

**CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE
REQUIREMENTS FOR PERSONAL INVESTMENT FIRMS (NO 2)
INSTRUMENT 2015**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers); and
 - (c) section 139A (Power of the FCA to give guidance); and
 - (2) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. (1) Subject to (2) and to paragraph D.(8), this instrument comes into force on 30 June 2016.
- (2) Part 2 of Annexes A, C and D to this instrument come into force on 1 September 2016.

Revocation

- D. (1) Part 2 of Annex B (IPRU(INV)) to the Capital Resources and Professional Indemnity Insurance Requirements for Personal Investment Firms Instrument 2009 (FSA 2009/62) is revoked.
- (2) Annex E (IPRU(INV)) to the Handbook Administration (No 16) Instrument 2009 (FSA 2009/69) is revoked.
- (3) Part 2 of Annex D (IPRU(INV)) to the Handbook Administration (No 18) Instrument 2010 (FSA 2010/19) is revoked.
- (4) The Supervision Manual (Retail Mediation Activities Return) (Amendment No 3) Instrument 2010 (FSA 2010/70) is revoked.
- (5) The Capital Resources Requirements for Personal Investment Firms (Amendment) Instrument 2013 (FSA 2011/44) is revoked.
- (6) The Capital Resources Requirements for Personal Investment Firms (Amendment No 2) Instrument 2013 (FCA 2013/67) is revoked.

- (7) Amendments to Chapter 13 (Financial Resource Requirements for Personal Investment Firms) in Annex A (IPRU(INV) to the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014 (FCA 2014/46) are revoked. The other amendments in the instrument are not affected.
- (8) The instruments and sections of instruments in (1) to (7) are revoked with effect from the date this instrument is made.

Amendments to the Handbook

- E. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes in this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex B
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex C
Supervision manual (SUP)	Annex D

Notes

- F. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are included 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 (No 2) Instrument 2015.

By order of the Board
3 December 2015

Annex A

Amendments to the Glossary of definitions

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

Part 1: Comes into force on 30 June 2016

Insert the following new definitions and amendments in the appropriate alphabetical position. The text is not underlined.

- net current assets* in relation to a *firm* at a particular date, the total:
- (a) of all assets which are not intended for use on a continuing basis in the *firm's* business (i.e. current assets);
 - (b) less all the liabilities payable by the *firm* within 12 months of that date.
- properly secured* fully secured by:
- (a) a first legal mortgage in favour of the *firm* on land and buildings; or
 - (b) on a *readily realisable investment* where the *firm* has in its possession or under its control a document of title or a document evidencing title to that investment.

Amend the following definitions as shown:

- annual income* (1) (in *MIPRU*) the income referred to in *MIPRU* 4.3.
 (2) (in *IPRU(INV)* 13) the income referred to in *IPRU(INV)* 13.14 (Calculation of annual income).
- material current year losses* (in *IPRU(INV)* 13) losses of an amount equal to 10 per cent or more of the amount by which the *own funds* or the capital resources under *IPRU(INV)* 13.15 of an *undertaking* exceed the *own funds* or the capital resources under *IPRU(INV)* 13.15 needed to meet ~~financial resources test~~ the minimum capital resources requirement – depending on the type of firm – as prescribed in chapter 13.
- own funds* ...
- (3A) (in *IPRU(INV)* 13) the own funds of a *firm* calculated in accordance with:
 - (a) *IPRU(INV)* 13.1A.14R (Own funds) for a personal

investment firm that is an exempt CAD firm; or

- (b) IPRU(INV) 13.10.2R to IPRU(INV) 13.10.2AR (Calculation of own funds) for a personal investment firm that is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme.

Delete the following definition.

opted-in exempt CAD firm an ~~exempt CAD firm~~ 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). [deleted]

Part 2: Comes into force on 1 September 2016

Amend the following definition as shown:

own funds ...

(3A) (in IPRU(INV) 13) the own funds of a firm calculated in accordance with:

(a) ~~IPRU(INV) 13.1A.14R (Own funds) for a personal investment firm that is an exempt CAD firm; or~~

(b) IPRU(INV) 13.10.2R to IPRU(INV) 13.10.2AR (Calculation of own funds) for a personal investment firm that is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme.

Delete the following definitions.

net current assets ~~in relation to a firm at a particular date, the total:~~

(a) ~~of all assets which are not intended for use on a continuing basis in the firm's business (i.e. current assets);~~

(b) ~~less all the liabilities payable by the firm within 12 months of that date. [deleted]~~

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. [deleted]~~

properly secured ~~fully secured by:~~

- (a) ~~a first legal mortgage in favour of the *firm* on land and buildings; or~~
- (b) ~~on a *readily realisable investment* where the *firm* has in its possession or under its control a document of title or a document evidencing title to that investment. [deleted]~~

Annex B

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

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

4.2 Capital resources requirements

...

Capital resources requirement: firms carrying on regulated activities including designated investment businesses

- 4.2.5 R The capital resources requirement for a *firm* (other than a *credit union*) carrying on *regulated activities*, including *designated investment business*, and to which *IPRU(INV)* does not apply, is the higher of:
- (1) ...
 - (2) the financial ~~resource~~ resources requirement which is applied by ~~the Interim Prudential sourcebook for investment businesses~~, the Prudential sourcebook for Investment Firms and the *EU CRR* or the General Prudential sourcebook and the sourcebook for Banks, Building Societies and Investment Firms.
- 4.2.5A G The capital resources requirement for a *firm* (other than a *credit union*) carrying on *regulated activities*, including *designated investment business*, which is also subject to the Interim Prudential sourcebook for investment businesses is the amount calculated in *IPRU(INV)* 13.13.3R.

Annex C

**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 30 June 2016

In the Table, the word in column (1) is replaced by the word or phrase in column (2) where indicated in columns (3) and (4).

(1)	(2)	(3)	(4)
<i>FSA</i>	<i>FCA</i>	IPRU(INV)	13.1.18R(3), 13.1.22G(1) and (2), 13.1.28R, 13.1A.16R(1), 13.12.2DG, Table 13.12.3R(1) and 13.12.4AR(4)

Transitional provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force
...					
<u>13</u>	<u><i>IPRU(INV)</i></u> <u>13.1A.3R(2)</u>	<u>R</u>	<u><i>A firm applying (b) or (c) above must have initial capital of at least £15,000.</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>
<u>14</u>	<u><i>IPRU(INV)</i></u> <u>13.1A.4R(2)</u>	<u>R</u>	<u><i>A firm applying (b) or (c) above must have initial capital of at least £15,000.</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>
<u>15</u>	<u><i>IPRU(INV)</i></u> <u>13.13.2R(2)(a)</u>	<u>R</u>	<u><i>The firm must calculate its capital resources requirement as the higher of:</i></u> <u><i>(a) £15,000.</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>
<u>16</u>	<u><i>IPRU(INV)</i></u> <u>13.13.3R(2)(a)</u>	<u>R</u>	<u><i>The firm must calculate its capital resources requirement as the higher of:</i></u>	<u>From 30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>

			(a) <u>£15,000.</u>		
17	<u>IPRU(INV)</u> <u>13.15.9R and</u> <u>IPRU(INV)</u> <u>13.15.10R</u>	R	<p>These rules do not apply to a <u>category B3 firm</u> which is not a <u>network</u>, has fewer than <u>26 financial advisers or representatives</u> and is not permitted to:</p> <p><u>(a) carry on discretionary portfolio management;</u></p> <p><u>(b) establish, operate or wind up a personal pension scheme;</u></p> <p><u>or</u></p> <p><u>(c) delegate the activities in (a) or (b) to an investment firm.</u></p>	From <u>30 June 2016 to 29 June 2017</u>	<u>30 June 2016</u>

...

1 Chapter 1: Application and General Provisions

...

1.2 APPLICATION

...

CAPITAL SUBSTITUTES: TRANSITIONAL PROVISION

...

1.2.8 G ~~An instrument treated in an equivalent manner would, for example, include (in relation to a personal investment firm) a "PASS loan". [deleted]~~

...

