or waiver permitting the use of a VaR model only where a number of qualitative and quantitative standards are met. In assessing the VaR model the *FCA* will have regard to the matters set out in [BIPRU 7.10](#).

- **3-169B Options**
 - **Proprietary options pricing models**
 - **IPRU(INV) 3-169B(1)G**

A *firm* may seek a modification or waiver from the *FCA* permitting it to use its proprietary *options* pricing model to calculate the *PRR* on *options* positions and their related hedges. The application for a modification or waiver may request that the *firm* be permitted to include an *option* in the maturity ladder approach.

A *firm* may propose any methodology that it believes will capture spread, carry and outright risks and that reflects its own day-to-day risk management. A *firm* is strongly advised to contact the *FCA* at the earliest point if it is considering introducing a model or adapting an existing one.

- **No models**
 - **IPRU(INV) 3-169B(2)R**

A *firm* may only include an *option* in the maturity ladder approach, the extended maturity ladder approach or the simplified approach if it is in the money by more than the appropriate outright rate. Such *options* must be included as a position in the underlying commodity, of an amount equal to the "tonnage" underlying the *option* (long or short as appropriate), and with a maturity equal to the expiry date of the spot, *forward* or *futures* contract underlying the *option* .

- **IPRU(INV) 3-169B(3)R**

An *option* which does not satisfy the condition in rule 3-169B(2) attracts a *PRR* in accordance with the following:

In the case of a purchased *option* , the *PRR* must be the *mark to market* value of the full position underlying the *option* multiplied by the appropriate outright rate, but the result may be limited to the *mark to market* value of the *option* .

- a. In the case of a written *option* , the *PRR* must be the *mark to market* value of the full position underlying the *option* multiplied by the appropriate outright rate, reduced by the out-of-the-money amount. The *PRR* must be limited to zero if the calculation results in a negative number.

- **IPRU(INV) 3-169B(3)G**

The out-of-the-money amount is any excess of the exercise value over the *mark to market* value of the underlying commodity in the case of a *call option* , or vice versa for a *put option* .

- **Counterparty risk requirement**

- **3-170 General Principles of CRR**

- **Application**

- **IPRU(INV) 3-170(1)R**

- Rules 3-170 to 3-182 apply to a *broad scope firm* , except a *venture capital firm* which is subject only to rules 3-180 to 3-182.
- a. Rules 3-180 to 3-182 apply to an *arranger* , except a *corporate finance advisory firm* .

- **General rule**

- **IPRU(INV) 3-170(2)R**

A *firm* must calculate its total *CRR* on exposures to *counterparties* as the sum of all the amounts calculated in accordance with the rules referred to in the table below.

Table 3-170(2) - Counterparty Risk Requirement

Rules

3-171	Cash against documents transactions
3-173	Free deliveries of physical securities and commodities
3-173A	Derivatives transactions
3-175	Concentrated risk to one counterparty
3-176	Repurchase and reverse repurchase, securities lending and borrowing and sale and buy back agreements
3-177	Money brokers
3-178	Options purchased for a counterparty
3-180	Qualifying and other deposits

3-181
3-182

Loans to counterparties
Other amounts owed to a firm arising out of investment business or investment dealing activities

- **Frequency of calculation**
 - **IPRU(INV) 3-170(3)R**

A firm must calculate its CRR at least once each business day ; for the purposes of the relevant calculations the firm may use prices of investments and physical commodities as at the close of business on the previous day.

- **Negative amounts**
 - **IPRU(INV) 3-170(4)R**

A firm must not include any CRR if it is a negative amount.

- **Instruments for which no CRR has been specified**
 - **IPRU(INV) 3-170(5)R**

Where a firm is in doubt as to the classification of an item for the purposes of CRR , the firm must add to its CRR an appropriate part of the exposure on the item concerned and must immediately notify the FCA in writing of details of the transaction, the counterparty and the proposed CRR treatment.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-170(5A)E**
 0. In 3-170(5) "an appropriate part" is:
 - . the whole; or
 - a. A proportion which takes account of the characteristics of the transaction and the counterparty concerned, and of discussions with the FCA or a predecessor regulator.
 1. Compliance with (1) may be relied on as tending to establish compliance with 3-170(5).
 2. Contravention of (1) may be relied on as tending to establish contravention of 3-170(5).

- **Provisions**

- IPRU(INV) 3-170(6)R

A *firm* may reduce the exposure on which its *CRR* is calculated to the extent that it makes provision for a specific *counterparty* balance.

- **Connected companies**

- IPRU(INV) 3-170(7)R

For the avoidance of doubt, a *firm* must calculate a *CRR* as appropriate on exposures to or from *connected companies* .

- **Basis of valuation**

- IPRU(INV) 3-170(8)R

For the purposes of valuing instruments and *physical commodities* at market value in the calculation of *CRR* , a *firm* must be consistent in the basis it chooses and may use either mid market value or bid and offer prices (as appropriate).

- **Acceptable collateral**

- IPRU(INV) 3-170(9)R

A *firm* may reduce the exposure to a *counterparty* on which its *CRR* is calculated to the extent that it holds *acceptable collateral* from that *counterparty* .

- **Nil weighted counterparty exposures**

- IPRU(INV) 3-170(10)R

A *firm* may disregard any *counterparty* exposure calculated in accordance with rules 3-171 to 3-182, if the *counterparty* is or the contract is guaranteed by or is subject to the full faith and credit of a sovereign government or province or state thereof (or a corporation over 75% owned by such government, province or state), which is a member of the *OECD* and the government, province, state or corporation has not defaulted, or entered into any rescheduling or similar arrangement, or announced the intention of so doing, in respect of itself or its agency's debt within the last five years.

- **Netting**

- IPRU(INV) 3-170(11)R

A *firm* which has offsetting exposures in similar types of transactions with a *counterparty* may offset these in accordance with rules 3-171(2A), 3-173(2A), 3-173A(3), 3-176(3), 3-180(2A), 3-181(1) and 3-182(4A) when calculating *CRR* if it has a contractual netting agreement with that counterparty, which:

- . covers the transactions which the *firm* is seeking to net;
 - a. creates a single obligation in each currency or a single overall obligation to pay (or receive) a net sum of cash in the event of default, bankruptcy, liquidation or similar circumstances;
 - b. does not include a *walkaway clause* ;
 - c. is supported by written and reasoned independent legal opinions to the effect that, in the event of a legal challenge, the relevant courts would find the *firm's* exposure to be the single net amount mentioned in (b) above.
- **IPRU(INV) 3-170(11)G**

Legal opinions should relate to:

- . the law of the jurisdiction in which the *counterparty* is organised;
- a. the law of the jurisdiction in which any branch involved is located;
- b. the law that governs the agreement and, if different, the law that governs individual transactions pursuant to it; and
- c. the law that governs the legal status of the *counterparty* who is entering into transactions of the type which the *firm* is seeking to net.

Where a firm uses an industry standard agreement and the firm's netting/set-off clauses follow the form of that standard agreement, provided a legal opinion has already been obtained on the standard agreement which addresses the capacity of counterparties of the type with which the firm wishes to contract, that may be relied upon.

Legal opinions on netting agreements should be obtained from independent legal advisers with sufficient expertise and experience in this area of law. Opinions from in-house counsel will not be acceptable. Where the regulator of the counterparty is not satisfied that the netting agreement is enforceable under its laws, the netting agreement cannot be relied upon regardless of the opinions obtained by the firm.

- **3-171 Cash against documents transactions**
 - **General rule**
 - **IPRU(INV) 3-171(1)R**

A *firm* which enters into a transaction on a cash against documents basis must calculate the *counterparty* exposure for transactions still unsettled 16 calendar days after *settlement day* as set out in (2) below and must then multiply this by the appropriate percentage set out in the table below to calculate a *CRR* for each separate unsettled transaction.

R Table 3-171(1) - Percentage to be applied to the *counterparty* exposure

Calendar days after settlement day	Percentage
0 - 15	Nil
16 - 30	25%
31 - 45	50%
46 - 60	75%
Over 60	100%

- **Counterparty exposure calculation**
 - **IPRU(INV) 3-171(2)R**

Where a *firm* has neither delivered *securities* or *physical commodities* nor received payment when purchasing *securities* or *physical commodities* for, or selling *securities* or *physical commodities* to, a *counterparty*, the positive *counterparty* exposure is the excess of the contract value over the market value of the *securities* or *physical commodities*.

- a. Where a *firm* has neither received *securities* or *physical commodities* nor made payment when selling *securities* or *physical commodities* for, or purchasing *securities* or *physical commodities* from, a *counterparty*, the positive *counterparty* exposure is the excess of the market value over the contract value of the *securities* or *physical commodities*.

- **Netting**

- **IPRU(INV) 3-171(2A)R**

A *firm* may offset positive and negative *counterparty* exposures, calculated in accordance with (2) above, before it multiplies the residual exposure by the appropriate percentage in Table 3-171(1) provided that:

- . the exposures arise on transactions with the same *counterparty*; and
- a. the *firm* has a written agreement supported by a legal opinion obtained in accordance with rule 3-170(11).

- **Sub-total**

- **IPRU(INV) 3-171(3)R**

The sum of the amounts calculated in accordance with (1) above is the *firm's* total *CRR* for cash against documents transactions.

- **3-173 Free deliveries of physical commodities and securities**

- **General rule**

- **IPRU(INV) 3-173(1)R**

When a *firm* makes delivery to a *counterparty* of *physical commodities* or *securities* without receiving payment or pays for *securities* without receiving the certificates of good title, the *firm* must calculate the *free delivery* value for each transaction.

- **Free delivery value calculation**

- **IPRU(INV) 3-173(2)R**

A firm must calculate the *free delivery* value for each transaction as set out below and multiply this value by the appropriate percentage in Table 3-173(2) A for free deliveries of *physical commodities* and Table 3-173 (2) B for free deliveries of *securities* as follows:

- . if the firm has delivered *physical commodities* or *securities* to a *counterparty* and has not received payment, the *free delivery* amount is the full amount due to the firm (i.e. the contract value);
- a. if the firm has made payment to a *counterparty* for *securities* and not received the certificates of good title, the *free delivery* amount is the market value of these *securities* ; and
- b. if a firm pays for *physical commodities* without receiving delivery or *documents of title* the exposure is to be treated as an unsecured loan to which rule 3-181 applies.

Table 3-173(2)A - Percentage to be applied to free deliveries relating to physical commodities

	Nature of counterparty to whom free delivery is made	Business days since delivery		
		0 - 3	4 - 15	earlier of 15 days or agreed contractual payment date
1	Firm does not have an ACMP and delivery of <i>physical commodities</i> is made	15%	100% of contract value	100% of contract value
2	Firm has an ACMP and delivery of <i>physical commodities</i> is made with a settlement day longer than three days from delivery date	15% of contract value		100% of contract value

Table 3-173(2)B - Percentage to be applied to free deliveries relating to securities

	Nature of counterparty to whom free delivery is made	Business days since delivery		
		0 - 3	4 - 15	over 15
1	A <i>counterparty</i> to whom <i>securities</i> have been delivered or to whom payment for <i>securities</i> has been made	nil	100% of contract or market value	100% of contract or market value

2	A regulated financial institution or regulated banking institution to whom securities have been delivered or payment made with the expectation that market practice will result in a settlement day longer than three days from delivery date	15% of contract or market value	100% of contract or market value
2A	A counterparty to whom securities have been delivered which settle through the Crest system or to whom payment for such securities has been made	15% of contract or market value	100% of contract or market value
3	A manager, underwriter, sub-underwriter or member of a selling syndicate or issuer to whom payment for securities has been made; or a manager of a regulated collective investment scheme to whom units of the scheme have been delivered or payment for units of the scheme has been made	nil	100% of contract or market value or, if the issue is in one of the countries specified in Appendix 46, 15% of contract or market value until the end of the period referred to in that Appendix

- **Netting**

- **IPRU(INV) 3-173(2A)R**

A firm may reduce the free delivery value for a transaction calculated in accordance with (2) above, before it multiplies the residual exposure by the appropriate percentage in Table 3-173(2)A or B, by:

- the value of any free payment received from the counterparty ; or

- a. the contract value of any securities received free from the counterparty ,

provided that:

- the exposures arise on transactions with the same counterparty ; and

- i. the firm has a written agreement supported by a legal opinion obtained in accordance with rule 3-170(11).

- **Partners and connected persons**

- **IPRU(INV) 3-173(3)R**

For the purpose of this rule, a *firm* must treat any amount due from a partner or his *connected person* in respect of *investment business* as a *free delivery* to a *counterparty*.

- Sub-total
 - IPRU(INV) 3-173(4)R

The sum of the amounts calculated in accordance with (1), (2) and (3) above is the *firm's* total *CRR* for free deliveries of *physical commodities* and *securities*.

- 3-173A Derivative transactions
 - General rule
 - IPRU(INV) 3-173A(1)R

A *firm* must calculate for each *derivative* transaction a *CRR* either:

- by multiplying the *counterparty* exposure calculated in accordance with (2) and (3) below by the appropriate percentage in Table 3-173A(4)A or B, except for single premium options purchased on behalf of a *counterparty* and *traditional options* purchased for the *firm's* own account or on behalf of a *counterparty*, which shall be subject to rule 3-178; or
- a. after notifying the *FCA* in writing, in accordance with rule 3-173B.

Amended by: LI [2007/27](#), [2007/56](#), [FCA 2013/9](#)

- Counterparty exposure
 - IPRU(INV) 3-173A(2)R

A *firm* must calculate the *counterparty* exposure on *derivative* transactions in accordance with either (a) or (b) below:

- where a *counterparty* has not fully paid an *initial margin requirement* or *variation margin requirement* on a transaction in a *derivative* listed on an *exchange* or *approved exchange* or met it through the deposit of *acceptable collateral* not otherwise used, the *firm* must calculate the *counterparty* exposure as the shortfall;
- a. where the *counterparty* exposure arising from a transaction in a *derivative* is not listed on an *exchange* or *approved exchange*, the *counterparty* exposure is

the credit equivalent amount calculated in accordance with Table 3-173A(2A).

- **IPRU(INV) 3-173A(2A)R Table 3-173A(2A)
Method of calculating credit equivalent amount**

Type of derivative transaction	Credit equivalent amount	
	If A is positive	If A is negative
Interest rate swaps: single currency		
<ul style="list-style-type: none"> • against floating rate <ul style="list-style-type: none"> a. floating rate: <ul style="list-style-type: none"> • maturity <ul style="list-style-type: none"> floating rate swapped • five years <ul style="list-style-type: none"> fixed rate swapped against • <ul style="list-style-type: none"> under one year to over one year to over five years 	<ul style="list-style-type: none"> A A A + 0.5% of N A + 1.5% of N 	<ul style="list-style-type: none"> nil nil 0.5% of N 1.5% of N
Cross-currency interest rate swaps		
<ul style="list-style-type: none"> ▪ under one year to maturity ▪ over one year to five years ▪ over five years 	<ul style="list-style-type: none"> A + 1% of N A + 5% of N A + 7.5% of N 	<ul style="list-style-type: none"> A + 1% of N A + 5% of N A + 7.5% of N
Other interest rate contracts*		
<ul style="list-style-type: none"> ▪ under one year to maturity ▪ over one year to five years ▪ over five years 	<ul style="list-style-type: none"> A A+0.5% of N A+1.5% of N 	<ul style="list-style-type: none"> nil 0.5% of N 1.5% of N
Foreign exchange and gold contracts*		
<ul style="list-style-type: none"> ▪ exchange rate contracts 	nil	nil

with an original maturity of 14 days or less,			
▪	under one year to maturity	A+1% of N	1% of N
▪	over one year to five years	A+5% of N	5% of N
▪	over five years	A+7.5% of N	7.5 of N
Equity contracts*			
▪	under one year to maturity	A+6% of N	6% of N
▪	over one year to five years	A+8% of N	8% of N
▪	over five years	A+10% of N	10% of N
Precious metal (not gold) contrast*			
▪	under one year to maturity	A+7% of N	7% of N
▪	over one year to five years	A+7% of N	7% of N
▪	over five years	A+8% of N	8% of N
Commodity contrast*			
▪	under one year to maturity	A+10% of N	10% of N
▪	over one year to five years	A+12% of N	12% of N
▪	over five years	A+15% of N	15% of N
Notes			
<i>FRAs, swaps, futures, purchased options , and other contracts for differences</i>			
A = the replacement cost of the contract			
N = the notional or actual principal amount underlying the contract			
For contracts with multiple exchanges of principal, the % of N has to be multiplied by the remaining number of payments still to be made according to the contract.			
In the case of a derivative referenced on a bond which satisfies the criteria for a <i>qualifying debt security</i> , the %N applicable to interest rate derivatives may be utilised to calculate the credit equivalent amount. For a derivative referenced on a non-qualifying bond, the credit equivalent amount must be calculated with reference to the %N applicable to equity derivatives.			
For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity			

would be equal to the time until the next reset date. In the case of interest-rate contracts that meet these criteria and have a remaining maturity of over one year, the percentage is no lower than 0.5%.

- R If a *firm* uses the extended maturity ladder approach to calculate *PRR* under rule 3-169, it may use Table 3-173A(2B).
- **IPRU(INV) 3-173A(2B)R Table 3-173A(2B) Method of calculating credit equivalent amount for commodities**

Type of derivative transaction*	Credit equivalent amount	
	If A is positive	If A is negative
Precious metals (except gold)		
▪ year to maturity	under one A+2% of N	2% of N
▪ year to five years	over one A+5% of N	5% of N
▪ years	over five A+7.5% of N	7.5% of N
Base metals		
▪ year to maturity	under one A+2.5% of N	2.5% of N
▪ year to five years	over one A+4% of N	4% of N
▪ years	over five A+8% of N	8% of N
Softs (agricultural)		
▪ year to maturity	under one A+3% of N	3% of N
▪ year to five years	over one A+5% of N	5% of N
▪ years	over five A+9% of N	9% of N
Other commodity		
▪ year to maturity	under one A+4% of N	4% of N
		A+6% of N 6% of N

<ul style="list-style-type: none"> ▪ year to five years 	over one	A+10% of N	10% of N
<ul style="list-style-type: none"> ▪ years 	over five		

Notes

FRAs, swaps, futures, purchased options , and other contracts for differences

A = the replacement cost of the contract

N = the notional or actual principal amount underlying the contract

For contracts with multiple exchanges of principal, the % N has to be multiplied by the remaining number of payments still be made according to the contract.

▪

In the case of a derivative referenced on a bond which satisfies the criteria for a *qualifying debt security* , the %N applicable to interest rate derivatives may be utilised to calculate the credit equivalent amount. For a derivative referenced on a "non-qualifying"™ bond, the credit equivalent amount must be calculated with reference to the %N applicable to equity derivatives.

For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be equal to the time until the next reset date. In the case of interest-rate contracts that meet these criteria and have a remaining maturity of over one year, the percentage is no lower than 0.5%.

▪ Netting

▪ IPRU(INV) 3-173A(3)R

A firm may offset *counterparty* exposures arising on *derivative* transactions calculated in accordance with (2) above before it multiplies the residual exposure by the appropriate *CRR* percentage as follows:

- **variation margin payable to a *counterparty* against an *initial margin requirement* or *variation margin requirement* receivable from a *counterparty* ;**
- a. **variation margin payable to a *counterparty* against a positive "A" as calculated in accordance with Table 3-173A(2A);**
- b. **a negative "A" as calculated in accordance with Table 3-173A(2A) against an *initial margin requirement* or *variation margin requirement* receivable from a *counterparty*;**

- c. a negative "A" against a positive "A" in each case as calculated in accordance with Table 3-173A(2A);
- d. losses on a closed out *derivative* transaction which has not been settled against variation margin payable to a *counterparty* ; or
- e. losses on a closed out *derivative* transaction which has not been settled against negative "A" calculated in accordance with Table 3-173A(2A),
- f. profit on a closed out *derivative* transaction which has not been settled against an *initial margin requirement* or *variation margin requirement* receivable from *acounterparty* ;
- g. profit on a closed out *derivative* transaction which has not been settled against a loss on a closed out *derivative* transaction;
- h. profit on a closed out *derivative* transaction which has not been settled against a positive "A" as calculated in accordance with Table 3-173A(2A);
- i. premium receivable in respect of written *options* against variation margin payable, initial margin payable or a closed out profit payable to the *counterparty* or a negative "A" as calculated in accordance with Table 3-173A(2A);
- j. positive "A" on purchased *options* calculated in accordance with Table 3-173A(2A) against negative "A" on written *options* ; or
- k. in the case of *perfectly matched contracts* these may be treated as a single contract with a notional principal equivalent to the net receipts; or
- l. where transactions are subject to (3)(c) above, the potential future credit exposures (PFCE) on transactions with the same *counterparty* (i.e. % on N) may be netted in accordance with Table 3-173A(3) below,

provided that:

- . the exposures arise on transactions with the same *counterparty*; and
- i. the *firm* has a written agreement, supported by a legal opinion obtained in accordance with rule 3-170(11).

Table 3-173A(3)

The netted PFCE is the sum of:	
step one	40% of gross PFCE
step two	60% of gross PFCE multiplied by the net-to-gross ratio (NGR)
Notes:	
$\text{NGR} = \frac{\text{net replacement cost}}{\text{gross replacement cost}}$	
The NGR must be calculated on all contracts included in a legally valid bilateral netting agreement with a given <i>counterparty</i> .	

- CRR percentages
 - IPRU(INV) 3-173A(4)R
 - . Where a *firm* does not offset *counterparty* exposures arising on *derivative* transactions in accordance with (3) above, it must multiply the *counterparty* exposure by the appropriate percentage from:
 - . Table 3-173A(4)A if the *counterparty* exposure arises on a transaction in a *derivative* listed on an *exchange* or *approved exchange* ; or
 - i. Table 3-173A(4)B if the *counterparty* exposure arises on a transaction in a *derivative* not listed on an *exchange* or *approved exchange* ,

but may opt to calculate *CRR* using the highest available credit percentage in

Tables 3-173A(4)A or B below in order to avoid undue complication.

- a. Where a *firm* does offset *counterparty* exposures on *derivative* exposures in accordance with (3) above, it must multiply the residual net *counterparty* exposure by the appropriate percentage from Table 3-173A(4)A or B.
- b. A *firm* may opt to calculate the *CRR* using the highest available *CRR* percentage in the tables below in order to avoid undue complication.

- **IPRU(INV) 3-173A(4)A Table 3-173A(4)A — CRR percentages for transactions in derivatives listed on an exchange or approved exchange**

Counterparty		Business days since exposure occurred	
		0 - 3	over 3
1	<i>Firm</i> has an <i>ACMP</i> and <i>counterparty</i> is not an <i>eligible counterparty</i>	10%	10%
2	<i>Firm</i> has an <i>ACMP</i> and <i>counterparty</i> is an <i>eligible counterparty</i>	5%	5%
3	<i>Firm</i> does not have an <i>ACMP</i>	10%	100%

- **Amended by: LI [2007/58](#)**
- **IPRU(INV) 3-173A(4)B Table 3-173A(4)B — CRR percentages for transactions in derivatives not listed on an exchange or approved exchange**

	Status of the counterparty	%
1	A <i>firm</i> , a <i>supranational organisation</i> , a United Kingdom discount house, a gilt edged market maker, a <i>stock exchange money broker</i> , a <i>regulated banking institution</i> , a building society under the Building Societies Act 1986, a United Kingdom local authority, a <i>regulated financial institution</i> .	2%
2	Any other <i>counterparty</i>	5%

- **Exposures to locals**
 - **IPRU(INV) 3-173A(5)R**

A *firm* must calculate a 100% *CRR* for amounts of initial and variation margin not met with *acceptable collateral* or a positive *equity balance* owed to a *firm* by a *local* in respect of transactions in *derivatives* listed on an *exchange* or *approved exchange* from the date of any shortfall. However, a *firm* may use an alternative treatment if it:

- participates in the profits or losses of the *local* for 25% or more when the *firm* may include the *local* position in its own position which will then be subject to *PRR* ; or
- a. calculates *PRR* for *locals* in which case its requirement will be the sum of the following:
 - 10% of the *PRR* result for each *local* ; and
 - i. the excess over the "net liquidating balance" of the *PRR* applied to the positions of each *local* ; and
- b. for the purposes of (b) above, "net liquidating balance" means the cash amount which would remain in a *local* account if all positions were liquidated and there were added (1) cash balances (2) the value of *marketable investments* , and (3) letters of credit and guarantees issued by a *regulated banking institution* which is not the *counterparty* or an *associate* of the *counterparty* in the control of the *firm* ; and there were deducted all loans and overdrafts from, and other liabilities to the *firm* ; and to the extent that a *firm* includes an exposure in the net liquidating balance calculation, it does not also need to apply the liquidity adjustment in rule 3-75 or the *CRR* to those exposures.

- **Sums due for payment or owed on closed out derivative transactions**
 - **IPRU(INV) 3-173A(6)R**

When a *counterparty* has not fully met amounts owed to a *firm* arising out of losses on closed out *derivative* transactions by depositing, *acceptable collateral* or, has not fully settled amounts owed in respect of periodic or final settlement of transactions, a *firm* must calculate a *CRR* equal to the amount outstanding after three days, unless:

- . the *firm* has offset the amount owed against variation margin payable in accordance with (3)(e) above; or
- a. the *firm* has offset the amount owed against a negative "A" in accordance with (3)(f) above,

in which case the *firm* must calculate a *CRR* equal to the residual amount outstanding after three days.

- **Equivalent contracts**
 - IPRU(INV) 3-173A(7)R

Rule 3-173A(2)(b) also applies to contracts which, although they are listed on an *exchange* or *approved exchange*, are fully dependent upon the issuer for performance (e.g. covered *warrants*).

- **Regulated connected companies**
 - IPRU(INV) 3-173A(8)R

Where a *firm* carries out significant *swaps* business with a *connected company* which has adequate regulation applied to it, the *firm* need not comply with all or part of rule 3-173A so far as it applies to interest rate or foreign exchange *swaps* with that *connected company*, provided that it has given prior written notice of this to the *FCA*.

Amended by: LI [FCA 2013/9](#)

- **Sub-total**
 - IPRU(INV) 3-173A(9)R

The sum of the amounts calculated in accordance with this rule is the *firm's* total *CRR* for *derivative* transactions other than those subject to rule 3-178.

- **3-173B CRR for derivative transactions under 3-173A(1)(b)**

Inserted by: LI [2007/56](#)

- **General rule**
 - **IPRU(INV) 3-173B(1)R**

A *firm* must calculate for each *derivative* transaction a *CRR* by multiplying the *counterparty* exposure calculated in accordance with (2) and (3) below, by the appropriate percentage in Table 3-173B(5) below.

Inserted by: LI [2007/56](#)

- **Collateral**
 - **IPRU(INV) 3-173B(2)R**

A *firm* may:

- reduce the *counterparty* exposure on which its *CRR* is calculated to the extent that it holds *acceptable collateral* to cover that exposure; and
- a. where it does not have an *ACMP* , may continue to multiply the *counterparty* exposure by 8% multiplied by the *counterparty* weight, to the extent that the *firm* holds *adequate collateral* to cover that exposure.

Inserted by: LI [2007/56](#)

- **Counterparty exposure**
 - **IPRU(INV) 3-173B(3)R**

A *firm* must calculate the *counterparty* exposure on *derivative* transactions in accordance with either (a), (b) or (c) below:

- where a *counterparty* has not fully paid a *margin requirement* on a *derivative* transaction listed on an *exchange* or cleared through a *clearing house* , or met it through the deposit of *acceptable collateral* not otherwise used, a *firm* must calculate the *counterparty* exposure as the shortfall;
- a. where a *firm* sells or writes an *option* to a *counterparty* or buys an *option* on behalf of a *counterparty* and the *counterparty* has not paid the full *option* premium, or met it through the deposit of *acceptable collateral* not otherwise used, it must calculate the *counterparty* exposure as the

uncovered premium on the transaction;
or

- b. a firm must calculate the *counterparty* exposure arising from a *derivative* transaction other than a written or sold *option* or a *derivative* transaction listed on an *exchange* or cleared through a *clearing house*, as the credit equivalent amount calculated in accordance with Table 3-173B(3A), not covered by the deposit of *acceptable collateral* not otherwise used.

- IPRU(INV) 3-173B(3A)R Table 3-173B(3A)
— Method of calculating credit equivalent amount

Type of derivative transaction	Credit equivalent amount	
	If A is positive	If A is negative
Interest rate swaps: single currency		
(a) floating rate swapped against floating rate A nil	A	nil
(b) fixed rate swapped against floating rate:		
— under one year to maturity	A	nil
— over one year to five years	A + 0.5% of N	0.5% of N
— over five years	A + 1.5% of N	1.5% of N
Cross-currency interest rate swaps		
— under one year to maturity	A + 1% of N	1% of N
— over one year to five years	A + 5% of N	5% of N
— over five years	A + 7.5% of N	7.5% of N
Other interest rate contracts		
— under one year to maturity	A	nil
— over one year to five years	A + 0.5% of N	0.5% of N
— over five years	A + 1.5% of N	1.5% of N
Foreign exchange and gold contracts		
— exchange rate contracts with an original maturity of 14 days or less	nil	nil
— under one year to maturity	A + 1% of N	1% of N
— over one year to five years	A + 5% of N	5% of N
— over five years	A + 7.5% of N	7.5% of N
Equity contracts		
— under one year to maturity	A + 6% of N	6% of N
— over one year to five years	A + 8% of N	8% of N

— over five years	A + 10% of N	10% of N
Precious metal (not gold) contracts[†]		
— under one year to maturity	A + 7% of N	7% of N
— over one year to five years	A + 7% of N	7% of N
— over five years	A + 8% of N	8% of N
Commodity contracts[†]		
— under one year to maturity	A + 10% of N	10% of N
— over one year to five years	A + 12% of N	12% of N
— over five years	A + 15% of N	15% of N
Notes:		
[†] <i>FRAs , swaps , futures , purchased options , and other contracts for differences</i>		
A = the replacement cost of the contract		
N = the notional or actual principal amount or value underlying the contract		
For contracts with multiple exchanges of principal, the % of N has to be multiplied by the remaining number of payments still to be made according to the contract.		
In the case of a derivative referenced on a bond which satisfies the criteria for a <i>qualifying debt security</i> , the %N applicable to interest rate derivatives may be utilised to calculate the credit equivalent amount. For a derivative referenced on a 'non-qualifying' bond, the credit equivalent amount must be calculated with reference to the %N applicable to equity derivatives.		
For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be equal to the time until the next reset date. In the case of interest-rate contracts that meet these criteria and have a remaining maturity of over one year, the percentage is no lower than 0.5%.		

- If a firm uses the modified maturity ladder approach to calculate PRR, it may use Table 3-173B(3B).
- **IPRU(INV) 3-173B(3B)R Table 3-173B(3B) — Method of calculating credit equivalent amount for commodities**

Type of derivative transaction [†]	Credit equivalent amount	
	If A is positive	If A is negative
Precious metals (except gold)		
— under one year to maturity	A + 2% of N	2% of N
— over one year to five years	A + 5% of N	5% of N
— over five years	A + 7.5% of N	7.5% of N
Base metals		
— under one year to maturity	A + 2.5% of N	2.5% of N
— over one year to five years	A + 4% of N	4% of N

— over five years	A + 8% of N	8% of N
Softs (agricultural)		
— under one year to maturity	A + 3% of N	3% of N
— over one year to five years	A + 5% of N	5% of N
— over five years	A + 9% of N	9% of N
Other commodity		
— under one year to maturity	A + 4% of N	4% of N
— over one year to five years	A + 6% of N	6% of N
— over five years	A + 10% of N	10% of N
Notes:		
<p><i>FRAs , swaps , futures , purchased options , and other contracts for differences</i></p> <p>A = the replacement cost of the contract</p> <p>N = the notional or actual principal amount or value underlying the contract</p> <p>For contracts with multiple exchanges of principal, the % of N has to be multiplied by the remaining number of payments still to be made according to the contract.</p> <p>In the case of a derivative referenced on a bond which satisfies the criteria for a <i>qualifying debt security</i> , the %N applicable to interest rate derivatives may be utilised to calculate the credit equivalent amount. For a derivative referenced on a 'non-qualifying' bond, the credit equivalent amount must be calculated with reference to the %N applicable to equity derivatives.</p> <p>For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be equal to the time until the next reset date. In the case of interest-rate contracts that meet these criteria and have a remaining maturity of over one year, the percentage is no lower than 0.5%.</p>		

Inserted by: LI 2007/56

- Sums due for payment or owed on closed out derivative transactions
 - IPRU(INV) 3-173B(4)R

When a *counterparty* has not fully met amounts owed to a *firm* arising out of losses on closed out *derivative* transactions through the deposit of *acceptable collateral* not otherwise used, or has not fully settled amounts owed in respect of periodic or final settlement of transactions, a *firm* must calculate *CRR* equal to the unpaid loss multiplied by the appropriate percentage from the Table 3-173B(5) below.

Inserted by: LI 2007/56

- IPRU(INV) 3-173B(4A)R

In the case of a failed FX transaction (whether originally contracted for *forward* settlement, or

undertaken in the spot market) where the *firm* has released funds to its *counterparty*, but has not received the funds in the alternative currency, the *CRR* must be calculated as the gross value of the funds not received, multiplied by the appropriate percentage from Table 3-173B(5) below.

Inserted by: LI [2007/56](#)

- **CRR percentages**
 - **IPRU(INV) 3-173B(5)R**

A *firm* must multiply the *counterparty* exposure by the appropriate percentage from the table below, but:

- may opt to calculate *CRR* using the highest available credit percentage in the table below in order to avoid undue complication; and
- a. may reduce the *counterparty* weight applicable to *counterparty* exposures calculated in accordance with (3)(c) above to 50%, where the *counterparty* would normally attract a *counterparty* weight of 100% in accordance with Table 1 in Appendix 47.

R TABLE 3-173B(5) — CRR percentages

Type of contract	Nature of <i>counterparty</i> to whom <i>counterparty</i> exposure exists	Business days after <i>counterparty</i> exposure first occurred	
		0–5	6 or more
Failed FX transaction	Any	8% x <i>counterparty</i> weight*	100%
Other	A <i>counterparty</i> granted a credit line under an <i>ACMP</i>	8% x <i>counterparty</i> weight*	
	A <i>counterparty</i> not granted a credit line under an <i>ACMP</i>	8% x <i>counterparty</i> weight*	100%

Inserted by: LI [2007/56](#)

- **Netting**
 - **IPRU(INV) 3-173B(6)R**

A *firm* may offset *counterparty* exposures arising on *derivative* transactions calculated in accordance with (2), (3) and (4) above before it multiplies the residual exposure by the appropriate *CRR* percentage as follows:

- . variation margin payable to a counterparty against an initial *margin requirement* or variation *margin requirement* receivable from a counterparty;
- a. variation margin payable to a counterparty against a positive "A" as calculated in accordance with Table 3-173B(3A);
- b. a negative "A" as calculated in accordance with Table 3-173B(3A) against an initial *margin requirement* or variation *margin requirement* receivable from a counterparty;
- c. a negative "A" against a positive "A" in each case as calculated in accordance with Table 3-173B(3A);
- d. loss on a closed out *derivative* transaction which has not been settled against variation margin payable to a counterparty;
- e. loss on a closed out *derivative* transaction which has not been settled against negative "A" calculated in accordance with Table 3-173B(3A);
- f. profit on a closed out *derivative* transaction which has not been settled against an initial *margin requirement* or variation *margin requirement* receivable from a counterparty ;
- g. profit on a closed out *derivative* transaction which has not been settled against a loss on a closed out *derivative* transaction;
- h. profit on a closed out *derivative* transaction which has not been settled against a positive "A" as calculated in accordance with Table 3-173B(3A);
- i. premium receivable in respect of written *options* against variation margin payable, initial margin payable or a closed out profit payable to the counterparty or a negative "A" as calculated in accordance with Table 3-173B(3A);
- j. where the *firm* has received the premium due for a written *option* , a negative "A" (the replacement cost) for the

written *option* against a positive “A” in each case as calculated in accordance with Table 3-173B(3A); or

- k. in the case of *perfectly matched contracts* these may be treated as a single contract with a notional principal equivalent to the net receipts; or
- l. where transactions are subject to (3)(c) above, the potential future credit exposures (PFCE) on transactions with the same *counterparty* (i.e. % o N) may be netted in accordance with Table 3-173B(6) below,

provided that:

- xiii. the exposures arise on transactions with the same *counterparty* ; and
- xiv. the *firm* has a written agreement, supported by a legal opinion obtained in accordance with rule 3-170(11).

Table 3-173B(6)

The netted PFCE is the sum of:	
step one	40% of gross PFCE
step two	60% of gross PFCE multiplied by the net-to-gross ratio (NGR)
Notes:	
$\text{NGR} = \frac{\text{(net replacement cost)}}{\text{(gross replacement cost)}}$	
The NGR must be calculated on all contracts included in a legally valid bilateral netting agreement with a given counterparty.	

Inserted by: LI [2007/56](#)

- **Equivalent contracts**
 - IPRU(INV) 3-173B(7)R

Rule 3-173B(3)(c) also applies to contracts, which, although they are listed on an *exchange* are fully dependent upon the issuer for performance (e.g. covered warrants).

Inserted by: LI [2007/56](#)

- **Sub-total**
 - IPRU(INV) 3-173B(8)R

The sum of the amounts calculated in accordance with this rule is the *firm's CRR* for *derivative* transactions.

Inserted by: LI [2007/56](#)

- **3-175 Concentrated risk to one counterparty**
 - **General rule**
 - **IPRU(INV) 3-175(1)R**

When the total amount due to a *firm* arising from *exchange traded* variation margins or free deliveries of *physical commodities* from a *single counterparty* (or several *counterparties* grouped together by the *firm* for margin or credit treatment) is outstanding under a credit line granted in accordance with an *ACMP* and exceeds 25% of the *firm's financial resources*, the *firm* must calculate an additional *CRR* according to the table below.

Table 3-175(1) - Concentrated risk percentages

% of financial resources exposed to counterparty	Standard CRR for variation margin	Standard CRR for free delivery	Additional CRR
0 - 25%	10%	15%	nil
25% - 50%	10%	15%	lower of (1) the excess or (2) the sum of 15% for variation margin plus 10% for free deliveries
over 50%	10%	15%	lower of (1) the excess or (2) the sum of 40% for variation margin plus 35% for free deliveries

- **Use of approved bank bonds**
 - **IPRU(INV) 3-175(2)R**

If an *approved bank bond* forms a part of a *firm's financial resources*, a *firm* may include it in *financial resources* for the purposes of (1) above at its face value.

- **Sub-total**
 - **IPRU(INV) 3-175(3)R**

The sum of the amounts calculated in accordance with (1) above is the *total CRR* for concentrated risk to one *counterparty*.

- **3-176 Repurchase and reverse repurchase, securities lending and borrowing and sale and buy back agreements**
 - **Repurchase, securities lending and sale and buy back agreements**
 - **IPRU(INV) 3-176(1)R**

Where a *firm* has entered into any *repurchase, securities or physical commodities* lending or *sale and buy back agreement* in respect of *securities or physical commodities*, it must calculate, subject to (3) below, a *CRR* for each such agreement in accordance with the table below.

Table 3-176(1) - Repurchase, securities lending and sale and buy back agreements

Type of security sold or lent	CRR
<i>Qualifying debt securities</i>	The "mark to market value" of the <i>securities</i> less 105% of the <i>acceptable collateral</i> under the agreement, if the net figure is positive.
<i>Other securities or physical commodities</i>	The "mark to market value" of the <i>securities</i> or <i>physical commodities</i> less 110% of the <i>acceptable collateral</i> under the agreement, if the net figure is positive.

- **Reverse repurchase, securities borrowing and buy and sale back agreements**
 - **IPRU(INV) 3-176(2)R**

Where a *firm* has entered into any *reverse repurchase, securities or physical commodities* borrowing or *buy and sale back agreement* in respect of *securities or physical commodities*, it must calculate, subject to (3) below, a *CRR* for each such agreement in accordance with the table below.

R Table 3-176(2) - Reverse repurchase, securities borrowing and buy and sale back agreements

Type of security purchased or borrowed		CRR
1	For all transactions where the <i>firm</i> has in its possession a "written agreement" evidencing the transaction, in accordance with rule 3-176(5)	
	a) <i>qualifying debt securities</i>	The amount paid or collateral given for these <i>securities</i> less 105% of the current "mark to market

			value" of the <i>securities</i> received (see note), if the net figure is positive
	b)	other <i>securities</i> or <i>physical commodities</i>	The amount paid or collateral given for the <i>securities</i> or <i>physical commodities</i> less 110% of the current " <i>mark to market value</i> " of the <i>securities</i> or <i>physical commodities</i> received (see note), if the net figure is positive
2		Where a <i>firm</i> does not have in its possession a "written agreement" evidencing the transaction, in accordance with rule 3-176(5)	The appropriate requirements from 1 plus the market value of the <i>securities</i> or <i>physical commodities</i> multiplied by the appropriate <i>percentage risk addition</i>
Note: the <i>securities</i> or <i>physical commodities</i> received can be included only where they are held under the control of the <i>firm</i> or where they were delivered into the control of the <i>firm</i> upon initiation of the agreement.			

Amended by: LI [FCA 2013/9](#)

- **Netting**
 - **IPRU(INV) 3-176(3)R**

A *firm* may reduce the *CRR* by netting where it has more than one exposure to an individual *counterparty* provided that it has a written agreement supported by a legal opinion obtained in accordance with rule 3-170(11) as follows:

- **in the case of *sale and buy back, repurchase* or *securities* or *physical commodities* lending agreements (Table 3-176(1)), a *firm* may reduce the *CRR* by the excess of the total value of collateral received, including accrued interest, over the "mark to market" value of any other *sale and buy back, repurchase* or *securities* or *physical commodities* lending agreements with the same *counterparty* ;**
- a. **in the case of *sale and buy back, reverse repurchase* or *securities* or *physical commodities* borrowing agreements (Table 3-176(2)), a *firm* may reduce the *CRR* by the excess of the "mark to market value" over the total value of collateral given, including accrued interest, of any other of *buy and sale back, reverse repurchase* or *securities* or *physical commodities* borrowing agreements with the same *counterparty* ; and**

- b. to the extent that an excess has not been used under (a) or (b) above to reduce the *CRR* , a *firm* may use an excess on a *sale and buy back, repurchase or securities or physical commodities* lending agreement respectively to reduce the *CRR* on a *buy and sale back, reverse repurchase or securities or physical commodities* borrowing agreement and vice versa provided the agreements are with the same *counterparty* .

- **Margin percentages**
 - **IPRU(INV) 3-176(4)R**

A *firm* may opt to calculate the *CRR* using the lower collateral rate (105%) in order to avoid undue complication.

- **"Written agreement"**
 - **IPRU(INV) 3-176(5)R**

For the purpose of this rule and rule 3-177(2), a "written agreement" must, whether in a general agreement or in respect of specific occasions, include the following elements:

- . the names of the persons involved;
- a. the type and quantity of *securities or physical commodities* subject to the *reverse repurchase, securities or physical commodities* borrowing, or *buy and sale back agreement* ;
- b. the type and quantity of collateral;
- c. the commencement date of the *reverse repurchase, securities or physical commodities* borrowing or *buy and sale back agreement* ;
- d. the completion date of the *reverse repurchase, securities or physical commodities* borrowing or *buy and sale back agreement* , where appropriate;
- e. interest or fee arrangements, where appropriate;
- f. arrangements for adjustments in the amount or type of *securities or physical commodities* to be returned, if appropriate;

- g. arrangements for the calling of margin, if appropriate; and
- h. agreements for completion,

except that having given prior written notice to the *FCA*, a *firm* may disregard certain of the "written agreement" requirements where it can show there are adequate *internal controls* to evidence the arrangements.

Amended by: LI [FCA 2013/9](#)

- **"Mark to market value"**
 - **IPRU(INV) 3-176(6)R**

For the purposes of this rule, the current "mark to market value" of *securities* and the value of cash lodged must include accrued interest.

- **Daily valuation**
 - **IPRU(INV) 3-176(7)R**

A *firm* must value collateral and *securities* or *physical commodities* lent or sold, or borrowed or purchased, at least daily.

- **Settlement failure and pre deliveries**
 - **IPRU(INV) 3-176(8)R**

Where:

- simultaneous delivery of *securities* or *physical commodities* and collateral cannot be confirmed immediately due to settlement failure, or
- a. a *firm* has delivered collateral or *securities* or *physical commodities* prior to the receipt of *securities* or *physical commodities* or collateral,

the *firm* is not required to calculate a *CRR* for three *business days* from the date of payment or delivery by the *firm*.

- **Additional acceptable collateral**
 - **IPRU(INV) 3-176(9)R**

Where the *firm* has called for additional *acceptable collateral* from the other party to the agreement, a *firm* is not required to calculate a *CRR* if that call has been outstanding for no more than one *business day*.

- **Exclusions**

- IPRU(INV) 3-176(10)R

All *repurchase, reverse repurchase, securities or physical commodities* lending or borrowing *sale and buy back* and *buy and sale back agreements* with a stock exchange, *clearing house*, Clearstream or Euroclear are exempt from this rule.

Amended by LI: [2003/4](#)

- **Sub-total**

- IPRU(INV) 3-176(11)R

The sum of the amounts calculated in accordance with this rule is the total *CRR* for *repurchase and reverse repurchase, securities or physical commodities* lending and borrowing and *sale and buy back agreements*.

- **3-177 Money brokers**

- **Application**

- IPRU(INV) 3-177(1)R

This rule applies to *money brokers*.

- **Lending money**

- IPRU(INV) 3-177(2)R

When a *money broker* is lending money it must calculate a 100% *CRR* except to the extent that it holds *acceptable collateral*; except where the broker does not have a "written agreement" in accordance with rule 3-76(5) between the *firm* and *counterparty* specifying, inter alia, the interest rate on the loan and stating that the loan is repayable on demand or for a term no longer than 30 days, when the *CRR* is 100% of the amount outstanding.

- **Lending and borrowing securities etc**

- IPRU(INV) 3-177(3)R

For all *reverse repurchase and repurchase agreements, securities borrowing and lending agreements and buy and sale back and sale and buy back agreements* other than where *securities* are lent or sold or borrowed or

purchased through an approved payments system, a *money broker* must calculate an additional *CRR* of 0.5% applied to the value of all *securities* transferred.

- **Sub-total**
 - **IPRU(INV) 3-177(5)R**

The sum of the amounts calculated in accordance with (2) and (3) above is the *firm's* total *CRR* for *money brokers*.

- **3-178 Options purchased for a counterparty**
 - **Single premium options**
 - **IPRU(INV) 3-178(1)R**

Where a *firm* has purchased a single premium *option* on behalf of a *counterparty* and the *counterparty* has not paid the full *option* premium cost by three *business days* after trade date, a *firm* must calculate a *CRR* as the amount by which the option premium owed to the *firm* exceeds the market value of the *option* or *acceptable collateral*.

- **Traditional options**
 - **IPRU(INV) 3-178(2)R**

Where a *firm* has purchased a *traditional option* for its own account or a *counterparty* and paid the *option* premium, it must calculate a *CRR* equal to the value of the *option* premium.

- **Sub-total**
 - **IPRU(INV) 3-178(3)R**

The sum of the amounts calculated in accordance with (1) and (2) above is the *firm's* *CRR* in respect of purchased *options*.

- **3-180 Qualifying and other deposits**
 - **General rule**
 - **IPRU(INV) 3-180(1)R**

Subject to (2) below, a *firm* must calculate a *CRR* for a deposit referred to in the table below by multiplying the value of the deposit by the appropriate percentage contained in the table below.

R Table 3-180(1) - Qualifying and other deposit risk percentages

Type of deposit	%
<i>Qualifying deposits</i>	nil
Other deposits with an <i>approved bank</i> related to a transaction creating an offsetting liability for the <i>firm</i> or subject to an agreement with the bank allowing its use as collateral for a loan that may be withdrawn within -	
▪ three months to one year	2.5%
▪ over one year	4.0%
Note: all other deposits are subject to a liquidity adjustment (see rule 3-75(12))	

- **Timing**

- **IPRU(INV) 3-180(2)R**

Qualifying deposits and other deposits outstanding three days after a repayment request has been made or more than three days past maturity date are subject to a full *CRR* .

- **Netting**

- **IPRU(INV) 3-180(2A)R**

A *firm* may reduce the value of the deposit by an amount owed by the *firm* to a *counterparty* before it multiplies the residual exposure by the appropriate percentage in Table 3-180(1) provided that:

- the exposures arise with the same *counterparty* ; and
- a. the *firm* has a written agreement supported by a legal opinion obtained in accordance with rules 3-170(11).

- **Sub-total**

- **IPRU(INV) 3-180(3)R**

The sum of the amounts calculated in accordance with Table 3-180(1) is the *firm's CRR* for *Qualifying deposits* and other deposits.

- **3-181 Loans to counterparties**

- **General rule**

- **IPRU(INV) 3-181(1)R**

A *firm* must calculate a 100% *CRR* on the amount by which a loan to a *counterparty* is not:

- . secured by *acceptable collateral* ; or
- a. offset against amounts owed by the *firm* to the *counterparty* where the *firm* has a written agreement supported by a legal opinion obtained in accordance with rule 3-170(11).

- **Sub-total**
 - **IPRU(INV) 3-181(2)R**

The *sum* of the amounts calculated in accordance with this rule is the *firm's CRR* for loans to *counterparties* .

- **3-182 Other amounts owed to a firm arising out of investment business or investment dealing activities**
 - **Nil CRR items**
 - **IPRU(INV) 3-182(1)R**

The following receivables arising out of *investment business* or *investment dealing activities* do not require a *CRR* at any time:

- . any debt not covered elsewhere in the *CRR* rules to the extent that it is *adequately secured* ;
- a. amounts in respect of 30 day items specified in (3) below which have been outstanding for less than 30 days from the date on which they were first recorded on the *firm's* balance sheet; and
- b. accrued income for interest on *marketable investments* , except where it has been outstanding for more than 30 days after the date that the interest was due to be received.

- **CRR on amounts owed to a firm in respect of international underwriting and stabilisation activities**
 - **IPRU(INV) 3-182(2)R**
 - . Where management or other fees are owed to a *firm* in respect of international underwriting or stabilisation activities, the *firm* must calculate full *CRR* on any amounts remaining unpaid 30 days after

they first appeared on the *firm's* balance sheet.

- a. A *firm* acting as stabilising manager must also calculate a *CRR* equal to 100% of any income accrued as a result of net profit on stabilising activities while the stabilising account remains open.

- **CRR on 30 day items**
 - **IPRU(INV) 3-182(3)R**

A *firm* must calculate a 100% *CRR* in respect of the following receivables due to the *firm* if they have been outstanding for more than 30 days from the date on which they were first recorded on the *firm's* balance sheet:

- *commissions* and fees earned in connection with the *firm's investment business* ;
- a. commissions and fees earned which are due and payable from *client* bank accounts;
- b. repayments of *marketable investments* at maturity or call;
- c. the value of scrip issues and rights issues;
- d. proceeds arising from takeovers and mergers;
- e. domestic *underwriting* or stabilisation fees; and
- f. accrued income and work in progress.

- **100% CRR items**
 - **IPRU(INV) 3-182(4)R**

A *firm* must calculate a 100% *CRR* in respect of other receivables arising from *investment business* and *investment dealing activities* not covered elsewhere in this rule from the time that the receivable is recorded on the balance sheet.

- **Netting**
 - **IPRU(INV) 3-182(4A)R**

A *firm* may reduce the value of the amounts owed to the *firm* by an amount owed by the *firm* to a *counterparty* before it multiplies this by 100% provided that:

- . the exposures arise with the same *counterparty* ; and
- a. the *firm* has a written agreement supported by a legal opinion obtained in accordance with rule 3-170(11).

- Sub-total
 - IPRU(INV) 3-182(5)R

The sum of the amounts calculated in accordance with this rule is the *CRR* for other amounts owed to the *firm* arising out of *investment business* or *investment dealing activities*.

- Consolidated Supervision [deleted]

[deleted]

Amended by LI: (2001/57), 2004/56, 2006/53

- Scope of test [deleted]

3-190 R

[deleted]

Amended by LI: (2001/57), 2006/53

3-190 G

[deleted]

Amended by LI: (2001/57), 2006/53

- Constituents of a group [deleted]

3-191 R

[deleted]

Amended by LI: (2001/57), 2006/53

3-191 G

[deleted]

Amended by LI: [\(2001/57\)](#), [2006/53](#)

- **Exemptions [deleted]**

R

[deleted]

Amended by LI: [\(2001/57\)](#), [2006/53](#)

- **Group financial resources [deleted]**

3-192 R

[deleted]

3-192 G

[deleted]

Amended by LI: [\(2001/57\)](#), [2006/53](#)

- **Group financial resources requirement [deleted]**

3-193 R

[deleted]

3-193 G

[deleted]

Amended by LI: [\(2001/57\)](#), [2006/53](#)

- **Intra-group offsets and netting [deleted]**

3-194 R

[deleted]

Amended by LI: [\(2001/57\)](#), [2006/53](#)

- **Exemption from consolidated supervision [deleted]**

3-195 R

[deleted]

Amended by LI: [\(2001/57\)](#), [2006/53](#)

- **ACMPs**

- **3-300 ACMPs**

- **IPRU(INV) 3-300(1)R**

A *firm* may only use an *ACMP* for the purposes of rules 3-170 to 3-182 if:

- the policies and procedures making up the proposed *ACMP* are at all times adequate and appropriate to the *firm* and its business; and
- a. the *firm* gives to the *FCA* at least three months notice in writing of its intention to use an *ACMP* for the purposes of these rules.

Amended by: LI [FCA 2013/9](#)

- **IPRU(INV) 3-300(2)R**

The notice referred to in (1)(b) above must include all relevant details of the policies and procedures making up the proposed *ACMP*.

