

**CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE
REQUIREMENTS FOR PERSONAL INVESTMENT FIRMS INSTRUMENT 2009**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 156 (General supplementary powers); and
 - (3) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. (1) Subject to (2), this instrument comes into force on 31 December 2009.
(2) Part 2 of Annex B to this instrument comes into force on 31 December 2011.

Amendments to the Handbook

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Interim Prudential sourcebook for Investment Businesses (IPRU(INV)) is amended in accordance with Annex B to this instrument.

Notes

- F. In Annex B to this instrument, the “notes” (indicated by “**Note:**”) are intended for the convenience of readers but do not form part of the legislative text.

Citation

- G. This instrument may be cited as the Capital Resources and Professional Indemnity Insurance Requirements for Personal Investment Firms Instrument 2009.

By order of the Board
5 November 2009

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical place. This text is not underlined.

<i>annual financial statements</i>	the financial statements in respect of the year ending on the <i>firm's</i> annual accounting reference date, which is the date to which a corporate <i>firm's</i> accounts are prepared for the purposes of the Companies Acts, or, where the <i>firm</i> is not subject to the Companies Acts, the equivalent date chosen by the <i>firm</i> and notified to the <i>FSA</i> .
<i>category B firm</i>	a <i>personal investment firm</i> , other than an <i>exempt CAD firm</i> .
<i>category B1 firm</i>	a <i>category B firm</i> whose <i>permission</i> includes <i>dealing in investments as principal</i> .
<i>category B2 firm</i>	a <i>category B firm</i> whose <i>permission</i> does not include <i>dealing as principal</i> ; and is not subject to a <i>requirement</i> preventing the holding or controlling of <i>client money</i> or <i>custody assets</i> .
<i>category B3 firm</i>	a <i>category B firm</i> : <ul style="list-style-type: none"> (a) whose <i>permission</i> includes only <i>insurance mediation activity</i> in relation to <i>non-investment insurance contracts</i>, <i>home finance mediation activity</i>, <i>assisting in the administration and performance of contracts of insurances</i>, <i>arranging transactions in life policies</i> and other insurance contracts, <i>advising on investments</i> and receiving and transmitting, on behalf of investors, orders in relation to <i>securities</i> and <i>units in collective investment schemes</i>; and (b) which is subject to a <i>requirement</i> not to hold or control <i>client money</i> or <i>custody assets</i>.
<i>financial adviser</i>	(a) an individual appointed by an independent intermediary or by its <i>appointed representative</i> or where applicable, <i>tied agent</i> , to provide any or all of the following services: <ul style="list-style-type: none"> (i) giving advice on <i>investments to clients</i>; (ii) <i>arranging (bringing about) deals in investments</i> or <i>executing transactions</i> involving, in each case, <i>designated investments</i> with or for <i>clients</i>;

- (iii) *managing investments*;
 - (iv) receiving or holding *client money* or other *client assets*;
 - (v) *safeguarding and administering investments*.
- (b) For the purposes of this definition, an independent intermediary is a *firm* acting as an intermediary but excluding:
- (i) a *firm* which is a member of a *marketing group*;
 - (ii) a *product provider* which *sells* its own *packaged products*.

marketing group

a group of *persons* who:

- (a) are allied together (either formally or informally) for the purposes of marketing *packaged products* of the *marketing group*; and
- (b) each of whom, if it holds itself out in the *United Kingdom* as marketing *packaged products* to *private customers*, does so only as an *investment manager* or in relation to *packaged products* of the *marketing group*.

marketing group associate a *firm* other than a *product provider* which is a member of a *marketing group*.

net long position

the situation in which a *firm* holds or will hold more *units* in an *investment* than it has contracted to *sell* or, in respect of *options*, where it has bought rights which exceed rights sold.

net open foreign currency position

(in *IPRU(INV)* 13) a *firm's net long position* or *net short position*, whichever is the higher, in a currency other than that in which the *firm's* books of account are maintained.

net short position

- (1) (except in *IPRU(INV)* 13) a net short position which gives rise to an economic exposure to the issued *share* capital of a company.

Any calculation of whether a *person* has a short position must take account of any form of economic interest in the *shares* of the company.

- (2) (in *IPRU(INV)* 13) the situation in which a *firm* has contracted to *sell* more of an *investment* than it holds or will hold or, in respect of *options*, where it has sold rights which exceed the rights bought.

<i>opted-in exempt CAD firm</i>	an <i>exempt CAD firm</i> which complies with the requirements in regulation 4C (or any successor provision) of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2007 (SI 2007/126).
<i>property fund</i>	<ul style="list-style-type: none"> (a) a <i>regulated collective investment scheme</i> dedicated to land and interests in land; (b) a fund of funds of which one or more of the funds to which it is dedicated falls within (a); (c) a constituent part of an umbrella fund which, if it were a separate fund, would fall within (a).
<i>special adjustment</i>	(in <i>IPRU(INV) 13</i>) a <i>position</i> risk adjustment, counterparty risk adjustment and foreign exchange adjustment.
<i>verified</i>	<p>(in <i>IPRU(INV) 13</i>) where interim net profits are to be included in a <i>firm's</i> capital resources, checked by an external auditor who has undertaken at least to:</p> <ul style="list-style-type: none"> (a) satisfy himself that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records; (b) review the accounting policies used in calculating the interim profits so as to obtain comfort that they are consistent with those normally adopted by the <i>firm</i> in drawing up its <i>annual financial statements</i> and are in accordance with the accounting principles set out in <i>IPRU(INV) 13</i>; (c) perform analytical procedures on the result to date, including comparisons of actual performance to date with budget and with the results of prior period(s); (d) discuss with management the overall performance and financial <i>position</i> of the <i>firm</i>; (e) obtain adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities and provisioning for bad and doubtful debts have been properly taken into account in arriving at the interim profits; and (f) follow up problem areas of which he is already aware in the course of auditing the <i>firm's</i> financial statements, a copy of whose report asserting that the interim net profits are reasonably stated has been submitted to the <i>FSA</i> (although

this does not apply to *exempt CAD firms*).

Amend the following definitions as shown.

- adviser*
- (1) (except in IPRU(INV) 13) an individual who is: a *representative*, an *appointed representative* or a *tied agent*.
- (2) (in IPRU(INV) 13) a *financial adviser*.
- initial capital*
- ...
- (5) (in the case of an *institution* that is an *EEA firm*) capital resources calculated in accordance with the *CRD implementation measures* of its *Home State* for Article 4 of the *Capital Adequacy Directive* (Definition of initial capital) or Article 9 of the *Banking Consolidation Directive* (Initial capital requirements); ~~and~~
- (6) (for the purposes of the definition of *dealing on own account* and in the case of an *undertaking* not falling within (3) or (4)) *capital resources* calculated in accordance with (3) and paragraphs (3) and (4) of the definition of *capital resources*; and
- (7) (in IPRU(INV) 13) the *initial capital* of a *firm* calculated in accordance with IPRU(INV) 13.1A.6R.
- representative*
- (1) an individual who:
- ...
- (2) (in IPRU(INV) 13 in relation to *designated investment business*) an individual appointed by a provider firm or by an *appointed representative* or *tied agent* of that firm to carry out either or both of the following activities:
- (a) giving *advice on investments* to *customers* on the merits of *packaged products* offered by that *firm* (or any other provider firm within the same *marketing group*); or
- (b) arranging (bringing about) *deals in investments* in relation to those products.
- (3) In (2), a provider firm is a *firm* that is:
- (a) a *product provider*; or
- (b) a *marketing group associate*.

Annex B

**Amendments to the Interim Prudential sourcebook for Investment Businesses
(IPRU(INV))**

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 31 December 2009

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
...					
<u>4</u>	<u>13.1.21 and 13.1.23</u>	<u>R</u>	<u>The requirement to hold additional capital resources where a policy excludes business or activities that have been carried out by the <i>firm</i> in the past or will be carried out by the <i>firm</i> only apply to a <i>professional indemnity policy</i> taken out, renewed or extended with effect from 31 December 2009.</u>	<u>31 December 2009 to 31 December 2010</u>	<u>31 December 2009</u>

Chapter 1: Application and General Provisions

...

1.2.1 R The ~~Glossary~~ Glossary applies to the transitional provisions, this chapter (*IPRU(INV)* 1), *IPRU(INV)* 2, *IPRU(INV)* 4 ~~and~~, *IPRU(INV)* 6 and *IPRU(INV)* 13.

...

Chapter 13: Financial Resource Requirements for Personal Investment Firms

APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS

~~13.1~~ APPLICATION

- 13.1.1 R (1) This chapter applies to a *firm* which is a *personal investment firm*.
- (2) For a *personal investment firm* which is an *exempt CAD firm*, the following apply:
- (a) sections 13.1 and 13.1A; and
- (b) if it is not an *opted-in exempt CAD firm*, sections 13.2 to 13.8; or
- (c) if it is an *opted-in exempt CAD firm*, sections 13.9 to 13.12 (but reading references to ~~Category~~ *category B firm* as references to the *firm*).
- (3) ~~Section 13.1 and sections 13.9 to 13.12 apply to~~ For a *personal investment firm* which is a ~~Category~~ *category B firm*, section 13.1 and sections 13.9 to 13.12 apply.
- (4) ~~The definitions in the Glossary at Appendix 13(1) apply to this chapter.~~
- 13.1.1A G ~~Firms are reminded that a *media firm* is not a *personal investment firm*.~~

PURPOSE

- 13.1.2 G This chapter amplifies *threshold condition 4* (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.

- 13.1.3 G 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.

GENERAL REQUIREMENTS

- 13.1.2
13.1.4 R A *firm* must at all times:
- (1) have and maintain ~~at all times financial~~ capital resources of the kinds and amounts specified in, and calculated in accordance with, the *rules* of this chapter; and
 - (2) be able to meet its liabilities as they fall due.

