

**PERSONAL PENSION SCHEME OPERATORS (CAPITAL REQUIREMENTS)
INSTRUMENT 2014**

Powers exercised

- A. The Financial Conduct 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 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) section 139A(1) (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 September 2016.

Amendments to the FCA Handbook

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

Citation

- F. This instrument may be cited as the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014.

By order of the Board of the Financial Conduct Authority
24 July 2014

Annex A

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.

3 Chapter 3: Financial resources for Securities and Futures Firms which are not MiFID Investment Firms or which are Exempt BIPRU Commodities Firms or Exempt IFPRU Commodities Firms

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3-60 FIRMS TO WHICH RULES 3-61 TO 3-182 APPLY

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Dematerialised instruction transmitters

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3-60(7) R (a) Subject to (b), Rules rules 3-61 to 3-182 apply to a firm whose permission includes establishing, operating or winding up a a personal pension scheme.

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(b) In addition, a firm to which (a) applies, must have and maintain at all times financial resources calculated in accordance with the applicable rules in Chapter 5 at least equal to the relevant requirement set out in that chapter.

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5 Chapter 5: Financial Resources

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5.2.2 FINANCIAL RESOURCES

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Liquid Capital

5.2.2(2) R (a) A firm must calculate its *liquid capital* in accordance with Table 5.2.2(1).

(b) In addition to the above, a firm whose permitted business includes establishing, operating or winding up a personal pension scheme must comply with:

- (i) the requirements in relation to the realisability of liquid capital found in Note 2 of Table 5.2.3(4)(a); and
- (ii) the limitation in respect of Item 14 of Table 5.2.2(1), not to include net trading book profits in the firm's liquid capital calculation.

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Liquid capital requirement

5.2.3(4) R The *liquid capital requirement* for a firm subject to paragraph (a) of rule (a) 5.2.3(1) is ~~the greater of:~~

- (i) ~~£5,000; and~~ for a firm whose permitted business includes establishing, operating or winding up a personal pension scheme, the higher of (A) £20,000, and (B) the calculation from Table 5.2.3(4)(a);
- (ii) for any other firm, the higher of (A) £5,000 and (B), its total capital requirement calculated in accordance with rule 5.2.3(5);

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TABLE 5.2.2(1)

CALCULATION OF OWN FUNDS AND LIQUID CAPITAL

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Part II

Detailed Requirements

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8 Net trading book profits (Item 14) For firms which are not *exempt CAD firms* unaudited profits can be included at item 14.

This Item must not be included in the liquid capital calculation of a firm whose permitted business includes establishing, operating or winding up a personal pension scheme.

Note

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The following table is new, and should be inserted between Table 5.2.2(1) and Table 5.2.3(5)(a). The text is not underlined.

Table 5.2.3(4)(a)	<p>Liquid Capital Requirement for firms whose permitted business includes establishing, operating or winding up a personal pension scheme.</p> <p>Liquid Capital Requirement = Initial Capital Requirement + Capital Surcharge</p> <p>Calculation of Initial Capital Requirement</p> <p>Where</p> <p>ICR means Initial Capital Requirement</p> <p>AUA means Assets Under Administration as defined below.</p> <p>K1 is set subject to the firm's AUA as specified in the below table</p> <table border="1"> <thead> <tr> <th>AUA</th> <th>K1 constant to be applied</th> </tr> </thead> <tbody> <tr> <td><£100m</td> <td>10</td> </tr> <tr> <td>£100-£200m</td> <td>15</td> </tr> <tr> <td>>£200m</td> <td>20</td> </tr> </tbody> </table> <p>ICR = $(\sqrt{AUA}) \times K1$</p> <p>Assets Under Administration For the calculation in this Table, this means the average of the sum of the <i>personal pension schemes</i> administered by the firm at the latest 4 quarter end dates.</p> <p>Where it is not possible to value an asset at the quarter end date (for example because there is no readily available market price), the most recent market valuation should be used.</p> <p>Where it would be reasonable to assume that the value of the asset has changed by more than 15% since the most recent market valuation, a <i>firm</i> should instead use a reasonable estimate. For UK commercial property, such an estimate could, where relevant, be obtained through an appropriate commercial property index. This is without prejudice to any requirement on a <i>firm</i> to provide a <i>personal pension scheme</i> member with accurate and timely valuations of their portfolios.</p> <p>Calculation of Capital Surcharge</p> <p>Where</p> <p>CS means Capital Surcharge</p> <p>P means the fraction of <i>personal pension schemes</i> administered by the <i>firm</i> which contain one or more asset types which do not appear in the list of Standard Assets below, at the most recent quarter end. For example, if a quarter of personal pensions contained non-Standard Assets, this would be inputted in to the formula as 0.25.</p> <p>K2 is set at 2.5.</p> <p>ICR means the Initial Capital Requirement calculated as above.</p> <p>CS = $(\sqrt{P}) \times K2 \times ICR$</p>	AUA	K1 constant to be applied	<£100m	10	£100-£200m	15	>£200m	20
AUA	K1 constant to be applied								
<£100m	10								
£100-£200m	15								
>£200m	20								