13 Chapter 13: Financial Resources Requirements for Personal Investment Firms

13.1 APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS

APPLICATION

13.1.1 R (4) This chapter applies to a firm which is a *personal investment firm* as set out in the table below.

<u>Type of personal investment firm</u>	<u>Application of this Chapter</u>
<u>A personal investment firm which is an exempt CAD firm</u>	<u>13.1, 13.1A, 13.13 and 13.14</u>
<u>A personal investment firm which is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme</u>	<u>13.1 and 13.9 to 13.12</u>
<u>A personal investment firm which is a category B firm whose permission does not include establishing, operating or winding up a personal pension scheme</u>	<u>13.1 and 13.13 to 13.15</u>

- (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 B firm* as references to the *firm*).
[deleted]
- (3) For a *personal investment firm* which is a *Category B firm*, section 13.1 and sections 13.9 to 13.12 apply. [deleted]

PURPOSE

- 13.1.2 G This chapter amplifies *threshold condition 4 2D* (Adequate Appropriate 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.

...

GENERAL CAPITAL RESOURCES AND SOLVENCY REQUIREMENTS

- 13.1.4 R A *firm* must at all times:
- (1) have and maintain capital resources at least equal to its relevant capital resources requirement 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.

CAPITAL RESOURCES: GENERAL ACCOUNTING PRINCIPLES

- 13.1.4A R (1) Unless a rule provides otherwise, a firm must:
- (a) recognise an asset or liability; and
- (b) measure the amount of that asset or liability,
- by using the accounting principles it applies in preparing the firm's reporting form in (2).
- (2) The accounting principles are referred to in:
- (a) the Notes for completion of the Retail Mediation Activities Return (RMAR) (under the heading "Accounting Principles") in SUP 16 Annex 18BG for a category B firm; and
- (b) the Guidance notes for data items in FSA032 (under the heading "Defined terms") in SUP 16 Annex 25AG for an exempt CAD firm.

...

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 *IPRU(INV)* 13.1.21R ~~should~~ must 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 firm's capital resources is set out in sections 13.1A to 13.12 13.15 (see rule 13.1.1 <i>IPRU(INV)</i> 13.1.1R for application of these sections to an exempt CAD firm and or a category B firm).		

...

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	5	10	15	20	25	30	40	50	75	100	150	200 +
...													
...													
Note 2 – The calculation of a <i>firm's</i> capital resources is set out in sections 13.1A to 13.12 <u>13.15</u> (see rule 13.1.1 <u>IPRU(INV) 13.1.1R</u> for application of these sections to an <i>exempt CAD firm</i> and <u>or a category B firm</u>).													

NOTIFICATION REQUIREMENTS

...

- 13.1.29 G (1) For the purposes of the provisions relating to professional indemnity insurance, “additional capital resources” means readily realisable *own funds* or capital resources under IPRU(INV)13.15.3R, depending on the type of firm.
- (2) The ~~FSA~~ FCA expects items included in *own funds* or capital resources under IPRU(INV)13.15.3R, depending on the type of firm, to be regarded as “readily realisable” only if they can be realised, at any given time, within 90 days.

13.1A CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENT FOR AN EXEMPT CAD FIRM

...

~~Initial~~ Requirement to hold initial capital and professional indemnity insurance requirements

- 13.1A.2 R The financial 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)~~ the requirement that is applied by sections ~~13.2 to 13.8~~ 13.13 to 13.14. ~~;~~ ~~or~~

(b) ~~if it is an opted-in exempt CAD firm, the requirement that is applied by sections 13.9 to 13.12 (but reading references to Category B firm as references to the firm).~~

13.1A.3 R (1) ...
 (2) ~~If a A firm chooses to comply with either applying (b) or (c) above, it must nevertheless have initial capital of at least £10,000~~ £20,000.

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 13.1.10R and in addition ~~has to~~ must have:
 ...
 (2) ~~If a A firm chooses to comply with either applying (b) or (c) above, it must nevertheless have initial capital of at least £10,000~~ £20,000.

...

Defined benefit pension scheme: defined benefit liability

...

13.1A.12 R G A firm should keep a record of and be ready to explain to its supervisory contacts in the ~~FSA~~ FCA the reasons for any difference between the *deficit reduction amount* and any commitment the firm has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

Ongoing capital requirements

...

13.1A.15 R Table 13.1A.15R
 This table forms part of ~~rule 13.1.4~~ IPRU(INV) 13.1A.14R.

...
(3)	Long-term subordinated loans (in accordance with <i>IPRU (INV) 13.5.5AR</i> <u>13.1A.18R</u>)	C
...	...	

Subordinated Loans – Exempt CAD firm

13.1A.18 R *IPRU(INV) 13.1A.19R to IPRU(INV) 13.1A.20R apply to an exempt CAD*

firm.

- 13.1A.19 R A firm may include a long-term subordinated loan as own funds (see item C(3) table 13.1A.15R) if all the conditions in IPRU(INV) 13.1A.20R are satisfied.
- 13.1A.20 R The conditions referred to in IPRU(INV) 13.1A.19R are:
- (1) the subordinated loan must be fully paid up;
 - (2) the subordinated loan must have an original maturity of at least five years or, where there is no fixed term, the subordinated loan must be subject to not less than five years' notice of repayment;
 - (3) the agreement governing the subordinated loan must only permit repayment, prepayment or termination on:
 - (a) maturity, or on expiration of the period of notice, if a firm has at least 120% of its financial resources requirement after that payment or termination; or
 - (b) winding up after the claims of all other creditors and all outstanding debts have been settled;
 - (4) the amount of the subordinated loan used in the calculation of a firm's own funds must be reduced on a straight-line basis over the last five years of the term of the subordinated loan;
 - (5) the subordinated loan is in the standard form prescribed by the FCA for long-term subordinated loans (see form 13.1 Form of subordinated loan agreement for personal investment firms).

Sections 13.2, 13.4, 13.5 and 13.7 are deleted in their entirety. The deleted text is not shown.

Amend the following as shown.

13.9 FINANCIAL RESOURCES TESTS FOR CATEGORY B FIRMS WHOSE PERMISSION INCLUDES ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

- 13.9.-1 R This section applies to a personal investment firm which is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme.

Requirement

- 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~~ 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~~ 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 tests~~ for a *Category B firm*.

Table 13B. This table forms part of ~~rule 13.9.4~~ IPRU(INV) 13.9.1R.

SUMMARY OF FINANCIAL RESOURCES FOR <i>CATEGORY B</i> FIRMS				
Type of <i>firm</i>	Financial Resources Test 1 <i>Own funds</i> Test	Financial Resources Test 1A <i>Adjusted Net current assets</i> Test	Financial Resources Test 2 Expenditure-based Test	<i>Rule/section</i> References
<i>Category B1</i> (including any <i>Network</i> in this category)	£10,000	Adjusted net current assets 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 13.12.1C 13.12.2 to 13.12.5A 0
Category B2 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	Adjusted net current assets of £1	Adjusted capital equal to the higher of 13/52 of relevant annual expenditure or £400 per adviser	13.10 13.11 13.12.1D 13.12.2 to 13.12.5A

Category B2 with 26+ advisers	£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 13.12.1E 13.12.2 to 13.12.5A
Category B2 with 1-25 advisers	£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 13.12.1F 13.12.2 to 13.12.5A
Category B3 which is permitted to carry on the activity of <i>managing investments in respect of portfolios containing only life policies</i> or to delegate such activity to an <i>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 13.12.1E 13.12.2 to 13.12.5A
Category B3 with 26+ advisers	£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 13.12.1F 13.12.2 to 13.12.5A
Category B3 with 1-25 advisers	£10,000	N/A	N/A	13.10
<i>Network</i> in Category B2 or B3	£10,000	Adjusted <i>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 13.12.1D 13.12.2 to 13.12.5A
All <i>Category B</i> firms	£10,000	Adjusted <i>net current assets</i>	Adjusted capital equal to the	13.10

that do not hold client money or assets, but are permitted to establish, operate or wind up a personal pension scheme.		of £1	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 firm.	13.11 13.12.1G 13.12.2 to 13.12.5A
...				