- **IPRU(INV) 3-300(3)R**

The notice referred to in (1)(b) is not required if the *firm* was permitted under the relevant requirements of a predecessor regulator, as they were in force immediately prior to the specified day, to use the proposed *ACMP* for the purposes of those requirements.

- **IPRU(INV) 3-300(4)E**

- A *firm's* policies and procedures should take full account of the principles described in Appendix 56.
- a. Compliance with 3-300(4)(a) may be relied on as tending to establish compliance with 3-300(1)(a).
- b. Contravention of 3-300(4)(a) may be relied on as tending to establish contravention of 3-300(1)(a).

- **IPRU(INV) 3-300(4)G**

On receipt of notice under (1)(b) the *FCA* is likely to review the policies and procedures proposed by the *firm* and the degree to which they take full and appropriate account of the matters described in Appendix 56. The *FCA's* review will take account of the context in which the policies and procedures are to operate and the relevant circumstances of the *firm*. The *FCA* will indicate to the *firm* its views on the adequacy and appropriateness of the proposals in the light of its review and may make recommendations of improvements.

The *FCA* may make a further review of the policies and procedures making up an *ACMP* at any time after their implementation for the purposes of these rules as part of its supervision of the *firm* . Any review after implementation will broadly follow the lines described above.

Amended by: LI [FCA 2013/9](#)

- **Appendices**
 - **Appendix 1 Glossary of terms for IPRU(INV) 3**

Note: If a defined term does not appear in the glossary below, the definition appearing in the Glossary annexed to the General Provisions Instrument 2001 applies.

<i>acceptable collateral</i>	<p>0. (other than for the purposes of rule 3-173B) means any of the following items of collateral provided to a <i>firm</i> by a <i>counterparty</i> -</p> <ul style="list-style-type: none"> . cash; a. letters of credit and guarantees to the extent of their face value, issued by a <i>regulated banking institution</i> which is not the <i>counterparty</i> nor an <i>associate</i> of the <i>counterparty</i> ; b. letters of credit and guarantees to the extent of their face value, issued by a bank which is not a <i>regulated banking institution</i> (not being the <i>counterparty</i> , an <i>associate</i> of the <i>counterparty</i> nor an <i>affiliated company</i>) which has been accepted under the <i>firm's ACMP</i>; c. gold and silver bullion and coinage; and d. <i>marketable investments</i> , <p>to which the following conditions apply -</p> <ul style="list-style-type: none"> . the <i>firm</i> must have an unconditional right to apply or realise the <i>acceptable collateral</i> for the purpose of repaying the <i>counterparty's</i> obligations; i. <i>marketable investments</i> must - <ul style="list-style-type: none"> (aa) be <i>marked to market</i> daily using the valuation principles in rule 3-41(9); (bb) not be issued by the <i>counterparty</i> nor by an associate of the <i>counterparty</i> ; and (cc) be discounted by 8% (before allowances for hedging or diversification); and ii. each item of <i>acceptable collateral</i> must be discounted by 5% if it is denominated in a different currency to the <i>counterparty's</i> obligation; <p>1.</p> <p>2. (for the purposes of rule 3-173B) means any of the</p>
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	<p>following items of collateral provided to a <i>firm</i> by a <i>counterparty</i> :</p> <ul style="list-style-type: none"> . cash; a. gold and silver bullion and coinage; b. certificates of deposit issued by and lodged with the <i>firm</i> ; c. securities issued by <i>Zone A</i> central governments and <i>Zone A</i> central banks; and d. securities issued by the <i>EU</i> or Euratom (the European Atomic Energy Community), <p>to which the following conditions apply:</p> <ul style="list-style-type: none"> v. the <i>firm</i> must have an unconditional right to apply or realise the <i>acceptable collateral</i> for the purpose of repaying the counterparty's obligations to the <i>firm</i> ; and vi. securities must be <i>marked to market</i> daily using the valuation principles in rule 3-41(9); <p>Amended by: LI 2007/56, 2009/67</p>
ACMP	means, subject to rule 3-300, a credit management policy and procedures according with the principles discussed in Appendix 56 ;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>adequate collateral</i>	<p>means any of the following items of collateral provided to a <i>firm</i> by a <i>counterparty</i> :</p> <ul style="list-style-type: none"> c. cash; d. standby letters of credit and unconditional, irrevocable first on demand guarantees to the extent of their face value, issued by a <i>Zone A credit institution</i> which is not the counterparty nor an <i>associate</i> of the <i>counterparty</i> , and which is not an <i>affiliated company</i> , <i>associate</i> or a <i>controller</i> of the <i>firm</i> ; e. standby letters of credit and unconditional, irrevocable first on demand guarantees to the extent of their face value, issued by a bank which is not a <i>Zone A credit institution</i> (not being the <i>counterparty</i> nor an <i>associate</i> of the <i>counterparty</i>) which has been accepted under the <i>firm's</i> ACMP and which is not an <i>affiliated company</i> , <i>associate</i> or a <i>controller</i> of the <i>firm</i> ; f. certificates of deposit ; g. gold and silver bullion and coinage; h. securities ;

	<p>i. <i>physical commodities</i> ; and</p> <p>j. the performance guarantees issued in support of the securities lending and borrowing programmes of Euroclear and Clearstream, in respect only of exposure arising from participation in such programmes,</p> <p>to which the following conditions apply —</p> <p>xi. the <i>firm</i> must have an unconditional right to apply or realise the collateral for the purpose of repaying the <i>counterparty's</i> obligations to the <i>firm</i> ; and</p> <p>xii. <i>securities</i> must —</p> <p>aa. be <i>marked to market</i> daily using the valuation principles in rule 3-41(9); and</p> <p>bb. not be issued by the <i>counterparty</i> nor by an <i>associate</i> of the <i>counterparty</i> ;</p> <p>Amended by: LI 2007/56</p>
<i>adequately secured</i>	<p>means secured by cash or by <i>marketable investments</i> -</p> <p>m. in respect of which the firm has an unconditional right to apply or realise for the purpose of repaying the <i>counterparty's</i> obligations to the <i>firm</i> ;</p> <p>n. which, in the case of <i>marketable investments</i> , are <i>marked to market</i> daily by the <i>firm</i> using the valuation principles in rule 3-41(9);</p> <p>o. with, in the case of <i>marketable investments</i> , a <i>marked to market</i> value not lower than the current value of that obligation after being discounted -</p> <p style="padding-left: 40px;">by 8% (before allowances for hedging or diversification); and</p> <p>i. at an additional 5% if it is denominated in a different currency to the obligation; and</p> <p>p. which, in the case of <i>marketable investments</i> , must not be issued by the <i>counterparty</i> nor by an <i>associate</i> of the <i>counterparty</i> ;</p>
<i>adviser</i>	<p>means a <i>firm</i> which -</p> <p>q. has <i>counterparties</i> who are investors or potential investors;</p> <p>r. restricts its <i>investment business</i> to activities within article 53 (advising on investments) of the <i>Regulated Activities Order</i> ;</p> <p>s. does not hold, receive or control money or property belonging to another person, nor has a mandate over a <i>customer's</i> bank account;</p> <p>t. does not introduce its <i>counterparties</i> to other persons</p>

	<p>x. <i>Kingdom</i> : if the account is opened at a branch in the <i>United Kingdom</i> :</p> <ul style="list-style-type: none"> . the Bank of England; or i. the central bank of a member state of the <i>OECD</i> ; or ii. a <i>bank</i> ; or iii. a <i>building society</i> which offers, unrestrictedly, banking services; or iv. a bank which is supervised by the central bank or other banking regulator of a member state of the <i>OECD</i> ; or <p>y. if the account is opened elsewhere:</p> <ul style="list-style-type: none"> . a bank in (a); or i. a <i>credit institution</i> established in an <i>EEA State</i> other than the United Kingdom and duly authorised by the relevant <i>Home State regulator</i> ; or ii. a bank which is regulated in the Isle of Man or the Channel Islands; or <p>z. a bank supervised by the South African Reserve Bank;</p> <p>or</p> <p>aa. any other bank that:</p> <ul style="list-style-type: none"> . is subject to regulation by a national banking regulator; i. is required to provide audited accounts; ii. has minimum net assets of £5 million (or its equivalent in any other currency at the relevant time) and has a surplus revenue over expenditure for the last two financial years; and iii. has an annual audit report which is not materially qualified;
<p><i>approved bank bond</i></p>	<p>means any instrument, by whatever name called, provided by an <i>approved bank</i> which -</p> <ul style="list-style-type: none"> bb. provides for the immediate payment of a stated sum to

	<p>the <i>firm</i> on demand whether by the firm or the <i>FCA</i> ;</p> <p>cc. provides that the bank shall have no recourse to the assets of the <i>firm</i> in respect of the bond and that no other person shall have recourse to the assets of the <i>firm</i> arising in respect of the bond, until payment in full of all other creditors;</p> <p>dd. prohibits the bank from terminating the bond unless -</p> <ul style="list-style-type: none"> · the beneficiary will have <i>financial resources</i> equal to at least 120% of its <i>financial resource requirement</i> after termination; or <p>i. receives authority from the <i>FCA</i> to do so;</p> <p>ee. prohibits any automatic early termination of the bond whether arising out of any act or default of the <i>firm</i> or otherwise;</p> <p style="text-align: center;">Amended by: LI FCA 2013/9</p>
<i>approved exchange</i>	means an investment exchange listed as such in Appendix 33 ;
<i>approved person</i>	means a <i>person</i> in relation to whom the <i>FCA</i> has given its approval under section 59 of the Act (Approval for particular arrangements) for the performance of a controlled function; Amended by: LI FCA 2013/9
<i>approved treasury arrangement</i>	means an arrangement notified to the <i>FCA</i> in writing whereby a group of connected companies including the firm transfers all cash surpluses to one specified connected company of the <i>firm</i> for the sole purpose of obtaining preferential interest rates on money market deposits; Amended by: LI FCA 2013/9
<i>arranger</i>	means a <i>firm</i> -
	<p>ff. whose sole <i>investment business</i> consists of activities within the following articles of the Regulated Activities Order -</p> <ul style="list-style-type: none"> · articles 14 (dealing in investments as principal) or 21 (dealing in investments as agent) if - <ul style="list-style-type: none"> (aa) the <i>firm</i> is a <i>venture capital firm</i> ; or (bb) the activity is own account business which would be excluded from being investment business by the provisions of article 16 of the Regulated Activities Order but for the fact that the firm is an <i>authorised person</i> ; or <p>i. article 25 (arranging deals in investments);</p> <p>ii. article 37 (managing investments); and</p> <p>iii. article 53 (advising on investments);</p>

	<p>gg. whose permission is subject to a <i>limitation or requirement</i> preventing it from holding money or property belonging to other persons and does not have a mandate over a customer's bank account;</p> <p>Amended by: LI 2007/58</p>
<i>associate</i>	<p>in relation to a person ("A"), means -</p> <p>hh. an undertaking in the same <i>group</i> as A;</p> <p>ii. an <i>appointed representative</i> or where applicable, a <i>tied agent</i> of A or of any undertaking in the same <i>group</i> as A; and</p> <p>jj. any other person whose business or domestic relationship with A or its <i>associate</i> might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties;</p> <p>Amended by: LI 2007/58</p>
<i>associated business</i>	means business which is carried on in connection with <i>investment business</i> ;
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<i>bonus</i>	<p>means that part of the remuneration paid by a firm to its <i>employees</i> (including <i>directors</i>) which is:</p> <p>kk. not a <i>profit share</i> ; and</p> <p>ll. awarded by management entirely on a discretionary basis,</p> <p>to the extent that it does not exceed the profit for the financial year of the <i>firm</i> before accounting for such bonus;</p>
<i>bought deal</i>	means an <i>offering</i> where a <i>firm</i> on its own gives an outright binding commitment to the issuer or seller to purchase or subscribe for the <i>securities</i> to be offered;
<i>broad scope firm</i>	means any <i>firm</i> which is not an <i>adviser</i> , an <i>arranger</i> or a <i>local</i> ;

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<i>buy and sale back agreement</i>	see <i>reverse repurchase agreement</i> ;
<i>call option</i>	means an option to buy an <i>investment</i> , other instrument, foreign currency or <i>physical commodity</i> at a given price on or before a given date;
<i>cap</i>	means an agreement in respect of a borrowing under which a <i>counterparty</i> contracts to pay any interest costs arising as a result of an increase in rates above an agreed rate: the effect being to provide protection to the holder against a rise above that agreed rate;
[deleted]	[deleted] Amended by: LI 2007/02
<i>certificate of deposit</i>	means a negotiable or non-negotiable certificate issued by a bank;
[deleted]	[deleted] Amended by: LI 2007/27
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<i>client</i>	<p>means any <i>person</i> with or for whom a <i>firm</i> conducts or intends to conduct <i>designated investment business</i> or any other <i>regulated activity</i> ; and:</p> <p>mm. every client is a <i>customer</i> or an <i>eligible counterparty</i> ;</p> <p>nn. "client" includes:</p> <ul style="list-style-type: none"> . (i) a potential client; i. a client of an <i>appointed representative</i> of a <i>firm</i> with or for whom the <i>appointed representative</i> acts or intends to act in the course of business for which the <i>firm</i> has accepted responsibility under section 39 of the <i>Act</i> (Exemption of appointed representatives); ii. a <i>collective investment scheme</i> even if it does not have separate legal personality; iii. if a person ("C1"), with or for whom the <i>firm</i> is conducting or intends to conduct <i>designated investment business</i> , is acting as agent for another <i>person</i> ("C2"), either C1 or C2 in accordance with COBS 2.4.3R (Agent as client); <p>oo. "client" does not include:</p> <ul style="list-style-type: none"> . a trust beneficiary;

	<p>i. a corporate finance contact ;</p> <p>ii. a venture capital contact .</p> <p>Amended by: LI 2007/58</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>client money rules</i>	means COB 9.3;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2005/56, 2007/27</p>
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<i>commissions shared</i>	means that part of the remuneration paid by a <i>firm</i> which is determined on the basis of the number, size or profitability of individual deals carried out;
<i>connected company</i>	<p>and "<i>connected credit institution</i> " mean, in relation to a <i>firm</i> which:</p> <p>pp. is a <i>body corporate</i> , a <i>body corporate</i> or <i>credit institution</i> satisfying any of the following conditions -</p> <p>. the same person is the controller of each <i>body corporate</i> or <i>credit institution</i> ;</p> <p>i. if a group of two or more persons are <i>controllers</i> of each <i>body corporate</i> or <i>credit institution</i> and 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 -</p> <p>(aa) that member s close relative;</p> <p>(bb) a person with whom that member is in partnership; or</p> <p>(cc) a <i>body corporate</i> of which the member is an officer; or</p> <p>ii. both <i>bodies corporate</i> are members of the same group; or</p> <p>qq. is not a <i>body corporate</i> , a <i>body corporate</i> or <i>credit institution</i> which is controlled -</p>

	<ul style="list-style-type: none"> . by the <i>firm</i> ; i. by a <i>partner</i> in the <i>firm</i> ; ii. by a <i>close relative</i> of a <i>partner</i> in the <i>firm</i> or, if the <i>firm</i> is a <i>sole trader</i> , by a <i>close relative</i> of the <i>sole trader</i> ; or iii. collectively by any of the <i>partners</i> in the <i>firm</i> or their <i>close relatives</i> ;
<i>connected credit institution</i>	see " <i>connected company</i> ";
<i>connected person</i>	has the same meaning as given in sections 252, 253 and 254 of the Companies Act 2006 and a person described therein as being connected with a <i>director</i> will similarly be deemed to be connected with a <i>partner</i> of a <i>firm</i> ; Amended by: LI 2008/22
<i>contingency</i>	means a future event the outcome of which is uncertain;
<i>contingent liability</i>	means a liability dependent upon the occurrence or non- occurrence of one or more uncertain future events;
[deleted]	[deleted] Amended by: LI 2007/27
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<i>convertible</i>	means a <i>security</i> which gives the investor the right to convert the <i>security</i> into equity at an agreed price or on an agreed basis;
[deleted]	[deleted] Amended by: LI 2007/27
<i>corporate finance advisory firm</i>	means a <i>firm</i> which is an arranger and whose <i>permission</i> includes a <i>requirement</i> that it must not conduct <i>investment business</i> other than <i>corporate finance business</i> ;
<i>corporate finance business</i>	means <ul style="list-style-type: none"> rr. <i>designated investment business</i> carried on by a <i>firm</i> with or for: <ul style="list-style-type: none"> . any <i>issuer</i> , holder or owner of <i>designated investments</i>, if that business relates to the <i>offer</i>, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, those <i>investments</i>, or any related matter; i. any <i>eligible counterparty</i> or <i>professional client</i> , or other <i>body corporate</i> , <i>partnership</i> or supranational organisation, if that business relates to the manner in which, or the terms on which, or the <i>persons</i> by

whom, any business, activities or undertakings relating to it, or any *associate* , are to be financed, structured, managed, controlled, regulated or reported upon;

ii. any *person* in connection with:

. 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

A. a merger, de-merger, reorganisation or reconstruction involving any *investments* issued by that *person* (being a *body corporate*), its *holding company* , *subsidiary* or *associate* ;

iii. 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;

iv. any *person* who, acting as a *principal* for his own account:

. is involved in negotiations or decisions relating to the commercial, financial or strategic intentions or requirements of a business or prospective business; or

A. 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;

v. 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;

ss. *designated investment business* carried on by a *firm* as a *principal* for its own account where such business:

. is in the course of, or arises out of, activities undertaken in accordance with (a); and

i. does not involve transactions with or for, or *advice on investments* to, any other *person* who is a *retail client* in respect of such business;

tt. *designated investment business* carried on by

	<p>a <i>firm</i> as <i>principal</i> for its own account if such business:</p> <p>is in the course of, or arises out of:</p> <p>the <i>offer</i>, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, <i>shares</i>, share warrants, <i>debentures</i> or debenture warrants issued by the <i>firm</i>, or any related matter; or</p> <p>A. a proposed or actual <i>takeover</i> or <i>related operation</i> by or on behalf of the <i>firm</i>, or involving <i>shares</i>, share warrants, <i>debentures</i> or debenture warrants issued by the <i>firm</i>; or</p> <p>B. a merger, de-merger, reorganisation or reconstruction involving any <i>shares</i>, share warrants, <i>debentures</i> or debenture warrants issued by the <i>firm</i>; and</p> <p>i. does not involve giving <i>advice on investments</i> to any person who is a <i>retail client</i>;</p> <p>in this definition, share warrants and debenture warrants mean any <i>warrants</i> which relate to <i>shares</i> in the <i>firm</i> concerned or, as the case may be, <i>debentures</i> issued by the <i>firm</i>;</p> <p>Amended by: LI 2007/58</p>
<i>counterparty</i>	means any person with or for whom a <i>firm</i> carries on, or intends to carry on, any regulated business or associated business;
[deleted]	[deleted] Amended by: LI 2002/30 , 2006/53
<i>CRR</i>	means the counterparty risk requirement, as calculated 3-170 to 3-182;
<i>customer</i>	means a <i>client</i> who is not an <i>eligible counterparty</i> ; <i>dealing activities</i> means all <i>dealing activities</i> as principal or agent in <i>investments</i> and <i>physical commodities</i> ;
	Amended by: LI 2007/58
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<i>dematerialised instruction transmitter</i>	means a firm - <p>uu. which restricts its <i>investment business</i> to activities within article 45 (sending dematerialised instructions) of the Regulated Activities Order; and</p> <p>vv. which does not hold or receive money or property belonging to another person nor has a mandate over another person s bank account;</p>

	ccc. whose services are, under an arrangement between the person and a third party, placed at the disposal and under the control of the person;
<i>equity balance</i>	means - ddd. a <i>counterparty's equity balance</i> ; or eee. a <i>firm's equity balance</i> ;
[deleted]	[deleted] Deleted by: LI 2009/67
<i>exceptional items</i>	means those items which derive from events or transactions within the ordinary activities of the business of a <i>firm</i> and which are both material and not expected to recur frequently or regularly;
<i>exchange</i>	means a <i>recognised investment exchange</i> or <i>designated investment exchange</i> ; Amended by: LI 2003/50
<i>exchange traded</i>	means an <i>investment</i> which is traded or listed on <i>exchange</i> or on an <i>approved exchange</i> ; or an <i>offering</i> where an investment <i>pari passu</i> to that being offered is traded or listed on <i>exchange</i> or on an <i>approved exchange</i> ;
<i>exchange-traded-margined-transaction</i>	means a <i>margined transaction</i> effected by a <i>firm</i> under the rules of an <i>exchange</i> or an <i>approved exchange</i> or <i>clearing house</i> ;
<i>extraordinary items</i>	means those items which derive from events or transactions outside the ordinary activities of the business of a <i>firm</i> and which are both material and not expected to recur frequently or regularly;
<i>financial bookmaker</i>	means a <i>firm</i> which conducts only spread-betting business;
<i>financial reporting statement</i>	means the periodic financial and other reporting statements required to be provided to the <i>FCA</i> under the provisions of Chapter 16 of the <i>Supervision manual</i> ; Amended by: LI FCA 2013/9
<i>financial resources</i>	means the sum of the <i>firms tangible net worth</i> and <i>eligible capital substitutes</i> ;
<i>financial resources requirement</i>	means the sum of the <i>firms primary requirement</i> , <i>PRR</i> and <i>CRR</i> ;
<i>financial rules</i>	means the financial rules in Chapter 3 of the <i>FCA's Interim Prudential Sourcebook for Investment Businesses (IPRU(INV)3)</i> ; Amended by: LI FCA 2013/9
[deleted]	[deleted] Amended by: LI 2007/27
<i>floor</i>	means an agreement in respect of a deposit under which a <i>counterparty</i> contracts to pay any lost income arising as a result of a fall in rates below an agreed rate: the effect being to provide protection to the holder against a fall below that agreed interest rate;

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<i>initial margin requirement</i>	means the total amount which under the rules of the relevant <i>exchange</i> or <i>exchanges</i> or <i>clearing house</i> or <i>clearing houses</i> the <i>firm</i> or an <i>intermediate broker</i> would be required to deposit in cash as a fidelity deposit in respect of all the <i>client's</i> open positions in <i>marginised transactions</i> at that time, irrespective of any unrealised profit or loss on such positions, on the assumption that those transactions were the only transactions undertaken under the rules of that <i>exchange</i> or those <i>exchanges</i> or that <i>clearing house</i> or those <i>clearing houses</i> by the <i>firm</i> or the <i>intermediate broker</i> at that time;
<i>intermediate broker</i>	in relation to a <i>marginised transaction</i> , means any person through whom the <i>firm</i> undertakes that transaction;
[deleted]	[deleted] Amended by: LI 2007/58
[deleted]	[deleted] Amended by: LI 2007/27
<i>international offering</i>	means an <i>offering</i> which is not a <i>domestic offering</i> or, where an <i>offering</i> has a tranche which is a <i>domestic offering</i> , those tranches which are not;
<i>inter-professional</i>	[deleted] Amended by LI: 2003/50
<i>introducing broker</i>	means an <i>arranger</i> who introduces all transactions in <i>investment business</i> or <i>dealing activities</i> arranged for <i>counterparties</i> to a <i>clearing firm</i> where the <i>clearing firm</i> accepts primary responsibility (including legal liability) for the settlement of those transactions;
<i>investment</i>	means a <i>designated investment</i> . Amended by: LI 2007/27
<i>investment agreement</i>	means any agreement the making or performance of which by either party constitutes an activity which is <i>investment business</i> ;
<i>investment business</i>	means any of the following regulated activities specified in Part II of the Regulated Activities Order and which is carried on by way of business: <ul style="list-style-type: none"> hhh. dealing in investments as principal (article 14), but disregarding the exclusion in article 15 (Absence of holding out etc); iii. dealing in investments as agent (article 21); ba. <i>auction regulation bidding</i> (part of <i>bidding in emissions auctions</i>) (article 24A); <ul style="list-style-type: none"> ▪ arranging deals in investments for another person (article 25(1)) but only in relation to <i>investments</i>; ▪ making arrangements for deals in investments (article 25(2)) but only in relation to <i>investments</i>; ▪ managing investments (article 37); ▪ safeguarding and administration of assets (article 40);

	<ul style="list-style-type: none"> ▪ sending dematerialised instructions (article 45(1)); ▪ causing dematerialised instructions to be sent (article 45(2)); ▪ [deleted] <p>ia. <i>managing a UCITS</i> (article 51ZA);</p> <p>ib. <i>acting as trustee or depositary of a UCITS</i> (article 51ZB);</p> <p>ic. <i>managing an AIF</i> (article 51ZC);</p> <p>id. <i>acting as trustee or depositary of an AIF</i> (article 51ZD);</p> <p>ie. <i>acting as a residual CIS operator</i> (article 51ZE);</p> <p>j. [deleted]</p> <p>k. [deleted]</p> <p>l. advising on investments (article 53);</p> <p>m. agreeing to carry on the activities in (a) to (h) and (l) (article 64);²</p> <p>Amended by: LIs 2012/35, FCA 2013/50, FCA 2013/51</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>investment manager</i>	<p>means a person who, acting only on behalf of a <i>customer</i> , either -</p> <ul style="list-style-type: none"> n. manages an account or portfolio in the exercise of discretion; or o. has accepted responsibility on a continuing basis for 4advising on the composition of the account or portfolio;
<i>investment services</i>	<p>means -</p> <ul style="list-style-type: none"> p. activities undertaken in the course of carrying on investment business; and q. activities undertaken in connection with an ISA where those activities do not constitute investment business;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>launch</i>	<p>means the time when any announcement, specifying the issuer or the guarantor of and indicating</p>

	the final <i>pricing terms</i> of the <i>offering</i> is made for the first time to the public or the press or any <i>exchange</i> or <i>approved exchange</i> or information service;
[deleted]	[deleted] Amended by: LI 2007/27
<i>margin requirement</i>	means, in relation to a <i>counterparty</i> , the value of any amounts which the <i>firm</i> or <i>intermediate broker</i> would be required to pay under the rules of an <i>exchange</i> or <i>clearing house</i> to — <ul style="list-style-type: none"> r. meet any <i>marked to market</i> losses occurring on contracts undertaken for that <i>counterparty</i> at that time; or s. as an initial margin fidelity deposit in respect of all the <i>counterparty's</i> open positions at that time, <p>on the assumption that those transactions were the only transactions undertaken on the <i>exchange</i> or <i>clearing house</i> by the <i>firm</i> or <i>intermediate broker</i> at that time;</p> Amended by: LI 2007/56
<i>marginised transaction</i>	means a transaction effected by a <i>firm</i> with or for a <i>customer</i> relating to an <i>investment</i> of any description referred to in articles 83, 84 and 85 of the Regulated Activities Order (or any right or any interest in such an <i>investment</i>) under the terms of which the <i>customer</i> will or may be liable to make a deposit in cash or collateral to secure performance of obligations which he may have to perform when the transaction falls to be completed or upon the earlier closing out of his position;
<i>mark to market</i>	means to value an <i>investment</i> at its current market value in accordance with rule 3-41(9);
[deleted]	[deleted] Amended by: LI 2007/58
<i>marketable investment</i>	means - <ul style="list-style-type: none"> t. an <i>investment</i> which is traded on or under the rules of an <i>exchange</i> or an <i>approved exchange</i> ; u. a debt instrument which may be transferred without the consent of the issuer or any other person (including a collateralised mortgage obligation); v. a <i>physical commodity</i> ; w. a <i>warrant, option, future</i> or other instrument which entitles the holder to subscribe for or acquire - <ul style="list-style-type: none"> . falls under (a) to (c) above; <i>an investment</i> or <i>physical commodity</i> which i. any currency; or ii. any combination of (i) and (ii) above; x. a <i>contract for differences</i> (including interest rate and currency <i>swaps</i>) relating to fluctuations in -

	<p>the value or price of an <i>investment</i> or <i>physical commodity</i> in (a) to (d) above;</p> <p>i. any currency;</p> <p>ii. the rate of interest in any currency or any index of such rates;</p> <p>iii. the level of any index which is derived from the prices of an <i>investment</i> or <i>physical commodity</i> in (a) to (c) above; or</p> <p>iv. any combination of (i) to (iv) above;</p> <p>y. <i>warrants, options, futures</i> or other instruments entitling the holder to obtain the rights of those contracts in (d) or (e) above; and</p> <p>z. a unit in a <i>regulated collective investment scheme</i> ;</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>model A clearing firm</i>	means a <i>regulated clearing firm</i> which uses its own money for settlement but is reimbursed on a daily basis by the non- <i>clearing firms</i> it settles for;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>money broker</i>	means a <i>firm</i> for which the total value of <i>repurchase, securities lending</i> and <i>sale and buy back agreements</i> is or has been at any time during the previous year, at least 25% of its total assets;
<i>new securities</i>	means, in relation to a particular <i>offering</i> , <i>securities</i> which are issued pursuant or with a view to an <i>offering</i> ;
<i>new to the market</i>	means, in relation to an <i>offering</i> , <i>securities</i> which are not already <i>exchange traded</i> ;
<i>non clearing floor member</i>	<p>means a <i>firm</i> which:</p> <p>aa. is authorised to trade on the floor of a <i>recognised investment exchange</i> which permits this category;</p> <p>bb. is not prohibited by the rules of that exchange from dealing with <i>customers</i> ;</p> <p>cc. has entered in to an agreement with a <i>clearing firm</i> which accepts full responsibility for every deal entered into by the non clearing floor member; and</p> <p>dd. is not authorised to handle <i>client money</i> ;</p>
<i>non recourse loan</i>	means a loan to a <i>firm</i> secured on specific land or buildings, under the terms of which the lender has no claim on the other assets of the <i>firm</i> nor on assets for which the <i>firm</i> is accountable in any circumstances (including a winding up);

<i>note issuance facility</i>	means an arrangement under the terms of which a borrower is able to issue short term notes in its own name with a guarantor, or consortium of guarantors ensuring the availability of funds to the borrower by agreeing to purchase any unsold notes, and which includes for example revolving underwriting facilities, note purchase facilities, euronote facilities and similar arrangements;
[deleted]	[deleted] Amended by: LI 2007/27
<i>offering</i>	means an offering of <i>securities</i> which are - ee. issued for the purpose of the offering; ff. <i>new to the market</i> ; or gg. existing <i>securities</i> which are <i>exchange traded</i> subject to the purchase of those <i>securities</i> having the same characteristics as an <i>offering of new securities</i> , or <i>securities</i> which are <i>new to the market</i> ;
[deleted]	[deleted] Amended by: LI 2007/28
[deleted]	[deleted] Amended by: LI 2007/28
[deleted]	[deleted] Amended by: LI 2007/28
[deleted]	[deleted] Amended by: LI 2007/28
[deleted]	[deleted] Amended by: LI 2007/28
<i>open-priced deal</i>	means an <i>international offering</i> which is not a <i>bought deal</i> or <i>pre-priced deal</i> ;
<i>option</i>	(for the purposes of rule 3-173B) means a contract which confers the right to buy or sell a security, contractually based investment, currency, gold or commodity at a given price on or before a given date. (NB: the definition of an option used for this purposes deliberately differs from that in the main Handbook Glossary); Amended by: LI 2007/56
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/27

[deleted]	[deleted] Amended by: LI 2007/27
<i>out of the money</i>	means those <i>options</i> and <i>warrants</i> which are not <i>in the money</i> ;
<i>packaged products</i>	[deleted] Amended by LI: 2006/28
<i>pari passu security</i>	means a <i>security</i> which is the same as another <i>security</i> , except only in respect of payment, entitlement to initial dividend and the nature of <i>documents of title</i> ;
<i>passport institution</i>	means an <i>incoming EEA firm</i> ;
<i>perfectly matching contracts</i>	mean certain <i>OTC derivatives</i> contracts which are included in a legally binding netting agreement that are equal and exact opposites and perfectly matching in all material respects;
[deleted]	[deleted] Amended by: LI 2007/27
<i>physical commodities method</i>	means the method of calculating <i>PRR</i> under rules 3-166 to 3- 169B;
<i>physical commodity</i>	means the actual commodity, <i>documents of title</i> to actual commodities or shipping documents conveying title to actual commodities;
<i>percentage risk addition</i>	means a percentage to be applied to the value of positions in investments held by the firm to determine its <i>PRR</i> ; Amended by: LI FCA 2013/9
<i>preference security</i>	means a <i>share</i> with rights, in respect of capital or dividends, superior to those of ordinary equity;
<i>pre-priced deal</i>	means an <i>international offering</i> other than a <i>bought deal</i> all the <i>pricing terms</i> of which have been fixed;
<i>pricing terms</i>	means, in relation to an <i>offering</i> , the amount of currency, maturity, <i>offering price</i> , rate of or means of calculating interest and any prices at which <i>securities</i> may be redeemed or converted or exchanged into other <i>securities</i> ;
<i>primary requirement</i>	is the primary requirement calculated in accordance with Table 3-61;
[deleted]	[deleted]
<i>profit share</i>	means an appropriation of profit before tax on a predetermined basis for the benefit of management or <i>employees</i> ;
<i>property fund</i>	means a scheme dedicated to permitted immovables and property related assets, whether with or without other transferable securities;
<i>PRR</i>	means the position risk requirement of a firm as calculated in accordance with rules 3-80 to 3-169B;
<i>put option</i>	means an <i>option</i> to sell an <i>investment</i> , other instrument, foreign currency or <i>physical commodity</i> at a given price on or before a given date;
<i>qualifying debt</i>	means a <i>debt security</i> which:

<p><i>security</i></p>	<p>0. (other than for the purposes of rule 3-173B):</p> <ul style="list-style-type: none"> . represents or evidences indebtedness; a. is a <i>marketable investment</i> ; b. if it or "equivalent debt" is rated by a "relevant agency" (and there has been no announcement that the rating will be cancelled) - <ul style="list-style-type: none"> . the <i>security</i> or the "equivalent debt" is so rated at or higher than the level indicated in the table in Appendix 34; i. there has been no announcement that the rating will be down-graded below the level so indicated; and ii. the <i>firm</i> has no reasonable cause to believe that another "relevant agency" has rated the security or "equivalent debt" below the level so indicated; and c. if neither it nor any "equivalent debt" is rated by a "relevant agency" (or there has been an announcement that such a rating will be cancelled), it satisfies one or more of the following - <ul style="list-style-type: none"> . it is issued or guaranteed by or is subject to the full faith and credit of a sovereign government or province or state thereof (or a corporation over 75% owned by such sovereign government, or province or state), which is a member of the <i>OECD</i> and the government, province, state or corporation has not defaulted, or entered into any rescheduling or similar arrangement, or announced the intention of so doing, in respect of itself or its agency's debt within the last five years; i. it is issued or guaranteed by a <i>supranational organisation</i> ; ii. it is issued or guaranteed by a corporation (not being a bank, for which see (iv) below) the ordinary <i>shares</i> of which are included within the following categories - <ul style="list-style-type: none"> (aa) UK: constituents of the FT All Share Index; (bb) Japan: constituents of the First Section of the Tokyo Stock Exchange; (cc) USA: constituents of the NYSE, AMEX or NASDAQ NMS; or (dd) countries listed below: the constituents of the FT-Actuaries World Indices in respect thereof; <ul style="list-style-type: none"> Australia Belgium Canada
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Denmark

France

Germany

Hong Kong

Italy

Netherlands

Norway

Singapore

Spain

Sweden

Switzerland

iii. _____ it is issued or guaranteed by a bank which is supervised by an authority in a state such as is referred to above and has capital and reserves (including subordinated loans which are not repayable within five years) of not less than £100,000,000 or the equivalent as shown by its latest published audited consolidated accounts (or, in the absence of consolidated accounts, unconsolidated accounts); or

iv. _____ is it issued or guaranteed by a local authority or building society in the United Kingdom;

provided that the issuer or guarantor of the *security* is not in default as to any payment on any other *security* issued or guaranteed by it; and

1.

2.

_____ for the purposes of (1) above -

_____ in respect of any *security* of, or guaranteed by, any issuer or guarantor, "equivalent debt" means any debt which ranks *pari passu* with, or subordinate to, the *security* or (as the case may be) the guarantee; and

a.

_____ in relation to any issuer or guarantor, a "relevant agency" means one of the agencies named in **Appendix 34** by reference to the category of issuer or guarantor;

3.

conditions:

_____ (for the purposes of rule 3-173B) meets the following

_____ it attracts zero specific risk under Table 2 in Appendix 47; or

a.

_____ it is issued by, or fully guaranteed by:

	<ul style="list-style-type: none"> · a <i>Zone B</i> central government or central bank and the <i>security</i> is denominated in the local currency of the issuer; i. a <i>multilateral development bank</i> ; ii. a <i>Zone A</i> public sector entity; iii. (iv) a company whose <i>share</i> is a constituent of one of the indices making up the FTSE All-World Index; or iv. (v) an issue of, or fully guaranteed by an <i>investment firm</i> or <i>recognised third-country investment firm</i> ; or <p>b. it is issued by, fully guaranteed by, endorsed or accepted by:</p> <ul style="list-style-type: none"> · a <i>Zone A</i> country; or a <i>credit institution</i> incorporated in i. a <i>Zone B</i> country and the debt <i>security</i> has a residual maturity of one year or less; or a <i>credit institution</i> incorporated in <p>c. it is a mortgage backed <i>security</i> relating to residential real estate of the type referred to in BIPRU 3.4.94R(1)(d)(i) which meets the requirements about legal certainty referred to in BIPRU 3.4.62R; or</p> <p>d. it is rated by at least one of the agencies shown in Table 3 in Appendix 47, and every such rating equals or exceeds the corresponding minimum shown in that table;</p>
<p>Amended by LI: 2007/56</p>	

<p><i>qualifying deposit</i></p>	<p>means a deposit which is one of the following -</p> <ul style="list-style-type: none"> d. balance on current account with an <i>approved bank</i> ; e. money on deposit with an <i>approved bank</i> , United Kingdom local authority, member of the Finance Houses Association, <i>stock exchange moneybroker</i> , <i>regulated clearing firm</i> , the National Savings Bank, <i>exchange</i> , <i>approved exchange</i> or <i>approved depository</i> which may be withdrawn within three months; f. money on deposit with an <i>approved bank</i> directly related to a transaction creating an offsetting liability for the <i>firm</i> or subject to an agreement with the bank allowing its use as collateral for a loan that may be withdrawn within three months, which relates to a liability of the same maturity and arises out of a transaction; g. amount evidenced by a certificate of tax deposit;
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	<p>h. amount evidenced by a <i>certificate of deposit</i> issued by a <i>regulated banking institution</i> which matures within three months; or</p> <p>i. deposit of cash by way of margin with an <i>exchange</i> , <i>approved exchange</i> , <i>clearing house</i> or <i>intermediate broker</i> ;</p>
<i>recognised exchange</i>	<p>[deleted]</p> <p>Amended by LI: 2003/50</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LIs 2003/50, 2007/27</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>recognised third country investment firm</i>	<p>[deleted]</p> <p>Amended by LI: 2003/50</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>regulated banking institution</i>	<p>means any banking institution which has paid up share capital and reserves of over £5,000,000 as shown by its latest published audited accounts, and which is authorised under the <i>Act</i> or supervised by the central bank or other regulatory authority of a member state of the <i>OECD</i> in which the bank is incorporated;</p> <p>Amended by: LI FCA 2013/9</p>
<i>regulated business</i>	<p>means <i>investment business</i> which is -</p> <p>j. business carried on from a permanent place of business maintained by a <i>firm</i> (or its <i>appointed representative</i>) in the United Kingdom; and</p> <p>k. other business carried on with or for <i>customers</i> in the United Kingdom, unless that business is -</p> <ul style="list-style-type: none"> . business carried on from an office of a <i>firm</i> outside the United Kingdom which, if that office were a separate person, would fall within the overseas persons exclusions set out in article 72 of the Regulated Activities Order; or i. business of an <i>appointed representative</i> of the <i>firm</i> which is not carried on in the United Kingdom;
<i>regulated clearing firm</i>	<p>means a <i>clearing firm</i> which is an <i>authorised person</i> ;</p>
[deleted]	<p>[deleted]</p>

	Amended by: LI 2007/27
<i>regulated financial institution</i>	<p>means a <i>firm</i> , or an institution which is authorised to conduct <i>investment business</i> involving the execution of transactions on <i>exchanges</i> or on <i>securities</i> or <i>derivatives exchanges</i> by one or more of the following regulators —</p> <ul style="list-style-type: none"> l. any regulator of <i>investment business</i> in any member state of the <i>EU</i> (other than the United Kingdom) established by law in that state; or m. a body referred to in Part 1 of Appendix 35; <p>provided, in the case of any such institution that the <i>firm</i> has no reason to suppose that the institution is in breach, in any material respect, of the rules enforceable by the relevant regulator;</p> <p>Amended by: LI 2009/67</p>
<i>relevant annual expenditure</i>	means the relevant annual expenditure of a <i>firm</i> calculated in accordance with rule 3-73;
[deleted]	[deleted]
	Amended by: LI 2007/27
<i>reporting statement</i>	<p>means any one or more of the following types of report as required by the <i>Supervision manual</i>:</p> <ul style="list-style-type: none"> n. audited <i>annual financial statements</i> ; o. <i>annual reporting statement</i>; p. [deleted]; q. internal control letter; r. quarterly reporting statement; s. position risk reporting statement; t. counterparty risk reporting statement; u. annual reconciliation; v. monthly reporting statement; and w. the audited accounts of a <i>subsidiary</i> of the <i>firm</i> ; <p>Amended by LI: 2006/23, 2007/65</p>
<i>repurchase agreement</i>	(and <i>sale and buy back agreement</i>) means an agreement for the sale of <i>securities</i> or <i>physical commodities</i> subject to a commitment to repurchase from the same person the same or similar <i>securities</i> or <i>physical commodities</i> ;
[deleted]	[deleted]
	Amended by: LI 2007/27

<i>reverse repurchase agreement</i>	(and " <i>buy and sale back agreement</i> ") means an agreement for the purchase of <i>securities</i> or <i>physical commodities</i> subject to a commitment to resell to the same person the same or similar <i>securities</i> or <i>physical commodities</i> ;
<i>sale</i>	includes any disposal for valuable consideration;
<i>sale and buy back agreement</i>	see <i>repurchase agreement</i> ;
[deleted]	[deleted] Amended by: LI FCA 2013/51
[deleted]	[deleted] Amended by: LIs 2007/28
[deleted]	[deleted] Amended by: LI 2007/27
<i>settlement day</i>	means the day on which under the recognised practice of an <i>exchange</i> or <i>approved exchange</i> , bargains are contracted for settlement; and in the case of bargains not transacted on an <i>exchange</i> or <i>approved exchange</i> , or entered into for forward settlement, 20 days from the date of the transaction, or, if earlier, the contractual due date;
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/27
<i>stock exchange moneybroker</i>	is a <i>moneybroker</i> which is an <i>authorised person</i> and acts as an intermediary in the gilt market;
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/58
<i>supranational organisation</i>	means any organisation referred to in Part 2 of Appendix 35 ;
<i>swap</i>	means a transaction in which two <i>counterparties</i> agree to exchange streams of payments over time according to a predetermined basis;
[deleted]	[deleted] Amended by: LIs 2007/11 , 2007/27
<i>takeover or related operation</i>	means: x. any offer to which the <i>Takeover Code</i> applies and any transaction or arrangement which is of such a nature that the <i>Takeover Code</i> would have applied to it had it concerned a company whose shares are listed under Part VI of the <i>Act</i> and whose head office and

	<p>place of central management are in the United Kingdom;</p> <p>y. any offer, transaction or arrangement relating to the purchase of <i>securities</i> with a view to establishing or increasing a strategic holding of a person, or of a person together with his <i>associates</i> in the <i>securities</i> concerned;</p> <p>z. any transaction or arrangement entered into in contemplation or furtherance of any offer, transaction or arrangement falling within (a) or (b) above; and</p> <p>aa. any transaction or arrangement entered into by way of defence or protection against any offer, transaction or arrangement falling within (a), (b) or (c) above which has taken place or which is contemplated;</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>tangible net worth</i>	is the tangible net worth of a <i>firm</i> calculated in accordance with rule 3-62;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>total PRR</i>	means the sum of all the amounts calculated as a <i>PRR</i> under rules 3-80 to 3-169B;
<i>traditional option</i>	means any <i>option</i> arranged but not traded under the rules of the London Stock Exchange;
<i>trust beneficiary</i>	means a beneficiary under a trust (not being the settlor) who benefits from the performance by a <i>firm</i> as trustee of <i>investment services</i> relating to the management of the trust assets;
<i>underwriting</i>	means a commitment to take up <i>securities</i> where others do not acquire or retain them;
<i>underwriting price</i>	means the price at which the <i>firm</i> is committed to take up the securities or the price at which it is committed to do so if required under the <i>underwriting</i> commitment less any commissions or discounts paid or allowed in connection with the transaction, except to the extent that the <i>firm</i> has taken credit for them in its accounts;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
<i>variable rate note</i>	means a debt <i>security</i> with the characteristics of an <i>FRN</i> except that the margin with respect to the index rate of interest is subject to variation depending on periodic negotiations;
<i>variation margin requirement</i>	means in relation to a <i>counterparty</i> the value of any amounts which the <i>firm</i> or <i>intermediate broker</i> would be required to pay under the rules of an <i>exchange</i> , <i>approved exchange</i> or <i>clearing house</i> to meet any <i>marked to market</i> losses occurring on contracts undertaken for that <i>counterparty</i> at that time on the assumption that those transactions were the only transactions undertaken on the <i>exchange</i> , <i>approved exchange</i> or <i>clearing house</i> by the <i>firm</i> or <i>intermediate broker</i> at that time;
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
[deleted]	[deleted]

	Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/27
<i>venture capital schemes</i>	means a scheme for providing capital to a <i>body corporate</i> whose equity is not traded or listed on an exchange ;
<i>walkaway clause</i>	means a provision which permits a non-defaulting counterparty to make only limited payments, or no payment at all, to the estate of the defaulter, even if the defaulter is a net creditor;
[deleted]	[deleted] Amended by: LI 2007/27
<i>warrant fund</i>	means a scheme which is dedicated to <i>transferable securities</i> except that it is permitted to invest entirely in <i>warrants</i> ;
<i>zone A</i>	see definition of <i>Zone A country</i> in the <i>Glossary</i> ; and Amended by LI: 2004/86
<i>zone B</i>	means any country not in <i>Zone A</i> .

* For the list of designated investment exchange, see **Appendix 33**

- **Appendix 20 Guidance notes on reconciliation of firm's balances with a counterparty which is a member of an exchange (rule 3-11(1)(d) and IPRU(INV) 9.6.1R (for an exempt CAD firm))**

Amended by LI: [2007/27](#)

- **Introduction**

0. The purpose of this guidance is to state how under rule 3-11(1)(d) and [IPRU\(INV\) 9.6.1R](#) (for an *exempt CAD firm*) the reconciliation process with counterparties which are also members of exchanges should be performed.

Amended by LI: [2007/27](#)

- **Scope**

2. The reconciliation to be performed with counterparties should cover all outstanding balances and *securities* positions with such counterparties from all sources except to the extent that the components of such balances and *securities* positions have been agreed by other means. Agreement by other means shall include (but is not to be limited to) those which have been-
 - matched or cleared through an exchange, clearing house or clearing system; or

- a. verified by dispatch to or receipt from the counterparty of a confirmation or statement. Such verification should have been evidenced in writing or by electronic media.
3. The reconciliation should cover all remaining outstanding items including, for example, fee-based items, dividends where these are on the *firm's* balance sheet, coupons, amounts arising under *OTC* contracts, *repurchase* and *reverse repurchase agreements* and *securities* lending and borrowing.
 4. The items to be included should be all those past trade date which is consistent with *trade date accounting*.
 5. Where necessary a *firm* should initially circularise a list of all relevant open items as set out above rather than a net balance. A *firm* should identify the assumptions made by them in ascertaining which balances (or types of balances) have been included in the reconciliation. A *firm* should also identify where the balances or *securities* positions with a counterparty arise from different accounts operated by them with that counterparty.
 6. The scope of the rule is intended to cover nil balances although these may be covered on a sample basis only. They are included because discrepancies in such balances may only come to light as being incorrectly stated on the performance of a circularisation. However, reconciliations of nil balances do not need to be performed where-
 - . the counterparty is also a *firm* ; or
 - a. there has been no outstanding balance with the counterparty at any point during the year.

▪

▪ **Timing**

7. It is considered preferable for a *firm* to be aware in advance at which periods of the year they will receive reconciliations requests. This may be of use to a *firm* in enabling it to plan in advance the allocation of staff for the performance of the reconciliations. Thus, it is suggested that a *firm* submits such circularisations, where possible, at calendar quarter end dates. It is considered that, in any case, the majority of *firms* would be likely to circularise such statements at these dates. However, a *firm* will be eligible to circularise at other dates as, for example,

when its own *annual or quarterly accounting reference dates* do not coincide with the calendar quarter end.

8. A *firm* may perform the reconciliation in conjunction with the work undertaken by its auditors for the purposes of the annual audit.

▪ The obligation on firms

9. Where a *firm* receives a statement from a counterparty during the year, the recipient *firm* is not also required by virtue of rule 3-11(1)(d) (or IPRU(INV) 9.6.1(1)R for an *exempt CAD firm*) to send a further statement to that counterparty in the same year.
10. A recipient of a circularisation request from another *firm* must use its best endeavours to respond. Notwithstanding paragraphs 7 and 8 above, this obligation will apply even if this request is received more frequently than once a year from the same counterparty or is wider in scope than required by paragraphs 2 to 6 above (for example, by also covering balances which have already been agreed by other means). Rule 3-11 (or IPRU(INV) 9.6.1(1)R for an *exempt CAD firm*) only requires that specific balances be covered. This is intended as a minimum requirement and not necessarily as the norm. If a *firm* need not reply to a request more than once a year or which covered balances of a wider scope, *firm* s would be discouraged from requesting such reconciliations.
11. Rule 3-11(3) (or IPRU(INV) 9.6.1(1)R(4) for an *exempt CAD firm*) requires a *firm* to respond, within one month of receipt, to a circularisation request received from another *firm*. The one month response period should also be observed in relation to circularisation requests received under rule 3-11(1)(d) (or IPRU(INV) 9.6.1(1)R for an *exempt CAD firm*).
12. It is not considered necessary to issue detailed guidance for the procedure to be adopted in cases where the recipient does not reply to a circularisation request sent by a *firm*. It is intended that a *firm* need only take reasonable steps to obtain any such reply. However, before a *firm* has taken such steps, it should not assume that the circularisation is agreed merely due to the absence of a reply from the counterparts.

Amended by LI: [2007/27](#)

▪ Appendix 21 Guidance notes on the valuation of positions (rule 3-41(9))

- **Introduction**

9. Rule 3-41(9) states that a position must be valued at its close out price, where close out price means that a long position should be valued at current bid price and a short position at current offer price. In addition, rule 3-41(9) states that a *firm* must value a position on a prudent and consistent basis, and have regard to the liquidity of the instrument concerned and any special factors that may adversely affect the closure of the position.
10. The following paragraphs give general indications to *firms* on the appropriate valuation methodology. However, it is emphasised that prudence should be the overriding influence in the valuation exercise and that, where uncertainty exists as to the most appropriate price, the *firm* should use that price which gives the most conservative valuation.

- **General principles**

3. *Firms* should value positions by reference to market prices, but where necessary should add a prudent and appropriate buffer to the bid or offer price to account for factors which would adversely affect the *firm's* ability to realise the close-out value, such as
 - . the liquidity of the *security* in question;
 - a. the size of the position held in that *security* relative to the sizes at which prices are quoted;
 - b. the direction of the position (long or short) relative to the current direction of the market;
 - c. the exposure of the *firm* to the relevant market as a whole;
 - d. any conversion or foreign exchange costs that would be incurred if the position were closed out;
 - e. any other factors which may affect the close-out price.
4. Where a mid-market or single price only is available for the *security* in question, *firms* must adjust this price by a prudent and appropriate buffer as outlined in paragraph 3 above.

5. With respect to paragraphs 3 and 4 above, *firms* should be able to demonstrate at all times how they determined the final price applied to any position in a *security*.