REQUIREMENT TO HOLD PROFESSIONAL INDEMNITY INSURANCE

- 13.1.5 R 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*]

- 13.1.6 R An *exempt CAD firm* is not required to effect and maintain professional indemnity insurance unless it chooses this option (see 13.1A).

COMPARABLE GUARANTEE

- 13.1.7 R (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.

- 13.1.3(1) G ~~Under *Principles 3 and 4* a *firm* is required to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems and to maintain adequate financial resources. Under *Principle 9* a *firm* is obliged to take reasonable care to ensure the suitability of its *advice on investments* and discretionary decisions for any *customer* who is entitled to rely upon its judgement.~~
- 13.1.3(2) G ~~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 13.1.4(1) to 13.1.4(15) is 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.~~

RELEVANT INCOME

- 13.1.3(3) R The term "relevant income" in ~~IPRU(INV) 13.1~~ 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").
- 13.1.8
- 13.1.4(1) R (1) ~~A *firm* must take out and maintain at all times professional indemnity insurance that is at least equal to the requirements of 13.1.4(2) to 13.1.4(15).~~
- (2) ~~Paragraph (1) does not apply to an *exempt CAD firm* unless it chooses to comply with these rules (see 13.1A).~~

POLICY TERMS

- 13.1.4(2) R The policy must incorporate terms which are appropriate and must make provision for:
- 13.1.9
- (a) 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:
- (i) (1) the *firm*; or
- (ii) (2) any *person* acting on behalf of the *firm* including *employees, appointed representatives* or its other agents;

LIMITS OF INDEMNITY — ~~IMD INSURANCE INTERMEDIARY OR AN EXEMPT CAD FIRM~~

13.1.10 R ~~(b)~~ ~~if~~ 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 ~~which~~ are no lower than:

~~(i)~~ (1) €1,120,200 for a single claim against the *firm*; and

~~(ii)~~ (2) €1,680,300 in the aggregate;

[**Note:** Article 4(3) of the *Insurance Mediation Directive*]

13.1.11 R ~~(ba)~~ ~~if~~ 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 ~~which~~ are no lower than:

~~(i)~~ (1) €1,000,000 for a single claim against the *firm*; and

~~(ii)~~ (2) €1,500,000 in the aggregate;

[**Note:** Article 67(3) of *MiFID* and Article 7 of *CAD* (see also *rule 13.1A.3*)]

13.1.12 R ~~(e)~~ ~~if~~ 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 ~~13.1.4(2)(b)~~ 13.1.10R per year ~~which~~ are no lower than:

~~(i)~~ (1) €500,000 for a single claim against the *firm*; and

~~(ii)~~ (2) €750,000 in the aggregate.

[**Note:** Article 67(3) of *MiFID* and Article 8 of *CAD* (see also *rule 13.1A.4*)]

LIMITS OF INDEMNITY — ~~OTHER FIRMS~~

13.1.13 R ~~(d)~~ ~~if~~ If the *firm* is not an *IMD insurance intermediary* or an *exempt CAD firm*, then the following *limits of indemnity* apply:

~~(i)~~ (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

~~(ii)~~ (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.

~~13.1.4(2A)~~ 13.1.14 G 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.

- 13.1.4(3) R If a policy is denominated in any currency other than euros, ~~an *IMD insurance intermediary*~~ 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 those ~~required in 13.1.4(2)(b)~~ denominated in euros.

READILY REALISABLE OWN FUNDS

- 13.1.4(4) G For the purposes of the following provisions relating to professional indemnity insurance, the *FSA* expects items included in *own funds* to be regarded as "readily realisable" only if they can be realised, at any given time, within 90 days.
- 13.1.16 G 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.)
- 13.1.17 G 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.

POLICIES PROVIDING COVER FOR MORE THAN ONE FIRM

- 13.1.18 R 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 *FSA* if the aggregate cover in the policy falls below the minimum *limits of indemnity*.

LIMITS OF INDEMNITY – ADDITIONAL REQUIREMENTS

- 13.1.4(5) E (a) In addition to the specific requirements in ~~13.1.4(2)~~ 13.1.9R to 13.1.13R, to incorporate appropriate terms, the policy should 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
------------------------	-------------------

more than	up to	<i>limit of indemnity</i> (£)
...		

- (2) (ii) full retroactive cover in respect of the kinds of liabilities described in ~~13.1.4(2)~~ 13.1.9R for claims arising from work carried out by the *firm*, or on its behalf, in the past; and
- (3) (iii) cover in respect of *Ombudsman* awards made against the *firm*.
- (b) ~~Compliance with (a) may be relied on as tending to establish compliance with the requirement in 13.1.4(2) for the professional indemnity insurance terms to be appropriate.~~
- (c) ~~Contravention of (a) may be relied on as tending to establish contravention of the requirement in 13.1.4(2) for the professional indemnity insurance terms to be appropriate.~~

13.1.4(6) G ~~A *firm* should consider whether the overall cover is adequate taking account of 13.1.4(9)(b) 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.)~~

13.1.4(7) G ~~The cover provided by the policy should be wide enough to include the liability of the *firm*, its *appointed representatives*, or where applicable, its *tied agent*, *employees* and its agents for breaches of the *firm's* duty of skill and care, fiduciary duty, duty to look after documents or assets, fraud, and breaches of obligations imposed by or under *the Act* (or the Financial Services Act 1986 if relevant). If the *firm* operates outside the *UK* then the policy should cover other regulatory requirements imposed under the laws of other countries in which the *firm* operates.~~

EXCLUSIONS LIMITATIONS

13.1.4(8) R ~~The policy must not be subject to conditions or exclusions which unreasonably limit the its cover provided for in 13.1.4(2) (whether by exclusion of cover, by policy excesses or otherwise).~~

EXCLUSIONS

13.1.21 R 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.

- 13.1.4(9) 13.1.22 G (a) The FSA considers it reasonable for a firm's policy to exclude cover for:
- (i) 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
 - (ii) specific claims that have been previously notified to the firm's insurer and claimed for under another policy.
- (b) The FSA 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.

ADDITIONAL CAPITAL RESOURCES – EXCLUSIONS

- 13.1.23 R The amount of additional capital resources that a firm must hold as a result of an exclusion under 13.1.21R should be calculated by referring to the firm's relevant income in the following table:

<u>Relevant income £000s</u>		<u>Minimum additional capital resources</u> <u>£000s</u> <u>(Notes 1 and 2)</u>
<u>more than</u>	<u>up to</u>	
<u>0</u>	<u>100</u>	<u>5</u>
<u>100</u>	<u>200</u>	<u>12</u>
<u>200</u>	<u>300</u>	<u>18</u>
<u>300</u>	<u>400</u>	<u>21</u>
<u>400</u>	<u>500</u>	<u>23</u>
<u>500</u>	<u>600</u>	<u>25</u>
<u>600</u>	<u>700</u>	<u>27</u>
<u>700</u>	<u>800</u>	<u>28</u>
<u>800</u>	<u>900</u>	<u>30</u>
<u>900</u>	<u>1,000</u>	<u>31</u>
<u>1,000</u>	<u>1,500</u>	<u>37</u>
<u>1,500</u>	<u>2,000</u>	<u>42</u>
<u>2,000</u>	<u>2,500</u>	<u>46</u>
<u>2,500</u>	<u>3,000</u>	<u>51</u>
<u>3,000</u>	<u>3,500</u>	<u>55</u>

<u>3,500</u>	<u>4,000</u>	<u>59</u>
<u>4,000</u>	<u>4,500</u>	<u>63</u>
<u>4,500</u>	<u>5,000</u>	<u>67</u>
<u>5,000</u>	<u>6,000</u>	<u>73</u>
<u>6,000</u>	<u>7,000</u>	<u>79</u>
<u>7,000</u>	<u>8,000</u>	<u>85</u>
<u>8,000</u>	<u>9,000</u>	<u>90</u>
<u>9,000</u>	<u>10,000</u>	<u>95</u>
<u>10,000</u>	<u>100,000</u>	<u>95y</u>
<u>100,000</u>	<u>n/a</u>	<u>950</u>
<u>Note 1 – For <i>firms</i> with relevant income of more than £10m but up to £100m value y is calculated by relevant income/ £10m.</u>		
<u>Note 2 – The calculation of a <i>firm</i>'s capital resources is set out in sections 13.1A to 13.12 (see <i>rule</i> 13.1.1 for application of these sections to an <i>exempt CAD firm</i> and a <i>category B firm</i>).</u>		

- 13.1.24 G The *firm* should hold additional capital resources in excess of those minimum amounts set out in the table in 13.1.23R where the required amounts of additional capital resources provide insufficient cover, taking into account the *firm*'s individual circumstances.

EXCESS LEVEL

- 13.1.4(10) E R (a) The policy should must not:
- 13.1.25
- (i) make provision for payment by the *firm* of an excess on any claim of more than £5,000-, unless ~~(This does not apply to the extent that the *firm* holds additional *own funds* in a readily realisable form capital resources, in accordance with 13.1.4(12)) 13.1.27R; or,~~
- (ii) 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. (This does not apply to the extent that the *firm* holds, by way of additional *own funds* in a readily realisable form, an amount equivalent to a reasonable provision against its potential liabilities for that business or activity. Guidance on this is given in 13.1.4(13) and (14)); or

(iii) ~~exclude liability which is identified or crystallised as a result of regulatory action against the *firm* (either individually or as a member of a class of *authorised person*).~~

(b) ~~Contravention of (a) may be relied on as tending to establish contravention of 13.1.4(8).~~

~~EXCESS LEVEL~~

13.1.4(11) ~~E R~~ The reference to “excess” in 13.1.4(10)(a)(i) is to the highest excess level required to be paid under the policy unless that excess relates to a type of business that has not been carried out by the *firm* in the past. In those circumstances, the reference is to the next highest excess level required by the policy applicable to a type of business that has been carried out by the *firm* in the past.

