INVESTMENT FIRMS PRUDENTIAL REGIME INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") 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);  
(3) section 138C (Evidential provisions);  
(4) section 138D (Actions for damages);  
(5) section 139A (Power of the FCA to give guidance);  
(6) section 143D (Duty to make rules applying to parent undertakings);  
(7) section 143E (Powers to make rules applying to parent undertakings); and  
(8) paragraph 23 of Schedule 1ZA (Fees).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. The following parts of this instrument come into force on 1 December 2021:

(1) Part 2 of Annex B; and  
(2) solely for the purpose of enabling a person to comply with the rules in Part 2 of Annex B to this instrument, the provisions in Annex A and Part 1 of Annex B.

D. This instrument comes into force for all remaining purposes on 1 January 2022.

Amendments to the FCA 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 to this instrument listed in column (2).

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<tr>
<td>Glossary of definitions</td>
<td>Annex A</td>
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<td>Senior Management Arrangements, Systems and Controls sourcebook (SYSC)</td>
<td>Annex C</td>
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<td>Supervision manual (SUP)</td>
<td>Annex D</td>
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F. The FCA confirms and remakes in the Glossary of definitions any defined expressions used in the modules of the FCA’s Handbook of rules and guidance referred to in paragraph E or G where the defined expressions relate to UK legislation that has been amended since those defined expressions were last made.
Making the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

G. The FCA makes the rules and gives the guidance in Annex B to this instrument.

H. The Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) is added to the Prudential Standards block within the Handbook, immediately after the Prudential sourcebook for Insurers (INSPRU).

Notes

I. In the annexes to this instrument, the “notes” (indicated by “Note:” or “Editor’s note:”) are included for the convenience of readers, but do not form part of the legislative text.

Citation

J. This instrument may be cited as the Investment Firms Prudential Regime Instrument 2021.

K. The sourcebook in Annex B to this instrument may be cited as the Prudential sourcebook for MiFID Investment Firms (or MIFIDPRU).

By order of the Board
15 October 2021
Annex A

Amendments to the Glossary of definitions

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

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

ASA

assets safeguarded and administered.

assets safeguarded and administered (in MIFIDPRU) the value of assets, as calculated in accordance with the rules in MIFIDPRU 4.9 (K-ASA requirement), belonging to a client that a firm holds in the course of MiFID business, irrespective of whether those assets appear on the firm’s own balance sheet or are deposited into accounts opened with third parties.

assets under management (in MIFIDPRU) the value of assets, as calculated in accordance with the rules in MIFIDPRU 4.7 (K-AUM requirement), that a firm manages for its clients under the following arrangements, where the arrangements constitute MiFID business:

(1) discretionary portfolio management; and

(2) non-discretionary arrangements constituting investment advice of an ongoing nature.

AUM

assets under management.

average ASA the rolling average of a firm’s ASA calculated in accordance with MIFIDPRU 4.9.8R.

average AUM the rolling average of a firm’s AUM calculated in accordance with MIFIDPRU 4.7.5R.

average CMH the rolling average of a firm’s CMH calculated in accordance with MIFIDPRU 4.8.13R.

average COH the rolling average of a firm’s COH calculated in accordance with MIFIDPRU 4.10.19R.

average DTF the rolling average of a firm’s DTF calculated in accordance with MIFIDPRU 4.15.4R.

basic liquid assets requirement the requirement in MIFIDPRU 6.2.1R for a MIFIDPRU investment firm to hold a minimum amount of core liquid assets.
**business unit** (in SYSC 19G) a separate organisational or legal entity, business line or geographical location within a firm.

**cash trade** (in MIFIDPRU) an order relating to the purchase or sale of a financial instrument that is:

1. referred to in paragraphs 1 to 3 of Part 1 of Schedule 2 to the Regulated Activities Order; or
2. an exchange-traded option.

**clearing margin given** the total margin required by a clearing member or CCP, where the execution and settlement of transactions of a MIFIDPRU investment firm’s dealing on own account take place under the responsibility of a clearing member or CCP.

**client money held** (in MIFIDPRU) the amount of MiFID client money that a firm holds.

**client orders handled** (in MIFIDPRU) the value of orders, as calculated in accordance with the rules in MIFIDPRU 4.10 (K-COH requirement), that a firm handles for clients when providing the following services, where the services constitute MiFID business:

1. reception and transmission of client orders; and
2. execution of orders on behalf of clients.

**CMG** clearing margin given.

**CMH** client money held.

**CMV** current market value.

**COH** client orders handled.

**commodity and emission allowance dealer** a MIFIDPRU investment firm the main business of which consists exclusively of the provision of investment services and/or activities in relation to:

1. commodity derivatives or commodity derivative contracts referred to in paragraphs 5, 6, 7, 9 and 10 of Part 1 of Schedule 2 to the Regulated Activities Order;
2. derivatives of emission allowances referred to in paragraph 4 of Part 1 of Schedule 2 to the Regulated Activities Order; or
3. emission allowances referred to in paragraph 11 of Part 1 of Schedule 2 to the Regulated Activities Order.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td><strong>CON own funds requirement</strong></td>
<td>the own funds requirement calculated in accordance with MIFIDPRU 5.7.2R, which relates to a concentrated exposure to a client or group of connected clients.</td>
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<td><strong>concentration risk</strong></td>
<td>the risks arising from the strength or extent of a firm’s relationships with, or direct exposure to, a single client or group of connected clients.</td>
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<td><strong>concentration risk soft limit</strong></td>
<td>the limit specified in MIFIDPRU 5.5.1R on the exposure value a firm has to a client or a group of connected clients, above which a firm is required to calculate the K-CON requirement.</td>
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<tr>
<td><strong>connected undertaking</strong></td>
<td>has the meaning in MIFIDPRU 2.4.6R.</td>
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<tr>
<td><strong>convertible instrument</strong></td>
<td>(in SYSC 19G) an instrument the terms of which require the principal amount of that instrument to be converted into an instrument that qualifies as common equity tier 1 capital if a trigger event occurs.</td>
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<tr>
<td><strong>core liquid asset</strong></td>
<td>has the meaning in MIFIDPRU 6.3 (Core liquid assets).</td>
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<tr>
<td><strong>daily trading flow</strong></td>
<td>the daily value of transactions that a MIFIDPRU investment firm enters through:</td>
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<td></td>
<td>(1)  <em>dealing on own account</em>; or</td>
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<td></td>
<td>(2)  <em>the execution of orders on behalf of clients</em> in the firm’s own name.</td>
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<td><strong>derivatives trade</strong></td>
<td>(in MIFIDPRU) an order relating to the purchase or sale of a financial instrument that is not a cash trade.</td>
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<td><strong>DTF</strong></td>
<td>daily trading flow.</td>
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<td><strong>early warning indicator</strong></td>
<td>an amount of own funds equal to:</td>
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<td>(1)  110% of a firm’s own funds threshold requirement; or</td>
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<td></td>
<td>(2)  another amount specified by the FCA in a requirement imposed on a firm.</td>
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<tr>
<td><strong>eligible instrument</strong></td>
<td>(in SYSC 19G) an instrument falling within SYSC 19G.6.19R.</td>
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<td><strong>EV</strong></td>
<td>(in MIFIDPRU 5) the exposure value.</td>
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<td><strong>EVE</strong></td>
<td>(in MIFIDPRU 5) the exposure value excess.</td>
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<tr>
<td><strong>exposure value</strong></td>
<td>(in MIFIDPRU 5) the value of a firm’s exposure to a client or group of connected clients, calculated in accordance with MIFIDPRU 5.4.</td>
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exposure value excess (in MIFIDPRU 5) the value by which a firm’s exposure to a client or group of connected clients exceeds the concentration risk soft limit, calculated in accordance with MIFIDPRU 5.5.3R.

financial entity (in MIFIDPRU) any of the following:

(1) a MIFIDPRU investment firm (including a collective portfolio management investment firm);

(2) a collective portfolio management firm;

(3) an entity established in a third country that is subject to an assets under management-based financial resources requirement that is similar to the K-AUM requirement;

(4) an insurance undertaking where the following conditions are met:
   (a) the insurance undertaking forms part of the same financial conglomerate as the firm that is applying the definition of a financial entity for the purposes of MIFIDPRU 4; and
   (b) the FCA is the coordinator for the financial conglomerate in (a); or

(5) an undertaking (“A”) where the following conditions are met:
   (a) A forms part of the same investment firm group as the firm that is applying the definition of a financial entity for the purposes of MIFIDPRU 4 (“B”);
   (b) the investment firm group in (a) is subject to prudential consolidation under MIFIDPRU 2.5; and
   (c) both A and B are included within the consolidated situation of the UK parent entity of the investment firm group in (a).

GCT parent undertaking a relevant financial undertaking that:

(1) is a parent undertaking; and

(2) either:
   (a) is an authorised person; or
   (b) satisfies both of the following conditions:
(i) it is incorporated in, or has its principal place of business in, the UK; and

(ii) it has a MIFIDPRU investment firm as a subsidiary.

group capital test the requirement in MIFIDPRU 2.6.5R.

group ICARA process an ICARA process operated by an investment firm group in accordance with MIFIDPRU 7.9.5R.

ICARA document has the meaning in MIFIDPRU 7.8.7R, which, in summary, is the documentation used to record the firm’s review of the adequacy of its ICARA process under MIFIDPRU 7.8.2R.

ICARA process has the meaning in MIFIDPRU 7.4.9R, which, in summary, is the systems, controls and procedures set out in MIFIDPRU 7.4.9R(1) to (3) operated by a MIFIDPRU investment firm to:

(1) identify, monitor and, if proportionate, reduce all material potential harms that may result from the ongoing operation of, or winding down of, the firm’s business; and

(2) assess whether the firm should hold additional own funds and/or liquid assets to address material potential harms.

indirect clearing arrangements as defined in article 1(b) of the EMIR L2 Regulation.

indirect clearing firm a client or an indirect client of a clearing member where that client or indirect client provides indirect clearing arrangements.

investment advice of an ongoing nature either of the following:

(1) the recurring provision of investment advice; or

(2) investment advice given in the context of the continuous or periodic assessment and monitoring or review of a client portfolio of financial instruments, including of the investments undertaken by the client on the basis of a contractual arrangement.

investment firm group (1) (in MIFIDPRU 2.4 and any provision that refers to a group to which MIFIDPRU 2.5 applies) a group of undertakings that:

(a) consists of a parent undertaking (including an undertaking that is deemed to be a parent undertaking for the purposes of MIFIDPRU 2.5) that is incorporated in the UK or has its principal place of business in the UK (or, in the case of a UK parent investment firm, has its registered office, or
if it has no registered office, its head office in the UK) and:

(i) the subsidiaries and connected undertakings of that parent undertaking; and
(ii) the connected undertakings of the subsidiaries of that parent undertaking;

(b) includes at least one MIFIDPRU investment firm; and

(c) does not include a subsidiary which is a UK credit institution.

(2) (in any provision that refers to a group to which MIFIDPRU 2.6 applies) a group of undertakings that:

(a) consists of a parent undertaking that is incorporated in the UK or has its principal place of business in the UK (or, in the case of a UK parent investment firm, has its registered office, or if it has no registered office, its head office in the UK) and its:

(i) subsidiaries; and

(ii) connected undertakings in which it holds a participation in accordance with MIFIDPRU 2.4.15R;

(b) includes at least one MIFIDPRU investment firm; and

(c) does not include a subsidiary which is a UK credit institution.

investment holding company a financial institution that satisfies all of the following conditions:

(1) its subsidiaries are exclusively or mainly investment firms or financial institutions;

(2) at least one of its subsidiaries is a MIFIDPRU investment firm; and

(3) its subsidiaries do not include a UK credit institution.
For the purposes of this definition, the *subsidiaries* of a financial institution are “mainly” investment firms or financial institutions where:

(a) more than 50% of the financial institution’s equity, consolidated assets, capital deployed, revenues, expenses, personnel or customers are associated with subsidiaries that are investment firms or financial institutions; or

(b) the group containing the financial institution and its subsidiaries has been structured in an artificial manner to avoid exceeding the threshold in (a).

*K-ASA requirement* the part of the K-factor requirement calculated on the basis of the ASA of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.9 (K-ASA requirement).

*K-AUM requirement* the part of the K-factor requirement calculated on the basis of the AUM of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.7 (K-AUM requirement).

*K-CMG permission* a permission granted to a MIFIDPRU investment firm in accordance with MIFIDPRU 4.13.9R allowing the firm to calculate a K-CMG requirement in respect of a portfolio.

*K-CMG requirement* the part of the K-factor requirement calculated in accordance with MIFIDPRU 4.13 in relation to portfolios for which the firm has been granted a K-CMG permission.

*K-CMH requirement* the part of the K-factor requirement calculated on the basis of the CMH of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.8 (K-CMH requirement).

*K-COH requirement* the part of the K-factor requirement calculated on the basis of the COH of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.10 (K-COH requirement).

*K-CON requirement* the part of the K-factor requirement that accounts for concentration risk in the trading book of a MIFIDPRU investment firm, calculated in accordance with MIFIDPRU 5.7.

*K-DTF requirement* the part of the K-factor requirement calculated on the basis of the DTF of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.15.

*K-NPR requirement* the part of the K-factor requirement calculated on the basis of the NPR of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.12 where the firm is dealing on own account (whether on its own behalf or on behalf of its clients) and the relevant positions do not form part of a portfolio for which the firm has been granted a K-CMG permission.
**K-TCD requirement**

the part of the *K-factor requirement* calculated in accordance with *MIFIDPRU 4.14* that is based on the transactions listed in *MIFIDPRU 4.14.3R* and not otherwise excluded by *MIFIDPRU 4.14.5R* or *MIFIDPRU 4.14.6R*, where those transactions are:

1. recorded in the *trading book* of a *firm dealing on own account* (whether or itself or on behalf of a *client*); or

2. in the case of transactions specified in *MIFIDPRU 4.14.3R*(7), undertaken by a *firm* that has the necessary *permissions* to *deal on own account*.

**K-factor average metric**

any of the following:

1. *average ASA*;
2. *average AUM*;
3. *average CMH*;
4. *average COH*;
5. *average DTF*; or
6. TM (which, in summary, is part of the formula in *MIFIDPRU 4.13.5R* that is used to calculate the *K-CMG requirement*).

**K-factor metric**

any of the following:

1. *ASA*;
2. *AUM*;
3. *CMG*;
4. *CMH*;
5. *COH*;
6. *CON*;
7. *DTF*;
8. *NPR*; and
9. *TCD*.

**K-factor requirement**

the part of the *own funds requirement* calculated in accordance with *MIFIDPRU 4.6*.

**liquid assets**

core liquid assets and non-core liquid assets.
**liquid assets threshold requirement**

The amount of *liquid assets* that a *firm* needs to hold to comply with the *overall financial adequacy rule*.

**liquid assets wind-down trigger**

An amount of *liquid assets* that is equal to:

1. A *firm’s basic liquid assets requirement*; or
2. Another amount specified by the FCA in a *requirement* imposed on a *firm*.

**majority common management**

A relationship between an *undertaking* (‘A’) and another *undertaking* (‘B’) where:

1. A and B are not connected by virtue of being a *parent undertaking* and *subsidiary undertaking* in accordance with section 1162 (read together with Schedule 7) of the Companies Act 2006; and
2. The administrative, management or supervisory bodies of A and B consist, for the major part, of the same *persons* in office during the financial year in respect of which it is being decided whether such a relationship exists.

**Market Making RTS**

Part 1 (FCA) of the UK version of Regulation (EU) 2017/578 of 13 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying the requirements on market making agreements and schemes, which is part of UK law by virtue of the EUWA.

**material risk taker**

(in SYSC 19G) has the meaning in SYSC 19G.5.1R and (where SYSC 19G applies on a consolidated basis) SYSC 19G.5.7R(2).

**Market Risk Model Extensions and Changes RTS**


**MIFID client money**

(in MIFIDPRU) *money* that a *firm* receives from, or holds for or on behalf of, a *client* in the course of, or in connection with, its *MiFID business*. For the purposes of MIFIDPRU, this includes:

1. Where that *money* has been deposited into a *client bank account* (including any amounts of the *firm’s own money* or other *money* received in that account as a result of applying *prudent segregation*, *alternative approach*...
mandatory prudent segregation or clearing arrangement mandatory prudent segregation); (2) where a firm has placed that money in a qualifying money market fund in accordance with CASS 7.13.3R(4); (3) any amount of that money that a firm has allowed a third party to hold in accordance with CASS 7.14.

**MIFIDPRU**
the Prudential sourcebook for MiFID Investment Firms.

**MIFIDPRU-eligible institution**
(in MIFIDPRU 5):

1. a MIFIDPRU investment firm;
2. a UK credit institution;
3. a UK designated investment firm;
4. a MIFIDPRU-eligible third country investment firm; or
5. a MIFIDPRU-eligible third country credit institution.

**MIFIDPRU-eligible third country investment firm**
an investment firm that satisfies the following conditions:

1. its registered office or, if it has no registered office, its head office is outside the UK;
2. it is authorised by a third country competent authority in the state or territory in which the investment firm’s head office is located; and
3. the investment firm is subject to prudential supervisory and regulatory requirements in that state or territory that are comparable to those applied in the UK.

**MIFIDPRU-eligible third country credit institution**
a credit institution that satisfies the following conditions:

1. its registered office or, if it has no registered office, its head office is outside the UK;
2. it is authorised by a third country competent authority in the state or territory in which the credit institution’s head office is located; and
3. the credit institution is subject to prudential supervisory and regulatory requirements in that state or territory that are comparable to those applied in the UK.

**MIFIDPRU investment firm**
an FCA investment firm as defined in section 143A of the Act.

In summary, this means an investment firm that meets the following conditions:
(1) it is an authorised person;

(2) it is not a designated investment firm;

(3) it has its registered office or, if it has no registered office, its head office in the UK;

(4) it is not a person who is excluded from the definition of an “investment firm” in article 3(1) of the Regulated Activities Order by paragraphs (a) or (b) of that definition; and

(5) it is not an investment firm that has a Part 4A permission to carry on regulated activities as an exempt investment firm within the meaning of regulation 8 of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2017.

**MIFIDPRU Remuneration Code**

as set out in SYSC 19G (MIFIDPRU Remuneration Code).

**net position risk**

the value of the following positions of a MIFIDPRU investment firm:

(1) trading book positions; and

(2) positions other than trading book positions where such positions give rise to foreign exchange risk or commodity risk.

**non-core liquid asset**

has the meaning in MIFIDPRU 7.7.8R, which is any of the following, except to the extent excluded by MIFIDPRU 7.7.8R(2):

(1) short-term deposits at a credit institution that does not have a Part 4A permission in the UK to accept deposits;

(2) assets representing claims on, or guaranteed by, multilateral development banks or international organisations;

(3) assets representing claims on or guaranteed by any third country central bank or government;

(4) financial instruments; and

(5) any other instrument eligible as collateral against the margin requirement of an authorised central counterparty.

**Non-Delta Risk of Options RTS**

regulatory technical standards for non-delta risk of options in the standardised market risk approach, which is part of UK law by virtue of the EUWA.

**non-financial sector entity**

an entity that is not a financial sector entity.

**non-segregated account**

(in MIFIDPRU) an account that is not a segregated account.

**non-SNI MIFIDPRU investment firm**

a MIFIDPRU investment firm that is not an SNI MIFIDPRU investment firm.

**NPR**

net position risk.

**off-balance sheet items**

the items listed in Annex 1 of the UK CRR.

**OFR**

(in MIFIDPRU 5) the own funds requirement for exposures to a client or group of connected clients calculated in accordance with MIFIDPRU 5.7.3R(2).

**OFRE**

(in MIFIDPRU 5) the own funds requirement for the excess calculated in accordance with MIFIDPRU 5.7.3R(1).

**own funds threshold requirement**

the amount of own funds that a firm needs to hold to comply with the overall financial adequacy rule.

**own funds requirement**

the requirement for a MIFIDPRU investment firm to maintain a minimum level of own funds specified in MIFIDPRU 4.3.

**own funds wind-down trigger**

an amount of own funds that is equal to:

1. the firm’s fixed overheads requirement; or
2. another amount specified by the FCA in a requirement applied to the firm.

**permanent minimum capital requirement**

the part of the own funds requirement calculated in accordance with MIFIDPRU 4.4.

**portfolio**

(in relation to the K-CMG requirement or a K-CMG permission) either:

1. all the trading book positions attributable to a specific trading desk within the firm; or
2. a subset of the positions in (1) that share identified common characteristics and risks.

any of the following:
positions held with trading intent

(a) proprietary positions and positions arising from client servicing and market making;
(b) positions intended to be resold in the short term;
(c) positions intended to benefit from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations.

relevant expenditure

(in MIFIDPRU 4 and IPRU(INV) 11) relevant expenditure as calculated under MIFIDPRU 4.5.3R.

relevant financial undertaking

any of the following:

(1) an investment firm;
(2) a credit institution;
(3) a financial institution;
(4) an ancillary services undertaking; or
(5) a tied agent.

responsible UK parent

(for the purposes of the group capital test) an undertaking (“A”) in relation to which all of the following conditions are satisfied:

(1) A is a GCT parent undertaking;
(2) A is part of an investment firm group;
(3) A is the parent undertaking of one or both of the following:
   (a) an undertaking established in a third country (“B”); or
   (b) an undertaking incorporated in, or with its principal place of business in, the UK (“C”);
(4) where (3)(a) applies, B:
   (a) is a parent undertaking; and
   (b) would be a relevant financial undertaking if B were established in the UK;
(5) where (3)(b) applies, C:
   (a) is a relevant financial undertaking;
   (b) is a parent undertaking; and
(c) is not a *GCT parent undertaking*;

(6) A does not have a *subsidiary* that:

(a) is a *GCT parent undertaking*; and

(b) is a *parent undertaking* of:

(i) where (3)(a) applies, B; and

(ii) where (3)(b) applies, C.

**segregated account** (in *MIFIDPRU*) an arrangement which satisfies the conditions in *MIFIDPRU 4.8.8R*.

**short-term MMF** a *regulated money market fund* that meets the definition of a “short-term MMF” in article 2(14) of the *Money Market Funds Regulation*.

**SNI MIFIDPRU investment firm** a *MIFIDPRU investment firm* that is classified as an *SNI MIFIDPRU investment firm* in accordance with *MIFIDPRU 1.2*.

**TCD** trading counterparty default.

**TCD own funds requirement** the own funds requirement calculated in accordance with *MIFIDPRU 4.14.7R* that applies to the transactions specified in *MIFIDPRU 4.14.1R(2)*.

**third country MIFIDPRU investment firm** an *overseas firm* that would be a *MIFIDPRU investment firm* if it:

(1) were incorporated in, or had its principal place of business in, the *United Kingdom*;

(2) carried on all its business in the *United Kingdom*; and

(3) had obtained the authorisations necessary under the *Act* to carry on its business.

**threshold requirement** either of the following in relation to a *MIFIDPRU investment firm*:

(1) the *liquid assets threshold requirement*; or

(2) the *own funds threshold requirement*.

**trade receivables** receivables from trade debtors (including fees or commissions).

**trading counterparty default** the exposures in the *trading book* of a *MIFIDPRU investment firm* in instruments and transactions specified in *MIFIDPRU 4.14.3R*, and not otherwise excluded by *MIFIDPRU 4.14.5R* or *MIFIDPRU 4.14.6R*, giving rise to the risk of trading counterparty default.

**trading desk** an identified group of *individuals* established by a *firm* for the joint management of one or more portfolios of *trading book* positions in
accordance with a well-defined and consistent business strategy, operating under the same risk management structure.

**UK-authorised credit institution**
a credit institution with a Part 4A permission to accept deposits.

**UK credit institution**
a credit institution that meets the definition of “CRR firm” under article 4(1)(2A) of the UK CRR.

**UK investment holding company**
an investment holding company that is incorporated in the UK or that has its principal place of business in the UK.

**UK mixed-activity holding company**
a mixed-activity holding company that is incorporated in the UK or that has its principal place of business in the UK.

**UK mixed financial holding company**
a mixed financial holding company that is incorporated in the UK or that has its principal place of business in the UK.

**UK parent entity**
any of the following:

1. a UK parent investment firm;
2. a UK parent investment holding company; or
3. a UK parent mixed financial holding company.

**UK parent investment firm**
a MIFIDPRU investment firm that:

1. is part of an investment firm group;
2. holds a participation in, has a subsidiary that is, or for the purposes of MIFIDPRU 2.5 is the deemed parent undertaking of:
   - a MIFIDPRU investment firm;
   - a designated investment firm;
   - a financial institution;
   - an ancillary services undertaking;
   - a tied agent; or
   - a credit institution; and
3. is not a subsidiary of:
   - a MIFIDPRU investment firm; or
   - an investment holding company or mixed financial holding company that is incorporated in the UK or that has its principal place of business in the UK.
UK parent investment holding company

an investment holding company incorporated in the UK or that has its principal place of business in the UK that:

(1) is part of an investment firm group; and

(2) is not a subsidiary of:

(a) a MIFIDPRU investment firm; or

(b) an investment holding company or mixed financial holding company that is incorporated in the UK or that has its principal place of business in the UK.

UK parent mixed financial holding company

a mixed financial holding company incorporated in the UK or that has its principal place of business in the UK that:

(1) is part of an investment firm group; and

(2) is not a subsidiary of:

(a) a MIFIDPRU investment firm; or

(b) an investment holding company or mixed financial holding company that is incorporated in the UK or that has its principal place of business in the UK.

wind-down trigger

either of the following in relation to a MIFIDPRU investment firm:

(1) the liquid assets wind-down trigger; or

(2) the own funds wind-down trigger.

write-down instrument

(in SYSC 19G) an instrument the terms of which require the principal amount of that instrument to be written down on the occurrence of a trigger event.

Amend the following definitions as shown.

additional tier 1 capital

(1) (in MIFIDPRU) as defined in article 61 of the UK CRR, as applied and modified by MIFIDPRU 3.4.

(2) (except in MIFIDPRU) as defined in article 61 of the UK CRR.

additional tier 1 instrument

(1) (in relation to an instrument issued by a MIFIDPRU investment firm) a capital instrument that qualifies as an additional tier 1 capital instrument under article 52 of the UK CRR as applied and modified by the requirements in MIFIDPRU 3.4.
(2) (in any other case) a capital instrument that qualifies as an additional tier 1 capital instrument under article 52 of the UK CRR.

central counterparty

(1) (for the purpose of BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) an entity that legally interposes itself between counterparties to contracts traded within one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

…

clearing member

(1) (in MIFIDPRU) a clearing member as defined in article 2(14) of EMIR.

(2) (except in MIFIDPRU) in relation to an authorised central counterparty, as defined in article 2(14) of EMIR.

client

… …

(B) in the FCA Handbook:

(1) (except in PROF, in MIFIDPRU 5, in relation to a credit-related regulated activity, in relation to a home finance transaction and in relation to insurance risk transformation and activities directly arising from insurance risk transformation) has the meaning given in COBS 3.2, that is (in summary and without prejudice to the detailed effect of COBS 3.2) a person to whom a firm provides, intends to provide or has provided a service in the course of carrying on a regulated activity, or in the case of MiFID or equivalent third country business, an ancillary service:

…

(2A) (in MIFIDPRU 5) a counterparty of the investment firm.

…

client money

…

(2A) (in MIFIDPRU, FEES, CASS 6, CASS 7, CASS 7A and CASS 10 and, in so far as it relates to matters covered by CASS 6, CASS 7, COBS or GENPRU and IPRU(INV) 11) subject to the client money rules, money of any currency:
common equity tier 1 capital (1) (in MIFIDPRU) as defined in article 50 of the UK CRR, as applied and modified by MIFIDPRU 3.3.

(2) (except in MIFIDPRU) as defined in article 50 of the UK CRR.

common platform firm (a) a BIPRU firm MIFIDPRU investment firm; or

(aa) a bank; or

(ab) a building society; or

(ac) a designated investment firm; or

(ad) an IFPRU investment firm; or [deleted]

(b) an exempt CAD firm; or [deleted]

(c) a MiFID investment firm which falls within the definition of ‘local firm’ in article 4(1)(4) of the UK CRR; or [deleted]

(d) a dormant account fund operator.

consolidated basis has the meaning in article 4(1)(48) of the UK CRR, means on the basis of the consolidated situation.

consolidated situation (1) (in relation to a group to which the UK CRR applies) has the meaning in article 4(1)(47) of the UK CRR.