▪ **Appendix 26 (rules 3-81 to 3-165) Summary tables of which method of PRR to apply to an instrument**

INSTRUMENT		CIRCUMSTANCES	METHOD	RULES
1	<i>note issuance facilities</i>	all circumstances	<i>note issuance facilities</i>	3-80
2	foreign currency asset or capital or liability all circumstances	all circumstances	<i>foreign currency exposures</i>	3-150 to 3-154
3	<i>currency option and future</i>	see rule 3-152	<i>foreign currency exposures or foreign currency derivatives</i>	3-150 to 3-154
4	<i>physical commodity</i> , actual and forward	all circumstances	commodities	3-166 to 3-169B
5	<i>physical commodity, option and future</i>	all circumstances	commodities	3-166 to 3-169B
6	concentrated position	all circumstances	method relevant to position + <i>concentrated position</i>	As above
7	forward	equity foreign currency <i>physical commodities</i>	<i>equity</i> <i>foreign currency exposures</i> commodities	3-80 3-150 to 3-154 3-166 to 3-169B
8	<i>regulated collective investment scheme</i>	all circumstances	<i>equity derivatives</i>	3-80
9	<i>non marketable investments</i> and others	all circumstances	100% PRR	3-80

- **Appendix 33 (exchanges) List of recognised investment, designated investment and approved exchanges**
- [Deleted]

Amended by LI: [2003/50](#)

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Amended by LI: [2003/50](#)

- **List of recognised investment, designated investment and approved exchanges**

The following exchanges are approved for the purposes of the definition of "approved exchange" -

Athens Stock Exchange (ASE)
Barcelona Stock Exchange (Bolsa de Valores de Barcelona)
Belgian Futures & Options Exchange (BELFOX)
Berlin Stock Exchange (Berliner Börse)
Bilbao Stock Exchange (Bolsa de Valores de Bilbao)
BVLP (Bolsa de Valori de Lisboa e Porto)
Bolsa de Mercadorios & Futures (BM&F)
Boston Stock Exchange
Bovespa (The São Paulo Stock Exchange)
Bremen Stock Exchange (Bremer Wertpapierbörse)
BVRJ (The Rio de Janeiro Stock Exchange)
Cincinnati Stock Exchange
Copenhagen Stock Exchange (København's Fondsbors)
Dusseldorf Stock Exchange (Rheinisch-Westfälische Börse zu Düsseldorf)
Frankfurt Stock Exchange (Frankfurter Wertpapierbörse)
Hannover (Niedersächsische Börse zu Hannover)
Italian Exchange
Kuala Lumpur Stock Exchange
Luxembourg Stock Exchange (Société de la Bourse de Luxembourg SA)
Madrid Stock Exchange (Bolsa de Valores de Madrid)
Mercato Italiano Futures (MIF)
Munich Stock Exchange (Bayerische Börse in München)
Nagoya Stock Exchange
New Zealand Stock Exchange
Oslo Stock Exchange (Oslo Bors)
Stuttgart Stock Exchange (Baden-Württembergische Wertpapierbörse zu Stuttgart)
Swiss Exchange (SWX)
Taiwan Stock Exchange
Tel Aviv Stock Exchange
The Stock Exchange of Thailand
Valencia Stock Exchange (Bolsa de Valores de Valencia)

- **Appendix 34 ("qualifying debt security") Relevant Agency**

The agencies in the table below are "relevant agencies" for the purposes of the definitions of " *qualifying debt security* ".

		Securities minimum category	Money market obligations minimum category
1	For all issuers Moody's Investors Service Standard and Poor's Corporation Fitch Ratings Ltd	Baa3 BBB- BBB-	P3 A3 A3
2	For all banks, Building Societies and parent companies and subsidiaries of banks Thomson BankWatch	BBB-	TBW-3
3	For Canadian issuers and issues in Canadian dollars Canadian Bond Rating Service Dominion Bond Rating Service	B++low BBB low	A-3 R-2
4	For <u>Japanese</u> issuers and issues in Japanese yen Fitch Ratings Ltd Japan Credit Rating Agency, Ltd Japan Rating and Investment Information, Inc Mikuni & Co Ltd	BBB- BBB- BBB- BBB	F-3 J-2 a-2 M-3
5	For United States issuers and issues in US dollars Fitch Ratings Ltd	BBB-	F-3

- **Appendix 35 ("regulated financial institution" and "supranational organisation")**

LIST OF REGULATED FINANCIAL INSTITUTIONS AND SUPRANATIONAL ORGANISATIONS

- **Part 1 List Of Regulators For The Purposes Of The Definition Of Regulated Financial Institution**

Australian Stock Exchange Limited;

The Hong Kong Monetary Authority;

The Hong Kong Securities and Futures Commission;

Investment Dealers Association of Canada;

Japanese Ministry of Finance;

Sydney Futures Exchange;

Toronto Stock Exchange;

United States Commodity and Futures Trading Commission;

United States Securities and Exchange Commission;

Vancouver Stock Exchange.

- **Part 2 List Of Supranational Organisations**

a multilateral development bank;

The Bank for International Settlements;

The Council of Europe;

Euratom (The European Atomic Energy Community);

Eurofima (The European Company for Financing of Railroad Rolling Stock);

The *EU*;

The International Monetary Fund.

Amended by: LIs [2004/64](#), [2009/67](#)

- **Appendix 37 (rule 3-177) Guidance notes for Money Brokers**

- **Application Of The Counterparty Risk Requirement**

- **Introduction**

- 0. This Appendix offers guidance to *money brokers* on the application of rule 3-177 relating to the counterparty risk requirement.

- **Calculation of 0.5% additional CRR**

- 2. A *money broker* should calculate the additional *CRR* requirement as follows -
 - if a *money broker* is satisfied that it has a legal right to net off exposures with an individual *counterparty*, valid and enforceable in the United Kingdom or any other relevant country, it may do so in accordance with the rule 3-176(3). The obligation rests with the broker to demonstrate that the method it uses is reasonable and justifiable. It is stressed that this

right to net is at the option of the *firm* and is not mandatory;

- a. a *money broker* should then aggregate its total level of *securities* subject to a *repurchase* or *reverse repurchase agreement*, *securities* lending or borrowing agreement and *sale and buy back* or *buy and sale back agreement* (either net or gross) to or from individual *counterparties* outside an *approved payments system* and money lent against *Talisman short-term certificates*. A capital requirement of 0.5% of this sum should then be calculated.

▪

▪ **Approved payments systems**

3. The following are *approved payment systems* when the systems concerned provide for settlement on a delivery versus payment basis -
 - Austraclear New Zealand
 - Banca D Italia's Giornaliera
 - Banque Nationale de Belgique
 - Bank of Spain Interbank Bond Settlements System
 - Banque de France's SATURNE
 - BOJ-NET DVP
 - Central Gilts Office
 - Clearstream
 - Depository Trust Company
 - Euroclear
 - Fedwire - see The Federal Reserve System
 - Kassenverein
 - Necigef
 - SICOVAM (Relit settlement only)
 - Sociedad de Compensacion y Liquidacion de Valores
 - The Canadian Depository for Securities Ltd
 - The Federal Reserve System (Fedwire), and
 - Vardepapperscentralen VPC AB

- **Collateral**

4. It is recognised that letters of credit may be used as collateral and may have a value in excess of the amount of the *securities* transferred. Provided it is clearly established that claims cannot be made on the letter of credit in excess of the value of the *securities* borrowed, no *CRR* will be imposed on the amount by which the letter of credit exceeds the value of the *securities* borrowed. *Firms* are reminded that the definition of *acceptable collateral* includes *marketable investments* which may take the form of money market instruments.

- **Appendix 43 Guidance notes on the financial resources and accounting treatment of soft commission agreements**

(rules 3-73 and 3-182(3))

- **Introduction**

0. This Appendix contains detailed guidance to the following rules-

Rules	
3-73	Expenditure requirement
3-182(3)	<i>CRR</i> requirement on other amounts owed to a <i>firm</i> arising out of <i>investment business</i> or <i>investment dealing activity</i>

- 1.
2. The *FCA* is of the view that it is not responsible for setting accounting policies in relation to a *firm's annual financial statements* . However, the *FCA* considers that it is preferable for all *firms* participating in "soft commission agreements" to have consistent accounting policies. Without such consistency, certain *firms* would have a competitive advantage in terms of their *financial resources* . Therefore, for the purposes of completing *financial reporting statement* submitted to the *FCA* , appropriate accounting policies should be used. The guidance and interpretations made in this Appendix should be considered in this context.
3. The guidance applies to all *firms* which participate in "soft commission agreements" whether or not this is the sole *investment business* of the *firm* .

- **Definition**

4. A soft commission agreement means-

"any agreement, whether oral or written, under which a *firm* which deals in *securities* on an advisory basis, or in the exercise of discretion, receives goods or services in return for an assurance that not less than a certain amount of such business will be put through or in the way of another person;"

- **Description**

5. A "soft commission agreement" is understood as being one in which a fund manager agrees, either formally or informally, to provide a broker with a certain amount of commission in any one period in return for the provision of services "free". Those services may be provided in-house or by third parties and may take the form of specific research provided by analysts, portfolio valuation systems, or information packages, plus the associated computer hardware and software.
6. Under traditional broking arrangements, the full service broker normally receives commission in return for the total servicing of a fund manager's account, a package which includes execution, perhaps custodianship and, almost certainly, research, also "free". The services provided under traditional broking arrangements are in-house i.e. within a broking group, and mostly are not conditional upon receipt by the broker of a certain level of commission, although there is usually an understanding which may never be articulated, that a certain volume of business will be generated.

- **Existing difference in accounting policies**

7. The accounting policies used can in general be divided into those which are "profit & loss" based and those which are "balance sheet" based. Under the former, the *firm* will write-off such expenditure to its profit & loss account but will usually not accrue a liability in its *financial reporting statements* for commissions received in advance. Consequently, the "normal" profit & loss based accounting systems for expenses incurred and commissions received will be used. It should be noted that such *firms*, as they are fundamentally participating in traditional broking arrangements, may not have legally enforceable "soft commission agreements" with their counterparties, such that there may be no absolute contractual liability on the *firm* or counterparty to provide expenditure or commission.

8. *Firms* using the "balance sheet" approach will accrue for liabilities but will also tend to capitalise their expenditure under "soft commission agreements". This may be the policy used by *firms* which specialise in legally enforceable "soft commission agreements" and reflects the legal status of such agreements. These may contract the counterparty to pay a level of commission related to the level of expenditure incurred by the *firm* (and vice versa if the counterparty has paid advance commission in excess of the expenditure paid by the *firm*).

- **Expenditure and balances receivable**

9. Once expenditure is incurred for a counterparty, the soft commission broker may claim that contractually the counterparty is bound to pay him a certain multiple of that expenditure in the form of commission within a certain period of time from the date the expenditure was incurred. Consequently, certain *firms* have previously capitalised their expenditure and shown it as an asset for the purposes of calculating their *financial resources*.

- **Required treatment**

10. Where a *firm* incurs expenditure on behalf of a counterparty or counterparties in respect of "soft commission agreements" (whether or not it is incurred in relation to a written contract), the *firm* should immediately write off such expenditure to its profit & loss account.
11. Notwithstanding the above, expenditure may be capitalised (as an asset) in the balance sheet of the company which incurred the expenditure, **only where this amount is recoverable under a legally enforceable contract** (see paragraph 18 below). Where such expenditure is capitalised it will be subject to rule 3-182(3).

- **Income and balances payable**

12. Once commission income is received from a counterparty, the *firm* may recognise that contractually it is bound to pay the counterparty a certain proportion of that income, in the form of the counterparty's expenses, within a certain period. Although certain *firms* are including this amount as a liability on their balance sheet (and thus reducing their *financial resources*), other *firms* are making no such provision.

- **Required treatment**

13. Where a *firm* has a contractual liability to, or on behalf of, a counterparty or counterparties which arises from a legally enforceable "soft commission agreement", the *firm* should accrue in its *financial reporting statements* a liability for the relevant proportion of any advanced commission income received from the counterparty that will have to be subsequently incurred as an expense by the *firm* in the form of a payment on behalf of the counterparty for allowable goods and services.

- **Expenditure requirement**

14. Once expenditure is incurred for a counterparty, the soft commission broker may claim that contractually the counterparty is bound to pay him a certain multiple of that expenditure in the form of commission within a certain period and thus such expenditure should not be included in the *firm's* expenditure requirement.

- **Required treatment**

15. Expenditure incurred by soft commission brokers should be included in a *firm's* expenditure requirement, unless it is incurred under a legally enforceable "soft commission agreement" when it may be excluded from the expenditure requirement calculation.
16. The reasoning behind this treatment is that the expenditure of a *firm* participating in soft commission arrangements is similar to shared commissions and can, therefore, be treated as though it were shared commissions under rule 3-73(2)(f), except to the extent that such expenses are irrecoverable, i.e. except where there is no enforceable legal agreement.
17. It is considered that certain *firms* may have been under the misapprehension that there was a concession for all expenditure related to "soft commission agreements" regardless of whether the agreement was legally enforceable. Where a *firm* undertakes a mixture of business between legally enforceable contracts and informal arrangements (all of which the *firm* would classify as "soft commission agreements"), it must take great care in allocating expenditure between legally enforceable contracts and others. Alternatively, it may

decide to include all expenditure in the expenditure requirement regardless of source.

- **Legally enforceable contracts**

18. For the purposes of this guidance, for a "soft commission agreement" to be legally enforceable there should be a specific written legal contract governing the arrangements. The contract should be legally enforceable by the *firm* involved, both in the UK and in any other relevant country.

- **Appendix 46 (Table 3-173(2)B) Countries/Territories in which CRR on issuing market free deliveries may be relaxed**

Introduction

This Appendix lists the countries/territories in which *free deliveries* made in the issuing market are subject to a reduced *CRR* of 15% of the *free delivery* value, and the time limit on this reduced *CRR*.

Country/Territory	Business days since delivery
Hong Kong SAR	20
Indonesia	30
Malaysia	30
Philippines	75
Singapore	21
Thailand	45

- **Appendix 47 Tables applicable to CRR for derivative transactions under rule 3-173B**

TABLE 1

Counterparty Weights To Be Applied In Calculating Liquidity Adjustment And CRR (rule 3-173B(5)(b))

Type of counterparty	Counterparty weight
claims on, or explicitly guaranteed by, or collateralised with <i>securities</i> issued by: the central government or central bank of a <i>Zone A</i> country; the <i>EU</i> or Euratom (the European Atomic Energy Community); or any other government or central bank, provided the <i>exposure</i> is	NIL

denominated in that country's national currency.	
claims on discount houses, gilt-edged <i>market makers</i> , institutions with a <i>money market</i> dealing relationship with the Bank of England and those <i>Stock Exchange money brokers</i> which operate in the gilt-edged market, where the claims are secured on gilts, UK Treasury bills, eligible <i>local</i> authority and eligible bank bills, or London CDs	10%
claims on, or explicitly guaranteed by: a <i>multilateral development bank</i> ; the regional government or <i>local</i> authority of a <i>Zone A</i> country; a <i>Zone A credit institution</i> ; a <i>recognised clearing house</i> or <i>recognised exchange</i> ; a recognised third country or <i>EEA investment firm</i> ; a <i>Zone B credit institution</i> , provided the <i>exposure</i> has a maturity of one year or less.	20%
any other <i>counterparty</i>	100%

Guidance

The guarantee should be explicit and be legally enforceable by the *firm* and should prevent a *firm's* capital from becoming deficient as a result of experiencing a loss on such an exposure. The exposure must be retained on the *firm's* balance sheet.

TABLE 2

Specific risk *percentage risk additions*

Issuer	Residual maturity	Percentage risk addition
An issue of, or fully guaranteed by, or fully collateralised by a <i>Zone A</i> central government or central bank or the <i>EU</i> or Euratom (the European Atomic Energy Community)	Any	0%
An issue of, or fully guaranteed by, a <i>Zone B</i> central government or central bank denominated in the local currency	Zero to 12 months	0%

TABLE 3

Minimum ratings for *qualifying debt securities*

Issuer	Rating agency	Minimum Rating	
		Securities	Money Market Obligations
Any	Moody's Investors Service Standard & Poor's Corporation FITCH Ratings Ltd	Baa3 BBB- BBB-	P3 A3 F-3
Canadian	Canadian Bond Rating Service Dominion Bond Rating Service	B++low BBB low	A-3 R-2
Japanese	Japan Credit Rating Agency, Ltd Mikuno & Co Japan Rating & Investment Information Inc	BBB- BBB BBB-	J-2 M-3 a-2

Inserted by: LI [2007/56](#)
Amended by: Lis [2009/67](#), [FCA 2013/9](#)

- **Appendix 56 Guide To Adequate Credit Management Policy (ACMP)**

(rules 3-173 to 3-175, 3-300 and "ACMP")

- **Introduction**

18. This appendix contains general guidance on the standards which the *FCA* expects a *firm's ACMP* to meet.

Amended by: LI [FCA 2013/9](#)

- **Objective**

2. the *FCA's* objective is to ensure that adequate procedures and controls are in place to manage effectively the granting of credit and the monitoring and controlling of credit risk.

Amended by: LI [FCA 2013/9](#)

- **Scope**

3. The guidance applies to any *firm* which wishes to take advantage of the lower *CRR* percentages (by which counterparty exposures must be multiplied).
4. Before a *firm* may use the lower percentages in calculating *CRR* and in preparing its financial reporting statements, it must meet the requirements set by 3-300. The *ACMP* and its operation will be reviewed periodically by the *FCA* and, where it is no longer operating effectively, the *firm* may be in breach of those requirements.

Amended by: LI [FCA 2013/9](#)

- **Background**

5. The *FCA* is aware that *firms* grant credit to counterparties in many different ways, including for example, loans to cover actual margin calls as a result of delays between trade date and final settlement or of late settlement etc. This guidance is designed to cover all instances where a *firm* becomes

exposed to credit risk although, depending on the way in which credit risk arises, the procedures for managing it may differ.

6. In considering the credit management policies of a *firm*, the *FCA* will expect the *firm* to operate a robust control structure which is appropriate to the size, scale and nature of its business and the diversity and complexity of its exposures. The *FCA* recognises that different approaches to and styles of credit management can create an effective operational control environment. Therefore, it is not appropriate for the *FCA* to lay down prescriptive standards which it would expect a *firm* to meet, but rather to suggest a broad framework which is flexible, allows for individualised solutions and can accommodate and encourage evolutionary developments.
7. The prime components of a sound credit risk management process are:
 - the definition by a *firm* of what constitutes a credit exposure/risk and is therefore covered by the *firm's ACMP*;
 - a comprehensive credit risk measurement approach;
 - the existence of guidelines and other parameters used to determine credit limits and govern the level and types of risk taken; together with
 - a strong management information system for controlling, monitoring and reporting exposures.

Thus, when the *FCA* reviews a *firm's* credit management process, it will seek comfort that credit exposures are managed and controlled in a highly disciplined manner and that the relevant staff are well versed in the *firm's* credit procedures.

8. Where a *firm's* credit risk management is controlled or overseen by its parent or an affiliate in the same group, provided that the *firm* can identify reasonable grounds for believing that the level of control is suitable, this should not impede use of the *firm's ACMP*.

Amended by: LI [FCA 2013/9](#)

▪ General principles

9. In forming its view as to the adequacy of a *firm's* credit risk management process, the general

characteristics which the *FCA* may take into account include the following:

Amended by: LI [FCA 2013/9](#)

- **Role of senior management**

- d. whether the framework of credit risk management, i.e. a *firm's* policies and procedures, is overseen by the board of directors or an equivalent management body;

- **Procedures**

- b. whether there are clearly established lines of responsibility and levels of authority for:
 - the granting of credit to a counterparty;
 - extending its permitted use to cover risk arising on a product new to the counterparty;
 - increasing existing credit facilities; and
 - the monitoring and controlling of all credit risk;
- c. the extent to which the functions of granting, measuring, monitoring and controlling credit risk are managed independently of the front office with a direct reporting line to the senior management ultimately responsible for credit risk management;
- d. whether good channels of communication exist which ensure that the *firm's* credit management procedures are well understood and followed by all relevant personnel;
- e. whether procedures exist for identifying unintentional credit exposures and dealing with counterparty which has failed to settle its obligations to the *firm*, (whether merely due to a delay or actual default), or which is expected not to settle its obligations on the due date; including arrangements for closing out transactions. In addition, the *FCA* may consider whether a *firm* has the ability to identify and attempt to predict, as well as quantify, any shortfall as it arises and on an aged basis;

- f. whether mechanisms exist for a daily comparison of exposures with credit limits, including the production of exception reports, and the procedures to be followed to deal with the results of those exception reports;

Amended by: LI [FCA 2013/9](#)

- **Documentation**

- g. whether a *firm's* credit management policies and procedures are properly documented and reviewed by the *firm* on a regular and thorough basis to ensure that they continue to remain appropriate and sound;
- h. whether records are kept in respect of each counterparty (identified on an individual legal entity basis) indicating in sufficient detail, the level of credit risk to a counterparty to which the *firm* is willing to expose itself. Where a *firm* grants a credit facility similar to a loan to cover, for example, margin calls, such records might give details of the credit facility extended to a counterparty together with any information gathered in support of the decision to grant that credit facility, the types of transaction which the *firm* may enter into with the counterparty and to which the credit facility may be allocated. Credit information relating to counterparties should be regularly updated and reviewed by the *firm* to ensure that any credit facility granted remains appropriate;

- **Collateral and margin**

- i. whether the *firm* has written policies relating to the margining and collateral arrangements with its counterparties. Terms of business or customer agreements would normally detail the circumstances when margin might be called, and the type and level of collateral which would be acceptable to the *firm* on the basis of its liquidity, volatility and ability to be realised. In addition, it may be relevant to consider the degree to which a *firm's* collateral records are kept up to date and include details of the practical procedures for the realisation of such collateral.

- **Measurement and monitoring of exposures**
 - j. whether a *firm* has mechanisms for identifying the level of concentration of credit risk exposures to each individual counterparty, and each group of connected counterparties, etc on a regular and timely basis;
 - k. where a *firm* uses risk reduction techniques (such as master agreements, netting agreements, collateralisation arrangements or the taking of third party credit enhancements, including letters of credit and guarantees), whether the *firm* has procedures for scrutinising documents and assessing their impact on the credit risk of the *firm* and assessing the quality of any guarantees or letters of credit;
 - l. depending on the nature of the credit exposures to which a *firm* is subject, whether the *firm's* mechanisms for measuring such exposures are appropriate to cover the type or level of risk to which they give rise.

- **Additional Guidance on the FCA's Assessment of ACMPs**

Amended by: LI [FCA 2013/9](#)

- **Preamble**

This document is intended as a guide to those areas of Credit Management Policies which the *FCA* will address when considering their adequacy.

Amended by: LI [FCA 2013/9](#)

- **A definition of credit and the measurement of credit risk**

The *FCA* expects that *firms* have a clear definition of what is considered to be "credit risk" (by whatever name it is known) within the *firm* .

The *FCA* expects *firms* to consider in depth the measurement of the extent of Credit Risk which is incurred vis a vis any given counterparty. *Firms* should be aware that the extent of credit risk incurred will not necessarily be the same as the nominal value of contracts entered into ("value at risk" concept).

The *FCA* will expect that firms measure and monitor the extent of Credit Risk incurred vis a vis any given counterparty by reference to a system of limits showing the maximum Credit Risk which the *firm* considers it prudent to incur vis a vis that counterparty having regard for the financial strength of the counterparty.

The *FCA* expects there to be adequate procedures within the *firm* for the recognition of where credit risk may be incurred, for the approval of incurring such risk, and, once incurred, for the monitoring of that risk to ensure the satisfactory recovery of all amounts owed to the *firm* by a counterparty.

Amended by: LI [FCA 2013/9](#)

▪ The decision to grant credit

If there is a formal decision making body (e.g. a "Credit Committee") which reviews applications for credit:

- How does it derive its authority?
- What is the extent of any Credit Committee's authority as regards:
 - amount of credit granted
 - tenor of credit granted
 - products for which credit lines may be approved
 - industry sectors for which credit lines may be approved?
- How is any Credit Committee constituted?
- What are the qualifications of any Credit Committee's members to make the decisions required of them?
- Independence of Committee from profit centres
- Recording of Approvals

If there is no formal committee, what procedures exist to ensure adequate collective responsibility for credit decisions giving regard for the duality ("four eyes") principle and independence of decisions made from profit centres likely to benefit from income? e.g.

- "round robin" circulation of papers to Directors/Credit Management

- individual sign off on each transaction/deal

Many of the comments noted above concerning a "Credit Committee" will be relevant also where no formal Committee meets, as will the following remarks concerning the documentation provided to those making credit decisions.

What documentation is provided to those charged with reaching decision to grant credit?

Cover sheet detailing proposed credit.

- Name of proposed counterparty (identify correct legal entity)
- Address of proposed counterparty
- Amount of credit
- Currency of credit
- Tenor of credit
- Collateral/Security proposed (where applicable)
- Remuneration for credit granted
- Products
- Existing exposure to counterparty (in case of increase/review)
- Previous payment performance of counterparty (in case of increase/review)

Financial information on proposed counterparty.

In order to ascertain the financial strengths and weaknesses of a proposed counterparty the *FCA* expects *firms* to revert to financial information, some examples of which are given below.

- Annual report and accounts
- Analysis of annual reports and accounts
- Credit reference agency reports e.g. Dun and Bradstreet
- Rating agency reports e.g. Standard and Poors, Moody's

- Brokers reports
- Bank status reports
- Statements of net worth

"Credit memorandum" or other internally produced paper outlining the reason for proposing the granting of credit to the counterparty.

Some areas which might be covered by such a memorandum are as follows:

- Background information on relationship with proposed counterparty
- Commentary/analysis of financial information
- Future prospects (for profitability, growth etc.)
- Reason for present proposal
- What benefit will it bring to a *firm's* relationship with company?
- Perceived risks in providing the credit proposed
- What measures have been taken to mitigate these risks?
- Provision of management accounts
- imposition of financial covenants
- Taking of security
- Comments on the collateral or security to be taken
- Comments on legal documentation to be employed
- Industry exposure
- Country exposure
- Spread of counterparties - large exposures

Amended by: LI [FCA 2013/9](#)

- **The monitoring of credit exposure**

Once a proposal to grant credit has been approved the *FCA* will expect that there are adequate procedures in place to ensure the proper monitoring of all credit exposures entered into.

The *FCA* expects the monitoring function to be separate from and managed independently of those profit centres which may benefit from the incurring of credit risk.

In order to ensure adequate monitoring of credit exposure it will be necessary for firms to ensure that decisions concerning credit matters are communicated promptly and efficiently to those who are responsible for their utilisation and monitoring. firms may wish to consider how such matters are communicated to:

- Those entitled to commit the *firm*
- Credit Control Officers
- Senior Management
- Documentation Staff

The *FCA* will consider the methods by which this information is communicated e.g. memorandum, manual lists, credit procedures manuals etc.

Amended by: LI [FCA 2013/9](#)

▪ **Computer systems**

Where use is made of computer systems the *FCA* will consider the various methods by which the integrity of databases is ensured. These could include

- Password protection/access rights
- Accuracy/key verification
- Duality principle
- Physical security of systems
- Back up

Where information is transferred between computer systems e.g. for reporting purposes or to PC based systems the *FCA* will consider any reconciliations which are performed.

Amended by: LI [FCA 2013/9](#)

▪ Reporting

The *FCA* expects there to be an adequate reporting system for the monitoring of credit exposure. Many *firms* make use of a series of reports, analysing their credit exposure based on a number of different criteria. Examples of the kinds of reports which may be found useful by *firms* are given below.

- Excess reports/Exception reports
- Exposure reports
 - by customer/group/connected customers
 - by industry
 - by country
- Overdue payments reports
- Facilities due for review
- Facilities by collateral/security type
- Collateral/security held
- Large Exposures

The *FCA* will give consideration to the frequency of production of reports used in monitoring credit risk.

Amended by: LI [FCA 2013/9](#)

▪ Credit Risk Management/Control

The *FCA* will expect to be given details of the action taken where monitoring shows that any aspect of credit exposure is not in line with previously agreed parameters.

For example where exposure is in excess of approved limits the *FCA* will expect to be informed about what action is taken, where payments are not received, how this is followed up. If a counterparty's financial standing deteriorates, what action is taken to attempt to mitigate possible credit loss?

Amended by: LI [FCA 2013/9](#)

▪ Documentation

The *FCA* expects *firms* to have adequate procedures in place to be certain that all transactions which

require documentation are documented and that this occurs within an acceptable time frame, and that any transactions which fail to be documented are identified and reported to Senior Management for appropriate action to be taken.

The *FCA* expects any staff responsible for documentation to be separate from front office/profit centres and have an independent reporting structure. This will ensure that the commercial wish to trade and do business does not cloud the negotiation of effective and binding legal documentation.

- Suitability of documentation to be used
- Preparation of documentation
- Qualification of staff (or choice of solicitors to be instructed)
- Training of documentation staff
- Tenacity of documentation staff

Basic documentation to be obtained from all counterparties might include

- Certificate of incorporation
- Memorandum and articles of association (M&AA)
- Board Resolution

Other documents which a *firm* may wish to call for prior to entering into transactions would include:

- a statement of officers authorised to act for the counterparty and to commit it to transactions
- a list of authorised signatories where one exists
- an audited annual report or interim figures
- credit reference report or bank status report

Other areas for consideration could include:

- Prompt execution of documentation
- Monitoring response to documents sent out
- Chasing where no response

- Reporting missing documentation to senior management
- Proper execution
- Secure storage of documentation
- Regular review of documentation held

Amended by: LI [FCA 2013/9](#)

▪ **Ongoing review of credit risk**

The *FCA* expects firms to have in place adequate procedures for the annual (or more frequent) review of credit risk.

- Scope of the review
- Financial information
- Action where concern is raised
- Possible need for more frequent review
- Monitoring of counterparties performance
- Defaults and delinquent and bad debts
- Provisioning policy

The *FCA* will expect a *firm* to be able to explain what action may be taken as the result of review e.g. reduction of credit limit, calling for further collateral etc. where the review indicates cause for concern.

Amended by: LI [FCA 2013/9](#)

▪ **Documentation of credit policies and procedures and customer files**

The *FCA* will expect to *firms* consider the manner in which their Credit Policies are documented. Areas for comment could include:

- Credit Procedures manuals and the context in which they are used
- Internal Board Minutes showing delegated authority
- Credit Committee Minutes
- Operations manuals

- Training material for staff
- Internal memorandum detailing credit policy
- Customer Credit files, to contain
 - credit analysis information
 - copies of decisions to grant credit
 - copies of relevant documentation
 - press cuttings
 - copies of data input documents

Amended by: LI [FCA 2013/9](#)

▪ **Appendix 57 [Deleted]**

Amended by LI: [2003/50](#)

▪ **[Deleted]**

Amended by LI: [2003/50](#)

▪ **[Deleted]**

Amended by LI: [2003/50](#)

▪ **Appendix 59 [Deleted]**

Amended by LI: [2003/50](#)

▪ **Appendix 62 Netting**

Amended by LI: [\(2001/57\)](#)

▪ **Similar Types of Transactions**

The rules set out the requirements to be met by firms before offsetting exposures in 'similar types of transactions' with a counterparty (i.e. being those transactions falling under a particular counterparty risk rule). The netting of exposures within a particular rule is to be applied on a first in first out basis.

Amended by LI: [\(2001/57\)](#)

▪ **Derivative Transactions**

Firms may offset the negative replacement cost on written OTC options against the positive replacement cost of OTC purchased options with the same counterparty.

Amended by LI: (2001/57)

- **Guidance On The Netting Of Counterparty Exposures**

Amended by LI: (2001/57)

- **Introduction**

0. This appendix contains guidance on the requirements to be attained in order for firms to net counterparty exposures assessed under the following areas.

Subject
Cash against documents transactions
Free deliveries of securities
Repurchase and reverse repurchase, securities lending and borrowing and sale and buy back agreements
Derivative transactions
Other amounts owed to a firm arising out of trading book business

- 1.

-

- **Amended by LI: (2001/57)**

- **Scope**

2. The guidance applies to any firm subject to the CRR rules and which takes 15 advantage of the netting provisions contained therein.

Amended by LI: (2001/57)

- **Background**

3. Agreements which can effect set-off of counterparty exposures exist in two forms:
 - novation agreements (referred as netting by novation) which replace existing contracts with one new contract and therefore can only be used to cover similar transactions with payments in the same currency for the same value dates; and

- a. netting agreements which can be used to cover transactions of very different types.

The guidance below applies to both novation agreements and netting agreements.

- **Amended by LI: ([2001/57](#))**

- **Principles of Offset**

- 4. Before offsetting exposures in similar types of transactions with a counterparty a firm must have a contractual netting agreement with that counterparty which:
 - covers the transactions which the firm is seeking to net;
 - a. creates a single obligation in each currency or a single obligation to pay a net sum of cash in the event of default, bankruptcy, liquidation or similar circumstances;
 - b. does not include a walkaway clause; and
 - c. is supported by written and reasoned independent legal opinions to the effect that, in the event of a legal challenge, the relevant courts would find the firm's exposure to be the single net amount mentioned in (b) above.

- **Amended by LI: ([2001/57](#))**

- **Statement of Law on Netting**

- 5. The prerequisite of holding a netting agreement supported by an independent legal opinion in order to offset exposures is not required where the Financial Law Panel's (November 1993) Statement of Law on netting applies. This Statement of Law indicates that under English law rule 4-90 of the Insolvency Rules 1986 imposes a requirement for complete set-off of transactions between parties incorporated in England and Wales, provided the transactions are mutual (i.e. credits, debts or claims arise from dealings between the

same parties and that the parties are acting in the same capacity). Furthermore, it indicates that set-off is mandatory, applies whether or not there is any contractual entitlement to set-off and cannot be excluded by agreement between the parties.

6. As mentioned above mutuality is required in order for there to be complete set-off of transactions. Accordingly, firms are expected to have procedures in place to identify the counterparty and the capacity in which the counterparty is acting. Firms proposing to rely on the Statement of Law on netting must satisfy themselves of the appropriateness of such reliance and, where in doubt, obtain legal advice. It is important to note that Insolvency Rule 4.90 does not apply to building societies, statutory organisations generally, mutual societies, partnerships and individuals.

Amended by LI: ([2001/57](#))

▪ **Legal Requirements**

7. Legal opinions will be needed for the:
 - law of the jurisdiction in which the counterparty is organised;
 - law of the jurisdiction in which any branch involved is located;
 - law that governs the agreement and, if different, the law that governs individual transactions pursuant to it; and
 - law that governs the legal status of the counterparty who is entering into transactions of the type which the firm is seeking to net.
8. Where a firm uses an industry standard agreement which contains netting/set-off clauses the firm may rely only on a legal opinion relating to the netting/set-off clauses in that standard agreement where no amendment has been made to the agreement which would materially affect these clauses and where the legal opinion addresses the capacity of counterparties of the type with which the firm wishes to contract, the contract type and the relevant jurisdictions.

9. Where a netting agreement provides that one or both parties may enter into transactions with each other under the agreement through any of its (or certain designated) branches, then all such branches included in the agreement will be considered to be located in relevant jurisdictions for the purpose of this guidance.
10. Where a netting agreement involves more than one jurisdiction, a legal opinion is required for each to the effect that the agreement creates a single obligation in each currency or a single obligation to pay a net sum of cash in the event of default, bankruptcy, liquidation or similar circumstances.
11. As mentioned above legal opinions should relate to the law of the jurisdiction in which the counterparty is organised (i.e. incorporated or resident). However, certain circumstances may arise where this requirement could be considered not to be applicable; for example where:
 - a firm has no assets or exposure in that jurisdiction;
 - any judgement obtained in that jurisdiction against a firm would not be enforceable under any of the rules in the UK relating to the enforcement of foreign judgements; or
 - there are no other factors relating to that jurisdiction which would affect the ability of a firm to make net payments as contemplated by the netting agreement.
12. Where a firm believes that the law of the jurisdiction in which a counterparty is organised is not relevant, that point must be addressed in the legal opinion supporting the netting agreement. The ability to exclude the law of the jurisdiction in which a counterparty is organised does not extend to the netting of those off balance sheet exposures listed in the Solvency Ratio Directive: the amendment to this directive (to permit netting) specifically requires this matter to be addressed in the legal opinion.
13. It is recognised that, with certain aspects of the agreement, it may not be possible to obtain a definite opinion or that a positive opinion regarding enforceability of the netting agreement can only be obtained subject to certain assumptions and/or qualifications. Where qualifications are made, they should

be specific and their effect adequately explained. In the same way, assumptions should be specific, of a factual nature (except in relation to matters subject to the law of a jurisdiction other than that covered by the opinion) and should be explained in the opinion.

14. Legal opinions on netting agreements must be obtained from independent legal advisers with sufficient expertise and experience in this area of law. Opinions from in-house counsel will not be acceptable. Where the regulator in the jurisdiction of the counterparty is satisfied that the netting agreement is not enforceable under the laws of that jurisdiction, the netting agreement cannot be relied upon regardless of the opinions obtained by a firm.

Amended by LI: ([2001/57](#))

▪ **Compliance with the Legal Requirements**

15. It is the responsibility of firms to ensure that the legal requirements set out above are met (firms are to calculate CRR on the gross value of exposures to counterparties where this is not the case). Firms do not need to apply to the *FCA* in order to net exposures. Similarly, legal opinions on netting agreements and the agreements themselves are not required to be submitted to the *FCA* for approval. The *FCA* will establish the existence of legal opinions and netting agreements when compliance with the above requirements is being monitored by its staff.
16. Firms are expected to put procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in light of possible changes in the relevant law.
17. Firms are expected to maintain records demonstrating that, in relation to the legal requirements, the following considerations have been addressed:
 - the applicability of the netting agreement to the counterparties, jurisdictions and transactions involved;
 - the applicability of the opinions to the counterparties, jurisdictions and transactions involved;

- where more than one jurisdiction is involved, the potential for conflicts in law;
 - all documentation is complete and still valid and that the agreement has been properly executed (i.e. that the acceptance of terms have been evidenced);
 - the nature and effect of any qualifications in the legal opinions and assessment that these do not impair the obligation to pay a net sum of cash in the event of default, bankruptcy, liquidation or similar circumstances; and
 - where an industry standard agreement is used upon which a generic legal opinion has been obtained, identification of those clauses which if altered during the course of negotiating the agreement would affect the right to offset. Internal legal counsel is to evidence review of these agreements to ensure that the effectiveness of the set off clauses has not been altered directly or indirectly by virtue of other clauses being added or deleted.
18. Firms are expected to hold a copy of the legal opinion and the agreement to which it relates.
19. Firms are to net exposures within a particular rule on a FIFO basis. Firms may net only current exposures and cannot net potential future exposures.

Amended by LI: (2001/57), FCA 2013/9

▪ **Cross-Product Netting**

Introduction

The *FCA* will consider granting rule waivers in order to permit firms to take account of cross-product netting in the calculation of their Counterparty Risk Requirement (CRR) in instances where the *FCA* regards it appropriate.

The current drafting of the *FCA*'s Financial Rules for securities and futures firms allows 'similar' types of transactions to be netted (where those transactions are covered by a valid netting agreement, with a supporting legal opinion). In practice, 'similar' has been defined as all transactions which fall within a

particular CRR Rule treatment. Thus, currently, for the calculation of CRR in relation to exposures to a counterparty which are covered by valid netting arrangements, a firm would be required to assess, for example, a net exposure for all derivative transactions with that counterparty and a separate net exposure for all repo type transactions with that counterparty.

The *FCA* will consider granting waivers in accordance with [SUP 8](#), though in general it will expect the following conditions to be met:

0. For the types of transaction which the firm is seeking to net, the firm must have the capability to monitor, and must in practice manage, the resultant exposures on a net basis.
1. All transactions which the firm is seeking to net must be covered by valid netting agreements and supported by legal opinions, in accordance with the requirements of the *FCA*'s Financial Rules; and
2. Where underlying netting agreements are linked by a master netting agreement, the legal opinion must address the enforceability of the netting arrangements in their entirety;

One factor that the *FCA* will consider in assessing whether a particular applicant meets these requirements is whether the firm has had the use of its ACMP sanctioned for the purposes of calculating CRR.

Amended by Lis: [\(2001/57\)](#), [FCA 2013/9](#)

- **Chapter 4: Lloyd's firms**
 - **4.1 Application**
 - **IPRU(INV) 4.1.1R**

This chapter applies to the *Society* and *members* advisers.

- **IPRU(INV) 4.1.2R**

This chapter does not apply to a *members adviser* which is subject to another chapter of *IPRU(INV)*.

- **IPRU(INV) 4.1.3D**

This chapter does not apply to a *members adviser* which is subject to another chapter of *IPRU(INV)*.

- **4.2 Purpose**
 - **IPRU(INV) 4.2.1G**

This chapter identifies the financial resource requirements and requirements as to accounts and statements to be met by certain *firms* conducting business at Lloyd's.

- **IPRU(INV) 4.2.2G**

This chapter identifies the financial resource requirements and requirements as to accounts and statements to be met by certain *firms* conducting business at Lloyd's.

- **IPRU(INV) 4.2.3G**

Underwriting agents are subject to regulation by the *Society* as well as by the *appropriate regulator*. In particular, they are subject to requirements as to their financial resources and as to making and maintaining accounting records, set by the *Society*. The *appropriate regulator* is satisfied that *underwriting agents* will be subject to adequate financial resource and accounting requirements as long as they remain subject to and comply with requirements at least equivalent to Lloyd's Capital and Solvency Requirements 2001 and the relevant parts of, or requirements made under Lloyd's Underwriting Agents Byelaw (No. 4 of 1984), in each case as amended and in force immediately before *commencement*. Accordingly, instead of imposing an obligation directly on *members' agents*, the directions in IPRU(INV) 4.4.1D to 4.4.5D and 4.5.1D require the *Society* to require those firms to comply with the relevant requirements.

Amended by: LIs [FCA 2013/9](#), [PRA 2013/4](#), [FCA 2015/16](#)

- **IPRU(INV) 4.2.4G**

A *members' adviser* is not regulated by the *Society* and accordingly this chapter specifies the financial resource and accounting requirements to be met. *Firms* which fall within the scope of this chapter will be *firms* with *permission* only to advise persons on *syndicate* participation at Lloyd's. The nature of that advisory business is akin to corporate finance advice and so the applicable requirements are those in [IPRU\(INV\) 3](#) relevant to *firms* giving corporate finance advice. *Firms* with other *permissions* will fall within the scope of other chapters of IPRU(INV), GENPRU, BIPRU, IFPRU (and the EU CRR) or INSPRU.

Amended by LIs: [2007/27](#), [FCA 2013/79](#)

- **4.3 Specification of objective**

- **IPRU(INV) 4.3.1D**

The directions in IPRU(INV) 4.4.1D to 4.4.5D and 4.5.1D are given in relation to the exercise of the powers of the *Society* and of the *Council* generally, with a view to achieving the objective that *members' agents* have adequate financial resources to support, and keep and preserve adequate accounting records in respect of their business at Lloyd's.

Amended by: LI [FCA 2015/16](#)

- **4.4 Financial resource requirements**

- **IPRU(INV) 4.4.1D**

The *Society* must maintain appropriate and effective arrangements to require *members' agents* to meet and continue to meet financial resource requirements at least equivalent to the requirements set out in Lloyd's Capital and Solvency Requirements 2001, as they are in force immediately before *commencement*.

Amended by: LI [FCA 2015/16](#)

- **IPRU(INV) 4.4.2D**

The *Society* must give the *FCA* a report on each *members' agents* compliance with the financial resource requirements referred to in *IPRU(INV) 4.4.1D* as at the end of each quarter (determined by reference to each underwriting agent's *accounting reference date*).

Amended by: LIs [FCA 2013/9](#), [FCA 2015/16](#)

- **IPRU(INV) 4.4.3D**

The report referred to in *IPRU(INV) 4.4.2D* must reach the *FCA* within two months of the end of the relevant quarter and must state:

- (1) whether the *Society* has any information indicating or tending to indicate that, during the quarter to which the report relates, the *members' agents* failed to meet the financial resource requirements referred to in *IPRU(INV) 4.4.1D*;
- (2) whether, at the end of the quarter to which the report relates, the *members' agents* failed to meet the financial resource requirements referred to in *IPRU(INV) 4.4.1D*; and
- (3) the nature and extent of any failure to comply reported under (1) or (2) and the actions taken or to be taken by the *Society* in response to this.

Amended by: LIs [FCA 2013/9](#), [FCA 2015/16](#)

- **IPRU(INV) 4.4.4D**

In addition to the reports required under *IPRU(INV) 4.4.2D*, the *Society* must give the *FCA* an annual report on each *members' agent's* compliance or non-compliance with financial resource requirements as at the end of that *members' agent's* financial year.

Amended by: LIs [FCA 2013/9](#), [FCA 2015/16](#)

- **IPRU(INV) 4.4.5D**

The report in *IPRU(INV) 4.4.4D* must reach the *FCA* within seven months of that *members' agent's* accounting reference date and must:

- (1) confirm that:

- (a) the *Society* has received from that *members' agents* in respect of the financial year to which the report relates, all relevant attachments to the Annual Financial Return that the *members' agents* is required to make to the *Society* under the requirements identified in *IPRU(INV)* 4.4.1D;
 - (b) that *members' agents* met the applicable financial resource requirements at the end of the financial year to which the report relates; and
 - (c) the *Society* is not aware of any matters likely to be of material concern to the *FCA* relating to that *members' agent's* compliance with financial resource requirements during the year to which the report relates, or arising from the attachments referred to in (a); or
- (2) if the *Society* is unable to give any of the confirmations required under *IPRU(INV)* 4.4.5D (1)(a),(b) or (c), set out in each case the reasons why it is unable to give that confirmation.

Amended by: Lis [FCA 2013/9](#), [FCA 2015/16](#)

▪ **IPRU(INV) 4.4.5AD**

The *Society* must submit the reports in *IPRU(INV)* 4.4.2D to *IPRU(INV)*4.4.5D in accordance with the *rules* in *SUP* 16.3 (General provision on reporting).

Inserted by: LI [2002/18](#)

▪ **IPRU(INV) 4.4.6R**

A members' adviser must comply with the requirements of IPRU(INV) 3-60(3) and 3-62.

▪ **4.5 Accounting Records**

▪ **IPRU(INV) 4.5.1D**

The *Society* must maintain appropriate and effective arrangements to require *members' agents* to meet the obligation to keep and preserve accounting records, set out in Lloyd's Underwriting Agents Byelaw (No 4 of 1984), Section III, paragraph 53B, as it is in force immediately before *commencement*.

Amended by: LI [FCA 2015/16](#)

▪ **IPRU(INV) 4.5.2R**

A members' adviser must comply with the requirements of IPRU(INV) 3-10 to 3-14.

○ **Chapter 5: Financial Resources**

▪ **5.1.1 Application**

▪ **Application of Chapter 5**

	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	Yes
		(see Note 2 below)	
Accounting records rules			
5.3.1(1) to 5.3.1(6)	Yes	Yes	Yes
Financial notification rules			
5.5.1(1)	No	No	No
[deleted]			
[deleted]	[deleted]	[deleted]	[deleted]
<p>Note 1. <i>Firms</i> are referred to the specific compliance reports for <i>OPS firms</i> required by Chapter 16 of the Supervision Manual.</p> <p>Note 2. A <i>firm</i> subject to "lead regulator arrangements" whereby a body other than <i>FCA</i> 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 <i>FCA</i>.</p> <p>Note 3. The financial and non-financial resources rules for an <i>exempt CAD firm</i> are set out in IPRU(INV) chapter 9. However, rules 5.2.1(1) to 5.2.7(5) apply to an <i>exempt CAD firm</i> 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 <i>regulated activity</i> other than <i>MiFID business</i> (see IPRU(INV) 9.2.3R).</p>			

(b) [deleted]

Amended by: LIs [2003/69](#), [2006/53](#), [2007/02](#), [2007/27](#), [FCA 2013/9](#), [FCA 2016/4](#)

▪ **5.1.1(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](#).

Inserted by: LI [FCA 2016/4](#)

- Interpretation
 - IPRU(INV) 5.1.1(1)(c)R

The definitions in the glossary at Appendix 1 apply to this chapter.

- 5.2.1 General requirement
 - Adequacy of financial resources
 - IPRU(INV) 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
 - IPRU(INV) 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
 - IPRU(INV) 5.2.1(3)R

A firm's financial resources means:

- 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
- a. its liquid capital , if the firm is subject to a liquid capital requirement under paragraph (a) of [rule 5.2.3\(1\)](#).
- b. [deleted]
- c. [deleted]

Amended by: Lis [2007/27](#), [FCA 2016/4](#)

- 5.2.2 Financial resources
 - Own funds
 - IPRU(INV) 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 depositary of a UCITS* .

Amended by: LI [FCA 2016/4](#)

- 5.2.2(1)(A)R

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

Inserted by: LI [FCA 2016/4](#)

- Liquid capital
 - IPRU(INV) 5.2.2(2)R

Current version: effective from Apr 1 2013 - Aug 31 2016.

A *firm* must calculate its *liquid capital* in accordance with [Table 5.2.2\(1\)](#) .

- 5.2.3 Financial resources requirement
 - Determination of requirement
 - IPRU(INV) 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 depositary of a UCITS* .

Amended by: LIs [2007/27](#), [FCA 2016/4](#)

- IPRU(INV) 5.2.3(1)(b)R [deleted]

Deleted by: LI [2007/27](#)

- IPRU(INV) 5.2.3(1)(c)R [deleted]

Deleted by: LI [2007/27](#)

- Exceptions from the liquid capital requirement
 - IPRU(INV) 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 *depository* of an *ICVC* or *ACS* or a *depository* appointed in line with [FUND 3.11.12R](#) (Eligible depositories for UK AIFs) or a *UK depository* of a *non-EEA AIF* whose *permitted business* consists only of *depository* activities; or

(d) the *firm's permitted business* limits it to acting as a *residual CIS operator* or a *small authorised UK AIFM* where the main purpose of the *collective investment scheme* or *AIF* (as applicable) main purpose is to invest in *permitted immovables* whether in the *UK* or abroad.

Amended

by: LIs [2003/84](#), [2006/28](#), [2007/27](#), [2007/58](#), [2007/62](#), [FCA 2013/50](#), [FCA 2013/51](#)

- **Own funds requirement**
 - **IPRU(INV) 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) £4 million for a *firm* which is a *depository* of an *authorised fund* , if the *authorised fund* is an *AIF* ;

(ia) €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* .

Amended by: LIs [FCA 2013/50](#), [FCA 2013/51](#), [FCA 2016/4](#)

▪ **IPRU(INV) 5.2.3(3)(b)R [deleted]**

Deleted by: LI [2007/27](#)

▪ **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\(ib\)](#).

Inserted by: LI [FCA 2016/4](#)

▪ **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 *depositary* 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* .

Inserted by: LI [FCA 2016/4](#)

▪ **5.2.3(3)(C)G**

If a *firm* that is the *depositary* 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.

Inserted by: LI [FCA 2016/4](#)

- **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 depositary of a UCITS* in relation to its activity in the *United Kingdom of acting as trustee or depositary of a UCITS*.

Inserted by: LI [FCA 2016/4](#)

- **5.2.3(3)(E)R**

A *firm* which is the *depositary 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*.

Inserted by: LI [FCA 2016/4](#)

- **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 subconsolidated basis (see [IFPRU 2.2.45R](#) to [IFPRU 2.2.49R](#)).

Inserted by: LI [FCA 2016/4](#)

- **Liquid capital requirement**

- **IPRU(INV) 5.2.3(4)(a)R**

Current version: effective from Apr 1 2013 - Aug 31 2016.

The *liquid capital requirement* for a *firm* subject to paragraph (a) of rule 5.2.3(1) is the greater of:

- £5,000; and

- its *total capital requirement* calculated in accordance with rule 5.2.3(5).

- **IPRU(INV) 5.2.3(4)(b)R [deleted]**

Deleted by: LI [2007/27](#)

- **IPRU(INV) 5.2.3(4)(c)R [deleted]**

Deleted by: LI [2007/27](#)

- **IPRU(INV) 5.2.3(4A)G**

Future version: effective from Sep 1 2016 onwards.

(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 concluded 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 permissions from third parties, then the asset can be categorised 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.

Inserted by: LI [FCA 2013/58](#)

- **Total capital requirement**
 - **IPRU(INV) 5.2.3(5)R**

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

- *expenditure based requirement* calculated in accordance with [Table 5.2.3\(5\)\(a\)](#);
- a. *position risk requirement* calculated in accordance with [Table 5.2.3\(5\)\(b\)](#);
- b. *counterparty risk requirement* calculated in accordance with [Table 5.2.3\(5\)\(c\)](#);
- c. *foreign exchange requirement* calculated in accordance with [Table 5.2.3\(5\)\(d\)](#); and

- d. **other assets requirement** calculated in accordance with [Table 5.2.3\(5\)\(e\)](#).

- **IPRU(INV) 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**

Amended by LI: [2006/23](#)

- **Determination**

- **IPRU(INV) 5.2.4(1)R**

Annual expenditure is:

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):

- xv. **staff bonuses, except to the extent that they are guaranteed;**
- xvi. ***employees' and directors' shares in profits, except to the extent that they are guaranteed;***
- xvii. **other appropriations of profits;**
- xviii. **shared commission and fees payable which are directly related to commission and fees receivable which are included within total revenue;**
- xix. **interest charges in respect of borrowings made to finance the acquisition of the *firm's* readily realisable investments;**
- xx. **interest paid to *customers* on *client money* ;**
- xxi. **interest paid to counterparties;**
- xxii. **fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;**

- xxiii. **foreign exchange losses; or**
- a. **where the previous accounting period does not include twelve months trading, an amount calculated in accordance with paragraph (a) above pro-rated to an equivalent annual amount; or**
- b. **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.**

Amended by LI: [2006/23](#), [2008/17](#)

- **IPRU(INV) 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 *firm's 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.

Amended by: LIs [2006/23](#), [2007/65](#), [2008/17](#)

- **IPRU(INV) 5.2.4(3)R [deleted]**

Deleted by: LI [2007/65](#)

- **5.2.5 Qualifying Subordinated Loans**

- **Characteristics of long term qualifying subordinated loans**

- **IPRU(INV) 5.2.5(1)R**

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

- **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* ;**
- a. **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;**
- b. **either:**
 - xv. **the minimum original maturity of the loan is 5 years; or**

- xvi. the loan does not have a minimum or fixed maturity but requires 5 years notice of repayment; and
- c. the loan is fully paid-up.

Amended by: LI [2007/27](#)

- Amount allowable in the calculation of own funds
 - IPRU(INV) 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
 - IPRU(INV) 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.

- IPRU(INV) 5.2.5(3)(b)R

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
 - IPRU(INV) 5.2.5(4)R

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

Amended by: LI [FCA 2013/9](#)

- IPRU(INV) 5.2.5(5)G

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

Amended by: LI [FCA 2013/9](#)

- Conditions applicable to qualifying subordinated loans
 - IPRU(INV) 5.2.5(6)R

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

- provide *FCA* with a copy of the agreement not less than 10 business days before the loan is to be made; and

- a. certify to *FCA* that the loan agreement complies with *the FCA's prescribed subordinated loan agreement*.