Standard Assets

The List of Standard Assets is as follows (subject to Note 1):

Bank account deposits

Cash

Cash funds

Corporate bonds

Exchange traded commodities

Government & local authority bonds and other fixed interest stocks

Physical gold bullion

Investment notes (structured products)

Shares in *Investment trusts*

Managed pension funds

National Savings and Investment products

Permanent interest bearing shares (PIBs)

Real estate investment trusts (REITs)

Shares listed on:

- the Alternative Investment Market;
- the London Stock Exchange; or
- a *recognised overseas investment exchange*.

UK commercial property

Units in *Regulated collective investment schemes*

NOTE 1:

A Standard Asset, and where relevant the underlying assets, must be capable of being accurately and fairly valued on an ongoing basis and readily realised within 30 days, whenever required. Valuations should be undertaken in accordance with the generally accepted standards used in the relevant sector for the asset.

The Standard Asset list includes assets which would normally meet the Standard Asset criteria.

There will be instances where this is not the case. For example, where the transfer of UK commercial property cannot be registered at the Land Registry, and/or it would take more than 30 days to transfer the asset. Where a firm identifies such an asset within its scheme(s) it should treat the asset as non-Standard.

NOTE 2:

In addition to complying with the provisions of Table 5.2.2(1), in accordance with *rule 5.2.2(2)(b)*, a *firm* must hold its *liquid capital* in financial resources as follows:

ICR	realisable within 12 months; and
CS	realisable within 30 days

Amend the following as shown.

13 Chapter 13: Financial Resource Requirements for Personal Investment Firms

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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 <i>CATEGORY B FIRMS</i>				
Type of <i>firm</i>	Financial Resources Test 1 <i>Own funds</i> Test	Financial Resources Test 1A Adjusted <i>Net current assets</i> Test	Financial Resources Test 2 Expenditure-based Test	<i>Rule/section</i> References
...				
All <i>Category B firms</i> that do not hold <i>client money</i> or assets, but are <i>permitted</i> to <i>establish, operate or wind up a personal pension scheme</i> . [See Note 1]	£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 13.12.5A
All <i>Category B firms</i> that hold <i>client money</i> or assets and are <i>permitted</i> to <i>establish, operate or wind up a personal pension scheme</i> . [See Note 1]	£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 13.12.1G 13.12.2 to 13.12.5A
Note 1	<u>In addition, a firm permitted to establish, operate or wind up a personal pension scheme must have and maintain at all times financial resources calculated in accordance with the applicable rules in Chapter 5 at least</u>			

	equal to the relevant requirement set out in that chapter.
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...

- 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) in addition to having and maintaining financial resources in accordance with the applicable rules in Chapter 5 at least equal to the relevant requirement set out in that chapter:

...

Annex B

Amendments to the Supervision manual (SUP)

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

16 Reporting requirements

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Regulated Activity Group 3

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16.12.11 R The applicable *data items* referred to in SUP 16.12.4R are set out according to *firm* type in the table below:

Description of data item	Firms prudential category and applicable <i>data items</i> (note 1)					
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms			
	IFPRU	BIPRU	IPRU (INV) Chapter 3	IPRU (INV) Chapter 5	IPRU (INV) Chapter 9	IPRU (INV) Chapter 13
...						
Capital adequacy	FSA034 or FSA035 or <u>FIN071</u> (note 14)
...						
...						
Note 14	FSA034 must be completed by a firm not subject to the exemption in IPRU(INV) 5.2.3(2)R. FSA035 must be completed by a firm subject to the exemption in IPRU(INV) 5.2.3(2)R, <u>unless it calculates its own funds requirement in accordance with IPRU(INV) rule 5.2.3(4)(a)(i), in which case FIN071 must be completed.</u>					
...						

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16.12.12 R The applicable reporting frequencies for *data items* referred to in SUP 16.12.4R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
...						
FIN068	...					
<u>FIN071</u>						<u>Quarterly</u>
...						

...

16.12.13 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.12R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					
...						
FIN068					...	
<u>FIN071</u>				<u>20 business days</u>		
...						

...

Regulated Activity Group 4

...