(2) (other than in (1)) the situation that results from applying the requirements in MIFIDPRU 3, 4, 5, 8 and 9 in accordance with MIFIDPRU 2.5 to a UK parent entity as if that undertaking, together with all the investment firms, financial institutions, ancillary services undertakings and tied agents in the investment firm group that are its subsidiaries or connected undertakings or connected undertakings of its subsidiaries, formed a single MIFIDPRU investment firm.

For the purpose of this definition, the terms investment firm, financial institution, ancillary services undertaking and tied agent also apply to undertakings established in other countries that, if established in the UK, would satisfy the definitions of those terms.

c control (1) (except in (2) and (2A) (2), (2A) and (2B))
(2B) (in MIFIDPRU 5) the relationship between a parent undertaking and a subsidiary undertaking, as defined in section 1162 of the Companies Act 2006, or the accounting standards to which an undertaking is subject under section 403(1) of the Companies Act 2006, or a similar relationship between a natural or legal person and an undertaking.

(3) (except in (2) and (2A) (2), (2A) and (2B)) …

(4) (except in (2) and (2A) (2), (2A) and (2B)) …

(5) (except in (2) and (2A) (2), (2A) and (2B)) …

control functions

(1) (except in 2) has the meaning in article 3 of the Material Risk Takers Regulation 2020.

(2) (in SYSC 19G) a function (including, but not limited to, a risk management function, compliance function and internal audit function) that is independent from the business units it controls and that is responsible for providing an objective assessment of the firm’s risks, and for reviewing and reporting on those risks.

convertible

(for the purposes of BIPRU and IFPRU MIFIDPRU) a security which gives the investor the right to convert the security into a share at an agreed price or on an agreed basis.

current market value

(for the purpose of BIPRU 13.5 (CCR standardised method)) the net market value of the portfolio of transactions within the netting set with the counterparty, both positive and negative market values are used in computing current market value: the net market value of the portfolio of transactions or securities legs subject to netting in accordance with MIFIDPRU 4.14.28R (Netting), where both positive and negative market values are used in computing CMV.

data element

A discrete fact or individual piece of information relating to a particular field within a data item required to be submitted to the appropriate regulator by a firm, or other regulated entity or parent undertaking.

data items

One or more related data elements that are grouped together into a prescribed format and required to be submitted by.
(1) a firm or other regulated entity under SUP 16 or provisions referred to in SUP 16; or

(2) a MIFIDPRU investment firm or a parent undertaking under MIFIDPRU 9.

discretionary pension benefit

(1) (in SYSC 19C) enhanced pension benefits granted on a discretionary basis by a firm to an employee as part of that employee’s variable remuneration package, but excluding accrued benefits granted to an employee under the terms of his company pension scheme.

[Note: article 4(49) of the Banking Consolidation Directive [deleted]]

(2) (in IFPRU, SYSC 19A (IFPRU Remuneration Code) and SYSC 19D (Dual-regulated firms Remuneration Code) and SYSC 19G (MIFIDPRU Remuneration Code)) has the meaning in article 4(1)(73) of the UK CRR.

financial holding company

(1) (except in (2)) has the meaning in article 4(1)(20) of the UK CRR.

(2) (in GENPRU (except GENPRU 3) and BIPRU (except BIPRU 12)) a financial institution that fulfils the following conditions:

(a) its subsidiary undertakings are exclusively or mainly CAD investment firms or financial institutions;

(b) at least one of those subsidiary undertakings is a CAD investment firm; and

(b) it is not a mixed financial holding company.

financial institution

(2) for the purposes of GENPRU (except GENPRU 3), BIPRU (except in BIPRU 12):

(a) an undertaking, other than a credit institution or an investment firm, the principal activity of which is to acquire holdings or to carry on one or more of the activities listed in points 2 to 12 and 15 of Annex I activities including the services and activities provided for in Parts 3 and 3A of Schedule 2 to the Regulated Activities Order when referring to financial instruments.
(b) (for the purposes of consolidated requirements) those institutions listed in Article 2 of the Banking Consolidation Directive (Scope), with the exception of the Bank of England and the central banks of other countries. [deleted]

[Note: articles 1(3) (Scope) and 4(5) (Definitions) of the Banking Consolidation Directive)]

(3) (except in (2) and subject to (4)) (except in (5)) has the meaning in article 4(1)(26) of the UK CRR.

(4) (for the purposes of consolidated requirements in IFPRU the following:

(a) financial institutions within the meaning in article 4(1)(26) of the UK CRR; and

(b) those institutions permanently excluded by article 2(5) of CRD (Scope) with the exception of the central banks as defined in article 4(1)(46) of the UK CRR. [deleted]

[Note: article 2(6) of CRD]

(5) (for the purposes of MIFIDPRU) an undertaking that fulfils the following conditions:

(a) it is a financial holding company, a mixed financial holding company, an investment holding company, an authorised payment institution or an asset management company, AIFM or any other undertaking the principal activity of which is to acquire holdings or to pursue one or more of the activities listed in points 2 to 12, point 15 and the final paragraph of the Annex 1 activities; and

(b) it is not:

(i) a UK credit institution;

(ii) a MIFIDPRU investment firm;

(iii) a pure industrial holding company; or

(iv) an insurance holding company or mixed-activity insurance holding company, as defined in the PRA Rulebook.

(1) (except in IPRU(INV) and for the purposes of GENPRU (except GENPRU 3 and BIPRU (except BIPRU 12)) the part of the capital resources requirement calculated in fixed overheads requirement
accordance with GENPRU 2.1.53R (Calculation of the fixed overheads requirement). [deleted]

(2) (in IPRU(INV)) the part of the own funds requirement calculated in accordance with IPRU(INV) 11.3.3R (Fixed overheads requirement).

(3) (in MIFIDPRU) the part of the own funds requirement calculated in accordance with MIFIDPRU 4.5 (Fixed overheads requirement).

group of connected clients

has the meaning given to it in article 4.1(39) of the UK CRR.

(in MIFIDPRU 5) has the meaning in MIFIDPRU 5.1.12R to 5.1.16R.

initial capital

…

(4) (in the case of a BIPRU firm) capital resources included in stage A (Core tier one capital) of the capital resources table plus capital resources included in stage B of the capital resources table (Perpetual non-cumulative preference shares). [deleted]

(5) [deleted]

(6) (for the purposes of the definition of dealing on own account in BIPRU and in the case of an undertaking not falling within (3) or (4)) capital resources calculated in accordance with (3) and paragraphs (3) and (4) of the definition of capital resources. [deleted]

(7) (in IPRU(INV) 13) the initial capital of a firm calculated in accordance with IPRU(INV) 13.1A.6R.

(8) (for an IFPRU investment firm) the amount of own funds referred to in article 26(1)(a) to (e) of the UK CRR and calculated in accordance with Part Two of those Regulations (Own funds).

[Note: article 28(1) of CRD] [deleted]

(9) (for the purpose of the definition of dealing on own account in IFPRU) the amount of own funds referred to in article 26(1)(a) to (e) of the UK CRR and calculated in accordance with Part Two of those Regulations (Own funds). [deleted]

(10) (for a MIFIDPRU investment firm) the amount of own funds that is required for authorisation as a MIFIDPRU investment firm in accordance with MIFIDPRU 4.2.1R).
institution

(1) (except in (2)) has the meaning in article 4(1)(3) of the UK CRR.

(2) (for the purposes of GENPRU and BIPRU MIFIDPRU) includes a CAD investment firm, a UK credit institution or a UK designated investment firm.

long settlement transaction

a transaction where a counterparty undertakes to deliver a security, a commodity, or a foreign currency amount against cash, other CRD financial instruments, or commodities, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of specified by contract that is later than the market standard for this particular type of transaction and or five business days after the date on which the person enters into the transaction, whichever is earlier.

[Note: Part 1 of Annex III of the Banking Consolidation Directive (Definitions)]

managerial responsibility

(1) (except in SYSC 19G) has the meaning in article 2 of the Material Risk Takers Regulation 2020.

(2) (in SYSC 19G) a situation in which a staff member heads a business unit or a control function and is directly accountable to the management body as a whole, to a member of the management body or to senior management.

margin lending transaction

for the purpose of BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions) transactions in which a person extends credit in connection with the purchase, sale, carrying or trading of securities; the definition does not include other loans that happen to be secured by securities collateral.

[Note: Part 1 of Annex III of the Banking Consolidation Directive (Definitions)]

has the meaning in point (10) of article 3 of the SFTR.

mixed-activity holding company

(1) (in SYSC 12) has the meaning given to the definition of “mixed activity holding company” in article 4(1)(22) of the UK CRR;

(2) (in MIFIDPRU) a parent undertaking that satisfies the following conditions:

(a) its subsidiaries include at least one MIFIDPRU investment firm; and

(b) it is not a financial holding company, an investment holding company, a credit institution.
an investment firm or a mixed financial holding
company.

(3) (in SUP 16) means both (1) and (2).

netting set

(for the purpose of BIPRU 13 (The calculation of counterparty risk
exposure values for financial derivatives, securities financing
transactions and long settlement transactions)) a group of
transactions with a single counterparty that are subject to a legally
enforceable bilateral netting arrangement and for which netting is
recognised under BIPRU 13.7 (Contractual netting), BIPRU 5
(Credit risk mitigation) and, if applicable, BIPRU 4.10 (The IRB
approach: Credit risk mitigation); each transaction that is not
subject to a legally enforceable bilateral netting arrangement,
which is recognised under BIPRU 13.7 must be interpreted as its
own netting set for the purpose of BIPRU 13. Under the method
set out at BIPRU 13.6, all netting sets with a single counterparty
may be treated as a single netting set if negative simulated market
values of the individual sets are set to zero in the estimation of
expected exposure (EE).

[Note: Part 1 of Annex III of the Banking Consolidation Directive
(Definitions) and Annex III, Part 1, point 5 of the Banking
Consolidation Directive]

(in MIFIDPRU) a group of transactions with a single counterparty
that satisfies the conditions in MIFIDPRU 4.14.28R.

overall financial
adequacy rule

(1) (in GENPRU and BIPRU) GENPRU 1.2.26R
(Requirement for certain firms to have adequate financial
resources).

(2) (in IFPRU) IFPRU 2.2.1R (Adequacy of financial
resources).

(1) (for a dormant account fund operator) GENPRU 1.2.26R
as in force at 31 December 2015, which requires that a
firm must at all times maintain overall financial resources,
including capital resources and liquidity resources, which
are adequate, both as to amount and quality, to ensure that
there is no significant risk that its liabilities cannot be met
as they fall due.

(2) the requirement in MIFIDPRU 7.4.7R(1) (Overall
financial adequacy rule), which is the obligation for a
MIFIDPRU investment firm to hold own funds and liquid
assets which are adequate, both as to their amount and
quality, to ensure that:

(a) it is able to remain financially viable throughout
the economic cycle, with the ability to address
any material potential harm that may result from its ongoing activities; and

(b) its business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

own funds

(1) (in GENPRU (except GENPRU 3 (Cross sector groups) and BIPRU (except BIPRU 12 (Liquidity standards))) own funds as described in articles 56 to 67 of the Banking Consolidation Directive; [deleted]

(2A) (in IPRU(INV) 11) has the meaning in article 4(1)(118) of the UK CRR. [deleted]

(3A) (in IPRU(INV) 13) the own funds of a firm calculated in accordance with IPRU(INV) 13.1A.14R (Own funds) for a personal investment firm that is an exempt CAD firm [deleted]

(4A) (in MIFIDPRU) has the meaning in MIFIDPRU 3.2.1R.

(5) (except in (1) to (4) (4A)) has the meaning in article 4(1)(118) of the CRR, as it applied on 31 December 2021.

own funds instruments

(1) (in relation to an instrument issued by a MIFIDPRU investment firm) capital instruments that qualify as common equity tier 1 instruments, additional tier 1 instruments or tier 2 instruments.

(2) (in relation to a parent undertaking to which the group capital test applies) as defined in MIFIDPRU 2.6.2R.

(3) (in any other case) has the meaning in article 4(1)(119) of the UK CRR.

parent undertaking

(1) …

(c) (for the purposes of BIPRU (except BIPRU 12), GENPRU (except GENPRU 3) and INSPRU as they apply on a consolidated basis and for the purposes of SYSC 12 (Group risk systems and controls requirement) and SYSC 19C (Remuneration Code for BIPRU firms) and in relation to whether an undertaking is a parent
undertaking) an undertaking which has the following relationship to another undertaking ("S"): 

(i) a relationship described in (a) other than (a)(vii); or

(ii) it effectively exercises a dominant influence over S;

and so that (a)(v) does not apply for the purpose of BIPRU as it applies on a consolidated basis (including BIPRU 8 (Group risk – consolidation)) or BIPRU 10.

... 

(3) (for the purposes of GENPRU 3, BIPRU 12, IFPRU, SYSC 19A (IFPRU Remuneration Code) and SYSC 19D (Dual-regulated firms Remuneration Code)) has the meaning in article 4(1)(15) of the UK CRR but so that article 4(1)(15)(b) applies for the purpose of GENPRU 3.

[Note: article 2(9) of the Financial Groups Directive]

(4) (for the purposes of MIFIDPRU, SYSC 19G (MIFIDPRU Remuneration Code) and otherwise in relation to an investment firm group):

(a) an undertaking which is a parent undertaking under section 1162 of the Companies Act 2006, taken with Schedule 7 to that Act; or

(b) (for the purposes of MIFIDPRU 2.5):

(i) an undertaking referred to in (a); and

(ii) an undertaking that is deemed to be a parent undertaking in accordance with MIFIDPRU 2.4; or

(c) (for the purposes of MIFIDPRU 2.6):

(i) an undertaking referred to in (a); and

(ii) an undertaking that is deemed to be a parent undertaking in accordance with MIFIDPRU 2.4.15R(2).

participation (1) (for the purposes of GENPRU (except GENPRU 3) and for the purposes of BIPRU (except BIPRU 12) as they apply on a consolidated basis):
(a) a participating interest may be defined according to:

(i) section 421A of the Act where applicable; or

(ii) paragraph 11(1) of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) where applicable; or

(iii) paragraph 8 of Schedule 7 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) where applicable; or

(iv) paragraph 8 of Schedule 4 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913) where applicable; or

(v) paragraph 8 of Schedule 5 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1912) where applicable; or

(b) (otherwise) the direct or indirect ownership of 20% or more of the voting rights or capital of an undertaking;

but excluding the interest of a parent undertaking in its subsidiary undertaking. [deleted]

(2) (except in (1) has the meaning in article 4(1)(35) of the UK CRR.

repurchase transaction (for the purposes of BIPRU) any agreement in which an undertaking or its counterparty transfers securities or commodities or guaranteed rights relating to title to securities or commodities where that guarantee is issued by a designated investment exchange or recognised investment exchange which holds the rights to the securities or commodities and the agreement does not allow an undertaking to transfer or pledge a particular security or commodity to more than one counterparty at one time, subject to a commitment to repurchase them or substituted securities or commodities of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a repurchase agreement for the undertaking selling the securities or commodities and a reverse repurchase agreement for the undertaking buying them.
[Note: article 3(1)(m) of the Capital Adequacy Directive and Article 4(33) of the Banking Consolidation Directive (Definitions)]

has the meaning in article 3(9) of the SFTR.

**securities or commodities lending or borrowing transaction**

(for the purposes of BIPRU) any transaction in which an undertaking or its counterparty transfers securities or commodities against appropriate collateral subject to a commitment that the borrower will return equivalent securities or commodities at some future date or when requested to do so by the transferor, that transaction being securities or commodities lending for the undertaking transferring the securities or commodities and being securities or commodities borrowing for the undertaking to which they are transferred.

[Note: article 4(34) of the Banking Consolidation Directive and Article 3(1)(n) of the Capital Adequacy Directive (Definitions)]

a transaction that falls within the definition in article 3(7) of the SFTR.

**securities financing transaction**

(1B) (in CASS and MIFIDPRU) a securities financing transaction as defined in article 3(11) of the SFTR.

...

**subsidiary**

(2) (in relation to MiFID business, other than for the purposes of MIFIDPRU, SYSC 19G (MIFIDPRU Remuneration Code) and the definition of an investment firm group) a subsidiary undertaking within the meaning of article 2(10) and article 22 of the Accounting Directive, including any subsidiary of a subsidiary undertaking of an ultimate parent undertaking.

(3) (for the purpose of IFPRU) has the meaning in article 4(1)(16) of the UK CRR, (for the purposes of MIFIDPRU, SYSC 19G (MIFIDPRU Remuneration Code) and in the definition of an investment firm group) an undertaking which is a subsidiary undertaking under section 1162 of the Companies Act 2006, read with Schedule 7 to that Act.

...

**supervisory review and evaluation process**

(1) the appropriate regulator’s assessment of the adequacy of certain firms’ capital, as more fully described in BIPRU 2.2.9G (BIPRU firms) and INSPRU 7.1.91G to INSPRU 7.1.99G (insurers).
(2) the FCA’s assessment of the adequacy of an IFPRU investment firm’s capital, as more fully described in IFPRU 2.3 (Supervisory review and evaluation process) (in MIFIDPRU) the FCA’s assessment of the adequacy of a MIFIDPRU investment firm’s own funds and liquid assets, as described in MIFIDRU 7.10.

**tier 2 capital**

(1) (in MIFIDPRU) as defined in article 71 of the UK CRR, as applied and modified by MIFIDPRU 3.5.

(2) (except in MIFIDPRU) as defined in article 71 of the UK CRR.

**trading book**

(1) [deleted]

(2) (in BIPRU and GENPRU in relation to a BIPRU firm) has the meaning in BIPRU 1.2 (Definition of the trading book) which is in summary, all that firm’s positions in CRD financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book, and which are either free of any restrictive covenants on their tradability or able to be hedged. [deleted]

(3) (in BIPRU and GENPRU and in relation to a person other than a BIPRU firm) has the meaning in (2) with references to a firm replaced by ones to a person. [deleted]

(4) (in IFPRU and in relation to an IFPRU investment firm) has the meaning in article 4(1)(86) of the UK CRR. [deleted]

(5) (in DTR) has the meaning in article 4.1(86) of UK CRR.

(6) (in MIFIDPRU) all positions in financial instruments and commodities held by a MIFIDPRU investment firm that are:

   (a) positions held with trading intent; or

   (b) held to hedge positions held with trading intent.

**UK CRR**

(_except where stated otherwise) the UK version of Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012, which is part of UK law by virtue of the EUWA, read together with any CRR rules as defined in section 144A of the Act.
Delete the following definitions. The text is not shown struck through.

*deal on own account*  
(1) (for the purposes of *GENPRU* and *BIPRU*) has the meaning in *BIPRU* 1.1.23 R (Meaning of dealing on own account) which is in summary the service referred to in paragraph 3 of Part 3 of Schedule 2 to the *Regulated Activities Order*, subject to the adjustments in *BIPRU* 1.1.23R(2) and *BIPRU* 1.1.23R(3).

(2) (other than in *GENPRU* and *BIPRU*) has the meaning in *IFPRU* 1.1.12 R (Meaning of dealing on own account) which is, in summary, the service referred to in paragraph 3 of Part 3 of Schedule 2 to the *Regulated Activities Order*, subject to the adjustments in *IFPRU* 1.1.12R(2) and *IFPRU* 1.1.12R(3).

*own funds requirements*  
as defined in article 92 (Own funds requirements) of the *UK CRR*.
Annex B

Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

In this Annex, all the text is new and is not underlined.

Part 1: Comes into force on 1 January 2022

Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

1 Application

1.1 Application and purpose

Application

1.1.1 G There is no overall application provision for MIFIDPRU. Each chapter or section has its own application statement. However, MIFIDPRU broadly applies to the following:

(1) MIFIDPRU investment firms;

(2) UK parent entities; and

(3) parent undertakings in an investment firm group that are incorporated in, or have their principal place of business in, the United Kingdom.

1.1.2 G (1) The definition of a MIFIDPRU investment firm includes a collective portfolio management investment firm. This means that a collective portfolio management investment firm must comply with the rules in MIFIDPRU, except to the extent that a provision of MIFIDPRU otherwise provides.

(2) A collective portfolio management investment firm is also subject to the prudential requirements in IPRU-INV 11 (Collective Portfolio Management Firms and Collective Portfolio Management Investment Firms). These firms should refer to IPRU-INV 11.6 for further guidance on how the requirements in MIFIDPRU interact with the requirements in IPRU-INV 11.

(3) As explained in MIFIDPRU 1.1.5G, many requirements in MIFIDPRU apply only in relation to the MiFID business of a firm and therefore will not apply to the collective portfolio management activities carried on by a collective portfolio management investment firm. However, some requirements in MIFIDPRU apply to the firm as a whole.
Application to overseas firms

1.1.3 G MIFIDPRU does not directly apply to an undertaking which is not incorporated in, and does not have its principal place of business in, the United Kingdom. However, MIFIDPRU imposes some obligations on UK parent entities and responsible UK parents relating to undertakings established in a third country that form part of the same investment firm group. MIFIDPRU 2 (Levels of application) contains additional guidance on the application of MIFIDPRU to investment firm groups.

1.1.4 G (1) This guidance provision applies to a third country MIFIDPRU investment firm. It is without prejudice to the FCA’s general approach to authorising overseas firms.

(2) The FCA will not normally give a Part 4A permission to a third country MIFIDPRU investment firm unless the FCA is satisfied that the applicant will be subject to prudential regulation by a regulatory body in its home jurisdiction and the regulatory requirements are broadly equivalent to the requirements that would apply under MIFIDPRU.

(3) When conducting the assessment in (2), the FCA will take into account the following non-exhaustive list of factors:

(a) whether the requirements of the jurisdiction are likely to achieve similar prudential outcomes to MIFIDPRU;

(b) how the overseas regulatory body supervises and enforces those requirements in practice;

(c) the broader legal framework applicable to the applicant in the jurisdiction; and

(d) whether there are adequate arrangements in place between the FCA and the overseas regulatory body to facilitate any necessary supervisory cooperation.

(4) The FCA considers that the approach described in (2) and (3) is consistent with the following:

(a) The requirements in the threshold conditions including, in particular, the effective supervision threshold condition described in COND 2.3, the appropriate resources threshold condition described in COND 2.4 and the suitability threshold condition described in COND 2.5.

(b) The need for the FCA to be able to apply effective supervision to a third country MIFIDPRU investment firm to ensure appropriate protection for consumers or potential consumers. This relies on cooperation between the FCA and the overseas regulatory body that
supervises that third country MIFIDPRU investment firm and on the FCA being able to place appropriate reliance on the supervision applied by that overseas regulatory body.

(5) If a third country MIFIDPRU investment firm is not subject to prudential regulation by a regulatory body in its home jurisdiction which is broadly equivalent to the requirements that would apply under MIFIDPRU, the FCA will normally expect it to establish a subsidiary in the United Kingdom. That subsidiary would need to be authorised as a MIFIDPRU investment firm and would then be directly subject to the requirements in MIFIDPRU. The subsidiary would need to demonstrate that it meets the threshold conditions to obtain authorisation.

(6) Although a third country MIFIDPRU investment firm that is granted a Part 4A permission is not subject to MIFIDPRU, it must still comply with the requirements in the threshold conditions and Principles on an ongoing basis. This includes the obligation under Principle 11 (Relations with regulators) to inform the FCA of anything of which the FCA would reasonably expect notice, which may include interactions between the firm and its overseas regulatory body.

Purpose

1.1.5 The purpose of MIFIDPRU is to set out the detailed prudential requirements that apply to a MIFIDPRU investment firm. MIFIDPRU does not apply to a designated investment firm, which is subject to prudential regulation by the PRA. Generally, the rules in MIFIDPRU are intended to cover the MiFID business undertaken by a firm, but certain requirements apply to a firm as a whole.

1.1.6 The requirements in MIFIDPRU expand upon the basic requirements under the appropriate resources threshold condition in COND 2.4 and the requirement in Principle 4 for a firm to maintain adequate financial resources.

Tied agents

1.1.7 Certain provisions of MIFIDPRU refer to, or apply in relation to, tied agents. The definition of a tied agent refers to a person who, on behalf of an investment firm (including a third country investment firm):

(a) promotes investment services or ancillary services to clients or prospective clients;
(b) receives and transmits instructions or orders from the
client in respect of investment services or financial
instruments;

(c) places financial instruments; or

(d) provides advice to clients or prospective clients in
respect of investment services or financial instruments.

(2) The references in MIFIDPRU to tied agents do not include
appointed representatives that do not meet the definition of a
tied agent (for example, because the relevant appointed
representative does not carry on its activities in relation to the
MiFID business of its principal firm). However, a firm’s
potential responsibility for appointed representatives (whether
or not they are also tied agents) will be a relevant factor for a
firm’s ICARA process under MIFIDPRU 7 (Governance and
risk management).

Voluntary application of stricter requirements

1.1.8 R No provision in MIFIDPRU prevents a firm from:

(1) holding own funds (or components of own funds) or liquid
assets that exceed those required by MIFIDPRU; or

(2) applying other measures that are stricter than those required by
MIFIDPRU.

1.1.9 G (1) If a firm applies stricter measures than those required under
MIFIDPRU in accordance with MIFIDPRU 1.1.8R, the firm
must still ensure that it meets the basic requirements of
MIFIDPRU. This is illustrated by the following two examples:

(a) Example 1: A firm decides to hold own funds of 0.03%
of its average AUM, rather than 0.02% as required
under MIFIDPRU 4.7.5R. This would be a stricter
measure that still met the basic requirements of
MIFIDPRU and therefore would be permitted under
MIFIDPRU 1.1.8R.

(b) Example 2: A firm decides to hold a significant amount
of additional own funds instead of applying the
deductions from its common equity tier 1 capital
required under MIFIDPRU 3.3.6R. This is on the basis
that the additional own funds far exceed the estimated
value of the required deductions and the firm considers
that the deduction calculations are too onerous. While
the firm may consider that holding these additional own
funds is a stricter measure, this approach would not
meet the basic requirements of MIFIDPRU, which
require the firm to calculate and apply the deductions. In addition, the failure to apply the correct deductions to common equity tier 1 capital may result in the firm incorrectly applying the concentration risk requirements and limits in MIFIDPRU 5. This approach would therefore not be permitted under MIFIDPRU 1.1.8R because it does not meet the basic requirements of MIFIDPRU.

(2) If a firm wishes to apply a stricter measure but is unsure of whether that measure would meet the basic requirements of MIFIDPRU, it should discuss the proposal with the FCA before applying the measure.

1.2 SNI MIFIDPRU investment firms

Basic conditions for classification as an SNI MIFIDPRU investment firm

1.2.1 A MIFIDPRU investment firm is an SNI MIFIDPRU investment firm if it satisfies the following conditions:

(1) its average AUM, as calculated in accordance with MIFIDPRU 4.7.5R is less than £1.2 billion;

(2) its average COH, as calculated in accordance with MIFIDPRU 4.10.19R is less than:

(a) £100 million per day for cash trades; and

(b) £1 billion per day for derivatives trades;

(3) its average ASA, as calculated in accordance with MIFIDPRU 4.9.8R is zero;

(4) its average CMH, as calculated in accordance with MIFIDPRU 4.8.13R is zero;

(5) it does not have permission to deal on own account;

(6) its on- and off-balance sheet total is less than £100 million;

(7) its total annual gross revenue from investment services and/or activities is less than £30 million, calculated as an average on the basis of the annual figures from the two-year period immediately preceding the given financial year;

(8) it has not been classified as a non-SNI MIFIDPRU investment firm due to the effect of MIFIDPRU 10.2 (Categorisation of clearing firms as non-SNI MIFIDPRU investment firms); and

(9) its average DTF, as calculated in accordance with MIFIDPRU 4.15.4R, is zero.
1.2.2 G  The definitions of ASA and CMH relate to client assets and client money that are held in the course of MiFID business. As a result, a firm may hold client assets or client money in the course of business other than MiFID business (provided that it has the necessary permissions to do so) and still meet the conditions to be classified as an SNI MIFIDPRU investment firm. When determining whether client assets or client money are to be treated as held in the course of MiFID business for these purposes, MIFIDPRU investment firms should refer to the rules and guidance in MIFIDPRU 4.8 (K-CMH requirement) and 4.9 (K-ASA requirement).