13.1.26

~~ADDITIONAL OWN FUNDS CAPITAL RESOURCES – EXCESS~~

13.1.4(12) ~~E R~~ The amount of additional *own funds* capital resources that a *firm* must hold where the policy’s excess on any claim is more than £5,000 ~~in 13.1.4(10)(a)(i) should~~ must be calculated by referring to the *firm*’s relevant income and excess obtained in the following table:

13.1.27

All amounts are shown in £000s (Notes 1 and 2)		
Relevant income is		Excess obtained, up to and including
more than	up to	...
...		
<u>Note 1 – For <i>firms</i> with relevant income of more than £10m but up to £100m value <i>y</i> is calculated by relevant income/ £10m.</u>		
<u>Note 2 – The calculation of a <i>firm</i>’s capital resources is set out in sections 13.1A to 13.12 (see <i>rule</i> 13.1.1 for application of these sections to an <i>exempt CAD firm</i> and a <i>category B firm</i>).</u>		

~~EXCLUSIONS~~

13.1.4(13) ~~G~~ A *firm* should take into account the following when assessing the amount of additional *own funds* to be held as provision as described in 13.1.4(10)(a)(ii):

(a) ~~the type of business line or activity excluded and the types of claim which might arise from it;~~

- (b) ~~the number of contracts written or volume of activity;~~
- (c) ~~the number of complaints received by the *firm* relating to the excluded business or activity;~~
- (d) ~~generally accepted accounting principles applicable to provisions; and~~
- (e) ~~any other relevant information.~~

13.1.4(14) G If the *firm* holds additional *own funds* in accordance with 13.1.4(13) then the amount should be reviewed regularly. The reviews should take account of changes in the status of the policy exclusion(s) and any relevant changes to the *firm's* circumstances.

~~POLICIES PROVIDING COVER FOR MORE THAN ONE FIRM~~

- 13.1.4(15) R ~~If the policy provides cover to more than one *firm* then in relation to 13.1.4(2) and (3):~~
- (a) ~~the relevant income for calculating the *limits of indemnity* is that of all the *firms* named in the policy combined;~~
 - (b) ~~each *firm* named in the policy must have the benefit of the minimum *limits of indemnity* as required in 13.1.4(2);~~
 - (c) ~~each *firm* named in the policy must notify the *FSA* if the aggregate cover in the policy falls below the minimum in 13.1.4(2).~~

~~EXEMPTION FROM HOLDING PROFESSIONAL INDEMNITY INSURANCE~~

- 13.1.5 R (1) ~~A *firm* is not required to effect or maintain professional indemnity insurance if a *bank, building society, insurer* or a *firm* which is a *friendly society* 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, insurer* or a *firm* which is a *friendly society*, the *firm's* comparable guarantee must be from that *bank, building society, insurer* or *friendly society*.~~
- (3) ~~A comparable guarantee means an enforceable, written agreement on terms at least equal to those required by *IPRU(INV)* 13.1.4(2)R.~~
- 13.1.6 R A *firm* must take out professional indemnity insurance from:
- (a) ~~any *insurance undertaking* which is authorised to transact professional indemnity insurance in the *EEA*; or~~
 - (b) ~~a *person* of equivalent status in~~

- (i) ~~a Zone A country;~~
- (ii) ~~the Channel Islands, Gibraltar, Bermuda or the Isle of Man.~~

NOTIFICATION REQUIREMENTS

- 13.1.7 G ~~Rule 13.1.9 is a notification rule and is in addition to any notification requirements in the Supervision Manual (Sup 15).~~
- 13.1.8 G ~~Firms are reminded to comply with SUP 15.7 (Form and method of notification) when notifying the FSA in accordance with rule 13.1.9.~~
- 13.1.9 R A firm must notify the FSA immediately if it becomes aware, or has information which reasonably suggests, that any of the ~~matters in Table~~
 13.1.28 13.1(1) following matters in relation to its professional indemnity insurance has occurred, may have occurred or may occur in the foreseeable future.;

~~Table 13.1(1)~~

~~This table forms part of 13.1.9~~

NOTIFIABLE EVENTS

1. ~~In relation to professional indemnity insurance, required in accordance with 13.1.4(1) to 13.1.4(15) and 13.1.5, if:~~
- (a) (1) professional indemnity insurance cannot be obtained within 28 days of the inception or renewal date;
 - (b) (2) professional indemnity insurance is cancelled;
 - (c) (3) the amount of aggregate cover is exhausted;
 - (d) (4) the firm commences business lines for which it had not obtained cover;
 - (e) (5) the firm is relying on ~~13.1.4(15)~~ a policy that provides cover for more than one firm; or
 - (f) (6) the firm is relying on ~~13.1.5~~ a comparable guarantee provided in accordance with the rules in this chapter.
2. ~~In respect of an exempt CAD firm complying with section 13.3:~~
- (a) ~~own funds falling below the applicable reference level;~~
 - (b) ~~own funds reaching the applicable € level specified in rule 13.3.1;~~
 - (c) ~~change of control causing loss of eligibility for that alternative test;~~

3.

- (a) [deleted]
- (b) [deleted]
- (c) [deleted]
- (d) [deleted]
- (e) [deleted]
- (f) [deleted]
- 13.1.10 R [deleted]
- 13.1.11 G [deleted]
- 13.1.12 R [deleted]
- 13.1.13 G [deleted]
- 13.1.14 R [deleted]
- [DELETED]
- 13.1.15 R [deleted]
- [DELETED]
- 13.1.16 R [deleted]
- [DELETED]
- 13.1.17 R [deleted]
- ...

Delete Appendix 13(1) (Defined terms for Chapter 13) in its entirety. The deleted text is not shown here.

Appendix 13(1) (Defined terms for Chapter 13) [deleted]

Part 2: Comes into force on 31 December 2011

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
...					
4	13.1.21 and 13.1.23 [deleted]	R	The requirement to hold additional capital resources where a policy excludes business or activities that have been carried out by the <i>firm</i> in the past or will be carried out by the <i>firm</i> only apply to a <i>professional indemnity policy</i> taken out, renewed or extended with effect from 31 December 2009.	31 December 2009 to 31 December 2010	31 December 2009
<u>5</u>	<u>13.3.2</u>	<u>R</u>	<u>A category B firm must meet the capital resources requirements in this transitional provision instead of those in 13.3.2 until 31 December 2013, unless the <i>firm</i> is already subject to a higher capital resources requirement, in which case this transitional provision does not apply.</u> <u>From 31 December 2011 to 31 December 2012, the <i>firm</i>'s capital resources requirement must be calculated in accordance with whichever of (1) or (2) produces the higher amount:</u>	<u>From 31 December 2011 to 31 December 2013</u>	<u>31 December 2011</u>

			<p>(1) <u>1/12 of its fixed annual expenditure, calculated in accordance with 13.3.3R to 13.3.8R; or</u></p> <p>(2) <u>£15,000.</u></p> <p><u>From 31 December 2012 to 31 December 2013, the firm's capital resources requirement must be calculated in accordance with whichever of (3) or (4) produces the higher amount:</u></p> <p>(3) <u>1/6 of its fixed annual expenditure, calculated in accordance with 13.3.3R to 13.3.8R; or</u></p> <p>(4) <u>£15,000.</u></p>		
<u>6</u>	<u>13.3.13(2)</u>	<u>R</u>	<p><u>A category B firm can calculate the amount of the firm's total capital and reserves excluding preference share capital, less the amount of its intangible assets, multiplying it by 400% until 31 December 2013.</u></p>	<p><u>From 31 December 2011 to 31 December 2013</u></p>	<p><u>31 December 2011</u></p>

...

- 13.1.1 R (1) ...
- (2) For a *personal investment firm* which is an *exempt CAD firm*, the following apply:
- (a) sections 13.1 and 13.1A; and
- (b) if it is not an *opted-in exempt CAD firm*, ~~sections~~ section 13.2 to 13.8;
- (c) if it is an *opted-in exempt CAD firm*, ~~sections 13.9 to 13.12~~ section 13.3 (but reading references to *category B firm* as references to the *firm*).
- (3) For a *personal investment firm* which is a *category B firm*, ~~section~~ sections 13.1 and sections 13.9 to 13.12 13.3 apply.

...

ADDITIONAL CAPITAL RESOURCES – EXCLUSIONS

- 13.1.23 R The amount of additional capital resources that a *firm* must hold as a result of an exclusion under 13.1.21R should be calculated by referring to the *firm's* relevant income in the following table:

Relevant income £000s		Minimum additional capital resources £000s (Notes 1 and 2)
more than	up to	
...		
...		
Note 2 – The calculation of a <i>firm's</i> capital resources is set out in sections 13.1A to 13.12 <u>13.3</u> (see <i>rule</i> 13.1.1 for application of these sections to an <i>exempt CAD firm</i> and a <i>category B firm</i>).		

...

ADDITIONAL CAPITAL RESOURCES – EXCESS

- 13.1.27 R The amount of additional capital resources that a *firm* must hold where the policy's excess on any claim is more than £5,000 must be calculated by referring to the *firm's* relevant income and excess obtained in the following table:

All amounts are shown in £000s (Notes 1 and 2)		
Relevant income is		Excess obtained, up to and including
more than	up to	
		...
...		
Note 2 – The calculation of a <i>firm's</i> capital resources is set out in sections 13.1A to 13.12 <u>13.3</u> (see <i>rule</i> 13.1.1 for application of these sections to an <i>exempt CAD firm</i> and a <i>category B firm</i>).		

...