13.10 FINANCIAL RESOURCES TEST 1- OWN FUNDS REQUIREMENT

Application

13.10-1 R This section applies to a *personal investment firm* which is a *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme*.

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~~ *IPRU(INV) 13.10.2R*.

Companies	Sole Traders: Partnerships
...	...
less	less
- ...	- ...
- Material current year losses <i>Material current year losses</i>	- Material current year losses <i>Material current year losses</i>
- ...	- ...

Note 1

Retained profits must be audited and interim net profits must be verified by the *firm's* external auditor, unless the *firm* is exempt from the provisions of ~~Part VII of the Companies Act 1985 (section 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.

- 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~~ unrealised 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~~ FCA the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.
- Where a ~~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~~ FCA);
 - (2) the *firm's* total financial resources, from whatever source, ~~must~~ should 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. [deleted]~~

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~~ applies to a personal investment firm which is a Category B firm whose permission includes establishing, operating or winding up a personal pension scheme.

Requirement

- 13.11.2 R A ~~Category B~~ firm must adjust its *net current assets* as follows:
- ...
- 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~~ applies to a personal investment firm which is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme.

Requirement

- 13.12.1B R A ~~Category B~~ firm must have at all times financial resources calculated in accordance with ~~rules 13.12.2-5 to 13.12.5~~ IPRU(INV) 13.12.2R to IPRU(INV) 13.12.5R which equal or exceed the amount specified in ~~rules 13.12.1C to F~~ IPRU(INV) 13.12.1GR as applicable.
- 13.12.1C R ~~A Category B1 firm, including a Network~~ must have financial resources calculated in accordance with whichever of (1), (2) or (3) produces the

higher amount.

- (1) ~~13/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D; or~~
- (2) ~~an amount equal to £400 multiplied by the number of its *advisers*; or~~
- (3) ~~£10,000; [deleted]~~
- 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*. [deleted]~~
- 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*. [deleted]~~
- 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.~~
[deleted]

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 A firm which holds client money or assets, must have financial resources calculated as the highest of:~~
 - (a) ~~13/52 of its relevant annual expenditure, calculated in accordance with 13.2.2 to 13.12.2D IPRU(INV) 13.12.2R to IPRU(INV) 13.12.2DR;~~
 - (b) ~~an amount equal to £400 multiplied by the number of its advisers advisers; and~~
 - ...
- (2) ~~For a A firm which does not hold client money or assets, must have financial resources calculated as the highest of:~~
 - (a) ~~6/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D IPRU(INV) 13.12.2R to IPRU(INV) 13.12.2D;~~
 - (b) ~~an amount equal to £400 multiplied by the number of its advisers advisers; and~~
 - (c) ~~£10,000; and~~
 - (d) ~~any other expenditure-based requirement set out in 13.12.1 applicable to the firm.~~

Calculation of Relevant Annual Expenditure

13.12.2 R ~~A Category B firm must calculate its relevant annual expenditure by reference to the amount described as total expenditure in its most recently prepared set of annual financial statements. If those statements were for a period other than 12 months, the amounts in its profit and loss account must be adjusted proportionately.~~

13.12.2A R Where a ~~Category B~~ firm has just begun trading or have not been authorised long enough to submit such statements the firm must calculate its relevant annual expenditure on the basis of forecast or other appropriate accounts submitted to the ~~FSA~~ FCA.

13.12.2B R A ~~Category B~~ firm may deduct from its relevant annual expenditure items (a) to (f) set out in table 13.12.2, unless the firm is a ~~Category~~ category B1 firm, in which case it may not deduct item (e).

Table 13.12.2

This table forms part of ~~rule 13.12.2~~ IPRU(INV) 13.12.2R.

...

...

Calculation of Financial Resources to meet Tests 1, 1a or 2

13.12.3 R (1) ~~This rule does not apply to a low resource firm; [deleted]~~

(2) A ~~Category B~~ firm must be able to calculate its financial resources at any time on the basis of the balance sheet the firm could draw up at that time. For this purpose:

(a) a ~~Category~~ 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);

...

(3) ~~the~~ 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 13.12.3(1) Part I

This table forms part of ~~rule 13.12.3~~ IPRU(INV) 13.12.3R.

FIRMS CATEGORY B1 <u>FIRMS</u>	
Calculation of Assets	
ASSETS	ADJUSTMENTS
...	
(12) Other Debts	(a) Amounts owing in respect of ... (iii) dividends declared by authorised or not <i>EEA firms</i> or by companies in respect of <i>shares</i> listed on a recognised <u>recognised investment exchange</u> or designated investment exchange <u>designated investment exchange</u> ; ...
...	

Table 13.12.3(1) Part II

This table forms part of ~~rule 13.12.3~~ IPRU(INV) 13.12.3R.

FIRMS IN CATEGORY B1 <u>B2 AND B3 FIRMS</u>	
Calculation of Liabilities	
...	...

Table 13.12.3(2) Part I

This table forms part of ~~rule 13.12.3~~ IPRU(INV) 13.12.3R.

FIRMS IN CATEGORIES <u>CATEGORY B2 AND B3 FIRMS</u> (except low resource firms)
Calculation of Assets

...	...
-----	-----

Table 13.12.3(2) Part II

This table forms part of ~~rule 13.12.3~~ IPRU(INV) 13.12.3R.

FIRMS IN CATEGORY B1 <u>FIRMS</u>	
Calculation of Liabilities	
...	...

Table 13.12.3A

This table forms part of ~~rule 13.12.3~~ IPRU(INV) 13.12.3R.

DISCOUNTS FOR INVESTMENTS	
...	
Investment	Discount
...	
B. Equities	
- other investments listed on a recognised <u>recognised investment exchange</u> or designated investment exchange <u>designated investment exchange</u>	25%
- shares traded on a recognised <u>recognised investment exchange</u> or designated investment exchange <u>designated investment exchange</u>	35%
...	

...

Restrictions

13.12.5 R A ~~Category B~~ firm must calculate:

- (1) the aggregate amount of its short term subordinated loans, its preference *shares* which are not redeemable within two years, and for a ~~Category B~~ firm other than a ~~Category~~ 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*;

(2) ...

13.12.5A R ~~A *Category B*~~ In the calculation of financial resources, a *firm* must treat as a liability in the calculation of its financial resources any amount by which the sum of 13.12.5(1) *IPRU(INV)* 13.12.5R(1) exceeds the product of 13.12.5(2) *IPRU(INV)* 13.12.5R(2) as a liability.

Insert the following new sections after IPRU(INV) 13.12. The text is not underlined.

13.13 CAPITAL RESOURCES REQUIREMENT FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

- 13.13.1 R This section applies to a *personal investment firm* which is either:
- (1) an *exempt CAD firm*; or
 - (2) a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*.

Requirement

- 13.13.2 R (1) A *firm* to which *MIPRU* does not apply must calculate its capital resources requirement as in (2).
- (2) The *firm* must calculate its capital resources requirement as the higher of:
- (a) £20,000; and
 - (b) the amount equivalent to the applicable percentage of its *annual income* specified in table 13.13.2(2)(b), depending on the type of *firm*.

Table 13.13.2(2)(b)

This table forms part of *IPRU(INV)* 13.13.2R.

(A)	(B) Type of <i>firm</i>	(C) Applicable percentage of <i>annual income</i>

(1)	<i>Exempt CAD firm</i>	5%
(2)	<i>Category B1 firm</i>	10%
(3)	<i>Category B2 firm</i>	10%
(4)	<i>Category B3 firm 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%
(5)	<i>Category B3 firm not in (4)</i>	5%

- 13.13.3 R (1) A firm to which MIPRU also applies must calculate its capital resources requirement as in (2).
- (2) The firm must calculate its capital resources requirement as the higher of:
- (a) £20,000; and
- (b) the sum of:
- (i) the amount that would have applied to it under IPRU(INV) 13.13.2R(2)(b) if it were a firm of the type in column (B) of table 13.13.2(2)(b); and
- (ii) the capital resources requirement in MIPRU 4.2. (Capital resources requirements), after excluding the fixed amounts specified in table 13.13.3(2)(b)(ii).