Amended by: LI [FCA 2013/9](#)

- **Requirements on a firm in relation to qualifying subordinated loans**
 - **IPRU(INV 5.2.5(7)R**

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

- . secure all or any part of the loan;
- a. redeem, purchase or otherwise acquire any of the liabilities of the borrower in respect of the loan;
- b. amend or concur in amending the terms of the loan agreement;
- c. repay all or any part of the loan otherwise than in accordance with the terms of the loan agreement; *or*
- d. 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**
 - **IPRU(INV 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:

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

- **IPRU(INV) 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:	
.	$85\% \times £200,000 = £170,000$
a.	$85\% \times £100,000 = £85,000$
b.	$£70,000 - £5,000 = £65,000$
i.e. £65,000	

- **Qualifying undertakings**
 - **IPRU(INV) 5.2.6(3)R**

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

- . is in the form prescribed by FCA for the purposes of this rule; and
- a. complies with the appropriate limitations set out in paragraph (7) of Part II to Table 5.2.2(1).

Amended by: LI [FCA 2013/9](#)

- **5.2.7 Large exposures [deleted]**

5.2.7(1) G

[deleted]

Amended by LI: [2007/27](#)

- **General requirement [deleted]**

5.2.7(2) R

[deleted]

Amended by LI: [2007/27](#)

- **Large exposure limits [deleted]**

5.2.7(3) R

[deleted]

Amended by LI: [2007/27](#)

- **Exception to the large exposure limits [deleted]**

5.2.7(4) R

[deleted]

Amended by LI: [2007/27](#)

- **Transitional arrangements [deleted]**

5.2.7(5) R

[deleted]

Amended by LI: [2007/27](#)

- **Tables**

- **Table 5.2.2(1) Calculation of own funds and liquid capital**

Current version: effective from Jan 1 2016 - Aug 31 2016.

PART I METHOD OF CALCULATION		
A firm must calculate its <i>own funds</i> and <i>liquid capital</i> as shown below, subject to the detailed requirements set out in Part II.		
Financial resources	Category	Part II Para
Tier 1		
0. Paid-up share capital (excluding preference shares)	A	2
1A <i>Eligible LLP members' capital</i>		
▪ Share premium account		2A
▪ Reserves		
▪ 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 <i>exempt CAD firms only, material insurance holdings</i>		5 and 5A
8A <i>Excess LLP members' drawings</i>		
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 <i>exempt CAD firms</i> , only perpetual cumulative preference share capital and <i>qualifying capital instruments</i>		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
Plus:		11

17.	Qualifying Property		
"Liquid Capital" = (E+F+G)			

PART II DETAILED REQUIREMENTS	
1 Deductions and Ratios (Items 10, 11 and 15)	<p>e. Notwithstanding Table 5.2.2(1), for an <i>exempt CAD firm</i>, in calculating <i>own funds</i> all of Item 8 must be deducted after the total of Tier 1 and Tier 2 capital and the following restrictions apply:</p> <ul style="list-style-type: none"> . the total of fixed term cumulative preference shares (item 10) and long-term <i>qualifying subordinated loans</i>(item 11) that may be included in Tier 2 capital is limited to 50 per cent of Tier 1 capital; and i. Tier 2 capital must not exceed 100 per cent of Tier 1 capital. <p>f. [deleted]</p> <p>g. A <i>firm</i> which is not an <i>exempt CAD firm</i> and which is subject to a <i>liquid capital requirement</i> under rule 5.2.3(1)(a) may take into account <i>qualifying subordinated loans</i> in the calculation of <i>liquid capital</i> up to a maximum of 400% of its Tier 1 capital.</p>
2 Non corporate entities	<p>h. 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:</p> <ul style="list-style-type: none"> . partners' capital accounts (excluding loan capital); i. partners' current accounts (excluding unaudited profits and loan capital); ii. proprietors' account (or other term used to signify the sole trader s capital but excluding unaudited profits). <p>i. Loans other than <i>qualifying subordinated loans</i> shown within partners or proprietors' accounts must be classified as Tier 2 capital under item 12.</p> <p>j. For the calculation of <i>own funds</i>, partners' current accounts figures are subject to the following adjustments in respect of a <i>defined benefit</i></p>

	<p><i>occupational pension scheme</i> :</p> <ul style="list-style-type: none"> · a <i>firm</i> must derecognise any <i>defined benefit asset</i> ; i. a <i>firm</i> may substitute for a <i>defined benefit liability</i> the <i>firm's deficit reduction amount</i> . The election must be applied consistently in respect of any one financial year. <p>Note</p> <p>A <i>firm</i> should keep a record of and be ready to explain to its supervisory contacts in the <i>FCA</i> the reasons for any difference between the <i>deficit reduction amount</i> and any commitment the <i>firm</i> has made in any public document to provide funding in respect of a <i>defined benefit occupational pension scheme</i> .</p>
<p>2A Reserves</p>	<p>For the calculation of <i>own funds</i> and <i>liquid capital</i> the following adjustments apply to the audited reserves figure:</p> <ul style="list-style-type: none"> k. a <i>firm</i> 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; l. in respect of a <i>defined benefit occupational pension scheme</i> , a <i>firm</i> must derecognise any <i>defined benefit asset</i> ; m. a <i>firm</i> may substitute for a <i>defined benefit liability</i> the <i>firm's deficit reduction amount</i> . The election must be applied consistently in respect of any one financial year. <p>Note 1</p> <p>A <i>firm</i> should keep a record of and be ready to explain to its supervisory contacts in the <i>FCA</i> the reasons for any difference between the <i>deficit reduction amount</i> and any commitment the <i>firm</i> has made in any public document to provide funding in respect of a <i>defined benefit occupational pension scheme</i> .</p> <p>Note 2</p> <p>Reserves must be audited unless the <i>firm</i> 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.</p> <ul style="list-style-type: none"> n. a <i>firm</i> must not include any unrealised gains from investment property. <p>Note</p> <p>Unrealised gains from investment property should be reported as part of revaluation reserves.</p>

	<p>o. where applicable, a <i>firm</i> 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.</p>
<p>3 Intangible assets (Item 6)</p>	<p>Intangible assets comprise:</p> <ul style="list-style-type: none"> p. formation expenses to the extent that these are treated as an asset in the <i>firm's</i> accounts; q. goodwill, to the extent that it is treated as an asset in the <i>firm's</i> accounts; and r. other assets treated as intangibles in the <i>firm's</i> accounts. <p>Intangible assets do not include a deferred acquisition cost asset.</p>
<p>4. Material current year losses(Item 7)</p>	<p>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 <i>firm's</i> Tier 1 capital.</p>
<p>5 Material holdings in credit and financial institutions (Item 8)</p>	<p>Material holdings comprise:</p> <ul style="list-style-type: none"> s. where the <i>firm</i> 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 <i>qualifying capital items</i> or <i>qualifying capital instruments</i> issued by the institution; t. 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 <i>qualifying capital items</i> or <i>qualifying capital instruments</i> issued by such institutions to the extent that the total of such holdings and subordinated loans exceeds 10 per cent of the <i>firm's own funds</i> calculated before the deduction of item 8.
<p>5A Material insurance holdings (Item 8)</p>	<p>u. A <i>material insurance holding</i> means the holdings of an <i>exempt CAD firm</i> of items of the type set out in (b) in any:</p> <ul style="list-style-type: none"> . <i>insurance undertaking</i> ; or i. <i>insurance holding company</i> ; <p>that fulfils one of the following conditions:</p>

	<ul style="list-style-type: none"> iii. <i>undertaking of that firm</i> ; or it is a <i>subsidiary</i> iv. participation in it. that <i>firm</i> holds a v. An item falls into this provision for the purpose of (a) if it is: <ul style="list-style-type: none"> iii. an <i>ownership share</i> ; or iv. subordinated debt or another item of capital that forms part of the <i>tier two capital resources</i> 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.
6 Long term <i>qualifying subordinated loans</i> (Item 11)	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.
6A Perpetual cumulative preference share capital	<p>Perpetual cumulative preference share capital may not be included in the calculation of <i>own funds</i> by an <i>exempt CAD firm</i> unless it meets the following requirements:</p> <ul style="list-style-type: none"> w. it may not be reimbursed on the holder's initiative or without the prior agreement of the <i>FCA</i> ; x. the instrument must provide for the <i>firm</i> to have the option of deferring the dividend payment on the share capital; y. the shareholder's claims on the <i>firm</i> must be wholly subordinated to those of all non-subordinated creditors; z. the terms of the instrument must provide for the loss-absorption capacity of the share capital and unpaid dividends, whilst enabling the <i>firm</i> to continue its business; and aa. it must be fully paid-up.
7 Qualifying arrangements (Item 13)	<ul style="list-style-type: none"> bb. An <i>exempt CAD firm</i> may only include a <i>qualifying undertaking</i> or other arrangement in item 13 if it is a <i>qualifying capital instrument</i> or a <i>qualifying capital item</i> . cc. A <i>firm</i> which is not an <i>exempt CAD firm</i> may only include <i>qualifying undertakings</i> in its calculation of <i>liquid capital</i> if: <ul style="list-style-type: none"> . it maintains <i>liquid capital</i> equivalent to 6/52 of its <i>annual expenditure</i> in a form other than <i>qualifying undertakings</i>; and i. the total amount of all <i>qualifying undertakings</i> plus <i>qualifying subordinated loans</i> does not exceed the limits set out in

	<p>paragraph (1)(c) above.</p>
<p>8 Net trading book profits (Item 14)</p>	<p>For <i>firms</i> which are not <i>exempt CAD firms</i> unaudited profits can be included at item 14.</p> <p>Note</p> <p><i>Non-trading book</i> interim profits may only be included in Tier 1 of the calculation if they have been independently verified by the <i>firm's</i> external auditors, unless the <i>firm</i> 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.</p> <p>For this purpose, the external auditor should normally undertake at least the following:</p> <ul style="list-style-type: none"> dd. satisfy himself that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records; ee. 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 <i>firm</i> in drawing up its annual financial statements; ff. 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; gg. discuss with management the overall performance and financial position of the <i>firm</i> ; hh. 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 ii. follow up problem areas of which the auditors are already aware in the course of auditing the <i>firm's</i> financial statements. <p>A <i>firm</i> wishing to include interim profits in Tier 1 capital in a <i>financial return</i> should submit to <i>FCA</i> with the <i>financial return</i> a verification report signed by its external auditor which states whether the interim results are fairly stated, unless the <i>firm</i> 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.</p> <p>Profits on the sale of capital items or arising from other activities which are not directly related to the <i>investment business</i> of the <i>firm</i> may also be included within the calculation of <i>liquid capital</i> , but (unless the firm is exempt as above) only if they can be separately verified by the <i>firm's auditors</i>. In such a case, such profits can form part of the <i>firm's</i> Tier 1 capital as profits.</p>
<p>9 Short term qualifying</p>	<p>Loans having the characteristics prescribed by rule 15.2.5(3) may be included in</p>

<p>subordinated loans (Item 15)</p>	<p>item 15 subject to the limits 1 set out in paragraph (1) above. Tier 2 capital which 1 exceeds the ratios prescribed by paragraph (1)(a) and (b) may be included in item 15 subject to paragraph (1) above.</p>
<p>10 Illiquid assets (Item 16)</p>	<p>Illiquid assets comprise;</p> <ul style="list-style-type: none"> jj. tangible fixed assets; <p>Note</p> <p>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.</p> <ul style="list-style-type: none"> kk. holdings in, including subordinated loans to, <i>credit or financial institutions</i> which may be included in the own funds of such <i>institutions</i> unless they have been deducted under item 8; ll. any <i>investment</i> in undertakings other than <i>credit institutions</i> and other <i>financial institutions</i> where such <i>investments</i> are not readily realisable; mm. any deficiency in net assets of a <i>subsidiary</i> ; nn. deposits not available for repayment within 90 days or less (except for payments in connection with margined futures or options contracts); <p>Note</p> <p>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.</p> <ul style="list-style-type: none"> oo. 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; pp. physical stocks (except where subject to the <i>position risk requirement</i> as set out in Table 5.2.3(5)(b); and qq. prepayments to the extent that the period of prepayment exceeds six weeks in the case of a <i>firm</i> subject to the <i>6/52 expenditure based requirement</i> or thirteen weeks in the case of a <i>firm</i> subject to the <i>13/52 expenditure based requirement</i> or where a <i>firm</i> is required to meet the requirement in rule 5.2.3(4)(c)(i). rr. if not otherwise covered, any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a <i>subsidiary or participation</i>. Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under GENPRU 2. <p>Illiquid assets do not include a <i>defined benefit asset</i> or a deferred acquisition cost asset.</p>

11 qualifying property
(Item 17)

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

Amended by

LI: [2004/56](#), [2005/21](#), [2006/16](#), [2006/23](#), [2006/53](#), [2006/55](#), [2007/27](#), [2008/22](#), [FCA 2013/9](#), [FCA 2015/16](#)

- **Table 5.2.3(3)(b) Own funds requirement [deleted]**

[deleted]

Amended by LI: [2006/53](#), [2007/27](#)

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

Future version: effective from Sep 1 2016 onwards.

Table
5.2.3(4)(a)

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

Liquid Capital Requirement = Initial Capital Requirement + Capital Surcharge

Calculation of Initial Capital Requirement

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

Where

ICR means Initial Capital Requirement

AUA means Assets Under Administration calculated as the sum of the most recent annual valuations over the preceding 12 months of the *personal pension schemes* administered by the *firm*, and adjusted to include any revaluation of assets that may occur between the date of the most recent valuation and the date when the *firm* must calculate its AUA.

A *firm* must calculate its AUA quarterly in line with the dates when it has to submit its regulatory capital reporting form in accordance with [SUP 16.12](#) (Integrated Regulatory Reporting)

Where it is not possible to value an asset (for example because there is no readily available market price), the most recent market valuation should be used.

Where it would be reasonable to assume that the value of the asset has changed by more than 15% since the most recent market valuation, a *firm* should instead use a reasonable estimate. This is without prejudice to any requirement on a *firm* to provide a *personal pension scheme* member with accurate and timely valuations of their portfolios.

K1 is set subject to the firm's AUA as specified in the below table

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

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



Calculation of Capital Surcharge

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

Where

CS means Capital Surcharge

P means the fraction of *personal pension schemes* administered by the *firm* which contain one or more asset types which **do not** appear in the list of Standard Assets below, at the most recent quarter end. For example, if a quarter of *personal pension schemes* contained non-Standard Assets, this would be inputted in to the formula as 0.25.

K2 is set at 2.5

ICR means the Initial Capital Requirement calculated as above
Standard Assets

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

- Cash
- Cash funds
- Deposits
- Exchange traded commodities
- Government & local authority bonds and other fixed interest stocks
- Investment notes (structured products)
- Shares in *Investment trusts*
- Managed pension funds
- National Savings and Investment products
- Permanent interest bearing shares (PIBs)
- Physical gold bullion
- Real estate investment trusts (REITs)
- Securities* admitted to trading on a regulated venue
- UK commercial property
- Units in *Regulated collective investment schemes*

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

NOTE 2: In addition to complying with the provisions of Table 5.2.2(1), in accordance with rule 5.2.2(2)(b), a *firm* must hold its *liquid capital* in financial resources as follows:

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

Inserted by: LI [FCA 2014/46](#)
Amended by: LI [FCA 2015/58](#)

▪ **Table 5.2.3(5)(a) Expenditure based requirement**

PART I CALCULATION OF REQUIREMENT
A <i>firm's</i> expenditure based <i>requirement</i> is a fraction of its <i>annual expenditure</i> determined in accordance with Part II of this Table.
PART II FRACTIONS

0. The fraction is 6/52 where:

- . the *firm* is an authorised *unit trust manager* ; or
- aa. the *firm* is an *authorised contractual scheme manager* ; or

1.

- 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*) ; or
 - i. one whose *permitted business* includes *establishing, operating or winding up a personal pension scheme* ,

unless paragraph 2 applies.

2. The fraction is 13/52 where the *firm* is:

- b. an *investment manager* as in paragraph 1(c)(i) above;
- c. one whose *permitted business* includes *establishing, operating or winding up a personal pension scheme* ; or
- d. a *custodian* ,

and the *firm* :

- d. itself holds *customer's* monies or assets; or
- e. 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:

- c. an *authorised corporate director* of an *ICVC* ; or
- d. an *authorised contractual scheme manager* .

Amended by: LIs [2006/23](#), [2006/28](#), [FCA 2013/50](#)

▪ **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	Requirement			
A Debt	Maturity	<i>0-2 years</i>	<i>2-5 years</i>	<i>>5 years</i>
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 <i>a recognised or designated investment exchange .</i>		25		
▪ other		100%		
C Stock position in physical commodities				
▪ Physical positions associated with <i>firm's investment business</i>		30% of realisable value		
D Derivatives				
▪ traded futures and written options	Exchange	4 x initial margin requirement		
▪ written options	otc futures and	Apply the appropriate percentage shown in Sections A, B, & C above to the market value of the underlying position.		
▪ options	Purchased	Apply the appropriate percentage shown in Sections A, B, & C above to the market value of the underlying position but the result may be		

<ul style="list-style-type: none"> ▪ differences 	Contracts for	limited to the market of the option. 20% of the market value of the contract.
E Other investments		
<ul style="list-style-type: none"> ▪ in regulated collective investment schemes 	units	25% of realisable value (see Section F).
<ul style="list-style-type: none"> ▪ policies 	with profit life	20% of surrender value.
<ul style="list-style-type: none"> ▪ 	other	100% of the value of investment or underlying instrument.
F [deleted]		

- - Amended by: LIs [2007/27](#), [FCA 2013/51](#)
 - **Table 5.2.3(5)(c) Counterparty Risk Requirement (CRR)**

1 Receivables	In the case of receivables due to the <i>firm</i> 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 <i>trading book</i> , the CRR is calculated as follows:		
	CRR	=	A x 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>Note</p> <p>This requirement attaches only to balances arising from proprietary activity falling within the definition of the <i>trading book</i>.</p> <p>Note</p> <p>This requirement does not attach to items deducted in full as illiquid assets.</p>		
2 Delivery of cash against documents	Where a <i>firm</i> enters into a <i>trading book</i> transaction and the transaction is to be settled by delivery of cash against documents, the <i>firm's</i> CRR in respect of that transaction is calculated as follows:		
	CRR	=	(SP - MV) x RF, where
	SP	=	agreed settlement price;
	MV	=	current market value;
	MV	=	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 <i>firm</i> .			
3 Free deliveries	Where a <i>firm</i> enters into a <i>trading book transaction</i> and the <i>firm</i> 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 x RF, where
	V	=	<p>. the full amount due to the <i>firm</i> (i.e. the contract value) where the <i>firm</i> has delivered securities to a counterparty and has not received payment; or</p> <p>i. the market value of the securities, where the <i>firm</i> has made payment to a counterparty for securities and has not received documents of title; and</p>
	RF	=	the appropriate risk factor derived from Table 5.2.3(5)(c)(ii).
4 Settlement outstanding 30 days or more	In the case of trading book transactions entered into by a <i>firm</i> where the <i>firm</i> 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	Where a <i>firm</i> 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 <i>firm's</i> CRR in respect of that transaction is calculated as follows:		
	CRR	=	V x 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.
6 otc derivatives	In the case of a transaction entered into by a <i>firm</i> as principal in an <i>otc derivative</i> the CRR is calculated as follows:		
	CRR	=	A x 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 <i>recognised investment exchange</i> or <i>designated investment exchange</i> where they are subject to a daily margin requirement and foreign exchange contracts with an original maturity of 14 calendar days or less.		
	A <i>firm</i> may net off contracts with the same counterparty in the same <i>otc derivative</i> 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.

▪ **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 Requirement**

Type of <i>counterparty</i>	Risk Weighting	Solvency Ratio	Risk Factor
0. A counterparty which is, or the contract of which is, explicitly guaranteed by a <i>category a body</i> .	NIL	8%	NIL
▪ A counterparty which is, or the contract of which is, explicitly guaranteed by a <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:

Residual Maturity	Interest-Rate Contracts	Foreign-Exchange Contracts
One year or less	nil	1%
More than one year	0.5%	5%

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:
 - . the total in the *reporting currency* of the net short positions in each currency other than the *reporting currency* ; and
 - a. 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 <i>position risk requirements</i> and <i>counterparty risk requirements</i> 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 <i>authorised contractual schemes</i>	NIL	
Note		
This only applies to <i>firms</i> who are <i>authorised unit trust managers</i> in relation to authorised unit trusts they manage or <i>authorised contractual scheme managers</i> in relation to <i>authorised contractual schemes</i> they manage.		
Amount due from <i>depositaries</i> of ICVC 's	NIL	
Note		
This only applies to <i>firms</i> who are <i>authorised corporate directors</i> in relation to ICVC's they operate.		

Other receivables due from or explicitly guaranteed by or deposits with <i>category a bodies</i>	NIL
Other receivables due from or explicitly guaranteed by or deposits with <i>category b bodies</i>	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 Guarantees given	8% x counterparty weight (see Table 5.2.3(5)(c)(ii))
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 <i>firm</i> with an original maturity of one year or less	Nil
Note	
<p>1. In determining the appropriate <i>other assets requirement</i> (OAR) for guarantees given in a group context, a <i>firm</i> should follow the calculation below:</p> <ul style="list-style-type: none"> . Categorise the guarantee agreements into: <ul style="list-style-type: none"> . those with the character of credit substitutes; or i. those not having the character of credit substitutes; or ii. agreements to provide guarantees. a. Calculate the weighted value. <ul style="list-style-type: none"> . For guarantees falling under (1)(a)(i), the weighted value will be 100% of the estimated current year liability under the guarantee. 	

i. For guarantees falling under (1)(a)(ii) the weighted value will be 50% of the estimated current year liability under the guarantee.

ii. For guarantees falling under (1)(a)(iii), the weighted value will be nil.

b. 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:

do the agreements allow for periodic or ad-hoc calling of funds;

a. have the guarantees been drawn upon on a regular basis;

b. 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.

Amended by LI: [2002/73](#), [2006/16](#), [FCA 2013/9](#), [FCA 2013/50](#), [FCA 2013/51](#)

▪ 5.3.1 Records [deleted]

Deleted by: LI [2008/40](#)

▪ Recording requirements [deleted]

5.3.1(1) R [deleted]

Deleted by: LI [2008/40](#)

5.3.1(2) G [deleted]

Deleted by: LI [2008/40](#)

▪ Firm's own transactions [deleted]

5.3.1(3) R [deleted]

Deleted by: LI [2008/40](#)

▪ Customers' accounting records [deleted]

5.3.1(4) R [deleted]

Deleted by: LI [2008/40](#)

5.3.1(5) G [deleted]

Deleted by: LI [2008/40](#)

- **Retention of accounting records [deleted]**

5.3.1(6) R [deleted]

Deleted by: LI [2008/40](#)

- **5.5.1 Financial notification [deleted]**
 - **Notification requirements for ISD firms [deleted]**

5.5.1 R

[deleted]

Amended by LI: [2007/27](#)

- **5.7 Consolidated supervision [deleted]**

[deleted]

Amended by LI: [2003/69](#), [2004/56](#), [2006/53](#)

- **5.7.1 Application of consolidation [deleted]**

5.7.1(1) R

[deleted]

Amended by LI: [2003/69](#), [2006/53](#)

- **Cases where consolidated supervision by the FSA will not apply**

5.7.1(2) R

[deleted]

Amended by LI: [2002/52](#), [2003/69](#), [2006/53](#)

5.7.1(3) R

[Deleted]

Amended by LI: [2003/69](#)

5.7.1(3) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.1(4) R

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.1(5) R

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/23](#), [2006/53](#)

5.7.1(6) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2004/55](#), [2006/53](#)

- **Obligation to provide information**

5.7.1(4) R

[Deleted]

Amended by LI: [2003/69](#)

- **5.7.2 Scope of Consolidation [deleted]**

5.7.2(1) R

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.2(2) R

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.2(3) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.2(4) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2004/55](#), [2006/53](#)

- **EXCLUSIONS [deleted]**

- 5.7.2(5) R

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

- 5.7.2(6) G

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

- **5.7.3 Consolidated Supervision Requirement [deleted]**

- 5.7.3(1) R

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

- 5.7.3(2) R

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

- 5.7.3(3) G

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

- **5.7.4 Group Financial Resources [deleted]**

- 5.7.4(1) R

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

- 5.7.4(2) R

- [deleted]

- Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.4(3) G

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Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.4(4) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.4(5) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

▪ **5.7.5 Group Financial Resources Requirement [deleted]**

5.7.5(1) R

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.5(2) R

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.5(3) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

5.7.5(4) G

[deleted]

Amended by LI: [\(2003/69\)](#), [2006/53](#)

▪ **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 Chapter 5 glossary below, the definition appearing in the *Glossary* applies.

Term	Meaning
[deleted]	[deleted] Amended by: LI 2007/27
<i>accounting reference date</i>	means: <ul style="list-style-type: none"> . the date to which a <i>firm's</i> accounts are prepared in order to comply with the relevant Companies Act legislation. In the case of a <i>firm</i> not subject to Companies Act legislation, the equivalent date selected by the <i>firm</i> ; and a. in the case of an <i>OPS firm</i> which is not subject to the relevant Companies Act legislation, the date to which the accounts of the <i>OPS</i> in respect of which the <i>firm</i> acts are prepared. Amended by: LI 2008/22
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/27
<i>admission procedures</i>	means the procedures set out in the Authorisation Manual together with any other procedures which the <i>Board</i> resolves, either generally or in relation to any specific case, should apply to the admission of <i>firms</i> and the admission of <i>approved persons</i> .
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI (2003/69) , 2007/27
<i>annual accounts</i>	means accounts prepared to comply with relevant Companies Act legislation and their equivalent in Northern Ireland or other statutory obligations. Amended by: LI 2008/22
<i>annual expenditure</i>	has the meaning given in rule 5.2.4(1) (Determination). Amended by: LI 2006/23
[deleted]	[deleted] Amended by: LI 2008/17
[deleted]	[deleted] Amended by: LI 2007/27

[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2004/34 , 2004/33 , 2007/27
[deleted]	[deleted] Amended by: LI 2007/27
<i>authorised contractual scheme</i>	a <i>co-ownership scheme</i> or a <i>limited partnership scheme</i> . Amended by: LI FCA 2013/50
<i>authorised contractual scheme manager</i>	means the <i>authorised fund manager</i> of an <i>authorised contractual scheme</i> . Amended by: LI FCA 2013/50
<i>authorised unit trust manager</i>	means the manager of an <i>authorised unit trust scheme</i> .
[deleted]	[deleted] Amended by: LI 2007/27
<i>best execution</i>	in relation to the effecting of a transaction, means the effecting of that transaction in compliance with COBS 11.2 . Amended by: LI 2007/58
<i>Board</i>	means the board of <i>directors</i> of <i>FCA</i> or any duly authorised committee of such board. Amended by: LI FCA 2013/9
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<i>category a body</i>	means: <ul style="list-style-type: none"> b. the government or central bank of a <i>zone a country</i> ; or c. the <i>EU</i> or Euratom (the European Atomic Energy Community); or d. the government or central bank of any other country, provided the receivable in question is denominated in that country s national currency. Amended by: LI 2009/67
<i>category b body</i>	means: <ul style="list-style-type: none"> e. the <i>EIB</i> or a multi-lateral development bank; or f. the regional government or local authority of a <i>zone a country</i> ; or g. an <i>investment firm</i> or <i>credit institution</i> authorised in a <i>zone a country</i> ; or h. a <i>recognised clearing house</i> or <i>exchange</i> ; or i. an <i>investment firm</i> or <i>credit institution</i> authorised in any other country, which applies a financial supervision regime at least equivalent to the <i>Capital Adequacy Directive</i>. Amended by: LI 2006/53
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<i>Client Money Rules</i>	COB 9.3.
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<i>company</i>	means a <i>body corporate</i> or an unincorporated association and, where the context permits, includes a partnership.
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<i>compliance officer</i>	means the individual from time to time appointed by a <i>firm</i> as responsible for compliance matters.
<i>connected company and connected credit institution</i>	means, in relation to a <i>firm</i> which: <ul style="list-style-type: none"> j. is a <i>body corporate</i>, a <i>body corporate</i> or <i>credit institution</i> satisfying any of the following conditions: <ul style="list-style-type: none"> . the same person is the <i>controller</i> of each <i>body corporate</i> or <i>credit institution</i>; or i. if a <i>group</i> of two or more persons are <i>controllers</i> of each <i>body corporate</i> or <i>credit institution</i>, the <i>group</i> either consists of the same persons or could be regarded as consisting of the same persons by treating a member of either <i>group</i> as replaced by: <ul style="list-style-type: none"> . that member's <i>close relative</i>; or A. a person with whom the member is in partnership; or B. a <i>body corporate</i> of which the member is an officer; or ii. both <i>bodies corporate</i> are members of the same <i>group</i>; or k. is not a <i>body corporate</i> or <i>credit institution</i> which is controlled: <ul style="list-style-type: none"> . by the <i>firm</i>; or i. by a partner in the <i>firm</i>;

	<p>or</p> <p>ii. by a <i>close relative</i> or partner in the <i>firm</i> or, if the <i>firm</i> is a sole trader, by a <i>close relative</i> of the sole trader; or</p> <p>iii. collectively by any of the partners in the <i>firm</i> or their <i>close relatives</i> .</p>
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<i>controller</i>	<p>(as defined in section 422 of the <i>Act</i> (Controller))</p> <p>in relation to a <i>firm</i> or other undertaking ("A"), means a person who:</p> <p>I. holds 10% or more of the <i>shares</i> in A; or</p> <p>m. is able to exercise significant influence over the management of A by virtue of his shareholding in A; or</p> <p>n. holds 10% or more of the <i>shares</i> in a parent undertaking ("P") of A; or</p> <p>o. is able to exercise significant influence over the management of P by virtue of his shareholding in P; or</p> <p>p. is entitled to exercise, or control the exercise of, 10% or more of the voting power in A; or</p> <p>q. is able to exercise significant influence over the management of A by virtue of his voting power in A; or</p> <p>r. is entitled to exercise, or control the exercise of, 10% or more of the voting power in P; or</p> <p>s. is able to exercise significant influence over the management of by virtue of his voting power in P.</p>

and in this definition

T. "person" means:

- . the person; or
- a. any of the person's *associates*; or
- b. the person and any of his *associates*;

U. "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:

- . the spouse of H
- a. a child or stepchild of H (if under 18);
- b. the trustee of any settlement under which H has a life interest in possession (or in Scotland a life interest);
- c. an undertaking of which H is a *director*;
- d. a person who is an *employee* or *partner* of H;
- e. if H is an undertaking:
 - . a *director* of H;
 - i. a *subsidiary* undertaking of H;
 - ii. a *director* or *employee* of such a *subsidiary* undertaking; and
- f. 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;

	<p>V. "settlement" includes any disposition or arrangement under which property is held on trust (or subject to a comparable obligation);</p> <p>W. "shares" means;</p> <ul style="list-style-type: none"> . in relation to an undertaking with a share capital, allotted shares; a. in relation to an undertaking with capital but no share capital, rights to share in the capital of the undertaking; b. in relation to an undertaking without capital, interests: <ul style="list-style-type: none"> . conferring any right to share in the profits, or liability to contribute to the losses, of the undertaking; or i. giving rise to any obligation to contribute to the debts or expenses of the undertaking in the event of a winding up. <p>X.</p> <p>Amended by: LI 2007/58</p>
<p>co-ownership scheme</p>	<p>(as defined in section 235A(2) of the Act (Contractual schemes)) a <i>collective investment scheme</i> which satisfies the conditions in section 235A(3) and which is authorised for the purposes of the Act by an <i>authorisation order</i> .</p> <p>Amended by: LI FCA 2013/50</p>
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<p>corporate finance businesses</p>	<p>means:</p> <ul style="list-style-type: none"> y. <i>designated investment business</i> carried on by a <i>firm</i> with or for: <ul style="list-style-type: none"> . any issuer, holder or owner of <i>designated investments</i>, if that business relates to the offer, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, those <i>investments</i>, or any related matter; i. any <i>eligible counterparty</i> or <i>professional client</i> , or other <i>body corporate</i> , 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;

ii. any person in connection with:

. 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

A. a merger, demerger, reorganisation or reconstruction involving any investments issued by that person (being a *body corporate*), its *holding company*, *subsidiary* or *associate*;

iii. 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*;

iv. any person who, acting as a *principal* for his own account:

. is involved in negotiations or decisions relating to the commercial, financial or strategic intentions or requirements of a business or prospective business; or

A. (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;

v. 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;

	<p>z. <i>designated investment business</i> carried on by a <i>firm</i> as a <i>principal</i> for its own account where 0such<i>business</i>:</p> <ul style="list-style-type: none"> . is in the course of, or arises out of, activities undertaken in accordance with (a); and i. does not involve transactions with or for, or <i>advice</i> to, any other person who is a <i>retail client</i> in respect of such business; <p>aa. <i>designated investment business</i> carried on by a <i>firm</i> as <i>principal</i> for its own account if such business:</p> <ul style="list-style-type: none"> . is in the course of, or arises out of: <ul style="list-style-type: none"> . the offer, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, shares, share warrants, <i>debentures</i> or debenture warrants issued by the <i>firm</i> , or any related matter; or A. a proposed or actual <i>takeover or related operation</i> by or on behalf of the <i>firm</i> , or involving shares, share warrants, <i>debentures</i> or debenture warrants issued by the <i>firm</i> ; or B. a merger, de-merger, reorganisation or reconstruction involving any shares, share warrants, <i>debentures</i> or debenture warrants issued by the <i>firm</i> ; and i. does not involve giving <i>advice on investments</i> to any person who is a <i>retail client</i> ; <p>in this definition, "share warrants" and "debenture warrants" means any <i>warrant</i> which relates to shares in the <i>firm</i> concerned or, as the case may be, <i>debentures</i> issued by the <i>firm</i> .</p> <p>Amended by: LI 2007/58</p>
<i>counter party</i>	means any person with or for whom a <i>firm</i> carries on <i>regulated business</i> or an <i>ancillary activity</i> .

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<i>EEA parent</i>	means a <i>firm's</i> direct or indirect <i>parent</i> which has its head office in the <i>EEA</i> . Amended by: LI (2003/69)
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<i>EIB</i>	means the European Investment Bank.
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<i>expenditure based requirement</i>	means the requirement calculated in accordance with Table 5.2.3(5)(a) (Expenditure based requirement).
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<i>finance officer</i>	means the most senior individual from time to time directly responsible for the <i>firm's</i> finances and for compliance with the requirements of the Supervision Manual.
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<i>financial resources</i>	has the meaning given in rule 5.2.1(3) (Financial resources).
<i>financial resources requirement</i>	has the meaning given in rule 5.2.3(1) (a) to (c) (Determination of requirement). Amended by: LI 2003/47 , 2006/53
<i>financial resources rules</i>	has the meaning given in rules 5.2.1 to 5.2.7.
<i>financial return</i>	means <i>quarterly financial return</i> or <i>monthly financial return</i> as the case may be. Amended by: LI 2008/17
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<i>foreign exchange position</i>	has the meaning given in Table 5.2.3(5)(d) (Foreign exchange requirement).
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<i>group of connected counterparties</i>	<p>means:</p> <p>bb. two or more natural or legal persons who constitute a single risk because one of them, directly or indirectly, has <i>control</i> over the other or others; or</p> <p>cc. two or more natural or legal persons between whom there is no relationship of <i>control</i> 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 experience financial problems, the other or all of the others would be likely to encounter difficulties in performing its or their obligations.</p>
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<i>IADB</i>	means the Inter-American Development Bank.
<i>IBRD</i>	means the International Bank for Reconstruction and Development.
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<i>IFC</i>	means the International Finance Corporation.
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<i>investigation</i>	<p>means an investigation authorised pursuant to the Enforcement Guide.</p> <p>Amended by: LI 2007/47</p>
<i>investment</i>	means a <i>designated investment</i> .
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	Amended by: LI 2007/27
<i>investment business</i>	means <i>designated investment business</i> .
<i>investment firm</i>	has the meaning given to <i>investment firm</i> in the main <i>Glossary</i> except that it excludes persons to which <i>MiFID</i> does not apply as a result of articles 2 or 3 of <i>MiFID</i> Note: An <i>investment firm</i> is not necessarily a <i>firm</i> for the purposes of the rules. Amended by: LI 2003/50 , 2007/27
<i>investment management firm</i>	see the meaning given to the term in the <i>Glossary</i>
<i>investment manager</i>	means a person who, acting only on behalf of a <i>customer</i> , either: dd. manages an account or portfolio in the exercise of discretion; or ee. has accepted responsibility on a continuing basis for advising on the composition of the account or portfolio.
<i>investment services</i>	means activities undertaken in the course of carrying on <i>designated investment business</i> or undertaken as an <i>ISA manager</i> .
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<i>ISA cash deposit</i>	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.
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	<p>jj. a contract for differences (including interest rate and currency swaps) relating to fluctuations in:</p> <ul style="list-style-type: none"> . the value or price of an <i>investment</i> or commodity in (a) to (d); or i. any currency; or ii. the rate of interest in any currency or any index of such rates; or iii. the level of any index which is derived from the prices of an <i>investment</i> or commodity in (a) to (c); or iv. any combination of (i) to (iv); <p>kk. <i>warrants</i> , options, futures or other instruments entitling the holder to obtain the rights of those contracts in (d) or (e);</p> <p>ll. a <i>unit</i> in a <i>regulated collective investment scheme</i> .</p>
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<i>marketing group</i>	<p>means a group of persons:</p> <ul style="list-style-type: none"> mm. who are allied together (either formally or informally) for the purposes of marketing <i>packaged products</i> of the group; and nn. each of whom, if it holds itself out in the UK as marketing any <i>packaged products</i> to <i>retail clients</i> , does so only as an <i>investment manager</i> or in relation to those of the <i>marketing group</i> . <p>Amended by: LI 2007/58</p>
<i>member state</i>	means a member state of the EEA.
<i>monthly financial return</i>	means the return referred to in the Supervision Manual.
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<i>non-</i>	means a <i>professional client</i> or an <i>eligible counterparty</i> .

retail client	Amended by: LI 2007/58
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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 <i>Glossary</i>
OPS firm	<p>OPS firm means:</p> <ul style="list-style-type: none"> ▪ a firm which: <ul style="list-style-type: none"> ▪ carries on OPS activity but not with a view to profit; and ▪ is one or more of the following: <ol 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: <ol 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

	<ul style="list-style-type: none"> ▪ a <i>firm</i> which: <ul style="list-style-type: none"> i. has satisfied the requirements set out in (a) at any time during the past 12 <i>months</i> ; 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. <p>Amended by: LI 2002/52</p>
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<i>otc derivative</i>	<p>means interest rate and foreign exchange contracts covered by Annex III to the previous version of the <i>Banking Consolidation Directive</i> (i.e. Directive (2000/12/EC) and off balance sheet contracts based on equities which are not traded on a <i>recognised or designated investment exchange</i> 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.</p> <p>Amended by: Lis 2004/66, 2006/53</p>
<i>other assets requirement</i>	<p>has the meaning given in Table 5.2.3(5) (e) (Other assets requirement).</p>
<i>overseas person</i>	<p>see the meaning given to the term in the <i>Glossary</i></p>
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<i>own funds</i>	<p>has the meaning given in rule 5.2.2(1) and IPRU(INV) 5.2.2(1)(A)R, as applicable.</p> <p>Amended by: Lis 2003/47, 2006/53, FCA 2016/4</p>
<i>own funds requirement</i>	<p>has the meaning given in rule 5.2.3(3)(a) and IPRU(INV) 5.2.3(3)(A)R (Own funds requirement), as applicable.</p> <p>Amended by: Lis 2007/27, FCA 2016/4</p>
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<i>parent</i>	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. Amended by: LI (2003/69), 2004/85 , 2008/22
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<i>participation</i>	has the meaning given to the term in the <i>Glossary</i> . Amended by: LI (2003/69), 2007/27
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<i>permitted business</i>	means <i>regulated activity</i> which a firm has <i>permission</i> to carry on.
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<i>plan investment</i>	means an <i>investment</i> included in any <i>ISA</i> component. Amended by: LI 2008/55
<i>position risk requirement</i>	has the meaning given in Table 5.2.3(5)(b) (Position risk requirement).
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<i>prescribed subordinated loan agreement</i>	means the subordinated loan agreement prescribed by the <i>appropriate regulator</i> for the purposes of rule 5.2.5(4). Amended by: LI FCA 2013/9

<i>nt</i>	
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<i>qualifying amount</i>	has the meaning given in the Supervision Manual.
<i>qualifying capital instrument</i>	means that part of a <i>firm's</i> capital which is a security of indeterminate duration, or other instrument, that fulfils the following conditions: <ul style="list-style-type: none"> a. it may not be reimbursed on the bearer's initiative or without the prior agreement of <i>appropriate regulator</i> ; b. the debt agreement must provide for the <i>firm</i> 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 <i>firm</i> in a position to continue trading; and e. only fully paid-up amounts shall be taken into account. Amended by: LI FCA 2013/9
<i>qualifying capital item</i>	means that part of a <i>firm's</i> capital which has the following characteristics: <ul style="list-style-type: none"> f. it is freely available to the <i>firm</i> to cover normal banking or other risks where revenue or capital losses have not yet been identified; g. its existence is disclosed in internal accounting records; and h. its amount is determined by the management of the <i>firm</i> and verified by independent auditors (unless the <i>firm</i> is exempt from the provisions of Part VII of the Companies Act 1985 relating to the audit of accounts (section 249A (Exemptions from audit)), and is made known to, and is monitored by, <i>FCA</i> . <p>Note: Verification by internal auditors will suffice until such time as EU provisions making external auditing mandatory have been implemented.</p> Amended by: LI 2006/23 , FCA 2013/9
<i>qualifying property</i>	has the meaning given in rule 5.2.6(1) (Qualifying property and qualifying amount defined).
<i>qualifying</i>	has the meaning given in rule 5.2.5 (1) to (7) (Qualifying subordinated

<i>g subordinated loan</i>	loans).
<i>qualifying undertaking</i>	has the meaning given in rule 5.2.6(3) (Qualifying undertakings).
<i>quarterly financial return</i>	means the return referred to in the Supervision Manual.
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<i>readily realisable investment</i>	means a unit in a <i>regulated collective investment scheme</i> , a <i>life policy</i> or any <i>marketable investment</i> other than one which is traded on or under the rules of a <i>recognised or designated investment exchange</i> so irregularly or infrequently: <ul style="list-style-type: none"> i. that it cannot be certain that a price for that <i>investment</i> will be quoted at all times; or j. that it may be difficult to effect transactions at any price which may be quoted.
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<i>recognised overseas clearing house</i>	means an <i>overseas clearing house</i> which is declared by a recognition order made under section 290 or 292 of the <i>Act</i> for the time being in force to be a <i>recognised clearing house</i> .
<i>recognised overseas investment exchange</i>	means an <i>overseas investment exchange</i> which is declared by a recognition order made under section 290 or 292 of the <i>Act</i> for the time being in force to be a <i>recognised investment exchange</i> .
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<i>registered individual</i>	means an <i>approved person</i> .
<i>registrable activity</i>	in relation to a firm, means any one of the following: <ul style="list-style-type: none"> k. holding the post of <i>director or chief executive</i>; l. acting as an <i>investment manager</i> in the course of the <i>permitted business</i> of the firm; m. 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 <i>firm's permitted business</i> (including the <i>compliance officer</i> and the <i>finance officer</i>); n. procuring or endeavoring to procure other persons to enter into <i>investment agreements</i> , or giving advice to persons with whom he deals about entering into <i>investment agreements</i> or exercising rights conferred by <i>investments</i>, in the course of the <i>permitted business</i> of the <i>firm</i> ; o. committing the <i>firm</i> or its <i>customers</i> in market dealings or in transactions in <i>securities</i> or in other <i>investments</i> in the course of the <i>firm's permitted business</i>.
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<i>regulated activity</i>	see the meaning given to the term in the <i>Glossary</i>
<i>regulated business</i>	means <i>designated investment business</i> .
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<i>regulated friendly society</i>	means, as respects <i>investment business</i> 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

	<p>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>p. 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>q. carries on <i>investment business</i> in the UK.</p>
<i>relevant foreign exchange items</i>	<p>means:</p> <p>r. all assets less liabilities, including accrued interest, denominated in the currency (all investments at market or realisable value);</p> <p>s. any currency future, at the nominal value of the contract;</p> <p>t. 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>u. any foreign currency options at the net delta (or delta-based) equivalent of the total book of such options;</p> <p>v. any non-currency option, at market value;</p> <p>w. any irrevocable guarantee;</p> <p>x. any other off-balance sheet commitment to purchase or sell an asset denominated in that currency.</p>
<i>reporting currency</i>	means the currency in which the <i>firm</i> 's books of account are maintained.
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[deleted]	[deleted] Amended by: LI 2007/11
[deleted]	[deleted] Amended by: LI 2007/27
[deleted]	[deleted] Amended by: LI 2002/73 , 2007/27
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Amended by: LI 2007/27	
<i>specified trustee business</i>	<p>25. means any <i>investment business</i> carried on in the UK by a <i>trustee firm</i> , but excluding each of the following activities:</p> <p style="padding-left: 40px;">a. Dealing or arranging deals in <i>investments</i></p> <ul style="list-style-type: none"> . where the deal is transacted or arranged by a <i>trustee firm</i> with or through a <i>PTP</i>; or i. 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 ii. where the trust is a <i>unit trust scheme</i> and the deal is or the arrangements are made with a view to either an issue or sale of units in such a <i>scheme</i> to, or a redemption or repurchase or conversion of such units or a dealing in <i>investments</i> for such a <i>scheme</i> carried out by with or through, the <i>operator</i> or on the instructions of the <i>operator</i> ; or iii. where the <i>trustee firm</i> , being a bare trustee (or, in Scotland, a nominee) holding <i>investments</i> for another person, is acting on that person s instructions; or iv. where any arrangements do not or would not bring about the transaction in question. <p style="padding-left: 40px;">b. Managing Investments</p> <ul style="list-style-type: none"> . where the <i>trustee firm</i> has no general authority to effect transactions in <i>investments</i> at discretion; or i. if and to the extent that all day-to-day decisions in relation to the management of the <i>investments</i> or any discrete part of the <i>investments</i> are or are to be taken by a <i>PTP</i>; or ii. if and to the extent that investment decisions in relation to the <i>investments</i> or any discrete part of

the *investments* are or are to be taken substantially in accordance with the advice given by a *PTP*; or

iii. where the *trustee firm* is a personal representative or executor and is acting in that capacity; or

iv. 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**

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

i. if and to the extent that the relevant advice is in substance the advice of a *PTP*; or

ii. 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* or 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

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

i. 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

ii. where the issue is made by a government, local authority or international organisation; or

iii. 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.

26.

27. For the purpose of this definition of "*specified trustee business*":

a transaction is entered into through a person if that person:

enters into it as agent; or

i. 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;

a. **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;

b. **debentures** means any securities falling within article 77 of the *RAO*;

c. **government or public securities** means any

	<p>securities falling within article 78) of the RAO;</p> <p>d. <i>government, local authority or international organisation</i> means:</p> <ul style="list-style-type: none"> . the government of the <i>United Kingdom</i>, of Northern Ireland, or of any country or territory outside the United Kingdom; i. a local authority in the <i>United Kingdom</i> or Anywhere; or ii. an international organisation the members of which include the <i>United Kingdom</i> or another <i>EEA State</i>. <p>e. 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.</p> <p>Amended by: LI FCA 2013/51</p>
<i>statutory rules</i>	<p>means the rules made by <i>FCA</i> under the Act.</p> <p>Amended by: LI FCA 2013/9</p>
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[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/27</p>
[deleted]	<p>[deleted]</p> <p>Amended by: LI 2007/11, 2007/27</p>
<i>total capital requirement</i>	<p>has the meaning given in rule 5.2.3(5) (Total capital requirement).</p>
<i>trading book</i>	<p>in relation to a <i>firm's</i> business or exposures, means:</p> <ul style="list-style-type: none"> bb. its proprietary positions in financial instruments: <ul style="list-style-type: none"> . which are held for resale and/or are taken on by the <i>firm</i> with the intention of benefiting in the short

	<p>term from actual and/or expected differences between their buying and selling prices or from other price or interest-rate variations;</p> <p>i. arising from matched principal broking;</p> <p>ii. taken in order to hedge other elements of the <i>trading book</i> ;</p> <p>cc. exposures due to unsettled securities transactions, free deliveries, <i>OTC derivative</i> 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</p> <p>dd. fees, commission, interest and dividends, and margin on exchange-traded derivatives which are directly related to the items included in (a) and (b) above.</p> <p>Amended by: LI 2007/27</p>
<i>trust beneficiary</i>	means a beneficiary under a trust (not being the settlor) who benefits from the performance by a <i>firm</i> as <i>trustee of investment services</i> relating to the management of the trust assets (in accordance with section 2372 of the <i>Act</i> (Other definitions)).
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	Amended by: LI 2007/27
<i>trustee activity</i>	means, in relation to a <i>firm</i> , 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 acting in its capacity as a trustee.
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	Amended by: LI 2007/27
<i>UCITS qualifier</i>	see the meaning given to the term in the <i>Glossary</i>
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	Amended by: LI 2007/27
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	Amended by: LI 2007/27
<i>unit trust manager</i>	means the manager of a <i>unit trust scheme</i> .
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	Amended by: LI 2007/27

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[deleted]	[deleted] Amended by: LI 2007/27
<i>zone a country</i>	see definition of <i>Zone A country</i> in the <i>Glossary</i>
<i>zone b country</i>	means a country which is not a <i>zone a country</i> .

- **Chapter 6: Service Companies**
 - **6.1 Application**
 - **IPRU(INV) 6.1.1R**

This chapter applies to *service companies* .

- **Financial resources requirements**
 - **IPRU(INV) 6.1.2R**
 0. A *service company* must be able to meet its liabilities as they fall due.
 1. In complying with (1) a *firm* may use any assets which are available to meet any of its liabilities.

- **Chapter 7: UCITS Management Firms [deleted]**

[Deleted: material moved to [UPRU](#)]

Amended by LI: ([2003/47](#)), [2006/53](#)

- **7.1 Introduction [deleted]**

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Amended by LI: [2006/53](#)

- **Application [deleted]**

[Deleted: material moved to [UPRU](#)]

Amended by LI: [2006/53](#)

- **Purpose [deleted]**

[Deleted: material moved to [UPRU](#)]

Amended by LI: [2006/53](#)

- **7.2 Financial resources and financial resources requirements [deleted]**

7.2.2 R

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Amended by LI: [2006/53](#)

7.2.3 R

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Amended by LI: [2006/53](#)

7.2.4 R

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Amended by LI: [2006/53](#)

7.2.5 G

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Amended by LI: [2006/53](#)

- **Requirements [deleted]**

7.2.2 R

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Amended by LI: [2006/53](#)

7.2.3 R

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Amended by LI: [2006/53](#)

7.2.4 R

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Amended by LI: [2006/53](#)

strong>7.2.5 G

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Amended by LI: [2006/53](#)

- **7.3 Method of calculation of financial resources [deleted]**

7.3.1 R

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Amended by LI: [2005/21](#), [2006/53](#)

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Amended by LI: [2004/56](#), [2005/21](#), [2006/16](#), [2006/53](#)

- **7.4 Application of certain rules in Chapter 5 of IPRU(INV) [deleted]**

7.4.1 R

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Amended by LI: [2006/53](#)

7.4.2 R

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Amended by LI: [2006/53](#)

- **7.5 Financial Notification [deleted]**

7.5.1 G

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Amended by LI: [2006/53](#)

7.5.2 R

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Amended by LI: [2006/53](#)

- **7.6 Records [deleted]**

7.6.1 G

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Amended by LI: [2006/53](#)

7.6.2 R

[Deleted: material moved to [UPRU](#)]

Amended by LI: [2006/53](#)

- **Chapter 8: Requirements on credit unions which are CTF providers [deleted]**

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- **8.1 Application, general and professional indemnity insurance requirements [deleted]**

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- **Application [deleted]**

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- **IPRU(INV) 8.1.1R [deleted]**

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- **General requirements [deleted]**

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- **IPRU(INV) 8.1.2R [deleted]**

Deleted by: LI [PRA 2015/87](#)

- **IPRU(INV) 8.1.3G [deleted]**

Deleted by: LI [PRA 2015/87](#)

- **Requirement to hold professional indemnity insurance [deleted]**

Deleted by: LI [PRA 2015/87](#)

- **IPRU(INV) 8.1.4G [deleted]**

Deleted by: LI [PRA 2015/87](#)

- **IPRU(INV) 8.1.5R [deleted]**

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- IPRU(INV) 8.1.6R [deleted]

Deleted by: LI [PRA 2015/87](#)

- Professional indemnity insurance policy terms [deleted]

Deleted by: LI [PRA 2015/87](#)

- IPRU(INV) 8.1.7R [deleted]

Deleted by: LI [PRA 2015/87](#)

- Readily realisable own funds [deleted]

Deleted by: LI [PRA 2015/87](#)

- IPRU(INV) 8.1.8G [deleted]

Deleted by: LI [PRA 2015/87](#)

- Additional requirements [deleted]

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- IPRU(INV) 8.1.9E [deleted]

Deleted by: LI [PRA 2015/87](#)

- IPRU(INV) 8.1.10G [deleted]

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- IPRU(INV) 8.1.11G [deleted]

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- Exclusions [deleted]

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- IPRU(INV) 8.1.12R [deleted]

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- IPRU(INV) 8.1.13G [deleted]

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- **IPRU(INV) 8.1.14E [deleted]**
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- **Excess level [deleted]**
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 - **IPRU(INV) 8.1.15E [deleted]**
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- **Additional own funds [deleted]**
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 - **IPRU(INV) 8.1.16E [deleted]**
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- **Exclusions [deleted]**
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 - **IPRU(INV) 8.1.17G [deleted]**
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 - **IPRU(INV) 8.1.18G [deleted]**
Deleted by: LI [PRA 2015/87](#)
- **Policies providing cover for more than one credit union [deleted]**
Deleted by: LI [PRA 2015/87](#)
 - **IPRU(INV) 8.1.19R [deleted]**
Deleted by: LI [PRA 2015/87](#)
- **Exemption from holding professional indemnity insurance [deleted]**
Deleted by: LI [PRA 2015/87](#)
 - **IPRU(INV) 8.1.20R [deleted]**
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- IPRU(INV) 8.1.21R [deleted]

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- Notification requirements [deleted]

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- IPRU(INV) 8.1.22G [deleted]

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- IPRU(INV) 8.1.23G [deleted]

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- IPRU(INV) 8.1.24R [deleted]

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- 8.2 Capital requirements [deleted]

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- IPRU(INV) 8.2.1R [deleted]

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- IPRU(INV) 8.2.2R [deleted]

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- IPRU(INV) 8.2.3R [deleted]

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- Chapter 9 Financial resources requirements for an exempt CAD firm

Amended by: LI [2007/02](#)

- 9.1 Application

Amended by LI: [2007/02](#)

- IPRU(INV) 9.1.1R

0. This chapter applies to an *exempt CAD firm* which is:
 - . an *investment management firm* ; or
 - a. a *securities and futures firm* .