16.12.15 R The applicable *data items* referred to in *SUP* 16.12.4R according to type of *firm* are set out in the table below:

Description of data item	Firms' prudential category and applicable data items (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IPRU (INV) Chapter 3	IPRU (INV) Chapter 5	IPRU (INV) Chapter 9	IPRU (INV) Chapter 11 (collective portfolio management firms only)	IPRU (INV) Chapter 12	IPRU (INV) Chapter 13
...								
Capital adequacy	COREP (Note 34)	FSA003 (Note 2)	FSA033	FSA034 or FSA035 or <u>FIN071</u> (note 14)	FSA031	FIN066	FIN069	Section D1 and D2 RMAR or FSA032 (note 15)
...								
Note 14	FSA034 must be completed by a <i>firm</i> not subject to the exemption in <i>IPRU(INV)</i> 5.2.3(2)R. FSA035 must be completed by a <i>firm</i> subject to the exemption in <i>IPRU(INV)</i> 5.2.3(2)R, <u>unless it calculates its own funds requirement in accordance with <i>IPRU(INV)</i> rule 5.2.3(4)(a)(i), in which case FIN071 must be completed.</u>							

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- 16.12.16 R The applicable reporting frequencies for *data items* referred to in SUP 16.12.15R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Firms' prudential category					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					Refer to <i>EU CRR</i> and applicable technical standards
...						
FIN070						...

<u>FIN071</u>						<u>Quarterly</u>
...						

16.12.17 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.16R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					
...						
FIN070				...		
<u>FIN071</u>				<u>20 business days</u>		
...						

...

Regulated Activity Group 6

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16.12.19A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of <i>data item</i>	<i>Firm's</i> prudential category and applicable data item (note 1)			
	<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 13
...				
Capital adequacy	FSA033	FSA034 or FSA0035 or <u>FIN071</u> (note 4)	FSA031	FSA032 or Sections D1 and D2 RMAR (notes 5 and 7)
...				
...				
Note 4	FSA034 must be completed by a <i>firm</i> not subject to the exemption in <i>IPRU(INV)</i> 5.2.3(2)R. FSA035 must be completed by a <i>firm</i> subject to the exemption in <i>IPRU(INV)</i> 5.2.3(2)R, <u>unless it calculates its own funds requirement in accordance with <i>IPRU(INV)</i> rule 5.2.3(4)(a)(i), in which case <u>FIN071</u> must be completed.</u>			

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- 16.12.20 R The applicable reporting frequencies for submission of *data items* referred to in SUP 16.12.4R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

...	
FSA039	...
<u>FIN071</u>	<u>Quarterly</u>
...	

- 16.12.21 R The applicable due dates for submission referred to in SUP 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in SUP 16.12.20R.

<i>Data item</i>	Quarterly	Half yearly	Annual
...			
FSA040	...		
<u>FIN071</u>	<u>20 business days</u>		
...			

...

Regulated Activity Group 8

...

- 16.12.25A R The applicable *data items* referred to in SUP 16.12.4R are set out according to type of *firm* in the table below:

Description of <i>data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>					
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>			
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IPRU (INV) Chapter 3</i>	<i>IPRU (INV) Chapter 5</i>	<i>IPRU (INV) Chapter 9</i>	<i>IPRU (INV) Chapter 13</i>
...						

Capital adequacy	COREP (Note 30)	FSA003 (Note2)	FSA033	FSA034 or FSA035 or <u>FIN071</u> (note 14)	FSA031	Sections D1 and D2 RMAR (note 17) or FSA 032 (note 15)
...						
Note 14	FSA034 must be completed by a <i>firm</i> not subject to the exemption in <i>IPRU(INV)</i> 5.2.3(2)R. FSA035 must be completed by a <i>firm</i> subject to the exemption in <i>IPRU(INV)</i> 5.2.3(2)R, <u>unless it calculates its own funds requirement in accordance with <i>IPRU(INV)</i> rule 5.2.3(4)(a)(i), in which case <u>FIN071</u> must be completed.</u>					
...						

...

16.12.26 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.25AR are set out according to the type of *firm* in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firms other than BIPRU firms or IFPRU investment firms</i>
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
...						
FSA058	...					
<u>FIN071</u>						<u>Quarterly</u>
...						

16.12.27 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.26R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual

COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards					
...						
FSA058				...		
<u>FIN071</u>				<u>20 business days</u>		
...						

...

In SUP 16 Annex 24R (Data items for SUP 16.12) insert the following new data item at the end of the annex. The text is not underlined.

...