Table 13.13.3(2)(b)(ii)

This table forms part of IPRU(INV) 13.13.3R.

Activity	Provision	Fixed amount
<i>Insurance mediation activity or home finance mediation activity</i>	<i>MIPRU 4.2.11R(1)(a) (firm not holding client money or assets)</i>	£5,000
	<i>MIPRU 4.2.11R(2)(a) (firm holding client money or assets)</i>	£10,000
<i>Home financing and home finance administration (not connected to regulated mortgage contracts)</i>	<i>MIPRU 4.2.12R(1)(a)</i>	£100,000

<i>Home finance administration</i> (with all assets off balance sheet)	<i>MIPRU</i> 4.2.19R(1)	£100,000
<i>Home financing and home finance administration</i> (connected to regulated mortgage contracts)	<i>MIPRU</i> 4.2.23R(1)	£100,000

- 13.13.4 G (1) *IPRU(INV)* 13.13.4G(2) illustrates how a *firm* that is subject to this section and *MIPRU* calculates its capital resources requirement under *IPRU(INV)* 13.13.3R.
- (2) Example: A *category B3 firm* with annual income of £300,000 under this section and £100,000 from its *home finance mediation activity* (without holding *client money*) should calculate capital resources requirement as specified in table 13.13.4G(2).

Table 13.13.4G(2)

This table forms part of *IPRU(INV)* 13.13.4G.

Requirement	Calculation	Amount
The capital resources requirement is the higher of:		
(1) £20,000; and	£20,000	£20,000
(2) The sum of:		
(a) the amount that would have applied to it under <i>IPRU(INV)</i> 13.13.2R(2)(b) if it were a firm of the type in column (B) of table 13.13.2(2)(b); and	As this is a <i>category B3 firm</i> , the applicable calculation is 5% of £300,000.	£15,000
(b) the capital resources requirement in <i>MIPRU</i> 4.2. (Capital resources requirements), after excluding the fixed amounts specified in table 13.13.3(2)(b)(ii).	For a <i>firm</i> carrying on <i>home finance mediation activity</i> without holding <i>client money</i> , <i>MIPRU</i> 4.2.11R(1) specifies a requirement of 2.5% of £100,000 (excluding the amount of £5,000 in <i>MIPRU</i> 4.2.11R(1)(a)).	£2,500
	Total of part (2) of the capital	£17,500

	resources requirement, which is £15,000 plus £2,500.	
	The capital resources requirement is the higher of part (1), which is £20,000, and part (2), which is £17,500.	£20,000

13.14 CALCULATION OF ANNUAL INCOME FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

13.14.1 R This section applies to a *personal investment firm* which is either:

- (1) an *exempt CAD firm*;
- (2) a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*.

Annual income

13.14.2 R This section applies to a *firm* when it calculates *annual income* for its capital resources requirement.

13.14.3 R (1) “*Annual income*” is the *annual income* from the *firm’s designated investment business* as given in its reporting form in (3) drawn up at its most recent *accounting reference date*.

(2) In (1), the most recent *accounting reference date* is the last one for which the *firm* reported *annual income*.

(3) The relevant reporting form under SUP 16.12 is:

- (a) the Retail Mediation Activities Return (*RMAR*) (Section B: Profit and Loss Account) for a *category B firm*; and
- (b) FSA030 (Income Statement) for an *exempt CAD firm*.

(4) If the *firm’s* most recent reporting form does not cover a 12-month period, the *annual income* is derived by converting the amount reported, proportionally, to a 12-month period.

(5) If the *firm* does not yet have a reporting form under (1), the *annual income* is taken from the forecast or other appropriate accounts which the *firm* has submitted to the *FCA*.

13.14.4 R *Annual income* must include the following amounts due to the *firm* in respect

of its *designated investment business*:

- (1) brokerage;
- (2) *fees*;
- (3) *commissions*; and
- (4) other related income (for example, *administration charges* or profit shares).

- 13.14.5 G A *firm* should include in its *annual income* those amounts it may have agreed to pay to other *persons* involved in a *transaction*, such as other intermediaries or self-employed *advisers*.
- 13.14.6 G A *firm* should not include in its *annual income* those amounts due to it that are used in the calculation of its capital resources requirement under *MIPRU* 4.2.11R (Capital resources requirement: mediation activity only) or *MIPRU* 4.2.19R (Capital resources requirement: insurance mediation activity and home financing, or home finance administration).
- 13.14.7 G For the purpose of *IPRU(INV)* 13.14.3R, a *firm* should ensure that the amount of *annual income* adequately reflects the level of its *designated investment business* when deciding whether to add any income not included under any of the reporting forms in *IPRU(INV)* 13.4.3R(3). In doing so, the *firm* should have regard to its circumstances, for example, where such income is being accounted for by a third party.
- 13.14.8 R If a *firm* is a *principal*, its *annual income* includes amounts due to its *appointed representative* for activities related to *designated investment business* for which the *firm* has accepted responsibility.
- 13.14.9 G If a *firm* is a *network*, its *annual income* should include the relevant income due to all of its *appointed representatives* for *designated investment business*.

13.15 CALCULATION OF CAPITAL RESOURCES TO MEET THE CAPITAL RESOURCES REQUIREMENT FOR A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME

Application

- 13.15.1 R This section applies to a *personal investment firm* which is a *category B firm* whose permission does not include *establishing, operating or winding up a personal pension scheme*.
- 13.15.2 G The calculation of *own funds* by an *exempt CAD firm* is in *IPRU(INV)* 13.1A.14R.
- 13.15.3 R A *firm* must calculate its capital resources in accordance with table 13.15.3(1).

Table 13.15.3(1)

This table forms part of *IPRU(INV)* 13.15.3R.

Capital resources	
Companies	Sole traders: Partnerships
Paid-up <i>share</i> capital (excluding <i>preference shares</i> redeemable by <i>shareholders</i> within two years) <i>Eligible LLP members' capital</i> <i>Share</i> premium account Retained profits (see <i>IPRU(INV)</i> 13.15.4R) and interim net profits (Note 1) Revaluation reserves Subordinated loans (see <i>IPRU(INV)</i> 13.15.7R) <i>Debt capital</i>	Balances on proprietor's or partners' - <i>capital accounts</i> - <i>current accounts</i> (see <i>IPRU(INV)</i> 13.15.4R) Revaluation reserves Subordinated loans (see <i>IPRU(INV)</i> 13.15.7R)
less - Intangible assets - <i>Material current year losses</i> - <i>Excess LLP members' drawings</i>	less - Intangible assets - <i>Material current year losses</i> - Excess of current year drawings over current year <i>profits</i>
Note 1 Retained profits must be audited and interim net profits must be verified by the <i>firm's</i> external auditor, unless the <i>firm</i> is exempt from the provisions of Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts.	

- 13.15.4 R When calculating a *firm's* capital resources, the following adjustments apply to retained profits or (for *sole traders* or *partnerships*) current accounts figures:

- (1) a *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;
- (2) a *firm* must de-recognise any *defined benefit asset*;
- (3) a *firm* may substitute for a *defined benefit liability* its *deficit reduction amount* and that election must be applied consistently in respect of any one financial year;
- (4) a *firm* must deduct any unrealised gains on investment property and include these within revaluation reserves; and
- (5) where applicable, a *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

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

Personal assets

13.15.6 G Where a *firm* is a *sole trader* or a *partnership*:

- (1) it can use (to the extent necessary to make up any shortfall in the required resources) any of its personal assets (not being needed to meet liabilities arising from its personal activities and any business activities not regulated by the *FCA*);
- (2) the *firm's* total financial resources, from whatever source, must at all times be sufficient to cover its total liabilities.