Additional provisions relating to the calculation of conditions to be classified as an SNI MIFIDPRU investment firm

1.2.3 R  Notwithstanding the calculation methodologies in MIFIDPRU 4, the firm must use the following for the purposes of the conditions in MIFIDPRU 1.2.1R:

(1) end-of-day values to calculate:
   (a) its average AUM under MIFIDPRU 1.2.1R(1);
   (b) its average COH under MIFIDPRU 1.2.1R(2);
   (c) its average ASA under MIFIDPRU 1.2.1R(3);

(2) intra-day values to assess its average CMH under MIFIDPRU 1.2.1R(4).

1.2.4 R  (1) By way of derogation from MIFIDPRU 1.2.1R, a firm may use the alternative approach in (2) to measure:
   (a) its average AUM for the purposes of MIFIDPRU 1.2.1R(1); and/or
   (b) its average COH for the purposes of MIFIDPRU 1.2.1R(2).

(2) The alternative approach is to apply the methodologies in MIFIDPRU 4 for measuring average AUM and average COH, but with the following modifications:
   (a) the measurement must be performed over the immediately preceding 12 months; and
   (b) the exclusion of the 3 most recently monthly values does not apply.

(3) If a firm uses the derogation in (1), it must:
(a) notify the FCA by submitting the form in MIFIDPRU 1 Annex 1R via the online notification and application system; and

(b) apply the alternative approach for a continuous period of at least 12 months from the date specified in the firm’s notice in (a).

(4) If a firm ceases to apply the derogation in (1), it must notify the FCA by submitting the form in MIFIDPRU 1 Annex 1R via the online notification and application system.

1.2.5 G Where a firm relies on the derogation in MIFIDPRU 1.2.4R, the alternative approach applies only for the purpose of determining whether the firm meets the requirements to be classified as an SNI MIFIDPRU investment firm. It does not apply for the purpose of the firm’s calculation of its K-factor requirement under MIFIDPRU 4.

1.2.6 R (1) Subject to (2), a firm must use the values recorded at the end of the last financial year for which accounts have been finalised and approved by its management body to assess each of the following conditions:

(a) its on- and off-balance sheet total under MIFIDPRU 1.2.1R(6); and

(b) its total annual gross revenue under MIFIDPRU 1.2.1R(7).

(2) The firm must use provisional accounts where its accounts have not been finalised and approved after 6 months from the end of the last financial year.

1.2.7 R (1) A firm may use the end-of-day value for average CMH instead of the intra-day value under MIFIDPRU 1.2.3R(2) if:

(a) there is an error in record-keeping or in the reconciliation of accounts that incorrectly indicates that the firm has breached the zero threshold in MIFIDPRU 1.2.1R(4); and

(b) the error is resolved before the end of the business day to which it relates.

(2) If a firm uses an end-of-day value under (1), it must notify the FCA immediately of:

(a) the error;

(b) the reasons that the error occurred; and

(c) how the error has been corrected.
(3) The notification in (2) must be submitted via the online notification and application system using the form in MIFIDPRU 1 Annex 2R.

1.2.8 G (1) MIFIDPRU 1.2.7R applies where a firm has incorrectly recorded an amount of client money as CMH and identifies the mistake before the end of the same business day. This could occur, for example, where there has been an error in data entry, or where a firm incorrectly records client money as meeting the CMH definition.

(2) MIFIDPRU 1.2.7R does not apply where a firm mistakenly accepts an amount that satisfies the CMH definition and subsequently returns that amount to the relevant client. In that case, the firm will have breached the zero threshold in MIFIDPRU 1.2.1R(4) and the situation has not arisen due to an error in record-keeping or reconciliation. A firm that wishes to be classified as an SNI investment firm should therefore operate effective systems and controls that prevent it from mistakenly accepting money or assets that constitute CMH or ASA.

1.2.9 R A MIFIDPRU investment firm must assess the following conditions on the basis of the firm’s individual situation:

(1) average ASA under MIFIDPRU 1.2.1R(3);

(2) average CMH under MIFIDPRU 1.2.1R(4);

(3) average DTF under MIFIDPRU 1.2.1R(9);

(4) whether the firm has permission to deal on own account; and

(5) whether the firm is a clearing member or an indirect clearing firm.

1.2.10 R (1) A MIFIDPRU investment firm must assess the conditions in (2) on the basis of the combined position of each of the following entities that form part of the same group as the firm:

(a) MIFIDPRU investment firms;

(b) designated investment firms;

(c) collective portfolio management investment firms; and

(d) third country investment firms that carry on investment services and/or activities in the UK.

(2) The relevant conditions are:

(a) average AUM under MIFIDPRU 1.2.1R(1);
(b) average COH under MIFIDPRU 1.2.1R(2);
(c) the on- and off-balance sheet total under MIFIDPRU 1.2.1R(6); and
(d) total annual gross revenue under MIFIDPRU 1.2.1R(7).

(3) When measuring the combined total annual gross revenue under (2)(d), the firm may exclude any double counting that arises in respect of gross revenues generated within the group.

(4) When calculating the contribution of the following to the combined position of the group, the firm must:
(a) for a collective portfolio management investment firm, include only amounts that are attributable to the investment services and/or activities that fall within COLL 6.9.9R (4) to (6) or FUND 1.4.3R (3) to (6); and
(b) for a third country investment firm:
   (i) include only amounts that are attributable to the investment services and/or activities that are carried on by the third country investment firm in the UK; and
   (ii) apply the definitions of AUM and COH as if the references to “MiFID business” in those definitions included the investment services and/or activities in (i).

1.2.11 G (1) MIFIDPRU 1.2.10R applies to each individual MIFIDPRU investment firm by reference to the relevant entities that form part of that firm’s group. The purpose of the rule is to prevent a MIFIDPRU investment firm from dividing its business between separate group entities that may each carry-on investment services and/or activities in the UK in order to avoid being classified as a non-SNI MIFIDPRU investment firm. Where two or more MIFIDPRU investment firms exceed one or more of the relevant thresholds in MIFIDPRU 1.2.10R on a combined basis, each of those firms will be treated as a non-SNI MIFIDPRU investment firm.

(2) Where a MIFIDPRU investment firm forms part of an investment firm group to which consolidation applies under MIFIDPRU 2.5, MIFIDPRU 2.5.21R explains how MIFIDPRU 1.2 applies to the consolidated situation of the relevant UK parent entity.

Summary of conditions for classification as an SNI MIFIDPRU investment firm and associated calculation requirements
The following table summarises the effect of *MIFIDPRU* 1.2.1R to 1.2.10R.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Measurement of relevant values</th>
<th>Threshold to be classified as an SNI <em>MIFIDPRU</em> investment firm</th>
<th>Application of threshold on an individual basis or combined basis of investment firms within a group (see <em>MIFIDPRU</em> 1.2.9R and 1.2.10R)</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Average AUM</em></td>
<td>End-of-day</td>
<td>Less than £1.2 billion</td>
<td>Combined</td>
</tr>
<tr>
<td><em>Average COH</em> (cash trades)</td>
<td>End-of-day</td>
<td>Less than £100 million per day</td>
<td>Combined</td>
</tr>
<tr>
<td><em>Average COH</em> (derivatives)</td>
<td>End-of-day</td>
<td>Less than £1 billion per day</td>
<td>Combined</td>
</tr>
<tr>
<td><em>Average ASA</em></td>
<td>End-of-day</td>
<td>Zero</td>
<td>Individual</td>
</tr>
<tr>
<td><em>Average CMH</em></td>
<td>Intra-day</td>
<td>Zero</td>
<td>Individual</td>
</tr>
<tr>
<td><em>Average DTF</em></td>
<td>End-of-day</td>
<td>Zero</td>
<td>Individual</td>
</tr>
<tr>
<td><em>NPR</em></td>
<td></td>
<td><em>Firm</em> must not have permission to deal on own account, so these measures must always be zero</td>
<td>Individual</td>
</tr>
<tr>
<td><em>CMG</em></td>
<td></td>
<td><em>Firm</em> must not have permission to deal on own account, so these measures must always be zero</td>
<td>Individual</td>
</tr>
<tr>
<td><em>TCD</em></td>
<td></td>
<td><em>Firm</em> must not have permission to deal on own account, so these measures must always be zero</td>
<td>Individual</td>
</tr>
<tr>
<td>On- and off-balance sheet total</td>
<td>End of last financial year for which accounts finalised by management body</td>
<td>Less than £100 million</td>
<td>Combined</td>
</tr>
</tbody>
</table>

Note 1: See Note 1

Note 2: See Note 2

Note 3: See Note 3
<table>
<thead>
<tr>
<th>Total annual gross revenue from investment services and/or activities</th>
<th>End of last financial year for which accounts finalised by management body</th>
<th>Less than £30 million, based on an average of annual figures for the two-year period immediately preceding the given financial year</th>
<th>Combined</th>
<th>See Notes 3 and 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether firm is a clearing member or indirect clearing firm under MIFIDPRU 10.2</td>
<td>Firm must not be a clearing member or indirect clearing firm</td>
<td>Individual</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>

**Notes**

**Note 1:** Under MIFIDPRU 1.2.4R, the firm can choose to calculate the relevant values for these measures by applying the applicable methodologies in MIFIDPRU 4 to the most recent 12 months without excluding the three most recent monthly values.

**Note 2:** Under MIFIDPRU 1.2.7R, the firm may use the end-of-day value if there has been an error in record keeping or in reconciliation of accounts that incorrectly indicates the firm has breached the zero threshold for average CMH, provided that the error is corrected before the end of the business day to which it relates.

**Note 3:** Under MIFIDPRU 1.2.6R, the firm must use provisional accounts where the relevant accounts have not been finalised and approved after 6 months from the end of the last financial year.

**Note 4:** Under MIFIDPRU 1.2.10R, the firm may exclude any double counting that arises in respect of gross revenues generated within the group.

Non-SNI MIFIDPRU investment firms that subsequently satisfy the conditions to be an SNI MIFIDPRU investment firm
1.2.13 R (1) This rule applies to a non-SNI MIFIDPRU investment firm that subsequently satisfies all the conditions in MIFIDPRU 1.2.1R.

(2) The firm in (1) shall be reclassified as an SNI MIFIDPRU investment firm only if:

(a) the firm satisfies the relevant conditions for a continuous period of at least 6 months (or any longer period that has elapsed before the firm submits the notification in (b)); and

(b) the firm notifies the FCA that it satisfies the conditions in (a).

(3) The notification in (2)(b) must be submitted via the online notification and application system using the form in MIFIDPRU 1 Annex 3R.

Ceasing to meet the conditions to be an SNI MIFIDPRU investment firm

1.2.14 R Where a MIFIDPRU investment firm no longer satisfies all the conditions set out in MIFIDPRU 1.2.1R, it ceases to be an SNI MIFIDPRU investment firm with immediate effect, except where MIFIDPRU 1.2.15R applies.

1.2.15 R (1) Where a MIFIDPRU investment firm exceeds one or more of the thresholds in (2), but continues to satisfy all other conditions in MIFIDPRU 1.2.1R, it ceases to be an SNI MIFIDPRU investment firm 3 months after the date on which it first exceeded the relevant threshold.

(2) The relevant thresholds are:

(a) the average AUM threshold in MIFIDPRU 1.2.1R(1);

(b) either or both of the average COH thresholds in MIFIDPRU 1.2.1R(2);

(c) the on- and off-balance sheet total threshold in MIFIDPRU 1.2.1R(6); and

(d) the total annual gross revenue threshold in MIFIDPRU 1.2.1R(7).

1.2.16 R (1) If a MIFIDPRU investment firm ceases to satisfy one of the conditions in MIFIDPRU 1.2.1R, it must promptly notify the FCA.

(2) The notification in (1) must be submitted via the online notification and application system using the form in MIFIDPRU 1 Annex 4R.

1.2.17 G Where a firm ceases to satisfy one of the conditions in MIFIDPRU 1.2.15R, but subsequently satisfies that condition within the three-month period referred to in that rule, the firm will still be reclassified as a non-SNI MIFIDPRU investment firm 3 months after the date on which it first
ceased to satisfy that condition. The *firm* will only be reclassified as an *SNI MIFIDPRU investment firm* if it satisfies the conditions in, and requirements of, *MIFIDPRU 1.2.13R*.

Application of senior management, remuneration and systems and controls requirements to SNI MIFIDPRU investment firms

1.2.18 R (1) Subject to (2) and (3), the following provisions do not apply to an *SNI MIFIDPRU investment firm*:

(a) *MIFIDPRU 7.3 (Risk, remuneration and nomination committees)*;

(b) the provisions in *SYSC 19G (MIFIDPRU Remuneration Code)* which are not listed in *SYSC 19G.1.6R(2)*.

(2) Subject to (4) and (5), if a *non-SNI MIFIDPRU investment firm* satisfies the conditions in *MIFIDPRU 1.2.1R* to be classified as an *SNI MIFIDPRU investment firm*, the provisions in (1) will cease to apply only:

(a) 6 months after the date on which the *firm* first satisfied those conditions (or after any longer period that has elapsed before the *firm* submits the notification in (b)(ii)); and

(b) provided that the *firm*:

(i) continued to satisfy the conditions throughout the period in (a); and

(ii) has notified the *FCA* under *MIFIDPRU 1.2.13R(2)(b)*.

(3) Subject to (4) and (5), if an *SNI MIFIDPRU investment firm* no longer satisfies the conditions in *MIFIDPRU 1.2.1R* to be classified as an *SNI MIFIDPRU investment firm*, it must:

(a) notify the *FCA* immediately in accordance with *MIFIDPRU 1.2.16R* of the date on which it ceased to satisfy the conditions; and

(b) comply with the provisions in (1) within 12 months from the date on which the *firm* ceased to satisfy the conditions.

(4) *MIFIDPRU 7.3 (Risk, remuneration and nomination committees)* does not apply to a *non-SNI MIFIDPRU investment firm* if the *firm* meets the conditions in *MIFIDPRU 7.1.4R*.

(5) The provisions listed in *SYSC 19G.1.1R(4)* do not apply to a *non-SNI MIFIDPRU investment firm* if the *firm* meets the conditions in *SYSC 19G.1.1R(2)*.

1.2.19 G Under the Capital Requirements (Country-by-Country Reporting) Regulations 2013 (SI 2013/3118) as amended, *non-SNI MIFIDPRU*
investment firms may be required to disclose information relating to their branches or subsidiaries outside the UK. The Regulations also set out how the country-by-country reporting obligations apply when a MIFIDPRU investment firm is reclassified as an SNI MIFIDPRU investment firm or a non-SNI MIFIDPRU investment firm.

1.3 Actions for damages

1.3.1 R A contravention of any rule in MIFIDPRU does not give rise to a right of action by a private person under section 138D of the Act (and each of those rules is specified under section 138D(3) of the Act as a provision giving rise to no such right of action).
Notification under MIFIDPRU 1.2.4R in respect of the use of the alternative approach to measure AUM and/or COH for the purpose of determining if a firm can be classified as an SNI investment firm

1  [Editor’s note: The form can be found at this address:
Annex  https://www.fca.org.uk/publication/forms/[xxx]]
1R

MIFIDPRU 1 Annex 1R

Notification under MIFIDPRU 1.2.4R in respect of the use of the alternative approach to measure AUM and/or COH for the purpose of determining the SNI status of a MIFIDPRU investment firm or an investment firm group

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm in respect of which of the following this notification is being made (selection one):

   a. the SNI status of a MIFIDPRU investment firm  ☐

   b. the consolidated SNI status of an investment firm group  ☐

   c. the SNI status of a MIFIDPRU firm and the investment firm group it is part of  ☐

   This option should be selected if the use of the alternative approach by the MIFIDPRU investment firm and the consolidating UK parent relates to the same metric(s) and the same period of application. Otherwise, separate notification forms should be submitted.

2. Please confirm the FRN(s) and name(s) of the MIFIDPRU investment firm and/or the consolidating UK parent entity on whose behalf this notification is being made:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Entity name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Please confirm whether the notification relates to the firm’s/group’s intention to start or stop applying the alternative approach by completing either a. or b.:

a. The firm/group intends to use the alternative approach to measure (select):

   Average AUM for the purposes of MIFIDPRU 1.2.1R(1) ☐

   Average COH for the purposes of MIFIDPRU 1.2.1R(2) ☐

   Please confirm your understanding that the firm/group must continue to use this alternative approach for at least 12 months from the date this notification takes effect.

   ☐ Yes

b. The firm/group intends to cease to apply the alternative approach to measure (select):

   Average AUM for the purposes of MIFIDPRU 1.2.1R(1) ☐

   Average COH for the purposes of MIFIDPRU 1.2.1R(2) ☐

   Please confirm that the firm/group have applied the alternative approach for at least 12 months.

   ☐ Yes

4. Date notification takes effect (i.e. the date from which the firm/group proposes to start or cease using the alternative approach, as notified):

   [DD/MM/YYYY]
Notification under MIFIDPRU 1.2.7R(2) of the use of an end-of-day value for CMH as a result of a qualifying error

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
</table>

1. Please confirm in respect of which of the following this notification is being made (select one):

   a. the SNI status of a MIFIDPRU investment firm  ☐

   b. the consolidated SNI status of an investment firm group  ☐

   c. the SNI status of a MIFIDPRU firm and the investment firm group it is part of  ☐

   *This option should be selected if the same qualifying error has resulted in the use of an end-of-day value for CMH at both individual and consolidated level. Otherwise, separate notification forms should be submitted.*

2. Please confirm the FRN(s) and name(s) of the MIFIDPRU investment firm and/or the consolidating UK parent entity on whose behalf this notification is being made:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Entity name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Please confirm that you have considered the guidance in MIFIDPRU 1.2.8G when determining whether the firm/group can rely on the error in order to use the end-of-day value for CMH.

☐ Yes

4. Please confirm that the error was resolved before the end of the business day to which it relates.

☐ Yes

5. Details of the error:

6. Explanation why the error occurred:

7. Explanation how the error has been corrected:

8. Confirmation of the date the error occurred:

DD/MM/YYYY
Notification under MIFIDPRU 1.2.13R(2)(b) that a non-SNI investment firm qualifies to be reclassified as an SNI investment firm

1. [Editor’s note: The form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 1 Annex 3R

Notification under MIFIDPRU 1.2.13R(2)(b) that a non-SNI investment firm/group qualifies to be reclassified as an SNI investment firm/group

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
</tr>
</tbody>
</table>

You must use this form to notify the FCA that the firm/group qualifies to be reclassified as a small and non-interconnected investment firm/group (SNI). The reclassification will be effective from the date of this notification.

1. Please confirm in respect of which of the following this notification is being made (select one):
   a. the SNI status of a MIFIDPRU investment firm ☐
   b. the consolidated SNI status of an investment firm group ☐
   c. the SNI status of a MIFIDPRU firm and the investment firm group it is part of ☐

   This option should be selected if both the MIFIDPRU investment firms and the group it is part of qualify to be reclassified from the same date. Otherwise, separate notification forms should be submitted.

2. Please confirm the FRN(s) and name(s) of the MIFIDPRU investment firm and/or the consolidating UK parent entity on whose behalf this notification is being made:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Entity name</th>
</tr>
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</tbody>
</table>
3. Please confirm that the firm/group has continued to satisfy all the conditions in MIFIDPRU 1.2.1R for a continuous period of at least 6 months up to the date of this notification.

☐ Yes
Notification under MIFIDPRU 1.2.16R that a firm no longer qualifies to be classified as an SNI investment firm

1 [Editor’s note: The form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]
Annex 4R

MIFIDPRU 1 Annex 4R

Notification under MIFIDPRU 1.2.16R that a firm/group no longer qualifies to be classified as an SNI investment firm/group

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
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</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

You must use this form to notify the FCA that the firm/group has ceased to meet one or more of the conditions set out in MIFIDPRU 1.2.1R for being a small and non-interconnected investment firm/group (SNI).

1. Please confirm to which of the following this notification is being made (select one):

   a. the SNI status of a MIFIDPRU investment firm ☐

   b. the consolidated SNI status of an investment firm group ☐

   The questions in this section relate to notifications under 1.a. only.

2. Please provide the following information:

   a. Condition(s) no longer met (please select all that apply)

   | Average AUM | ☐ |
   | Average COH (cash trades) | ☐ |
   | Average COH (derivatives trades) | ☐ |
   | On- and off-balance sheet total | ☐ |
   | Total annual gross revenue | ☐ |
   | Average CMH | ☐ |
   | Average ASA | ☐ |
   | Average DTF | ☐ |
   | Clearing member/indirect clearing firm status | ☐ |
b. Date from which conditions ceased to be met

DD/MM/YYYY

3. Where a firm has ceased to meet one or more of the average AUM, average COH, balance sheet or revenue thresholds specified in MIFIDPRU 1.2.15R(2), but continues to meet all other conditions in MIFIDPRU 1.2.1R, it will cease to be classified as an SNI investment firm 3 months after the date on which the relevant threshold was first exceeded.

Please confirm whether the firm continues to meet all conditions in MIFIDPRU 1.2.1R other than those listed in MIFIDPRU 1.2.15R(2).

Yes/No

4. Please confirm your understanding that the firm:

a. will be subject to additional obligations and reporting requirements as a non-SNI investment firm, and

b. will need to comply with the obligations in MIFIDPRU 1.2.18R(1) within 12 months of the date it first ceased to meet the SNI conditions in MIFIDPRU 1.2.1R.

Yes

The questions in this section relate to notifications 1.b. only.

5. Please provide the following information:

a. Condition(s) no longer met on a consolidated basis (please select all that apply)
   - Average AUM
   - Average COH (cash trades)
   - Average COH (derivatives trades)
   - On- and off-balance sheet total
   - Total annual gross revenue
   - Average CMH
   - Average ASA
   - Average DTF
   - Entity within group deals on own account
   - Non-SNI investment firms within the group

b. Date from which conditions ceased to be met on a consolidated basis

DD/MM/YYYY

6. Where a group has ceased to meet one or more of the average AUM, average COH, balance sheet or revenue thresholds specified in MIFIDPRU 1.2.15R(2), but continues to meet all other conditions in MIFIDPRU 1.2.1R on a consolidated basis, it will cease to be treated as an SNI investment firm on a consolidated basis 3 months after the date on which the relevant threshold was first exceeded.
Please confirm whether the group continues to meet all conditions in MIFIDPRU 1.2.1R on a consolidated basis other than those listed in MIFIDPRU 1.2.15R(2).

Yes/No

7. Please confirm your understanding that the group:

a. will be subject to additional obligations and reporting requirements by being treated as a non-SNI investment firm on a consolidated basis, and

b. will need to comply with the obligations in SYSC 19G (the MIFIDPRU Remuneration Code), to the extent that they apply on a consolidated basis, within 12 months of the date it first ceased to meet the SNI conditions in MIFIDPRU 1.2.R.

Yes
2 Level of application of requirements

2.1 Application and purpose

Application

2.1.1 MIFIDPRU 2 applies to:

(1) a MIFIDPRU investment firm;

(2) a UK parent entity;

(3) a UK investment holding company, UK mixed financial holding company or UK mixed-activity holding company; and

(4) a parent undertaking in the UK that is a relevant financial undertaking in an investment firm group.

Purpose

2.1.2 This chapter contains:

(1) a rule in MIFIDPRU 2.2.1R applying requirements in this sourcebook to MIFIDPRU investment firms on an individual basis;

(2) rules in MIFIDPRU 2.3 outlining the circumstances in which a MIFIDPRU investment firm may apply to the FCA for an exemption from specific requirements in this sourcebook that apply on an individual basis;

(3) rules and guidance in MIFIDPRU 2.4 which cover:

(a) the definition of an investment firm group;

(b) the undertakings that are included within an investment firm group; and

(c) when and how an investment firm group may apply to the FCA for permission to use the group capital test as an alternative to the prudential consolidation requirements in MIFIDPRU 2.5;

(4) rules and guidance in MIFIDPRU 2.5 which cover the following:

(a) when requirements in this sourcebook apply on a consolidated basis;

(b) the circumstances in which the FCA may permit an investment firm group to disapply certain prudential consolidation requirements; and
(c) how an investment firm group must apply obligations in this sourcebook on a consolidated basis;

(5) rules and guidance in MIFIDPRU 2.6 in relation to the group capital test; and

(6) rules and guidance in MIFIDPRU 2.7 which cover:

(a) additional requirements and FCA supervisory powers that are relevant to a UK parent entity; and

(b) additional requirements that are relevant to a MIFIDPRU investment firm which is a subsidiary of a UK mixed-activity holding company.

2.2 General principle

2.2.1 A MIFIDPRU investment firm must comply with the rules in MIFIDPRU 3 to MIFIDPRU 9 on an individual basis.

2.3 Exemptions

2.3.1 A MIFIDPRU investment firm will be exempt from MIFIDPRU 8 (Disclosure) on an individual basis if:

(1) the firm has applied to the FCA in accordance with MIFIDPRU 2.3.3R;

(2) the application in (1) demonstrates to the satisfaction of the FCA that:

(a) the firm is a SNI MIFIDPRU investment firm;

(b) the firm is a subsidiary and is included in the supervision on a consolidated basis of an insurance undertaking or reinsurance undertaking in accordance with Rule 10.5 of the PRA Rulebook: Solvency II firms: Group Supervision;

(c) the firm and its parent undertaking are subject to authorisation and supervision in the UK;

(d) own funds are distributed adequately between the firm and its parent undertaking and:

   (i) there is no current or foreseen material practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the parent undertaking;

   (ii) either the parent undertaking will guarantee the commitments entered into by the firm, or the risks in the firm are of negligible interest;
(iii) the risk evaluation, measurement and control procedures of the parent undertaking include the firm; and

(iv) the parent undertaking holds more than 50% of the voting rights attached to shares in the capital of the firm or has the right to appoint or remove a majority of the members of the firm’s management body.

(3) the PRA does not object to the exemption.

2.3.2 A MIFIDPRU investment firm will be exempt from MIFIDPRU 6 (Liquidity) on an individual basis where:

(1) the firm has applied to the FCA in accordance with MIFIDPRU 2.3.3R;

(2) the application in (1) demonstrates to the satisfaction of the FCA that:

(a) the firm:

(i) is supervised on a consolidated basis in accordance with Chapter 2 of Title II of Part One of the UK CRR; or

(ii) is included in an investment firm group that is subject to MIFIDPRU 2.5.11R and has not obtained the exemption referred to in MIFIDPRU 2.5.19R;

(b) the parent undertaking, on a consolidated basis, monitors and has oversight at all times over the liquidity positions of all institutions and MIFIDPRU investment firms within the group or sub-group that are exempted from liquidity requirements on an individual basis, and ensures a sufficient level of liquidity for all of those institutions and MIFIDPRU investment firms;

(c) the parent undertaking and the firm have entered into contracts that, to the satisfaction of the appropriate regulator, provide for the free movement of funds between the parent undertaking and the firm to enable them to meet their individual obligations and joint obligations as they become due;

(d) there is no current or foreseen material, practical or legal impediment to the fulfilment of the contracts in (c); and

(3) the PRA does not object to the exemption if it is the consolidating supervisor of the group.
2.3.3 R An application referred to in MIFIDPRU 2.3.1R(1) or MIFIDPRU 2.3.2R(1) must:

(1) be made using the form in MIFIDPRU 2 Annex 1R; and

(2) be submitted using the online notification and application system.

2.4 Investment firm groups: general

Application and purpose

2.4.1 R This section applies to:

(1) a UK parent entity; and

(2) a MIFIDPRU investment firm.

2.4.2 G (1) The definition of an investment firm group covers a parent undertaking that is incorporated in the UK or has its principal place of business in the UK, and its subsidiaries, at least one of which must be a MIFIDPRU investment firm.

(2) The definition of an investment firm group also includes connected undertakings. These are relevant financial undertakings that are not subsidiaries, but which form part of the investment firm group by one of the relationships listed in MIFIDPRU 2.4.6R.