FIN071: Capital adequacy for firms with the permission of establishing, operating or winding up a personal pension scheme

Regulatory Capital		A	B
<i>Tier 1</i>			
1	Paid up share capital (excluding preference shares)		
2	Eligible LLP member's capital		
3	Share premium account		
4	Reserves		
5	Non-cumulative preference shares		
6	Less: Investment in own shares		
7	Intangible assets		
8	Material current year losses		
9	Material holdings in credit and financial institutions		
10	Excess LLP member's drawings		
11	Total deductions		
12	Tier 1 Capital		
<i>Tier 2</i>			
13	Revaluation reserves		
14	Fixed term cumulative preference share capital		
15	Long term subordinated loans		
16	Other cumulative preference share capital and debt capital		
17	Qualifying arrangements		
18	Tier 2 Capital		
19	Own Funds		
<i>Tier 3</i>			
20	Short term Qualifying Subordinated Loans and excess Tier 2 capital		
21	Less: Illiquid assets		
22	Qualifying Property		
23	Liquid Capital		
Regulatory capital test			
24	Assets under Administration		
25	Number of plans		
26	Fraction of plans containing non-standard asset types		
27	Initial Capital Requirement		
28	Capital Surcharge		
29	Total Capital Requirement		
30	Surplus / Deficit of liquid capital		
31	Is capital held in accordance with Note 2 of IPRU(INV) 5.2.3(4)(a)		

In SUP 16 Annex 25G (Guidance notes for data items in SUP 16 Annex 24R) insert the following new notes after FIN070. The text is not underlined.

FIN071: Capital adequacy for firms with the permission of establishing, operating or winding up a personal pension scheme

Introduction

The purpose of reporting form FIN071 is to provide a framework for the collection of information required by the *FCA* as a basis for its supervision activities. It also has the purpose of helping the *FCA* monitor *firms'* capital adequacy and financial soundness. This data item is intended to reflect the underlying prudential requirements contained in *IPRU(INV) 5.2.3(4)R(a)(i)* and allows monitoring against the requirements set out there.

Defined Terms

Terms referred to in these notes where defined by the Companies Act 2006, or the provisions of the *firm's* accounting framework (usually UK GAAP or IFRS), bear that meaning for the purposes of this guidance and completing FIN071. The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology without departing from their full meaning or effect.

- The *data item* should comply with the principles and requirements of the *firm's* accounting framework, which will generally be UK GAAP (including relevant provisions of the Companies Act 2006 as appropriate) or IFRS.
- The *data item* should be unconsolidated.
- For a sole trader, only the assets and liabilities of the business should be included.
- The *data item* should be in agreement with the underlying accounting records.
- Accounting policies should be consistent with those adopted in the statutory annual accounts and should be consistently applied.
- Information required should be prepared in accordance with generally accepted accounting standards.
- The *data item* should not give a misleading impression of the *firm*. A *data item* is likely to give a misleading impression if a *firm* wrongly omits or includes a material item or presents a material item in the wrong way.

Currency

You should report in the currency of your annual audited accounts i.e. in either Sterling, Euro, US dollars, Canadian dollars, Swedish Kroner, Swiss Francs or Yen. **Figures should be reported in 000s.**

Data Elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Description	Data Element	Guidance
Regulatory Capital		
	1 to 22	The figures entered in this section should be consistent with those entered in FSA029 submitted for the same reporting period.
Liquid Capital	23 B	The amount of own funds in accordance with Table 5.2.2(1) in <i>IPRU(INV)</i> .
Regulatory Capital Test		
Assets under Administration	24 B	The average of the sum of the <i>personal pension schemes</i> administered by the <i>firm</i> at the most recent 4 quarter end dates, in accordance with Table 5.2.3(4)(a) in <i>IPRU(INV)</i> .
Number of Plans	25 B	The number of pension plans that the <i>firm</i> operates.
Fraction of plans containing non-standard asset types	26 B	The fraction of plans that the <i>firm</i> operates that contains non-standard assets, in accordance with Table 5.2.3(4)(a) in <i>IPRU(INV)</i> .
Initial Capital Requirement	27 B	A <i>firm</i> must calculate its Initial Capital Requirement in accordance with Table 5.2.3(3)(a) in <i>IPRU(INV)</i> .
Capital Surcharge	28 B	A <i>firm</i> must calculate its Capital Surcharge in accordance with Table 5.2.3(4)(a) in <i>IPRU(INV)</i> .
Total Capital Requirement	29 B	This is the sum of 27B and 28B, in accordance with Table 5.2.3(3)(a) in <i>IPRU(INV)</i> .
Capital held in accordance with Note 2 of <i>IPRU(INV)</i> 5.2.3(4)(a)	31 B	The <i>firm</i> should enter “YES” or “NO”.