1. This chapter also applies to a *local firm* .

Amended by LI: [2007/02](#), [2007/27](#)

- **9.2 General Requirements**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.2.1G**

For an *exempt CAD firm* , the *rules* contained within this chapter replace the *rules* in respect of financial resources, financial resources requirements and non-financial resources related requirements contained within [Chapter 3](#) or [5](#), as applicable. However, an exempt CAD firm must continue to comply with the requirements of [Chapter 3](#) or [5](#) to the extent it is referred to [Chapter 3](#) or [5](#) by a *rule* in this chapter.

Amended by LI: [2007/02](#), [2007/27](#)

- **IPRU(INV) 9.2.2R**

A *firm* must be able to meet its liabilities as they fall due.

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.2.3R**

An *exempt CAD firm* that carries on any *regulated activity* other than *MiFID business* must also have and maintain at all times financial resources calculated in accordance with the chapter of *IPRU(INV)* to which the firm is otherwise subject (Chapters [3](#) or [5](#)) at least equal to the requirements set out in the relevant chapter (except that if the only *designated investment business* an *exempt CAD firm* is carrying on in addition to *investment services* and *activities* is *making arrangements with a view to transactions in investments* ([article 25\(2\) Regulated Activities Order](#)) or agreeing to carry on that regulated activity or both, it only needs to comply with requirements set out in this chapter and not chapters [3](#) or [5](#))

Amended by LI: [2007/02](#), [2007/27](#), [2007/58](#), [2007/62](#)

- **Initial capital and professional indemnity insurance requirements—exempt CAD firms that are not IMD insurance intermediaries**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.2.4R**

0. An *exempt CAD firm* which is not an *IMD insurance intermediary* must have:

- a. *initial capital* of € 50,000; or

- b. professional indemnity insurance covering the whole territory of the EEA or some other comparable guarantee against liability arising from professional negligence, representing at least € 1,000,000 applying to each claim and in aggregate € 1,500,000 per year for all claims; or
- c. a combination of *initial capital* and professional indemnity insurance in a form resulting in a level of coverage equivalent to (a) or (b).

[Note: [Article 67\(3\)](#) of *MiFID* and [article 31\(1\)](#) of the *CRD*]

- 1. If a *firm* chooses to meet the requirements of either (b) or (c) above, it must nevertheless have *initial capital* of at least £5,000.

Amended by LIs: [2007/02](#), [2007/27](#), [FCA 2013/79](#)

- **Initial capital and professional indemnity insurance requirements—exempt CAD firms that are also IMD insurance intermediaries**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.2.5R**
 - 0. An *exempt CAD firm* that is also an *IMD insurance intermediary* must comply with the professional indemnity insurance requirements at least equal to those set out in [9.2.4R\(1\)\(b\)](#) (except that the minimum *limits of indemnity* are at least €1,120,200 for a single claim and €1,680,300 in aggregate) and in addition has to have:
 - *initial capital* of € 25,000; or
 - a. professional indemnity insurance covering the whole territory of the EEA or some other comparable guarantee against liability arising from professional negligence, representing at least € 500,000 applying to each claim and in aggregate € 750,000 per year for all claims; or
 - b. a combination of *initial capital* and professional indemnity insurance in a form resulting in a level of coverage equivalent to (a) or (b).

[Note: [Article 67\(3\)](#) of *MiFID* and [article 31\(2\)](#) of the *CRD*]

1. If a *firm* chooses to meet the requirements of either (b) or (c) above, it must nevertheless have *initial capital* of at least £5,000.

Amended by: Lis [2007/02](#), [2007/27](#), [2009/4](#), [FCA 2013/79](#)

- IPRU(INV) 9.2.5AG

[Article 4\(7\)](#) of the *Insurance Mediation Directive* requires the *limits of indemnity* to be reviewed every five years to take into account movements in European consumer prices. These *limits* will therefore be subject to further adjustments on the basis of index movements advised by the European Commission.

Inserted by: LI [2009/4](#)

- IPRU(INV) 9.2.6G

A trade-off between *initial capital* and professional indemnity insurance is appropriate such that € 1 of *initial capital* is the equivalent of professional indemnity insurance cover of € 20 for a single claim against the *firm* and € 30 in aggregate.

Amended by LI: [2007/02](#)

- Comparable guarantee

Amended by LI: [2007/02](#)

- IPRU(INV) 9.2.7R

- If another *authorised person* which has net tangible assets of more than Â£10 million provides a comparable guarantee, an *exempt CAD firm* can treat it as an alternative to effecting or maintaining professional indemnity insurance pursuant to the rules relating to professional indemnity insurance above.
- a. If the *exempt CAD firm* is a member of a *group* in which there is an *authorised person* with net tangible assets of more than Â£10 million, the comparable guarantee must be from that *person*.
- b. A comparable guarantee means a written agreement on terms at least equal to those required by the *initial capital* and professional indemnity insurance requirements above to finance the claims that might arise as a result of the breach by the *exempt CAD firm* of its duties under the *regulatory system* or civil law.

Amended by LI: [2007/02](#), [2007/27](#)

- **Initial capital and ongoing capital requirements for local firms**

Amended by LI: [\(2007/27\)](#)

- **IPRU(INV) 9.2.8R**

A local firm must:

- have *initial capital* of € 50,000; and

[Note: [Article 67\(2\)](#) of *MiFID* and [article 30](#) of the *CRD*]

- a. maintain *own funds* calculated in accordance with the *rules* relating to *own funds* in [9.5](#), at least equal to the requirement for *initial capital* .

Inserted by: LI [2007/27](#)

Amended by: LI [FCA 2013/79](#)

- **Ongoing capital requirements**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.2.9R**

- An *exempt CAD firm* must, at all times, maintain a combination of professional indemnity insurance and *own funds* , (*own funds* to be calculated in accordance with (2)), at least equal to the requirements in this chapter for professional indemnity insurance and *initial capital* .

i.

- If the *exempt CAD firm* is an *investment management firm* its *own funds* must be calculated in accordance with the *rules* in [IPRU\(INV\) 5.2.1\(1\)](#) to [5.2.7\(5\)](#).
- a. If the *exempt CAD firm* is a *securities and futures firm* its *own funds* must be calculated in accordance with the *rules* in [9.5](#).

Amended by LI: [2007/02](#), [2007/27](#)

- **9.3 Calculating initial capital**

Amended by LI: [2007/02](#)

- **Initial capital**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.3.1R**

A firm's *initial capital* consists of the sum of the following items:

0. ordinary *share* capital which is fully paid;
1. perpetual non-cumulative *preference share* capital which is fully paid;
2. *share* premium account;
3. reserves excluding revaluation reserves;
4. audited retained earnings;
5. externally *verified* interim net profits;
6. partners' capital;
7. *eligible LLP members' capital* (in accordance with the provisions of [IPRU\(INV\) Annex A](#)); and
8. *sole trader* capital.

Amended by LI: [2007/02](#)

▪ **Perpetual non-cumulative preference share capital**

Amended by LI: [2007/02](#)

▪ **IPRU(INV) 9.3.2R**

A firm may include *preference share* capital in *initial capital* only where any *coupon* on it is not cumulative, and the firm is under no obligation to pay a *coupon* in any circumstances.

Amended by LI: [2007/02](#)

▪ **Audited retained earnings**

Amended by LI: [2007/02](#)

▪ **IPRU(INV) 9.3.3R**

When calculating *initial capital*, a firm may include its audited retained earnings only after making the following adjustments:

0. a firm must not recognise the fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortised cost;
1. in respect of a *defined benefit occupational pension scheme*, a firm must derecognise any *defined benefit asset*;

2. a *firm* must not include any unrealised gains from investment property (these should be reported as part of revaluation reserves);
3. 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 excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Amended by LI: [2007/02](#)

- **Externally verified interim net profits or current account**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.3.4R**

A *firm* may include interim net profits or current account when calculating *initial capital* to the extent that they have been *verified* by the *firm's* external auditor and are net of any foreseeable tax, dividend and other appropriations.

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.3.5R**

When calculating *initial capital*, a *firm* includes its partners' capital only after making the following adjustments:

0. a *firm* must not recognise the fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortised cost;
1. in respect of a *defined benefit occupational pension scheme*, a *firm* must derecognise any *defined benefit asset*;
2. 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 excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Amended by LI: [2007/02](#)

- **Defined benefit pension scheme: defined benefit liability**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.3.6R**

For the calculation of *initial capital* , 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.

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.3.7G**

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* .

Amended by LI: [2007/02](#), [FCA 2013/9](#)

- **9.4 Policy terms for professional indemnity insurance**

Amended by LI: [2007/02](#)

- **Insurers whose professional indemnity insurance policies can be used by an exempt CAD firm**

Amended by LI: [2007/02](#), [2007/27](#)

- **IPRU(INV) 9.4.1R**

An *exempt CAD firm* that has professional indemnity insurance in accordance with this chapter must take out and maintain professional indemnity insurance that is at least equal to the requirements of the rule below from:

0. an *insurance undertaking* which is authorised to transact professional indemnity insurance in the *EEA* ; or
1. a person of equivalent status in:
 - . a *Zone A country* ;
 - a. the Channel Islands, Gibraltar, Bermuda or the Isle of Man.

Amended by LI: [2007/02](#), [2007/27](#)

- **Terms to be incorporated in the professional indemnity insurance policy**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.4.2R**

The policy of professional indemnity insurance must incorporate terms which make provision for:

0. cover in respect of claims for which an *exempt CAD firm* may be liable as a result of the conduct of itself, its *employees* and its *appointed representatives* or where applicable, its *tied agent* (acting within the scope of their appointment);
1. the minimum *levels of indemnity* per year as set out in the rules relating to professional indemnity insurance above;
2. appropriate cover in respect of legal defence costs; and
3. cover in respect of *Ombudsman* awards made against the *exempt CAD firm* .

Amended by LI: [2007/02](#), [2007/27](#), [2007/58](#)

- **Policies in other currencies**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.4.3R**

If a professional indemnity insurance policy is denominated in any currency other than euros, an *exempt CAD firm* must take reasonable steps to ensure that the *limits of indemnity* are, when the policy is effected and at *renewal* , at least equivalent to those required for the purposes of the rules relating to professional indemnity insurance above.

Amended by LI: [2007/02](#), [2007/27](#)

- **Conditions and exclusions**

Amended by LI: [2007/02](#)

- **IPRU(INV) 9.4.4R**

A professional indemnity insurance policy must not be subject to conditions or exclusions which unreasonably limit the cover provided (whether by exclusion of cover, by policy excesses or otherwise).

Amended by LI: [2007/02](#)

- **9.5 Calculation of own funds**

Amended by LI: (2007/27)

- IPRU(INV) 9.5.1R

A firm's initial capital :

minus the sum of the items set out against **B**

plus the sum of the items set out against **C**

minus *material holdings in credit and financial institutions and material insurance holdings*

equals *own funds* .

Amended by LI: (2007/27)

- IPRU(INV) 9.5.2R

Table

This table forms part of rule [9.5.1R](#)

(1) <i>Investments in own shares</i> at book value	B
(2) <i>Intangible assets</i>	
(3) <i>Material current year losses</i>	
(1) Revaluation reserves	C
(2) Perpetual cumulative preference <i>share</i> capital	
(3) Long-term subordinated loans	
(4) Perpetual long-term subordinated loans	
(5) Fixed term preference <i>share</i> capital	

Amended by LI: (2007/27)

- Perpetual long-term subordinated loans and perpetual cumulative preference share capital

Amended by LI: (2007/27)

- IPRU(INV) 9.5.3R

Perpetual long-term subordinated loans and perpetual cumulative preference *share* capital may not be included in the calculation of *own funds* unless they meet the following requirements:

0. it may not be reimbursed on the holder's initiative or without the prior agreement of the *FCA* ;

1. the instrument must provide for the *firm* to have the option of deferring the dividend payment on the share capital;
2. the shareholder's claims on the *firm* must be wholly subordinated to those of all non-subordinated creditors;
3. the terms of the instrument must provide for the loss-absorption capacity of the share capital and unpaid dividends, whilst enabling the *firm* to continue its business; and
4. it must be fully paid-up.

Amended by LI: [\(2007/27\)](#), [FCA 2013/9](#)

- **Subordinated loans**

Amended by LI: [\(2007/27\)](#)

- **IPRU(INV) 9.5.4R**

A *firm* may include a subordinated loan in the calculation of its *own funds* only:

- . if it is drawn up in accordance with the standard forms obtained from the *FCA* ;
- a. if it is signed by authorised signatories of all the parties; and
- b. to the extent that it is fully paid up.

Amended by LI: [\(2007/27\)](#), [FCA 2013/9](#)

- **Long-term subordinated loans**

Amended by LI: [\(2007/27\)](#)

- **IPRU(INV) 9.5.5R**

A long-term subordinated loan may not be included in the calculation of *own funds* unless it meets the following requirements:

0. it must be fully paid-up;
1. it has an original maturity of at least five years;
2. the extent to which it may be used in the calculation of *own funds* shall be amortised on a straight line basis during at least the five years before repayment; and

3. it must not become repayable before the agreed repayment date other than in the winding-up of the *firm* or unless the *firm* has provided the *FCA* with at least five years' written notice.

Amended by LI: [\(2007/27\)](#), [FCA 2013/9](#)

- IPRU(INV) 9.5.6R

A *firm* must not (except in accordance with the terms of the loan) make any payment of interest if after such action the *firm's own funds* will fall below 120% of its *own funds requirement*.

Amended by LI: [\(2007/27\)](#)

- Perpetual non-cumulative and cumulative preference share capital

Amended by LI: [\(2007/27\)](#)

- IPRU(INV) 9.5.7R

A *firm* may include perpetual non-cumulative and cumulative preference share capital in its *initial capital* and its *own funds* only if there is an agreement between the *firm* and the shareholders which provides that redemption of the shares may not take place, if after such redemption the *firm* would be in breach of its *own funds requirement*.

Amended by LI: [\(2007/27\)](#)

- Own funds — Restrictions

Amended by LI: [\(2007/27\)](#)

- IPRU(INV) 9.5.8R

0. In calculating *own funds* :
 - . the total amount of revaluation reserves, perpetual cumulative preference *share capital*, long-term subordinated loans, perpetual long-term subordinated loans and fixed term preference *share capital* must not exceed 100% of *initial capital* minus B; and
 - i. the total amount of fixed term preference *share capital* and long-term subordinated loans must not exceed 50% of *initial capital* minus B.

Amended by LI: [\(2007/27\)](#)

- **9.6 Non-financial resource requirements**

Amended by LI: (2007/27)

- **Reconciliation of balances**

Amended by LI: (2007/27)

- **IPRU(INV) 9.6.1R**

0. A *firm* must reconcile all balances and positions with:
 - *banks and building societies (other than a client bank account subject to the client money rules), exchanges, approved exchanges, clearing houses and intermediate brokers*; and
 - a. *eligible counterparties* which are members of an *exchange* or *approved exchange*

as recorded by the *firm* to the balance or position on a statement or circularisation obtained by the *firm* from those entities and must correct any differences by agreement on a timely basis, unless:

- ii. the balances and positions due to and from the *eligible counterparty* have been agreed by other means; or
 - iii. it arises solely as a result of identified differences in timing between the records of the *firm* and the *bank* or *building society*.
1. A *firm* must perform reconciliations under (1) above as frequently as is appropriate for the volume of transactions on the accounts and in any event not less than once every five weeks or, in relation to positions with *eligible counterparties*, not less than once every year.
 2. A *firm* must circularise or request statements from *banks, building societies, exchanges, approved exchanges, clearing houses, intermediate brokers* and *eligible counterparties* which are members of an *exchange* or an *approved exchange* in good time in order to be able to comply with (1) and (2) above.
 3. A *firm* must use its best endeavours to respond within one month of receipt to any circularisation

from another *firm* requesting confirmation of outstanding balances.

Amended by LI: (2007/27), 2007/58

- IPRU(INV) 9.6.2G

For guidance notes on the reconciliation of a *firm's* balance with *eligible counterparties* see [Appendix 20](#) to Chapter 3.

Amended by LI: (2007/27), 2007/58

- Financial notification

Amended by LI: (2007/27)

- IPRU(INV) 9.6.3R

A *firm* must notify the *FCA* in writing as soon as it has reason to believe that it is in breach of its *own funds requirement*.

Amended by LI: (2007/27), [FCA 2013/9](#)

- Appendix 9(1) (Interpretation)

Glossary of defined terms for Chapter 9

Note: If a defined term does not appear in the glossary below, the definition appearing in the Handbook Glossary applies.

<i>approved exchange</i>	means an investment exchange listed as such in Appendix 33 to IPRU(INV) 3.
<i>exchange</i>	means a <i>recognised investment exchange</i> or <i>designated investment exchange</i> .
<i>initial capital</i>	means the initial capital of a <i>firm</i> calculated in accordance with section 9.3.
<i>intangible assets</i>	the full balance sheet value of a <i>firm's</i> intangible assets including goodwill, capitalised development costs, licences, trademark and similar rights etc.
<i>intermediate broker</i>	in relation to a <i>marginised transaction</i> , means any person through whom the <i>firm</i> undertakes that transaction.
<i>material current year losses</i>	means losses of an amount equal to 10% or more of <i>initial capital</i> minus B (with B calculated in accordance with Table 9.5.2R).
<i>material holding</i>	means a <i>firm's</i> holdings of <i>shares</i> and any other interest in the capital of a <i>credit institution</i> or <i>financial institution</i> : <p style="text-align: center;">which exceeds 10% of the capital of the issuer, and, where this is the case, any holdings of subordinated debt of the same issuer, the full amount is a <i>material holding</i>; or</p>

- | | |
|--|--|
| | <p>i. follow up problem areas of which he is already aware in the course of auditing the <i>firm's</i> financial statements.</p> |
|--|--|

Amended by: LIs [2007/02](#), [2007/27](#), [FCA 2015/16](#)

- **Chapter 10: Financial resources for Securities and Futures Firms which are Investment Firms [deleted]**

10-A R

[deleted]

Deleted by LI: [2007/27](#)

- **Application [deleted]**

10-B R

[deleted]

Deleted by LI: [2007/27](#)

10-B G

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

10-C G

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Amended by LI: [\(2007/02\)](#)
Deleted by LI: [2007/27](#)

- **10-10 Keeping of records [deleted]**

Deleted by LI: [2007/27](#)

- **Records to be up-to-date [deleted]**

10-10(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Adequacy of records [deleted]**

10-10(2) R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

- **Content of records [deleted]**

10-10(3)

[deleted]

Deleted by LI: [2007/27](#)

- **Financial [deleted]**

[deleted]

Deleted by LI: [2007/27](#)

- **Risk management [deleted]**

[deleted]

Deleted by LI: [2007/27](#)

- **10-11 Reconciliation of firm's balances [deleted]**

Deleted by LI: [2007/27](#)

- **Reconciliation [deleted]**

10-11(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Response to requests [deleted]**

10-11(6) R

[deleted]

Deleted by LI: [2007/27](#)

- **10-12 Nature, accessibility and retention of records [deleted]**

Deleted by LI: [2007/27](#)

- **Nature of records [deleted]**

10-12(1) R

[deleted]

Deleted by LI: [2007/27](#)

10-12(2) R

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Deleted by LI: [2007/27](#)

10-12(3) R

[deleted]

Deleted by LI: [2007/27](#)

- **Audit trail [deleted]**

10-12(4) R

[deleted]

Deleted by LI: [2007/27](#)

- **Retention of records [deleted]**

10-12(5) R

[deleted]

Deleted by LI: [2007/27](#)

- **Security of records [deleted]**

10-12(6) R

[deleted]

Deleted by LI: [2007/27](#)

- **Notification requirements for category A, B and C firms [deleted]**

Deleted by LI: [2007/27](#)

- **Application [deleted]**

10-32(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Counterparty default on a repurchase transaction etc. [deleted]**

10-32(2) R

[deleted]

Deleted by LI: [2007/27](#)

- **Large exposures [deleted]**

10-32(3) R

[deleted]

Deleted by LI: [2007/27](#)

10-32(5) R

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Deleted by LI: [2007/27](#)

10-32(6) R

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Amended by LI: [2006/53](#)

Deleted by LI: [2007/27](#)

10-32(7) R

[deleted]

Deleted by LI: [2007/27](#)

- **Repurchase and reverse repurchase, securities or physical commodities lending and borrowing and sale and buy back agreements [deleted]**

10-41(7) R

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[deleted]

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10-41(7A) R

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Deleted by LI: [2007/27](#)

- Valuation of positions* [deleted]

10-41(9) R

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Amended by LI: [2004/42](#)

Deleted by LI: [2007/27](#)

* For notes on the valuation of positions, see Appendix 21

- Instruments of non-standard form [deleted]

10- 41(10) G

[deleted]

Deleted by LI: [2007/27](#)

- Valuing instruments at maximum loss [deleted]

10-41(11) R

[deleted]

Amended by LI: [\(2004/42\)](#)

Deleted by LI: [2007/27](#)

- Initial Capital and Financial Resources [deleted]

Deleted by LI: [2007/27](#)

- 10-60 Firms to which rules 10-61 to 10-196 apply [deleted]

Amended by LI: [2006/53](#)

Deleted by LI: [2007/27](#)

- Category A, B and C firms [deleted]

10-60(1) R

[deleted]

Amended by LI: [2006/53](#)

Deleted by LI: [2007/27](#)

- **Exempt CAD firms [deleted]**

10-60(2) R

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Amended by LI: [2007/02](#)
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10-60(3) R

[deleted]

Amended by LI: [2006/28](#)
Deleted by LI: [2007/27](#)

- **10-61 Initial capital [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-61(1) R

[deleted]

Amended by LI: [2004/56](#), [2006/55](#)
Deleted by LI: [2007/27](#)

- **Preference share capital [deleted]**

10-61(2) R

[deleted]

Deleted by LI: [2007/27](#)

- **Non cumulative preference share capital [deleted]**

10-61(3) R

[deleted]

Deleted by LI: [2007/27](#)

- **Audited retained earnings [deleted]**

10-61(3A) R

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Amended by LI: [\(2005/21\)](#), [2006/16](#)
Deleted by LI: [2007/27](#)

- **Externally-verified interim net profits or current account [deleted]**

10-61(4) R

[deleted]

Deleted by LI: [2007/27](#)

10-61(4A) R

[deleted]

Amended by LI: [\(2005/21\)](#), [2006/16](#)
Deleted by LI: [2007/27](#)

- **Defined benefit pension scheme: defined benefit liability [deleted]**

10-61(4B) R

[deleted]

Amended by LI: [\(2005/21\)](#)
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10-61 (4C) G

[deleted]

Amended by LI: [\(2005/21\)](#)
Deleted by LI: [2007/27](#)

- **Intangible assets [deleted]**

10-61(5) R

[deleted]

Amended by LI: [2006/16](#)
Deleted by LI: [2007/27](#)

- **Material interim losses [deleted]**

10-61(6) R

[deleted]

Deleted by LI: [2007/27](#)

- **Material holdings in credit and financial institutions [deleted]**

10-61(7) R

[deleted]

Amended by LI: [2006/53](#)

Deleted by LI: [2007/27](#)

- **Initial capital requirement [deleted]**

10-61(8) R

[deleted]

Amended by LI: [2007/02](#)

Deleted by LI: [2007/27](#)

- **10-62 Financial resources [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-62(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Calculation of financial resources [deleted]**

10-62(2) R

[deleted]

Amended by LI: [2006/53](#)

Deleted by LI: [2007/27](#)

G [deleted]

Deleted by LI: [2007/27](#)

R TABLE 10-62(2)A - Financial resources - version I

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Amended by LI: [2006/55](#)

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R TABLE 10-62(2)B - Financial resources - version II

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Amended by LI: [2006/55](#)
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R TABLE 10-62(2)C - Financial resources - version II.2

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Amended by LI: [2004/56](#), [2006/55](#)
Deleted by LI: [2007/27](#)

- **10-63 Subordinated loan [deleted]**

Deleted by LI: [2007/27](#)

- **Calculation [deleted]**

10-63(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Approved of subordinated loans [deleted]**

10-63(2) R

[deleted]

Deleted by LI: [2007/27](#)

- **Approved lenders [deleted]**

10-63(3) R

[deleted]

Deleted by LI: [2007/27](#)

- **Type of subordinated loan [deleted]**

10-63(4) R

[deleted]

Deleted by LI: [2007/27](#)

- **Long term subordinated loan [deleted]**

10-63(5) R

[deleted]

Deleted by LI: [2007/27](#)

- **Repayment of long term subordinated loan [deleted]**

10-63(6) R

[deleted]

Deleted by LI: [2007/27](#)

- **Amounts repayable within five years [deleted]**

10-63(7) R

[deleted]

Deleted by LI: [2007/27](#)

- **Short term subordinated loan [deleted]**

10-63(8) R

[deleted]

Deleted by LI: [2007/27](#)

- **Repayment of short term subordinated loan [deleted]**

10-63(9) R

[deleted]

Deleted by LI: [2007/27](#)

- **Limits on subordinated loans, cumulative preference shares and revaluation reserves [deleted]**

10-63(10) R

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Deleted by LI: [2007/27](#)

10-63(11) R

[deleted]

Deleted by LI: [2007/27](#)

10-63(12) R

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Deleted by LI: [2007/27](#)

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- **10-64 Liquidity adjustment [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

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Amended by LI: [2004/42](#)
Deleted by LI: [2007/27](#)

- **Intangible assets [deleted]**

10-64(2) R

[deleted]

Deleted by LI: [2007/27](#)

- **Debtors arising from trading book business [deleted]**

10-64(3) R

[deleted]

Deleted by LI: [2007/27](#)

- **Netting [deleted]**

10-64(4) R

[deleted]

Deleted by LI: [2007/27](#)

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- **10-65 Liquidity adjustment on illiquid assets [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-65(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Tangible fixed assets [deleted]**

10-65(2) R

[deleted]

Deleted by LI: [2007/27](#)

- **Land and buildings used as security for non recourse loans [deleted]**

10-65(3) R

[deleted]

Deleted by LI: [2007/27](#)

- **Land and buildings used as security for other loans [deleted]**

10-65(4) R

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Deleted by LI: [2007/27](#)

- **Physical stocks [deleted]**

10-65(5) R

[deleted]

Deleted by LI: [2007/27](#)

- **Investments in credit institutions and financial institutions [deleted]**

10-65(6) R

[deleted]

Deleted by LI: [2007/27](#)

- **Other investments [deleted]**

10-65(7) R

[deleted]

Deleted by LI: [2007/27](#)

- **Other debtors [deleted]**

10-65(8) R

[deleted]

Deleted by LI: [2007/27](#)

- **Other cash deposits [deleted]**

10-65(9) R

[deleted]

Deleted by LI: [2007/27](#)

- **Loans [deleted]**

10-65(10) R

[deleted]

Deleted by LI: [2007/27](#)

- **Other assets [deleted]**

10-65(11) R

[deleted]

Amended by LI: [2006/16](#)

Deleted by LI: [2007/27](#)

- **Material holdings in credit and financial institutions [deleted]**

10-65(12) R

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Amended by LI: [2006/53](#)

Deleted by LI: [2007/27](#)

- **Netting [deleted]**

10-65(13) R

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Deleted by LI: [2007/27](#)

- **10-66 Liquidity adjustment on other non-trading book assets [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-66(1) R

[deleted]

Deleted by LI: [2007/27](#)

- **Qualifying deposits [deleted]**

10-66(2) R

[deleted]

Deleted by LI: [2007/27](#)

- **Loans [deleted]**

10-66(3) R

[deleted]

Deleted by LI: [2007/27](#)

- **Prepayments [deleted]**

10-66(4) R

[deleted]

Deleted by LI: [2007/27](#)

- **Other assets [deleted]**

10-66(5) R

[deleted]

Deleted by LI: [2007/27](#)

- **Netting [deleted]**

10-66(6) R

[deleted]

Deleted by LI: [2007/27](#)

- **10-67 Charged assets [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-67 R

[deleted]

Deleted by LI: [2007/27](#)

G [deleted]

Deleted by LI: [2007/27](#)

- **10-68 Contingent liabilities [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-68 R

[deleted]

Deleted by LI: [2007/27](#)

- **Note issuance and revolving underwriting facilities [deleted]**

[deleted]

Amended by LI: [\(2001/57\)](#)

Deleted by LI: [2007/27](#)

- **10-69 Deficiencies in subsidiaries [deleted]**

Deleted by LI: [2007/27](#)

- **General rule [deleted]**

10-69

[deleted]

Deleted by LI: [2007/27](#)

- **Financial resources requirement [deleted]**

Deleted by LI: [2007/27](#)

- **10-70 Calculation of financial resources requirement [deleted]**

10-70 R

[deleted]

Deleted by LI: [2007/27](#)

- **10-71 Primary requirement [deleted]**

10-71 R

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- **10-72 Base requirement [deleted]**

10-72 R

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- **10-73 Expenditure requirement [deleted]**

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- **General rule [deleted]**

10-73(1)

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- **Calculation of relevant annual expenditure [deleted]**

10-73(2) R

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- **Absence of audited annual financial statements [deleted]**

10-73(3) R

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- **Adjusting relevant annual expenditure [deleted]**

10-73(4) R

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- **10-74 Secondary requirement [deleted]**

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- **General rule [deleted]**

10-74(1) R

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- **Illiquid assets [deleted]**

10-74(2) R

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- **Risk profile [deleted]**

10-74(3) R

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- **Operational risks [deleted]**

10-74(4) R

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- **Position risk requirement [deleted]**

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- **10-80 General principles of PRR [deleted]**

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- **Application [deleted]**

10-80(1) R

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- **Obligation to calculate PRR [deleted]**

10-80(2) R

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Table 10-80(2)R

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- **Frequency of calculation [deleted]**

10-80(3) R

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- **Marking to market [deleted]**

10-80(4) R

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- **Non trading book items [deleted]**

10-80(5) R

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- **Instruments for which no PRR treatment has been specified [deleted]**

10-80(6) R

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- **Instruments of non standard form [deleted]**

10-80(7) R

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- **Alternative treatments [deleted]**

10-80(8) R

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- **Equity method [deleted]**

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- **10-81 Types of positions to be included in the equity method**

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- **Securities**

10-81(1) R

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- **Convertibles**

10-81(2) R

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Amended by LI: [2004/42](#)

- **Equity swaps**

10-81(3) R

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Amended by LI: [2004/42](#)

- **Optional inclusion of equity derivatives**

10-81(4) R

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Amended by LI: [2004/42](#)

- **10-82 Calculation of equity equivalent positions**

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Amended by LI: [2004/42](#)

- **General rule**

10-82(1) R

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Amended by LI: [2004/42](#)

- **Convertibles**

10-82(2) R

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Amended by LI: [2004/42](#)

- **Options on equities**

10-82(3) R

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Amended by LI: [2004/42](#)

- **Options on equities, baskets of equities and equity indices treated under risk assessment models**

10-82(4) G

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Amended by LI: [2004/42](#)

- **Futures and options on a single country equity basket or index**
10-82(5) R
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Amended by LI: [2004/42](#)
- **Futures and options on a multiple country equity basket or index**
10-82(6) R
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Amended by LI: [2004/42](#)
- **Options**
10-82(7) R
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Amended by LI: [2004/42](#)
- **Company issued warrants**
10-82(8) R
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Amended by LI: [2004/42](#)
- **Equity warrant alternative method**
10-82(9) G
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- **10-83 Netting of equity and equity equivalent positions before applying the equity method**
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 - **Netting of positions**

10-83(1) R

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Amended by LI: [2004/42](#)

- **Netting of tranches**

10-83(2) R

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Amended by LI: [2004/42](#)

- **10-84 Categorisation of equity positions**

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Amended by LI: [2004/42](#)

- **General rule**

10-84(1) R

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Amended by LI: [2004/42](#)

- **Depository receipts**

10-84(2) R

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Amended by LI: [2004/42](#)

- **10-85 Calculation of PRR under the equity method**

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- **General rule**

10-85(1) R

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Amended by LI: [2004/42](#)

- **Total equity method PRR**

10-85(2) R

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- **10-86 Calculation of interest rate add-on for derivatives**

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10-86(1) R

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10-86(2) R

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10-86(3) R

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- **Basic method**

10-86(4) R

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Amended by LI: [2004/42](#)

- **Alternative method**

10-86(5) R

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- **Modelling method**

10-86(6) G

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Amended by LI: [2004/42](#)

- **10-87 Equity method 1**

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- **Method**

10-87(1) R

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Amended by LI: [2004/42](#)

- **Total**

10-87(2) R

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Amended by LI: [2004/42](#)

- **10-88 Equity method 2**

10-88(1) R

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Amended by LI: [2004/42](#)

- **Specific risk**

10-88(2) R

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Amended by LI: [2004/42](#)

- **General market risk**

10-88(3) R

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Amended by LI: [2004/42](#)

- **Total**

10-88(4) R

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Amended by LI: [2004/42](#)

- **10-89 Equity method 3**

10-89(1) R

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Amended by LI: [2004/42](#)

- **Calculation 1**

10-89(2) R

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Amended by LI: [2004/42](#)

- **Eligible country portfolio**

10-89(3) R

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Amended by LI: [2004/42](#)

- **Basic risk calculation**

10-89(4) R

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Amended by LI: [2004/42](#)

- **Liquidity adjustment factor**

10-89(5) R

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Amended by LI: [2004/42](#)

- **Modified basic risk calculation**

10-89(6) R

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Amended by LI: [2004/42](#)

- **Modified liquidity adjustment factor**
10-89(7) R
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Amended by LI: [2004/42](#)
- **Calculation 2**
10-89(8) R
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Amended by LI: [2004/42](#)
- **Specific risk**
10-89(9) R
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Amended by LI: [2004/42](#)
- **General market risk**
10-89(10) R
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- **10-90 Equity method 4**
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10-90(1) R
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 - **Specific risk**
10-90(2) R
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Amended by LI: [2004/42](#)

- **General market risk**

10-90(3) R

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Amended by LI: [2004/42](#)

- **Combined general market risk**

10-90(4) R

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Amended by LI: [2004/42](#)

- **Residual general market risk**

10-90(5) R

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- **Treatment of equity derivatives outside the equity method [deleted]**

- **10-91 Types of positions to be included under the equity derivatives method**

10-91 R

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- **10-92 Total equity derivative method PRR**

10-92 R

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- **10-93 Alternative methods**

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Amended by LI: [2004/42](#)

- **Summary of alternative methods**

10-93(1) R

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Amended by LI: [2004/42](#)

- **Hedging method**

10-93(2) R

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Amended by LI: [2004/42](#)

- **Margin requirement method**

10-93(3) R

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Amended by LI: [2004/42](#)

- **Basic method**

10-93(4) R

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Amended by LI: [2004/42](#)

- **Calculation of equity equivalent positions**

10-93(5) R

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Amended by LI: [2004/42](#)

- **Appropriate PRA for basic method**

10-93(6) R

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Amended by LI: [2004/42](#)

- **10-94 Calculation of interest rate add-on for derivatives**

10-94(1) R

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Amended by LI: [2004/42](#)

10-94(2) R

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Amended by LI: [2004/42](#)

- **Basic method**

10-94(3) R

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Amended by LI: [2004/42](#)

- **Alternative method**

10-94(4) R

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Amended by LI: [2004/42](#)

- **Modelling method**

10-94(5) G

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- **Interest rate method [deleted]**
 - **10-100 Types of positions to be included in the interest rate method**

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- **Securities, cash borrowings, qualifying deposits, and repurchase and similar agreements**

10-100(1) R

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- **Convertibles**

10-100(2) R

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Amended by LI: [2004/42](#)

- **Dual currency bonds**

10-100(4) R

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Amended by LI: [2004/42](#)

- **Obligatory inclusion of debt and interest rate derivatives**

10-100(5) R

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Amended by LI: [2004/42](#)

- **Optional inclusion of debt and interest rate derivatives**

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- **Optional inclusion of interest rate component of equity derivatives**

10-100(7) R

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Amended by LI: [2004/42](#)

- **Appropriate PRA**

10-100(8) R

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Amended by LI: [2004/42](#)

- **10-101 Calculation of debt equivalent positions for derivatives**

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Amended by LI: [2004/42](#)

- **General rule**

10-101(1) R

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Amended by LI: [2004/42](#)

- **Risk assessment models**

10-101(2) G

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Amended by LI: [2004/42](#)

- **Options on debt securities**

10-101(3) R

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Amended by LI: [2004/42](#)

- **Futures on interest rates**

10-101(4) R

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Amended by LI: [2004/42](#)

- **Options on futures on interest rates**

10-101(5) R

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Amended by LI: [2004/42](#)

- **Forwards and futures on debt securities**

10-101(6) R

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- **Options on futures on debt securities**

10-101(7) R

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Amended by LI: [2004/42](#)

- **Futures and options based on an index of prices**

10-101(8) R

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- **Options on interest rate and currency swaps**

10-101(9) R

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Amended by LI: [2004/42](#)

- **Interest rate and currency swaps**

10-101(10) R

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Amended by LI: [2004/42](#)

- **Forward foreign exchange and currency futures**

10-101(11) R

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- **Equity Derivatives**

10-101(12) R

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- **Offerings of debt securities**

10-101(13) R

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- **Cash legs of repurchase and similar agreements**

10-101(14) R

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- **Cash borrowings and qualifying deposits**

10-101(15) R

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- **10-102 Netting**

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Amended by LI: [2004/42](#)

- **Netting of positions**

10-102(1) R

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Amended by LI: [2004/42](#)

- **Netting of tranches**

10-102(2) R

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Amended by LI: [2004/42](#)

- **Netting of notional securities arising from swaps, ...**

10-102(3) R

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- **Netting of notional securities arising from futures, options and options on futures which may be satisfied by delivery of a range of securities**

10-102(4) R

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- **Options on swaps**

10-102(5) R

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Amended by LI: [2004/42](#)

- **Options on futures based on debt instruments**

10-102(6) R

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Amended by LI: [2004/42](#)

- **10-103 Categorisation of interest rate positions**

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Amended by LI: [2004/42](#)

- **General rule**

10-103(1) R

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- **Maturity bands**

10-103(2) R

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- **10-104 Application of the interest rate method**

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- **General rule**

10-104(1) R

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Amended by LI: [2004/42](#)

- **Specific risk**

10-104(2) R

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Amended by LI: [2004/42](#)

- **General market risk**

10-104(3) R

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Amended by LI: [2004/42](#)

- **10-105 Maturity-based approach method 1**

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Amended by LI: [2004/42](#)

- **Calculation**

10-105(1) R

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- **Total**

10-105(2) R

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Amended by LI: [2004/42](#)

- **10-106 Maturity-based approach method 2**

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- **Method**

10-106(1) R

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- **Price index linked debt securities**

10-106(2) R

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Amended by LI: [2004/42](#)

- **Calculation**

10-106(3) R

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Amended by LI: [2004/42](#)

- **10-107 Duration-based approach**

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Amended by LI: [2004/42](#)

- **Method**

10-107(1) R

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Amended by LI: [2004/42](#)

- **Calculation**

10-107(2) R

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- **Treatment of interest rate derivatives outside the interest rate method [deleted]**

- **10-110 Types of positions to be included under the interest rate derivatives method**

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- **General rule**

10-110(1) R

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- **Netting**

10-110(2) R

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- **10-111 Alternative methods**

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Amended by LI: [2004/42](#)

- **Summary of alternative methods**

10-111(1) R

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Amended by LI: [2004/42](#)

- **Hedging method**

10-111(2) R

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Amended by LI: [2004/42](#)

- **Margin requirement method**

10-111(3) R

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Amended by LI: [2004/42](#)

- **Basic method**

10-111(4) R

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Amended by LI: [2004/42](#)

- **Appropriate PRA for basic method**

10-111(5) R

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- **10-120 Collective investment schemes [deleted]**

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- **Eligible collective investment schemes [deleted]**

10-120 R

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- **Other collective investment schemes [deleted]**

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- **Issuing market method [deleted]**

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- **10-130 Application of issuing market method**

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10-130(2) R

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- **10-131 Types of position to be included under the issuing market method**

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- **General rule**

10-131(1) R

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- **Timing**

10-131(2) R

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- **Existing securities which are exchange traded**

10-131(3) R

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- **10-132 Net commitment**

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- **Calculation of net commitment**

10-132(1) R

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- **Calculation of LER**

10-132(2) R

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- **10-133 Calculation of PRR**
 - **General rule - equities**

10-133(1) R

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- **General rule - debt securities**

10-133(2) R

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Amended by LI: [2004/42](#)

- **Basic method**

10-133(3) R

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Amended by LI: [2004/42](#)

- **Hybrid method**

10-133(4) R

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10-133(5) R

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- **Foreign exchange requirement [deleted]**

- **10-150 Summary of FER**

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- **10-151 Types of exposures to be included in the FER**

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- **General rule**

10-151(1) R

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- **Dual currency bonds**

10-151(2) R

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- **Determining the currency of investments**

10-151(3) R

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- **10-152 Treatment of foreign exchange options**

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- **Risk assessment models**

10-152(1) G

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10-152(1A) R

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- **Method 1**
10-152(2) R
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- **Method 2**
10-152(3) R
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Amended by LI: [2004/42](#)
- **Calculation of in the money**
10-152(4) R
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Amended by LI: [2004/42](#)
- **10-153 FER method**
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Amended by LI: [2004/42](#)
 - **Calculation of net open position**
10-153(1) R
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Amended by LI: [2004/42](#)
 - **Calculation of FER**
10-153(2) R
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Amended by LI: [2004/42](#)
 - **FER method 1**
10-153(3) R
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- **Currency pairs subject to binding inter-governmental agreements**

10-153(5) G

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- **Commodities method [deleted]**
 - **10-166 Types of positions to be included in the commodities method**

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- **General rule**

10-166(1) R

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10-166(2) R

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Amended by LI: [2004/42](#)

10-166(3) R

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- **10-167 Simplified approach**

10-167(1) R

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10-167(2) R

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10-167(3) R

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- **10-168 Maturity ladder approach**

10-168(1) R

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10-168(2) R

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- **10-169 Extended maturity ladder approach**

10-169 R

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Amended by LI: [2004/42](#)

- **10-169A Models approach**

10-169A G

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Amended by LI: [2004/42](#)

- **10-169B Options**

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Amended by LI: [2004/42](#)

- **Proprietary options pricing models**

10-169B (1) G

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- **No models**

10-169B (2) R

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10-169B (3) R

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- **Counterparty Risk Requirement [deleted]**

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- **10-170 General principles of CRR [deleted]**

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- **General rule [deleted]**

10-170 (1) R

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- **Frequency of calculation [deleted]**

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- **Negative amounts [deleted]**

10-170 (4) R

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- **Instruments for which no CRR has been specified [deleted]**

10-170 (5) R

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- **Instruments of non standard form [deleted]**
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- **G [deleted]**
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- **Provisions [deleted]**
10-170 (7) R
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- **Connected companies [deleted]**
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- **Basis of valuation [deleted]**
10-170 (9) R
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- **Netting [deleted]**
10-170 (10) R
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- **10-171 Cash against documents transactions [deleted]**
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- **General rule [deleted]**
10-171 (1) R

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R TABLE 10-171(1) - Percentage to be applied to the counterparty exposure

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- **Collateral [deleted]**

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- **Counterparty exposure [deleted]**

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- **Netting [deleted]**

10-171 (4) R

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- **Sub-total [deleted]**

10-171 (5) R

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- **10-172 Free deliveries of physical commodities and securities [deleted]**

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- **General rule [deleted]**

10-172 (1) R

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- **Collateral [deleted]**

10-172 (2) R

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- **Counterparty exposure [deleted]**

10-172 (3) R

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R TABLE 10-172(3) - Percentage to be applied to counterparty exposures relating to free deliveries

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- **Cross border deliveries [deleted]**

10-172 (4) R

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- **Netting [deleted]**

10-172 (5) R

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- **Sub-total [deleted]**

10-172(6) R

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- **10-173 Repurchase and reverse repurchase, securities or physical commodities lending and borrowing and sale and buy back agreements [deleted]**

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- **General rule [deleted]**

10-173(1) R

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- **Counterparty exposure [deleted]**

10-173(2) R

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- **Percentages [deleted]**

10-173(3) R

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- **Additional CRR [deleted]**

10-173(4) R

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- **Margin percentages [deleted]**

10-173(5) R

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- **Mark to market value [deleted]**

10-173(7) R

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- **Daily valuation [deleted]**

10-173(8) R

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- **Additional adequate collateral [deleted]**

10-173(9) R

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- **Netting [deleted]**

10-173(10) R

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- **Sub-total [deleted]**

10-173 (11) R

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- **10-174 Derivative transactions [deleted]**

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- **General rule [deleted]**

10-174 (1) R

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- **Collateral [deleted]**

10-174 (2) R

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- **Counterparty exposure [deleted]**

10-174 (3) R

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R Table 10-174(3A) - Method of calculating credit equivalent amount

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R Table 10-174(3B) - Method of calculating credit equivalent amount for commodities

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- **Sums due for payment or owed on closed out derivative transactions [deleted]**

10-174 (4) R

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- **CRR percentages [deleted]**

10-174 (5) R

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- **Netting [deleted]**

10-174 (6) R

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- **Equivalent contracts [deleted]**

10-174(7) R

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- **Sub-total [deleted]**

10-174(8) R

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- **10-175 Other amounts owed to a firm arising out of trading book business [deleted]**

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- **General rule [deleted]**

10-175(1) R

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- **Collateral [deleted]**

10-175(2) R

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- **Counterparty exposure [deleted]**

10-175(3) R

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- **CRR percentages [deleted]**

10-175(4) R

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R TABLE 10-175(4) - CRR percentages

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- **Netting [deleted]**

10-175(5) R

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- **Sub-total [deleted]**

10-175(6) R

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- **Trading book qualifying deposits [deleted]**

10-176 R

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- **Large exposures requirement [deleted]**

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- **10-190 General principles of LER [deleted]**

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- **Application [deleted]**

10-190(1) R

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- **General rule [deleted]**

10-190(2) R

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- **Frequency of calculation [deleted]**
10-190(3) R
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- **Exposures to connected third parties [deleted]**
10-190(4) R
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- **Trustee [deleted]**
10-190(5) R
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- **10-191 Types of exposure [deleted]**
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 - **General [deleted]**
10-191(1) R
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 - **Trading book issuer exposure [deleted]**
10-191(2) R
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 - **Futures, forwards and FRAs [deleted]**
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 - **Interest rate, foreign currency and equity swaps [deleted]**

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- **Indices/baskets [deleted]**

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- **Options [deleted]**

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- **Trading book counterparty exposure [deleted]**

10-191(4) R

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- **Calculation of net counterparty exposure [deleted]**

10-191(5) R

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- **Non-trading book exposure [deleted]**

10-191(6) R

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- **10-192 Exposures exempt from LER [deleted]**

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- **Exempt exposures [deleted]**

10-192(1) R

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- **Optional exemption [deleted]**

10-192(2) R

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- **Partially exempt exposures [deleted]**

10-192(3) R

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- **10-193 Limits for trading book and non-trading book exposures [deleted]**

10-193(1) R

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- **Transitional Provisions [deleted]**

10-193(4) R

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- **10-194 Calculation of LER [deleted]**

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- **Method [deleted]**

10-194(1) R

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- **Calculation [deleted]**

10-194(2) R

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10-194(3) R

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R TABLE 10-194(3) [see Guidance below]

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- **10-195 Limits for an excess "D" [deleted]**

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- **10-196 Exposures monitoring for firms exempt from consolidated supervision [deleted]**

10-196 R

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- **Consolidated Supervision [deleted]**

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- **10-200 General principles of consolidated supervision [deleted]**

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- **Scope [deleted]**

10-200(1) R

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- **Consolidating Supervisor [deleted]**

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- **Constituents of a Group [deleted]**

10-200(3) R

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10-200(4) G

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- **Exemptions [deleted]**

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- **Additional Information [deleted]**

10-200(6) G

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10-200(7) R

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- **10-201 Group financial resources**

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- **10-202 Group financial resources requirement [deleted]**

10-202(1) R

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10-202(2) R

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10-202(3) R

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10-202(4) R

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10-202(4) G

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10-202(5) G

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10-202 (5) G

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- 10-203 Intra-group offsets and netting [deleted]

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- 10-204 Exemption from consolidated supervision [deleted]

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- ACMPs [deleted]

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10-300(2) R

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10-300(3) R

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- **Appendices [deleted]**

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- **Appendix 1 Glossary of terms for IPRU(INV)
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- **Appendix 4 Interest rate PRR [deleted]**

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- **General rule [deleted]**

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- **Scope of the Interest rate PRR
calculation [deleted]**

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- **Derivation of notional positions [deleted]**

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- **GENERAL APPROACH [deleted]**

- 10 G

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- 11 R

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- 12 R

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- **FUTURES OR FORWARDS ON A DEBT SECURITY [deleted]**

- 13 R

- [deleted]

- Deleted by LI: [2007/27](#)

- **FUTURES OR FORWARDS ON A BASKET OR INDEX OF DEBT SECURITIES [deleted]**

14 R

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16 R

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- **INTEREST RATES FUTURES AND FORWARD RATE AGREEMENTS (FRAS) [deleted]**

18 R

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- **INTEREST RATE SWAPS OR FOREIGN EXCHANGE SWAPS [deleted]**

21 R

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22 R

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23 G

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- **DEFERRED START INTEREST RATE SWAPS OR FOREIGN EXCHANGE SWAPS [deleted]**

24 R

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25 R

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26 G

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- **SWAPS WHERE ONLY ONE LEG IS AN INTEREST RATE LEG (E.G. EQUITY SWAPS) [deleted]**

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- **CASH LEGS OF REPURCHASE AGREEMENTS AND REVERSE REPURCHASE AGREEMENTS [deleted]**

29 G

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- **CASH BORROWINGS AND DEPOSITS [deleted]**

31 R

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- **OPTIONS AND WARRANTS [deleted]**

32 R

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- **BONDS WHERE THE COUPONS AND PRINCIPAL ARE PAID IN DIFFERENT CURRENCIES [deleted]**

33 R

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- **INTEREST RATE RISK ON OTHER FUTURES, FORWARDS AND OPTIONS [deleted]**

34 R

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- **Deriving the net position in each debt security [deleted]**

36 G

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- **NETTING POSITIONS IN THE SAME DEBT SECURITY [deleted]**

37 R

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- **NETTING THE CHEAPEST TO DELIVER SECURITY WITH OTHER DELIVERABLE SECURITIES [deleted]**

38 R

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- **NETTING ZERO-SPECIFIC-RISK SECURITIES WITH DIFFERENT MATURITIES [deleted]**

40 R

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- **REDUCED NET UNDERWRITING POSITIONS IN DEBT SECURITIES [deleted]**

41 R

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- **Specific risk calculation [deleted]**

43 R

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44 R

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45 G

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- **DEFINITION OF A QUALIFYING DEBT SECURITY [deleted]**

46 R

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47 R

Table: minimum ratings for *qualifying debt securities* (see 46R(5)).

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- **General market risk calculation [deleted]**

48 R

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49 R

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50 R

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- **SIMPLIFIED MATURITY METHOD [deleted]**

51 G

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52 R

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53 R

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- **THE MATURITY METHOD [deleted]**

54 G

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55 R

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56 G

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57 G

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- **DURATION METHOD [deleted]**

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59 R

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60 R

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61 R

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- **Appendix 5 Equity PRR [deleted]**

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- **General rule [deleted]**

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- **Scope of the Equity PRR calculation [deleted]**

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4 G

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6 G

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7 G

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- **Derivation of notional positions [deleted]**

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- **GENERAL RULE [deleted]**

10 R

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- **DEPOSITORY RECEIPTS [deleted]**

12 R

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- **CONVERTIBLES [deleted]**

13 R

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- **FUTURES, FORWARDS AND CFDS ON A SINGLE EQUITY [deleted]**

14 R

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- **FUTURES, FORWARDS AND CFDS ON EQUITY INDICES OR BASKETS [deleted]**

15 R

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16 R

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17 G

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18 R

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- **EQUITY LEGS OF EQUITY SWAPS [deleted]**

19 R

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- **OPTIONS [deleted]**

21 R

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- **Deriving the net position in each equity [deleted]**

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23 R

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24 R

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25 G

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- **Simplified and standard equity methods [deleted]**

26 G

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- **SIMPLIFIED EQUITY METHOD [deleted]**

29 R

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30 R

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- **STANDARD EQUITY METHOD [deleted]**

31 G

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32 R

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- **STANDARD EQUITY METHOD: SPECIFIC RISK** [deleted]

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34 R

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35 R

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37 G

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38 R

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39 R

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- **STANDARD EQUITY METHOD:
GENERAL MARKET RISK [deleted]**

40 R

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- **APPROACH ONE: NO OFFSET
BETWEEN DIFFERENT COUNTRY
PORTFOLIOS [deleted]**

41 R

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- **APPROACH TWO: LIMITED OFFSET
BETWEEN DIFFERENT COUNTRY
PORTFOLIOS [deleted]**

42 R

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- **Basic interest rate PRR calculation for equity
instruments [deleted]**

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45 R

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46 G

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47 R

Table: Percentages used in the basic interest rate *PRR* calculation for *equity* instruments (see 45R(1)).