(3) If the subsidiaries of the group include a UK credit institution, the group is not an investment firm group. However, if a UK credit institution is only a connected undertaking in relation to an investment firm group, the group is still an investment firm group. If the investment firm group includes a subsidiary or a connected undertaking that is credit institution established in a third country, the group is still an investment firm group.

2.4.3 G (1) When a UK parent entity or a MIFIDPRU investment firm is identifying whether it forms part of an investment firm group, it must identify all relevant financial undertakings that are either subsidiaries or connected undertakings.

(2) The UK parent entity or MIFIDPRU investment firm can use the analysis in (1) to determine whether the investment firm group:

(a) is likely to be subject to consolidation under MIFIDPRU 2.5; or

(b) has a sufficiently simple structure to justify submitting an application to the FCA to apply the group capital test under MIFIDPRU 2.6.

2.4.4 G (1) Where consolidation under MIFIDPRU 2.5 applies, the definition of an investment firm group and the resulting consolidated
situation includes all relevant financial undertakings that are either subsidiaries or connected undertakings.

(2) Where MIFIDPRU 2.6 applies, the definition of an investment firm group means that the group capital test only applies to a parent undertaking in relation to relevant financial undertakings that are its subsidiaries or that are connected undertakings in which it holds a participation in accordance with MIFIDPRU 2.4.15R. The group capital test does not apply in relation to a relevant financial undertaking that is a connected undertaking of the parent undertaking otherwise than due to a participation.

(3) However, as explained in MIFIDPRU 2.4.19G, where an investment firm group contains material connected undertakings (other than those connected by a participation), the FCA considers that the underlying structure of the investment firm group is unlikely to be sufficiently simple to permit the application of the group capital test. In that case, it is likely that the UK parent entity of the investment firm group will be subject to consolidation under MIFIDPRU 2.5.

Subsidiaries

2.4.5 G (1) The definition of a subsidiary for the purposes of MIFIDPRU refers to any undertaking which is a “subsidiary undertaking” as defined in section 1162, read together with Schedule 7, of the Companies Act 2006.

(2) Under section 1162(4) of the Companies Act 2006, this includes relationships where either of the following apply in relation to an undertaking (“A”) and another undertaking (“B”):

(a) A has the power to exercise, or actually exercises, dominant influence or control over B; or

(b) A and B are managed on a unified basis.

(3) Under section 1162(5) of the Companies Act 2006, if an undertaking (“A”) has a subsidiary undertaking (“B”) and B is a parent undertaking of another undertaking (“C”), then C is also a subsidiary undertaking of A. As a result, the definition of a subsidiary in MIFIDPRU includes subsidiaries of subsidiaries.

Connected undertakings: general

2.4.6 R An undertaking (“CU”) is a connected undertaking of another undertaking (“P1”) if:

(1) P1 is connected to CU by majority common management in accordance with MIFIDPRU 2.4.8R(1);

(2) P1 exercises significant influence over CU in accordance with
MIFIDPRU 2.4.10R(1);

(3) P1 and CU have been placed under single management, other than under a contract, clauses in memoranda or articles of association, in accordance with MIFIDPRU 2.4.12R(1);

(4) CU is a subsidiary of another undertaking (“P2”), and P2:

(a) is connected to P1 by majority common management in accordance with MIFIDPRU 2.4.8R(1); or

(b) has been placed under single management with P1, other than under a contract, clauses in memoranda or articles of association, in accordance with MIFIDPRU 2.4.12R(1); or

(5) P1 holds a participation in CU in accordance with MIFIDPRU 2.4.15R.

2.4.7 G The criteria in MIFIDPRU 2.4.8R(2)-(5) and MIFIDPRU 2.4.12R(2)-(5) for determining the deemed parent undertaking in relation to a connected undertaking apply to the facts at the time when the relevant relationship is created. This means that a subsequent change in the own funds requirement of an entity or investment firm group does not change the deemed parent undertaking.

Connected undertakings: majority common management

2.4.8 R (1) This rule applies where:

(a) a MIFIDPRU investment firm is connected to a relevant financial undertaking by majority common management; or

(b) a relevant financial undertaking that forms part of an investment firm group is connected to another relevant financial undertaking by majority common management.

(2) If only one of the undertakings connected by majority common management forms part of an existing investment firm group, that undertaking is deemed to be the parent undertaking of the other undertaking when applying the requirements in MIFIDPRU 2.5.

(3) If both undertakings connected by majority common management form part of separate existing investment firm groups, the undertaking that forms part of the investment firm group which has, or would have, the higher consolidated own funds requirement based on its consolidated situation, is deemed to be the parent undertaking of the other undertaking when applying the requirements in MIFIDPRU 2.5.

(4) If neither of the undertakings connected by majority common management forms part of an existing investment firm group and
both undertakings are MIFIDPRU investment firms, the MIFIDPRU investment firm with the higher individual own funds requirement is deemed to be the parent undertaking of the other MIFIDPRU investment firm when applying the requirements in MIFIDPRU 2.5.

(5) If neither of the undertakings connected by majority common management forms part of an existing investment firm group and only one of the undertakings is a MIFIDPRU investment firm, the MIFIDPRU investment firm is deemed to be the parent undertaking of the other undertaking when applying the requirements in MIFIDPRU 2.5.

2.4.9 G A MIFIDPRU investment firm may apply to the FCA under section 138A of the Act to modify the application of MIFIDPRU 2.4.8R(2)-(5), if it considers that a different undertaking should be deemed to be the parent undertaking on the basis of majority common management for the purposes of MIFIDPRU 2.5.

Connected undertakings: significant influence without participation or capital ties

2.4.10 R (1) This rule applies where:

(a) any of the following undertakings (“A”) exercises significant influence over a relevant financial undertaking:

(i) a MIFIDPRU investment firm;

(ii) an investment holding company; or

(iii) a mixed financial holding company; and

(b) the relevant financial undertaking is not:

(i) a subsidiary of A; or

(ii) connected to A by majority common management.

(2) Where this rule applies, A is deemed to be the parent undertaking of the relevant financial undertaking when applying MIFIDPRU 2.5.

2.4.11 G (1) To assess whether A exercises significant influence over a relevant financial undertaking, the FCA considers that the equivalent accounting position, as it would be assessed under the guidance in International Accounting Standard 28 (as amended in 2011) under IFRS or Financial Reporting Standard 102 (March 2018) under UK GAAP, will be relevant. In particular, a firm should consider whether A has the power to participate in the financial and operating policy decisions of the relevant financial undertaking, even though A does not have control or joint control of those
policies. The indicators in (2) may be evidence of significant influence but are not conclusive. A firm should consider all relevant facts and circumstances.

(2) When applying MIFIDPRU 2.4.10R(1)(a), the following circumstances may be indicators that A exercises significant influence over the relevant financial undertaking:

(a) A appoints or has the ability to appoint a representative in the management body of the relevant financial undertaking, either in the executive or in the supervisory function;

(b) A participates in the policy-making processes of the relevant financial undertaking, including participation in decisions about dividends and other distributions;

(c) the existence of material transactions between the two undertakings;

(d) the interchange of managerial personnel between the two undertakings;

(e) the provision of essential technical information or critical services from one entity to the other;

(f) A enjoys additional rights in the relevant financial undertaking, under a contract or a provision in the articles of association or other constitutional documents of the relevant financial undertaking, that could affect the management or the decision-making of the relevant financial undertaking; and

(g) the existence of share warrants, share call options, debt instruments that are convertible into ordinary shares or other similar instruments that are currently exercisable or convertible and have the potential, if exercised or converted, to give voting power or to reduce another party’s voting power over the financial and operating policies of the relevant financial undertaking.

Connected undertakings: single management other than pursuant to a contract, clauses in memoranda or articles of association

2.4.12 R (1) This rule applies where:

(a) any of the following undertakings (“A”) has been placed under single management, other than pursuant to a contract, clauses in memoranda or articles of association, with a relevant financial undertaking:

(i) a MIFIDPRU investment firm;
(ii) an investment holding company; or

(iii) a mixed financial holding company; and

(b) the relevant financial undertaking is not:

(i) a subsidiary of A;

(ii) connected to A by majority common management; or

(iii) an undertaking over which A exercises significant influence in accordance with MIFIDPRU 2.4.10R.

(2) If only one of the undertakings placed under single management already forms part of an existing investment firm group, that undertaking is deemed to be the parent undertaking of the other undertaking when applying the requirements in MIFIDPRU 2.5.

(3) If both undertakings placed under single management form part of separate existing investment firm groups, the undertaking that forms part of the investment firm group which has, or would have, the higher consolidated own funds requirement based on its consolidated situation is deemed to be the parent undertaking of the other undertaking when applying the requirements in MIFIDPRU 2.5.

(4) If neither of the undertakings placed under single management forms part of an existing investment firm group and both of those undertakings are MIFIDPRU investment firms, the MIFIDPRU investment firm with the higher individual own funds requirement is deemed to be the parent undertaking of the other MIFIDPRU investment firm when applying the requirements in MIFIDPRU 2.5.

(5) If neither of the undertakings placed under single management forms part of an existing investment firm group and only one of those undertakings is a MIFIDPRU investment firm, the MIFIDPRU investment firm is deemed to be the parent undertaking of the other undertaking when applying the requirements in MIFIDPRU 2.5.

2.4.13 G When applying MIFIDPRU 2.4.12R, the following circumstances are indicators that the type of single management in MIFIDPRU 2.4.12R(1)(a) may exist:

(1) A and the relevant financial undertaking are controlled by:

(a) the same natural person;

(b) the same group of natural persons;
(c) an undertaking or the same group of undertakings that do not otherwise belong to that group;

(d) an undertaking or the same group of undertakings that are not otherwise members of the same group or the same group of undertakings that are not established in the UK; or

(2) the majority or its supervisory function of A and the relevant financial undertaking is composed of people appointed by the same undertakings, by the same natural person or by the same group of natural persons, even if they do not necessarily consist of the same people.

2.4.14 G The indicators in MIFIDPRU 2.4.13G are not conclusive. Whether two or more undertakings are placed under single management for the purposes of MIFIDPRU 2.4.12R depends on whether in practice there is effective coordination of the financial and operating policies of the relevant undertakings. A firm should consider all relevant facts and circumstances.

Connected undertakings: participations

2.4.15 R (1) This rule applies where the following conditions are met:

(a) one of the following (“A”) holds, directly or indirectly, a participation in a relevant financial undertaking:

(i) a MIFIDPRU investment firm;

(ii) an investment holding company; or

(iii) a mixed financial holding company;

(b) the relevant financial undertaking is not:

(i) a subsidiary of A; or

(ii) connected to A by majority common management; or

(iii) an undertaking over which A exercises significant influence in accordance with MIFIDPRU 2.4.10R; or

(iv) an undertaking with which A has been placed under single management in accordance with MIFIDPRU 2.4.12R; and

(c) A forms part of an existing investment firm group.

(2) Where this rule applies, A is deemed to be the parent undertaking of the relevant financial undertaking when applying the requirements in MIFIDPRU 2.5 or the group capital test in
2.4.16 G (1) An undertaking (“A”) holds a participation in a relevant financial undertaking where A has direct or indirect ownership of 20% or more of the voting rights in, or capital of, a relevant financial undertaking.

(2) However, A may also hold a participation where, even though A does not have an ownership interest as described in (1), A nonetheless has rights in the capital of the relevant financial undertaking which create a durable link with that undertaking which is intended to contribute to its activities.

(3) For the purpose of assessing whether there is a participation of the type described in (2), it is relevant to consider the overall ownership structure of the relevant financial undertaking, having regard in particular to whether interests in the capital or voting rights of the relevant financial undertaking are distributed across a large number of shareholders, or whether A is the main investor.

Application to apply the group capital test to an investment firm group

2.4.17 R MIFIDPRU 2.6 applies, and MIFIDPRU 2.5 does not apply, to an investment firm group where:

(1) the UK parent entity of that investment firm group or a MIFIDPRU investment firm within that investment firm group has applied to the FCA in accordance with MIFIDPRU 2.4.18R; and

(2) the application in (1) demonstrates to the satisfaction of the FCA that:

(a) the group structure of the investment firm group is sufficiently simple to justify applying the group capital test; and

(b) there are no significant risks to clients or to the market stemming from the investment firm group as a whole that require supervision on a consolidated basis.

2.4.18 R An application submitted under MIFIDPRU 2.4.17R(1):

(1) must be made using the form in MIFIDPRU 2 Annex 2R, and should be submitted using the online notification and application system;

(2) must include:

(a) a group structure chart that:

(i) identifies each undertaking that forms part of the investment firm group;
(ii) explains the nature of the business or activities of each undertaking;

(iii) identifies whether each undertaking is a relevant financial undertaking and, if so, which type of relevant financial undertaking it is; and

(iv) explains the nature and degree of ownership or control that connects the undertaking to the investment firm group (including any relationship that has led the undertaking to be classified as a connected undertaking in relation to the investment firm group);

(b) an explanation of why the group structure is sufficiently simple to justify the application of the group capital test;

(c) an explanation of why there are no significant risks to clients or to the market stemming from the investment firm group that require supervision on a consolidated basis;

(d) calculations which show how each parent undertaking within the investment firm group would satisfy the group capital test;

(e) evidence that the book value of each parent undertaking’s investment in each of the following is a fair reflection of the consideration paid by the parent undertaking:

(i) a subsidiary, whether that subsidiary forms part of the investment firm group or not; and

(ii) an entity that is a connected undertaking due to a participation in accordance with MIFIDPRU 2.4.15R.

(f) calculations that demonstrate the consolidated own funds and liquid assets requirements that would apply on the basis of the consolidated situation of the investment firm group if consolidation under MIFIDPRU 2.5 applied instead;

(g) an explanation of:

(i) how the investment firm group would comply with the consolidated requirements in (f) if the FCA did not grant permission to apply the group capital test; and

(ii) the timeframe in which the investment firm group would expect to achieve compliance with such
consolidated requirements; and

(h) an explanation of how the UK parent entity of the investment firm group:

(i) would comply with the systems requirement in MIFIDPRU 2.6.9R; or

(ii) would comply with the systems requirement in MIFIDPRU 2.5.8R if the FCA did not grant permission to apply the group capital test.

(3) must be submitted by a UK parent entity or a MIFIDPRU investment firm that has the necessary authority to make the application on behalf of all undertakings within the investment firm group that would be subject to the group capital test.

2.4.19 G In the FCA’s view, where an investment firm group includes one or more undertakings that are connected undertakings (other than connected undertakings due to a participation in accordance with MIFIDPRU 2.4.15R), that are material (either individually or in aggregate), it is unlikely that the investment firm group will be sufficiently simple to be able to apply the group capital test. This is because the relationship between the relevant member of the investment firm group and the connected undertaking is likely to be more complex and because the group capital test can only apply to holdings in instruments issued by, or claims on, an entity. Therefore, prudential consolidation under MIFIDPRU 2.5 is likely to be more appropriate in such circumstances.

2.5 Prudential consolidation

2.5.1 R (1) This section applies to a UK parent entity that is not subject to the group capital test under MIFIDPRU 2.6.

(2) This section also applies to a MIFIDPRU investment firm that forms part of the same investment firm group as the relevant UK parent entity in (1).

2.5.2 G Prudential consolidation under this section and the group capital test under MIFIDPRU 2.6 are mutually exclusive requirements that may apply to an investment firm group. If an investment firm group is not permitted to use the group capital test under MIFIDPRU 2.6, the consolidation requirements in this section will apply to that investment firm group, except to the extent that an exemption applies.

2.5.3 G The table below is a guide to the content of this section.
<table>
<thead>
<tr>
<th>Provisions of MIFIDPRU 2.5</th>
<th>Summary of content</th>
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<tbody>
<tr>
<td>MIFIDPRU 2.5.4G</td>
<td>The interaction between prudential consolidation under MIFIDPRU 2.5 and prudential consolidation under the UK CRR</td>
</tr>
<tr>
<td>MIFIDPRU 2.5.5G</td>
<td>The meaning of the consolidated situation</td>
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<tr>
<td>MIFIDPRU 2.5.6G</td>
<td>The treatment of tied agents included within the consolidated situation</td>
</tr>
<tr>
<td>MIFIDPRU 2.5.7R to 2.5.12G</td>
<td>The main requirements in relation to prudential consolidation under MIFIDPRU 2.5</td>
</tr>
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Interaction between consolidation under MIFIDPRU and the UK CRR
2.5.4 G (1) Under this section, prudential consolidation applies where there is an investment firm group. The definition of an investment firm group excludes a group which contains a UK credit institution (except where the credit institution is a connected undertaking). Where a group includes a UK credit institution, prudential consolidation applies in accordance with the UK CRR and the PRA Rulebook.

(2) However, a group may be an investment firm group where it contains both a MIFIDPRU investment firm and a designated investment firm subject to the UK CRR, but no UK credit institution. In this case, the MIFIDPRU investment firm would trigger prudential consolidation under this section and the designated investment firm would trigger consolidation under the UK CRR. Therefore, certain group structures may be subject to consolidation under both MIFIDPRU and the UK CRR, with the same entities included within the scope of consolidation of each. In this situation, the relevant group must comply with both sets of consolidated requirements, which are aimed at addressing different types of risks.

Meaning of “consolidated situation”

2.5.5 G (1) The application of prudential consolidation under this section is based on the consolidated situation of a UK parent entity.

(2) A consolidated situation is defined as the situation that results from applying requirements in MIFIDPRU under MIFIDPRU 2.5.7R and MIFIDPRU 2.5.11R to a UK parent entity, as if it and the relevant financial undertakings in its investment firm group, form a single MIFIDPRU investment firm.

(3) For the purposes of the consolidated situation, the term “relevant financial undertaking” and the underlying definitions of “investment firm”, “financial institution”, “ancillary services undertaking” and “tied agent” include undertakings established outside the UK that would satisfy those definitions if they were established in the UK.

Tied agents included within the consolidated situation

2.5.6 G (1) If a tied agent is included within the consolidated situation, all relevant activities and expenditure of that tied agent will be consolidated in full (or, where proportional consolidation applies, the relevant proportion of the activities of that tied agent will be consolidated) for the purpose of calculating the consolidated fixed overheads requirement and the consolidated K-factor requirement. This applies whether the tied agent carries out investment services and/or activities or incurs relevant expenses on behalf of another entity within the consolidated situation or on behalf of a third party.
(2) The guidance in (1) relates to a tied agent that is included within the consolidated situation. There are separate requirements in:

(a) MIFIDPRU 4.5.6R, which applies in relation to the individual fixed overheads requirement of a MIFIDPRU investment firm where a tied agent incurs expenses on behalf of that firm; and

(b) MIFIDPRU 4.7.2R, MIFIDPRU 4.8.3R, MIFIDPRU 4.9.2R or MIFIDPRU 4.10.2R, which apply in relation to the individual K-factor requirement of a MIFIDPRU investment firm where a tied agent carries on certain investment services and/or activities on behalf of that firm.

These requirements apply in relation to the calculation of the individual fixed overheads requirement and K-factor requirement of a MIFIDPRU investment firm, even if the tied agent is not part of the same investment firm group as that MIFIDPRU investment firm. Where MIFIDPRU 4 applies on a consolidated basis, those requirements will also be relevant to any activities carried on by tied agents on behalf of a third country investment firm included within the consolidated situation.

(3) Where the requirements in (2)(a) or (2)(b) apply in relation to a MIFIDPRU investment firm or a third country investment firm that is included within the consolidated situation, the relevant amounts that are added to the individual requirements of that MIFIDPRU investment firm or third country investment firm due to the activities of the tied agent must be included in the consolidated situation, irrespective of whether the tied agent is itself included within the consolidated situation.

(4) An individual tied agent (“A”) may both:

(a) be included within the consolidated situation; and

(b) incur expenses or carry on investment services and/or activities on behalf of a MIFIDPRU investment firm or third country investment firm (“B”) where B is also included in the consolidated situation.

In this case, the contribution of A to the consolidated fixed overheads requirement and consolidated K-factor requirement may be adjusted to prevent double-counting of any amounts due to B being included in the consolidated situation and a proportion of A’s activities or expenses having already been attributed to B.
Prudential consolidation – main requirements

2.5.7 R A UK parent entity must comply with the following on the basis of its consolidated situation:

(1) MIFIDPRU 3 (Own funds);
(2) MIFIDPRU 4 (Own funds requirements);
(3) MIFIDPRU 5 (Concentration risk);
(4) MIFIDPRU 8 (Disclosure); and
(5) MIFIDPRU 9 (Reporting).

2.5.8 R To ensure that the data required to comply with the consolidated requirements under MIFIDPRU 2.5.7R are duly processed and forwarded, a UK parent entity to which MIFIDPRU 2.5.7R applies and any MIFIDPRU investment firm in the same investment firm group must establish the following:

(1) a proper organisational structure; and
(2) appropriate internal control mechanisms.

2.5.9 R A UK parent entity to which MIFIDPRU 2.5.7R applies and any MIFIDPRU investment firm in the same investment firm group must each ensure that any of their subsidiaries that are not subject to MIFIDPRU implement the necessary arrangements, processes and mechanisms to ensure that the UK parent entity complies with the consolidated requirements under MIFIDPRU 2.5.7R.

2.5.10 R (1) When applying MIFIDPRU 3 on a consolidated basis, the requirements in Title II of Part Two of the UK CRR shall also apply.

(2) When applying the provisions of article 84(1), article 85(1) and article 87(1) of the UK CRR under (1):

(a) where those provisions refer to other provisions of the UK CRR that impose own funds requirements, only the references to article 92(1) of the UK CRR apply; and

(b) the references to article 92(1) of the UK CRR must be read as if they were references to the own funds requirement under MIFIDPRU.

2.5.11 R A UK parent entity must comply with MIFIDPRU 6 (Liquidity) on the basis of its consolidated situation.

2.5.12 G MIFIDPRU 2.5.7R to 2.5.11R require a UK parent entity to comply with other chapters of MIFIDPRU on the basis of its consolidated situation.
situation. Certain requirements in those chapters do not apply, or apply in a modified manner, to SNI MIFIDPRU investment firms. MIFIDPRU 2.5.21R explains how the UK parent entity should determine whether it should be treated as an SNI MIFIDPRU investment firm on the basis of its consolidated situation.

Default position: full consolidation of relevant entities

2.5.13 R (1) For the purposes of determining the consolidated situation under MIFIDPRU 2.5.7R and MIFIDPRU 2.5.11R, a UK parent entity must carry out a full consolidation of all relevant financial undertakings that form part of its investment firm group, unless (2) applies.

(2) A UK parent entity is not required to carry out a full consolidation of a relevant financial undertaking under (1) where:

(a) the relevant financial undertaking is a connected undertaking that forms part of the investment firm group due to a participation in accordance with MIFIDPRU 2.4.15R; and

(b) the conditions for proportional consolidation under MIFIDPRU 2.5.17R are satisfied.

2.5.14 G A UK parent entity that is subject to MIFIDPRU 2.5.13R(1) may apply to the FCA under section 138A of the Act to modify the application of MIFIDPRU 2.5.13R(1) to require an alternative method of consolidation.

2.5.15 G When the FCA considers an application described in MIFIDPRU 2.5.14G, it will consider a range of factors, including whether full consolidation is appropriate because the UK parent entity or a MIFIDPRU investment firm within the same investment firm group:

(1) acts as sponsor by managing or advising the relevant financial undertaking or marketing its securities;

(2) provides liquidity or credit enhancements to the relevant financial undertaking;

(3) is an important investor in the equity or debt instruments of the relevant financial undertaking;

(4) through contractual or non-contractual relationships, is exposed to risks or equity-like returns that are derived from the assets of the relevant financial undertaking or that are dependent upon the performance of that undertaking;

(5) is effectively involved in the decision-making process of the relevant financial undertaking or exercises influence over that
undertaking;

(6) receives critical operational services from the relevant financial undertaking which cannot be replaced in a timely fashion without excessive cost;

(7) has a credit rating upon which the credit rating of the relevant financial undertaking is based;

(8) has a close commercial relationship with other investors in the relevant financial undertaking;

(9) has a common customer base with the relevant financial undertaking or is involved in the commercialisation of its products;

(10) is part of the same brand as the relevant financial undertaking;

(11) has already provided financial support to the relevant financial undertaking in relation to financial difficulties; or

(12) incurs a disproportionate amount of the expenses connected with the business operations of the relevant financial undertaking.

2.5.16 G The FCA would generally expect that the alternative method of consolidation proposed in an application described in MIFIDPRU 2.5.14G would involve either:

(1) proportional consolidation according to the share of the capital or voting rights held in the relevant financial undertaking, in which case the FCA will take into account factors equivalent to those set out in MIFIDPRU 2.5.17R(2) in addition to the factors in MIFIDPRU 2.5.15G; or

(2) consolidation of an appropriate alternative fixed percentage of the relevant metrics attributable to the relevant financial undertaking.

Proportional consolidation: participations

2.5.17 R (1) This rule applies where a relevant financial undertaking forms part of an investment firm group because it is a connected undertaking due to a participation in accordance with MIFIDPRU 2.4.15R.

(2) For the purposes of determining the consolidated situation under MIFIDPRU 2.5.7R and MIFIDPRU 2.5.11R, a UK parent entity (“A”) may apply proportional consolidation in relation to the relevant financial undertaking in (1) (“B”) if the following conditions are met:
(a) A’s liability is limited to the share of capital that it holds in B;

(b) the liability of the other shareholders or members of B ("participating undertakings") is clearly established by a legally binding and enforceable contract between A and all participating undertakings which:

(i) limits the liability of each party to the percentage of its shareholding;

(ii) clearly states that any potential losses arising from B will be borne by all shareholders or members proportionately to the share of capital held by each of them at such point in time;

(iii) states that any change in the share of capital of a shareholder or member is subject to the explicit consent of all the shareholders or members;

(iv) states that if B is recapitalised, A will inform the FCA in a timely manner about the progress of the recapitalisation process and that each shareholder or member is liable to contribute to the recapitalisation no more than an amount that is proportionate to its current share of capital held in A;

(c) there are no other agreements or arrangements between any of the following that would override or undermine any of the conditions in (b);

(i) some or all of the participating undertakings; or

(ii) some or all of the participating undertakings and one or more third parties;

(d) any participating undertakings who do not form part of the same investment firm group as A either:

(i) are subject to prudential supervision; or

(ii) can reasonably be expected to have sufficient resources to fund any contribution for which they may be liable under (b)(iv);

(e) the solvency of the participating undertakings is satisfactory and can be expected to remain satisfactory;

(f) the UK parent entity has notified the FCA in advance that it intends to apply proportional consolidation in
relation to B; and

(g) the notification in (f) has been made using the form in MIFIDPRU 2 Annex 3R and submitted using the online notification and application system.

2.5.18 G Proportional consolidation allows a UK parent entity to include within its consolidated situation only a proportion of the relevant metrics associated with the relevant financial undertaking to which it is connected by a participation. The relevant proportion is equal to the proportion of capital or voting rights that comprises that participation.

Exemption from consolidated liquidity requirements

2.5.19 R A UK parent entity is exempt from MIFIDPRU 2.5.11R if:

(1) the UK parent entity has applied to the FCA in accordance with MIFIDPRU 2.5.20R; and

(2) the application in (1) demonstrates the following to the satisfaction of the FCA:

(a) all MIFIDPRU investment firms in the investment firm group are subject to the rules in MIFIDPRU 6 (Liquidity) on an individual basis; and

(b) the exemption is appropriate, taking into account the nature, scale and complexity of the investment firm group.

2.5.20 R A UK parent entity must make an application under MIFIDPRU 2.5.19R(1) by completing the form in MIFIDPRU 2 Annex 4R and submitting it using the online notification and application system.

Application of conditions for classification as an SNI MIFIDPRU investment firm on a consolidated basis

2.5.21 R (1) This rule applies for the purpose of determining whether a UK parent entity should be treated as an SNI MIFIDPRU investment firm when applying the chapters of MIFIDPRU specified in MIFIDPRU 2.5.7R and 2.5.11R on a consolidated basis.