**13.1A ~~FINANCIAL CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY~~
INSURANCE REQUIREMENTS REQUIREMENT FOR AN EXEMPT CAD FIRM**

APPLICATION

- 13.1A.1 R ...
- REQUIREMENT TO HOLD INITIAL CAPITAL AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS
- 13.1A.2 R The ~~financial~~ capital resources requirement for a *personal investment firm* which is an *exempt CAD firm* is the higher of:
- (1) the requirement that is applied by section 13.1A; and
 - (2)
 - (a) ~~if it is not an opted-in exempt CAD firm, the requirement that is applied by sections 13.2 to 13.8; or~~
 - (b) if it is an *opted-in exempt CAD firm*, the requirement that is applied by ~~sections 13.9 to 13.12~~ 13.3 (but reading references to ~~Category~~ category B firm as references to the *firm*).
- 13.1A.3 R (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 ~~13.1.4(2)(b)~~ 13.1.11R and ~~13.1.4(3)~~ 13.1.15R to ~~13.1.6~~ 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 7 of *CAD* (see also ~~rule~~ rule 13.1.4(2)(b) 13.1.10)]
- (2) If a *firm* chooses to comply with either (b) or (c) above, it must nevertheless have *initial capital* of at least £10,000.
- 13.1A.4 R (1) A *firm* that is also an *IMD insurance intermediary* must have professional indemnity insurance at least equal to the limits set out in ~~13.1.4(2)(b)~~ 13.1.10R and, in addition, has to have:
- (a) *initial capital* of €25,000; or
 - (b) professional indemnity insurance at least equal to the requirements of ~~13.1.4(2)(e)~~ 13.1.12R and ~~13.1.4(3)~~ 13.1.15R to ~~13.1.6~~ 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 8 of *CAD* (see also ~~rule~~ rule 13.1.4(2)(e) 13.1.12)]

(2) ...

...

13.2 FINANCIAL RESOURCES TESTS

13.2.1 **R** ~~An exempt CAD firm must meet:~~

(1) ~~{deleted}~~

(2) ~~Financial Resources Test 1A (the Adjusted *Net current assets* Test) calculated in accordance with section 13.4; and~~

(3) ~~Financial Resources Test 2 (the Expenditure based Test) calculated in accordance with section 13.5.~~

13.2.2 **G** ~~{deleted}~~

13.2.3 **G** ~~Table 13A is a summary of the financial resources test for *exempt CAD firm*.~~

~~Table 13.A~~

~~This table forms part of guidance 13.2.3~~

SUMMARY OF FINANCIAL RESOURCES FOR EXEMPT CAD FIRMS			
Type of <i>firm</i>	Financial Resources Test 1A Adjusted <i>net current assets</i> Test	Financial Resources Test 2 Expenditure based Test	Rules/section references

<i>Exempt CAD firm</i>	Adjusted net current assets of £1	Financial resources equal to the highest of 4/52 of Relevant Annual Expenditure or 13/52 of Relevant Annual Expenditure without <i>special adjustments</i> or £400 per <i>adviser</i>	13.1A.14 13.4 13.5.1D and 13.5.2 to 13.5.4
<i>Exempt CAD firm which is a network</i>	Adjusted net current assets of £1	Financial resources equal to the higher of 13/52 of Relevant Annual Expenditure or £400 per <i>adviser</i>	13.1A.14 13.4 13.5.1B and 13.5.2 to 13.5.4

13.3 Financial Resources Test 1 – Own funds

13.3.1 R [deleted]

13.3.1A G [deleted]

13.3.2 R [deleted]

13.3.2A R [deleted]

13.3.2B G [deleted]

Table 13.3.2(2)

[deleted]

Alternative to Financial Resources Test 1

13.3.3 R [deleted]

13.3.3A R [deleted]

13.3.3B R [deleted]

13.4 ~~Financial Resources Test 1A – Adjusted net current assets~~

- 13.4.1 R ~~An exempt CAD firm must adjust its net current assets as follows:~~
- (1) ~~exclude assets which cannot be realised or recovered within twelve months;~~
 - (2) ~~exclude amounts receivable from connected persons to the extent that they are not properly secured, except amounts that are deposits referred to at item (11) in Part I of table 13.5.4(1) or at item (11) in Part I of table 13.5.4(2);~~
 - (3) ~~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;~~
 - (4) ~~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.~~
- 13.4.2 R ~~An exempt CAD firm must at all times have adjusted net current assets of at least £1.~~

13.5 ~~FINANCIAL RESOURCES TEST 2 – EXPENDITURE-BASED REQUIREMENT~~~~REQUIREMENT~~13.5.1 R ~~{deleted}~~13.5.1A R ~~{deleted}~~**13.2** ~~**FINANCIAL RESOURCES REQUIREMENT FOR EXEMPT CAD FIRMS THAT HAVE NOT OPTED-IN**~~

~~13.5.1B~~
13.2.1 R ~~An exempt CAD firm which is a network must have financial capital resources calculated in accordance with whichever of (1); or (2) produces the higher amount:~~

- (1) ~~13/52 one quarter of its relevant fixed annual expenditure, calculated in accordance with rule 13.5.2 13.2.3; or~~
- (2) ~~an amount equal to £400 multiplied by the number of its advisers.~~

13.5.1C R ~~{deleted}~~

~~13.5.1D~~
13.2.2 R (1) ~~{deleted}~~

- (2) An *exempt CAD firm* which is not ~~permitted to carry on the activity of managing investments or to delegate such activity to an investment firm a network~~ must have financial capital resources calculated in accordance with whichever of ~~(3), (4) or (5)~~ (1), (2) or (3) produces the highest amount-;
- ~~(3)~~ (1) Financial capital resources which taking into account all the *special adjustments* amount to 4/52 of its ~~relevant fixed~~ relevant fixed annual expenditure calculated in accordance with ~~rules 13.5.2 13.2.3 to 13.2.7~~; or
- ~~(4)~~ (2) financial capital resources which disregarding all the *special adjustments* amount to ~~13/52~~ one quarter of its ~~relevant fixed~~ relevant fixed annual expenditure, calculated in accordance with ~~rules 13.5.2 13.2.3 to 13.2.7~~; or
- ~~(5)~~ (3) financial capital resources which taking into account all the *special adjustments* ~~of an amount equal to~~ £400 multiplied by the number of its *advisers*.

CALCULATION OF ~~RELEVANT~~ RELEVANT FIXED ANNUAL EXPENDITURE

~~13.5.2~~
13.2.3

- R (1) An *exempt CAD firm* must calculate its ~~relevant fixed~~ relevant fixed 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 the *firm's* profit and loss account must be adjusted proportionately.
- (2) Where an *exempt CAD firm* has just begun trading or has not been authorised long enough to submit such statements, the *firm* must calculate its ~~relevant fixed~~ relevant fixed annual expenditure on the basis of forecast or other appropriate accounts submitted to the *FSA*.
- (3) An *exempt CAD firm* may, subject to ~~rule 13.5.3~~ rule 13.2.6, deduct from its total expenditure the items set out in table ~~13.5.2 13.2.3~~.

Table ~~13.5.2~~ 13.2.3

This table forms part of ~~rule 13.5.2~~ rule 13.2.3

DEDUCTIONS FROM EXPENDITURE	
(a)	Staff bonuses (except to the extent that they are guaranteed);
(b)	<i>employees' and directors' shares</i> in profits (except to the extent that the amount is guaranteed);
(c)	other appropriations of profits;
(d)	shared commissions <u>commission and fees payable paid</u> which are directly related to commissions <u>commission and fees received receivable that are included within total revenue</u> ;

(e)	interest charges in respect of borrowing <u>borrowings</u> made to finance the acquisition of its <i>readily realisable investments</i> ;
(f)	interest paid to <i>clients</i> on <i>client money</i> ;
(g)	interest paid to <i>counterparties</i> ;
(h)	fees, brokerage and other charges paid to <i>recognised clearing houses</i> , <i>recognised investment exchanges</i> and <i>intermediate brokers</i> for the purposes of executing, registering or clearing transactions;
(i)	foreign exchange losses;
(j)	a firm must not deduct any exceptional expenditure <u>other variable expenditure</u> .

- 13.5.2A 13.2.4 G (1) Salaries of *directors* or partners are not eligible for deduction, except to the extent that they can be demonstrated to be non-fixed costs of the *firm*.
- (2) The deduction in item (c) is intended to cover forms of remuneration, other than those set out in (b), that are fixed or guaranteed.

13.2.5 G For the purpose of this section, fixed expenditure is expenditure which is inelastic relative to fluctuations in an exempt CAD firm's levels of business. Fixed expenditure is likely to include most salaries and staff costs, office rent, payment for the rent or lease of office equipment, and insurance premiums. It may be viewed as the amount of funds which a firm would require to enable it to cease business in an orderly manner, should the need arise. This is not an exhaustive list of such expenditure and a firm will itself need to identify (taking appropriate advice where necessary) which costs amount to fixed expenditure.

ADJUSTMENTS TO CALCULATION OF ~~RELEVANT~~ FIXED ANNUAL EXPENDITURE

13.5.3 13.2.6 R ~~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.~~

An exempt CAD firm must adjust its fixed expenditure calculation so far as necessary if and to the extent that since the date covered by the most recent annual financial statements or (if 13.2.3R(2) applies) since the budget was prepared:

- (1) its level of fixed expenditure changes materially; or
- (2) its regulated activities comprised within its permission change.

13.2.7 R If an exempt CAD firm has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to that firm then the firm must adjust its fixed expenditure calculation by adding back in the whole of the difference between the amount of the expenditure and the amount recharged.

13.5.3A G In rule 13.5.3 the FSA 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.

13.2.8 The FSA would consider as 'material' 10% of a firm's expenditure incurred on its behalf by third parties.

CALCULATION OF FINANCIAL CAPITAL RESOURCES TO MEET TESTS 1, 1A OR 2 THE EXPENDITURE-BASED REQUIREMENT

13.5.4 R An exempt CAD firm must be able to calculate its financial capital resources at any time on the basis of the balance sheet it could draw up at that time.
13.2.9 For this purpose:

(1) ~~{deleted}~~

(2) An exempt CAD firm must, adjust the assets in the balance sheet as specified in table ~~13.5.4(2) A~~ and include the liabilities after making the adjustments specified in ~~that table 13.5.4(2); and~~

(3) the assets and liabilities in the balance sheet ...