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- **Appendix 6 Commodity PRR [deleted]**

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- **General rule [deleted]**

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- **Scope of the commodity PRR calculation [deleted]**

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4 R

Table: Instruments which result in notional positions (see 2R(3))

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6 G

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- Derivation of notional positions [deleted]

7 G

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- Futures, forwards, CFDs and options on a single commodity [deleted]

8 R

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9 G

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- Buying or selling a single commodity at an average of spot prices prevailing in the future [deleted]

10 R

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11 G

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12 G

Table: Example of buying at the average spot price prevailing in the future (see 11G)

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- **Futures, CFDs and options on a commodity index [deleted]**

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14 R

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- **Commodity swaps [deleted]**

16 R

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17 R

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18 G

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19 G

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- **Calculating the PRR for each commodity [deleted]**

20 R

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21 G

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22 R

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23 R

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- **SIMPLIFIED APPROACH [deleted]**

24 R

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- **Maturity ladder approach [deleted]**

25 R

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26 R

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27 G

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28 R

Table: Maturity bands for the maturity ladder approach (see 26R))

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- **Modified maturity ladder approach [deleted]**

30 R

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31 R

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32 R

Table: Alternative spread, carry and outright rates (see 31R).

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33 G

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34 G

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35 R

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36 G

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- **Appendix 7 Securities Underwriting [deleted]**

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- **General rules [deleted]**

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- **Calculating the net underwriting position [deleted]**

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- **GREY MARKET TRANSACTIONS [deleted]**

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- **Large exposure risk from underwriting securities [deleted]**

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- **CALCULATING THE NET UNDERWRITING EXPOSURE [deleted]**

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Table: Calculation of net *underwriting exposure* (see 32R)

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- **Risk management** [deleted]

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- **Appendix 8 Foreign exchange PRR [deleted]**

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- Derivation of notional positions [deleted]

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- FOREIGN EXCHANGE FORWARDS, FUTURES, CFDS AND SYNTHETIC FUTURES [deleted]

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- FOREIGN EXCHANGE OPTIONS AND WARRANTS [deleted]

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- **GOLD OPTIONS [deleted]**

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- **Open currency position [deleted]**

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- **Net gold position [deleted]**

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- **Appendix 9 Option PRR [deleted]**

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- **Scope of the option PRR calculation [deleted]**

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Table: Appropriate *PRA* (see 7R)

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- **NETTING POSITIONS [deleted]**

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Table: Derived positions (see 9R)

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Table: *Option* strategies (see 14R)

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- **PURCHASED OPTIONS AND WARRANTS [deleted]**

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- **WRITTEN OPTIONS AND WARRANTS [deleted]**

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- **UNDERWRITING OR SUB-UNDERWRITING AN ISSUE OF WARRANTS [deleted]**

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- **The hedging method [deleted]**

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Table: Appropriate treatment for *equities*,
debt *securities* or currencies hedging *options* (see 24R)

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27 R

Table: The hedging method of calculating
the *PRR* (*equities*, debt *securities* and gold) (see 24R(1) to
(3))

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Table: The hedging method of calculating
the *PRR* (currencies) (see 24R(4))

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- **WRITTEN CLIQUET OPTIONS [deleted]**

- 30 R

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- **QUANTOS [deleted]**

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- **Interaction with other appendices [deleted]**

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Figure: Diagram illustrating the relationship between this appendix and other appendices.

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- **Appendix 10 Use of a CAD1 Model [deleted]**

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- **Introduction [deleted]**

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- **Model standards [deleted]**

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- **OPTIONS RISK AGGREGATION MODELS [deleted]**

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TABLE: PROPORTIONAL IMPLIED VOLATILITY
SHIFTS (SEE 29G)

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TABLE: UNDERLYING PRICE/RATE SHIFTS (SEE
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▪ **INTEREST RATE PRE-PROCESSING MODELS [deleted]**

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TABLE: YIELD CURVE SHIFTS (SEE 46G)

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- Appendix 11 Use of a Value at Risk Model [deleted]

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- **Calculation of VaR model based PRR [deleted]**

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- **Appendix 20 Guidance notes on reconciliation of firm's balances with a counterparty which is a member of an exchange (rule 10-11(4)) [deleted]**

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- **The obligation on firms [deleted]**

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- **Appendix 21 Notes on the valuation of positions (rule 10-41(9)) [deleted]**

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- **Introduction [deleted]**

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- **Appendix 33 (exchanges) [Deleted]**

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- **Appendix 34 Relevant agency**

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- **Appendix 35 List of regulated financial institutions and supranational organisations**

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- **Part 1 List Of Regulators For The Purposes Of The Definition Of Regulated Financial Institution**

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- **Part 2 List Of Supranational Organisations**

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- **Appendix 43 Guidance notes on the financial resources and accounting treatment of soft commission agreements (rules 10-73 and 10-175) [deleted]**

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- **Income and balances payable [deleted]**

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- **Required treatment [deleted]**

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- **Expenditure requirement [deleted]**

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- **Required treatment [deleted]**

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- **Legally enforceable contracts [deleted]**

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- **Appendix 47 Counterparty Weights To Be Applied In Calculating Liquidity Adjustment And CRR (rules 10-64 to 10-68, and 10-172 to 10-176) [deleted]**

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- **Appendix 48 Securities and futures firms: guidance notes on the secondary requirement [deleted]**

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- **2. Discretionary secondary requirement [deleted]**

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- **Appendix 49 Equity PRAs**

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- **1 Equity method 1 PRAs**

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- **2 Specific risk PRAs for equity method 2**

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- **3 Specific risk PRAs for equity methods 3 and 4**

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- **4 General market risk PRAs**

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- **5 Criteria for applying 2% specific risk**

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- **6 Qualifying countries for equity method**

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- **Appendix 50 Equity PRAs For Equity Method 3 - Alternative 2 - Calculation 1**

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- **Appendix 51 List of Exchanges for Margin Requirement Method**

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- **Appendix 52 Options And Warrants On Equities - The Hedging Method Of Calculating PRR**

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- **Appendix 53 Interest Rate PRAs**

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- **1 Specific risk PRAs**

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- **2 Maturity-based general market risk PRAs**

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- **3 Maturity-based matching factors**

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- **4 Qualifying currencies for interest rate method**

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- **Appendix 54 Options And Warrants On Qualifying Debt Securities - The Hedging Method Of Calculating PRR**

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Amended by LI: [2004/42](#)

- **Appendix 55 Guidance Notes On The Application Of Adequate Collateral Or Acceptable Collateral To Reduce Counterparty Exposures [deleted]**

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- **Introduction [deleted]**

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- **Types of collateral [deleted]**

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- **Status and value of collateral [deleted]**

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- **Application of collateral [deleted]**

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- **Appendix 56 Guide To Adequate Credit Management Policy (ACMP) (rules 10-172 to 10-175, 10-300 and "ACMP") [deleted]**

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- **Introduction [deleted]**

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- **Objective [deleted]**

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- **Scope [deleted]**

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- **Background [deleted]**

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- **General principles [deleted]**

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- **Role of senior management [deleted]**

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- **Procedures [deleted]**

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- **Documentation [deleted]**

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- **Collateral and margin [deleted]**

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- **Measurement and monitoring of exposures [deleted]**

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- **Additional Guidance on the FSA's Assessment of ACMPs [deleted]**

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- **Preamble [deleted]**

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- **A definition of credit and the measurement of credit risk [deleted]**

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- **The decision to grant credit [deleted]**

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- **The monitoring of credit exposure [deleted]**

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- **Computer systems [deleted]**

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- **Reporting [deleted]**

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- **Credit Risk Management/Control [deleted]**

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- **Documentation [deleted]**

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- **Ongoing review of credit risk [deleted]**

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- **Documentation of credit policies and procedures and customer files [deleted]**

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- **Appendix 57 List Of Exchanges And Clearing Houses Recognised For The Purposes Of IPRU(INV)10 [deleted]**

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- **1 Exchanges recognised for the purposes of IPRU(INV)10 [deleted]**

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- **2 Clearing Houses recognised for the purposes of IPRU(INV)10 [deleted]**

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- **Appendix 58 Verification of interim profits by external auditors [deleted]**

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- **1 Introduction [deleted]**

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- **2 Eligibility for inclusion in initial capital [deleted]**

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- **3 Submission of an interim profits verification report [deleted]**

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- **Appendix 59 List of regulators for the purposes of the definition of recognised third country investment firms [deleted]**

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- **Appendix 62 Netting [deleted]**

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- **Guidance On The Netting Of Counterparty Exposures [deleted]**

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- **Introduction [deleted]**

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- **Scope [deleted]**

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- **Background [deleted]**

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- **Principles of Offset [deleted]**

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- **Statement of Law on Netting [deleted]**

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- **Legal Requirements [deleted]**

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- **Compliance with the Legal Requirements [deleted]**

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- **Cross-Product Netting [deleted]**

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- **Introduction [deleted]**

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- **Appendix 63 Guidance on credit derivatives [deleted]**

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- **This appendix applies to firms which take, or intend to take, positions in credit derivative products [deleted]**

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- **Introduction [deleted]**

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- **Internal control issues [deleted]**

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- **New product approval [deleted]**

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- **Risk appetite [deleted]**

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- **Understanding the products [deleted]**

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- **Credit approval [deleted]**

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- **Mismatches and imperfect hedges [deleted]**

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- **Monitoring of credit exposures [deleted]**

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- **Credit review and provisioning procedures [deleted]**

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- **Scenario testing [deleted]**

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- **Reality testing [deleted]**

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- **Regulatory capital treatment [deleted]**

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- **Mark to market [deleted]**

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- **Trading book/non-trading book [deleted]**

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- **Position Risk Requirement [deleted]**

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- **Offset for capital adequacy purposes [deleted]**

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- **Counterparty risk requirement [deleted]**

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- **Large exposures [deleted]**

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- **Multiple name risk [deleted]**

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- **Risk assessment models [deleted]**

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- **Specific risk treatment of credit derivatives [deleted]**

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- **Introduction [deleted]**

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- **Default Events [deleted]**

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- **Specific Risk [deleted]**

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- **Netting [deleted]**

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- **Specific risk offset [deleted]**

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- **Example 1 [deleted]**

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- **Example 2 [deleted]**

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- **Maturity Mismatch [deleted]**

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- **Example [deleted]**

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- **Asset Mismatch**

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- **Example [deleted]**

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- Chapter 11: Collective Portfolio Management Firms and Collective Portfolio Management Investment Firms
 - IPRU(INV) 11.1 Introduction
 - Application
 - IPRU(INV) 11.1.1R

This chapter applies to:

- (1) a *collective portfolio management firm* ; and
- (2) a *collective portfolio management investment firm* .

Inserted by: LI [FCA 2013/51](#)
 Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 11.1.2G

*A collective portfolio management firm that manages an AIF is an internally managed AIF or an external AIFM . If the firm is a full-scope UK AIFM this affects the firm's base capital resources requirement (see [IPRU\(INV\) 11.3.1R](#)). An internally managed AIF that is a full-scope UK AIFM is not permitted to engage in activities other than the management of that AIF , whereas an external AIFM that is a full-scope UK AIFM may manage AIFs and/or UCITS , provided it has permission to do so. A full-scope UK AIFM that is an external AIFM and/or a UCITS management company may undertake any of the additional investment activities permitted by [article 6\(4\)](#) of AIFMD or [article 6\(3\)](#) of the UCITS Directive (as applicable), provided it has permission to do so, but if so it is classified as a *collective portfolio management investment firm* , as opposed to a *collective portfolio management firm* .*

A collective portfolio management investment firm is also subject to the requirements of either (i) GENPRU and BIPRU or (ii) IFPRU in addition to the requirements of [IPRU\(INV\) 11](#), as explained in [IPRU\(INV\) 11.6.2G](#).

Inserted by: LI [FCA 2013/51](#)
 Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 11.1.2AG

A small authorised UK AIFM that is not also a UCITS management company is not a collective portfolio management firm or a collective portfolio management investment firm and is therefore not subject to [IPRU\(INV\) 11](#). This type of firm is subject to [IPRU\(INV\) 5](#) if it is an investment management firm , GENPRU and BIPRU if it is a BIPRU firm or IFPRU if it is an IFPRU investment firm .

Inserted by: LI [FCA 2013/77](#)

- Relevant accounting principles

- IPRU(INV) 11.1.3R

(1) Except where a *rule* makes a different provision, terms in this chapter must have the meaning given to them in the [Companies Act 2006](#) or the *firm's* accounting framework (usually *UK* generally accepted accounting principles or *IFRS*) where defined in that Act or framework.

(2) Accounting policies must be the same as those adopted in the *firm's annual report and accounts* and must be consistently applied.

Inserted by: LI [FCA 2013/51](#)

- Purpose

- IPRU(INV) 11.1.4G

(1) This chapter amplifies [threshold condition 2D](#) (Appropriate resources) by providing that a *firm* must meet, on a continuing basis, a minimum capital resources requirement. This chapter also amplifies Principles [3](#) and [4](#) which require a *firm* to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems, and to maintain adequate financial resources by setting out a capital resources requirement for a *firm* according to the *regulated activity* or activities it carries on.

(2) This chapter also implements relevant requirements of *AIFMD* and the *UCITS Directive* , which includes imposing capital and professional indemnity insurance requirements on a *full-scope UK AIFM* and a *UCITS management company* . *AIFMD* and the *UCITS Directive* incorporate references to provisions of the *Banking Consolidation Directive* and the *Capital Adequacy Directive* in relation to *initial capital* , *own funds* and fixed overheads. However, in line with article 163 of the *CRD* , the *Banking Consolidation Directive* and the *Capital Adequacy Directive* are repealed from 1 January 2014 and references to these directives are replaced with references to the *CRD* and the *EU CRR* in line with the correlation table set out in Annex II to the *CRD* and in [Annex IV](#) to the *EU CRR* .

Inserted by: LI [FCA 2013/51](#)
Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 11.2 Main requirements

- Collective portfolio management firm [deleted]

Deleted by: LI [FCA 2013/77](#)

▪ IPRU(INV) 11.2.1R

A firm must:

(1) when it first becomes a *collective portfolio management firm* or a *collective portfolio management investment firm*, hold *initial capital* of not less than the applicable *base own funds requirement* (in line with [IPRU\(INV\) 11.3.1R](#));

(2) at all times, maintain *own funds* which equal or exceed:

(a) the higher of:

(i) the *funds under management requirement* (in line with [IPRU\(INV\) 11.3.2R](#)); and

(ii) the amount specified in [article 97](#) of the *EU CRR* (Own funds based on fixed overheads) (as replicated in [IPRU\(INV\) 11.3.3AEU](#)); plus

(b) whichever is applicable of:

(i) the *professional negligence capital requirement* (in line with [IPRU\(INV\) 11.3.11G\(1\)\(a\)](#)); or

(ii) the *PII capital requirement* (in line with [IPRU\(INV\) 11.3.11G\(1\)\(b\)](#)); and

(3) at all times, hold liquid assets (in line with [IPRU\(INV\) 11.3.17R](#)) which equal or exceed:

(a) the higher of:

(i) the *funds under management requirement* (in line with [IPRU\(INV\) 11.3.2R](#)) less the *base own funds requirement* (in line with [IPRU\(INV\) 11.3.1R](#)); and

(ii) the amount specified in [article 97](#) of the *EU CRR* (Own funds based on fixed overheads); plus

(b) whichever is applicable of:

(i) the *professional negligence capital requirement* (in line with [IPRU\(INV\) 11.3.11G\(1\)\(a\)](#)); or

(ii) the *PII capital requirement* (in line with [IPRU\(INV\) 11.3.11G\(1\)\(b\)](#)).

[Note: [article 9\(5\)](#) and [9\(7\)](#) of *AIFMD* and [article 7\(1\)\(a\)\(iii\)](#) of the *UCITS Directive*]

Inserted by: LI [FCA 2013/51](#)
Amended by: LI [FCA 2013/77](#)

- Professional negligence
 - IPRU(INV) 11.2.2G

(1) The *professional negligence capital requirement* applies to a *full-scope UK AIFM* which, in line with [IPRU\(INV\) 11.3.11G\(1\)\(a\)](#), covers professional liability risks by way of *own funds* .

(2) The *PII capital requirement* applies to a *full-scope UK AIFM* which, in line with [IPRU\(INV\) 11.3.11G\(1\)\(b\)](#), decides to cover professional liability risks by professional indemnity insurance.

Inserted by: LI [FCA 2013/51](#)
Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 11.3 Detail of main requirements
 - Base own funds requirement

Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 11.3.1R

The *base own funds requirement* is:

(1) €125,000 for a *firm* that is a *UCITS management company* or a *full-scope UK AIFM* that is an *external AIFM* ; and

(2) €300,000 for a *full-scope UK AIFM* that is an *internally managed AIF* .

[Note: [article 9\(1\)](#), (2) and (10) of *AIFMD* and [article 7\(1\)\(a\)](#) of the *UCITS Directive*]

Inserted by: LI [FCA 2013/51](#)
Amended by: LI [FCA 2013/77](#)

- Funds under management requirement
 - IPRU(INV) 11.3.2R

The *funds under management requirement* is (subject to a maximum of €10,000,000) the sum of:

(1) the *base own funds requirement* ; plus

(2) 0.02% of the amount by which the *funds under management* exceed €250,000,000,

[Note: [article 9\(3\)](#) of *AIFMD* and [article 7\(1\)\(a\)\(i\)](#) of the *UCITS Directive*]

Inserted by: LI [FCA 2013/51](#)
Amended by: LI [FCA 2013/77](#)

- **Fixed overheads requirement**
 - **IPRU(INV) 11.3.3R [deleted]**

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- **IPRU(INV) 11.3.3AEU**

Own Funds based on Fixed Overheads	
1	In accordance with Articles 95 and 96 , an investment firm and firms referred to in point (2)(c) of Article 4(1) that provide the investment services and activities listed in points (2) and (4) of Section A of Annex I to Directive 2004/39/EC shall hold eligible capital of at least one quarter of the fixed overheads of the preceding year.
2	Where there is a change in the business of an investment firm since the preceding year that the competent authority considers to be material, the competent authority may adjust the requirement laid down in paragraph 1.
3	Where an investment firm has not completed business for one year, starting from the day it starts up, an investment firm shall hold eligible capital of at least one quarter of the fixed overheads projected in its business plan, except where the competent authority requires the business plan to be adjusted.
[Note: article 97(1) to (3) of the <i>EU CRR</i>]	

▪ Inserted by: LI [FCA 2013/77](#)

- **IPRU(INV) 11.3.4R [deleted]**

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- **IPRU(INV) 11.3.5G [deleted]**

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- **IPRU(INV) 11.3.6R [deleted]**

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- **IPRU(INV) 11.3.7R [deleted]**

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- **IPRU(INV) 11.3.8G [deleted]**

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- IPRU(INV) 11.3.9R [deleted]

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- IPRU(INV) 11.3.10G [deleted]

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- Professional negligence
 - IPRU(INV) 11.3.11G

A full-scope UK AIFM should:

(1) cover the professional liability risks set out in article 12 of the *AIFMD level 2 regulation* (professional liability risks) (as replicated in [IPRU\(INV\) 11.3.12EU](#)) by either:

(a) maintaining an amount of *own funds* in line with article 14 of the *AIFMD level 2 regulation* (additional own funds) (as replicated in [IPRU\(INV\) 11.3.14EU](#)) (the *professional negligence capital requirement*); or

(b) holding professional indemnity insurance and maintaining an amount of *own funds* to meet the *PII capital requirement* under article 15 of the *AIFMD level 2 regulation* (professional indemnity insurance) (as replicated in [IPRU\(INV\) 11.3.15EU](#)) and [IPRU\(INV\) 11.3.16R](#); and

(2) comply with the qualitative requirements addressing professional liability risks in article 13 of the *AIFMD level 2 regulation* (qualitative requirements addressing professional liability risks) (as replicated in [IPRU\(INV\) 11.3.13EU](#)).

Inserted by: LI [FCA 2013/51](#)

Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 11.3.12EU

Professional liability risks	
1.	The professional liability risks to be covered pursuant to Article 9(7) of Directive 2011/61/EU shall be risks of loss or damage caused by a relevant person through the negligent performance of activities for which the AIFM has legal responsibility.
2.	Professional liability risks as defined in paragraph 1 shall include, without being limited to, risks of:
(a)	loss of documents evidencing title of assets of the AIF;

(b)	misrepresentations or misleading statements made to the AIF or its investors;
(c)	acts, errors or omissions resulting in a breach of:
(i)	legal and regulatory obligations;
(ii)	duty of skill and care towards the AIF and its investors;
(iii)	fiduciary duties;
(iv)	obligations of confidentiality;
(v)	AIF rules or instruments of incorporation;
(vi)	terms of appointment of the AIFM by the AIF;
(d)	failure to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts;
(e)	improperly carried out valuation of assets or calculation of unit/share prices;
(f)	losses arising from business disruption, system failures, failure of transaction processing or process management.
3.	Professional liability risks shall be covered at all times either through appropriate additional own funds determined in accordance with Article 14 or through appropriate coverage of professional indemnity insurance determined in accordance with Article 15.
[Note: article 12 of the AIFMD level 2 regulation]	

▪ **Inserted by: LI [FCA 2013/51](#)**

▪ **IPRU(INV) 11.3.13EU**

Qualitative requirements addressing professional liability risks	
1.	An AIFM shall implement effective internal operational risk management policies and procedures in order to identify, measure, manage and monitor appropriately operational risks including professional liability risks to which the AIFM is or could be reasonably exposed. The operational risk management activities shall be performed independently as part of the risk management policy.
2.	An AIFM shall set up a historical loss database, in which any operational failures, loss and damage experience shall be recorded. This database shall record, without being limited to, any professional liability risks as referred to in Article 12(2) that have materialised.
3.	Within the risk management framework the AIFM shall make use of its internal historical loss data and where appropriate of external data, scenario analysis and factors reflecting the business environment and internal control systems.
4.	Operational risk exposures and loss experience shall be monitored on an ongoing basis and shall be subject to regular internal reporting.
5.	An AIFM's operational risk management policies and procedures shall be well documented. An AIFM shall have arrangements in place for ensuring compliance with its operational risk management policies and

	effective measures for the treatment of non-compliance with these policies. An AIFM shall have procedures in place for taking appropriate corrective action.
6.	The operational risk management policies and procedures and measurement systems shall be subject to regular review, at least on an annual basis.
7.	An AIFM shall maintain financial resources adequate to its assessed risk profile.
[Note: article 13 of the <i>AIFMD level 2 regulation</i>]	

- **Inserted by: LI [FCA 2013/51](#)**
- **IPRU(INV) 11.3.14EU**

Additional own funds	
1.	This Article shall apply to AIFMs that choose to cover professional liability risks through additional own funds.
2.	<p>The AIFM shall provide additional own funds for covering liability risks arising from professional negligence at least equal to 0,01 % of the value of the portfolios of AIFs managed.</p> <p>The value of the portfolios of AIFs managed shall be the sum of the absolute value of all assets of all AIFs managed by the AIFM, including assets acquired through use of leverage, whereby derivative instruments shall be valued at their market value.</p>
3.	<p>The additional own funds requirement referred to in paragraph 2 shall be recalculated at the end of each financial year and the amount of additional own funds shall be adjusted accordingly.</p> <p>The AIFM shall establish, implement and apply procedures to monitor on an ongoing basis the value of the portfolios of AIFs managed, calculated in accordance with the second subparagraph of paragraph 2. Where, before the annual recalculation referred to in the first subparagraph, the value of the portfolios of AIFs managed increases significantly, the AIFM shall without undue delay recalculate the additional own funds requirement and shall adjust the additional own funds accordingly.</p>
4.	The competent authority of the home Member State of the AIFM may authorise the AIFM to provide additional own funds lower than the amount referred to in paragraph 2 only if it is satisfied — on the basis of the historical loss data of the AIFM as recorded over an observation period of at least three years prior to the assessment — that the AIFM provides sufficient additional own funds to appropriately cover professional liability risks. The authorised lower amount of additional own funds shall be not less than 0,008 % of the value of the portfolios of AIFs managed by the AIFM.
5.	The competent authority of the home Member State of the AIFM may request the AIFM to provide additional own funds higher than the amount referred to in paragraph 2 if it is not satisfied that the AIFM has sufficient additional own funds to appropriately cover professional liability risks. The competent authority shall give reasons why it considers that the AIFM's additional own funds are insufficient.

[Note: article 14 of the AIFMD level 2 regulation]

▪ Inserted by: LI [FCA 2013/51](#)

▪ **IPRU(INV) 11.3.15EU**

Professional indemnity insurance	
1.	This Article shall apply to AIFMs that choose to cover professional liability risks through professional indemnity insurance.
2.	The AIFM shall take out and maintain at all times professional indemnity insurance that: <ol style="list-style-type: none">shall have an initial term of no less than one year;shall have a notice period for cancellation of at least 90 days;shall cover professional liability risks as defined in Article 12(1) and (2);is taken out from an EU or non-EU undertaking authorised to provide professional indemnity insurance, in accordance with Union law or national law;is provided by a third party entity.
Any agreed defined excess shall be fully covered by own funds which are in addition to the own funds to be provided in accordance with Article 9 (1) and (3) of Directive 2011/61/EU.	
3.	The coverage of the insurance for an individual claim shall be equal to at least 0,7 % of the value of the portfolios of AIFs managed by the AIFM calculated as set out in the second subparagraph of Article 14(2).
4.	The coverage of the insurance for claims in aggregate per year shall be equal to at least 0,9 % of the value of the portfolios of AIFs managed by the AIFM calculated as set out in the second subparagraph of Article 14(2).
5.	The AIFM shall review the professional indemnity insurance policy and its compliance with the requirements laid down in this Article at least once a year and in the event of any change which affects the policy's compliance with the requirements in this Article.
[Note: article 15 of the AIFMD level 2 regulation]	

▪ Inserted by: LI [FCA 2013/51](#)

▪ **IPRU(INV) 11.3.16R**

If a *firm* satisfies the requirement referred to in [IPRU\(INV\) 11.3.11G](#) with professional indemnity insurance it must, in addition to maintaining an amount of *own funds* to cover any defined excess, hold adequate *own funds* to cover any exclusions in the insurance policy that would otherwise result in the *firm* having insufficient resources to cover liabilities arising. A *firm* may satisfy its requirements for professional indemnity insurance with a policy that also provides cover to one or more entities other than the *firm* , provided that the policy satisfies the conditions of

the *AIFMD level 2 regulation* , exclusive of the cover provided to other entities.

Inserted by: LI [FCA 2013/51](#)

- **Liquid assets**
 - **IPRU(INV) 11.3.17R**

For the purposes of this chapter, liquid assets are assets which:

(1) are readily convertible to cash within one month;
and

(2) have not been invested in speculative positions.

Inserted by: LI [FCA 2013/51](#)

- **IPRU(INV) 11.3.18G**

Examples of liquid assets that are acceptable under [IPRU\(INV\) 11.3.17R](#) include cash, *readily realisable investments* that are not held for short-term resale, and debtors.

[Note: [article 9\(8\)](#) of *AIFMD*]

Inserted by: LI [FCA 2013/51](#)

- **IPRU(INV) 11.4R Method of calculating initial capital and own funds [deleted]**

Deleted by: LI [FCA 2013/77](#)

- **IPRU(INV) 11.5 Qualifying subordinated loans [deleted]**

Deleted by: LI [FCA 2013/77](#)

- **Characteristics of long-term qualifying subordinated loans [deleted]**

Deleted by: LI [FCA 2013/77](#)

- **IPRU(INV) 11.5.1R [deleted]**

Deleted by: LI [FCA 2013/77](#)

- **Amount allowable in the calculation of own funds [deleted]**

Deleted by: LI [FCA 2013/77](#)

- IPRU(INV) 11.5.2R [deleted]

Deleted by: LI [FCA 2013/77](#)

- Form of qualifying subordinated loan agreement [deleted]

Deleted by: LI [FCA 2013/77](#)

- IPRU(INV) 11.5.3R [deleted]

Deleted by: LI [FCA 2013/77](#)

- Requirements on a firm in relation to qualifying subordinated loans [deleted]

Deleted by: LI [FCA 2013/77](#)

- IPRU(INV) 11.5.4R [deleted]

Deleted by: LI [FCA 2013/77](#)

- IPRU(INV) 11.6 Additional requirements for collective portfolio management investment firms
 - IPRU(INV) 11.6.1G

A collective portfolio management investment firm is required to comply with the applicable requirements of either of the following sourcebooks in addition to complying with [IPRU\(INV\) 11](#):

(1) *GENPRU* and *BIPRU* if it is a *BIPRU firm* ; or

(2) *IFPRU* if it is *IFPRU investment firm* .

Inserted by: LI [FCA 2013/77](#)

- IPRU(INV) 11.6.2G

(1) *A collective portfolio management investment firm* may undertake the following *MiFID business* : *portfolio management* ; investment advice; safekeeping and administration in relation to *shares* or *units* of collective investment undertakings; and (if it is an *AIFM investment firm*) reception and transmission of orders in relation to *financial instruments* .

(2) Subject to the conditions that the *firm* is not authorised to provide safekeeping and administration in relation to *shares* or *units* of collective investment undertakings and is not permitted to hold client money or client assets in relation to its *MiFID business* (and for that reason may not place itself in debt with those clients) competent authorities may allow the *firm* to stay on the capital requirements that would be binding on that *firm* as at 31 December 2013 under

the *Banking Consolidation Directive* and the *Capital Adequacy Directive* (in line with [article 95\(2\)](#) of the *EU CRR*). The *FCA* has exercised this derogation and, as such, a *firm* meeting those conditions is a *BIPRU firm*. If the above conditions are not met, a *collective portfolio management investment firm* is an *IFPRU investment firm*.

Inserted by: LI [FCA 2013/77](#)

▪ **IPRU(INV) 11.6.3G**

A *collective portfolio management investment firm* is required to comply with the applicable requirements of the sourcebooks set out in [IPRU\(INV\) 11.6.1G](#), in parallel with its requirements under [IPRU\(INV\) 11](#). This means that a capital instrument may be used to meet either or both sets of requirements provided it meets the conditions set out in the relevant sourcebook.

Inserted by: LI [FCA 2013/77](#)

▪ **IPRU(INV) 11.6.4G**

(1) When a *collective portfolio management investment firm* that is a *BIPRU firm* calculates the *credit risk capital requirement* and the *market risk capital requirement* for the purpose of calculating the variable capital requirement under [GENPRU 2.1.40R](#) it must do so only in respect of *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.

(2) Generally, *BIPRU* only applies to a *collective portfolio management investment firm* that is a *BIPRU firm* in respect of its *designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However, [BIPRU 2.2](#) (Internal capital adequacy standards), [BIPRU 2.3](#) (Interest rate risk in the non-trading book), [BIPRU 8](#) (Group risk — consolidation) and [BIPRU 11](#) (Disclosure) apply to the whole of its business.

Inserted by: LI [FCA 2013/77](#)

▪ **IPRU(INV) 11.6.5G**

(1) When a *collective portfolio management investment firm* that is an *IFPRU investment firm* calculates the total risk exposure amount in [article 92\(3\)](#) of the *EU CRR*, the *own funds requirements* referred to in [article 92\(3\)\(a\)](#) (Risk weighted exposure amount for credit risk and dilution risk) and [article 92\(3\)\(b\)](#) (Risk weighted exposure amount for position risk) should include only those arising from its *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.

(2) Generally, *IFPRU* only applies to the *designated investment business* (excluding *managing an AIF* and *managing a UCITS*) of a *collective portfolio management investment*

firm that is an *IFPRU investment firm* . However, [IFPRU 2.2](#) (Internal capital adequacy standards) and [IFPRU 2.3](#) (Supervisory review and evaluation process: Internal capital adequacy standards) apply to the whole of its business.

Inserted by: LI [FCA 2013/77](#)

- IPRU(INV) 11.7 Capital reporting
 - IPRU(INV) 11.7.1G

The reporting requirements of capital adequacy for a *collective portfolio management firm* and a *collective portfolio management investment firm* are set out in [SUP 16.12](#) (Integrated regulatory reporting). In summary, the relevant capital adequacy forms for its business of *managing an AIF* or *managing a UCITS* are as follows:

- (1) a *collective portfolio management firm* is required to submit FIN066 (and FSA042 if it is a *UCITS firm*);
- (2) a *collective portfolio management investment firm* that is a *IFPRU investment firm* is required to submit FIN067 (and FSA042 if it is a *UCITS investment firm*) and report using COREP; and
- (3) a *collective portfolio management investment firm* that is a *BIPRU firm* is required to submit FIN068 (and FSA042 if it is a *UCITS investment firm*) and FSA003.

Inserted by: LI [FCA 2013/77](#)

- Chapter 12 Financial resources requirements for operators of electronic systems in relation to lending

Amended by: LI [FCA 2013/77](#)

- IPRU(INV) 12.1 Application and purpose
 - Application
 - IPRU(INV) 12.1.1R

This chapter applies to an *operator of an electronic system in relation to lending* .

Inserted by: LI [FCA 2014/13](#)

- Purpose
 - IPRU(INV) 12.1.2G

This chapter amplifies the *threshold condition 2D* (Appropriate resources) by providing that a *firm* must meet, on a continuing basis, a basic solvency requirement. This chapter also builds on [Principle 4](#) which requires a *firm* to maintain adequate financial resources by setting out appropriate requirements for a *firm* according to what type of *firm* it is.

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.1.3G

Prudential standards have an important role in minimising the risk of harm to consumers by requiring a *firm* to behave prudently in monitoring and managing business and financial risks.

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.1.4G

More generally, having adequate financial resources gives the *firm* a degree of resilience and some indication to consumers of creditworthiness, substance and the commitment of its owners. The *rules* in this chapter aim to ensure that a *firm* has financial resources which can provide cover for operational and compliance failures and pay redress, as well as reducing the possibility of a shortfall in funds and providing a cushion against disruption if the *firm* ceases to trade.

Inserted by: LI [FCA 2014/13](#)

- Relevant accounting principles
 - IPRU(INV) 12.1.5R

A *firm* must recognise an asset or liability, and measure its amount, in accordance with the relevant accounting principles applicable to it for the purpose of preparing its *annual financial statements* unless a *rule* requires otherwise.

Inserted by: LI [FCA 2014/13](#)

- Actions for damages
 - IPRU(INV) 12.1.6R

A contravention of the *rules* in this chapter does not give rise to a right of action by a *private person* under [section 138D](#) of the *Act* (and each of those *rules* is specified under [section 138D\(3\)](#) of the *Act* as a provision giving rise to no such right of action).

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.2 Financial resources requirements
 - General solvency requirement
 - IPRU(INV) 12.2.1R

A *firm* must at all times be able to meet its liabilities as they fall due.

Inserted by: LI [FCA 2014/13](#)

- **General financial resource requirement**
 - **IPRU(INV) 12.2.2R**

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

Inserted by: LI [FCA 2014/13](#)

- **Financial resources requirement: firms carrying on other regulated activities**
 - **IPRU(INV) 12.2.3R**

The financial resources requirement for a firm carrying on one or more regulated activities in addition to operating an electronic system in relation to lending , is the higher of:

- (1) the *financial resources requirement* which is applied by this chapter; and
- (2) the financial resources or own funds requirement which is applied by another *rule* or by directly applicable legislation of the *EU* to the *firm* .

Inserted by: LI [FCA 2014/13](#)

- **Financial resources requirement**
 - **IPRU(INV) 12.2.4R**

On its accounting reference date in each year, a firm must calculate:

- (1) the total value of *loaned funds* outstanding on that date; and
- (2) the sum of:
 - (a) 0.2% of the first £50 million of that total value;
 - (b) 0.15% of the next £200 million of that total value;
 - (c) 0.1% of the next £250 million of that total value; and
 - (d) 0.05% of any remaining total value.

Inserted by: LI [FCA 2014/13](#)

- **IPRU(INV) 12.2.5R**

The total value of loaned funds outstanding is the total amount of funds that are currently being provided to

borrowers under *P2P agreements* through an operator of an electronic system in relation to lending .

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.2.6R

The *financial resources requirement* for a firm to which this chapter applies is the higher of:

(1) £50,000; and

(2) the sum calculated in accordance with [IPRU\(INV\) 12.2.4R\(2\)](#) for the period until (subject to [IPRU\(INV\) 12.2.9R](#)) its next *accounting reference date* .

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.2.7R

To determine a firm's *financial resources requirement* for the period beginning on the date on which it obtains a *Part 4A permission* and ending on the day before its next *accounting reference date* , the firm must carry out the calculation in [IPRU\(INV\) 12.2.4R\(2\)](#) on the basis of the total value of *loaned funds* the firm projects will be outstanding on the day before its next *accounting reference date* .

Inserted by: LI [FCA 2014/13](#)

- Determining the financial resources requirement
 - IPRU(INV) 12.2.8G

If the firm has 30,000 individuals each lending £100,000, the total value of the firm's *loaned funds* outstanding is £3,000,000,000. If the firm does not carry on any other *regulated activity* to which another higher financial resources or own funds requirement applies, its *financial resources requirement* is £1,900,000. This is calculated as follows:

(1) $0.2\% \times £50,000,000 = £100,000$;

(2) $0.15\% \times £200,000,000 = £300,000$;

(3) $0.1\% \times £250,000,000 = £250,000$;

(4) $0.05\% \times £2,500,000,000 = £1,250,000$.

Inserted by: LI [FCA 2014/13](#)

- Recalculating the financial resources requirement
 - IPRU(INV) 12.2.9R

If the *firm* experiences a greater than 25% increase in the total value of *loaned funds* outstanding compared to the value used in its last *financial resources requirement* calculation, it must recalculate its *financial resources requirement* using the higher total value of *loaned funds* outstanding.

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.2.10R

A *firm* must notify the *FCA* of any change, or any likely change, in its *financial resources requirement* within 14 days of that change, or it becoming aware that the change is likely, whichever is the earlier.

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.3 Calculation of financial resources
 - IPRU(INV) 12.3.1R

(1) A *firm* must at all times have available the amount and type of *financial resources* required by this chapter (see [IPRU\(INV\) 12.3.2R](#)).

(2) In arriving at its calculation of its *financial resources*, a *firm* must deduct certain items (see [IPRU\(INV\) 12.3.3R](#)).

Inserted by: LI [FCA 2014/13](#)

- IPRU(INV) 12.3.2R

Table: Items which are eligible to contribute to the financial resources of a firm

	Item	Additional explanation
1	Share capital	This must be fully paid and may include: ordinary <i>share</i> capital; or preference <i>share</i> capital (excluding preference <i>shares</i> redeemable by shareholders within two years).
2	Capital other than <i>share</i> capital (for example, the capital of a <i>sole trader</i> , <i>partnership</i> or <i>limited liability partnership</i>)	The capital of a <i>sole trader</i> is the net balance on the <i>firm's</i> capital account and current account. The capital of a <i>partnership</i> is the capital made up of the <i>partners'</i> capital account, that is the account: into which capital contributed by the <i>partners</i> is paid; and from which, under the terms of the <i>partnership</i> agreement, an amount representing capital may be withdrawn by a <i>partner</i> only if: he ceases to be a <i>partner</i> and an equal amount is transferred to another such account by his former <i>partners</i> or any <i>person</i> replacing him as

		<p>their <i>partner</i> ; or the <i>partnership</i> is otherwise dissolved or wound up; and current accounts according to the most recent financial statement. For the purpose of the calculation of <i>financial resources</i> , in respect of a <i>defined benefit occupational pension scheme</i> : a <i>firm</i> must derecognise any <i>defined benefit asset</i> ; a <i>firm</i> may substitute for a <i>defined benefit liability</i> the <i>firm's deficit reduction amount</i> , provided that the election is applied consistently in respect of any one financial year.</p>
3	Reserves (Note 1)	<p>These are, subject to Note 1, the audited accumulated profits retained by the <i>firm</i> (after deduction of tax, dividends and proprietors' or <i>partners</i>' drawings) and other reserves created by appropriations of share premiums and similar realised appropriations. Reserves also include gifts of capital, for example, from <i>aparent undertaking</i> .</p> <p>For the purposes of calculating <i>financial resources</i> , a <i>firm</i> must make the following adjustments to its reserves, where appropriate: a <i>firm</i> must deduct any unrealised gains or, where applicable, add back in any unrealised losses on debt instruments held, or formerly held, in the available-for-sale financial assets category; a <i>firm</i> 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; in respect of a <i>defined benefit occupational pension scheme</i> : a <i>firm</i> must derecognise any <i>defined benefit asset</i> ; a <i>firm</i> may substitute for a <i>defined benefit liability</i> the <i>firm's deficit reduction amount</i> , provided that the election is applied consistently in respect of any one financial year.</p>
4	Interim net profits (Note 1)	<p>If a <i>firm</i> seeks to include interim net profits in the calculation of its <i>financial resources</i>, the profits have, subject to Note 1, to be verified by the <i>firm's</i> external auditor, net of tax, anticipated dividends or proprietors' drawings and other appropriations.</p>
5	Revaluation reserves	
6	Subordinated loans/debt	<p>Subordinated loans/debt must be included in <i>financial resources</i> on the basis of the provisions in this chapter that apply to subordinated loans/debt.</p>

Note:

1 Reserves must be audited and interim net profits, general and collective provisions must be verified by the *firm's* external auditor 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.

Inserted by: LI [FCA 2014/13](#)

▪ **IPRU(INV) 12.3.3R**

Table: Items which must be deducted in arriving at *financial resources*

1	<i>Investments in own shares</i>
2	<i>Investments in subsidiaries</i> (Note 1)
3	Intangible assets (Note 2)
4	Interim net losses (Note 3)
5	Excess of drawings over profits for a <i>sole trader</i> or a <i>partnership</i> (Note 3)
Note	<i>Investments in subsidiaries</i> are the full balance sheet value. Intangible assets are the full balance sheet value of goodwill, capitalised development costs, brand names, trademarks and similar rights and licences. The interim net losses in row 4, and the excess of drawings in row 5, are in relation to the period following the date as at which the capital resources are being computed.

Inserted by: LI [FCA 2014/13](#)

▪ **Subordinated loans/debt**
▪ **IPRU(INV) 12.3.4R**

A subordinated loan/debt must not form part of the *financial resources* of the *firm* unless it meets the following conditions:

(1) it has an original maturity of:

(a) at least five years; or

(b) it is subject to five years' notice of repayment;

(2) the claims of the subordinated creditors must rank behind those of all unsubordinated creditors;

(3) the only events of default must be non-payment of any interest or principal under the debt agreement or the winding up of the *firm* and such event of default must not prejudice the subordination in (2);

(4) the remedies available to the subordinated creditor in the event of non-payment or other default in

respect of the subordinated loan/debt must be limited to petitioning for the winding up of the *firm* or proving the debt and claiming in the liquidation of the *firm* ;

- (5) the subordinated loan/debt must not become due and payable before its stated final maturity date except on an event of default complying with (3);
- (6) the agreement and the debt are governed by the law of England and Wales, or of Scotland or of Northern Ireland;
- (7) to the fullest extent permitted under the rules of the relevant jurisdiction, creditors must waive their right to set off amounts they owe the *firm* against subordinated amounts owed to them by the *firm* ;
- (8) the terms of the subordinated loan/debt must be set out in a written agreement that contains terms that provide for the conditions set out in this *rule* ; and
- (9) the loan/debt must be unsecured and fully paid up.

Inserted by: LI [FCA 2014/13](#)

- **IPRU(INV) 12.3.5R**

When calculating its *financial resources* , the *firm* must exclude any amount by which the aggregate amount of its subordinated loans/debts exceeds the amount calculated as follows:

a – b	
where:	
a	= Items 1–5 in the table of items which are eligible to contribute to a <i>firm's financial resources</i> (see IPRU(INV) 12.3.2R)
b	= Items 1–5 in the table of items which must be deducted from a <i>firm's financial resources</i> (see IPRU(INV) 12.3.3R)

Inserted by: LI [FCA 2014/13](#)

- **IPRU(INV) 12.3.6G**

[IPRU\(INV\) 12.3.5R](#) can be illustrated as follows:

(1)

Share Capital	£20,000
Reserves	£30,000
Subordinated loans/debts	£10,000
Intangible Assets	£10,000

As subordinated loans/debts (£10,000) are less than the total of share capital + reserves – intangible assets (£40,000) the firm need not exclude any of its subordinated loans/debts pursuant to [IPRU\(INV\) 12.3.5R](#). Therefore, total *financial resources* will be £50,000.

(2)

Share Capital	£20,000
Reserves	£30,000
Subordinated loans/debts	£60,000
Intangible Assets	£10,000
As subordinated loans/debts (£60,000) exceed the total of share capital + reserves – intangible assets (£40,000) by £20,000, the <i>firm</i> should exclude £20,000 of its subordinated loans/debts when calculating its <i>financial resources</i> . Therefore, total <i>financial resources</i> will be £80,000.	

Inserted by: LI [FCA 2014/13](#)

- **IPRU(INV) 12.4 Notification requirements**
 - **IPRU(INV) 12.4.1G**

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
IPRU(INV) 12.2.10R	A change or likely change, in a <i>firm's financial resources requirement</i> .	The <i>financial resources requirement</i> as recalculated	A greater than 25% increase in the <i>firm's</i> total value of the amount of <i>loaned funds</i> outstanding compared to the value used in its last <i>financial resources requirement</i> calculation	Within 14 days of the trigger event

Inserted by: LI [FCA 2014/13](#)

- **Appendix 1: Glossary of terms for IPRU(INV) 12**

If a defined term does not appear in the IPRU(INV) glossary below, the definition appearing in the main Handbook Glossary applies.

financial resources a *firm's* financial resources as calculated in accordance with [IPRU\(INV\) 12.3](#) (Calculation of financial resources).

financial resources requirement an amount of *financial resources* that a *firm* must hold as set out in [IPRU\(INV\) 12.2](#) (Financial resources requirements).

Inserted by: LI [FCA 2014/13](#)

- **Chapter 13: Financial Resources Requirements for Personal Investment Firms**

Amended by: LI [FCA 2016/37](#)

- IPRU(INV) 13.1 Application, General Requirements And Professional Indemnity Insurance Requirements (versions from 31 December 2009)

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Application (versions from 31 December 2009)
 - IPRU(INV) 13.1.1R

Current version: effective from Jun 30 2016 - Aug 31 2016.

This chapter applies to a *firm* which is a *personal investment firm* as set out in the table below.

Type of personal investment firm	Application of this Chapter
A <i>personal investment firm</i> which is an <i>exempt CAD firm</i>	13.1, 13.1A, 13.13 and 13.14
A <i>personal investment firm</i> which is a <i>category B firm</i> whose permission includes <i>establishing, operating or winding up a personal pension scheme</i>	13.1 and 13.9 to 13.12
A <i>personal investment firm</i> which is a <i>category B firm</i> whose permission does not include <i>establishing, operating or winding up a personal pension scheme</i>	13.1 and 13.13 to 13.15

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Purpose (versions from 31 December 2009)
 - IPRU(INV) 13.1.2G

This chapter amplifies [Threshold condition 2D](#) or [3C](#) as applicable (Adequate resources) by providing that a *firm* must meet, on a continuing basis, a basic solvency requirement and a minimum capital resources requirement. This chapter also amplifies [Principles 3](#) and [4](#) which require a *firm* to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems and to maintain adequate financial resources by setting out capital resources for a *firm* according to the *regulated activity* or activities it carries on.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2013/31](#)

- IPRU(INV) 13.1.3G

Although financial resources and appropriate systems and controls can generally mitigate operational risk, professional indemnity insurance has a role in mitigating the risks a *firm* faces in its day-to-day operations, including those arising from not meeting the legally required standard of care when *advising on investments*. The purpose of the rules in this section is also to ensure that a *firm* has in place the type, and level, of professional indemnity insurance necessary to mitigate these risks. This includes, in the case of a *UK firm* exercising an *EEA right*, cover for breaches of obligations imposed by or under laws, or provisions having the force of law, in each *EEA State* in which the *firm* carries on business.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- General Capital Resources and Solvency Requirements (versions from 31 December 2009)

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2015/57](#)

- IPRU(INV) 13.1.4R

A *firm* must at all times:

- (1) have and maintain capital resources at least equal to its relevant capital resources requirement; and
- (2) be able to meet its liabilities as they fall due.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2015/57](#)

- Capital Resources: General Accounting Principles

- IPRU(INV) 13.1.4AR

(1) Unless a *rule* provides otherwise, a *firm* must:

(a) recognise an asset or liability; and

(b) measure the amount of that asset or liability, by using the accounting principles it applies in preparing the *firm's* reporting form in (2).

(2) The accounting principles are referred to in:

(a) the Notes for completion of the Retail Mediation Activities Return (*RMAR*) (under the heading “Accounting Principles”) in [SUP 16 Annex 18BG](#) for a *category B firm* ; and

(b) the Guidance notes for data items in FSA032 (under the heading “Defined terms”) in [SUP 16 Annex 25AG](#) for an exempt *CAD firm* .

Inserted by: LI [FCA 2015/57](#)

- Requirement To Hold Professional Indemnity Insurance (**versions from 31 December 2009**)
 - IPRU(INV) 13.1.5R

A *firm* must take out and maintain at all times professional indemnity insurance that is at least equal to the requirements in this section from:

(1) an *insurance undertaking* which is authorised to transact professional indemnity insurance in the *EEA* ; or

(2) a *person* of equivalent status in:

(a) a Zone A country;

(b) the Channel Islands, Gibraltar, Bermuda or the Isle of Man.

[Note: [Article 4\(3\)](#) of the *Insurance Mediation Directive*]

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- IPRU(INV) 13.1.6R

An *exempt CAD firm* is not required to effect and maintain professional indemnity insurance unless it chooses this option (see [13.1A](#)).

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Comparable Guarantee (**versions from 31 December 2009**)
 - IPRU(INV) 13.1.7R

(1) A *firm* is not required to effect or maintain professional indemnity insurance if a *bank* , *building society* or an *insurer* provides the *firm* with a comparable guarantee.

(2) If the *firm* is a member of a *group* in which there is a *bank*, *building society* or an *insurer*, the *firm's* comparable guarantee must be from that *bank*, *building society* or *insurer*.

(3) A comparable guarantee means an enforceable, written agreement on terms at least equal to those required by [IPRU\(INV\) 13.1.9R](#) to [13.1.13R](#), as appropriate.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Relevant Income (**versions from 31 December 2009**)
 - IPRU(INV) 13.1.8R

The term "relevant income" in this section refers to all income received or receivable which is commission, brokerage, fees or other related income, whether arising from the *firm's* permitted activities or not, for the last accounting year prior to inception or renewal of the professional indemnity insurance policy ("the policy").

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Policy Terms (**versions from 31 December 2009**)
 - IPRU(INV) 13.1.9R

The policy must incorporate terms which are appropriate and must make provision for cover in respect of any claim for loss or damage, for which the *firm* may be liable as a result of an act or omission by:

(1) the *firm*; or

(2) any *person* acting on behalf of the *firm* including *employees*, *appointed representatives* or its other agents;

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Limits Of Indemnity (**versions from 31 December 2009**)
 - IPRU(INV) 13.1.10R

If the *firm* is an *IMD insurance intermediary*, whether or not it is also an *exempt CAD firm*, the appropriate minimum *limits of indemnity* per year are no lower than:

(1) €1,120,200 for a single claim against the *firm*; and

(2) €1,680,300 in the aggregate.

[Note: [Article 4\(3\)](#) of the *Insurance Mediation Directive*]

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

▪ IPRU(INV) 13.1.11R

If the *firm* is an *exempt CAD firm* that maintains professional indemnity insurance under [13.1A.3\(1\)\(b\)](#), the appropriate minimum *limits of indemnity* per year are no lower than:

(1) €1,000,000 for a single claim against the *firm* ; and

(2) €1,500,000 in the aggregate.

[Note: [Article 67\(3\)](#) of *MiFID* and [article 31\(1\)](#) of the *CRD* (see also [rule 13.1A.3](#))]

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2013/79](#)

▪ IPRU(INV) 13.1.12R

If the *firm* is both an *IMD insurance intermediary* and an *exempt CAD firm* that maintains professional indemnity insurance under [13.1A.4\(1\)\(b\)](#), the appropriate additional *limits of indemnity* to 13.1.10R per year are no lower than:

(1) € 500,000 for a single claim against the *firm* ; and

(2) € 750,000 in the aggregate.

[Note: [Article 67\(3\)](#) of *MiFID* and [article 31\(2\)](#) of the *CRD* (see also [rule 13.1A.4](#))]

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2013/79](#)

▪ IPRU(INV) 13.1.13R

If the *firm* is not an *IMD insurance intermediary* or an *exempt CAD firm* , then the following *limits of indemnity* apply:

(1) if the *firm* has relevant income of up to £3,000,000, no lower than £500,000 for a single claim against the *firm* and £500,000 in the aggregate; or

(2) if the *firm* has relevant income of more than £3,000,000, no lower than £650,000 for a single claim against the *firm* and £1,000,000 in the aggregate.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

▪ IPRU(INV) 13.1.14G

[Article 4\(7\)](#) of the *Insurance Mediation Directive* requires the *limits of indemnity* to be reviewed every five years to take into account movements in European consumer prices. These *limits* will therefore be subject to further adjustments on the basis of index movements advised by the European Commission.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

▪ IPRU(INV) 13.1.15R

If a policy is denominated in any currency other than euros, a *firm* must take reasonable steps to ensure that the *limits of indemnity* are, when the policy is effected (i.e. agreed) and at renewal, at least equivalent to denominated in euros.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated and one made since by LI [2010/19](#)

▪ IPRU(INV) 13.1.16G

A *firm* should consider whether the overall cover is adequate taking account of [13.1.22G\(2\)](#) and whether the *firm* should seek additional cover or legal expenses insurance. (Legal defence costs are costs of defence against claims that fall under the terms of the policy.)