(2) Where any individual MIFIDPRU investment firm within the investment firm group has been classified as a non-SNI MIFIDPRU investment firm in accordance with MIFIDPRU 1.2 (including on a combined basis under MIFIDPRU 1.2.10R), the UK parent entity in (1) must comply with the relevant chapters of MIFIDPRU that apply on a consolidated basis as if it were a non-SNI MIFIDPRU investment firm.
(3) Where no individual MIFIDPRU investment firm within the investment firm group has been classified as a non-SNI MIFIDPRU investment firm (including on a combined basis under MIFIDPRU 1.2.10R), the UK parent entity in (1) must apply the criteria and comply with the calculation requirements in MIFIDPRU 1.2 on the basis of the consolidated situation.

(4) When applying the criteria in MIFIDPRU 1.2 in accordance with (3), if any entity included within the consolidated situation is dealing on own account, the UK parent entity in (1) must comply with the relevant chapters of MIFIDPRU that apply on a consolidated basis as if it were a non-SNI MIFIDPRU investment firm.

(5) For the purposes of (3), when calculating the contribution of a collective portfolio management investment firm to the consolidated situation, the UK parent entity is required to include only amounts that are attributable to the investment services and/or activities carried on by the collective portfolio management investment firm.

2.5.22 G (1) MIFIDPRU 2.5.21R(3) requires the relevant UK parent entity to consolidate all of the relevant metrics for the criteria in MIFIDPRU 1.2.1R.

(2) This is separate from the application of only certain metrics (AUM, COH, the on- and off-balance sheet total and the total annual gross revenue) on a combined basis to an individual MIFIDPRU investment firm under MIFIDPRU 1.2.10R.

(3) If any of the thresholds in MIFIDPRU 1.2.1R are exceeded on a consolidated basis, the relevant chapters of MIFIDPRU specified in MIFIDPRU 2.5.7R and 2.5.11R apply to the UK parent entity as if it were a non-SNI MIFIDPRU investment firm. However, if none of the thresholds in MIFIDPRU 1.2.1R are exceeded on a consolidated basis, the relevant chapters of MIFIDPRU that apply on a consolidated basis apply to the UK parent entity as if it were an SNI MIFIDPRU investment firm.

(4) When calculating whether the thresholds in MIFIDPRU 1.2.1R are exceeded on a consolidated basis, MIFIDPRU 2.5.21R(5) permits a UK parent entity to exclude amounts that relate to its non-MiFID business. However, a UK parent entity should not apply this approach to the calculation of the consolidated on- and off-balance sheet total for the purposes of MIFIDPRU 1.2.1R(6). This is because the FCA does not consider that it is reasonable to subdivide a collective portfolio management investment firm’s balance sheet in this way. Therefore, a UK parent entity should include the full on- and off-balance sheet
total of a *collective portfolio management investment firm* in
the consolidated total for these purposes.

Prudential consolidation in practice: own funds

2.5.23 G (1) Where *MIFIDPRU* 3 applies on a *consolidated basis*, the total consolidated *own funds requirement* of an *investment firm group* must be met by consolidated *own funds*. Consolidated *own funds* must satisfy the requirements of *MIFIDPRU* 3 and the deductions from consolidated *own funds* must be applied in accordance with that chapter as it applies on a *consolidated basis*.

(2) *MIFIDPRU* 2.5.10R applies the provisions on minority interests and *additional tier 1 instruments* and *tier 2 instruments* issued by *subsidiaries* in *Title II* of *Part Two* of the *UK CRR* to a *UK parent entity*, but with the modifications set out in that rule.

(3) The determination of consolidated *own funds* should be consistent with any reporting of consolidated financial statements that the *FCA* may require. Under section 165(6) and (7) of the *Act*, the *FCA* may require a *UK parent entity* to provide independent verification of the calculation of its consolidated *own funds*.

Prudential consolidation in practice: own funds requirement

General

2.5.24 G (1) Generally, the same approach to *own funds requirements* that applies to a *MIFIDPRU investment firm* on an individual basis under *MIFIDPRU* 4 applies to a *UK parent entity* on a *consolidated basis*.

(2) Where *MIFIDPRU* 4 applies on a *consolidated basis*, the consolidated *own funds requirement* is the highest of the components of the *own funds requirement* specified in *MIFIDPRU* 4.3 as they apply on a *consolidated basis* – i.e. the highest of:

(a) the consolidated *fixed overheads requirement*;

(b) the consolidated *permanent minimum capital requirement*; or

(c) the consolidated *K-factor requirement* if the *UK parent entity* is treated as a *non-SNI MIFIDPRU investment firm* in accordance with *MIFIDPRU* 2.5.21R.

Consolidated fixed overheads requirement
2.5.25 R (1) This rule applies for the purposes of a UK parent entity’s calculation of the fixed overheads requirement on a consolidated basis.

(2) A UK parent entity must:

(a) use figures arising from its most recent:

   (i) audited consolidated annual financial statements after distribution of profits; or

   (ii) unaudited consolidated annual financial statements, where audited financial statements are not available;

(b) if the relevant figures under (a) are not available, calculate the consolidated fixed overheads as the sum of the following:

   (i) the individual fixed overheads of the UK parent entity;

   (ii) the full amount of the individual fixed overheads of each relevant financial undertaking that is fully consolidated within the consolidated situation; and

   (iii) the relevant proportion of the individual fixed overheads of each relevant financial undertaking that is subject to proportional consolidation on a consolidated basis.

(3) Where these amounts are not already included in the relevant figures under (2), a UK parent entity must include within its calculation of the consolidated fixed overheads any fixed expenses incurred by a third party, including a tied agent, on behalf of:

(a) the UK parent entity; or

(b) any relevant financial undertaking included in the consolidated situation.

(4) Where the figures under (2)(b) include expenses that are incurred between entities included in the consolidated situation, the UK parent entity may adjust the consolidated fixed overheads figure to avoid double-counting of these amounts.

2.5.26 G Where the FCA considers that there has been a material change in the activities of the investment firm group, the FCA may use its powers under section 55L or section 143K of the Act to require a UK parent
entity to use an appropriate adjusted figure as the consolidated fixed overheads requirement.

Consolidated permanent minimum capital requirement

2.5.27 R (1) This rule applies for the purposes of a UK parent entity’s calculation of the consolidated permanent minimum capital requirement when MIFIDPRU 4 applies on a consolidated basis.

(2) The consolidated permanent minimum capital requirement is the sum of the following:

(a) for entities that are fully consolidated within the consolidated situation, the full amount of each of the following:

(i) the individual permanent minimum capital requirement of each MIFIDPRU investment firm; and

(ii) where applicable, the base own funds requirement or initial capital requirement of any other relevant financial undertaking; and

(b) for entities that are subject to proportional consolidation under the consolidated situation, the relevant proportion of each of the amounts specified in (a).

(3) For the purposes of (2):

(a) references to a MIFIDPRU investment firm include a third country entity within the investment firm group that would satisfy the definition if it were established in the UK; and

(b) the individual permanent minimum capital requirement, base own funds requirement or initial capital requirement of any third country entity in (a) is the individual requirement that would apply if that entity were established in the UK.

Consolidated K-Factor Requirement

2.5.28 G (1) The general principle is that the consolidated K-factor requirement should be calculated on the basis of the consolidated situation of a UK parent entity, so that the entities included in the consolidated situation are treated as if they form a single MIFIDPRU investment firm. This is subject to any rules in this section which require a modified approach to the relevant calculation on a consolidated basis.
(2) As is the case when calculating the K-factor requirement on an individual basis, the K-factor metrics that are relevant to the consolidated situation depend on the investment services and/or activities (or equivalent activities in the case of a third country entity) carried on by relevant entities within the investment firm group. The consolidated K-factor requirement should be calculated in accordance with MIFIDPRU 4, but on the basis of the consolidated situation.

(3) MIFIDPRU 2.5.6G contains additional guidance on how the consolidated K-factor requirement applies in relation to tied agents that are included within the consolidated situation.

Consolidated K-AUM, K-COH and K-DTF requirements

2.5.29 R (1) This rule applies for the purposes of a UK parent entity’s calculation on a consolidated basis of the following:

(a) the K-AUM requirement;

(b) the K-COH requirement; and

(c) the K-DTF requirement.

(2) Subject to (4), the consolidated AUM, COH or DTF for the purposes of (1) is the sum of the following:

(a) the full amount of the relevant individual K-factor metrics of each MIFIDPRU investment firm that is fully consolidated within the consolidated situation; and

(b) the relevant proportion of the relevant individual K-factor metrics of each MIFIDPRU investment firm that is subject to proportional consolidation on a consolidated basis.

(3) For the purposes of (2):

(a) references to a MIFIDPRU investment firm include a third country entity within the investment firm group that would satisfy that definition if it were established in the UK; and

(b) the relevant individual K-factor metric of any third country entity in (a) is the individual K-factor metric that would be attributable to that entity if that entity were established in the UK.

(4) Where the consolidated AUM, COH or DTF under (2) includes amounts attributable to transactions or arrangements solely between two or more entities included within the consolidated
situation, those amounts are excluded when calculating the consolidated AUM, COH or DTF.

Consolidated K-CMH and K-ASA requirements

2.5.30 R The consolidated K-CMH requirement and consolidated K-ASA requirement for an investment firm group must be calculated in accordance with the following:

(1) the contribution of any individual MIFIDPRU investment firm to the consolidated situation must be determined by applying the rules for calculating CMH and ASA in MIFIDPRU 4.8 and 4.9 to that individual firm; and

(2) the contribution of any other entity (“X”) in the investment firm group to the consolidated situation must be determined by:

(a) identifying whether, in the course of, or in connection with, business which would be MiFID business if it were carried on by a MIFIDPRU investment firm in the UK, X holds:

   (i) any money that was received from its clients; or

   (ii) any assets belonging to its clients;

(b) subject to (3), applying the calculation rules in MIFIDPRU 4.8 or 4.9 to the amounts in (a) by treating:

   (i) the amounts identified in (a)(i) as CMH;

   (ii) the amounts identified in (a)(ii) as ASA;

(c) where an amount under (a) was originally received by X from a client in the form of money but has subsequently been placed in a collective investment undertaking to meet segregation requirements, treating the relevant amount as:

   (i) ASA if, on the insolvency of X, the relevant client would be considered to have a direct proprietary interest in the relevant units, shares or equivalent interests in the collective investment undertaking; or

   (ii) CMH in any other circumstance.

(3) when applying the calculation rules in MIFIDPRU 4.8, an arrangement operated by X in relation to client money is a segregated account only if (ignoring MIFIDPRU 4.8.9E, which does not apply for these purposes) it meets the requirements in MIFIDPRU 4.8.8R.
Where the *UK parent entity* of the *investment firm group* has been unable to ascertain whether:

1. the money or assets referred to in MIFIDPRU 2.5.30R(2)(a) were received or are held in the course of, or in connection with, business which would be *MiFID business* if it were carried on by a *MIFIDPRU investment firm* in the *UK*, it must treat the amounts as if they were received or are held in connection with such business;

2. any amount treated as *CMH* held by X under MIFIDPRU 2.5.30R(2) is held in an account which meets the requirements to be classified as a *segregated account*, it must treat the relevant amount as held in a *non-segregated account*; and

3. a client would be considered to have a direct proprietary interest in a *unit, share* or equivalent interest in a collective investment undertaking on the insolvency of X for the purposes of MIFIDPRU 2.5.30R(2)(c), it must treat the relevant amount as *CMH*.

Consolidated K-NPR and K-CMG requirements

A *UK parent entity* must apply the relevant provisions for the calculation of the *K-NPR requirement* in MIFIDPRU 4 to a position or exposure included in the *consolidated situation* unless a rule in this section:

1. permits the *UK parent entity* to include that position or exposure within the calculation of the consolidated *K-CMG requirement*; or

2. otherwise permits the position or exposure to be excluded from the calculation of the consolidated *K-NPR requirement*.

For the *K-NPR requirement* there is no coefficient in MIFIDPRU 4. The requirement is instead based upon the concept of positions and exposures.

This rule applies to a *UK parent entity* when calculating the *K-NPR requirement* on a *consolidated basis*.

The *UK parent entity* may only use positions in one *undertaking* to offset positions in another *undertaking* if it has obtained permission to do so in accordance with (3).

The permission in (2) will only be granted where:

(a) the *UK parent entity* has applied to the *FCA* in accordance with (4); and
(b) the application demonstrates to the satisfaction of the FCA that the conditions in article 325b of the UK CRR are met.

(4) An entity that applies for a permission under (3) must complete the form in MIFIDPRU 2 Annex 5R and submit it using the online notification and application system.

2.5.35 G The effect of MIFIDPRU 2.5.34R is that there is no automatic offsetting of positions held by different undertakings within an investment firm group for the purposes of applying the K-NPR requirement on a consolidated basis. If a UK parent entity has not obtained permission under MIFIDPRU 2.5.34R, it must include all positions held by the relevant undertakings within the investment firm group within its calculation of the consolidated K-NPR requirement without netting such positions.

2.5.36 G (1) MIFIDPRU 2.5.37R to 2.5.42R explain the circumstances in which a UK parent entity may calculate a K-CMG requirement when applying MIFIDPRU 4 on a consolidated basis. Where a UK parent entity is not permitted to calculate a K-CMG requirement in relation to a relevant position included within its consolidated situation, it must include that position within its calculation of the consolidated K-NPR requirement.

(2) MIFIDPRU 4.13 permits a MIFIDPRU investment firm on an individual basis to calculate a K-CMG requirement for a portfolio in trading book if it has obtained a K-CMG permission from the FCA. A MIFIDPRU investment firm must calculate a K-NPR requirement in relation to all other trading book positions, and positions other than trading book positions where those positions give rise to foreign exchange risk or commodity risk. These positions must be included within the calculation of the consolidated K-NPR requirement.

2.5.37 R When applying MIFIDPRU 4 on a consolidated basis, a UK parent entity may calculate a consolidated K-CMG requirement in relation to portfolios that form part of its consolidated situation in accordance with MIFIDPRU 2.5.38R to 2.5.42R.

2.5.38 R (1) This rule applies where a MIFIDPRU investment firm:

(a) is included within the consolidated situation of a UK parent entity; and

(b) has been granted a K-CMG permission in relation to a portfolio on an individual basis.

(2) Where this rule applies, the UK parent entity may include the portfolio in (1)(b) within its calculation of the consolidated K-
**CMG requirement** without requiring a further **K-CMG permission**.

2.5.39 **MIFIDPRU** 2.5.38R sets out the only circumstance in which a **UK parent entity** can include a **portfolio** of a **MIFIDPRU investment firm** within the calculation of the consolidated **K-CMG requirement**. Unlike for **designated investment firms** under **MIFIDPRU** 2.5.40R and **third country** entities under **MIFIDPRU** 2.5.41R, it is not possible to make a separate application to calculate a **K-CMG requirement** in relation to that **portfolio** only on a **consolidated basis**. This reflects the FCA’s view that the choice of whether to calculate a **K-NPR requirement** or a **K-CMG requirement** in relation to a specific **portfolio** must be applied consistently on both an individual and consolidated level.

2.5.40 **R**

(1) This **rule** applies where a **designated investment firm** (“A”) is included within the **consolidated situation** of a **UK parent entity**.

(2) A **UK parent entity** may include a **portfolio** of A within the calculation of the **UK parent entity’s consolidated K-CMG requirement** if:

(a) the **UK parent entity**, or a **MIFIDPRU investment firm** within the same **investment firm group**, has applied to the **FCA** in accordance with **MIFIDPRU** 2.5.42R; and

(b) the application demonstrates to the satisfaction of the **FCA** that A satisfies the requirements in **MIFIDPRU** 4.13 as modified by (3) to obtain a **K-CMG permission** in respect of the portfolio on an individual basis.

(3) For the purposes of (2), the following modifications apply to the **rules** relating to the calculation of the **K-CMG requirement** in **MIFIDPRU** 4.13:

(a) a reference to the “**MIFIDPRU investment firm**” or “**firm**” is a reference to A;

(b) the clearing member in **MIFIDPRU** 4.13.9R(2)(c) may be one of the following:

(i) A itself;

(ii) another **designated investment firm**;

(iii) a **MIFIDPRU investment firm**;

(iv) a **third country investment firm**;

(v) a **UK credit institution**; or

(vi) a **credit institution** established in a **third country**.
(c) the reference in MIFIDPRU 4.13.12R to MIFIDPRU 4.13.9R is a reference to MIFIDPRU 4.13.9R as modified by this rule; and

(d) the requirement in MIFIDPRU 4.13.13R(1)(b) does not apply, but A must ensure that its ongoing processes and systems for assessing the nature and level of risks to which it is, or might be, exposed take into account the understanding of relevant individuals within A of the margin model for the purposes of considering whether:

(i) the resulting consolidated K-CMG requirement for the portfolio(s) is sufficient to cover the relevant risks to which A is exposed; and

(ii) the K-CMG permission remains appropriate in relation to the portfolio(s) in respect of which it was granted.

2.5.41 R (1) This rule applies where a third country entity (“B”) is included within the consolidated situation of a UK parent entity.

(2) A UK parent entity may include a portfolio of B within the calculation of the UK parent entity’s consolidated K-CMG requirement if:

(a) the UK parent entity, or a MIFIDPRU investment firm within the same investment firm group, has applied to the FCA in accordance with MIFIDPRU 2.5.42R; and

(b) the application demonstrates to the satisfaction of the FCA that B satisfies the requirements in MIFIDPRU 4.13 as modified by (3) to obtain a K-CMG permission in respect of the portfolio on an individual basis.

(3) For the purposes of (2), the following modifications apply to the rules relating to the calculation of the K-CMG requirement in MIFIDPRU 4.13:

(a) a reference to the “MIFIDPRU investment firm” or “firm” is a reference to B;

(b) the clearing member for the purposes of MIFIDPRU 4.13.9R(2)(c) may be any of the following:

(i) an entity listed in MIFIDPRU 4.13.9R(2)(c);

(ii) another entity that the application in (2)(a) demonstrates is subject to appropriate prudential regulation and supervision in the jurisdiction in which it operates; or
(iii) B itself, provided that the application demonstrates that B satisfies the conditions in (ii);

c) a reference to the “clearing member” is a reference to the clearing member in (b);

d) the reference in MIFIDPRU 4.13.12R to:

(i) MIFIDPRU 4.13.9R is a reference to MIFIDPRU 4.13.9R as modified by this rule; and

(ii) both the clearing member and client of the clearing member being entities listed in MIFIDPRU 4.13.9R(2)(c) is to both of those entities being entities listed in (b)(i) or (b)(ii);

e) the obligation in MIFIDPRU 4.13.13R(1)(b) does not apply, but B must ensure that its ongoing processes and systems for assessing the nature and level of risks to which it is, or might be, exposed incorporate the understanding of relevant individuals within B of the margin model for the purposes of considering whether:

(i) the resulting consolidated K-CMG requirement for the portfolio(s) is sufficient to cover the relevant risks to which B is exposed; and

(ii) the K-CMG permission remains appropriate in relation to the portfolio(s) in respect of which it was granted.

2.5.42 R (1) A UK parent entity or a MIFIDPRU investment firm within the same investment firm group that wishes to apply for a K-CMG permission in relation to one or more portfolios included in the consolidated situation of its investment firm group must complete the application form in MIFIDPRU 2 Annex 6R or MIFIDPRU Annex 7R and submit it using the online notification and application system.

(2) A single application under (1) may be made in respect of multiple portfolios of multiple entities referenced in MIFIDPRU 2.5.40R or 2.5.41R, provided that the application demonstrates to the FCA how the relevant conditions in MIFIDPRU 4.13.9R (as modified by MIFIDPRU 2.5.40R(3) in relation to a portfolio of a designated investment firm or MIFIDPRU 2.5.41R(3) in relation to a portfolio of a third country entity) are satisfied in respect of each such portfolio.
(3) A UK parent entity or MIFIDPRU investment firm that submits an application under (1) must have the necessary authority to make the application on behalf of all entities within the investment firm group whose portfolios are the subject of that application.

Consolidated K-TCD requirement

2.5.43 G (1) For the K-TCD requirement there is no coefficient in MIFIDPRU 4. The requirement is instead based upon the concept of positions and exposures. The relevant provisions in MIFIDPRU 4 for calculating the K-TCD requirement should therefore also be applied to transactions included in the consolidated situation.

(2) When calculating the K-TCD requirement on a consolidated basis, transactions between counterparties included in the consolidated situation are disregarded. This applies irrespective of whether the exclusion in MIFIDPRU 4.14.6R applies to a transaction when a MIFIDPRU investment firm is calculating its K-TCD requirement on an individual basis.

2.5.44 R (1) When calculating its K-TCD requirement on a consolidated basis, a UK parent entity may only net offsetting transactions entered into between one or more entities included in the consolidated situation and a third party counterparty if the conditions in MIFIDPRU 4.14.28R, as modified by (2), are met.

(2) When applying MIFIDPRU 4.14.28R on the basis of the consolidated situation, the following modifications apply:

(a) any netting agreement or netting contract referenced in that rule must cover all entities included in the consolidated situation whose transactions with the same third party counterparty are being netted;

(b) any references in that rule to the rights and obligations of the “firm” refer to the rights and obligations of the entities included in the consolidated situation whose transactions with the same third party counterparty are being netted; and

(c) the legal opinion referenced in MIFIDPRU 4.14.28R(3)(c):

(i) may be obtained by the UK parent entity or any MIFIDPRU investment firm in the investment firm group; and
(ii) must address the relevant claims and obligations of all entities included in the consolidated situation whose transactions with the same third party counterparty are being netted.

Consolidated K-CON requirement

2.5.45 G (1) The K-CON requirement under MIFIDPRU 5 applies to a MIFIDPRU investment firm on an individual basis in relation to positions held in its trading book. Broadly, the K-CON requirement is calculated by reference to all relevant trading book exposures that exceed the concentration risk soft limit.

(2) MIFIDPRU 2.5.46R explains how the K-CON requirement applies on a consolidated basis.

2.5.46 R When a UK parent entity is calculating a K-CON requirement on the basis of its consolidated situation, the provisions in MIFIDPRU 5 apply, subject to the following:

(1) the exposure value with regard to an individual client or group of connected clients must be calculated on the basis of all relevant exposures included in the consolidated situation;

(2) to the extent that the calculation rules for the K-NPR requirement or K-TCD requirement are relevant to the calculation of an exposure value under MIFIDPRU 5.4 or the OFR under MIFIDPRU 5.7.3R(2), the UK parent entity must apply the methods for the calculation of the consolidated K-NPR requirement in MIFIDPRU 2.5.32R to 2.5.34R and consolidated K-TCD requirement in 2.5.43G to 2.5.44R; and

(3) the own funds to be used for the purposes of calculating the limits in MIFIDPRU 5.5 and MIFIDPRU 5.9 on a consolidated basis are the consolidated own funds of the investment firm group, as explained in the guidance in MIFIDPRU 2.5.23G.

Prudential consolidation in practice: liquidity

2.5.47 R When applying MIFIDPRU 6 on a consolidated basis, a UK parent entity must ensure that the total liquid assets held by the UK entities included within the consolidated situation are equal to or greater than the consolidated liquid assets requirement.

2.5.48 G (1) MIFIDPRU 2.5.11R requires a UK parent entity to comply with the liquidity requirements in MIFIDPRU 6 on the basis of its consolidated situation. In practice, this means that the UK parent entity must ensure that the investment firm group holds liquid assets equivalent to one third of the consolidated fixed overhead requirement, plus 1.6% of the total amount of any
guarantees provided to clients by entities included within the consolidated situation.

(2) Under MIFIDPRU 2.5.47R, the required amount of consolidated liquid assets must be held by the UK entities included within the consolidated situation. This means that while third country entities may contribute to the consolidated liquid assets requirement (through the consolidated fixed overheads requirement), any liquid assets held by a third country entity do not count towards the liquid assets held by the investment firm group for the purposes of that rule.

(3) UK parent entities are reminded that:

(a) the consolidated liquid assets requirement applies only where the UK parent entity is subject to consolidation obligations under MIFIDPRU 2.5.11R. It does not apply where the group capital test under MIFIDPRU 2.6 applies to an investment firm group instead (although MIFIDPRU 6 will continue to be relevant to MIFIDPRU investment firms within that investment firm group on an individual basis in such circumstances); and

(b) a UK parent entity that is subject to consolidation obligations under MIFIDPRU 2.5.11R is exempt from the consolidated liquidity requirement if the conditions in MIFIDPRU 2.5.19R are met.

Prudential consolidation in practice: disclosure by investment firms

2.5.49 G [This provision has been intentionally left blank.]

Prudential consolidation in practice: reporting by investment firms

2.5.50 G Under MIFIDPRU 2.5.7R, a UK parent entity must comply with the reporting obligations in MIFIDPRU 9 on a consolidated basis. In practice, this involves reporting the same categories of information that would be reported by a MIFIDPRU investment firm to the FCA on an individual basis, but using the figures that result from applying the relevant requirements on a consolidated basis in accordance with this section. This does not apply to data item MIF007 (ICARA assessment questionnaire), which does not need to be submitted on a consolidated basis.

Prudential consolidation in practice: governance requirements

2.5.51 G (1) Under MIFIDPRU 7.1.3R, a UK parent entity to which MIFIDPRU 2.5.7R applies must comply with the general governance requirements in MIFIDPRU 7.2 (Senior management and systems and controls) on a consolidated basis. In practice, this means that the UK parent entity must ensure that it has a proper organisational structure, effective processes
and adequate internal controls covering the business of the investment firm group.

(2) The requirements in MIFIDPRU 7.3 (Risk, remuneration and nomination committees) do not apply on a consolidated basis.

Prudential consolidation in practice: ICARA requirements

2.5.52 G As explained in MIFIDPRU 7.9.4G, an investment firm group is not required to operate an ICARA process on a consolidated basis. However, MIFIDPRU 7.9.5R permits an investment firm group to operate a single group ICARA process covering the business carried on by that investment firm group, provided that certain requirements are met.

2.6 The group capital test

2.6.1 R This section applies to an investment firm group that has been granted permission by the FCA to apply the group capital test under MIFIDPRU 2.4.17R.

Group capital test: requirements

2.6.2 R For the purposes of MIFIDPRU 2.6:

(1) ‘own funds instruments’ means own funds as defined in MIFIDPRU 3, without applying the deductions referred to in MIFIDPRU 3.3.6R(8), article 56(d), and article 66(d) of the UK CRR;

(2) the terms ‘investment firm’, ‘financial institution’, ‘ancillary services undertaking’, ‘tied agent’ and ‘relevant financial undertaking’ include undertakings established in third countries that would satisfy the definitions of those terms if they were established in the UK.

2.6.3 G The definition of ‘own funds instruments’ for the purpose of MIFIDPRU 2.6.2R ensures that significant investments in common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments of financial sector entities in the investment firm group do not need to be deducted by a parent undertaking when applying the group capital test. This is to avoid ‘double counting’ of those investments.

2.6.4 G MIFIDPRU 3.7 contains rules and guidance on the composition of capital for parent undertakings subject to the group capital test.

2.6.5 R Where the FCA has granted an application under MIFIDPRU 2.4.17R, a UK parent entity and any other GCT parent undertakings in the investment firm group must hold own funds instruments sufficient to cover the sum of the following:
(1) the sum of the full book value of their holdings, subordinated claims and instruments referred to in MIFIDPRU 3.3.6R(8), article 56(d), and article 66(d) of the UK CRR in relevant financial undertakings in the investment firm group; and

(2) the total amount of their contingent liabilities in favour of relevant financial undertakings in the investment firm group.

2.6.6 G (1) Each GCT parent undertaking in the investment firm group must satisfy the group capital test. The group capital test can therefore apply at each level within the group structure. This mitigates the risk of leverage or capital gearing being introduced at levels underneath the UK parent entity.

(2) The requirement in MIFIDPRU 2.6.5R only applies to GCT parent undertakings. However, MIFIDPRU 2.6.7R imposes obligations on GCT parent undertakings in relation to their subsidiaries that are:

(a) parent undertakings established in a third country; or

(b) parent undertakings incorporated in, or with their principal place of business in, the UK that are not GCT parent undertakings.

(3) This prevents leverage and capital gearing being introduced into the investment firm group through:

(a) intermediate parent undertakings established in a third country; or

(b) intermediate parent undertakings in the UK to which the group capital test does not directly apply.