(2)

13.5.4A R ~~{deleted}~~

~~TABLE 13.5.4(1) PART I [DELETED]~~

~~TABLE 13.5.4(1) PART II [DELETED]~~

TABLE 13.5.4(2) A PART I

This table forms part of rule 13.5.4 13.2.9

EXEMPT CAD FIRM <u>EXEMPT CAD FIRM</u>		
ASSETS	CALCULATION	TYPE OF ADJUSTMENT
(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.	An Illiquid Adjustment
(2) <i>Investments</i>	Exclude in full the value of <i>shares</i> in <i>connected companies</i> .	An Illiquid Adjustment

	<p>Include any <i>net long position</i> in any fixed or current asset investment</p> <p>(a) 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>(b) discounted by the applicable percentage specified in table 13.5.4A <u>B</u>.</p>	A Position Risk Adjustment
(3) <i>Investments</i> subject to Repurchase, Reverse Repurchase, Stock Borrowing or Stock Lending transactions	<p>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, after making (I) a deduction in accordance with item (2) <u>of this table</u>, and (II) a deduction calculated by</p> <p>(a) computing the <i>firm's</i> 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), and</p> <p>(b) multiplying that exposure by the applicable percentage in table 13.5.4C <u>D</u>.</p>	<p>A Position Risk Adjustment</p> <p>A Counterparty Risk Adjustment</p>
(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 in <i>securities</i> or <i>units in collective investment schemes</i> as agent on a cash against documents basis and the transaction remains unsettled, after deducting an amount calculated by</p> <p>(a) 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>(b) multiplying that difference by the applicable percentage specified in table 13.5.4B <u>C</u>.</p>	A Counterparty Risk Adjustment

	Exclude amounts that have been due and unpaid for more than 90 days.	An Illiquid Adjustment
(9) Prepayments	<p>Include the amount of prepayments which relate to goods or services to be received or performed within 90 days, after discounting the amount by the applicable percentage specified in table 13.5.4C D.</p> <p>Exclude the amount of prepayments relating to more than 90 days.</p>	<p>A Counterparty Risk Adjustment</p> <p>An Illiquid Adjustment</p>
(10) Accrued income	<p>Include accrued income, including any such income not yet due and receivable in respect of fees earned in the performance of <i>investment management</i> services that is receivable within 90 days, after discounting the amount by the applicable percentage specified in table 13.5.4C D.</p> <p>Exclude accrued income receivable after 90 days.</p>	<p>A Counterparty Risk Adjustment</p> <p>An Illiquid Adjustment</p>
(11) <i>Deposits</i>	...	
(12) Other amounts due from Government bodies or local authorities	<p>Include other amounts due from UK Government bodies or local authorities if they are agreed and due within 90 days, after discounting the amounts by the applicable percentage specified in table 13.5.4C D.</p> <p>Exclude amounts that are not due to be paid within 90 days.</p>	<p>A Counterparty Risk Adjustment</p> <p>An Illiquid Adjustment</p>
(13) All other assets	<p>Exclude in full.</p> <p>If not otherwise excluded in full in this table, this category should include any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a <i>subsidiary</i> or participation.</p> <p>Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under <u>PRU 2 INSPRU</u>.</p>	An Illiquid Adjustment
Where applicable – <i>Large exposures</i>	Deduct an amount calculated in accordance with rule 13.6.2.	A Large exposure Adjustment

Table 13.5.4(2) A Part IIThis table forms part of *rule 13.5.4 13.2.9*

EXEMPT CAD FIRM <i>EXEMPT CAD FIRM</i>		
LIABILITY	CALCULATION	TYPE OF ADJUSTMENT
(14) Secured Liabilities	...	...
(15) Subordinated loans	...	...
(16) Commission on indemnity terms from the sale of <i>life policies</i> or <i>pension contracts</i>	...	...
(17) <i>Investments</i> (Short Positions)	Include a <i>net short position</i> (a) valued at its <i>offer price</i> , and (b) increased by the applicable percentage specified in table 13.5.4A <u>B</u> .	A Position Risk Adjustment
(18) Deficiency in <i>subsidiary</i>	...	...
(19) Liability for tax	...	...
(20) Creditors relating to Unsettled <i>Securities</i> Transactions Cash against Documents	Include creditors where a <i>firm</i> has entered into a transaction in <i>securities</i> or <i>units in collective investment schemes</i> as agent on a cash against documents basis, and the transaction remains unsettled, after adding an amount calculated by (a) computing the difference between the agreed settlement price for those <i>investments</i> and their current <i>market value</i> , and (b) multiplying that exposure by the applicable percentage specified in table 13.5.4B <u>C</u> .	A Counterparty Risk Adjustment

(21) Creditors relating to Unsettled Securities Transactions Free Deliveries	<p>Include an amount for creditors where (acting as agent) 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, after adding an amount calculated by</p> <p>(a) (i) (where the <i>firm</i> has paid for them but not received certificates of good title for them) computing their current <i>market value</i>;</p> <p>(ii) (where the <i>firm</i> has delivered the certificates without receiving payment for them) computing the full amount due to a <i>firm</i> under the contract for sale; and</p> <p>(b) multiplying that exposure by the applicable percentage specified in table 13.5.4C D.</p>	A Counterparty Risk Adjustment
(22) <i>Over the counter derivatives</i>	<p>Include as a liability an amount for its positions in such <i>derivatives</i> calculated by</p> <p>(a) computing the credit equivalent of those positions in accordance with table 13.5.4D E, and</p> <p>(b) increasing that credit equivalent by the applicable percentage specified in table 13.5.4C D,</p> <p>(in addition to making an adjustment in accordance with item (17) of this table and (in respect of bought <i>OTC equity options</i> and covered <i>warrants</i>) in accordance with item (25)).</p>	A Counterparty Risk Adjustment
(23) Contingent Liabilities	...	...
(24) Preference Shares	<p>Include as a liability any amounts in excess of the amounts which may be treated as financial capital resources specified in table 13.3.2(2) 13.1A.17R(1) and SUP 16.</p>	
(25) <i>Net open foreign currency position</i>	<p>Include as a liability an amount in respect of its foreign exchange risk calculated in accordance with table 13.5.4E F.</p>	A Foreign Exchange Risk Adjustment
(26) All other liabilities	...	

Table 13.5.4A B

This table forms part of rule 13.5.4 13.2.9

POSITION RISK
...

Table 13.5.4B C

This table forms part of *rule 13.5.4 13.2.9*

UNSETTLED SECURITIES TRANSACTIONS	
Number of business days after due settlement date	Percentage
...	

Table 13.5.4C D

This table forms part of *rule 13.5.4 13.2.9*

COUNTERPARTY RISK	
Type of Counterparty	Deduction
...	

Table 13.5.4D E

This table forms part of *rule 13.5.4 13.2.9*

OVER THE COUNTER DERIVATIVES	
a. ...	

Table 13.5.4E F

This table forms part of *rule 13.5.4 13.2.9*

FOREIGN EXCHANGE RISK	
(a) ...	

SUBORDINATED LOANS

13.5.5 R An *exempt CAD firm* may treat a subordinated loan as a ~~financial resource~~
13.2.10 capital resources as specified in ~~table 13.1A.15R~~ and subject to *rule*
~~13.5.5C 13.2.12~~, if the long term subordinated loan is eligible for such
treatment in accordance with *rule 13.5.5A 13.2.11*.

13.5.5A R A long term subordinated loan is eligible for such treatment if:
13.2.11

- (1) it is fully paid up;

- (2) it has an original maturity of at least five years, or where it has no fixed term, it is subject to five years' notice of repayment;
- (3) repayment, prepayment or termination is only permitted under the loan agreement:
 - (a) on maturity, or on expiration of the period of notice, if after such payment or termination a *firm* meets 120% of its financial capital resources requirement; or
 - (b) on winding up after the claims of all other creditors and all outstanding debts have been settled;
- (4) the amount used in the calculation of its financial capital resources is reduced on a straight line basis over the last five years of its term;
- (5) it is in the standard form prescribed by the *FSA* for long term subordinated loans.

~~13.5.5B~~ R ~~{deleted}~~

~~13.5.5C~~ R The total amount of long term subordinated loans that an *exempt CAD firm* may include in the calculation of its financial capital resources is restricted as stipulated in 13.1A.17R and in *SUP* 16.
~~13.2.12~~

~~13.6~~ ~~{Deleted}~~

~~13.7~~ ~~{Deleted}~~

~~13.7.2B~~ R ~~An exempt CAD firm must, where it is exposed to undue risk in consequence of its membership of a group, provide against, reduce or eliminate that risk.~~

~~13.8~~ ~~{Deleted}~~

~~13.9 FINANCIAL TESTS FOR CATEGORY B FIRMS~~

~~13.9.1~~ R ~~A Category B firm must meet:~~

- (1) ~~financial Resources Test 1 (the Own funds Test) calculated in accordance with section 13.10;~~
- (2) ~~Financial Resources Test 1A (the Adjusted Net current assets Test) calculated in accordance with section 13.11, unless the firm is a low resource firm which is not permitted to carry on the activity of managing investments in respect of portfolios containing only life policies; and~~

- (3) ~~Financial Resources Test 2 (the Expenditure-based Test) calculated in accordance with section 13.12 unless the firm is a low resource firm.~~

13.9.1A G ~~Table 13b is a summary of the financial resources test for a Category B firm.~~