Subordinated loans – Category B firm

13.15.7 R A *category B firm* may include a short-term subordinated loan as capital resources (see table in *IPRU(INV)* 13.15.3R), if all the conditions in *IPRU(INV)* 13.15.8R are satisfied.

13.15.8 R The conditions referred to in *IPRU(INV)* 13.15.7R are:

- (1) the subordinated loan must have an original maturity of at least two years or, if it has no fixed term, it is subject to not less than two years' notice of repayment;
- (2) the agreement governing the subordinated loan must not permit payment of interest unless a *firm* has at least 120% of its capital

- resources requirement after that *payment*;
- (3) the agreement governing the subordinated loan must only permit *repayment*, prepayment or termination on:
 - (a) maturity, or on expiration of the period of notice, if a *firm* has at least 120% of its capital resources requirement after that *payment* or termination; or
 - (b) winding up after the claims of all other creditors and all outstanding debts have been settled;
 - (4) the agreement governing the subordinated loan is in the standard form for short term subordinated loans prescribed by the *FCA* (see form 13.1 Form of subordinated loan agreement for *personal investment firms*); and
 - (5) the restrictions in *IPRU(INV)* 13.15.9R and *IPRU(INV)* 13.15.10R are complied with.

Restrictions

- 13.15.9 R A *Category B firm* must calculate:
- (1) the aggregate amount of its short-term subordinated loans and its preference *shares* which are not redeemable within two years;
 - (2) the amount of the *firm's* total capital and reserves excluding preference *share* capital, less the amount of its intangible assets, multiplied by 400%.
- 13.15.10 R A *category B firm* must treat as a liability in the calculation of its capital resources any amount by which the sum of *IPRU(INV)* 13.15.9R(1) exceeds the product of *IPRU(INV)* 13.15.9R(2).

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

Amend the following as shown.

Annex A: LIMITED LIABILITY PARTNERSHIPS: ELIGIBLE MEMBERS' CAPITAL

...

Purpose

1.5 G The following *rules* allow inclusion of members' capital within a *firm's* capital if it meets the conditions in this annex:

Chapter	IPRU(INV) rule	How eligible LLP members' capital should be treated for the purposes of the IPRU(INV) rule
...		
13	<p>Table 13.3.2(1) Table 13.10(2)</p> <p><u>Table 13.15.3(1)</u></p> <p>13.1A.7 <u>13.1A.6</u></p>	<p><i>Eligible LLP members' capital</i> may be counted as <i>own funds</i> relating to companies in Table 13.3.2(1) and Table 13.10(2).</p> <p><u><i>Eligible LLP members' capital</i> may be counted as capital resources relating to companies in IPRU(INV) 13.15.3(1).</u></p> <p><i>Eligible LLP members' capital</i> may be counted as <i>initial capital</i> within IPRU(INV) 13.1A.7 <u>13.1A.6</u>.</p>

...

2. CONDITIONS FOR USE OF MEMBERS' CAPITAL

Limited liability partnership excess drawings

2.5 R A *firm* which is a *limited liability partnership* must in calculating its ~~tier one~~ Tier 1 or equivalent grade capital in accordance with the requirements of any chapter of this sourcebook deduct the amount by which the aggregate of the amounts withdrawn by its members exceeds the profits of that *firm* ("*excess LLP members' drawings*"). Amounts of *eligible LLP members' capital* repaid in accordance with the specific conditions are not to be included in this calculation.

...

Part 2: Comes into force on 1 September 2016

13 Chapter 13: Financial Resources Requirements for Personal Investment Firms

13.1 APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS

APPLICATION

13.1.1 R This chapter applies to a *firm* which is a *personal investment firm* as set out in the table below.

Type of personal investment firm	Application of this Chapter
...	...
<i>A personal investment firm which is a category B firm whose permission includes establishing, operating or winding up a personal pension scheme</i>	13.1 and 13.9 to 13.12 <u>13.13 to 13.15</u>
<i>A personal investment firm which is a category B firm whose permission does not include establishing, operating or winding up a personal pension scheme,</i>	13.1 and 13.13 to 13.15

Sections 13.9 to 13.12 are deleted in their entirety. The deleted text is not shown.

Amend the following as shown.

13.13 CAPITAL RESOURCES REQUIREMENT FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME)

...

13.13.1 R This section applies to a *personal investment firm* which is:

- (1) ...
- (2) *a category B firm whose permission does not include establishing, operating or winding up a personal pension scheme.*

...

13.13.5 R *A firm whose permission includes establishing, operating or winding up a personal pension scheme must calculate its capital resources requirement as*

the sum of:

- (1) the capital resources requirement that is applied under *IPRU(INV)* 13.13.2R(2) or *IPRU(INV)* 13.13.3R(2); and
- (2) the financial resources requirement calculated in accordance with *IPRU(INV)* 5 (Investment Management Firms).

...

13.14 CALCULATION OF ANNUAL INCOME FOR AN EXEMPT CAD FIRM AND A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME)

13.14.1 R This section applies to a *personal investment firm* which is:

- (1) ...
- (2) ~~a category B firm whose permission does not include establishing, operating or winding up a personal pension scheme.~~

...

13.15 CALCULATION OF OWN FUNDS TO MEET THE CAPITAL RESOURCES REQUIREMENT FOR A CATEGORY B FIRM WHOSE PERMISSION DOES NOT INCLUDE ESTABLISHING, OPERATING OR WINDING UP A PERSONAL PENSION SCHEME)

13.15.1 R This section applies to a *personal investment firm* which is a *category B firm* ~~whose permission does not include establishing, operating or winding up a personal pension scheme.~~

...

Annex A: LIMITED LIABILITY PARTNERSHIPS: ELIGIBLE MEMBERS' CAPITAL

...

Purpose

1.5 G The following *rules* allow inclusion of members' capital within a *firm's* capital if it meets the conditions in this annex:

Chapter	<i>IPRU(INV)</i> rule	How eligible LLP members' capital should be treated
---------	-----------------------	---

		for the purposes of the <i>IPRU(INV)</i> rule
...		
13	Table 13.10(2)	Eligible LLP members' capital may be counted as own funds relating to companies in Table 13.3.2(1) and Table 13.10(2);
	Table 13.15.3(1)	Eligible LLP members' capital may be counted as capital resources relating to companies in <i>IPRU(INV)</i> 13.15.3(1).
	13.1A.6	Eligible LLP members' capital may be counted as <i>initial capital</i> within <i>IPRU(INV)</i> 13.1A.6.

Annex D

Amendments to the Supervision manual (SUP)

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

Part 1: Comes into force on 30 June 2016

16.12 Integrated Regulatory Reporting

...

Regulatory Activity Group 3

...

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)					
	<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	...	...	...	...	...	FSA032 (note 15) or <u>Sections Section D1 and D2</u> RMAR (note 15)
...						
...						
Note 15	FSA029, FSA030, FSA032 and FSA039 only apply to a <i>firm</i> subject to <i>IPRU(INV)</i> Chapter 13 which is an <i>exempt CAD firm</i> . Sections A, B, C, D1, D2 and F RMAR only apply to a <i>firm</i> subject to <i>IPRU(INV)</i> Chapter 13 which is not an <i>exempt CAD firm</i> .					
...						

...

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>
...						
Section D1 and D2 RMAR						Half yearly (note 2) Quarterly (note 3)
...						
...						

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					
...						
Section D6 RMAR Sections D1 and D2 RMAR				30 <i>business days</i>	30 <i>business days</i>	
...						
...						

...

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	...	...	...	...	...	...	...	Section D1 and D2 RMAR or FSA032 (note 15)
...								
...								
Note 15	FSA029, FSA030, FSA032 and FSA039 only apply to a firm subject to IPRU(INV) Chapter 13 which is an exempt CAD firm. Sections A, B, C, D1, D2 and F RMAR only apply to a firm subject to IPRU(INV) Chapter 13 which is not an exempt CAD firm.							
...								

