PERSONAL PENSION SCHEME OPERATORS (CAPITAL REQUIREMENTS) (AMENDMENT) INSTRUMENT 2015

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 Handbook

D. The Interim Prudential sourcebook for Investment Businesses (IPRU(INV)) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Personal Pension Scheme Operators (Capital Requirements) (Amendment) Instrument 2015.

By order of the Board
3 December 2015

Annex

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

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

5.2.3 FINANCIAL RESOURCES REQUIREMENT

…

5.2.3(4)(a) R …

5.2.3(4A) G (1) This guidance applies to a *firm* whose *permitted business* includes *establishing, operating or winding up a personal pension scheme* for the purpose of Table 5.2.3(4)(a).

(2) A *firm* should:

(a) value each asset in accordance with generally accepted standards used in the relevant sector for the asset, taking into account its individual characteristics and using all the information reasonably available;

(b) on a consistent basis across all *clients* who hold the same type of assets, apply the following:

(i) a prudent valuation approach; and

(ii) a reasonable valuation methodology;

(c) when determining whether an asset is capable of being readily realised within 30 days, consider whether:

(i) the transaction can be concluded within that time limit in the ordinary course of business. For example, if the transaction can be concluded within 30 days but, in practice, takes longer due to factors such as delays in receiving information or permissions from third parties, then the asset can be categorised as a Standard Asset;

(ii) a Standard Asset can be realised for a value close to the most recent valuation if no material change to the underlying economic conditions has occurred.

5.2.3(5) R …

…

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

Liquid Capital Requirement = Initial Capital Requirement + Capital Surcharge

Calculation of Initial Capital Requirement

<u>ICR = (√AUA) x K1</u>

Where

ICR means Initial Capital Requirement

AUA means Assets Under Administration <u>calculated</u> as ~~defined below.~~

~~K1~~ ~~is set subject to the firm's AUA as specified in the below table:~~

~~**AUA**~~	~~**K1 constant to be applied**~~
~~<£100m~~	~~10~~
~~£100-£200m~~	~~15~~
~~>£200m~~	~~20~~

~~ICR = (√AUA) x K1~~

~~Assets Under Administration~~ ~~For the calculation in this Table, this means the average of~~ the sum of the <u>most recent annual valuations over the preceding 12 months of the</u> *personal pension schemes* administered by the ~~firm~~ <u>*firm*</u> ~~at the latest 4 quarter end dates~~<u>, and adjusted to include any revaluation of assets that may occur between the date of the most recent annual valuation and the date when the *firm* must calculate its AUA</u>.

<u>A *firm* must calculate its AUA quarterly in line with the dates when it has to submit its regulatory capital reporting form in accordance with *SUP* 16.12 (Integrated Regulatory Reporting).</u>

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.

Where it would be reasonable to assume that the value of the asset has changed by more than 15% since the most recent market valuation, a *firm* should instead use a reasonable estimate. ~~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 *firm* to provide a *personal pension scheme* member with accurate and timely valuations of their portfolios.

<u>K1</u> <u>is set subject to the *firm's* AUA as specified in the below table:</u>

<u>**AUA**</u>	<u>**K1 constant to be applied**</u>
<u><£100m</u>	<u>10</u>
<u>£100-£200m</u>	<u>15</u>
<u>>£200m</u>	<u>20</u>

	When K1 changes due to an increase in AUA, in accordance with the thresholds in this table, the *firm* must apply the new K1 value within six months following the date on which its AUA exceeded the threshold of its previous K1 value.
	Calculation of Capital Surcharge
	CS =(√P) x K2 x ICR
Where	
CS	means Capital Surcharge
P	means the fraction of *personal pension schemes* administered by the *firm* which contain one or more asset types which do not appear in the list of Standard Assets below, at the most recent quarter end. For example, if a quarter of ~~personal pensions~~ *personal pension schemes* contained non-standard assets, this would be inputted in to the formula as 0.25.
K2	is set at 2.5~~.~~
ICR	means the Initial Capital Requirement calculated as above~~.~~
	~~CS =~~ ~~(√P) x~~ ~~K2 x~~ ~~ICR~~
	Standard Assets The List of Standard Assets is as follows (subject to Note 1): ~~Bank account deposits~~ Cash Cash funds ~~Corporate bonds~~ *Deposits* 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) Physical gold bullion Real estate investment trusts (REITs) ~~Shares listed on:~~ • ~~the Alternative Investment Market;~~ • ~~the London Stock Exchange; or~~ • ~~a *recognised overseas investment exchange*.~~ *Securities* admitted to trading on a regulated venue UK commercial property Unit 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.~~ …
…	