Table 13B This table forms part of rule 13.9.1

SUMMARY OF FINANCIAL RESOURCES FOR CATEGORY B FIRMS				
Type of firm	Financial Resources Test 1 <i>Own funds</i> Test	Financial Resources Test 1A <i>Adjusted Net current assets</i> Test	Financial Resources Test 2 <i>Expenditure-based</i> Test	<i>Rule/section</i> Referen ees
<i>Category B1</i> (including any <i>Network</i> in this category)	£10,000	<i>Adjusted net current assets</i> of £1	Liquid capital equal to the highest of 13/52 of relevant annual expenditure or £400 per adviser or £10,000	13.10 13.11 13.12.1 C 13.12.2 to 13.12.5 A
<i>Category B2</i> which is permitted to carry on the activity of <i>investment management</i> in respect of portfolios containing only <i>life policies</i> or to delegate such activity to an <i>investment firm</i>	£10,000	<i>Adjusted net current assets</i> of £1	Adjusted capital equal to the higher of 13/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1 D 13.12.2 to 13.12.5 A

<i>Category B2 with 26+ advisers</i>	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the higher of 8/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1 E 13.12.2 to 13.12.5 A
<i>Category B2 with 1-25 advisers</i>	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the higher of 4/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1 F 13.12.2 to 13.12.5 A
<i>Category B3 which is permitted to carry on the activity of managing investments in respect of portfolios containing only life policies or to delegate such activity to an investment firm</i>	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the higher of 8/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1 E 13.12.2 to 13.12.5 A

<i>Category B3 with 26+ advisers</i>	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the higher of of 4/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1 F 13.12.2 to 13.12.5 A
<i>Category B3 with 1–25 advisers</i>	£10,000	N/A	N/A	13.10
<i>Network in Category B2 or B3</i>	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the higher of of 13/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1 D 13.12.2 to 13.12.5 A
<i>All Category B firms that do not hold client money or assets, but are permitted to establish, operate or wind up a personal pension scheme.</i>	£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 and any other expenditure-based requirement set out in 13.12.1 applicable to the <i>firm</i> .	13.10 13.11 13.12.1 13.12.2 to 13.12.5 A

All <i>Category B</i> firms that hold <i>client money</i> or assets and 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 13/52 of relevant annual expenditure, £400 per adviser, and £10,000	13.10 13.11 13.12.1 G 13.12.2 to 13.12.5 A
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13.10 Financial Resources Test 1- Own funds Requirement

Requirement

13.10.1 R A *Category B* firm's own funds must at all times be at least £10,000.

Calculation

13.10.2 R A *Category B* firm's own funds must be calculated in accordance with table 13.10(2).

Table 13.10(2).

This table forms part of rule 13.10.2

<i>OWN FUNDS</i>	
Companies	Sole Traders: Partnerships
Paid up <i>share</i> capital (excluding preference <i>shares</i> redeemable by shareholders within 2 years) Eligible <i>LLP</i> members' capital Share premium account Retained profits (see 13.10.2AR) and interim net profits (Note 1) Revaluation reserves Short term subordinated loans Debt capital	Balances on proprietor's or partners' capital accounts current accounts (see 13.10.2AR) Revaluation reserves Short term subordinated loans
less	less

Intangible assets Material current year losses <i>Excess LLP members' drawings</i>	Intangible assets Material current year losses 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 VII of the Companies Act 1985 (section 294A (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>	

- 13.10.2A R For the purpose of calculating a *Category B firm's own funds*, the following adjustments apply to retained profits or, (for non corporate entities), current accounts figures:
- (1) a *Category B 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 *Category B firm* must derecognise any defined benefit asset;
 - (3) a *Category B 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.
 - (4) a *Category B firm* must deduct any unrealized gains on investment property and include these within revaluation reserves.
 - (5) where applicable, a *Category B 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.
- 13.10.2B G A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *FSA* 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 *Category B 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 *FSA*);

- (2) ~~the firm's total financial resources, from whatever source, must at all times be sufficient to cover its total liabilities.~~
- 13.10.3 R (1) ~~Where a Category B3 firm with 1-25 advisers has a facility under the PASS Loan Agreement Scheme it may make an adjustment in its own funds calculation in accordance with (2).~~
- (2) ~~a firm in (1) can regard as additional to its own funds the lower of either:~~
- (a) ~~the amount of the loan facility agreed (less any loan repayments already made and less the amount of the facility withdrawn or lapsed); or~~
- (b) ~~the amount of the firm's provision for redress (net of any professional indemnity insurance recoverable) at the time of its application for the loan facility.~~

13.11 Financial Resources Test 1A – Adjusted net current assets

Application

- 13.11.1 R This section does not apply to a *low resource firm*.

Requirement

- 13.11.2 R ~~A Category B firm must adjust its net current assets as follows:~~
- (1) ~~exclude assets which cannot be realised or recovered within twelve months;~~
- (2) ~~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);~~
- (3) ~~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;~~
- (4) ~~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.~~
- 13.11.3 R ~~A Category B firm must at all times have adjusted net current assets of at least £1.~~

13.12 FINANCIAL RESOURCES TEST 2 – EXPENDITURE-BASED REQUIREMENT

13.12.1 Application

13.12.1A R This section does not apply to a *low resource firm*.

REQUIREMENT

13.3 CAPITAL RESOURCES REQUIREMENT FOR CATEGORY B FIRMS AND OPTED-IN EXEMPT CAD FIRMS

13.12.1B R A *Category category B firm* must have at all times financial capital
 13.3.1 resources calculated in accordance with ~~rules 13.12.2 13.3.3 to 13.12.5~~
~~13.3.14~~ which equal or exceed the amount specified in ~~rules 13.12.1C~~
~~13.3.2 to F~~ as applicable.

13.12.1C R A *Category category B1 firm*, including a *Network* must have financial
 13.3.2 meet a capital resources requirement calculated in accordance with
 whichever of (1); or (2) ~~or~~ (3) produces the higher amount;:

(1) ~~13/52~~ 1/4 of its relevant fixed annual expenditure, calculated in
 accordance with ~~13.12.2 13.3.3R to 13.12.2D 13.3.8R~~; or

(2) an amount equal to £400 multiplied by the number of its *advisers*;
~~or~~

(3) £10,000 ~~20,000~~;

~~(2)~~

13.12.1D R (1) A *Category B2 firm* which is permitted to carry on the activity of
investment management in respect of portfolios containing only
life policies or to delegate such activity to an *investment firm* must
 have financial resources calculated in accordance with whichever
 of (3) or (4) produces the higher amount.

(2) A *Network* in Category B2 or B3 must have financial resources
 calculated in accordance with whichever of (3) or (4) produces the
 higher amount.

(3) ~~13/52~~ of its relevant annual expenditure, calculated in accordance
 with ~~13.12.2 to 13.12.2D~~; or

(4) an amount equal to £400 multiplied by the number of its *advisers*.

13.12.1E R (1) A *Category B2 firm* with more than 25 *advisers* which is not a
Network and is not permitted to carry on the activity of *managing*
investments in respect of portfolios containing only *life policies* or
 to delegate such activity to an *investment firm* must have financial
 resources calculated in accordance with whichever of (3) or (4)
 produces the higher amount.

- (2) ~~A Category B3 firm which is permitted to carry on the activity of investment management in respect of portfolios containing only life policies or to delegate such activity to an investment firm must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~
- (3) ~~8/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~
- (4) ~~an amount equal to £400 multiplied by the number of its advisers.~~
- 13.12.1F R (1) ~~A Category B2 firm with fewer than 26 advisers which is not a Network and is not permitted to carry on the activity of managing investments in respect of portfolios containing only life policies or to delegate such activity of investment management to an investment firm must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~
- (2) ~~A Category B3 firm which is not permitted to carry on the activity of investment management in respect of portfolios containing only life policies or to delegate such activity to an investment firm must have financial resources calculated in accordance with whichever of (3) or (4) produces the higher amount.~~
- (3) ~~4/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~
- (4) ~~an amount equal to £400 multiplied by the number of its advisers.~~
- 13.12.1G R ~~A category B firm whose permission includes establishing, operating or winding up a personal pension scheme must have financial resources calculated in accordance with (1) or (2):~~
- (1) ~~For a firm which holds client money or assets, the highest of:~~
- (a) ~~13/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D;~~
- (b) ~~an amount equal to £400 multiplied by the number of its advisers; and~~
- (c) ~~£10,000.~~
- (2) ~~For a firm which does not hold client money or assets, the highest of:~~
- (a) ~~6/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D;~~

- (b) ~~an amount equal to £400 multiplied by the number of its advisers;~~
- (c) £10,000; and
- (d) ~~any other expenditure based requirement set out in 13.12.1 applicable to the firm.~~

CALCULATION OF ~~RELEVANT~~ FIXED ANNUAL EXPENDITURE

- 13.12.2 R A ~~Category~~ category B firm must calculate its ~~relevant~~ fixed 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~~ recent RMAR drawn up at its accounting reference date.
- 13.12.2A R Where a ~~Category~~ category B firm has just begun trading or ~~have~~ has not been authorised long enough to submit such ~~an RMAR~~, the firm must calculate its ~~relevant~~ fixed annual expenditure on the basis of forecast or other appropriate accounts submitted to the FSA.
- 13.12.2B R A ~~Category~~ category B firm may deduct from its ~~relevant~~ total annual expenditure ~~the items (a) to (f) set out in table 13.12.2 13.3.5, unless the firm is a Category B1 firm, in which case it may not deduct item (c).~~

Table ~~13.12.2~~ 13.3.5

This table forms part of ~~rule 13.12.2~~ 13.3.5

DEDUCTIONS FROM EXPENDITURE	
(a)	staff bonuses <u>(except to the extent that they are guaranteed);</u>
(b)	employees' and directors' shares in profits <u>(except to the extent that the amount is guaranteed);</u>
(c)	interest charges in respect of borrowings made to finance the acquisition of its <u>readily realisable investments</u> ;
(d)	shared commissions paid <u>commission and fees payable</u> which are directly related to commissions received <u>commission and fees receivable</u> that are included within total revenue;
(e)	emoluments of <i>directors</i> , partners or a sole trader;
(f)	a firm must not deduct any exceptional expenditure <u>other variable expenditure</u> .