...

- 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					
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
COREP/ FINREP	Refer to EU CRR and applicable technical standards				Refer to EU CRR and applicable technical standards	
...						

Sections Section D1 and D2 RMAR						Half yearly (note 2) Quarterly (note 3)
...						
...						

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					
...						
Sections Section D1 and D2 RMAR				30 business days	30 business days	
...						
...						

...

Regulated Activity Group 6

...

16.12.19 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	FSA032 or Sections Section D1 and D2 RMAR (notes 5 and 7)

...				
...				
Note 7	FSA029, FSA030, FSA032 and FSA039 only apply to a <i>firm</i> subject to <i>IPRU(INV)</i> Chapter 13 which is an <i>exempt CAD firm</i> . Sections A, B, C, D1, D2 and F RMAR only apply to a <i>firm</i> subject to <i>IPRU(INV)</i> Chapter 13 which is not an <i>exempt CAD firm</i> .			

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.

...	
Sections <u>Section D1 and D2</u> RMAR	Half yearly (note 2) Quarterly (note 3)
...	

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
...			
Sections <u>Section D1 and D2</u> RMAR	30 <i>business days</i>	30 <i>business days</i>	
...			

Regulated Activity Group 7

...

16.12.22A 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</i> (note 1)				
		<i>IFPRU</i>	<i>BIPRU firm</i>	<i>Exempt CAD firms</i> subject to <i>IPRU(INV)</i> Chapter 13	<i>Firms</i> (other than <i>exempt CAD firms</i>) subject to <i>IPRU(INV)</i> Chapter 13

					Chapter 13
...					
Capital Adequacy	COREP (Note 29)	FSA003 (Note 2)	FSA032	Section D1 and D2 RMAR (Note 23)	
...					
...					

...

16.12.23 R The applicable reporting frequencies for *data items* referred to in SUP 16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Frequency				
	Unconsolidated <i>BIPRU investment firm</i> and <i>IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm</i> and <i>IFPRU investment firm</i>	<i>UK Consolidation Group</i> or <i>defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/ FINREP	Refer to <i>EU CRR</i> and applicable technical standards				
...					
Sections Section D1 and D2 RMAR				Half yearly	Quarterly
...					
...					

16.12.24 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 16.12.23AR, 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					

...						
Sections Section D1 and D2 RMAR				30 business days	30 business days	
...						
...						

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	Sections Section D1 and D2 RMAR (note 17) or FSA 032 (note 15)
...						
...						

...

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</i>	<i>Firms other than BIPRU firms or IFPRU</i>

					<i>liquidity group</i>	<i>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	
...						
<u>Sections</u> <u>Section</u> D1 and D2 RMAR						Half yearly (note 2) Quarterly (note 3)
...						
...						

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					
...						
<u>Sections</u> <u>Section</u> D1 and D2 RMAR				30 <i>business days</i>	30 <i>business days</i>	
...						
...						

SUP 16 Annex 18AR, Section D1: Regulatory Capital and Section D2: Financial Resources are deleted and replaced with the text shown in the following page. The deleted text is not shown and the new text is not shown underlined.

Amend the following text as shown.

**16 Annex
18BG** **Notes for Completion of the Retail Mediation Activities Return
(‘RMAR’)**

...

Accounting Principles

15. Subject to paragraph 15A below, which is in respect of section K only, the following principles should be adhered to by *firms* in the submission of financial information (sections A to E and section K).

(a) Unless a rule requires otherwise, amounts to be reported within the *firm’s* balance sheet and profit and loss account should be determined in accordance with:

- (i) the requirements of all relevant statutory provisions (e.g. Companies Acts 1985 to Act 2006, and secondary legislation made under ~~the these Acts~~ this Act) as appropriate;

...

...

Section B: Profit & Loss Account

...

Sub-section B1 – regulated business revenue: covers the data required on the *firm’s* revenue from its *regulated activities* within the scope of the RMAR.

...

Section D: ~~Capital Resources~~ Regulatory Capital

Note: Home purchase, reversion and regulated sale and rent back activity should be included under the heading of home finance in this section of the RMAR.

In this section there are separate calculations of capital resources and capital resources requirements for the different types of business covered by the data requirements. The calculations are the same, however, for both *home finance mediation activity* and *insurance mediation activity* relating to *non-investment insurance contracts*.

(i) ~~Section D1~~ The left column of the form covers the appropriate capital resources and connected requirements in *MIPRU* chapter 4 for *firms* carrying on *home finance mediation activity* ...

(ii) For such a *firm* that is also subject to ~~IPRU(INV)~~ IFPRU or GENPRU ~~or~~ and BIPRU, the requirement is the higher of the two capital resources requirements that apply (see *MIPRU* 4.2.5R) and is compared with the higher of the two capital resources calculations (see *MIPRU* 4.4.1R).

(iii) For such a *firm* that is also subject to *IPRU(INV)*, the requirement is as computed in *IPRU(INV)* 13.13.3R and is compared with the higher of the two capital resources calculations (see *MIPRU* 4.4.1R).

(iv) *Firms* that carry on *designated investment business* and are subject to the *RMAR*, but do not meet the definition of *personal investment firm* are not subject to the requirements of *IPRU(INV)* Chapter 13. Such *firms*, e.g., stockbrokers that advise on *retail investments* as an incidental part of their business, remain subject to the financial resources requirements associated with their principal *regulated activities*.

(ii) Section D6 covers the appropriate capital resources and connected requirements for *personal investment firms* that carry on *retail investment activities*. Those *firms* that carry on *designated investment business* and are subject to the *RMAR*, but do not meet the definition of *personal investment firm* (i.e. are not subject to *IPRU(INV)*) Chapter 13, are **not** subject to this section. Such *firms*, e.g. smaller stockbrokers that advise on *retail investments* as an incidental part of their business, remain subject to the financial resources requirements associated with their principal *regulated activities*. These additional capital resources requirements are not calculated as part of the *RMAR*, although will be relevant for the comparison required under *MIPRU* 4.2.5R.

Some *credit unions* are exempt from the capital resources requirements in *MIPRU*, under the terms set out in 4.1.8R of that sourcebook, although they have a capital resources requirement under the Credit Unions sourcebook ('*CREDS*'). For other *credit unions*, the capital resources requirement should be the highest of the amounts required under *MIPRU*, *CREDS* or *IPRU(INV)* (if applicable).

Firms are required to complete the Sections that are applicable for the types of business they undertake. *Personal investment firms* must complete section D6 to arrive at the totals required in D1 (if D1 is relevant to them). They should calculate their capital resources for the purpose of Section D6 as per Chapter 13 of (*IPRU(INV)*).

Guide for the completion of individual fields

Section D1: firms within the scope of *MIPRU* chapter 4

<p><u>Is the <i>firm</i> exempt from these capital resources requirements in relation to any of its retail mediation activities?</u></p>	<p><u>The <i>firm</i> should indicate here if any <i>Handbook</i> exemptions apply in relation to the capital resources requirements in <i>MIPRU</i> or <i>IPRU(INV)</i> 13. Examples of <i>firms</i> that may be subject to exemptions include:</u></p> <ul style="list-style-type: none"> • <u>Lloyd's <i>managing agents</i> (<i>MIPRU</i> 4.1.11R);</u> • <u>solo consolidated <i>subsidiaries of banks or building societies</i>;</u> • <u>small <i>credit unions</i> (as defined in <i>MIPRU</i> 4.1.8R); and</u> • <u><i>investment firms</i> not subject to <i>IPRU(INV)</i> 13 (unless they additionally carry on <i>home</i></u>
--	--