2.6.7 R (1) This rule applies where:

(a) an investment firm group has been granted permission to apply the group capital test under MIFIDPRU 2.4.17R; and

(b) a parent undertaking in that investment firm group is a relevant financial undertaking and either:

(i) is established in a third country; or

(ii) is incorporated in, or has its principal place of business in, the UK and is not a GCT parent undertaking.

(2) Where this rule applies, the responsible UK parent must either:
(a) ensure that the \textit{undertaking} in (1)(b) holds own funds instruments sufficient to cover the sum of the amounts in \textit{MIFIDPRU} 2.6.5R(1) and (2) as they would apply to that \textit{undertaking}; or

(b) hold own funds instruments sufficient to cover the sum of the amounts in \textit{MIFIDPRU} 2.6.5R(1) and (2) that:

(i) apply to the \textit{responsible UK parent} itself; and

(ii) would apply to the \textit{undertaking} in (1)(b).

2.6.8 G (1) The effect of \textit{MIFIDPRU} 2.6.7R is shown through the example below of a hypothetical \textit{investment firm group} that contains the following \textit{undertakings}:

(a) a \textit{UK parent entity} (“A”);  
(b) an intermediate \textit{investment holding company} (“B”), that is incorporated in the \textit{UK} and is a direct \textit{subsidiary} of A;  
(c) an \textit{undertaking} established in a \textit{third country} (“C”) that would be an \textit{investment holding company} if it were established in the \textit{UK} and that is a direct \textit{subsidiary} of B;  
(d) an \textit{undertaking} established in a \textit{third country} (“D”) that would be a \textit{MIFIDPRU investment firm} if it were established in the \textit{UK} and that is a direct \textit{subsidiary} of C;  
(e) a \textit{MIFIDPRU investment firm} (“E”) that is a direct \textit{subsidiary} of D;  
(f) a \textit{tied agent} (“F”) that is established in the \textit{UK} and that is a direct \textit{subsidiary} of B;  
(g) an \textit{undertaking} established in a \textit{third country} (“G”) that would be a \textit{financial institution} if it were established in the \textit{UK} and that is a direct \textit{subsidiary} of C;  
(h) an intermediate holding company (“H”) that is incorporated in the \textit{UK} and is a direct \textit{subsidiary} of A; and  
(i) an \textit{authorised payment institution} (“I”) that is incorporated in the \textit{UK} and is a direct \textit{subsidiary} of H.

(2) The \textit{group capital test}:

(a) applies directly to A and B because they are both \textit{GCT parent undertakings};
(b) applies only indirectly to C and D, through the obligations imposed on the responsible UK parent, because C and D are parent undertakings established in a third country;

(c) applies only indirectly to H, through the obligations imposed on A in its capacity as the responsible UK parent, because H is not a GCT parent undertaking; and

(d) does not apply to E, F, G or I because they are not parent undertakings.

(3) In this example, B is a responsible UK parent because:

(a) B has two subsidiaries (a direct subsidiary, C, and an indirect subsidiary, D) that are both parent undertakings established in a third country and that would be relevant financial undertakings if they were established in the UK; and

(b) B does not have a subsidiary in the UK that is the parent undertaking of C or D. (Although F is a UK subsidiary of B, F is not a parent undertaking.) This means that there is no intermediate parent undertaking in the UK between B and either of C or D.

(4) A is not a responsible UK parent in relation to C and D. This is because A has a subsidiary, B, that is a parent undertaking of C and D and that is incorporated in the UK. B is therefore an intermediate parent undertaking in the UK between A on the one hand and C and D on the other.

(5) B is a responsible UK parent in relation to C and D. Note that B is the responsible UK parent of both C and D, even though D is only an indirect subsidiary of B. This is because there is no parent undertaking between C and D that is established in the UK and the definition of a subsidiary includes subsidiaries of subsidiaries.

(6) Under MIFIDPRU 2.6.7R(2), B therefore has the choice of whether to:

(a) ensure that both C and D comply with the requirements of the group capital test as it would apply to them if they were established in the UK; or

(b) hold own funds instruments that are sufficient to cover the sum of the requirements of the group capital test that apply to B and would apply to C and D if they were established in the UK.
(7) If B chooses the approach in (6)(a), B must:

(a) hold sufficient own funds instruments to cover the sum of B’s holdings in, and contingent liabilities in favour of, C and F;

(b) ensure that C holds sufficient own funds instruments to cover the sum of C’s holdings in, and contingent liabilities in favour of, D and G; and

(c) ensure that D holds sufficient own funds instruments to cover the sum of D’s holdings in, and contingent liabilities in favour of, E.

(8) If B chooses the approach in (6)(b), B must hold sufficient own funds instruments to cover the sum of:

(a) B’s holdings in, and contingent liabilities in favour of, C and F;

(b) C’s holdings in, and contingent liabilities in favour of, D and G; and

(c) D’s holdings in, and contingent liabilities in favour of, E.

(9) A is, however, a responsible UK parent in relation to H. This is because A is a GCT parent undertaking that is the parent undertaking of H. H is a relevant financial undertaking (being a holding company, and therefore a financial institution) and a parent undertaking. H is not a GCT parent undertaking because H is not an authorised person and does not have a MIFIDPRU investment firm as a subsidiary. There is also no intermediate GCT parent undertaking between A and H.

(10) In a similar way to B above, A therefore has a choice under MIFIDPRU 2.6.7R(2) of whether to:

(a) ensure that H complies with the requirements of the group capital test as if it applied directly to H; or

(b) hold own funds instruments that are sufficient to cover the sum of the requirements of the group capital test that apply to A and would apply to H.

(11) If A chooses the approach in (10)(a), A must:

(a) hold sufficient own funds instruments to cover the sum of A’s holdings in, and contingent liabilities in favour of, B and H; and
(b) ensure that H holds sufficient own funds instruments to cover the sum of H’s holdings in, and contingent liabilities in favour of, I.

(12) If A chooses the approach in (10)(b), A must hold sufficient own funds instruments to cover the sum of:

(a) A’s holdings in, and contingent liabilities in favour of, B and H; and

(b) H’s holdings in, and contingent liabilities in favour of, I.

2.6.9  R  A UK parent entity must have systems in place to monitor and control the sources of capital and funding of all relevant financial undertakings within the investment firm group.

Group capital test: reporting requirements

2.6.10  R  (1) Where the FCA has granted an application under MIFIDPRU 2.4.17R, a UK parent entity and any other GCT parent undertakings in the investment firm group must comply with the reporting requirements in (2).

(2) Each GCT parent undertaking in (1) must:

(a) report in accordance with MIFIDPRU 9 how that GCT parent undertaking meets the group capital test; and

(b) if the GCT parent undertaking is a responsible UK parent, also report in accordance with MIFIDPRU 9 how:

(i) the undertaking in MIFIDPRU 2.6.7R(1)(b) holds the required amount of own funds instruments referenced in MIFIDPRU 2.6.7R(2)(a); or

(ii) the GCT parent undertaking holds at least the amount of own funds instruments to cover the amount applicable to the undertaking in MIFIDPRU 2.6.7R(1)(b), as referenced in MIFIDPRU 2.6.7R(2)(b).

2.6.11  R  An investment firm group may designate one parent undertaking in the UK to submit reports to the FCA under MIFIDPRU 2.6.10R on behalf of the GCT parent undertakings in the investment firm group.

Inclusion of holding companies in supervision of compliance with the group capital test
2.7 Investment holding companies, mixed financial holding companies and mixed-activity holding companies

Qualifications of directors

2.7.1 G Under section 143R of the Act, a UK investment holding company, UK mixed financial holding company or UK mixed-activity holding company must take reasonable care to ensure that the members of its management body are of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties effectively.

Mixed-activity holding companies

2.7.2 G (1) Under section 165 of the Act, the FCA may require a parent undertaking of a MIFIDPRU investment firm to provide information that is relevant for the FCA’s supervision of the MIFIDPRU investment firm.

(2) Under section 167 of the Act, the FCA may appoint an investigator to verify the information received from a parent undertaking of a MIFIDPRU investment firm and any subsidiaries of that parent undertaking.

(3) The powers in (1) and (2) also apply to a mixed-activity holding company.

2.7.3 R (1) Where the parent undertaking of a MIFIDPRU investment firm is a UK mixed-activity holding company, the MIFIDPRU investment firm must have in place adequate risk management processes and internal control mechanisms.

(2) The processes and mechanisms in (1) must include sound reporting and accounting procedures to identify, measure, monitor and control transactions between the firm, the UK mixed-activity holding company and its subsidiaries.

Sanctions

2.7.4 G Under section 143W of the Act, the FCA may impose disciplinary measures on the following, where they are not authorised persons, to end or mitigate breaches of a requirement under the MIFIDPRU sourcebook or sections 143K, 143R or 143S(6) of the Act:

(1) a UK investment holding company;
(2) a UK mixed financial holding company;
(3) a UK mixed-activity holding company; or
(4) a member of the *management body* of the entities in (1) to (3).
Application under MIFIDPRU 2.3.3R for an exemption from application of specific requirements on an individual basis

2 Annex 1R

[Editor’s note: the form can be found at this address:
https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 2 Annex 1R Applications under MIFIDPRU 2.3.3R

Part A – Permission under MIFIDPRU 2.3.1R to be exempt from disclosure requirements in MIFIDPRU 8 (Disclosure by investment firms) for SNI investment firms in consolidated insurance groups

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
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</tbody>
</table>

1. Please confirm that the applicant firm is a small and non-interconnected investment firm (SNI) by providing the following information.

Please refer to MIFIDPRU 1.2.1R which sets out the basic conditions to be classified as an SNI and explains how the numerical metrics should be calculated.

- Average AUM
- Average COH (cash)
- Average COH (derivatives)
- On- and off-balance sheet total
- Annual gross revenue from MiFID services and activities

Please also confirm that the following statements are true about the applicant firm:

- It does not have permission to deal on own account
- It does not act as a clearing member or an indirect clearing firm
- It does not hold client money and/or safeguard client assets in the course of its MiFID business
- Its average DTF is zero

2. Please provide the FRN and name of the parent insurance/reinsurance undertaking.
3. Please confirm that the PRA has been notified about the firm’s application to be exempt from disclosure requirements in MiFIDPRU 8.

The FCA will consult the PRA before making a determination.

☐ Yes

Name of PRA contact for this application:

<table>
<thead>
<tr>
<th>PRA supervisor/contact name</th>
<th></th>
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<tbody>
<tr>
<td>Phone number</td>
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<td>Email address</td>
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</table>

4. Please attach a group structure chart clearly demonstrating that the applicant firm is a subsidiary of a parent insurance/reinsurance undertaking within a PRA consolidation group.

☐ Attached

5. With regards to the own funds held by the parent undertaking and the applicant firm:

a. Please explain how you are satisfied that own funds are distributed adequately between the two firms:

☐ Attached

b. Please attach a breakdown of the own funds held by each firm.

6. Please confirm that the following statements are true with respect to the arrangements between the parent undertaking and the applicant firm. Separately, in the text boxes provided please explain how these arrangements satisfy each of the below points and provide supporting evidence wherever possible.

a. There is no current or foreseen material practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the parent undertaking.

☐ Yes

☐ Supporting evidence/information attached
b. Either the parent undertaking will guarantee the commitments entered into by the firm, or the risks of the firm are of negligible interest.

☐ Yes

☐ Supporting evidence/information attached

c. The risk evaluation, measurement and control procedures of the parent undertaking include the firm.

☐ Yes

☐ Supporting evidence/information attached

d. The parent undertaking holds more than 50% of the voting rights attached to shares in the capital of the firm or has the right to appoint or remove a majority of the members of the firm’s management body.

☐ Yes

☐ Supporting evidence/information attached

**Part B – Individual exemption from liquidity requirements in MIFIDPRU 6 for MIFIDPRU investment firms in consolidated CRR or MIFIDPRU groups**

Details of Senior Manager responsible for this application:

*If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
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<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm that the UK parent entity of the investment firm group the applicant firm is part of has not applied for an exemption from consolidated liquidity requirements under MIFIDPRU 2.5.19R.
2. Please confirm which of the following applies to the applicant firm:
   a. The firm is part of a CRR prudential consolidation group and supervised on a consolidated basis; or
      □ Yes
   b. The firm is part of an IFPR prudential consolidation group, supervised on a consolidated basis, and the parent undertaking complies with MIFIDPRU 6 on a consolidated basis.
      □ Yes

3. Where 2.a. applies please confirm that the PRA has been notified about the firm’s application to be exempt from liquidity requirements on an individual basis.

   *The FCA will consult the PRA before making a determination.*

   □ Yes

Name of PRA contact for this application:

<table>
<thead>
<tr>
<th>PRA supervisor / contact name</th>
<th>Phone number</th>
<th>Email address</th>
</tr>
</thead>
</table>

4. Please attach a group structure chart which clearly identifies the prudential consolidation group that the applicant firm is part of. Please include FRNs of the group entities.

   □ Attached

5. Please explain how the parent undertaking:
   a. monitors and oversees the liquidity positions of the applicant firm as well as of all other institutions and MIFIDPRU investment firms within the group that will be exempt from liquidity requirements on an individual basis; and
   b. ensures a sufficient level of liquidity for all these entities.

6. The applicant firm is required to have entered into contracts that provide for the free movement of funds between the parent undertaking and the firm to enable each of them to meet their individual obligations and joint obligations as they become due.

   a. Please explain how the arrangements between the applicant firm and its parent undertaking satisfy this requirement:
b. To the best of your knowledge, do you foresee any material, practical or legal impediments to these contracts being fulfilled?

☐ Yes  Give details below
☐ No

c. Please attach copies of the relevant contracts.

☐ Attached
Application under MIFIDPRU 2.4.17R for permission to apply the group capital test

2 Annex

[Editor's note: the form can be found at this address:
2R https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 2 Annex 2R

Application under MIFIDPRU 2.4.17R for permission to apply the group capital test to an investment firm group instead of prudential consolidation

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm that the applicant firm has the necessary authority to make this application on behalf of all undertakings within the investment firm group which would be subject to the group capital test.
   □ Yes

2. Please attach a group structure chart which:
   a. identifies each undertaking in the investment firm group; and
   b. indicates any undertaking that is a relevant financial undertaking, and which type of financial undertaking it is.
   □ Attached

3. Please give details of the nature of business or activities carried out by each undertaking in the group.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name of undertaking</th>
<th>Business/activities that bring the undertaking within the scope of investment firm group consolidation</th>
<th>Other unregulated business/activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Please give details of the nature and degree of ownership or control connecting each undertaking to the investment firm group. This should include any that are connected undertakings.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name of undertaking</th>
<th>Nature of ownership or control</th>
<th>Degree of ownership or control (where applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Please explain why the group structure is simple enough to apply the group capital test. Please substantiate your response by providing supporting information.

☐ Supporting information attached

6. Please explain why you do not believe there to be any significant risks to clients or to the market stemming from the group that would mean that it should be supervised on a consolidated basis.

7. Please attach calculations to demonstrate how each parent undertaking satisfies the group capital test.

☐ Attached

8. Please demonstrate that the book value of each parent undertaking's investment in a subsidiary is a fair reflection of the consideration paid by the parent undertaking for that subsidiary. This includes subsidiaries that are not part of the investment firm group. Please substantiate your response by providing supporting evidence.

☐ Supporting evidence attached

9. Please provide details, including calculations, of the own funds and liquid assets requirements, which would apply if the group was subject to prudential consolidation in accordance with MIFIDPRU 2.5. Please indicate whether you are attaching this as a separate document.

☐ Attached
10. Please explain how the UK parent entity of the investment firm group complies with the systems requirement in MIFIDPRU 2.6.9R.


11. In the event the firm is not granted permission to apply the group capital test, please explain:
   a. how the investment firm group will comply with the consolidated requirements under MIFIDPRU 2.5; and
   b. how long the investment firm group would expect to take to achieve compliance with those consolidated requirements.


   c. how the UK parent entity would comply with the systems requirements in MIFIDPRU 2.5.8R.


12. Please provide names and, where applicable, FRNs of the parent undertakings which will be required to complete MIF006 for GCT reporting purposes in accordance with MIFIDPRU 2.6.10R. If a parent undertaking listed below will not be completing MIF006 on its own behalf, please indicate which other parent undertaking will complete MIF006 on its behalf.

<table>
<thead>
<tr>
<th>Name of parent undertaking</th>
<th>FRN of parent undertaking</th>
<th>Parent undertaking completing MIF006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Notification under MIFIDPRU 2.5.17R of intended use of proportional consolidation in respect of a relevant financial undertaking

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
</table>

1. Please provide the FRN and name of the UK parent entity:

<table>
<thead>
<tr>
<th>FRN</th>
<th>UK parent entity name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Please provide details of the relevant financial undertaking(s) which are connected undertakings by virtue of a participation in accordance with MIFIDPRU 2.4.15R.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name of relevant financial undertaking</th>
<th>Proportion included in prudential consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Please confirm that the UK parent entity (A) satisfies the following conditions in MIFIDPRU 2.5.17R(2) in order to be able to apply proportional consolidation in relation to each relevant financial undertaking listed above (B) and that if requested, you can readily provide information to demonstrate compliance.

   a. A’s liability is limited to the share of capital that it holds in B;

   b. The liability of the other shareholders or members of B (“participating undertakings”) is clearly established by means of a legally binding and enforceable contract between A and all participating undertakings which:
i. limits the liability of the parties to the percentage of each shareholding;

ii. clearly states that any potential losses arising from B will be borne by all shareholders or members proportionately to the share of capital held by each of them at such point in time;

iii. clarifies that any changes in the share of capital of the shareholders or members are subject to the explicit consent of all the shareholders or members; and

iv. specifies that should B be recapitalised, A shall inform the FCA in a timely manner about the progress of the recapitalisation process and that each shareholder or member shall be liable to contribute to the recapitalisation no more than an amount that is proportionate to its current share of capital held in A;

c. There are no other agreements or arrangements between any of the following that would override or undermine any of the conditions in b.:

i. some or all of the participating undertakings; or

ii. some or all of the participating undertakings and one or more third parties;

d. Any participating undertakings who do not form part of the same investment firm group as A either:

i. are subject to prudential supervision; or

ii. can reasonably be expected to have sufficient resources to fund any contribution for which they may be liable under b.iv.; and

e. The solvency of the participating undertakings is satisfactory and can be expected to remain so.

☐ Yes, we satisfy all above conditions and can readily provide information to demonstrate compliance.
Application under MIFIDPRU 2.5.19R for an exemption from liquidity requirements on a consolidated basis

2 Annex 4R

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 2 Annex 4R

Application for exemption from liquidity requirements on a consolidated basis under MIFIDPRU 2.5.19R

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

1. Please list all MIFIDPRU investment firms within the investment firm group and confirm whether they are subject to the rules in MIFIDPRU 6 on an individual basis.

<table>
<thead>
<tr>
<th>FRN</th>
<th>MIFIDPRU investment firm name</th>
<th>Subject to liquidity requirements on individual basis?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes/No</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes/No</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

2. Please explain, in detail, why an exemption from the consolidated application of the liquidity requirements in MIFIDPRU 6 is appropriate – taking into account the nature, scale and complexity of the investment firm group. Please substantiate your response by providing supporting information.

☐ Supporting information attached
Application under MIFIDPRU 2.5.34R(2) for permission to use offsetting positions when calculating K-NPR on a consolidated basis

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number</td>
<td>(if applicable)</td>
</tr>
</tbody>
</table>

1. Please list the group undertakings that are party to the offsetting arrangement this application relates to.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name of an undertaking</th>
<th>Location of undertaking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Please provide details of the offsetting arrangement and the positions subject to it.

3. Please explain the expected impact of the offsetting arrangement on the consolidated K-NPR requirement should the permission be granted.

4. Please explain how you meet the following conditions set out in article 325b of the UK CRR:
5. Where undertakings are located in third countries, please explain how you additionally meet the following conditions:

a. Such undertakings are authorised in a third country and are either a credit institution or a third country investment firm (as defined in article 4(1)(25) UK CRR)

b. On an individual basis, such undertakings comply with own funds requirements equivalent to those laid down in the UK CRR

c. No regulations exist in those third countries which might significantly affect the transfer of funds within the group
Application under MIFIDPRU 2.5.40R for permission to include a portfolio of a designated investment firm in consolidated K-CMG

MIFIDPRU 2 Annex 6R

Application under MIFIDPRU 2.5.40R for permission to include a portfolio of a designated investment firm in a consolidated K-CMG requirement

Details of Senior Manager responsible for this application:

*If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please specify the FRN and name of the designated investment firm.

<table>
<thead>
<tr>
<th>FRN</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td></td>
</tr>
</tbody>
</table>

2. Please specify the FRN and name of the consolidating UK parent entity.

<table>
<thead>
<tr>
<th>FRN</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td></td>
</tr>
</tbody>
</table>

3. Please confirm that the consolidating UK parent entity and the designated investment firm are not part of a group containing a credit institution.

☐ Yes

4. Please list the portfolios to which this application relates. Please allocate a different name to each portfolio, and then complete the remaining questions below separately in relation to each portfolio.

<table>
<thead>
<tr>
<th>#</th>
<th>Portfolio name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td></td>
</tr>
<tr>
<td>Portfolio 2</td>
<td></td>
</tr>
<tr>
<td>Portfolio 3</td>
<td></td>
</tr>
<tr>
<td>Portfolio ...</td>
<td></td>
</tr>
</tbody>
</table>
The questions that follow must be completed separately for each portfolio this application relates to.

5. Please state the name of the portfolio for which a K-CMG permission is requested.

6. Please list all types of positions within the portfolio.

7. Please list all models used to value the positions within the portfolio.

8. Does the portfolio cover all of the designated investment firm’s trading book positions?

   If the designated investment firm has positions outside of the trading book that give rise to foreign exchange or commodities risk, the FCA would generally expect K-NPR to be calculated in relation to these positions.

   ☐ Yes
   ☐ No  Give details below

9. Please confirm that the clearing and settlement of transactions in the relevant portfolio take place under the responsibility of a clearing member of an authorised or recognised central counterparty.

   ☐ Yes

10. Please confirm which of the following applies:

    a. The designated investment firm itself is the clearing member  Yes/No
    b. The designated investment firm is a direct client of the clearing member  Yes/No
    c. The designated investment firm is an indirect client of the clearing member  Yes/No

11. Where the designated investment firm is not itself the clearing member, please provide the following information:

    Name of clearing member
### Status of clearing member

Select one of the following:
- a MIFIDPRU investment firm
- other designated investment firm
- a third country investment firm
- a UK credit institution
- a third country credit institution

<table>
<thead>
<tr>
<th>FRN/LEI of clearing member</th>
</tr>
</thead>
</table>

Where the designated investment firm is an indirect client of the clearing member, please provide the following information:

<table>
<thead>
<tr>
<th>Name of intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of intermediary</td>
</tr>
</tbody>
</table>

Select one of the following:
- a MIFIDPRU investment firm
- other designated investment firm
- a third country investment firm
- a UK credit institution
- a third country credit institution

<table>
<thead>
<tr>
<th>FRN/LEI of intermediary</th>
</tr>
</thead>
</table>

Where the clearing member and/or the intermediary do not have an FRN or LEI, please explain why and provide alternative details.

---

12. One of the conditions of the K-CMG permission is that transactions in the relevant portfolio are either:

a. centrally cleared in an authorised or recognised central counterparty; or

b. settled on a delivery-versus-payment basis under the responsibility of the clearing member.

Please explain how this specific condition is satisfied.

---

13. In order to meet the conditions of the K-CMG permission, the designated investment firm is required to provide total margin calculated on the basis of a margin model that meets the criteria set out in MIFIDPRU 4.13.14R.

a. Please confirm whether the margin model is operated:

<table>
<thead>
<tr>
<th>By the authorised or recognised central counterparty</th>
</tr>
</thead>
<tbody>
<tr>
<td>applies to self-clearing firms</td>
</tr>
<tr>
<td>By the relevant clearing member</td>
</tr>
<tr>
<td>applies to firms other than self-clearing firms</td>
</tr>
</tbody>
</table>
b. Please provide further details of the margin model, including how it satisfies the specific criteria in MIFIDPRU 4.13.14R.


c. Please confirm whether the parameters of the margin model meet the EMIR standards.

☐ Yes
☐ No  
Give details below of the mathematical adjustments that have been applied to produce an alternative margin requirement (see MIFIDPRU 4.13.14R(2))


d. Please explain how this alternative requirement is at least equivalent to the margin requirement that would be produced by a margin model that meets the EMIR standards.


e. Please attach a copy of the agreement with the clearing member concerning the margin model and collateral used.

☐ Attached

14. Please explain the rationale for the decision to calculate a consolidated K-CMG requirement in relation to the portfolio to which this application relates. In your response, please demonstrate that you have taken adequate account of the nature of, and risk arising from, the designated investment firm’s trading activities, including whether:

a. the main activities of the designated investment firm are essentially trading activities that are subject to clearing and margining under the responsibility of a clearing member; and

b. other activities performed by the designated investment firm are material in comparison to those main activities.


15. Please confirm that the rationale for the decision has been clearly documented and approved by the relevant management body or risk management function.

☐ Yes

16. Please show how the consolidated capital requirement calculated using K-CMG compares with that calculated using K-NPR.
17. Please confirm who within the designated investment firm is accountable for the operation of the margin model used. Please provide details of the specific role or function where the knowledge about the margin model sits within the firm (e.g. Head of Risk Management, Head of Models, etc.), rather than an individual’s name.

18. In order to meet the conditions for the K-CMG permission, the designated investment firm must have in place ongoing processes and systems for assessing the nature and level of risks to which it is, or might be, exposed, which take into account the understanding of relevant individuals within the firm of the margin model to determine whether:

a. the resulting consolidated K-CMG requirement for the portfolio is sufficient to cover the relevant risks to which the designated investment firm is exposed; and

b. the K-CMG permission remains appropriate in relation to the portfolio for which it was granted.

Please confirm that the designated investment firm’s ongoing processes and systems satisfy these requirements.

☐ Yes

19. Please confirm your understanding that you must notify the FCA immediately if any of the conditions in MIFIDPRU 4.13.9R (as modified by MIFIDPRU 2.5.40R(3)) are no longer met by any of the portfolios to which this application relates.

☐ Yes
Application under MIFIDPRU 2.5.41R for permission to include portfolio of a third country entity in consolidated K-CMG

2 Annex 7R

Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]

MIFIDPRU 2 Annex 7R

Application under MIFIDPRU 2.5.41R for permission to include a portfolio of a third country entity in a consolidated K-CMG requirement

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please specify the FRN (where applicable) and name of the third country entity.

<table>
<thead>
<tr>
<th>FRN</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td></td>
</tr>
</tbody>
</table>

2. Please specify the FRN and name of the consolidating UK parent entity.

<table>
<thead>
<tr>
<th>FRN</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td></td>
</tr>
</tbody>
</table>

3. Please confirm that the consolidating UK parent entity and the third country entity are not part of a group containing a credit institution.

☐ Yes

4. Please list the portfolios to which this application relates. Please allocate a different name to each portfolio, and then complete the remaining questions below separately in relation to each portfolio.

<table>
<thead>
<tr>
<th>#</th>
<th>Portfolio name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td></td>
</tr>
<tr>
<td>Portfolio 2</td>
<td></td>
</tr>
<tr>
<td>Portfolio 3</td>
<td></td>
</tr>
<tr>
<td>Portfolio ...</td>
<td></td>
</tr>
</tbody>
</table>
The questions that follow must be completed separately for each portfolio this application relates to.

5. Please state the name of the portfolio for which a K-CMG permission is requested.


6. Please list all types of positions within the portfolio.


7. Please list all models used to value the positions within the portfolio.


8. Please confirm if the portfolio covers all of the third country entity’s trading book positions.

If the third country entity has positions outside of the trading book that give rise to foreign exchange or commodities risk, the FCA would generally expect K-NPR to be calculated in relation to these positions.

☐ Yes
☐ No ➔ Give details below


9. Please confirm that the clearing and settlement of transactions in the relevant portfolio take place under the responsibility of a clearing member of an authorised or recognised central counterparty?