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

▪ IPRU(INV) 13.1.17G

The cover provided by the policy should be wide enough to include the liability of the *firm*, its *appointed representatives*, its *tied agents*, *employees* and its agents for breaches under the *regulatory systems* or civil law. If the *firm* operates outside the *United Kingdom* then the policy should cover other regulatory requirements imposed under the laws of other countries in which the *firm* operates.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- **Policies Providing For More Than One Firm (versions from 31 December 2009)**
 - **IPRU(INV) 13.1.18R**

If the policy provides cover to more than one *firm* then:

- (1) The relevant income for calculating the *limits of indemnity* is that of all the *firms* named in the policy combined;
- (2) each *firm* named in the policy must have the benefit of the minimum *limits of indemnity* as required in this section; and
- (3) each *firm* named in the policy must notify the *FCA* if the aggregate cover in the policy falls below the minimum *limits of indemnity* .

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

Amended by: LIs [FCA 2013/9](#), [FCA 2015/57](#)

- **Limits Of Indemnity — Additional Requirements (versions from 31 December 2009)**
 - **IPRU(INV) 13.1.19R**

In addition to the specific requirements in [13.1.9R](#) to [13.1.13R](#), the policy must make provision for the following:

- (1) for a *firm* with relevant income of more than £6,000,000, the aggregate limit identified in the table below:

Relevant income is (£)		Minimum aggregate <i>limit of indemnity</i> (£)
more than	up to	
6,000,000	7,000,000	1,150,000
7,000,000	8,000,000	1,300,000
8,000,000	9,000,000	1,450,000
9,000,000	10,000,000	1,600,000
10,000,000	12,500,000	2,000,000
12,500,000	15,000,000	2,400,000
15,000,000	17,500,000	2,800,000
17,500,000	20,000,000	3,150,000

20,000,000	25,000,000	3,800,000
25,000,000	30,000,000	4,250,000
30,000,000	35,000,000	4,500,000
35,000,000	40,000,000	4,750,000
40,000,000	50,000,000	5,500,000
50,000,000	60,000,000	6,000,000
60,000,000	70,000,000	6,750,000
70,000,000	80,000,000	7,250,000
80,000,000	90,000,000	7,750,000
90,000,000	100,000,000	8,500,000
100,000,000	150,000,000	11,250,000
150,000,000	200,000,000	14,000,000
200,000,000	250,000,000	17,000,000
250,000,000	300,000,000	19,750,000
300,000,000	n/a	22,500,000

(2) full retroactive cover in respect of the kinds of liabilities described in [13.1.9R](#) for claims arising from work carried out by the *firm* , or on its behalf, in the past; and

(3) cover in respect of *Ombudsman* awards made against the *firm* .

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Limitations (versions from 31 December 2009)
 - IPRU(INV) 13.1.20R

The policy must not be subject to conditions or exclusions which unreasonably limit its cover (whether by exclusion of cover, by policy excesses or otherwise).

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- Exclusions (versions from 31 December 2009)
 - IPRU(INV) 13.1.21R

The policy must not:

- (1) exclude any type of business or activity that has been carried out by the *firm* in the past or will be carried out by the *firm* during the time for which the policy is in force; or
- (2) exclude liabilities which are identified or crystallised as a result of regulatory action against the *firm* (either individually or as a member of a class of *authorised persons*);

unless the *firm* holds additional capital resources, in accordance with [13.1.23R](#).

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

- IPRU(INV) 13.1.22G

(1) The *FCA* considers it reasonable for a *firm's* policy to exclude cover for:

- (a) specific business lines if that type of business has not been carried out by the *firm* in the past and will not be carried out by the *firm* during the life of the policy; or
- (b) specific claims that have been previously notified to the *firm's insurer* and claimed for under another policy.

(2) The *FCA* does not consider it reasonable for a *firm's* policy to treat legal defence costs cover as part of the *limits of indemnity* if this reduces the cover available for any individual substantive claim.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

Amended by: LI [FCA 2013/9](#)

- **Additional Capital Resources — Exclusions (versions from 31 December 2009)**
 - IPRU(INV) 13.1.23R

The amount of additional capital resources that a *firm* must hold as a result of an exclusion under [IPRU\(INV\) 13.1.21R](#) must be calculated by referring to the *firm's* relevant income in the following table:

Relevant income £000s		Minimum additional capital resources £000s
more than	up to	

		(Notes 1 and 2)
0	100	5
100	200	12
200	300	18
300	400	21
400	500	23
500	600	25
600	700	27
700	800	28
800	900	30
900	1,000	31
1,000	1,500	37
1,500	2,000	42
2,000	2,500	46
2,500	3,000	51
3,000	3,500	55
3,500	4,000	59
4,000	4,500	63
4,500	5,000	67
5,000	6,000	73
6,000	7,000	79
7,000	8,000	85
8,000	9,000	90
9,000	10,000	95
10,000	100,000	95y
100,000	n/a	950

Note 1 — For *firms* with relevant income of more than £10m but up to £100m value *y* is calculated by relevant income/ £10m.

Note 2 — The calculation of a *firm's* capital resources is set out in sections [13.1A](#) to [13.15](#) (see [IPRU\(INV\) 13.1.1R](#) for application of these sections to an *exempt CAD firm* or a *category B firm*).

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated
Amended by: LI [FCA 2015/57](#) (in place of earlier

0	100	0	4	7	9	12	14	18	21	28	34	45	54
100	200	0	7	11	14	17	20	25	29	38	46	59	70
200	300	0	9	14	18	21	24	30	35	45	54	69	82
300	400	0	11	16	21	24	28	34	39	50	60	77	91
400	500	0	13	18	23	27	30	37	43	55	66	83	98
500	600	0	14	20	25	29	33	40	46	59	70	89	105
600	700	0	16	22	27	31	35	42	49	63	74	94	111
700	800	0	17	23	28	33	37	45	52	66	78	99	117
800	900	0	18	24	30	35	39	47	54	69	82	103	122
900	1,000	0	19	23	31	36	41	49	56	72	85	107	126
1,000	1,500	0	23	31	37	43	48	57	66	83	99	124	146
1,500	2,000	0	26	35	42	48	54	64	73	93	109	138	161
2,000	2,500	0	29	38	46	53	59	71	81	102	121	152	179
2,500	3,000	0	32	42	51	58	65	78	89	112	132	166	195
3,000	3,500	0	35	46	55	63	71	84	96	121	142	179	210
3,500	4,000	0	38	50	59	68	76	90	102	129	152	191	223
4,000	4,500	0	41	53	63	72	80	95	108	137	161	202	236
4,500	5,000	0	43	56	67	76	85	100	114	144	169	212	248
5,000	6,000	0	48	62	73	84	93	110	125	157	185	231	271
6,000	7,000	0	52	67	79	90	101	119	135	169	199	249	291
7,000	8,000	0	56	72	85	97	107	127	144	181	212	265	310
8,000	9,000	0	59	76	90	103	114	134	152	191	224	290	328
9,000	10,000	0	63	80	95	108	120	141	160	201	236	294	344
10,000	1000,000	0	63y	80y	95y	108y	120y	141y	160y	201y	236y	294y	344y
100,000	n/a	0	630	800	950	1080	1200	1410	1600	2010	2360	2940	3440

Note 1 — For *firms* with relevant income more of £10m but up to £100m value y is calculated by relevant income/ £10m.

Note 2 — The calculation of a *firm's* capital resources is set out in sections [13.1A](#) to [13.15](#) (see [IPRU\(INV\) 13.1.1R](#) for application of these sections to an *exempt CAD firm* or a *category B firm*).

IPRU(INV) 13.1 has been substantially restructured by [LI 2009/62](#) and is set out with all amendments incorporated
Amended by: [LI FCA 2015/57](#) (in place of earlier amendment(s) made by [LI 2009/62](#), Annex B, Pt 2, and now revoked)

- **Notification Requirements (versions from 31 December 2009)**
 - **IPRU(INV) 13.1.28R**

A *firm* must notify the FCA immediately if it becomes aware, or has information which reasonably suggests, that any of the following matters in relation to its professional indemnity insurance has occurred, may have occurred or may occur in the foreseeable future:

- (1) professional indemnity insurance cannot be obtained within 28 days of the inception or renewal date;
- (2) professional indemnity insurance is cancelled;
- (3) the amount of aggregate cover is exhausted;
- (4) the *firm* commences business lines for which it had not obtained cover;
- (5) the *firm* is relying on a policy cover for more than one *firm* ; or
- (6) the *firm* is relying on a comparable guarantee provided in accordance with the *rules* in this chapter.

IPRU(INV) 13.1 has been substantially restructured by LI [2009/62](#) and is set out with all amendments incorporated

Amended by: LI [FCA 2013/9](#)

- IPRU(INV) 13.1.29G

(1) For the purposes of the provisions relating to professional indemnity insurance, “additional capital resources” means readily realisable *own funds* or capital resources under [IPRU\(INV\) 13.15.3R](#), depending on the type of *firm* .

(2) The *FCA* expects items included in *own funds* or capital resources under [IPRU\(INV\) 13.15.3R](#), depending on the type of *firm* , to be regarded as “readily realisable” only if they can be realised, at any given time, within 90 days.

Inserted by: LI [2010/19](#)

Amended by: Lis [FCA 2013/9](#), [FCA 2015/57](#)

- IPRU(INV) 13.1A Financial resources requirements for an exempt CAD firm
 - Application

Amended by LI: ([2007/02](#))

- IPRU(INV) 13.1A.1R

This section applies to a *personal investment firm* which is an *exempt CAD firm* .

Amended by LI: ([2007/02](#))

- Requirement to hold initial capital and professional indemnity insurance

Inserted by: LI [2007/02](#)
Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.1A.2R

The financial resources requirement for a *personal investment firm* which is an *exempt CAD firm* is the higher of:

0. the requirement that is applied by section 13.1A; and
1. the requirement that is applied by sections 13.13 to 13.14.

Inserted by: LI [2007/02](#)
Amended by: LIs [2008/55](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.1A.3R

(1) A *firm* which is not an *IMD insurance intermediary* must have:

- (a) *initial capital* of €50,000; or
- (b) professional indemnity insurance at least equal to the requirements of [13.1.11R](#) and [13.1.15R](#) to [13.1.27R](#); or
- (c) a combination of *initial capital* and professional indemnity insurance in a form resulting in a level of coverage equivalent to (a) or (b).

[Note: [Article 67\(3\)](#) of *MiFID* and [article 31\(1\)](#) of the *CRD* (see also [rule 13.1.11R](#))]

(2) A *firm* applying (b) or (c) above, must have *initial capital* of at least £20,000.

Inserted by: LI [2007/02](#)
Amended by: LIs [2007/27](#), [2009/62](#), [2010/19](#) (bringing forward amendment made by [2009/62](#) from 31 December 2011 to 6 July 2010), [FCA 2013/79](#), [FCA 2015/57](#)

- IPRU(INV) 13.1A.4R

(1) A *firm* that is also an *IMD insurance intermediary* must have professional indemnity

insurance at least equal to the limits set out in [13.1.10R](#) and, in addition, must have:

- (a) *initial capital* of €25,000; or
- (b) professional indemnity insurance at least equal to the requirements of [13.1.12R](#) and [13.1.15R](#) to [13.1.27R](#); or
- (c) a combination of *initial capital* and professional indemnity insurance in a form resulting in a level of coverage equivalent to (a) or (b).

[Note: [Article 67](#)(3) of *MiFID* and [article 31](#)(2) of the *CRD* (see also [rule 13.1.12R](#))]

(2) A *firm* applying (b) or (c) above, must have *initial capital* of at least £20,000.

Inserted by: LI [2007/02](#)

Amended by: LIs [2007/27](#), [2009/62](#), [2010/19](#) (bringing forward amendment made by [2009/62](#) from 31 December 2011 to 6 July 2010), [FCA 2013/79](#), [FCA 2015/57](#)

▪ IPRU(INV) 13.1.A.5G

A trade-off between *initial capital* and professional indemnity insurance is appropriate such that € 1 of *initial capital* is the equivalent of professional indemnity insurance cover of € 20 for a single claim against the *firm* and € 30 in aggregate.

Amended by LI: ([2007/02](#))

▪ Initial capital

Amended by LI: ([2007/02](#))

▪ IPRU(INV) 13.1A.6

A *firm's initial capital* consists of the sum of the following items:

0. ordinary *share* capital which is fully paid;
1. perpetual non-cumulative *preference share* capital which is fully paid;
2. *share* premium account;
3. reserves excluding revaluation reserves;
4. audited retained earnings;

5. externally *verified* interim net profits;
6. externally verified interim net profits;
7. *eligible LLP members' capital* (in accordance with the provisions of *IPRU(INV)* Annex A); and
8. *sole trader* capital.

Amended by LI: (2007/02), 2007/27

▪ **Perpetual non-cumulative preference share capital**

Amended by LI: (2007/02)

▪ **IPRU(INV) 13.1A.7R**

A firm may include *preference share* capital in *initial capital* only where any *coupon* on it is not cumulative, and the *firm* is under no obligation to pay a *coupon* in any circumstances.

Amended by LI: (2007/02), 2007/27

▪ **Audited retained earnings**

Amended by LI: (2007/02)

▪ **IPRU(INV) 13.1A.8R**

When calculating *initial capital*, a *firm* may include its audited retained earnings only after making the following adjustments:

0. a *firm* must not recognise the fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortised cost;
1. in respect of a *defined benefit occupational pension scheme*, a *firm* must derecognise any *defined benefit asset*;
2. a *firm* must not include any unrealised gains from investment property (these should be reported as part of revaluation reserves);
3. 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 excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Amended by LI: (2007/02), 2007/27

- **Externally verified interim net profits or current account**

Amended by LI: (2007/02)

- **IPRU(INV) 13.1A.9R**

A *firm* may include interim net profits or current account when calculating *initial capital* to the extent that they have been *verified* by the *firm's* external auditor and are net of any foreseeable tax, dividend and other appropriations.

Amended by LI: (2007/02), 2007/27

- **IPRU(INV) 13.1A.10R**

When calculating *initial capital* , a *firm* may include its partners' capital only after making the following adjustments:

0. a *firm* must not recognise the fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortised cost;
1. in respect of a *defined benefit occupational pension scheme* , a *firm* must derecognise any *defined benefit asset* ;
2. 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 excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

Amended by LI: (2007/02), 2007/27

- **Defined benefit pension scheme: defined benefit liability**

Amended by LI: (2007/02)

- **IPRU(INV) 13.1A.11R**

For the calculation of *initial capital* , 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.

Amended by LI: (2007/02), 2007/27

- **IPRU(INV) 13.1A.12G**

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* .

Inserted by: LI [2007/02](#)
Amended by: LIs [2007/27](#), [FCA 2013/9](#), [FCA 2015/57](#)

- Ongoing capital requirements

Amended by LI: ([2007/27](#))

- IPRU(INV) 13.1A.13R

A *firm* must, at all times, maintain a combination of professional indemnity insurance and *own funds* , at least equal to the requirements in this chapter for professional indemnity insurance and *initial capital* .

Amended by LI: ([2007/27](#))

- IPRU(INV) 13.1A.14R

A *firm's initial capital* :

minus the sum of the items set out against **B**

plus the sum of the items set out against **C**

minus *material holdings in credit and financial institutions and material insurance holdings*

equals *own funds* .

Amended by LI: ([2007/27](#))

- IPRU(INV) 13.1A.15R

Table 13.1A.15R

This table forms part of [IPRU\(INV\) 13.1A.14R](#)

<i>Investments</i> in own <i>shares</i> at book value	B
Intangible assets	
<i>Material current year losses</i>	
Excess of current year drawings over current year profits	
Revaluation reserves	C
Perpetual cumulative preference <i>share</i> capital and <i>debt capital</i>	
Long-term subordinated loans (in accordance with IPRU(INV) 13.1A.18R)	
Fixed term preference <i>share</i> capital (if not redeemable by shareholders within 5 years)	

Inserted by: LI [2007/27](#)
Amended by: LI [2015/57](#)

- **Perpetual cumulative preference share capital**

Amended by LI: ([2007/27](#))

- **IPRU(INV) 13.1A.16R**

Perpetual cumulative preference *share* capital may not be included in the calculation of *own funds* unless it meets the following requirements:

- (1) it may not be reimbursed on the holder's initiative or without the prior agreement of the *FCA* ;
- (2) the instrument must provide for the *firm* to have the option of deferring the dividend payment on the share capital;
- (3) the shareholder's claims on the *firm* must be wholly subordinated to those of all non-subordinated creditors;
- (4) the terms of the instrument must provided for the loss-absorption capacity of the share capital and unpaid dividends, whilst enabling the *firm* to continue its business; and
- (5) it must be fully paid-up.

Amended by LI: ([2007/27](#)), [FCA 2013/9](#)

- **Own funds — Restrictions**
 - **IPRU(INV) 13.1A.17R**

(1) In calculating *own funds* :

- (i) the total amount of revaluation reserves, perpetual cumulative preference *share* capital, long-term subordinated loans and fixed term preference *share* capital must not exceed 100% of *initial capital* minus the sum of the items set out against B; and
- (ii) the total amount of fixed term preference *share* capital and long-term subordinated loans must not exceed 50% of *initial capital* minus the sum of the items set out against B.

Amended by LI: ([2007/27](#))

- **Subordinated Loans — Exempt CAD firm**

- IPRU(INV) 13.1A.18R

[IPRU\(INV\) 13.1A.19R](#) to [IPRU\(INV\) 13.1A.20R](#) apply to an exempt CAD firm .

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.1A.19R

A *firm* may include a long-term subordinated loan as *own funds* (see item C(3) table [13.1A.15R](#)) if all the conditions in [IPRU\(INV\) 13.1A.20R](#) are satisfied.

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.1A.20R

The conditions referred to in [IPRU\(INV\) 13.1A.19R](#) are:

- (1) the subordinated loan must be fully paid up;
- (2) the subordinated loan must have an original maturity of at least five years or, where there is no fixed term, the subordinated loan must be subject to not less than five years' notice of repayment;
- (3) the agreement governing the subordinated loan must only permit repayment, prepayment or termination on:
 - (a) maturity, or on expiration of the period of notice, if a *firm* has at least 120% of its financial resources requirement after that payment or termination; or
 - (b) winding up after the claims of all other creditors and all outstanding debts have been settled;
- (4) the amount of the subordinated loan used in the calculation of a *firm's own funds* must be reduced on a straight-line basis over the last five years of the term of the subordinated loan;
- (5) the subordinated loan is in the standard form prescribed by the *FCA* for long-term subordinated loans (see form 13.1 Form of subordinated loan agreement for *personal investment firms*).

Inserted by: LI [FCA 2015/57](#)

Amended by: LI [FCA 2016/37](#)

- IPRU(INV) 13.2 Financial Resources Tests [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.2.1R [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.2.3G [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- 13.3 Financial Resources Test 1 - Own funds
 - Requirement [deleted]

13.3.1 R

[deleted]

Deleted by LI: [2007/27](#)

13.3.1A G

[deleted]

Deleted by LI: [2007/27](#)

- Calculation of own funds [deleted]

13.3.2 R

[deleted]

Amended by LI: [2005/21](#), [2006/55](#), [2007/02](#)
Deleted by LI: [2007/27](#)

13.3.2A R

[deleted]

Inserted by LI: [2005/21](#)
Deleted by LI: [2007/27](#)

13.3.2B G

[deleted]

Inserted by LI: [2005/21](#)
Deleted by LI: [2007/27](#)

Table 13.3.2(2)

[deleted]

Deleted by LI: [2007/27](#)

- **Alternative to Financial Resources Test 1 [deleted]**

13.3.3 R

[deleted]

Deleted by LI: [2006/53](#)

13.3.3A R

[deleted]

Deleted by LI: [2006/53](#)

13.3.3B R

[deleted]

Deleted by LI: [2006/53](#)

- **IPRU(INV) 13.4 Financial Resources Test 1A — Adjusted net current assets [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.4.1R [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.4.2R [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.5 Financial Resources Test 2 — Expenditure-based Requirement [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Requirement [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.5.1R [deleted]**

Deleted by LI: [2007/27](#)

- IPRU(INV) 13.5.1AR [deleted]

Deleted by LI: [2007/27](#)

- IPRU(INV) 13.5.1BR [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.1CR [deleted]

Deleted by LI: [2007/27](#)

- IPRU(INV) 13.5.1DR [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Calculation of relevant annual expenditure [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.2R [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.2AG [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Adjustments to calculation of relevant annual expenditure [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.3R [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.3AG [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Calculation of financial resources to meet tests 1, 1A OR 2 [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.4R [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.5.4AR [deleted]

Amended by: [2007/02](#), [2007/27](#)

- Table 13.5.4(1) [deleted]

Deleted by: LI [2007/27](#)

- Part I [deleted]

Deleted by: LI [2007/27](#)

- Part II [deleted]

Deleted by: LI [2007/27](#)

- Table 13.5.4(2) [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Part I [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Part II [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Table 13.5.4A [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Table 13.5.4B [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Table 13.5.4C [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Table 13.5.4D [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Table 13.5.4E [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Subordinated loans [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.5.5R [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.5.5AR [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.5.5BR [deleted]**

Deleted by LI: [2007/27](#)

- **IPRU(INV) 13.5.5CR [deleted]**

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **13.6 Large exposures [deleted]**

13.6.1 R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

- **Requirements [deleted]**

13.6.2 R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

13.6.2A R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

13.6.2B R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

13.6.2C R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

13.6.2D R

[deleted]

Amended by LI: [2007/02](#)
Deleted by LI: [2007/27](#)

Table 13.6.2(1)

[deleted]

Deleted by LI: [2007/27](#)

- Calculation of financial resources to meet tests 1, 1A OR 2 [deleted]

Table 13.6.2(2)

[deleted]

Deleted by LI: [2007/27](#)

- 13.7 Consolidated Supervision of Group Companies [heading deleted]

Amended by LI: [2004/56](#), [2006/53](#)

- Application [deleted]

13.7.1 R

[deleted]

Amended by LI: [2006/53](#)

13.7.1A G

[deleted]

Amended by LI: [2006/53](#)

- Requirements [heading deleted]

Heading and subsequent rules deleted by LI [2006/53](#). IPRU(INV) 13.7.2BR remains and can now be found [here](#).

- IPRU(INV) 13.7.2R [deleted]

Deleted by LI: [2006/53](#)

- IPRU(INV) 13.7.2AR [deleted]

Deleted by LI: [2006/53](#)

- IPRU(INV) 13.7.2BR [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- 13.8 Trading Book [deleted]

13.8.1 G

[deleted]

Deleted by LI: [2007/27](#)

13.8.2 R

[deleted]

Amended by LI: [2007/02](#)

Deleted by LI: [2007/27](#)

13.8.3 G

[deleted]

Deleted by LI: [2007/27](#)

- **IPRU(INV) 13.9 Financial Resources Tests for Category B firms whose Permission includes Establishing, Operating or Winding Up a Personal Pension Scheme**

Current version: effective from Jun 30 2016 - Aug 31 2016.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Application**

Current version: effective from Jun 30 2016 - Aug 31 2016.

Inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.9.-1R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme* .

Inserted by: LI [FCA 2015/57](#)

- **Requirement**

Current version: effective from Jun 30 2016 - Aug 31 2016.

Heading inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.9.1R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* must meet:

0. financial Resources Test 1 (the *Own funds Test*) calculated in accordance with [section 13.10](#);
1. financial Resources Test 1A (the *Adjusted Net current assets Test*) calculated in accordance with [section 13.11](#); and
2. financial Resources Test 2 (the *Expenditure-based Test*) calculated in accordance with [section 13.12](#).

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

▪ IPRU(INV) 13.9.1AG

Current version: effective from Jun 30 2016 - Aug 31 2016.

Table 13B is a summary of the financial resources tests for a *firm* .

Table 13B. This table forms part of *rule* IPRU(INV)13.9.1R.

SUMMARY OF FINANCIAL RESOURCES FOR <i>CATEGORY B FIRMS</i>				
Type of <i>firm</i>	Financial Resources Test 1 <i>Own funds Test</i>	Financial Resources Test 1A <i>Adjusted Net current assets Test</i>	Financial Resources Test 2 <i>Expenditure-based Test</i>	<i>Rule /section References</i>
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
[deleted]	[deleted]	[deleted]	[deleted]	[deleted]
All <i>category B firms</i> that do not hold <i>client money</i> or assets, but are permitted to establish, operate or wind up a personal pension scheme .	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the highest of 6/52 of relevant annual expenditure, £400 per adviser, £10,000	13.10 13.11 13.12.1G 13.12.2 to 13.12.5A.
All <i>Category B firms</i> that hold <i>client money</i> or assets, but are permitted to establish, operate or wind up a	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the highest of 13/52 of relevant annual expenditure, £400	13.10 13.11 13.12.1G 13.12.2 to 13.12.5A.

personal pension scheme .			per adviser, and £10,000	
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Amended by: Lis [2006/28](#), [2007/56](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and LI 2014/46, now revoked)

- **IPRU(INV) 13.10 Financial Resources Test 1 — Own funds Requirement**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **Application**

Current version: effective from Jun 30 2016 - Aug 31 2016.

Inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.10-1R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme* .

Inserted by: LI [FCA 2015/57](#)

- **Requirement**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.10.1R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm's* own funds must at all times be at least £10,000.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Calculation**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.10.2R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A firm's own funds must be calculated in accordance with table 13.10(2).

Table 13.10(2).

This table forms part of [IPRU\(INV\) 13.10.2R](#)

OWN FUNDS	
Companies	Sole Traders: Partnerships
Paid-up share capital (excluding preference <i>shares</i> redeemable by shareholders within 2 years) <i>Eligible LLP members' capital</i> Share premium account Retained profits (see 13.10.2AR) and interim net profits (Note 1) Revaluation reserves Short-term subordinated loans <i>Debt capital</i>	Balances on proprietor's or partners capital accounts current accounts (see 13.10.2AR) Revaluation reserves Short-term subordinated loans
less	less
Intangible assets <i>Material current year losses</i> <i>Excess LLP members' drawings</i>	Intangible assets <i>Material current year losses</i> Excess of current year drawings over current year profits
<p>Note 1</p> <p>Retained profits must be audited and interim net profits must be verified by the <i>firm's</i> external auditor, unless the <i>firm</i> is exempt from the provisions of Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.</p>	

Amended
 by: Lis [2005/21](#), [2006/23](#), [2006/55](#), [2008/22](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by [LI 2009/62](#), Annex B, Pt 2, and now revoked)

▪ **IPRU(INV) 13.10.2AR**

Current version: effective from Jun 30 2016 - Aug 31 2016.

For the purpose of calculating a *firm's own funds*, the following adjustments apply to retained profits or, (for non-corporate entities), current accounts figures.

0. 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;
1. a *firm* must derecognise any *defined benefit asset*;

2. a *firm* may substitute for a *defined benefit liability* its *deficit reduction amount* . The election must be applied consistently in respect of any one financial year;
3. a *firm* must deduct any unrealised gains on investment property and include these within revaluation reserves;
4. 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.

Inserted by: LI [2005/21](#)
Amended by: Lis [2006/16](#), [2006/23](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.10.2BG

Current version: effective from Jun 30 2016 - Aug 31 2016.

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* .

Where a *firm* is a sole trader or a partnership:

- (1) it can use (to the extent necessary to make up any shortfall in the required resources) any of its personal assets (not being needed to meet liabilities arising from its personal activities and any business activities not regulated by the *FCA*);
- (2) the *firm's* total financial resources, from whatever source, should at all times be sufficient to cover its total liabilities.

Inserted by: LI [2005/21](#)
Amended by: Lis [FCA 2013/9](#), [FCA 2015/57](#)

- IPRU(INV) 13.10.3R [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.11 Financial Resources Test 1A — Adjusted net current assets

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **Application**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.11.1R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is a *Category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme* .

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Requirement**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.11.2R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* must adjust its *net current assets* as follows:

0. exclude assets which cannot be realised or recovered within twelve months;
1. exclude amounts receivable from *connected persons* to the extent that they are not *properly secured*, except amounts that are *deposits* referred to in item (11) of table 13.12.3(1) or item (11) in table 13.12.3(2);
2. value *investments* at current *market value* , using the bid price for a *net long position* in an investment and the *offer price* for a *net short position* in an investment;
3. where applicable, 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.

Amended by: Lis [2006/16](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.11.3R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* must at all times have adjusted *net current assets* of at least £1.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12 Financial Resources Test 2 — Expenditure-based Requirement

Current version: effective from Apr 1 2013 - Aug 31 2016.

- Application

Current version: effective from Apr 1 2013 - Aug 31 2016.

- IPRU(INV) 13.12.1AR

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme*.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- Requirement

Current version: effective from Apr 1 2013 - Aug 31 2016.

- IPRU(INV) 13.12.1BR

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* must have at all times financial resources calculated in accordance with [IPRU\(INV\) 13.12.2R](#) to [IPRU\(INV\) 13.12.5R](#) which equal or exceed the amount specified in [IPRU\(INV\) 13.12.1GR](#).

Amended by: LIs [2002/52](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12.1CR [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12.1DR [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12.1ER [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12.1FR [deleted]

Deleted by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12.1GR

Current version: effective from Jun 30 2016 - Aug 31 2016.

(1) A *firm* which holds *client money* or assets must have financial resources calculated as the highest of:

- (a) 13/52 of its relevant annual expenditure, calculated in accordance with [IPRU\(INV\) 13.12.2R](#) to IPRU(INV) 13.12.2DR;
- (b) an amount equal to £400 multiplied by the number of its *advisers* ; and
- (c) £10,000.

(2) A *firm* which does not hold *client money* or assets must have financial resources calculated as the highest of:

- (a) 6/52 of its relevant annual expenditure, calculated in accordance with [IPRU\(INV\) 13.12.2R](#) to IPRU(INV) 13.12.2DR;
- (b) an amount equal to £400 multiplied by the number of its *advisers* ; and
- (c) £10,000
- (d) [deleted].

Inserted by: LI [2006/28](#)
Amended by: Lis [2007/56](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and LI 2014/46, now revoked)

- **Calculation of relevant annual expenditure**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.12.2R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* must calculate its relevant annual expenditure by reference to the amount described as total expenditure in its most recently prepared set of *annual financial statements* . If those statements were for a period other than 12 months, the amounts in its profit and loss account must be adjusted proportionately.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.12.2AR**

Current version: effective from Jun 30 2016 - Aug 31 2016.

Where a *firm* has just begun trading or have not been authorised long enough to submit such statements the *firm* must calculate its relevant annual expenditure on the basis of forecast or other appropriate accounts submitted to the *FCA* .

Amended by: LIs [FCA 2013/9](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **IPRU(INV) 13.12.2BR**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* may deduct from its relevant annual expenditure items (a) to (f) set out in table 13.12.2, unless the *firm* is a *category B1 firm* , in which case it may not deduct item (e).

Table 13.12.2

This table forms part of [IPRU\(INV\) 13.12.2R](#).

DEDUCTIONS FROM EXPENDITURE	
.	staff bonuses;
a.	<i>employees' and directors' shares</i> in profits;
b.	interest charges in respect of borrowing made to finance the acquisition of its <i>readily realisable investments</i> ;

- | | | |
|----|-----------------------|---|
| c. | commissions received; | shared commissions paid which are directly related to |
| d. | | emoluments of <i>directors</i> , partners or a sole trader; |
| e. | | a <i>firm</i> must not deduct any exceptional expenditure. |

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Adjustments to calculation of relevant annual expenditure**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.12.2CR**

Current version: effective from Apr 1 2013 - Aug 31 2016.

A *firm* must ensure that the expenditure base properly reflects the ongoing annual operating costs of the *firm* by having proper regard to its circumstances when deciding whether to include or exclude any item of expenditure or to make any other adjustment to the calculation of relevant annual expenditure.

- **IPRU(INV) 13.12.2DG**

Current version: effective from Apr 1 2013 - Aug 31 2016.

In *rule* 13.12.2C the *FCA* would expect a *firm* to take proper account of the effect of, for example, the ongoing annual operating costs of the *firm* being met by another party, or of a significant change in the structure of the *firm's* business during the year.

Amended by: LI [FCA 2013/9](#)

- **Calculation of financial resources to meet tests 1, 1A OR 2**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.12.3R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

(1) [deleted]

(2) A *firm* must be able to calculate its financial resources at any time on the basis of the balance

sheet the *firm* could draw up at that time. For this purpose:

- (a) a *category B1 firm* must adjust the assets in the balance sheet as specified in Part I of table 13.12.3(1) and include the liabilities after making the adjustments specified in Part II of table 13.12.3(1);
 - (b) a *Category B2 or B3 firm* to which 13.12 applies must adjust the assets in the balance sheet as specified in Part I of table 13.12.3(2) and include the liabilities after making the adjustments specified in Part II of table 13.12.3(2).
- (3) The assets and liabilities in the balance sheet are also subject to the following adjustments:
- (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;
 - (d) 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.

Amended by: LIs [2005/21](#), [2006/16](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- **Table 13.12.3(1)**

Current version: effective from Dec 1 2001 - Aug 31 2016.

- **Part I**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This table forms part of [IPRU\(INV\) 13.12.3R](#).

CATEGORY B1 FIRMS	
CALCULATION OF ASSETS	
ASSETS	ADJUSTMENTS
(1) Land and Buildings	Exclude in full. (A loan secured by a charge on land and buildings may be deducted from liabilities in accordance with item (14) of Part II of this table.)
(2) <i>Investments</i>	<p>Include any <i>net long position</i> in any fixed or current asset investment (including <i>shares</i> in any connected company)</p> <p style="text-align: right;">valued at its current <i>bid price</i> (or, in the case of a with-profits <i>life policy</i>, at its surrender value), and</p> <p>a. discounted by the applicable percentage specified in table 13.12.3A.</p> <p>A <i>firm</i> which acts as a market-maker in second-hand <i>life policies</i> must comply with the relevant requirements in respect of second-hand <i>life policies</i> held by the <i>firm</i> and include such a <i>policy</i>.</p> <p>b. valued at its surrender value at the date on which the <i>firm</i> acquired it, or its latest available surrender value if different.</p> <p>c. where a life office whose <i>policy</i> is held by the <i>firm</i> has altered adversely the basis on which it calculates surrender values, the <i>firm</i> must revise its valuation of the second-hand <i>policy</i> as soon as practicable after becoming aware of the alteration.</p>
(3) <i>Investments</i> subject to Repurchase, Reverse Repurchase, Stock Borrowing or Stock Lending transactions	Include <i>investments</i> for which the <i>firm</i> has entered as principal into a repurchase, reverse repurchase, stock borrowing or stock lending transaction on its own behalf, after making (I) a deduction in accordance with item (2), and (II) a deduction calculated by computing its exposure (the difference between the <i>market value</i> of the <i>securities</i> and the loan or collateral (including accrued interest) where that difference is not in the <i>firm's</i> favour, after adjusting for any excess collateral).
(4) Debtors relating to Unsettled <i>Securities</i> Transactions Cash against Documents	<p>Include debtors where the <i>firm</i> has entered into a transaction on its own behalf in <i>securities</i> or <i>units in collective investment schemes</i> on a cash against documents basis, and the transaction remains unsettled, after deducting an amount calculated by</p> <p>d. computing the difference between the agreed settlement price for those <i>investments</i> and their current <i>bid price</i> where that difference is not in the <i>firm's</i> favour, and</p> <p>e. multiplying that difference by the applicable percentage specified in table 13.12.3B.</p>
(5) Debtors relating to Unsettled <i>Securities</i> Transactions Free Deliveries	f. Include the full amount due to the <i>firm</i> from debtors if a <i>firm</i> has delivered <i>securities</i> or <i>units in collective investment schemes</i> before receiving payment for them, or paid for such <i>investments</i> before receiving certificates of good title for them, so long as

	<p>not more than three days have passed since delivery</p> <p>g. have passed since delivery, exclude in full. If more than three days</p>
(6) <i>Regulated collective investment schemes</i>	<p>Include an amount owing in respect of a transaction in <i>units</i> in a <i>regulated collective investment scheme</i> only if the amount has been due and unpaid for 30 days or less after the settlement date of the transaction to which it relates.</p>
(7) Loans secured on <i>investments</i>	<p>If the <i>firm</i> holds client title documents as security for</p> <p>h. the repayment of money it has lent; or</p> <p>i. money due to the <i>firm</i> in connection with the purchase for or sale to another person of those <i>investments</i>, which the <i>firm</i> has for genuine commercial reasons agreed to postpone,</p> <p>the <i>firm</i> may include as an asset the lower of the following:</p> <p>x. the total amount due;</p> <p>xi. the <i>market value</i> of the <i>investments</i> multiplied by the appropriate rates set out in table 13.12.3A.</p>
(8) Trade debtors	<p>Include amounts owing only in respect of</p> <p>l. . commission;</p> <p>i. <i>investment management fees</i>;</p> <p>ii. other fees earned in connection with the <i>firm's investment business</i>,</p> <p>which are due from other authorised or <i>EEA firms</i> , <i>recognised investment exchanges</i> or <i>recognised clearing houses</i> and have been due and unpaid for 30 days or less;</p> <p>m. . <i>investment management fees</i>; or</p> <p>i. pensions administration which have been due from its customers and unpaid for 30 days or less.</p> <p>n. All other trade debtors</p>

	must be deducted in full.
(9) Prepayments	Include prepayments which relate to goods or services to be received or performed within 90 days.
(10) Accrued income	<p>o. Accrued income relating to <i>investment management</i> fees not yet due and payable may be included if the fees relate to services provided within the previous six months.</p> <p>p. Other accrued income may be included if it relates to interest on marketable debt instruments or on <i>deposits</i> included in item (11).</p>
(11) <i>Deposits</i>	<p>The following may be included:</p> <p>q. cash and balances on current accounts and on <i>deposit</i> accounts with an <i>approved bank</i> or National Savings Bank which can be withdrawn within 90 days;</p> <p>r. money on <i>deposit</i> with a UK local authority which can be withdrawn within 90 days;</p> <p>s. money <i>deposited</i> and evidenced by a certificate of tax <i>deposit</i> .</p>
(12) Other Debts	<p>t. Amounts owing in respect of</p> <p>. interest on <i>investments</i>;</p> <p>i. repayments of marketable debt instruments at maturity or call;</p> <p>ii. dividends declared by authorised or not <i>EEA firms</i> or by companies in respect of <i>shares</i> listed on a <i>recognised investment exchange</i> or <i>designated investment exchange</i>;</p> <p>which have been due and unpaid for 30 days or less may be included.</p> <p>u. Other amounts due from UK government bodies may be included if they are agreed and due within 30 days.</p>
(13) All other assets	Exclude in full.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

▪ Part II

Current version: effective from Jun 30 2016 - Aug 31 2016.

This table forms part of [IPRU\(INV\) 13.12.3R](#).

CATEGORY B2 AND B3 FIRMS	
CALCULATION OF LIABILITIES	
LIABILITIES	ADJUSTMENTS
(14) Secured Liabilities	<p>Include in full, except the amount of the liabilities secured by a charge on land and buildings which may be reduced by the smallest of the following amounts:</p> <ul style="list-style-type: none"> the aggregate amount of the <i>firm's</i> secured liabilities which are due more than one year after the balance sheet date; a. (if the land and buildings have been valued by an independent professional valuer within the past 18 months) 85% of the amount certified by the valuer as their <i>market value</i> ; b. 85% of the net book value of the land and buildings.
(15) Subordinated loans	<p>Include in full, except any short-term subordinated loan in the standard form prescribed by the <i>FCA</i> which may be treated as capital up to the limits specified in <i>rules</i> 13.12.5 and 13.12.5A.</p>
(16) Commission on indemnity terms from the sale of <i>life policies</i> or <i>pension contracts</i>	<p>Include as a liability a provision for repayment, in the event that premiums cease within the indemnity period, which must equal or exceed 2.5% of the commissions the <i>firm</i> has received on indemnity terms during the previous twelve months. This provision must be reasonable having regard to its circumstances and, in particular, its previous lapse ratio.</p>
(17) Short Positions	<p>Include a <i>net short position</i></p> <ul style="list-style-type: none"> c. valued at its <i>offer price</i> and d. increased using the applicable percentage rate in table 13.12.3A.
(18) Deficiency in <i>subsidiary</i>	<p>Include as a liability the amount by which the liabilities of any <i>subsidiary</i> (excluding its capital and reserves) exceed its tangible assets. This requirement applies only to the extent that the <i>firm</i> has not already made such a provision elsewhere in its financial statements.</p>
(19) Liability for tax	<p>Include as a liability a provision for taxation on the whole of the profits of the <i>firm's</i> business up to its balance sheet date.</p>
(20) Creditors relating to	<p>Include creditors where the <i>firm</i> has entered into a transaction on its own</p>

Unsettled <i>Securities</i> Transactions- Cash against Documents	<p>behalf in <i>securities</i> or <i>units in collective investment schemes</i> on a cash against documents basis, and the transaction remains unsettled, after adding an amount calculated by</p> <p>e. _____ computing the difference between the agreed settlement price for those <i>investments</i> and their current <i>market value</i> where that difference is not in the <i>firm's</i> favour, and</p> <p>f. _____ multiplying that difference by the applicable percentage specified in table 13.12.3B.</p>
(21) Creditors relating to Unsettled <i>Securities</i> Transactions- Free Deliveries	<p>Include an amount for creditors where (acting on the <i>firm's</i> own behalf) the <i>firm</i> has delivered certificates of title for <i>securities</i> or <i>units in collective investment schemes</i> before receiving payment for them, or where a <i>firm</i> has bought such <i>investments</i> before receiving certificates of good title for them, as follows:</p> <p>g. _____ (if the <i>firm</i> has paid for them and not more than 3 days have passed since the payment was made) include in full:</p> <p>h. _____ (if more than 3 days have passed since the payment was made) include the full value of the <i>securities</i> at their current <i>offer price</i> .</p>
(22) <i>Over the counter derivatives</i>	<p>If the <i>firm</i> holds positions in <i>derivatives</i> on its own behalf must</p> <p>i. _____ make the adjustment in item (17) of this table, and</p> <p>j. _____ deduct the credit equivalent of those positions computed in accordance with table 13.12.3C. In addition, bought <i>OTC options</i> and covered <i>warrants</i> will be subject to table 13.12.3D.</p>
(23) Contingent Liabilities	<p>A <i>firm</i> must include a provision for any contingent liabilities which exist at its balance sheet date that must be made.</p>
(24) Redeemable Preference <i>Shares</i>	<p>Include as a liability any redeemable preference <i>shares</i> which fall due within two years. If <i>shares</i> are not redeemable by the shareholder within 2 years, they must be treated in accordance with <i>rules</i> 13.12.5 and 13.12.5A.</p>
(25) Foreign currency risk	<p>If the <i>firm</i> holds positions on its own behalf in foreign currencies or as assets or liabilities denominated in foreign currencies, the <i>firm</i> must calculate a provision to cover the risk in accordance with table 13.12.3D and include the amount as a liability</p>
(26) All other liabilities	<p>Include in full.</p>

Amended by: LIs [FCA 2013/9](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by [LI2009/62](#), Annex B, Pt 2, and now revoked)

- Table 13.12.3(2)

Current version: effective from Dec 1 2001 - Aug 31 2016.

- Part I

Current version: effective from Jun 30 2016 - Aug 31 2016.

This table forms part of [IPRU\(INV\) 13.12.3R](#).

CATEGORY B2 AND B3 FIRMS (except low resource firms)	
CALCULATION OF ASSETS	
ASSETS	ADJUSTMENTS
(1) Land and buildings	<p>Include land and buildings which are not subject to any charge only if they have been valued either</p> <ul style="list-style-type: none"> · value, or at 60% of their net book a. (if valued by an independent professional valuer within the past three years) at 60% of the amount certified by the valuer to be the <i>market value</i>.
(2) Motor vehicles	<ul style="list-style-type: none"> b. Include motor vehicles acquired less than 12 months ago valued at 50% of their cost c. Include motor vehicles acquired within the past 24 months (but more than 12 months ago) valued at 25% of their cost d. Exclude in full any other motor vehicles.
(3) <i>Investments</i>	<p>Include any <i>net long position</i> in any fixed or current asset investment (including <i>shares</i> in any connected company)</p> <p>valued at its current <i>bid price</i> (or, in the case of a with profits <i>life policy</i>, at its surrender value) and</p> <p>discounted by the applicable percentage specified in table 13.12.3A.</p>
(4) Debtors relating to Unsettled <i>Securities</i> Transactions Cash against Documents	<p>Include debtors where a <i>firm</i> has entered into a transaction on its own behalf in <i>securities</i> or <i>units in collective investment schemes</i> on a cash against documents basis and the transaction remains unsettled after deducting an amount calculated by</p> <ul style="list-style-type: none"> e. computing the difference between the agreed settlement price for those <i>investments</i> and their current <i>bid price</i> where that difference is not in the <i>firm's</i> favour and

	f. multiplying that difference by the applicable percentage specified in table 13.12.3B.
(5) Debtors relating to Unsettled <i>Securities</i> Transactions Free Deliveries	g. Where the <i>firm</i> has delivered <i>securities</i> or <i>units in collective investment schemes</i> before receiving payment for them or paid for such <i>investments</i> before receiving certificates of good title for them include the full amount due to a <i>firm</i> from debtors so long as not more than 3 days have passed since delivery. h. Exclude in full if more than 3 days have passed since delivery.
(6) <i>Regulated collective investment schemes</i>	Include an amount owing in respect of a transaction in <i>units</i> in a <i>regulated collective investment scheme</i> only if the amount has been due and unpaid for not more than 90 days after the settlement date of the transaction to which it relates.
(7) Debts of <i>group</i> or <i>connected companies</i>	Include amounts due from <i>group</i> or <i>connected companies</i> (which do not relate to trade debts) where a <i>firm</i> has no reason to doubt that repayment will be made in full on demand.
(8) Trade debtors	Include amounts due from trade debtors (including <i>group</i> or <i>connected companies</i>) which have been due and unpaid for less than 90 days.
(9) Prepayments	Include prepayments which relate to goods or services to be received or performed within 90 days.
(10) Accrued income	i. Include accrued income not yet due and payable in respect of fees earned in the performance of <i>investment management</i> services that is receivable within six months. j. Include any other accrued income receivable within 90 days.
(11) <i>Deposits</i>	Include amounts in respect of k. cash and balances on current accounts and on <i>deposit</i> accounts with an <i>approved bank</i> or National Savings Bank which can be withdrawn within 90 days; l. money on <i>deposit</i> with a UK local authority which can be withdrawn within 90 days; m. money <i>deposited</i> and evidenced by a certificate of tax <i>deposit</i> .
(12) Other amounts due from Government bodies or local authorities	Include other amounts due from UK Government bodies or local authorities if they are agreed and due within 90 days.
(13) All other assets	Exclude in full.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

▪ **Part II**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This table forms part of [IPRU\(INV\) 13.12.3R](#)

CATEGORY B1 FIRM (except low resource firms)	
CALCULATION OF LIABILITIES	
LIABILITIES	CALCULATIONS
(14) Secured Liabilities	<p>Include in full, except the amount of the liabilities secured by a charge on land and buildings which may be reduced as follows:</p> <p style="text-align: right;">If the liabilities secured exceed 85% of the value of the land and buildings, then the excess is treated as a liability;</p> <p>a. If the land and buildings have been valued by an independent professional valuer within the past three years, the value of the land and buildings is the amount certified by the valuer as their <i>market value</i> ; otherwise it is their net book value.</p> <p>(If 60% of the value of the land and buildings which are subject to a charge exceeds the liabilities secured, then the amount of that excess may be treated as an asset.)</p>
(15) Subordinated loans	<p>Include in full, except any short term subordinated loan in the standard form prescribed by the <i>FCA</i> for such loans which may be treated as capital up to the limits specified in <i>rules</i> 13.12.5 and 13.12.5A.</p>
(16) Commission on indemnity terms from the sale of <i>life policies</i> or <i>perspension contracts</i>	<p>Include as a liability a provision for repayment, in the event that premiums cease within the indemnity period, which must equal or exceed 2.5% of the commissions the <i>firm</i> has received on indemnity terms during the previous twelve months. This provision must be reasonable having regard to its circumstances and, in particular, its previous lapse ratio.</p>
(17) Short Positions	<p>Include a <i>net short position</i></p> <p>b. valued at its <i>offer price</i> , and</p> <p>c. increased using the applicable percentage rate in table 13.12.3A.</p>
(18) Deficiency in <i>subsidiary</i>	<p>Include as a liability the amount by which the liabilities of any <i>subsidiary</i>(excluding its capital and reserves) exceed its tangible assets.</p>

	This requirement applies only to the extent that the <i>firm</i> has not already made such a provision elsewhere in its financial statements.
(19) Liability for tax	Include as a liability a provision for taxation on the whole of the profits of its business up to its balance sheet date.
(20) Unsettled <i>Securities</i> Transactions - Cash against Documents	<p>Include creditors where the <i>firm</i> has entered into a transaction on its behalf in <i>securities</i> or <i>units in collective investment schemes</i> on a cash against documents basis, and the transaction remains unsettled, after adding an amount calculated by</p> <p>d. _____ computing the difference between the agreed settlement price for those <i>investments</i> and their current <i>market value</i> , and</p> <p>e. _____ multiplying that difference by the applicable percentage specified in table 13.12.3B.</p>
(21) Creditors relating to Unsettled <i>Securities</i> Transactions - Free Deliveries	<p>Include an amount for creditors where (acting on its behalf) the <i>firm</i> has delivered certificates of title for <i>securities</i> or <i>units in collective investment schemes</i> before receiving payment for them, or where the <i>firm</i> has bought such <i>investments</i> before receiving certificates of good title for them, as follows:</p> <p>f. _____ (if the <i>firm</i> has paid for them and not more than 3 days have passed since the payment was made) include in full;</p> <p>g. _____ (if more than 3 days have passed since the payment was made) include the full value of the <i>securities</i> at the current <i>offer price</i> .</p>
(22) <i>Over the counter derivatives</i>	Include as a liability an amount for any positions the <i>firm</i> holds on its own behalf in such <i>derivatives</i> calculated by computing the credit equivalent of those positions in accordance with table 13.12.3C. In addition, bought <i>OTC derivatives</i> and covered <i>warrants</i> will be subject to table 13.12.3D.
(23) Contingent Liabilities	A <i>firm</i> must include a provision for any contingent liabilities which exist at its balance sheet date that must be made.
(24) Long term liabilities	Include as a liability any amount which falls due more than 3 years from the balance sheet date and is due to <i>connected persons</i> , in accordance with <i>rules</i> 13.12.5 and 13.12.5A.
(25) Redeemable Preference <i>Shares</i>	Include as a liability any redeemable preference <i>shares</i> which fall due within two years. If <i>shares</i> are not redeemable by the shareholder within two years, they must be treated in accordance with <i>rules</i> 13.12.5 and 13.12.5A.
(26) <i>Net open foreign currency position</i>	A <i>firm</i> must calculate its foreign exchange risk requirement in accordance with table 13.12.3D and include the amount as a liability.
(27) All other liabilities	Include in full.

Amended by: LIs [FCA 2013/9](#), [FCA 2015/57](#) (in place of earlier amendment(s) made by [LI2009/62](#), Annex B, Pt 2, and now revoked)

▪ **Table 13.12.3A**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This table forms part of [IPRU\(INV\) 13.12.3R](#).

DISCOUNTS FOR INVESTMENTS	
The percentages in the table are applied to the <i>market value</i> (unless otherwise stated) or gross positions, i.e. both longs and shorts in each category; netting and offsetting are prohibited. The long or short position in a particular investment is the net of any long or short positions held in that same investment.	
Investment	Discount
A. Debt	
UK Government or local authority stocks:	
— with less than one year to final redemption	2%
— with more than one year but less than five years to final redemption	5%
— with five years or more to final redemption	10%
Debt security:	
— debt instruments issued or accepted by an <i>approved bank</i> with less than 90 days to final redemption	2%
— other debt instruments which are <i>marketable investments</i> with less than one year to final redemption	5%
— other debt instruments which are <i>marketable investments</i> with less than five years to final redemption	10%
— other debt instruments which are <i>marketable investments</i>	15%
— floating rate notes which are <i>marketable investments</i> :	
— with no more than 20 years to final redemption	5%
— with more than 20 years to final redemption	10%
B. Equities	
— other <i>investments</i> listed on a <i>recognised investment exchange</i> or <i>designated investment exchange</i>	25%
— <i>shares</i> traded on a <i>recognised investment exchange</i> or <i>designated investment exchange</i>	35%
— other <i>shares</i> for which there is a <i>market maker</i> in the UK	35%
C. Derivatives	
— <i>exchange traded futures</i>	4 x initial margin requirement
— <i>OTC futures</i>	Apply the appropriate percentage shown in A and B to the <i>market value</i> of the underlying position

— Purchased <i>options</i>	Apply the appropriate percentage shown in A and B to the <i>market value</i> of the underlying position but the result may be limited to the <i>market value</i> of the option	
— <i>Contracts for differences</i>	20% of the <i>market value</i> of the contract	
D. Other Investments		
— <i>Unit</i> linked bonds and <i>units</i> in <i>authorised unit trust schemes</i> (other than <i>higher volatility funds</i> and <i>property funds</i>) or <i>regulated collective investment schemes</i>	25%	
— <i>units</i> in <i>higher volatility funds</i> and <i>property funds</i>	50%	
— with profit <i>life policies</i> (only applicable to <i>firms</i> other than <i>traded life policy market makers</i>)	20% of the <i>surrender value</i> of the <i>policy</i>	
— <i>shares</i> in <i>subsidiary companies</i> and <i>shares</i> which are not <i>readily realisable securities</i> in <i>connected companies</i>	100%	
— <i>traded endowment policies</i> : where a <i>traded life policy</i> is held for resale by a <i>firm</i> which is a <i>traded life policy market maker</i> :		
.	for 3 months or less	0% of the <i>surrender value</i> of the <i>policy</i>
a.	for more than 3 months	10% of the <i>surrender value</i> of the <i>policy</i>
		10% of the <i>surrender value</i> of the <i>policy</i>
	when a <i>traded life policy</i> is held by a <i>firm</i> which is a <i>traded life policy market maker</i> for investment	
— other	100%	

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

▪ **Table 13.12.3B**

Current version: effective from Apr 1 2013 - Aug 31 2016.