	<i>finance mediation activity or insurance mediation activity relating to non-investment insurance contracts).</i>
<u>Home finance and non-investment insurance intermediation- MIPRU</u>	
...	
<u>Additional capital resources requirements for PII (if applicable)</u>	If the <i>firm</i> has any increased excesses on its PII policies, the total of the additional capital resources requirements required by the tables in <i>MIPRU 3.2.13R</i> or <i>MIPRU 3.2.14R</i> should be recorded here. See also section E of the RMAR.
Other <i>FCA</i> capital resources requirements (if applicable)	... If the <i>firm</i> carries on <i>designated investment business</i> as well as <i>home finance mediation activity, insurance mediation activity</i> or both, requirements under both <i>IPRU(INV)</i> , <i>IFPRU</i> , <i>GENPRU</i> or <i>BIPRU</i> and <i>MIPRU</i> must be considered, as it is the higher of the requirements that needs to be met to determine the appropriate requirement (see general note notes (i) to (iii) above). So if If the resulting requirement under <i>IPRU(INV)</i> or <i>BIPRU</i> for a <i>firm</i> is higher than the base <i>MIPRU</i> requirement, then you should include the difference here.
<u>Additional capital resources requirements for PII (if applicable)</u>	If the <i>firm</i> has any increased excesses on its PII policies, the total of the additional capital resources requirements required by the tables in <i>MIPRU 3.2.13R</i> or <i>MIPRU 3.2.14R</i> should be recorded here. See also section E of the RMAR.
TOTAL CAPITAL RESOURCES REQUIREMENT	Appropriate totals from above <u>Total of lines 5, 6 and 7.</u>
TOTAL CAPITAL RESOURCES	This should be the total of the capital resources calculated in accordance with <i>MIPRU 4</i> in this

	<p>section (D1) for incorporated or unincorporated <i>firms</i> as applicable.</p> <p>For <i>firms</i> that are additionally subject to <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>GENPRU</i> <i>BIPRU</i> or <i>CRED</i> <i>CREDS</i>, this should be the higher of the amount calculated in this section (‘total capital resources per <i>MIPRU</i> 4²’) and the financial resources determined by <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>BIPRU</i> <i>GENPRU</i> or <i>CRED</i> <i>CREDS</i>. See <i>MIPRU</i> 4.4.1R.</p>
TOTAL CAPITAL RESOURCES EXCESS/DEFICIT	This should show the amount of difference between the capital resources that the <i>firm</i> has in relation to and its capital resources requirement.
<u>Personal investment firm (retail investment activities only) – IPRU(INV) 13</u>	
<u>Note: Firms that carry on retail investment activities, but no other designated investment business, are subject to this section.</u>	
<u>Category of personal investment firm</u>	<u>If the firm is subject to IPRU(INV) 13, it should enter here its category as defined in the Glossary, ie, category B1 firm etc.</u>
<u>Capital resources requirement</u>	<u>The capital resources requirement should be calculated in accordance with IPRU(INV) 13.13.2R to IPRU(INV) 13.3.4G unless the firm has permission for establishing, operating or winding up a personal pension scheme in which case the requirement is set out in IPRU(INV) 13.9 to IPRU(INV)13.12.</u>
<u>Additional capital resources requirement for PII (if applicable)</u>	<u>If the firm has increased excesses or exclusions on its PII policies, the total of the additional capital resources requirements required by IPRU(INV) 13.1 should be recorded here. See also Section E of the RMAR.</u>
<u>Other FCA capital resources requirements (if applicable)</u>	<u>The FCA may, from time to time, impose additional requirements on individual firms. If this is the case for your firm, you should enter the relevant amount here. This excludes capital resources requirements in relation to PII, which are recorded above.</u>
<u>Total capital resources requirement</u>	<u>The total of lines 12, 13 and 14.</u>

<u>Capital resources</u>	<u>Capital resources should be calculated in accordance with <i>IPRU(INV)</i> 13.15.3R.</u>
<u>Surplus/deficit of capital resources</u>	<u>This is the difference between the capital resources (line 16) and the total capital resources requirement (line 15)</u>
<u>Eligible capital resources per MIPRU 4 (home finance and non-investment insurance intermediation)</u>	
Incorporated firms	
...	
Interim net profits	Interim net profits should be verified by the <i>firm's</i> external auditor, net of tax or anticipated dividends and other appropriations to be included as capital. ...
...	
Subordinated <u>Eligible subordinated loans</u>	Subordinated loans should be included in capital <u>resources</u> on the basis of the provisions in <i>MIPRU</i> 4.4.7R and <i>MIPRU</i> 4.4.8R.
...	
Less interim net losses	Interim net losses should be reported where they have not already been incorporated into audited reserves or <u>interim net profits</u> . The figures do not have to be audited to be included.
Unincorporated firms and limited liability partnerships	
...	
Subordinated <u>Eligible subordinated loans</u>	Subordinated loans should be included in capital <u>resources</u> on the basis of the provisions in <i>MIPRU</i> 4.4.7R and <i>MIPRU</i> 4.4.8R.
<u>Personal assets not needed to meet non-business liabilities</u>	<u><i>MIPRU</i> 4.4.5R and <i>MIPRU</i> 4.4.6G allow a <i>sole trader</i> or <i>partner</i> to use personal assets to cover liabilities incurred in the <i>firm's</i> business unless:</u> <u>(1) those assets are needed to meet other liabilities arising from:</u>

	<p>(a) <u>personal activities; or</u></p> <p>(b) <u>another business activity not regulated by the <i>appropriate regulator</i>; or</u></p> <p>(2) <u>the <i>firm</i> holds <i>client money</i> or other <i>client</i> assets.</u></p> <p><u>This field may be left blank if the <i>firm</i> satisfies the capital resources requirement without relying on personal assets.</u></p>
...	
Personal assets not needed to meet non-business liabilities	<p><i>MIPRU</i> 4.4.5R and 4.4.6G allow a <i>sole trader</i> or <i>partner</i> to use personal assets to cover liabilities incurred in the <i>firm's</i> business unless:</p> <p>(1) those assets are needed to meet other liabilities arising from:</p> <p>(a) personal activities; or</p> <p>(b) another business activity not regulated by the <i>appropriate regulator</i>; or</p> <p>(2) the <i>firm</i> holds <i>client money</i> or other <i>client</i> assets.</p> <p>This field may be left blank if the <i>firm</i> satisfies the capital resources requirements without relying on personal assets.</p>
<u>Capital resources per IPRU(INV) 13.15.3R</u>	
<p><u><i>IPRU(INV)</i> requires that all <i>personal investment firms</i> have financial resources of at least £20,000 at all times. This section is designed to evaluate <i>firms'</i> adherence to this requirement.</u></p> <p><u>The amounts entered here should be in accordance with <i>IPRU(INV)</i> 13.15.3R.</u></p>	
...	

...

In SUP 16 Annex 24R, FSA032: Capital Adequacy (for *exempt CAD firms* subject to *IPRU(INV)* Chapter 13) is deleted and replaced with the following text. The deleted text is not shown and the new text is not underlined.

FSA032
Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13)

Regulatory Capital

Own Funds

1	Ordinary share capital which is fully paid	
5	Perpetual non-cumulative preference share capital which is fully paid	
3	Share premium account	
4	Reserves (excluding revaluation reserves)	
45	Audited retained earnings	
46	Externally verified interim net profits	
47	Partners' capital	
2	Eligible LLP Members' Capital (in accordance with the provisions of IPRU (INV) Annex A)	
48	Sole trader capital	
8	Less: Investments in own shares at book value	
9	Intangible assets	
10	Material current year losses	
12	Excess of current year's drawings over current year profits	
13	Revaluation reserves	
14	Perpetual cumulative preference share capital and debt capital	
15	Long-Term subordinated loans (in accordance with IPRU (INV) 13.1A.18 to 13.1A.20)	
16	Fixed term preference share capital (if not redeemable by shareholders within 5 years)	
11	Less: Material holdings in credit and financial institutions and material insurance holdings	
17	Own Funds	

Regulatory capital test

23	How do you meet your regulatory capital requirement?	
24	<i>Capital requirement</i>	
25	Own funds requirement (will always be a minimum of £20k even if PII / combination indicated)	
26	Additional capital resources requirement for PII (if applicable)	
27	Other regulatory capital / own funds requirements (if applicable)	
28	Own Funds	
	Surplus / (deficit)	

Professional Indemnity Insurance

49	Does your firm hold PII?	
32	If not, does your firm hold a Comparable Guarantee or is it otherwise exempt from the requirement to hold PII?	
34	Does your firm conduct insurance mediation activities?	
35	Has your firm renewed its PII cover since the last reporting date?	
36	If your policy excludes all business activities carried on prior to a particular date (i.e. a retroactive start date), then insert the date here.	
37	Is the cover compliant?	