☐ Yes

10. Please confirm which of the following applies:

<table>
<thead>
<tr>
<th>The third country entity itself is the clearing member</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>The third country entity is a direct client of the clearing member</td>
<td>Yes/No</td>
</tr>
<tr>
<td>The third country entity is an indirect client of the clearing member</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

11. Where the third country entity is not itself the clearing member, please provide the following information:

<p>| Name of clearing member | |
|-------------------------| |
| Status of clearing member | Select one of the following: |
|                          | ● a MIFIDPRU investment firm |
|                          | ● a designated investment firm |</p>
<table>
<thead>
<tr>
<th>FRN/LEI of clearing member</th>
</tr>
</thead>
<tbody>
<tr>
<td>● a third country investment firm</td>
</tr>
<tr>
<td>● a UK credit institution</td>
</tr>
<tr>
<td>● a third country credit institution</td>
</tr>
<tr>
<td>● another entity that is subject to appropriate prudential regulation and supervision in the jurisdiction in which it operates</td>
</tr>
</tbody>
</table>

Where the third country entity is an indirect client of the clearing member, please provide the following information:

<table>
<thead>
<tr>
<th>Name of intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of intermediary</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

| FRN/LEI of intermediary |

Where the clearing member and/or the intermediary do not have an FRN or LEI, please explain why and provide alternative details.

12. This question applies if, in response to question 9 above, the clearing member and/or the intermediary is not a third country investment firm or a third country credit institution, but is “another entity that is subject to appropriate prudential regulation and supervision in the jurisdiction in which it operates”.

Please explain how the clearing member and/or the intermediary is/are subject to appropriate prudential regulation and supervision in the relevant jurisdiction(s) by describing the relevant prudential regulation and supervision. Please substantiate your response by providing supporting information.

☐ Supporting information attached

13. One of the conditions of the K-CMG permission is that transactions in the relevant portfolio are either:

a. centrally cleared in an authorised or recognised central counterparty; or

b. settled on a delivery-versus-payment basis under the responsibility of the clearing member.
Please explain how this specific condition is satisfied.

14. In order to meet the conditions of the K-CMG permission, the third country entity is required to provide total margin calculated on the basis of a margin model that meets the criteria set out in MIFIDPRU 4.13.14R.

a. Please confirm whether the margin model is operated:

<table>
<thead>
<tr>
<th>By the authorised or recognised central counterparty</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>applies to self-clearing firms</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By the relevant clearing member</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>applies to firms other than self-clearing firms</td>
<td></td>
</tr>
</tbody>
</table>

b. Please provide further details of the margin model, including how it satisfies the specific criteria in MIFIDPRU 4.13.14R.


c. Please confirm whether the parameters of the margin model meet the EMIR standards.

☐ Yes
☐ No ▶ Give details below of the mathematical adjustments that have been applied to produce an alternative margin requirement (see MIFIDPRU 4.13.14R(2))


d. Please demonstrate that this alternative requirement is at least equivalent to the margin requirement that would be produced by a margin model that meets the EMIR standards.


e. Please attach a copy of the agreement with the clearing member concerning the margin model and collateral used.

☐ Attached

15. Please explain the rationale for the decision to calculate a consolidated K-CMG requirement in relation to the portfolio to which this application relates. In your response, please demonstrate that you have taken adequate account of the nature of, and risk arising from, the third country entity’s trading activities, including whether:
a. the main activities of the third country entity are essentially trading activities that are subject to clearing and margining under the responsibility of a clearing member; and

b. other activities performed by the third country entity are material in comparison to those main activities.

16. Please confirm that the rationale for the decision has been clearly documented and approved by the relevant management body or risk management function.

☐ Yes

17. Please provide an indication of how the consolidated capital requirement calculated using K-CMG compares with that calculated using K-NPR.

18. Please confirm who within the third country entity is accountable for the operation of the margin model used. Please provide details of the specific role or function where the knowledge about the margin model sits within the entity (e.g. Head of Risk Management, Head of Models, etc.), rather than an individual’s name.

19. Please confirm that the third country entity’s ongoing processes and systems for assessing the nature and level of risks to which it is, or might be, exposed take into account the understanding of relevant individuals identified in Question 17 of the margin model for the purposes of considering whether:

a. the resulting consolidated K-CMG requirement for the portfolio is sufficient to cover the relevant risks to which the third country entity is exposed; and

☐ Yes

b. the K-CMG permission remains appropriate in relation to the portfolio for which it was granted.

☐ Yes

20. Please confirm your understanding that you must notify the FCA immediately if the conditions in MIFIDPRU 4.13.9R, as modified by MIFIDPRU 2.5.41R(3), are no longer met by that portfolio.

☐ Yes
3 Own funds

3.1 Application and purpose

Application

3.1.1 R This chapter applies to:

(1) a MIFIDPRU investment firm; and

(2) a UK parent entity that is required by MIFIDPRU 2.5.7R to comply with MIFIDPRU 3 on the basis of its consolidated situation.

3.1.2 R This chapter also applies to a parent undertaking that is subject to the group capital test in accordance with MIFIDPRU 2.6.5R, but with the following modifications:

(1) the definitions in MIFIDPRU 2.6.2R apply when calculating the own funds instruments of the parent undertaking for the purposes of the group capital test; and

(2) MIFIDPRU 3.2.2R and MIFIDPRU 3.2.3R do not apply, but MIFIDPRU 3.7 applies instead.

3.1.3 R For the purposes of this chapter:

(1) any reference to the “UK CRR” is to the UK CRR in the form in which it stood on 1 January 2022, read together with any CRR rules (as defined in section 144A of the Act) made by the PRA that applied on that date;

(2) where a term is not italicised but is defined in the UK CRR, the definition in the UK CRR applies;

(3) where this chapter applies to a parent undertaking that is not a firm, reference to a “MIFIDPRU investment firm” or a “firm” includes a reference to that parent undertaking; and

(4) where this chapter applies on the basis of the consolidated situation of an entity under MIFIDPRU 3.1.1R(2), a reference in this chapter to a “firm” is a reference to the hypothetical single MIFIDPRU investment firm created under the consolidated situation.

Purpose

3.1.4 G This chapter contains requirements for the calculation of a MIFIDPRU investment firm’s own funds. These requirements are based on the provisions in Title I of Part Two of the UK CRR, but with the modifications set out in this chapter.
3.2 Composition of own funds and initial capital

3.2.1 R The own funds of a firm are the sum of its:

(1) common equity tier 1 capital;

(2) additional tier 1 capital; and

(3) tier 2 capital.

3.2.2 R A firm must, at all times, have own funds that satisfy all the following conditions:

(1) the firm’s common equity tier 1 capital must be equal to or greater than 56% of the firm’s own funds requirement under MIFIDPRU 4.3;

(2) the sum of the firm’s common equity tier 1 capital and additional tier 1 capital must be equal to or greater than 75% of the firm’s own funds requirement under MIFIDPRU 4.3; and

(3) the firm’s own funds must be equal to or greater than 100% of the firm’s own funds requirement under MIFIDPRU 4.3.

3.2.3 R A firm’s initial capital must be made up of own funds.

3.2.4 G For the purposes of this chapter, the categorisation and the valuation of assets and off-balance sheet items should be carried out in accordance with the applicable accounting framework, unless a rule directs otherwise.

3.3 Common equity tier 1 capital

3.3.1 R (1) A firm must determine its common equity tier 1 capital in accordance with Chapter 2 of Title I of Part Two of the UK CRR, as modified by the rules in this section.

(2) Any reference to the UK CRR in this section is to the UK CRR as applied by (1) and modified by the rules in this section.

Prior permission to include interim profits or year-end profits in common equity tier 1 capital

3.3.2 R To apply for permission to include interim or year-end profits in its common equity tier 1 capital before the firm has taken a formal decision confirming the final profit or loss for the year in accordance with article 26(2) of the UK CRR, a firm must complete the form in MIFIDPRU 3 Annex 1R and submit it to the FCA using the online notification and application system.

Prior permission and notification of issuances of common equity tier 1 capital
3.3.3 R (1) To apply for permission to classify an issuance of capital instruments as *common equity tier 1 capital* in accordance with article 26(3) of the *UK CRR*, a *firm* must complete the form in *MIFIDPRU 3 Annex 2R* and submit it to the *FCA* using the *online notification and application system*.

(2) To notify the *FCA* in accordance with article 26(3) subparagraph two of the *UK CRR* about subsequent issuances of capital instruments for which it has already received the permission in (1), a *firm* must complete the form in *MIFIDPRU 3 Annex 3R* and submit it to the *FCA* using the *online notification and application system*.

3.3.4 G (1) Under article 26(3) of the *UK CRR*, a *firm* must normally obtain the *FCA*’s permission before classifying an issuance of capital instruments as *common equity tier 1 capital*.

(2) However, where a *firm* has already obtained permission from the *FCA* for a previous issuance of instruments that have been classified as *common equity tier 1 capital*, the *firm* is not required to obtain the *FCA*’s permission for a subsequent issuance of the same form of instruments if:

(a) the provisions governing the subsequent issuance are substantially the same as the provisions governing the issuance for which the *firm* has already received permission; and

(b) the *firm* has notified the *FCA* of the subsequent issuance sufficiently far in advance of the classification of the relevant instruments as *common equity tier 1 capital*.

(3) The *FCA* generally expects to receive a notification of a subsequent issuance of an existing form of *common equity tier 1 capital* instruments under article 26(3) of the *UK CRR* at least 20 business days before the *firm* intends to classify that issuance as *common equity tier 1 capital*.

Deductions from common equity tier 1 capital

3.3.5 R For the purposes of *MIFIDPRU*:

(1) *MIFIDPRU 3.3.6R* replaces article 36 of the *UK CRR*; and

(2) any reference to article 36 of the *UK CRR* or any part of that article in the following is a reference to *MIFIDPRU 3.3.6R* (or the equivalent part of it):

(a) another provision of the *UK CRR* that is incorporated by reference into *MIFIDPRU*; or
(b) any technical standard that applies to a *MIFIDPRU investment firm* under a provision of the *UK CRR* to which (a) applies.

3.3.6 R  A *MIFIDPRU investment firm* must deduct the following from its common equity tier 1 items:

1. losses for the current financial year;
2. intangible assets;
3. deferred tax assets that rely on future profitability;
4. the value of any defined benefit pension fund assets on the balance sheet of the *firm* after deducting the amount of any associated deferred tax liability where that liability would be extinguished if the assets became impaired or were derecognised under the applicable accounting framework;
5. direct, indirect and synthetic holdings by the *firm* of its own *common equity tier 1 instruments*, including own *common equity tier 1 instruments* that the *firm* is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation;
6. direct, indirect and synthetic holdings of the *common equity tier 1 instruments of financial sector entities* where those entities have a reciprocal cross holding with the *firm* that the FCA considers has been designed to inflate artificially the own funds of the *firm*;
7. direct, indirect and synthetic holdings by the *firm of common equity tier 1 instruments of financial sector entities* where the *firm* does not have a significant investment in those entities;
8. direct, indirect and synthetic holdings by the *firm* of the *common equity tier 1 instruments of financial sector entities* where the *firm* has a significant investment in those entities;
9. the amount of items required to be deducted from additional tier 1 items under article 56 of the *UK CRR* that exceeds the additional tier 1 items of the *firm*; and
10. any tax charge relating to common equity tier 1 items foreseeable at the moment of its calculation, except where the *firm* suitably adjusts the amount of common equity tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses.
3.3.7 R (1) For the purposes of MIFIDPRU 3.3.6R and MIFIDPRU 3.3.15R, holdings in a fund are to be treated as holdings in a non-financial sector entity.

(2) The requirement in (1) does not affect the meaning of the terms “financial sector entity” or “non-financial sector entity” when used in any other context in the Handbook.

Deferred tax assets that rely on future profitability

3.3.8 R A firm must deduct deferred tax assets that rely on future profitability from its common equity tier 1 items under MIFIDPRU 3.3.6R(3) without applying:

(1) article 39 of the UK CRR (tax overpayments, tax loss carry backs and deferred tax assets that do not rely on future profitability); or

(2) article 48 of the UK CRR (threshold exemptions from deduction from common equity tier 1 items).

Defined benefit pension fund assets on the firm’s balance sheet

3.3.9 R A firm must deduct defined benefit pension fund assets on its balance sheet from its common equity tier 1 items under MIFIDPRU 3.3.6R(4) without applying article 41 of the UK CRR (deduction of defined benefit pension fund assets).

Holdings of common equity tier 1 instruments of financial sector entities

3.3.10 R (1) This rule applies to a firm’s holdings of capital instruments that are not held in its trading book.

(2) Subject to MIFIDPRU 3.3.14R, a firm must deduct its direct, indirect and synthetic holdings of common equity tier 1 instruments of financial sector entities under MIFIDPRU 3.3.6R(7) without applying article 46 of the UK CRR (deduction of holdings of common equity tier 1 instruments where an institution does not have a significant investment in a financial sector entity).

3.3.11 R The following provisions do not apply to common equity tier 1 instruments held in the trading book of a firm:

(1) MIFIDPRU 3.3.6R(7); and

(2) article 46 of the UK CRR.

3.3.12 R Subject to MIFIDPRU 3.3.14R, a firm must deduct its direct, indirect and synthetic holdings in the common equity tier 1 instruments of financial sector entities under MIFIDPRU 3.3.6R(8) without applying
article 48 of the *UK CRR* (threshold exemptions from deduction from common equity tier 1 items).

3.3.13 R Article 49 of the *UK CRR* (requirement for deduction where consolidation, supplementary supervision or institutional protection schemes are applied) does not apply for the purposes of this section.

Holdings of common equity tier 1 instruments issued by a financial sector entity within an investment firm group

3.3.14 R A firm is not required to deduct holdings of common equity tier 1 instruments issued by a financial sector entity from the firm's common equity tier 1 items in accordance with *MIFIDPRU* 3.3.6R if all of the following conditions are met:

1. the financial sector entity forms part of the same investment firm group as the firm;
2. there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the financial sector entity;
3. the investment firm group is subject to prudential consolidation under *MIFIDPRU* 2.5; and
4. the risk evaluation, measurement and control procedures of a parent undertaking included within the consolidated situation of the UK parent entity of the investment firm group include the financial sector entity.

Qualifying holdings outside the financial sector

3.3.15 R (1) A firm must deduct from its common equity tier 1 items any amounts in excess of the following limits:

   (a) a qualifying holding in a non-financial sector entity which exceeds 15% of the firm's own funds; and

   (b) the total of all the qualifying holdings of the firm in non-financial sector entities which exceeds 60% of the firm's own funds.

(2) When calculating any amounts in (1), the following must not be included:

   (a) shares in non-financial sector entities where any of the following conditions is met:

      (i) the shares are held temporarily during a financial assistance operation referred to in article 79 of the *UK CRR*;
(ii) the holding of the shares is an underwriting position held for five business days or fewer; or

(iii) the shares are held in the name of the firm on behalf of others; and

(b) shares which are not fixed financial assets under Directive 86/635/EEC UK law (as defined in article 4(1)(128B) of the UK CRR).

Common equity tier 1 instruments of partnerships

3.3.16 R A partner’s account in relation to a firm that is a partnership satisfies the conditions in article 28(1)(e) (perpetual) and article 28(1)(f) (reduction or repayment) of the UK CRR if:

(1) capital contributed by partners is paid into the account; and

(2) under the terms of the partnership agreement an amount representing capital may be withdrawn from the account by a partner (“A”) only if:

(a) A ceases to be a partner and an equal amount is transferred to another partner’s account by A’s former partners or any person replacing A as their partner;

(b) any reduction in the capital credited to A’s account is immediately offset by additional contributions of at least an equal aggregate amount to other partner accounts by one or more of A’s partners (including any person becoming a partner of A at the time that the additional contribution is made);

(c) the partnership is wound up or dissolved; or

(d) the firm ceases to be authorised or no longer has a Part 4A permission.

Common equity tier 1 instruments of limited liability partnerships

3.3.17 R A member’s account in relation to a firm that is a limited liability partnership will meet the conditions in article 28(1)(e) (perpetual) and article 28(1)(f) (reduction or repayment) of the UK CRR if:

(1) capital contributed by the members is paid into the account; and

(2) under the terms of the limited liability partnership agreement, an amount representing capital may be withdrawn from the account by a partner (“B”) only if:
(a) B ceases to be a member and an equal amount is transferred to another member account by B’s former fellow members or any person replacing B as a member;

(b) any reduction in the capital credited to B’s account is immediately offset by additional contributions of at least an equal aggregate amount to other member accounts by one or more of B’s fellow members (including any person becoming a fellow member of B at the time that the additional contribution is made);

(c) the limited liability partnership is wound up or dissolved; or

(d) the firm ceases to be authorised or no longer has a Part 4A permission.

3.4 Additional Tier 1 capital

3.4.1 R (1) A firm must determine its additional tier 1 capital in accordance with Chapter 3 of Title I of Part Two of the UK CRR, as modified by the rules in this section.

(2) Any reference to the UK CRR in this section is to the UK CRR as applied by (1) and modified by the rules in this section.

Trigger events and write-down or conversion

3.4.2 R The following provisions of the UK CRR do not apply in relation to the additional tier 1 capital of a MIFIDPRU investment firm:

(1) article 54(1)(a); and

(2) article 54(4)(a).

3.4.3 R (1) A firm must specify in the terms of an additional tier 1 instrument one or more trigger events for the purposes of article 52(1)(n) of the UK CRR.

(2) The trigger events specified under (1) must include a trigger event that occurs where the common equity tier 1 capital of the firm falls below a level specified by the firm that is no lower than 64% of the firm’s own funds requirement.

(3) Article 54 of the UK CRR applies as if references to the trigger event in article 54(1)(a) of the UK CRR are references to the trigger event in (1).

(4) The full principal amount of an additional tier 1 instrument must be written down or converted when a trigger event occurs.
3.4.4 G  *MIFIDPRU* 3.4.3R requires that the principal amount of an *additional tier 1 instrument* will convert into *common equity tier 1 capital* or will be written down if the *firm’s common equity tier capital* falls below a specified level. This level must be set at no lower than 64% of the *firm’s own funds requirement*. The *firm* may set the relevant trigger at a higher level (such as 70% of its *own funds requirement*) if it wishes. The *firm* may also specify additional trigger events alongside the required trigger event in *MIFIDPRU* 3.4.3R(1).

Holdings of additional tier 1 instruments of financial sector entities

3.4.5 R  (1) This rule applies to a *firm’s* holdings of capital instruments that are not held in its *trading book*.

(2) A *firm* must deduct its direct, indirect and synthetic holdings in *additional tier 1 instruments of financial sector entities* under article 56(c) of the *UK CRR* without applying article 60 of the *UK CRR* (deduction of holdings of additional tier 1 instruments where an institution does not have a significant investment in a financial sector entity).

(3) The requirement in article 56(c) of the *UK CRR* does not apply where *MIFIDPRU* 3.4.7R applies.

3.4.6 R The following provisions do not apply to *additional tier 1 instruments* held in the *trading book* of a *firm*:

(1) article 56(c) of the *UK CRR*; and

(2) article 60 of the *UK CRR*.

Holdings of additional tier 1 instruments issued by a financial sector entity within an investment firm group

3.4.7 R A *firm* is not required to deduct holdings of *additional tier 1 instruments* issued by a *financial sector entity* from the *firm’s* additional tier 1 items in accordance with article 56 of the *UK CRR* if all of the following conditions are met:

(1) the *financial sector entity* forms part of the same *investment firm group* as the *firm*;

(2) there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the *financial sector entity*;

(3) the risk evaluation, measurement and control procedures of the *parent undertaking* include the *financial sector entity*; and

(4) the *group capital test* under *MIFIDPRU* 2.5 does not apply to the *investment firm group*. 
3.5 Tier 2 capital

3.5.1 R (1) A firm must determine its tier 2 capital in accordance with Chapter 4 of Title I of Part Two of the UK CRR, as modified by the rules in this section.

(2) Any reference to the UK CRR in this section is to the UK CRR as applied by (1) and modified by the rules in this section.

Holdings of tier 2 instruments of financial sector entities

3.5.2 R (1) This rule applies to a firm’s holdings of capital instruments that are not held in its trading book.

(2) A firm must deduct its direct, indirect and synthetic holdings in the tier 2 instruments of financial sector entities under article 66(c) of the UK CRR without applying article 70 of the UK CRR (deduction of tier 2 instruments where an institution does not have a significant investment in the relevant entity).

(3) The requirement in article 66(c) of the UK CRR does not apply where MIFIDPRU 3.5.4R applies.

3.5.3 R The following provisions do not apply to tier 2 instruments held in the trading book of the firm:

(1) article 66(c) of the UK CRR; and

(2) article 70 of the UK CRR.

Holdings of tier 2 instruments issued by a financial sector entity within an investment firm group

3.5.4 R A firm is not required to deduct holdings of tier 2 instruments issued by a financial sector entity from the firm’s tier 2 items in accordance with article 66 of the UK CRR if all of the following conditions are met:

(1) the financial sector entity forms part of the same investment firm group as the firm;

(2) there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the financial sector entity;

(3) the risk evaluation, measurement and control procedures of the parent undertaking include the financial sector entity; and

(4) the group capital test under MIFIDPRU 2.6 does not apply to the investment firm group.

3.6 General requirements for own funds instruments
3.6.1 R (1) A firm must comply with Chapter 6 of Title I of Part Two of the UK CRR, as modified by the rules in this section.

(2) Any reference to the UK CRR in this section is to the UK CRR as applied by (1) and modified by the rules in this section.

Reduction of own funds instruments

3.6.2 R To apply for permission for the purposes of articles 77 and 78 of the UK CRR to do any of the following, a firm must complete the form in MIFIDPRU 3 Annex 4R and submit it to the FCA using the online notification and application system:

(1) reduce, redeem or repurchase any of its common equity tier 1 instruments;

(2) reduce, distribute or reclassify as another own funds item the share premium accounts related to any of its own funds instruments; or

(3) effect the call, redemption, repayment or repurchase of its additional tier 1 instruments or tier 2 instruments prior to the date of their contractual maturity;

3.6.3 R Permission under MIFIDPRU 3.6.2R is deemed to have been granted if the following conditions are met:

(1) either of the conditions in MIFIDPRU 3.6.4R apply;

(2) at least 20 business days before the day on which the reduction, repurchase, call or redemption is proposed to occur, the firm has notified the FCA of:

   (a) the proposed reduction, repurchase, call or redemption; and

   (b) the basis on which the firm has concluded that either condition in (1) is satisfied;

(3) the notification in (2) is made using the form in MIFIDPRU 3 Annex 5R and submitted using the online notification and application system; and

(4) the FCA has not notified the firm of any objection to the proposal before the day on which the reduction, repurchase, call or redemption is proposed to occur.

3.6.4 R The conditions referred to in MIFIDPRU 3.6.3R are that:

(1) before or at the same time as the reduction, repurchase, call or redemption, the firm replaces the relevant own funds instruments with own funds instruments of equal or higher
quality on terms that are sustainable for the income capacity of the firm; or

(2) the firm is redeeming additional tier 1 instruments or tier 2 instruments within five years of their date of issue and either:

(a) there is a change in the regulatory classification of the instruments that is likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, and both the following conditions are met:

(i) there are reasonable grounds to conclude that the change is sufficiently certain; and

(ii) the regulatory reclassification of the instruments was not reasonably foreseeable at the time of their issuance; or

(b) there is a change in the applicable tax treatment of those instruments which is material and was not reasonably foreseeable at the time of their issuance.

Notification of issuance of additional tier 1 and tier 2 instruments

3.6.5 R (1) A firm must notify the FCA at least 20 business days before the intended issuance date of the firm’s intention to issue:

(a) additional tier 1 instruments; or

(b) tier 2 instruments.

(2) The notification requirement in (1) does not apply if:

(a) the firm has previously notified the FCA of an issuance of the same class of additional tier 1 instruments or tier 2 instruments; and

(b) the terms of the new instruments are identical in all material respects to the terms of the instruments in the issuance previously notified to the FCA.

(3) The notification under (1) must:

(a) be submitted to the FCA through the online notification and application system using the form in MIFIDPRU 3 Annex 6R; and

(b) include the following:
(i) confirmation of whether the instruments are intended to be classified as additional tier 1 instruments or tier 2 instruments;

(ii) confirmation of whether the instruments are intended to be issued to external investors or only to other members of the firm’s group or connected parties;

(iii) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the firm or widely available in the market;

(iv) confirmation from a member of the firm’s senior management or governing body who has oversight of the intended issuance that the instrument meets the conditions in MIFIDPRU 3.4 or MIFIDPRU 3.5 (as applicable, and including any conditions in the UK CRR applied by those sections) to be classified as additional tier 1 instruments or tier 2 instruments; and

(v) a properly reasoned legal opinion from an appropriately qualified individual, confirming that the capital instruments meet the conditions in (iv).

3.6.6 G (1) MIFIDPRU investment firms that were classified as CRR firms immediately before 1 January 2022 should refer to MIFIDPRU TP 1 for transitional provisions relating to own funds permissions that were issued, and notifications that were made, before that date.

(2) MIFIDPRU investment firms that were in existence immediately before 1 January 2022, but were not classified as CRR firms, should refer to MIFIDPRU TP 7 for transitional provisions relating to own funds instruments issued before that date.

3.6.7 G Firms that are proposing to classify an issuance of capital instruments as common equity tier 1 capital should refer to the obligations and guidance in MIFIDPRU 3.3.3R and MIFIDPRU 3.3.4G. In particular, firms must obtain the FCA’s prior permission for the first issuance of a class of instruments that is intended to comprise common equity tier 1 capital.

3.6.8 R (1) A UK parent entity must apply the modifications in (2) when either of the following apply on a consolidated basis in accordance with MIFIDPRU 2.5.7R:
(a) **MIFIDPRU 3.3.2R** to **MIFIDPRU 3.3.4G**; and

(b) **MIFIDPRU 3.6.5R**.

(2) The *Handbook* provisions in (1)(a) and (b) apply as if a reference to:

(a) a “firm” is a reference to the UK parent entity;

(b) “capital instruments” is a reference to capital instruments issued by the UK parent entity;

(c) “additional tier 1 instruments” and “tier 2 instruments” is a reference to these instruments issued by the UK parent entity; and

(d) “common equity tier 1 capital” is a reference to that type of capital as calculated on a consolidated basis.

3.6.9 G Submitting a notification in accordance with **MIFIDPRU 3.6.5R** to 3.6.8R does not guarantee that the relevant instruments meet the required conditions in **MIFIDPRU 3.4** or **MIFIDPRU 3.5** to qualify as own funds. The firm or parent undertaking must ensure that an instrument continues to meet the conditions to be counted as own funds, including if its terms are varied on a later date.

3.7 Composition of capital for parent undertakings subject to the group capital test

3.7.1 R This section applies to a parent undertaking in accordance with **MIFIDPRU 3.1.2R**.

3.7.2 R A parent undertaking must, at all times, have own funds instruments that satisfy the following conditions:

(1) the parent undertaking’s common equity tier 1 capital must be at least equal to:

(a) the sum of the book value of the parent undertaking’s holdings of the common equity tier 1 capital of the relevant financial undertakings under **MIFIDPRU 2.6.5R**; plus

(b) the total amount of all the parent undertaking’s contingent liabilities in favour of the relevant financial undertakings under **MIFIDPRU 2.6.5R**;

(2) the sum of common equity tier 1 capital and additional tier 1 capital of the parent undertaking must be at least equal to the sum of:

(a) the amounts in (1)(a) and (1)(b); plus
(b) the sum of the book value of the parent undertaking’s holdings in the additional tier 1 capital of the relevant financial undertakings under MIFIDPRU 2.6.5R; and

(3) the sum of the parent undertaking’s own funds instruments must be at least equal to the total requirement under MIFIDPRU 2.6.5R.

3.7.3 G As explained in MIFIDPRU 2.6.6G, the group capital test effectively applies to each intermediate parent undertaking, as well as to the ultimate parent undertaking of the investment firm group.

3.7.4 R (1) Subject to (2), a parent undertaking must comply with:

(a) MIFIDPRU 3.3.2R to MIFIDPRU 3.3.4G when issuing own funds instruments which are intended to qualify as common equity tier 1 capital;

(b) MIFIDPRU 3.6.5R when issuing own funds instruments which are intended to qualify as additional tier 1 instruments or tier 2 instruments.