- 13.3.6 G For the purpose of this section, fixed expenditure is expenditure which is inelastic relative to fluctuations in a firm's levels of business. Fixed expenditure is likely to include most salaries and staff costs, office rent, payment for the rent or lease of office equipment, and insurance premiums. It may be viewed as the amount of funds which a firm would require to enable it to cease business in an orderly manner, should the need arise. This is not an exhaustive list of such expenditure and a firm will itself need to identify (taking appropriate advice where necessary) which costs amount to fixed expenditure.

ADJUSTMENTS TO CALCULATION OF RELEVANT FIXED ANNUAL EXPENDITURE

- ~~13.12.2C~~ R ~~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.~~

13.3.7

A firm must adjust its fixed expenditure calculation so far as necessary if and to the extent that since the date covered by the most recent annual RMAR or (if 13.2.3R(2) applies) since the forecast was prepared:

- (1) its level of fixed expenditure changes materially; or
- (2) its regulated activities comprised within its permission change.

- 13.3.8 R If a firm has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to that firm then the firm must adjust its fixed expenditure calculation by adding back in the whole of the difference between the amount of the expenditure and the amount recharged.

- ~~13.12.2D~~ G ~~In rule 13.12.2C the FSA 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.~~

13.3.9

The FSA would consider as material 10% of a firm's total expenditure incurred on its behalf by third parties.

CALCULATION OF FINANCIAL CAPITAL RESOURCES TO MEET TESTS 1, 1A OR 2 THE EXPENDITURE-BASED REQUIREMENT

- 13.12.3 R ~~(1) This rule does not apply to a low resource firm;~~
- 13.3.10
- (2) A Category category B firm must be able to calculate its financial capital resources at any time in accordance with table 13.3.10 on the basis of the balance sheet the firm could draw drawn up by the firm at that time. For this purpose:
 - (1) capital resources at any time in accordance with table 13.3.10 on the basis of the balance sheet the firm could draw drawn up by the firm 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).
- (2) 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.
- (3) ~~the assets and liabilities in the balance sheet are also subject to the following adjustments:~~
- (a) ~~a *Category B 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 *Category B firm* must derecognise any defined benefit asset;~~
- (c) ~~a *Category B 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 *Category B 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.~~

Table 13.3.10

This table forms part of *rule 13.3.10*

<u>To calculate a firm's capital resources, the items in Stage B must be deducted from the items in Stage A. The result must then be added to the items in Stage C ((A-B) + C).</u>		
<u>Stage A</u>	<u>Item</u>	<u>Adjustment</u>
<u>1</u>	<u>Paid up share capital excluding preference shares redeemable</u>	<u>Exclude any redeemable preference shares which fall due within two years. If preference shares are not redeemable by the shareholder</u>

	<u>by shareholders within 2 years</u>	<u>within 2 years, they must be treated in accordance with 13.3.13R and 13.3.14R.</u>
<u>2</u>	<u>Eligible LLP members' capital</u>	
<u>3</u>	<u>Balances on proprietor's or partners':</u> <ul style="list-style-type: none"> • <u>Capital accounts</u> • <u>Current accounts</u> <u>Less</u> <ul style="list-style-type: none"> • <u>Excess LLP members' drawings</u> • <u>Excess of current year drawings over current year profits</u> 	
<u>4</u>	<u>Share premium account</u>	
<u>5</u>	<u>Retained profits (losses) plus current year net profits (losses) plus other reserves</u>	<u>Retained profits and retained losses are subject to the following adjustments:</u> <ol style="list-style-type: none"> <u>(1) the 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;</u> <u>(2) in respect of a defined benefit occupational pension scheme, the firm must derecognise any defined benefit asset;</u> <u>(3) the 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; and</u> <u>(4) where applicable, the 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.</u> <u>Retained profits (or losses) do not need to be audited and current year net profits (or losses) do not need to be verified.</u>
<u>6</u>	<u>Revaluation reserve</u>	

<u>7</u>	<u>Subordinated loans</u>	<u>Subject to the limits set out in 13.3.11R to 13.3.14R.</u>
<u>Stage B</u>	<u>Item</u>	<u>Adjustment</u>
<u>8</u>	<u>Intangible assets</u>	<u>Deduct intangible assets in full.</u>
<u>9</u>	<u>Contingent liabilities</u>	<u>Deduct any contingent liability (including the overdraft of any other company which the <i>firm</i> has guaranteed).</u>
<u>10</u>	<u>Deficiencies in <i>subsidiaries</i></u>	<u>Include a deduction for 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 in its balance sheet.</u>
<u>11</u>	<u>Non-trade debtors (including from <i>group</i> and <i>connected</i> companies)</u>	<u>Deduct amounts in full.</u>
<u>12</u>	<u>Trade debtors (including from <i>group</i> and <i>connected</i> companies)</u>	<u>Deduct amounts due and unpaid for more than 90 days.</u>
<u>13</u>	<u>Land and buildings (net of any liabilities secured by a charge on the assets)</u>	<u>Deduct 30% of the net book value of land and buildings.</u>
<u>14</u>	<u><i>Investments</i></u>	<u>Deduct the applicable percentage for <i>investments</i> as specified in table 13.3.10.</u>
<u>15</u>	<u>Accrued Income</u>	<u>Deduct amounts receivable after more than 90 days.</u>
<u>16</u>	<u>Prepayments</u>	<u>Deduct amounts which relate to goods or services to be received or performed after more than 90 days.</u>
<u>17</u>	<u><i>Deposits</i></u>	<u>Deduct amounts other than:</u> <u>(a) 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;</u> <u>(b) money on <i>deposit</i> with a UK local authority which can be withdrawn within 90 days;</u>

		<u>18(c) money deposited and evidenced by a certificate of tax deposit.</u>
<u>18</u>	<u>Other illiquid assets</u>	<u>Deduct amounts in full.</u>
<u>Stage C</u>	<u>Item</u>	<u>Adjustment</u>
<u>19</u>	<u>Personal assets of partnerships or sole traders</u>	<u>A sole trader or a partnership may include personal assets (based on a current independent valuation) to make up any shortfall in the required capital resources needed to meet its capital resources requirement. The assets must be discounted by the factors given in stage B of this Table and must not be needed to meet liabilities arising from personal activities or another business activity not regulated by the FSA.</u>

Table 13.12.3(1) Part I

This table forms part of *rule 13.12.3*

<i>FIRMS CATEGORY B1</i>	
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.)

<p>(2) <i>Investments</i></p>	<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>(a) valued at its current bid price (or, in the case of a with profits <i>life policy</i>, at its surrender value), and</p> <p>(b) 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 policy.</p> <p>(a) 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>(b) where a life office whose policy 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>
<p>(3) <i>Investments</i> subject to Repurchase, Reverse Repurchase, Stock Borrowing or Stock Lending transactions</p>	<p>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 securities 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).</p>

<p>(4) Debtors relating to Unsettled <i>Securities</i> Transactions Cash against Documents</p>	<p>Include debtors where the <i>firm</i> has entered into a transaction on its own behalf in <i>securities</i> or <i>units</i> in <i>collective investment</i> schemes on a cash against documents basis, and the transaction remains unsettled, after deducting an amount calculated by</p> <p>(a) 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>(b) multiplying that difference by the applicable percentage specified in table 13.12.3B.</p>
<p>(5) Debtors relating to Unsettled <i>Securities</i> Transactions Free Deliveries</p>	<p>(a) 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</i> in <i>collective investment schemes</i> before receiving payment for them, or paid for such investments before receiving certificates of good title for them, so long as not more than three days have passed since delivery</p> <p>(b) If more than three days have passed since delivery, exclude in full.</p>
<p>(6) <i>Regulated collective investment schemes</i></p>	<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>
<p>(7) Loans secured on <i>investments</i></p>	<p>If the <i>firm</i> holds client title documents as security for</p> <p>(a) the repayment of money it has lent; or</p> <p>(b) money due to the <i>firm</i> in connection with the purchase for or sale to another person of those investments, 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>(i) the total amount due;</p> <p>(ii) 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>(a) (i) commission;</p> <p style="padding-left: 40px;">(ii) investment management fees;</p> <p style="padding-left: 40px;">(iii) other fees earned in connection with the firm's investment business;</p> <p>which are due from other authorised or EEA firms, recognised investment exchanges or recognised clearing houses and have been due and unpaid for 30 days or less;</p> <p>(b) (i) investment management fees; or</p> <p style="padding-left: 40px;">(ii) pensions administration which have been due from its customers and unpaid for 30 days or less.</p> <p>(c) All other trade debtors must be deducted in full.</p>
(9) Prepayments	<p>Include prepayments which relate to goods or services to be received or performed within 90 days.</p>
(10) Accrued income	<p>(a) 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>(b) 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>(a) 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>(b) money on <i>deposit</i> with a UK local authority which can be withdrawn within 90 days;</p> <p>(c) money <i>deposited</i> and evidenced by a certificate of tax <i>deposit</i>.</p>

(12) Other Debts	<p>(a) Amounts owing in respect of</p> <ul style="list-style-type: none"> (i) interest on <i>investments</i>; (ii) repayments of marketable debt instruments at maturity or call; (iii) dividends declared by authorised or not <i>EEA firms</i> or by companies in respect of <i>shares</i> listed on a recognised or designated investment exchange; <p>which have been due and unpaid for 30 days or less may be included.</p> <p>(b) 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.