PII Basic information

PII policy	Annualised premium (from list)	Insurer	Start date	Renewal date	Currency of indemnity	Limit of indemnity required		Limit of indemnity received
						Single	Aggregate	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

PII detailed information

Business line	Policy excess	Policy exclusions

Annual income as stated on the most recent proposal form

39	Annual income as stated on the most recent proposal form	
40	Amount of additional capital required for increased excess(es) (Where applicable, total amount for all PII policies)	
41	Total amount of additional own funds required for policy exclusion(s)	
42	Total of additional own funds required	
43	Total of readily realisable own funds	
44	Excess / (deficit) of readily realisable own funds	

Amend the following text as shown.

16 Annex 25G **Guidance notes for data items in SUP 16 Annex 24R**

...

FSA032 – Capital Adequacy (for *exempt CAD firms* subject to *IPRU(INV)* Chapter 13)

...

Defined Terms

Terms referred to in these notes where defined by the Companies ~~Acts 1985 and Act 2006, as appropriate,~~ or the provisions of the firm's accounting framework (usually UK GAAP or IFRS) bear that meaning for these purposes. 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 ~~Acts 1985 and Act 2006 as appropriate~~) or IFRS.

...

Description	Data element	Guidance
Regulatory Capital		
Ordinary share capital which is fully paid up	1A	Item 1 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Perpetual non-cumulative preference share which is fully paid	5A	Item 2 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Share premium account	3A	Item 3 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Reserves excluding revaluation reserves	4A	Item 4 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Audited retained earnings	45A	Item 5 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>

Externally verified interim net profits	46A	Item 6 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Partners' capital	47A	Item 7 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Eligible LLP members' capital (in accordance with the provisions of	2A	Item 8 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
Sole trader capital	48A	Item 9 in <i>IPRU(INV)</i> 13.1A.7R <u>13.1A.6R</u>
...		
Regulatory capital test(s)		
How do you meet your regulatory capital requirement?	23A	<p>The rules allow a firm to specify the method in which it will meet the regulatory capital requirement. A firm can:</p> <ul style="list-style-type: none"> • use capital to meet the regulatory requirement; or • use PII to meet the regulatory requirement; or • use a combination of capital and PII to meet the regulatory requirement. <p>A firm should select from the drop-down options.</p> <p>(If a firm uses PII to meet the regulatory requirements it will nevertheless always require a minimum £10,000 <u>of £20,000</u> of <i>own funds</i> initial capital. For the purposes of this question, the minimum initial capital held by the firm can be ignored.)</p>
<i>Capital requirement</i>		

Own funds requirement	24A	<p>The <i>own funds</i> requirement ('OFR') should be calculated in accordance with section <i>IPRU(INV)</i> 13.1A (<u>excluding the calculation under <i>IPRU(INV)</i> 13.13 if that is higher.</u>)</p> <p>Where a firm chooses to meet the regulatory requirements using PII the OFR will be a minimum of £10,000 <u>£20,000</u>.</p>
Additional own funds <u>capital resources</u> requirement for PII (if applicable)	25A	<p>If the firm has any increased <u>excesses over the minimum prescribed</u> or exclusions on <u>in</u> its PII policies, <u>this should be</u> the total of the additional capital <u>resources</u> requirements required by <i>IPRU(INV)</i> 13.1.4 <u>13.1.27R</u> and/or <u>13.1.23R</u>, respectively.</p>
Other appropriate regulator <u>regulatory</u> capital/ own funds requirements (if applicable)	26A	<p>Firms subject to a requirement under <i>IPRU(INV)</i> 13.2-8 or 13.9-12 should include that requirement as calculated by reference to the firm's own funds calculated under <i>IPRU(INV)</i> 13.1A to the extent it exceeds the own funds requirement in 24A. This excludes capital requirements in relation to PII.</p> <p>For example, where an ECF is subject to an expenditure based requirement (EBR) the firm would need to express the EBR in terms of 'own funds' by adjusting for the extent to which the own funds exceeds its Test 2 financial resources. Where the adjusted requirement exceeds the own funds requirement reported in 24A, the difference between both requirements should be reported here.</p> <p><u>Under <i>IPRU(INV)</i> 13.1A.2R, a firm will be potentially subject to a requirement under <i>IPRU(INV)</i> 13.13.2R and should include that requirement here to the extent it exceeds the own funds requirement</u></p>

		<p>in 24A.</p> <p><u>This section excludes capital resources requirements in relation to PII.</u></p>
Surplus / (deficit)	28A	<p>This is the amount of difference <u>between the firm's own funds as calculated under IPRU(INV) 13.1A in relation to and its own funds capital resources requirement.</u> A firm's <u>own funds capital resources requirement</u> is the total of 24A, 25A and 26A. So, such a firm should compare this requirement with the <u>own funds calculated</u> in 27A to compute the surplus/(deficit).</p>
<i>Adjusted net current Assets</i>		<p>The purpose of this test is to ensure that the firm has adequate working capital to be able to meet its liabilities as and when they fall due. It does this by taking the firm's net current assets (from FSA029), and applying the following actions:</p> <p>(1) excluding assets which cannot be realised or recovered within twelve months;</p> <p>(2) excluding amounts receivable from connected persons (to the extent that they are not properly secured, except certain allowable deposits);</p> <p>(3) valuing investments at current market value.</p>
Adjusted net current assets requirement (if applicable)	29A	<p>All personal investment firms except low resource firms should at all times have adjusted net current assets of at least £1.</p> <p>Low resource firms should enter 'n/a' here.</p>
Adjusted net current assets (if applicable)	30A	<p>Adjusted net current assets should be calculated in accordance with IPRU(INV) 13.11.</p>
Surplus / (deficit) (if applicable)	31A	<p>This shows whether the firm's net current assets are positive.</p>

...

~~FSA032 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13) validations~~

~~Internal validations~~

~~Data elements are referenced by row, then column.~~

Validation number	Data element
1	{deleted – replaced by validation 9}
2	22A = 18A 19A 20A 21A
3	28A = 27A 24A 25A 26A
4	30A = 22A
5	31A = 30A
6	29A
7	{deleted}
8	44A }
9	17A {deleted – replaced by validation 10}
	= 43A 42A
10	42A = 1A + 5A + 3A + 4A + 45A + 46A + 47A + 2A + 48A 8A
11	42A - 9A 10A 12A + 13A + 14A + 15A + 16A 11A
	= 25A
	= 40A + 41A
...	

Part 2: Comes into force on 1 September 2016

16 Annex 18BG Notes for Completion of the Retail Mediation Activities Return ('RMAR')

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Guide for the completion of individual fields

...	
Personal investment firm (retail investment activities only) – IPRU(INV) 13	
...	
Capital resources requirement	The capital resources requirement should be calculated in accordance with <i>IPRU(INV)</i> 13.13.2R to <i>IPRU(INV)</i> 13.3.4G unless the firm has permission for establishing, operating or winding up a personal pension scheme in which case the requirement is set out in <i>IPRU(INV)</i> 13.9 to <i>IPRU(INV)</i>13.12.
...	
Other <i>FCA</i> capital resources requirements (if applicable)	The <i>FCA</i> may, from time to time, impose additional requirements on individual <i>firms</i> . If this is the case for your <i>firm</i> , you should enter the relevant amount here. This excludes capital resources requirements in relation to PII, which are recorded above. <u>A <i>firm</i> that has a permission to operate a personal pension will be subject to an additional capital requirement under <i>IPRU(INV)</i> 5; this should be included here.</u>
...	

...