This table forms part of *rule m 13.12.3*

UNSETTLED SECURITIES TRANSACTIONS		
Number of <i>business days</i> after due settlement date	A %	B %
0 – 15	0	0

16 – 30	25	0
31 – 45	50	25
46 – 60	75	50
61 or more	100	75
over 90	100	100

Note 1 Column A applies to a transaction in a debt or debt-related instrument (unless the debt instrument is settled through the appropriate UK settlement system), and

Note 2 Column B applies in all other cases (and, in particular, applies to equity and equity-related instruments).

▪ **Table 13.12.3C**

Current version: effective from Apr 1 2013 - Aug 31 2016.

This table forms part of rule 13.12.3

OVER THE COUNTER DERIVATIVES		
<p>. By attaching current <i>market values</i> to contracts (making to market), obtain the current replacement cost of all contracts with positive values.</p>		
<p>ii. To obtain a figure for potential future credit exposure (except in the case of single currency "floating/floating interest rate swaps" in which only the current replacement costs will be calculated), the notional principal amounts or values underlying the <i>firm's</i> aggregate positions are multiplied by the following percentages:</p>		
Residual Maturity	Interest Rate Contracts	Foreign Exchange Contracts
One year or less	Nil	1%
More than 1 year	0.5.%	5%
<p>c. The credit equivalent is the sum of current replacement cost and potential future credit exposure.</p>		

▪ **Table 13.12.3D**

Current version: effective from Apr 1 2013 - Aug 31 2016.

This table forms part of rule 13.12.3

FOREIGN EXCHANGE RISK	
c.	A <i>firm</i> must deduct a foreign exchange risk requirement

for all the following items which are denominated in a foreign currency:

- . all assets and liabilities, including accrued interest, denominated in the currency (all *investments* at market or realisable value);
 - i. any currency future, at the nominal value of the contract;
 - ii. 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;
 - iii. any foreign currency *options* at the net delta (or delta-based) equivalent of the total book of such *options*;
 - iv. any non-currency option, at *market value* ;
 - v. any irrevocable guarantee;
 - vi. any other off-balance sheet commitment to purchase or sell an asset denominated in that currency.
- d. The requirement must be calculated as follows:
- . using the spot rate, convert that *net long position* and *net short position* in each foreign currency into the currency in which the *firm's annual financial statements* are reported;
 - i. total the *net open long positions* and the *net open short positions*;
 - ii. the higher of (i) and (ii) above is its *net open foreign currency position* ;
 - iii. multiply its *net open foreign currency position* by 10%;
- e. A *firm* may not include any future income or expense not yet accrued but fully hedged (subject to deduction of an appropriate risk requirement).

- **Short term subordinated loans**

Current version: effective from Apr 1 2013 - Aug 31 2016.

- **IPRU(INV) 13.12.4R**

Current version: effective from Apr 1 2013 - Aug 31 2016.

A Category B firm may treat subordinated loan as a financial resource, as specified in *rules* 13.12.5 to 5A, if

the short term subordinated loan is eligible for such treatment in accordance with *rule* 13.12.4A;

▪ **IPRU(INV) 13.12.4AR**

Current version: effective from Apr 1 2013 - Aug 31 2016.

A short term subordinated loan is eligible for such treatment if:

1. it has an original maturity of at least two years or, if it has no fixed term, it is subject to two years' notice of repayment;
2. payment of interest is not permitted under the loan agreement unless after such payment a *firm* meet 120% of its financial resource requirement;
3. repayment, prepayment or termination is only permitted under the loan agreement
 - . on maturity, or on expiration of the period of notice, if after such payment or termination a *firm* meets 120% of its financial resources requirement; or
 - a. on winding up after the claims of all other creditors and all outstanding debts have been settled;
4. it is in the standard form for short term subordinated loans prescribed by the *FCA* .

Amended by: LI [FCA 2013/9](#)

▪ **Restrictions**

Current version: effective from Apr 1 2013 - Aug 31 2016.

▪ **IPRU(INV) 13.12.5R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

A *firm* must calculate:

0. the aggregate amount of its short term subordinated loans, its preference *shares* which are not redeemable within two years, and for a *firm* other than a *category B1 firm* its long term liabilities which are not secured on its assets, if they do not fall due more than three

years from the balance sheet date, and are not due to *connected persons* ;

1. the amount of the *firm's* total capital and reserves excluding preference share capital, less the amount of its intangible assets, multiplied by 400%.

Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.12.5AR

Current version: effective from Jun 30 2016 - Aug 31 2016.

In the calculation of financial resources, a *firm* must treat any amount by which the sum of [IPRU\(INV\) 13.12.5R\(1\)](#) exceeds the product of [IPRU\(INV\) 13.12.5R\(2\)](#) as a liability.

Inserted by: LI [2001/57](#)
Amended by: LI [FCA 2015/57](#) (in place of earlier amendment(s) made by LI [2009/62](#), Annex B, Pt 2, and now revoked)

- IPRU(INV) 13.13 Capital Resources Requirement for an Exempt CAD Firm and a Category B Firm whose Permission does not include Establishing, Operating or Winding Up a Personal Pension Scheme

Current version: effective from Jun 30 2016 - Aug 31 2016.

- Application
 - IPRU(INV) 13.13.1R

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is either:

- (1) an *exempt CAD firm* ; or
- (2) a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme* .

Inserted by: LI [FCA 2015/57](#)

- Requirement
 - IPRU(INV) 13.13.2R

- (1) A *firm* to which *MIPRU* does not apply must calculate its capital resources requirement as in (2).

(2) The *firm* must calculate its capital resources requirement as the higher of:

(a) £20,000; and

(b) the amount equivalent to the applicable percentage of its *annual income* specified in [table 13.13.2\(2\)\(b\)](#), depending on the type of *firm*.

Inserted by: LI [FCA 2015/57](#)

▪ **Table 13.13.2(2)(b)**

This table forms part of [IPRU\(INV\) 13.13.2R](#).

(A)	(B) Type of <i>firm</i>	(C) Applicable percentage of <i>annual income</i>
(1)	<i>Exempt CAD firm</i>	5%
(2)	<i>Category B1 firm</i>	10%
(3)	<i>Category B2 firm</i>	10%
(4)	<i>Category B3 firm</i> which is permitted to carry on the activity of <i>managing investments</i> in respect of portfolios containing only <i>life policies</i> or to delegate such activity to an <i>investment firm</i>	10%
(5)	<i>Category B3 firm</i> not in (4)	5%

Inserted by: LI [FCA 2015/57](#)

▪ **IPRU(INV) 13.13.3R**

(1) A *firm* to which *MIPRU* also applies must calculate its capital resources requirement as in (2).

(2) The *firm* must calculate its capital resources requirement as the higher of:

(a) £20,000; and

(b) the sum of:

(i) the amount that would have applied to it under [IPRU\(INV\) 13.13.2R\(2\)\(b\)](#) if it were a *firm* of the type in column (B) of [table 13.13.2\(2\)\(b\)](#); and

(ii) the capital resources requirement in [MIPRU 4.2](#). (Capital resources requirements), after excluding the

fixed amounts specified in [table 13.13.3\(2\)\(b\)\(ii\)](#).

Inserted by: LI [FCA 2015/57](#)

▪ **Table 13.13.3(2)(b)(ii)**

This table forms part of [IPRU\(INV\) 13.13.3R](#).

Activity	Provision	Fixed amount
<i>Insurance mediation activity or home finance mediation activity</i>	MIPRU 4.2.11R (1)(a) (<i>firm not holding client money or assets</i>)	£5,000
	MIPRU 4.2.11R (2)(a) (<i>firm holding client money or assets</i>)	£10,000
<i>Home financing and home finance administration (not connected to regulated mortgage contracts)</i>	MIPRU 4.2.12R (1)(a)	£100,000
<i>Home finance administration (with all assets off balance sheet)</i>	MIPRU 4.2.19R (1)	£100,000
<i>Home financing and home finance administration (connected to regulated mortgage contracts)</i>	MIPRU 4.2.23R (1)	£100,000

Inserted by: LI [FCA 2015/57](#)

▪ **IPRU(INV) 13.13.4G**

(1) [IPRU\(INV\) 13.13.4G](#)(2) illustrates how a *firm* that is subject to this section and *MIPRU* calculates its capital resources requirement under [IPRU\(INV\)13.13.3R](#).

(2) Example: A *category B3 firm* with *annual income* of £300,000 under this section and £100,000 from its *home finance mediation activity* (without holding *client money*) should calculate capital resources requirement as specified in [table 13.13.4G](#)(2).

Inserted by: LI [FCA 2015/57](#)

▪ **Table 13.13.4G(2)**

This table forms part of [IPRU\(INV\) 13.13.4G](#).

Requirement	Calculation	Amount
-------------	-------------	--------

The capital resources requirement is the higher of:		
(1) £20,000; and	£20,000	£20,000
(2) The sum of:		
the amount that would have applied to it under IPRU(INV) 13.13.2R(2)(b) if it were a firm of the type in column (B) of table 13.13.2(2)(b) ; and	As this is a <i>category B3 firm</i> , the applicable calculation is 5% of £300,000.	£15,000
the capital resources requirement in MIPRU 4.2 . (Capital resources requirements), after excluding the fixed amounts specified in table 13.13.3(2)(b)(ii) .	For a <i>firm</i> carrying on <i>home finance mediation activity</i> without holding <i>client money</i> , MIPRU 4.2.11R(1) specifies a requirement of 2.5% of £100,000 (excluding the amount of £5,000 in MIPRU 4.2.11R(1)(a)).	£2,500
	Total of part (2) of the capital resources requirement, which is £15,000 plus £2,500.	£17,500
	The capital resources requirement is the higher of part (1), which is £20,000, and part (2), which is £17,500.	£20,000

Inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.13.5R**

Future version: effective from Sep 1 2016 onwards.

A firm whose permission includes *establishing, operating or winding up a personal pension scheme* must calculate its capital resources requirement as the sum of:

- (1) the capital resources requirement that is applied under [IPRU\(INV\) 13.13.2R\(2\)](#) or [IPRU\(INV\) 13.13.3R\(2\)](#); and
- (2) the financial resources requirement calculated in accordance with [IPRU\(INV\) 5](#) (Investment Management Firms).

Inserted by: LI [FCA 2015/57](#), Annex C, Pt 2

- **IPRU(INV) 13.14 Calculation of Annual Income for an Exempt CAD Firm and a Category B Firm whose Permission does not include Establishing, Operating or Winding Up a Personal Pension Scheme**

Current version: effective from Jun 30 2016 - Aug 31 2016.

- **Application**
 - **IPRU(INV) 13.14.1R**

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is either:

- (1) an *exempt CAD firm* ;
- (2) a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme* .

Inserted by: LI [FCA 2015/57](#)

- **Annual income**
 - **IPRU(INV) 13.14.2R**

This section applies to a *firm* when it calculates *annual income* for its capital resources requirement.

Inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.14.3R**

(1) "*Annual income* " is the *annual income* from the *firm's designated investment business* as given in its reporting form in (3) drawn up at its most recent *accounting reference date* .

(2) In (1), the most recent *accounting reference date* is the last one for which the *firm* reported *annual income* .

(3) The relevant reporting form under [SUP 16.12](#) is:

(a) the Retail Mediation Activities Return (*RMAR*) (Section B: Profit and Loss Account) for a *category B firm* ; and

(b) FSA030 (Income Statement) for an *exempt CAD firm* .

(4) If the *firm's* most recent reporting form does not cover a *12-month* period, the *annual income* is derived by converting the amount reported, proportionally, to a *12-month* period.

(5) If the *firm* does not yet have a reporting form under (1), the *annual income* is taken from the forecast or other appropriate accounts which the *firm* has submitted to the *FCA* .

Inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.14.4R**

Annual income must include the following amounts due to the *firm* in respect of its *designated investment business* :

- (1) brokerage;
- (2) *fees* ;
- (3) *commissions* ; and
- (4) other related income (for example, administration charges or profit shares).

Inserted by: LI [FCA 2015/57](#)
Amended by: LI [FCA 2016/37](#)

▪ IPRU(INV) 13.14.5G

A *firm* should include in its *annual income* those amounts it may have agreed to pay to other *persons* involved in a *transaction* , such as other intermediaries or self-employed advisers .

Inserted by: LI [FCA 2015/57](#)

▪ IPRU(INV) 13.14.6G

A *firm* should not include in its *annual income* those amounts due to it that are used in the calculation of its capital resources requirement under [MIPRU 4.2.11R](#) (Capital resources requirement: mediation activity only) or [MIPRU 4.2.19R](#) (Capital resources requirement: insurance mediation activity and home financing, or home finance administration).

Inserted by: LI [FCA 2015/57](#)

▪ IPRU(INV) 13.14.7G

For the purpose of [IPRU\(INV\) 13.14.3R](#), a *firm* should ensure that the amount of *annual income* adequately reflects the level of its *designated investment business* when deciding whether to add any income not included under any of the reporting forms in IPRU(INV) 13.4.3R(3). In doing so, the *firm* should have regard to its circumstances, for example, where such income is being accounted for by a third party.

Inserted by: LI [FCA 2015/57](#)

▪ IPRU(INV) 13.14.8R

If a *firm* is a *principal* , its *annual income* includes amounts due to its *appointed representative* for activities related to *designated investment business* for which the *firm* has accepted responsibility.

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.14.9G

If a *firm* is a *network*, its *annual income* should include the relevant income due to all of its *appointed representatives* for *designated investment business*.

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.15 Calculation of Capital Resources to Meet the Capital Resources Requirement for a Category B Firm whose Permission does not include Establishing, Operating or Winding Up a Personal Pension Scheme

Current version: effective from Jun 30 2016 - Aug 31 2016.

- Application

- IPRU(INV) 13.15.1R

Current version: effective from Jun 30 2016 - Aug 31 2016.

This section applies to a *personal investment firm* which is a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*.

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.15.2G

The calculation of *own funds* by an *exempt CAD firm* is in [IPRU\(INV\) 13.1A.14R](#).

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.15.3R

A *firm* must calculate its capital resources in accordance with [table 13.15.3\(1\)](#).

Inserted by: LI [FCA 2015/57](#)

- Table 13.15.3(1)

This table forms part of [IPRU\(INV\) 13.15.3R](#).

Capital resources	
Companies	Sole traders: Partnerships
Paid-up <i>share</i> capital (excluding preference shares redeemable by shareholders within two years)	Balances on proprietor's or partners' — capital accounts
<i>Eligible LLP members' capital</i>	— current accounts

Share premium account	(see IPRU(INV) 13.15.4R)
Retained profits (see IPRU(INV) 13.15.4R) and interim net profits (Note 1)	Revaluation reserves
Revaluation reserves	Subordinated loans (see IPRU(INV) 13.15.7R)
Subordinated loans (see IPRU(INV) 13.15.7R)	
<i>Debt capital</i>	
less	less
— Intangible assets	— Intangible assets
— <i>Material current year losses</i>	— <i>Material current year losses</i>
— <i>Excess LLP members' drawings</i>	— Excess of current year drawings over current year profits
Note 1	
Retained profits must be audited and interim net profits must be verified by the <i>firm's</i> external auditor, unless the <i>firm</i> is exempt from the provisions of Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.	

Inserted by: LI [FCA 2015/57](#)
Amended by: LI [FCA 2016/37](#)

▪ **IPRU(INV) 13.15.4R**

When calculating a *firm's* capital resources, the following adjustments apply to retained profits or (for *sole traders* or *partnerships*) current accounts figures:

- (1) 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;
- (2) a *firm* must de-recognise any *defined benefit asset* ;
- (3) a *firm* may substitute for a *defined benefit liability* its *deficit reduction amount* and that election must be applied consistently in respect of any one financial year;
- (4) a *firm* must deduct any unrealised gains on investment property and include these within revaluation reserves; and
- (5) 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.

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.15.5G

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*.

Inserted by: LI [FCA 2015/57](#)

- Personal assets
 - IPRU(INV) 13.15.6G

Where a *firm* is a *sole trader* or a *partnership* :

- (1) it can use (to the extent necessary to make up any shortfall in the required resources) any of its personal assets (not being needed to meet liabilities arising from its personal activities and any business activities not regulated by the *FCA*);
- (2) the *firm's* total financial resources, from whatever source, must at all times be sufficient to cover its total liabilities.

Inserted by: LI [FCA 2015/57](#)

- Subordinated loans — Category B firm
 - IPRU(INV) 13.15.7R

A *category B firm* may include a short-term subordinated loan as capital resources (see table in [IPRU\(INV\) 13.15.3R](#)), if all the conditions in [IPRU\(INV\) 13.15.8R](#) are satisfied.

Inserted by: LI [FCA 2015/57](#)

- IPRU(INV) 13.15.8R

The conditions referred to in [IPRU\(INV\) 13.15.7R](#) are:

- (1) the subordinated loan must have an original maturity of at least two years or, if it has no fixed term, it is subject to not less than two years' notice of repayment;
- (2) the agreement governing the subordinated loan must not permit payment of interest unless a *firm* has at least 120% of its capital resources requirement after that payment;

- (3) the agreement governing the subordinated loan must only permit *repayment*, prepayment or termination on:
- (a) maturity, or on expiration of the period of notice, if a *firm* has at least 120% of its capital resources requirement after that payment or termination; or
 - (b) winding up after the claims of all other creditors and all outstanding debts have been settled;
- (4) the agreement governing the subordinated loan is in the standard form for short term subordinated loans prescribed by the *FCA* (see form 13.1 Form of subordinated loan agreement for *personal investment firms*); and
- (5) the restrictions in [IPRU\(INV\) 13.15.9R](#) and [IPRU\(INV\) 13.15.10R](#) are complied with.

Inserted by: LI [FCA 2015/57](#)
Amended by: LI [FCA 2016/37](#)

- **Restrictions**
 - **IPRU(INV) 13.15.9R**

A *Category B firm* must calculate:

- (1) the aggregate amount of its short-term subordinated loans and its preference *shares* which are not redeemable within two years;
- (2) the amount of the *firm's* total capital and reserves excluding preference *share* capital, less the amount of its intangible assets, multiplied by 400%.

Inserted by: LI [FCA 2015/57](#)

- **IPRU(INV) 13.15.10R**

A *category B firm* must treat as a liability in the calculation or its capital resources any amount by which the sum of [IPRU\(INV\) 13.15.9R\(1\)](#) exceeds the product of [IPRU\(INV\) 13.15.9R\(2\)](#).

Inserted by: LI [FCA 2015/57](#)

- **Appendix 13(1) Defined terms for Chapter 13 [deleted]**

Deleted by: LI [FCA 2015/57](#)

- **Appendix 13(2)E Professional indemnity insurance provisions [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Section 1 Basis of insurance contract [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **1.1 Insuring Clause [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **1.2 Defence Costs in Addition [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Section 2 Extensions [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2.1 Loss of or Damage to Documents [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2.1.1 Liability for Loss of Documents [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2.2 Self Employed Persons Extension [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2.3 Indemnity to Employees, Former Employees and/or Consultants [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2.4 Libel and Slander [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2.5 Dishonesty of Employees [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Section 3 Claims conditions [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Discovery of a Claim or Circumstance [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Notice [Deleted]**

[Deleted]

Deleted by: LI [2003/42](#)

- **Conduct of Claims [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Section 4 General conditions [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **4.1 Other Insurance [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **4.2 Subrogation [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **4.3 Policy Disputes [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **4.4 Claim Settlements [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Section 5 Exclusions [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Section 6 Definitions and interpretations [Deleted]**

Deleted by: LI [2004/02](#)

- **6.1 [Deleted]**

[Deleted]

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- **6.2 Assured [Deleted]**

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- **6.3 The Practice [Deleted]**

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- **6.4 Professional Business [Deleted]**

[Deleted]

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- **6.5 Limit of Indemnity [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.6 Defence Costs [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.7 Excess [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.8 Geographical Limits [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.9 Period of this Policy [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.10 Documents [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.11 Circumstance [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.12 Underwriters [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **6.13 Negligence [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Schedule [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **Additional Clauses [Deleted]**

Deleted by: LI [2004/02](#)

- **1. Compliance clause [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **2. Ombudsman extension [Deleted]**

[Deleted]

Deleted by: LI [2004/02](#)

- **3. IBRC Compliance clause [Deleted]**

[Deleted]

Deleted by: LI [2003/42](#)

- **4. Year 2000 Exclusion [Deleted]**

[Deleted]

Deleted by: LI [2003/42](#)

- **Chapter 14: Consolidated Supervision for Investment Businesses**

Amended by LI: ([2004/56](#))

- **IPRU(INV) 14.1 Application**

- **IPRU(INV) 14.1.1R**

Subject to rule 14.1.2, *consolidated supervision* and this chapter apply to a *firm* which is a member of a *group* if:

0. it is:

- . a *securities and futures firm* , subject to the financial rules in Chapter 3, which is a *broad scope firm* but not a *venture capital firm* ; and
- a. [deleted]
- b. [deleted]

1. it is neither a *BIPRU firm* nor an *IFPRU investment firm* .

Amended by LI: ([2004/56](#)), [2006/53](#), [2007/02](#), [2007/27](#), [FCA 2013/79](#)

- Cases where consolidated supervision under this chapter will not apply
 - IPRU(INV) 14.1.2R

A *firm* is not subject to *consolidated supervision* under the rules in this Chapter where any of the following conditions are fulfilled:

- (1) the *firm* is included in the supervision on a consolidated basis of the group of which it is a member by a *competent authority* other than the *FCA* ; or
- (2) the *firm* is a member of a *UK consolidation group* already included in the supervision on a consolidated basis of the group of which it is a member by the *FCA* under [BIPRU 8](#); or
- (3) the *firm* is a member of a group already included in the supervision on a *consolidated basis* of the group of which it is a member by the *appropriate regulator* under Part One, Title II, [Chapter 2](#) of the *EU CRR* .

Inserted by: LI [2004/56](#)
 Amended by: LIs [2006/53](#), [FCA 2013/9](#), [PRA 2013/4](#), [FCA 2013/79](#)

- IPRU(INV) 14.1.3G
 0. [deleted]
 1. [deleted]
 2. Where there is more than one authorised *firm* in the group, subject to the rules of this chapter, one consolidated supervision return may be submitted on behalf of all the *firms* in the group in accordance with [SUP 16.3.25G](#).

Amended by LI: ([2004/56](#)), [2006/53](#)

- Exemption from consolidated supervision
 - IPRU(INV) 14.1.4R

A *firm* need not meet the requirements in rules [14.3.1](#) and [14.3.2](#) if:

0. there is no *credit institution* in the group;
1. no *firm* in the group *deals in investments as principal*, except where it is dealing solely as a result of its activity of operating a *collective investment scheme*, or where the *firm's* positions fulfil the *CAD Article 5 exempting criteria*;
2. [deleted]
3. the *firm* notifies the *FCA* of any serious risk that could undermine the financial stability of the group as soon as it becomes aware of that risk;
4. the *firm* reports to the *FCA* all group *large exposures* as at the end of each quarter, and within the period specified in [SUP 16](#);
5. the *firm* meets the conditions in [rule 14.1.5](#); and
6. the *firm* has first notified the *FCA* in writing that it intends to rely on this rule.

Inserted by: LI [2004/56](#)
Amended by: LIs [2006/53](#), [FCA 2013/9](#), [FCA 2013/51](#), [FCA 2013/79](#)

- IPRU(INV) 14.1.5R

If the *firm* notifies the *FCA* under *rule 14.1.4* that it will not apply the rules in this section, it must:

0. submit to *FCA* a consolidated supervision return within the time period specified by [SUP 16](#), together with a consolidated profit and loss account;
1. ensure that each *firm* in the group deducts from its solo financial resources any quantifiable *contingent liability* in respect of other group entities;
2. ensure that the solo financial resources requirement of each *firm* in the group incorporates the full value of the expenditures of the *firm* wherever they are incurred on behalf of the *firm*; and
3. make a note in its audited financial statements that it is not subject to regulatory consolidated capital requirements.

- IPRU(INV) 14.1.6G
 - 0. [deleted]
 - 1. The conditions in *rule 14.1.5* aim to ensure that the *firm* is protected from weaknesses in other group entities.
 - 2. In *rule 14.1.5(2)*, *contingent liabilities* includes direct and indirect guarantees.
 - 3. *14.1.5(3)* aims to ensure that the expenditure-based requirement incorporates the *firm's* actual ongoing annual expenditures (including any share of depreciation on fixed assets) where these have been met by another group entity.
 - 4. The *FCA* may require further information from the *firm* if it considers that the *firm's* consolidated financial position raises undue risks to consumers. It may also seek reassurance that the *firm* has sufficiently robust *client money* and asset controls - for example, it may require a *skilled person's* report. The *FCA* may also use its *own initiative power* to impose conditions on the *firm*. This could include raising additional capital or further limitations on the *firm's* intra-group exposures.
 - 5. *Rule 14.1.4(5)* refers to *large exposures*, which should be measured against group consolidated own funds or (if this would result in all *exposures* being classified as *large exposures*) by aggregating all the *exposures* of the individual entities in the group and measuring them against the own funds of the individual *firm* giving rise to the consolidated supervision requirement. If there is more than one *firm* in the group giving rise to the consolidated supervision requirement, the group *large exposures* should be measured against the *firm* with the smallest own funds.

- IPRU(INV) 14.2 Scope of consolidation
 - IPRU(INV) 14.2.1R

For the purposes of the rules in this chapter, a *firm's* group means the *firm* and:

0. any *EEA parent* in the group which is a *financial holding company*, a *credit institution*, or an *investment firm*;
1. any *credit institution*, *investment firm* or *financial institution* which is a *subsidiary* either of the *firm* or of the *firm's EEA parent* as defined in (1); and

2. any *credit institution*, *investment firm* or *financial institution* in which the *firm* or one of the entities in (1) or (2) holds a *participation*.

Amended by LI: (2004/56)

▪ IPRU(INV) 14.2.2R

If a group exists under rule 14.2.1, the *firm* must also include in the scope of consolidation any *ancillary services undertaking* and *asset management company* in the group.

Amended by LI: (2004/56)

▪ IPRU(INV) 14.2.3G

Rule 14.1.1 states what type of *firm* may be subject to consolidated supervision (trigger firm). Rule 14.2.1 states what type of relationship triggers the existence of a group for consolidated supervision purposes. Rules 14.2.1 and 14.2.2 specify what entities should be included in the scope of consolidated supervision.

Amended by LI: (2004/56)

▪ IPRU(INV) 14.2.4(1)G

A *firm's parent* is a *financial holding company* if it is either a *financial institution* or a *securities and futures firm* that is subject to the financial rules in Chapter 3 and that is a *broad scope firm* (but not a *venture capital firm*) and if its *subsidiary undertakings* carry out mainly *listed activities*, activities of a *credit institution* or activities undertaken by a Chapter 3 *broad scope firm*. For this purpose the FCA interprets the phrases 'mainly' or 'main business' to mean where the balance of business is over 40% of the relevant group or sub-group's balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income). In addition, if the *firm's parent* has significant holdings in *insurance undertakings* or *reinsurance undertakings*, it is a *mixed financial holding company*, and the *firm* is subject to the rules in [GENPRU 3.1](#) instead of the rules in this chapter. This is because a *parent* cannot be a *financial holding company* and a *mixed financial holding company* at the same time. [GENPRU 3.1](#) sets out what constitutes significant insurance holdings (broadly more than 10% of the financial sector activities of the group). A *firm's parent* is a *financial holding company* and not regarded as a *mixed financial holding company* unless:

- . the *parent* has been notified by its *coordinator* that the group it heads is a *financial conglomerate* (in accordance with Article 4(2) of the *Financial Groups Directive*); and
- a. it has not been notified that the *coordinator* and the *relevant competent authorities* have agreed not to treat the group as a *financial conglomerate* in accordance with Article 3(3) of the *Financial Groups Directive*.

Amended by LI: (2004/56), 2005/20, 2006/53, FCA 2013/9

- IPRU(INV) 14.2.4(2)G

A *firm* with an ultimate non-EEA parent may also be subject to the provisions in [GENPRU 3.2](#).

Amended by LI: (2004/56), 2006/53

- IPRU(INV) 14.2.4(3)G

In the case where undertakings are linked to the domain of consolidation by a relationship within the meaning of article 12(1) of Directive (83/349/EEC), the *FCA* will determine how consolidation is to be carried out.

Amended by LI: (2004/56), FCA 2013/9

- Exclusions

- IPRU(INV) 14.2.5R

A *firm* may, having first notified the *FCA* in writing, exclude from its group the following:

0. any entity the total assets of which are less than the smaller of the following two amounts:
 - . 10 million euros; or
 - a. 1% of the total assets of the group's *parent* or the undertaking that holds the *participation*;

provided that the total assets of such entities do not collectively breach these limits.

1. any entity the inclusion of which within the group would be misleading or inappropriate for the purposes of *consolidated supervision*.

Amended by LI: (2004/56), FCA 2013/9

- IPRU(INV) 14.2.6G

0. The *FCA* may require a *firm* to provide information about the position in the group of any undertaking excluded from the consolidation under rule 14.2.5.
1. An exclusion under rule 14.2.5(2) would normally be appropriate when an entity would be excluded from the scope of consolidation under the relevant UK generally accepted accounting principles.

Amended by LI: (2004/56), FCA 2013/9

- IPRU(INV) 14.3 Consolidated supervision requirement
 - IPRU(INV) 14.3.1R

A *firm* must at all times ensure that its group maintains *group financial resources* in excess of its *group financial resources requirement*.

Amended by LI: (2004/56)

- IPRU(INV) 14.3.2R

A *firm*, other than one which is defined in [rule 14.1.1\(1\)](#), must at all times comply with *large exposures* limits applied on a group basis.

Amended by LI: (2004/56)

- IPRU(INV) 14.4 Group financial resources
 - IPRU(INV) 14.4.1R

A *firm* must calculate its *group financial resources* on the basis of the consolidated accounts of the relevant group, subject to the adjustments in rule 14.4.2 and on the basis specified in rule 14.4.3.

Amended by LI: (2004/56)

- IPRU(INV) 14.4.2R

0. If more than one *firm* in the group is subject to the rules of this chapter, *group financial resources* are defined according to the relevant rules applicable to the main *firm* in the group to which this chapter applies, with Tier 1 minority interests being allowed as Group Tier 1 capital and Tier 2 minority interests being allowed as Group Tier 2 capital.
1. In calculating the *group financial resources*, deductions should be made for intangible assets, material unaudited losses incurred since the balance sheet date and investments in own shares.
2. *Material holdings* and *material insurance holdings* must be recalculated on a group basis and deducted in arriving at the *group financial resources*.

Amended by LI: (2004/56), [2006/53](#)

- IPRU(INV) 14.4.3R

Financial resources will be defined based upon the main *firm* in the group to which the chapter applies as follows:

0. if a *broad scope securities and futures firm* (excluding a *venture capital firm*), Table 3-61R;
1. [deleted]

2. [deleted]
3. [deleted]
4. [deleted]

Amended by LI: (2004/56), 2006/53, 2007/27

▪ IPRU(INV) 14.4.4G

0. The *FCA* interprets 'main' by reference to the share of the *firm's* business in the group, its contribution to the group's balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income).
1. The form in SUP 16 Ann 19R, together with the guidance in [SUP 16 Ann 20G](#), shows the mechanics of the calculation.

Amended by LI: (2004/56), [FCA 2013/9](#)

▪ IPRU(INV) 14.4.5G

A *firm* may apply for a *waiver* of rule 14.4.1 to permit an aggregation approach to determine *group financial resources*. Any *waiver* application should guarantee future compliance with any relevant own funds limit.

Amended by LI: (2004/56)

▪ IPRU(INV) 14.5 Group financial resources requirement

▪ IPRU(INV) 14.5.1R

A *firm* must calculate its *group financial resources requirement* as the aggregate of:

0. the sum of the financial resources requirements of all group entities within the scope of consolidation calculated in accordance with rule 14.5.2, except that:
 - . requirements in respect of intra-group balances with other entities within the scope of consolidation should be excluded; and
 - a. [deleted]
1. the sum of any adjustments that are made to each *firm's* financial resources, calculated on a solo basis in accordance with rule 14.4.3, in order to arrive at the amount of financial resources used to meet its solo financial resources requirement. These adjustments must exclude deductions in respect of the investment in and other relationships with other entities that are included within the scope of consolidation.
2. [deleted]

The financial resources requirements of entities in which the group holds a *participation* must be included proportionately.

Amended by LI: (2004/56), 2007/27

▪ IPRU(INV) 14.5.2R

Financial resources requirements for individual entities in the group are:

0. for *firms* regulated by the *FCA* , their regulatory capital requirement under *FCA* rules;
 1. for entities regulated by an *EEA regulator* and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement;
- (2A) for entities that are recognised *third country credit institutions* or *recognised third country investment firms* and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement;
- (2B) for entities not in (2A) that are regulated by a *third country competent authority* named in the table in BIPRU 8 Annex 3R and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement; and
- for other entities in the group, a notional financial resources requirement calculated as if the entity were regulated by the *FCA* .

Amended by LI: (2004/56), 2005/20, 2006/53, FCA 2013/9

▪ IPRU(INV) 14.5.3G

0. For the purposes of rule 14.5.2(3) the notional financial resources requirements of group entities should normally be calculated as if the entities were subject to the financial rules in IPRU(INV) relevant to the main *firm* in the group. The interpretation of 'main' given in 14.4.4 G applies here.
1. For the purposes of calculating an expenditure-based requirement, no account should be taken of expenses that have been recharged to another entity included in the scope of consolidation. For example, in calculating the notional requirement for a service company, the expenditure-based requirement should be calculated net of recharged expenses. This is to avoid double counting of the expenses.
2. [deleted]

Amended by LI: (2004/56), 2007/27

- **IPRU(INV) 14.5.4G**

A firm may apply for a waiver of rule 14.5.1R, to permit a line-by-line approach to determine its *group financial resources requirement* . A firm should also demonstrate that calculating its requirement in this way does not result in a distortion of the *group financial resources requirement* .

Amended by LI: (2004/56)

- **Appendices**

Amended by LI: (2004/56)

- **APPENDIX 14(1) (INTERPRETATION) Glossary of defined terms for Chapter 14**

Note: If a defined term does not appear in the glossary below, the definition appearing in the Glossary annexed to the General Provisions Instrument 2001 applies.

<i>ancillary services undertaking</i>	an undertaking the principal activity of which consists of owning or managing property, managing data-processing services, or any other similar activity which is ancillary to the principal activity of one or more of the <i>firms</i> subject to this chapter.
[deleted]	[deleted]
<i>broad scope firm</i>	as in the Glossary in IPRU(INV) chapter 3.
<i>CAD Article 5 exempting criteria</i>	the following criteria in respect of the <i>firm</i> 's dealing positions: <ul style="list-style-type: none"> ▪ such positions arise only as a result of the <i>firm</i>'s failure to match investors orders precisely; ▪ the total market value of all such positions is subject to a ceiling of 15% of the <i>firm</i>'s initial capital; and ▪ such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.
[deleted]	[deleted]
[deleted]	[deleted]
[deleted]	[deleted]
<i>contingent liability</i>	the meaning in FRS 12 which states that it is: <ul style="list-style-type: none"> c. a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control or d. a present obligation that arises from past events but is not recognised because: <ul style="list-style-type: none"> it is not probable that a transfer of economic benefits will be required to settle the

	<p>obligation; or</p> <p>i. the amount of the obligation cannot be measured with sufficient reliability.</p>
<i>consolidated supervision</i>	the application of the financial rules in the Interim Prudential sourcebook for investment businesses in accordance with rules and guidance in 14.1.1 to 14.5.4.
<i>EEA parent</i>	a <i>firm's</i> direct or indirect <i>parent</i> which has its head office in the <i>EEA</i> .
<i>financial holding company</i>	<p>an <i>undertaking</i> that satisfies the following conditions:</p> <p>e. it is:</p> <ul style="list-style-type: none"> . a <i>financial institution</i> ; or i. a <i>firm</i> falling within IPRU(INV) rule 14.1.1(1); <p>f. its <i>subsidiary undertakings</i> are either exclusively or mainly:</p> <ul style="list-style-type: none"> . <i>credit institutions</i> ; i. <i>investment firms</i> ; ii. <i>broad scope firms</i> or <i>undertakings</i> carrying on activities which (if they were <i>firms</i> doing those activities in the <i>United Kingdom</i>) would make them <i>broad scope firms</i> ; and iii. <i>financial institutions</i> ; <p>one of which at least is a <i>credit institution</i> , a <i>firm</i> falling within IPRU(INV) rule 14.1.1(1) or an <i>investment firm</i> ; and</p> <p>g. it is not a <i>mixed financial holding company</i> .</p>
<i>financial institution</i>	an <i>undertaking</i> other than a <i>credit institution</i> , the principal activity of which is to acquire holdings or to carry on a <i>listed activity</i> .
[deleted]	[deleted]
<i>group financial resources</i>	the resources of a <i>firm's</i> group calculated in accordance with rules 14.4 (Group financial resources).
<i>group financial resources requirement</i>	the requirement that a <i>firm's</i> group maintains financial resources calculated in accordance with the rules in 14.5 (Group financial resources requirement).

<i>investment firm</i>	<i>investment firm</i> as in the main <i>Glossary</i> except that it excludes persons to which <i>MiFID</i> does not apply as a result of articles 2 or 3 of <i>MiFID</i> .
[deleted]	[deleted]
[deleted]	[deleted]
[deleted]	[deleted]
<i>material holding</i>	a holding of - <ul style="list-style-type: none"> h. ordinary share capital and non cumulative preference share capital; or i. subordinated loan and non fixed-term cumulative preference share capital, in a <i>credit institution</i> or a <i>financial institution</i> where - <ul style="list-style-type: none"> (a) or (b) above exceeds 10% of the share capital plus share premium of the issuer; or i. the aggregate of (a) and (b) above exceeds 10% of the <i>firm's own funds</i> , before deducting the holding.
<i>material insurance holding</i>	the higher of - <ul style="list-style-type: none"> 10. the book value of an <i>investment</i> held in an insurance undertaking, reinsurance undertaking, or insurance holding company (<i>investment</i> for this purpose is either a <i>participation</i> or the <i>investment</i> in a <i>subsidiary</i> undertaking); or 11. the group's proportionate share of that undertaking's local or notional regulatory capital requirement.'
<i>non-trading book</i>	in relation to a <i>firm's</i> business or exposures, means any position, counterparty exposure or balance sheet item not falling within the definition of <i>trading book</i> .
<i>parent</i>	any parent <i>undertaking</i> as defined in section 1162 of the Companies Act 2006 and any <i>undertaking</i> which effectively exercises a dominant influence over another <i>undertaking</i> .
<i>participation</i>	a participation within the meaning of Article 17 of Directive 78/660/EEC or the ownership either direct or indirect of 20% or more of the voting rights or capital of another undertaking which is not a <i>subsidiary</i> .
[deleted]	[deleted]
<i>subsidiary</i>	as in section 1159(1) of the Companies Act 2006.
<i>trading book</i>	as in the Glossary in IPRU(INV) chapter 5.
[deleted]	[deleted]
[deleted]	[deleted]

Amended by
LI: [\(2004/56\)](#), [2005/20](#), [2006/53](#), [2007/27](#), [2008/22](#), [FCA 2013/79](#)

○ **Annex A: Limited Liability Partnerships: Eligible Members' Capital**

Current version: effective from Jun 30 2016 - Aug 31 2016.

1 Introduction

Application

1.1 R

This annex applies to any *firm* :

1. that is a *limited liability partnership* ; and
2. that is a kind of *firm* to whom the provisions of this sourcebook apply.

1.2 R

In this annex, an expression in italics has the meaning given in the *Handbook Glossary*.

1.3 G

3. *Firms* are reminded that a *limited liability partnership* incorporated under the Limited Liability Partnership Act 2000 is a *body corporate* with legal personality separate to that of its members and is not therefore a form of *partnership* for the purposes of this sourcebook.
4. A *limited liability partnership* is not a separate prudential categorisation under this sourcebook but a kind of *firm* for whom the appropriate provisions of this sourcebook are modified to the extent indicated in this annex.

Purpose

1.4 G

The purpose of this annex is to amplify *Principle 8* (Financial resources) which requires a *firm* to maintain adequate financial resources to meet its investment business commitments and to withstand the risks to which its business is subject. This annex imposes various conditions that must be satisfied for members' capital to count as "Tier 1" or equivalent grade capital in meeting the *limited liability partnership's* financial resources requirement. These conditions are made up of conditions specific to *limited liability partnerships* and general conditions based for the most part on those set out in article 57 of the *Banking Consolidation Directive* . This assists in the achievement of the *statutory objective* of consumer protection.

1.5 G

The following *rules* allow inclusion of members' capital within a firm's capital if it meets the conditions in this annex:

Chapter	<i>IPRU(INV) rule</i>	How <i>eligible LLP members'</i> capital should be treated for the purposes of the <i>IPRU(INV) rule</i>
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3	Table 3-61	<i>Eligible LLP members' capital</i> may be counted as Tier 1 capital under item "A" within Table 3-61.
5	Table 5.2.2 (1): Item (1A)	<i>Eligible LLP members' capital</i> may be counted as Tier 1 capital within Category A of Table 5.2.2(1).
9	9.3.1	<i>Eligible LLP members' capital</i> may be counted as initial capital within IPRU(INV) 9.3.1
10	Table 10-61(1)A Table 10-61(1)B Table 10-62(2)A Table 10-62(2)B Table 10-62(2)C	<i>Eligible LLP members' capital</i> may be counted as initial capital within the relevant table.
11	Table 11.4	<i>Eligible LLP members' capital</i> may be counted as Item (5) in Table 11.4.
13	Table 13.10(2) Table 13.15.3(1) 13.1A.6	<i>Eligible LLP members' capital</i> may be counted as <i>own funds</i> relating to companies in Table 13.10(2) . <i>Eligible LLP members' capital</i> may be counted as capital resources relating to companies in IPRU(INV) 13.15.3(1). <i>Eligible LLP members' capital</i> may be counted as <i>initial capital</i> within IPRU(INV) 13.1A.6 .

2. Conditions For Use of Members' Capital

Members' capital of a limited liability partnership

2.1 R

In this sourcebook, members' capital of a *limited liability partnership* may be included within a *firm's* resources if it complies with:

- v. the specific conditions; and
- vi. the general conditions.

Specific conditions for eligibility

2.2 R

The specific conditions are that:

- 7. members' capital is made up of the members' capital account; and
- 8. the members' capital account is an account:
 - . into which capital contributed by the members is paid; and

- a. from which under the terms of the *limited liability partnership* agreement an amount representing capital may be withdrawn by a member only if:
 - . he ceases to be a member and an equal amount is transferred to another such account by his former fellow members or any person replacing him as a member;
 - i. the *limited liability partnership* is wound up or otherwise dissolved; or
 - ii. the *firm* has ceased to be *authorised* or no longer has a *Part 4A permission* .

General conditions for eligibility

2.3 R

The general conditions in respect of the members' capital are that:

9. it is fully paid and the proceeds are immediately and fully available to the *firm* ;
10. it is not capable of being redeemed at all (otherwise than in the circumstances set out in the specific conditions) or can only be redeemed on a winding up of the *firm* ;
11. any *coupon* is non-cumulative;
12. it is able to absorb losses to allow the *firm* to continue trading;
13. the amount of the item included is net of any foreseeable tax charge;
14. it is available to the *firm* for unrestricted and immediate use to cover risks and losses as soon as they occur;
15. it ranks for repayment on a winding up of the *firm* no higher than a *share* of a company incorporated under the [Companies Act 2006](#) (whether or not it is such a *share*); and
16. the *firm* is under no obligation to pay a *coupon* on it at any time.

Surplus eligible LLP members' capital

2.4 G

If a *firm* has surplus *eligible LLP members' capital* that it wishes to repay in circumstances otherwise than those in the specific conditions, it may apply to the *FCA* for a *waiver* to allow it to do so. If a *firm* applies for such a *waiver* the information that the *firm* supplies to support the application might include:

17. a demonstration that the *firm* would have sufficient financial resources to meet its financial resources requirement immediately after the repayment; and
18. a two to three year capital plan demonstrating that the *firm* would be able to meet the requirements in (1) and (2) at all times without needing further capital injections.

Limited liability partnership excess drawings

2.5 R

A firm which is a *limited liability partnership* must in calculating its Tier 1 or equivalent grade capital in accordance with the requirements of any chapter of this sourcebook deduct the amount by which the aggregate of the amounts withdrawn by its members exceeds the profits of that firm ("*excess LLP members' drawings*"). Amounts of *eligible LLP members' capital* repaid in accordance with the specific conditions are not to be included in this calculation.

Amended by: LIs [2006/55](#), [2007/35](#), [2007/02](#), [2009/50](#), [FCA 2013/9](#), [FCA 2013/10](#), [PRA 2013/5](#), [FCA 2013/51](#), [FCA 2015/57](#)

○ Annex D : Required Forms

- Chapter 2 Authorised professional firms
 - Form 2.1 Form of Bond

Click [here](#) for Form 2.1: Form of Bond.

- Chapter 3 Securities and Futures Firms which are not MiFID Investment Firms or which are Exempt BIPRU Commodities Firms
 - Form 3.1 Approved Form of Subordinated Loan Agreement

Click [here](#) for Form 3.1: Approved Form of Subordinated Loan Agreement.

Amended by: LI [FCA 2013/9](#)

- Form 3.2 Form of Deed of Termination

Click [here](#) for Form 3.2: Form of Deed of Termination.

Amended by: LI [FCA 2013/9](#)

- Form 3.3 Form of Deed of Variation

Click [here](#) for Form 3.3: Form of Deed of Variation.

Amended by: LI [FCA 2013/9](#)

- Form 3.4 Form of Guarantor Undertaking

Click [here](#) for Form 3.4: Form of Guarantor Undertaking.

Amended by: LI [FCA 2013/9](#)

- Form 3.5 Guidance Notes on Completion of Agreements

Click [here](#) for Form 3.5: Guidance Notes on Completion of Agreements.

Amended by: LI [FCA 2013/9](#)

- **Form 3.6 Form of Approved Bank Bond (with power of attorney)**

Click [here](#) for Form 3.6: Form of Approved Bank Bond (with power of attorney).

Amended by: LI [FCA 2013/9](#)

- **Form 3.7 Approved Form of Undertaking**

Click [here](#) for Form 3.7: Approved Form of Undertaking.

Amended by: LI [FCA 2013/9](#)

- **Chapter 5 Financial Resources**
 - **Form 5.1 Prescribed Subordinated Loan Agreement**

Click [here](#) for Form 5.1: Prescribed Subordinated Loan Agreement.

Amended by: LI [FCA 2013/9](#)

- **Form 5.2 Prescribed Approved Undertaking**

Click [here](#) for Form 5.2: Prescribed Approved Undertaking.

Amended by: LI [FCA 2013/9](#)

- **Chapter 9 Exempt CAD Firms**
 - **Form 9.1 Approved Form of Long term Subordinated Loan Agreement**

Click [here](#) for Form 9.1: Approved Form of Long term Subordinated Loan Agreement.

Amended by: LI [FCA 2013/9](#)

- **Form 9.3 Form of Deed of Termination**

Click [here](#) for Form 9.3: Form of Deed of Termination.

Amended by: LI [FCA 2013/9](#)

- **Form 9.4 Form of Deed of Variation**

Click [here](#) for Form 9.4: Form of Deed of Variation.

Amended by: LI [FCA 2013/9](#)

- **Form 9.5 Form of Guarantor Undertaking**

Click [here](#) for Form 9.5: Form of Guarantor Undertaking.

Amended by: LI [FCA 2013/9](#)

- **Form 9.8 Guidance Notes on Completion of Agreements**

Click [here](#) for Form 9.8: Guidance Notes on Completion of Agreements.

Amended by: LI [FCA 2013/9](#)

- **Chapter 13 Personal Investment Firms**

- **Form 13.1 Form of subordinated loan (with guidance notes)**

Click [here](#) for Form 13.1: Form of subordinated loan (with guidance notes).

Amended by: LI [FCA 2013/9](#)

- **Transitional provisions**

1 Table Transitional provisions applying to IPRU(INV)

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force
1	[deleted]		[Deleted: material moved to <i>UPRU</i>]	[Deleted: material moved to <i>UPRU</i>]	[Deleted: material moved to <i>UPRU</i>]
2	[deleted]		[Deleted]	[Deleted]	[Deleted]
3	IPRU(INV) 9.2.5R and IPRU(INV) 13.1.4(2)R(b)	R	The new <i>limits of indemnity</i> apply to a professional indemnity policy or a comparable guarantee commenced, renewed or extended with effect from or after 1 March 2009. Any other existing non-annual arrangements must be aligned with the new <i>limits of indemnity</i> before 1 March	1 March 2009 to 28 February 2010	1 March 2009

			2010.		
4	[Deleted]		[Deleted]	[Deleted]	[Deleted]
5	IPRU(INV) 11	R	[expired]	[expired]	[expired]
6	The changes to <i>IPRU(INV)</i> in Annex J of the Alternative Investment Fund Managers Directive Instrument 2013 and Annex C of the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instrument 2013	R	[expired]	[expired]	[expired]
7	IPRU(INV) 11	R	Where a <i>firm</i> falls within regulation 74(1) or 75(1) of the <i>AIFMD UK regulation</i> it need not include <i>AIFs</i> managed by it that fall within those regulations in the calculation of its <i>funds under management requirement</i> , <i>professional negligence capital requirement</i> or <i>PII excess capital requirement</i> .	From 22 July 2013	22 July 2013
8	[spent]*	[spent]*	[spent]*	[spent]*	[spent]*
9	[spent]*	[spent]*	[spent]*	[spent]*	[spent]*
10	IPRU(INV) 12	R	IPRU(INV) 12 does not apply to a <i>firm</i> with an <i>interim permission</i>	Indefinitely	1 April 2014
11	IPRU(INV) 12.2.6R(1)	R	The amount is replaced with £20,000	From 1 April 2014 to 31 March 2017	1 April 2014
12	IPRU(INV) 12.3.5R	R	b = items 1,4 and 5 in the Table of items which must be deducted in arriving at <i>a firm's financial resources</i> (see IPRU(INV) 12.3.3R)	From 1 April 2014 to 31 March 2017	1 April 2014
13*	IPRU(INV) 5.2.3(3)R(a)(ib)(A) and	R	A <i>depository</i> of a <i>UCITS scheme</i> appointed before 18 March 2016 need not calculate its <i>own funds requirement</i> under articles 315 or 317 of the <i>EU CRR</i> .	From 18 March 2016 to 18 March 2018	18 March 2016

14* *	IPRU(INV) 5.2.3(3)R(a)(ib)(A) and	R	A <i>depository</i> of a <i>UCITS</i> scheme appointed before 18 March 2016 need not comply with IPRU(INV) 5.2.3(3)(E)R.	From 18 March 2016 to 18 March 2018	18 March 2016
13* *	IPRU(INV) 13.1A.3R(2)	R	A <i>firm</i> applying (b) or (c) above must have <i>initial capital</i> of at least £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
14* *	IPRU(INV) 13.1A.4R(2)	R	A <i>firm</i> applying (b) or (c) above must have <i>initial capital</i> of at least £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
15	IPRU(INV) 13.13.2R(2)(a)	R	The <i>firm</i> must calculate its capital resources requirement as the higher of: £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
16	IPRU(INV) 13.13.3R(2)(a)	R	The <i>firm</i> must calculate its capital resources requirement as the higher of: £15,000.	From 30 June 2016 to 29 June 2017	30 June 2016
17	IPRU(INV) 13.15.9R and IPRU(INV) 13.15.10R	R	These <i>rules</i> do not apply to a <i>category B3 firm</i> which is not a <i>network</i> , has fewer than 26 <i>financial advisers</i> or <i>representatives</i> and is not permitted to: carry on discretionary portfolio management; <i>establish, operate or wind up a personal pension scheme</i> ; or delegate the activities in (a) or (b) to an <i>investment firm</i> .	From 30 June 2016 to 29 June 2017	30 June 2016

Amended by: Lis [2003/47](#), [2004/42](#), [2006/53](#), [2009/4](#), [2009/62](#), [2011/44](#), [FCA 2013/51](#), [2011/44](#) (replacing amendments made by [2009/62](#)), [FCA 2013/61](#), [FCA 2013/77](#), [FCA 2014/59](#), [FCA 2016/4](#), [FCA 2015/57](#)

* Entries 8 and 9 are spent following the revocation of LI [2009/62](#), Annex B, Pt 2, and Lis [2011/44](#) and [FCA 2013/67](#) by LI [FCA 2015/57](#)

** Note also that the first pair of paragraphs 13 and 14 were added later, but came into force sooner, than the second pair.