Table 13.12.3(1) Part II

This table forms part of *rule 13.12.3*

<i>FIRMS IN CATEGORY B1</i>	
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"> (a) the aggregate amount of the <i>firm's</i> secured liabilities which are due more than one year after the balance sheet date; (b) (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 market value; (c) 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>FSA</i> which may be treated as capital up to the limits specified in <i>rules 13.12.5</i> and <i>13.12.5A</i>.</p>

(16) Commission on indemnity terms from the sale of <i>life policies</i> or pension contracts	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.
(17) Short Positions	Include a <i>net short position</i> (a) valued at its offer price and (b) increased using the applicable percentage rate in table 13.12.3A.
(18) Deficiency in subsidiary	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.
(19) Liability for tax	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.
(20) Creditors relating to Unsettled Securities Transactions – Cash against Documents	Include creditors where the <i>firm</i> has entered into a transaction on its own behalf in <i>securities</i> or <i>units</i> in <i>collective investment schemes</i> on a cash against documents basis, and the transaction remains unsettled, after adding an amount calculated by (a) 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 (b) multiplying that difference by the applicable percentage specified in table 13.12.3B.

(21) Creditors relating to Unsettled Securities 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</i> in <i>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>(a) (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>(b) (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 derivatives on its own behalf must</p> <p>(a) make the adjustment in item (17) of this table, and</p> <p>(b) 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 Shares	<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 has 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>

Table 13.12.3(2) Part I

This table forms part of *rule* 13.12.3

<i>FIRMS IN CATEGORIES B2 AND B3</i> (except <i>low resource firms</i>)	
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> <p>(a) at 60% of their net book value, or</p> <p>(b) (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>.</p>
(2) Motor vehicles	<p>(a) Include motor vehicles acquired less than 12 months ago valued at 50% of their cost</p> <p>(b) Include motor vehicles acquired within the past 24 months (but more than 12 months ago) valued at 25% of their cost</p> <p>(c) Exclude in full any other motor vehicles.</p>
(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>(a) valued at its current <i>bid price</i> (or, in the case of a <i>with profits life policy</i>, at its <i>surrender value</i>) and</p> <p>(b) 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</i> in <i>collective investment schemes</i> on a cash against documents basis and the transaction remains unsettled after deducting an amount calculated by</p> <p>(a) 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>(b) multiplying that difference by the applicable percentage specified in table 13.12.3B.</p>

(5) Debtors relating to Unsettled Securities Transactions Free Deliveries	(a) Where the <i>firm</i> has delivered <i>securities</i> or <i>units</i> in <i>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. (b) 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	(a) Include accrued income not yet due and payable in respect of fees earned in the performance of investment management services that is receivable within six months. (b) Include any other accrued income receivable within 90 days.
(11) <i>Deposits</i>	Include amounts in respect of (a) 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; (b) money on <i>deposit</i> with a UK local authority which can be withdrawn within 90 days; (c) 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.

Table 13.12.3(2) Part II

This table forms part of *rule 13.12.3*

<i>FIRMS IN CATEGORIES B2 AND B3 (except low resource firms)</i>	
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>(a) If the liabilities secured exceed 85% of the value of the land and buildings, then the excess is treated as a liability;</p> <p>(b) 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 market value; 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>FSA</i> for such loans which may be treated as capital up to the limits specified in <i>rules 13.12.5 and 13.12.5A</i>.</p>

(16) Commission on indemnity terms from the sale of <i>life policies</i> or pension contracts	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.
(17) Short Positions	Include a <i>net short position</i> (a) valued at its offer price, and (b) increased using the applicable percentage rate in table 13.12.3A.
(18) Deficiency in <i>subsidiary</i>	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.
(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	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 (a) computing the difference between the agreed settlement price for those investments and their current <i>market value</i>, and (b) multiplying that difference by the applicable percentage specified in table 13.12.3B.

(21) Creditors relating to Unsettled Securities 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</i> in <i>collective investment schemes</i> before receiving payment for them, or where the <i>firm</i> has bought such investments before receiving certificates of good title for them, as follows:</p> <p>(a) (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>(b) (if more than 3 days have passed since the payment was made) include the full value of the <i>securities</i> at the current offer price.</p>
(22) Over the counter derivatives	<p>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.</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) Long term liabilities	<p>Include as a liability any amount which falls due more than 3 years from the balance sheet date and is due to connected persons, in accordance with <i>rules</i> 13.12.5 and 13.12.5A.</p>
(25) Redeemable Preference Shares	<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 two years, they must be treated in accordance with <i>rules</i> 13.12.5 and 13.12.5A.</p>
(26) Net open foreign currency position	<p>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.</p>
(27) All other liabilities	<p>Include in full.</p>

DISCOUNTS FOR INVESTMENTS	
<p>The percentages in the table are applied to the <i>market value</i> (unless otherwise stated) or <u>of</u> 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 <i>investment</i> is the net of any long or short positions held in that same investment.</p>	
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	

<ul style="list-style-type: none"> - other <i>investments</i> listed on a recognised <i>recognised</i> or designated investment exchange <i>designated investment exchange</i> - <i>shares</i> traded on a recognised <i>recognised</i> or designated investment exchange <i>designated investment exchange</i> - other <i>shares</i> for which there is a <i>market maker</i> in the UK 	<p style="text-align: right;">25%</p> <p style="text-align: right;">35%</p> <p style="text-align: right;">35%</p>
<p>C. <i>Derivatives</i></p> <ul style="list-style-type: none"> — <i>exchange traded futures</i> — <i>OTC futures</i> — <i>Purchased options</i> — <i>Contracts for differences</i> 	<p>4 x initial margin requirement</p> <p>Apply the appropriate percentage shown in A and B to the <i>market value</i> of the underlying position</p> <p>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</p> <p>20% of the <i>market value</i> of the contract</p>
<p>D C. <i>Other Investments</i></p> <ul style="list-style-type: none"> - <i>Unit</i> linked bonds and units in <i>authorised unit trust schemes</i> (other than <i>higher volatility funds</i> and <i>property funds</i>) or regulated collective investment schemes <i>regulated collective investment schemes</i> - <i>units</i> in <i>higher volatility funds</i> and <i>property funds</i> - with profit <i>life policies</i> (only applicable to <i>firms</i> other than <i>traded life policy market makers</i>) 	<p style="text-align: right;">25%</p> <p style="text-align: right;">50%</p> <p style="text-align: right;">20% of the <i>surrender value</i> of the <i>policy</i></p>

-	<i>shares in subsidiary companies and shares which are not readily realisable securities in connected companies</i>		100%
-	<i>traded endowment policies (Note 1):</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> :		
	(a) for 3 months or less	0%	of the <i>surrender value</i> of the <i>policy</i>
	(b) for more than 3 months	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	10%	of the <i>surrender value</i> of the <i>policy</i>
-	other		100%

Note 1 - A *traded life policy market maker* must:

- (1) include such a policy valued at its surrender value at the date on which the *firm* acquired it, or its latest available surrender value if different; and
- (2) where a life office whose policy is held by the *firm* has altered adversely the basis on which it calculates surrender values, revise its valuation of the *traded life policy* as soon as practicable after becoming aware of the alteration.

~~Table 13.12.3B~~

This table forms part of ~~rule 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

This table forms part of *rule 13.12.3*

OVER THE COUNTER DERIVATIVES		
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 (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 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 1 year	0.5%	5%
c. The credit equivalent is the sum of current replacement cost and potential future credit exposure.		

Table 13.12.3D

This table forms part of *rule 13.12.3*

FOREIGN EXCHANGE RISK

- ~~(a) A firm must deduct a foreign exchange risk requirement for all the following items which are denominated in a foreign currency:~~
- ~~(i) all assets and liabilities, including accrued interest, denominated in the currency (all investments at market or realisable value);~~
 - ~~(ii) any currency future, at the nominal value of the contract;~~
 - ~~(iii) 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;~~
 - ~~(iv) any foreign currency options at the net delta (or delta-based) equivalent of the total book of such options;~~
 - ~~(v) any non-currency option, at market value;~~
 - ~~(vi) any irrevocable guarantee;~~
 - ~~(vii) any other off-balance sheet commitment to purchase or sell an asset denominated in that currency.~~
- ~~(b) The requirement must be calculated as follows:~~
- ~~(i) using the spot rate, convert the net long position and net short position in each foreign currency into the currency in which the firm's annual financial statements are reported;~~
 - ~~(ii) total the net open long positions and the net open short positions;~~
 - ~~(iii) the higher of (i) and (ii) above is its net open foreign currency position;~~
 - ~~(iv) multiply its net open foreign currency position by 10%;~~
- ~~(c) A firm may not include any future income or expense not yet accrued but fully hedged (subject to deduction of an appropriate risk requirement).~~

13.12.4 SHORT TERM SUBORDINATED LOANS

~~13.12.4~~ R A *Category category B* firm may treat a subordinated loan as a financial resource capital resources, as specified in rules 13.12.5
~~13.3.11~~ 13.3.13R to 5A and 13.3.14R, if the short term subordinated loan is eligible for such treatment in accordance with rule 13.12.4A
13.3.12R;

~~13.12.4A~~ R A short term subordinated loan is eligible for such treatment if:
~~13.3.12~~

- (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~~ meets 120% of its ~~financial~~ capital resources requirement;
- (3) repayment, prepayment or termination is only permitted under the loan agreement:
 - (a) on maturity, or on expiration of the period of notice, if after such payment or termination a *firm* meets 120% of its ~~financial~~ capital resources requirement; or
 - (b) 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 *FSA*.

RESTRICTIONS

~~13.12.5~~
13.3.13 R A ~~Category~~ 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; ~~and for a Category B 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; and~~
- (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~~200%.

~~13.12.5A~~
13.3.14 R A ~~Category~~ category B firm must treat as a liability in the calculation ~~or of its financial capital resource any amount by which the sum of~~ ~~13.12.5(1)~~ 13.3.13R(1) exceeds the product of ~~13.12.5(2)~~ 13.3.13R(2).