(2) Where the Handbook provisions in (1)(a) and (b) apply, they apply as if a reference to:

(a) a “firm” is a reference to the parent undertaking;

(b) “capital instruments” is a reference to capital instruments issued by the parent undertaking;

(c) “additional tier 1 instruments” and “tier 2 instruments” is a reference to these instruments issued by the parent undertaking; and

(d) “common equity tier 1 capital” is a reference to this type of capital as held by the parent undertaking.

3.7.5 R (1) This rule applies where a responsible UK parent applies the approach in MIFIDPRU 2.6.7R(2)(a) in relation to an undertaking established in a third country.

(2) Where this rule applies, a responsible UK parent must comply with MIFIDPRU 3.7.4R in relation to any issuance of own funds instruments by the undertaking established in a third country.
Application under MIFIDPRU 3.3.2R - permission to include interim or year-end profits as CET1

3 Annex 1R

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 3 Annex 1R

Application under MIFIDPRU 3.3.2R for permission to include interim or year-end profits as common equity tier 1 (CET1) capital before the firm has taken a formal decision confirming the final profit and loss for the year

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
</table>

1. Please confirm which of the following the applicant firm is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity
   
   b. MIFIDPRU investment firm that is a consolidating UK parent entity
   
   c. Consolidating UK parent entity (other than a MIFIDPRU investment firm)

If the application concerns more than one firm in the investment firm group, please submit separate applications for each firm.

For applications on consolidated basis, references to firm/institution should be interpreted as to a consolidated situation of the UK parent.

2. Please confirm whether the following apply and if so, provide supporting evidence:

   a. The profits have been verified by persons independent of your institution, who are responsible for auditing the accounts of that institution:

   Yes/No
b. Any foreseeable charge or dividend has been deducted from the amount of those profits and the basis of this calculation:

[Yes/No/Not applicable]

☐ Supporting evidence attached (e.g. an independent auditor’s letter confirming the above)

3. Please provide the following:

a. The start of your financial year:

[DD/MM/YYYY]

b. The period in which the interim/year-end profits were earned:

[ ]

c. Profits as verified by auditors:

£

d. Foreseeable charges/deductions (e.g. dividends):

£

e. Amount to be included as profit:

£

f. Firm’s total CET1 after the inclusion of any amounts to which this application relates (please complete for all that apply):

<table>
<thead>
<tr>
<th>MIFIDPRU investment firm (solo CET1)</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidating UK parent undertaking basis (consolidated CET1)</td>
<td>£</td>
</tr>
</tbody>
</table>

g. If you have calculated expected dividend pay-out by using a pay-out range instead of a fixed value, please confirm that you have used the upper end of that range:

[Yes/No]

h. If you have calculated expected dividend pay-out as a range, please confirm whether you wish to exclude any exceptional dividends paid during the period covered by that range:

[Yes/No]
If you have responded “Yes”, please attach further information, and note that this will require a separate conversation with the FCA:

☐  Further information attached

i.  Auditor’s details (name, address, contact details):

☐  Further information attached

4.  Please confirm that the inclusion of the interim or year-end profits to which this application relates complies with the applicable material in the UK CRR and in MIFIDPRU.

☐  Yes
Application under MIFIDPRU 3.3.3R(1) - permission to classify capital instruments as CET1

3 Annex 2R

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 3 Annex 2R

Application under MIFIDPRU 3.3.3R(1) for permission to classify an issuance of capital instruments as common equity tier 1 (CET1) capital

Details of Senior Manager responsible for this application:

*If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
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<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm which of the following the applicant firm is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking
   b. MIFIDPRU investment firm that is a consolidating UK parent entity
   c. MIFIDPRU investment firm that is a GCT parent undertaking
   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm)
   e. GCT parent undertaking (other than a MIFIDPRU investment firm)

*If the application concerns more than one firm in the investment firm group, please submit separate applications for each firm.*

*For applications on consolidated basis, references to firm/institution should be interpreted as to a consolidated situation of the UK parent.*

2. For the instrument you would like to classify as CET1 capital, please provide the following information:
a. Type of instrument (e.g. ordinary shares, partnership capital):


b. If there is more than one class of the instrument, please list the different instrument classes:


c. Total number of shares/units of instrument that have been issued or will be issued:


d. Nominal value per share/unit of instrument:

£

e. Share premium per share, if applicable:

£

f. Total amount of capital being raised:

£

g. Proposed date to be issued:


h. Total expected CET1 after the inclusion of the amounts to which this application relates (please complete for all that apply):

<table>
<thead>
<tr>
<th>MIFIDPRU investment firm (solo CET1)</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCT parent undertaking (expected value of own funds instruments as specified in MIFIDPRU 2.6.2R(1))</td>
<td>£</td>
</tr>
<tr>
<td>Consolidating UK parent undertaking basis (consolidated CET1)</td>
<td>£</td>
</tr>
</tbody>
</table>

3. For capital instruments to qualify as CET1 instruments, the following conditions must be met (see article 28 of the UK CRR). Please confirm whether these conditions are met:

a. The instruments are issued directly by your institution, with prior approval of the owners or, if permitted by national law, the management body of the institution:
b. The instruments are paid up and their purchase is not funded directly or indirectly by your institution (indirect funding is defined under article 8 of the onshored Regulatory Technical Standard (RTS) 241/2014 on own funds):

Yes/No

c. The instruments meet all of the following conditions as regards their classification:

i. they qualify as capital within the meaning of Art 28(1)(c)(i) of the UK CRR:

Yes/No

ii. they are classified as equity within the meaning of the applicable accounting framework:

Yes/No

iii. they are classified as equity capital for the purposes of determining balance sheet insolvency, where applicable under national insolvency law:

Yes/No

d. The instruments are clearly and separately disclosed on the balance sheet in the financial statements of your institution:

Yes/No

e. The instruments are perpetual:

Yes/No

f. The principal amount of the instruments may not be reduced or repaid except in the following cases:

i. the liquidation of your institution; or

ii. discretionary repurchases of the instruments or other discretionary means of reducing capital (e.g. call, redemption or repayment), where your institution has been granted prior permission of the competent authority under article 77 of the UK CRR:

Yes/No

h. The provisions governing the instruments do not indicate expressly or implicitly that the principal amount of the instruments would or might be reduced or repaid other than in the liquidation of your institution, and your
institution does not otherwise provide such an indication prior to or at issuance of the instruments:

Yes/No

i. The instruments meet the following conditions regarding distributions:

   i. there is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions:

   Yes/No

   ii. distributions to holders of the instruments may be paid only out of distributable items:

   Yes/No

   iii. the conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions:

   Yes/No

   iv. the level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance:

   Yes/No

   v. the conditions governing the instruments do not include any obligation for your institution to make distributions to their holders and your institution is not otherwise subject to such an obligation:

   Yes/No

   vi. non-payment of distributions does not constitute an event of default of your institution:

   Yes/No

   vii. the cancellation of distributions imposes no restrictions on your institution:

   Yes/No

j. Compared to all the capital instruments issued by your institution, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments:
k. The instruments rank below all other claims in the event of insolvency or liquidation of your institution:

Yes/No

l. The instruments entitle their owners to a claim on the residual assets of your institution, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of the instruments issued and is not fixed or subject to a cap:

Yes/No

m. The instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following (answer "yes" if the instruments are not secured in this way):

i. your institution or its subsidiaries:
   
   Yes/No

ii. the parent undertaking of your institution or its subsidiaries:
   
   Yes/No

iii. the parent financial holding company or its subsidiaries:
   
   Yes/No

iv. the mixed activity holding company or its subsidiaries:
   
   Yes/No

v. the mixed financial holding company and its subsidiaries:
   
   Yes/No

vi. any undertaking that has close links with the entities referred to in points i. to v.:
   
   Yes/No

n. The instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation (answer “yes” if the instruments are not subject to any arrangement in this way):

Yes/No

4. Partnership capital (this section should only be completed by partnerships).

Is the capital contributed in accordance with MIFIDPRU 3.3.15R or MIFIDPRU 3.2.16R?

Yes/No

Material on how UK CRR article 28(1)(e) and (f) may be complied with can be found in MIFIDPRU 3.3.15R and 3.3.16R.

5. Please confirm whether the capital issuance to which this application relates meets the criteria required by the UK CRR and the onshored Regulatory Technical Standard (RTS) 241/2014 on own funds:

Yes/No
Please note that the FCA may request a copy of the terms of the instrument, or further information.
MIFIDPRU 3 Annex 3R

Notification under MIFIDPRU 3.3.3R(2) of issuance of additional capital instruments that have already been approved as CET1 instruments

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
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<tbody>
<tr>
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<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
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</tbody>
</table>

1. Please confirm which of the following the notifying entity is:
   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking □
   b. MIFIDPRU investment firm that is a consolidating UK parent entity □
   c. MIFIDPRU investment firm that is a GCT parent undertaking □
   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) □
   e. GCT parent undertaking (other than a MIFIDPRU investment firm) □

2. Please provide the following details in respect of the proposed issuance:
   a. Type of instrument (e.g. ordinary shares, partnership capital):

   b. Name of instrument:
c. Date FCA permitted previous issuance to be treated as CET1:

DD/MM/YYYY

d. Amount of additional instruments to be issued:

£

e. Proposed date on which the instruments will be classified as CET1 (this should be at least 20 business days after this notification is sent to the FCA):

DD/MM/YYYY

3. Please confirm that the provisions governing the proposed issuance to which this notification relates are substantially the same as the provisions governing the issuance for which the firm has already received permission, and that you can provide supporting evidence if requested.

Yes
Application under MIFIDPRU 3.6.2R - permission to reduce own funds instruments when neither condition in MIFIDPRU 3.6.4R applies

3 Annex
4R

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 3 Annex 4R

Application under MIFIDPRU 3.6.2R for permission to reduce own funds instruments where neither condition in MIFIDPRU 3.6.4R applies

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

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1. Please confirm which of the following the applicant firm is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking
   b. MIFIDPRU investment firm that is a consolidating UK parent entity
   c. MIFIDPRU investment firm that is a GCT parent undertaking
   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm)
   e. GCT parent undertaking (other than a MIFIDPRU investment firm)

   If the application concerns more than one firm in the investment firm group, please submit separate applications for each firm.

   For applications on consolidated basis, references to firm should be interpreted as to a consolidated situation of the UK parent.

2. Please confirm to which of the following the application relates:
a. Permission to reduce, redeem or repurchase any of its CET1 instruments

b. Permission to reduce, distribute or reclassify as another own funds item the share premium accounts related to any of its own funds instruments

c. Permission to effect the call, redemption, repayment or repurchase of its additional tier 1 instruments or tier 2 instruments prior to the date of their contractual maturity

3. Please provide the date of the intended capital reduction:

   DD/MM/YYYY

4. Please confirm the amount of the intended reduction:

   £

5. Please explain, in detail, the rationale for the reduction of own funds.

6. Please explain, and provide supporting calculations to demonstrate, how the firm meets the conditions in Article 78 of the UK CRR, and in particular:

   a. will have sufficient capital resources to meet its capital resources requirement immediately after the capital reduction;

   b. will have sufficient financial resources to meet its own funds threshold requirement immediately after the capital reduction; and

   c. will be able to meet the requirements in (a) and (b) above at all times (including in stress scenarios), for a minimum of three years.

   □ Supporting calculations attached
Notification under MIFIDPRU 3.6.3R - intended reduction in own funds instruments where a condition in MIFIDPRU 3.6.4R applies

3 Annex

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 3 Annex 5R

Notification under MIFIDPRU 3.6.3R of the intended reduction in own funds instruments where a condition in MIFIDPRU 3.6.4R applies

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
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<tbody>
<tr>
<td>Job title / position</td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
</tr>
</tbody>
</table>

1. Please confirm which of the following the notifying entity is:

|   |  
|---|---
| a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking | □ |
| b. MIFIDPRU investment firm that is a consolidating UK parent entity | □ |
| c. MIFIDPRU investment firm that is a GCT parent undertaking | □ |
| d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) | □ |
| e. GCT parent undertaking (other than a MIFIDPRU investment firm) | □ |

If the notification concerns more than one firm in the consolidated group, please submit separate notifications for each firm.

2. Please confirm to which of the following the application relates:

|   |  
|---|---
| a. Permission to reduce, redeem or repurchase any of its CET1 instruments | □ |
b. Permission to reduce, distribute or reclassify as another own funds item the share premium accounts related to any of its own funds instruments; or

c. Permission to effect the call, redemption, repayment or repurchase of its additional tier 1 instruments or tier 2 instruments prior to the date of their contractual maturity.

3. Date of the intended capital reduction:

DD/MM/YYYY

The intended reduction must not take place until at least 20 business days after this notification is made.

4. The amount of the intended reduction:

£

5. A firm may only make use of this notification procedure if one of the conditions in MIFIDPRU 3.6.4R are met, otherwise it must apply for permission under MIFIDPRU 3.6.2R. Please explain the basis on which the firm has concluded that one of the conditions in MIFIDPRU 3.6.4R applies.
Notification under MIFIDPRU 3.6.5R of issuance of additional tier 1 or
tier 2 instruments

3 Annex 6R
[Editor’s note: The form can be found at this address:
https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 3 Annex 6R

Notification under MIFIDPRU 3.6.5R of the intended issuance of AT1 or T2
instruments

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR
firm, we would expect the individual responsible for it to hold a senior management function
(SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
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<tbody>
<tr>
<td>Job title / position</td>
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<td>Individual reference number (if applicable)</td>
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</tbody>
</table>

1. Please confirm which of the following the notifying entity is:
   a. MIFIDPRU investment firm that is not a consolidating UK
      parent entity or a GCT parent undertaking ☐
   b. MIFIDPRU investment firm that is a consolidating UK
      parent entity ☐
   c. MIFIDPRU investment firm that is a GCT parent
      undertaking ☐
   d. Consolidating UK parent entity (other than a MIFIDPRU
      investment firm) ☐
   e. GCT parent undertaking (other than a MIFIDPRU
      investment firm) ☐

2. Please confirm which of the following categories of instruments the notification
relates to:
   a. Additional tier 1 instruments ☐
   b. Tier 2 instruments ☐

3. Please provide the following details of the intended issuance:
   a. Type of instrument
b. Name of instrument

c. Amount of instruments to be issued £

d. Proposed issuance date (this must be at least 20 business days after this notification is sent to the FCA) DD/MM/YYYY

4. Please confirm whether the instruments are intended to be issued to external investors or only to other members of the firm’s group and connected parties:

   a. only to other members of the firm’s group and connected parties Yes/No

   b. to other members of the firm’s group and connected parties, as well as external investors Yes/No

   c. external parties only Yes/No

5. Please attach a copy of the term sheet and provide details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the firm or widely available in the market.

   ☐ Term sheet attached

6. Please confirm that the firm’s senior management or governing body who has oversight of the intended issuance are satisfied that the instrument meets the conditions in MIFIDPRU 3.4 or MIFIDPRU 3.5 (as applicable, and including any conditions in the UK CRR applied by those sections) to be classified as AT1 or T2 instruments.

   Yes/No

7. Please attach a legal opinion from an appropriately qualified individual, confirming that the capital instruments meet the conditions in MIFIDPRU 3.4 or MIFIDPRU 3.5 (as applicable, and including any conditions in the UK CRR applied by those sections).

   ☐ Legal opinion attached
4 Own funds requirements

4.1 Application

4.1.1 R This chapter applies to:

(1) a MIFIDPRU investment firm; and

(2) a UK parent entity that is required by MIFIDPRU 2.5.7R to comply with MIFIDPRU 4 on the basis of its consolidated situation.

4.1.2 R Where this chapter applies to a UK parent entity under MIFIDPRU 4.1.1R(2), it applies with the following modifications:

(1) MIFIDPRU 4.2.1R (Initial capital requirement) does not apply; and

(2) any reference to a “firm” or “MIFIDPRU investment firm” in this chapter is to the hypothetical single MIFIDPRU investment firm created under the consolidated situation.

4.1.3 G MIFIDPRU 2.5 contains additional guidance on how a UK parent entity should apply the requirements in this chapter on a consolidated basis.

4.2 Initial capital requirement

4.2.1 R (1) At the point at which a firm is first authorised as a MIFIDPRU investment firm, it must hold initial capital of not less than the amount in (2).

(2) The relevant amount is the permanent minimum capital requirement that would apply if the firm had been granted the permissions that it has requested in its application for authorisation.

4.2.2 G (1) The initial capital requirement in MIFIDPRU 4.2.1R applies only at the point at which the FCA first grants permission to a MIFIDPRU investment firm to carry on investment services and/or activities. After a firm has been authorised as a MIFIDPRU investment firm, the permanent minimum capital requirement applies on an ongoing basis instead.

(2) Where a MIFIDPRU investment firm applies to vary its permissions to add new investment services and/or activities that would result in an increase in its permanent minimum capital requirement, the FCA would generally expect to refuse
the application unless the firm demonstrates that it can comply with the new permanent minimum capital requirement.

(3) The FCA’s approach to the application of the initial capital requirement under MIFIDPRU is based on the existence of the permanent minimum capital requirement for MIFIDPRU investment firms. For the avoidance of doubt, this guidance does not affect the FCA’s approach to whether the initial capital requirement under another prudential sourcebook applies on an ongoing basis.

4.3 Own funds requirement

4.3.1 R A MIFIDPRU investment firm must at all times maintain own funds that are at least equal to its own funds requirement.

4.3.2 R The own funds requirement of a non-SNI MIFIDPRU investment firm is the highest of:

(1) its permanent minimum capital requirement under MIFIDPRU 4.4;

(2) its fixed overheads requirement under MIFIDPRU 4.5; or

(3) its K-factor requirement under MIFIDPRU 4.6.

4.3.3 R The own funds requirement of an SNI MIFIDPRU investment firm is the higher of:

(1) its permanent minimum capital requirement under MIFIDPRU 4.4; or

(2) its fixed overheads requirement under MIFIDPRU 4.5.

4.4 Permanent minimum capital requirement

4.4.1 R (1) Where a MIFIDPRU investment firm has permission to carry on any of the investment services and/or activities in (2), its permanent minimum capital requirement is £750,000.

(2) The relevant investment services and/or activities are:

(a) dealing on own account;

(b) underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; or

(c) operating an organised trading facility, if the firm is not subject to a limitation that prevents it from carrying on the activities otherwise permitted by MAR 5A.3.5R.

4.4.2 G (1) Under MAR 5A.3.5R (Proprietary trading), a firm that has permission to operate an organised trading facility may deal on
own account in the following ways without requiring separate permissions for dealing on own account:

(a) matched principal trading in the course of operating the OTF; or

(b) dealing on own account in relation to sovereign debt instruments for which there is no liquid market.

(2) A firm that is operating an organised trading facility and does not wish to carry on the activities in (1) may apply to the FCA under section 55H of the Act for a limitation that prohibits the firm from carrying on the activities on the basis of that permission.

(3) The effect of MIFIDPRU 4.4.1R(2)(c) is that if a firm is operating an organised trading facility and is not subject to the limitation described in (2), the firm’s permanent minimum capital requirement is £750,000.

4.4.3 R (1) Where a MIFIDPRU investment firm satisfies the conditions in (2), its permanent minimum capital requirement is £150,000.

(2) The relevant conditions are:

(a) the firm has permission for any of the following:

(i) operating a multilateral trading facility;

(ii) operating an organised trading facility, if the firm is subject to a limitation that prevents it from carrying on the activities otherwise permitted by MAR 5A.3.5R;

(iii) holding client money or client assets in the course of MiFID business; and

(b) the firm does not have permission for any of the following:

(i) dealing on own account;

(ii) underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;

(iii) operating an organised trading facility, if the firm is not subject to a limitation that prevents it from carrying on the activities otherwise permitted by MAR 5A.3.5R.
4.4.4 R (1) Where a MIFIDPRU investment firm satisfies the conditions in (2), its permanent minimum capital requirement is £75,000.

(2) The relevant conditions are:

(a) the only investment services and/or activities that the firm has permission to carry on are one or more of the following:

(i) reception and transmission of orders in relation to one or more financial instruments;

(ii) execution of orders on behalf of clients;

(iii) portfolio management;

(iv) investment advice; or

(v) placing of financial instruments without a firm commitment basis; and

(b) the firm is not permitted to hold client money or client assets in the course of MiFID business.

4.4.5 G The relevant permanent minimum capital requirement under this section applies to a collective portfolio management investment firm in parallel with its base own funds requirement under IPRU-INV 11. This means that a collective portfolio management investment firm must comply with both requirements, but they are not cumulative.

4.5 Fixed overheads requirement

4.5.1 R (1) The fixed overheads requirement of a MIFIDPRU investment firm is an amount equal to one quarter of the firm’s relevant expenditure during the preceding year.

(2) When calculating its fixed overheads requirement in (1), a firm must use the figures resulting from the accounting framework applied by the firm in accordance with MIFIDPRU 4.5.2R.

(3) This rule is subject to MIFIDPRU 4.5.7R and MIFIDPRU 4.5.9R.

4.5.2 R (1) For the purposes of the calculation in MIFIDPRU 4.5.1R, a firm must use the figures in its most recent:

(a) audited annual financial statements; or

(b) unaudited annual financial statements, where audited financial statements are not available.
(2) If a firm has used unaudited annual financial statements in accordance with (1)(b) and audited annual financial statements subsequently become available, the firm must update the calculation in MIFIDPRU 4.5.1R using the audited figures.

(3) Where the financial statements in (1) do not cover a 12-month period, the firm must:

(a) divide the amounts included in those statements by the number of months the financial statements cover; and

(b) multiply the result of the calculation in (a) by 12 to produce an equivalent annual amount.

4.5.3 R (1) For the purpose of MIFIDPRU 4.5.1R(1), a firm must calculate its relevant expenditure by:

(a) calculating the firm’s total expenditure before distribution of profits; and

(b) deducting any of the items in (2) from the total expenditure in (1)(a) to the extent that those items have been included in the expenditure.

(2) The items that a firm may deduct from its total expenditure are:

(a) any of the following, if they are fully discretionary:

(i) staff bonuses and other variable remuneration;

(ii) employees’, directors’, partners’ and limited liability partnership members’ shares in profits; and

(iii) other appropriations of profits;

(b) shared commission and fees payable that meet all of the following conditions:

(i) they are directly related to commission and fees receivable;

(ii) the commission and fees receivable are included within total revenue; and

(iii) the payment of the commission and fees payable is contingent on receipt of the commission and fees receivable;

(c) fees paid to tied agents;

(d) non-recurring expenses from non-ordinary activities;
(e) unless MIFIDPRU 4.5.4R applies, fees, brokerage and other charges paid to central counterparties, exchanges and other trading venues and intermediate brokers for the purposes of executing, registering and clearing transactions, provided that the fees, brokerage and charges are directly passed on and charged to customers;

(f) 80% of the value of any fees, brokerage and other charges, excluding any fees or charges to which MIFIDPRU 4.5.4R applies, paid to central counterparties, exchanges and other trading venues and intermediate brokers for the purposes of executing, registering and clearing transactions in relation to which:

(i) the firm is dealing on own account; and

(ii) the fees, brokerage or charges have not already been deducted under (e);

(g) interest paid to customers on client money, where there is no obligation of any kind to pay the interest;

(h) taxes where they fall due in relation to the annual profits of the firm;

(i) losses from trading on own account in financial instruments;

(j) payments related to contract-based profit and loss transfer agreements according to which the firm is obliged to transfer its annual profit to the parent undertaking following the preparation of the firm’s annual financial statements;

(k) payments into a fund for general banking risk in accordance with article 26(1)(f) of the UK CRR, as applied by MIFIDPRU 3.3.1R; and

(l) other expenses, to the extent that their value has already been reflected in a deduction from own funds under MIFIDPRU 3.3.6R.

4.5.4 R The deducted amounts in MIFIDPRU 4.5.3R(2)(e) and (f) must not include fees and other charges necessary to maintain membership of, or otherwise meet loss-sharing financial obligations to, central counterparties, exchanges and other trading venues.

Additional deduction for commodity and emission allowance dealers

4.5.5 R In addition to the deductions in MIFIDPRU 4.5.3R(2), a commodity and emission allowance dealer may deduct expenditure on raw
materials in connection with the underlying commodity of the commodity derivatives the firm trades.

Expenses incurred on behalf of the firm by third parties

4.5.6 R  (1) A firm must add any fixed expenses that have been incurred on its behalf by a third party, including a tied agent, to the firm’s total expenditure for the purposes of MIFIDPRU 4.5.3R in accordance with this rule.

(2) A firm is not required to add fixed expenses incurred on its behalf by a third party to the firm’s expenditure if the expenses are already included in the figures resulting from MIFIDPRU 4.5.2R.

(3) Where a breakdown of the third party’s expenses is available, the firm must add to the firm’s total expenditure the share of the third party’s expenses incurred on behalf of the firm.

(4) Where a breakdown of the third party’s expenses is not available, the firm must:

(a) add to the firm’s total expenditure the share of the third party’s expenses incurred on behalf of the firm as projected in the firm’s business plan; or

(b) if the firm does not have a business plan that projects the third party’s expenses, reasonably estimate the share of those expenses that are attributable to the firm’s business and add that estimated share of expenses to the firm’s total expenditure.

Material change to projected relevant expenditure during the year

4.5.7 R  (1) This rule applies where there:

(a) is an increase of 30% or more in the firm’s projected relevant expenditure for the current year; or

(b) would be an increase of £2 million or more in the firm’s fixed overheads requirement based on projected relevant expenditure for the current year.

(2) Where this rule applies, a firm must:

(a) immediately recalculate its fixed overheads requirement by applying the methodology in MIFIDPRU 4.5.3R to the projected relevant expenditure, taking into account the increase in (1);

(b) immediately substitute the revised fixed overheads requirement that results from the calculation in (a) for
the firm’s original fixed overheads requirement under MIFIDPRU 4.5.1R(1); and

(c) immediately recalculate its basic liquid assets requirement using the revised fixed overheads requirement in (b) and substitute the updated amount for its original basic liquid assets requirement.

4.5.8 G (1) Where there is a material increase in the firm’s projected relevant expenditure that triggers the obligation in MIFIDPRU 4.5.7R, a firm should also consider the potential impact on its ICARA process and the conclusions documented in its last ICARA document. In particular, the firm should consider any potential impact on:

(a) the liquid assets that the firm must hold to comply with MIFIDPRU 6, as the requirements in that chapter are calibrated by reference to the fixed overheads requirement;

(b) the level of own funds and liquid assets that the firm must hold to comply with its obligations under MIFIDPRU 7; and

(c) the calibration of the firm’s wind-down triggers.

(2) The review in (1) is particularly important if the firm’s own funds requirement was determined by the fixed overheads requirement immediately before the change occurred.

4.5.9 R (1) This rule applies where there:

(a) is a decrease of 30% or more in the firm’s projected relevant expenditure for the current year; or

(b) would be a decrease of £2 million or more in the firm’s fixed overheads requirement based on projected relevant expenditure for the current year.

(2) Where this rule applies, a firm may:

(a) recalculate its fixed overheads requirement by applying the methodology in MIFIDPRU 4.5.3R to the projected relevant expenditure, taking into account the decrease in (1); and

(b) if it has obtained prior permission from the FCA, substitute the revised fixed overheads requirement that results from the calculation in (a) for the firm’s original fixed overheads requirement under MIFIDPRU 4.5.1R.

(3) To obtain the permission in (2), a firm must:
(a) complete the application form in MIFIDPRU 4 Annex 11R and submit it to the FCA in accordance with the instructions on that form;

(b) demonstrate all of the following:

(i) that one of the conditions in (1)(a) or (b) is met and the projected reduction in the firm’s relevant expenditure is a reasonable projection;

(ii) that the firm has adequately considered the impact of the reduction on the firm’s ICARA process and the conclusions documented in the firm’s last ICARA document; and

(iii) that there is a reasonable basis to conclude that, following the reduction in the firm’s fixed overheads requirement, the firm will continue to hold sufficient own funds and liquid assets to comply with its obligations under MIFIDPRU 7.

4.5.10 G (1) Under MIFIDPRU 4.5.1R, a MIFIDPRU investment firm is required to calculate its fixed overheads requirement based on its relevant expenditure as set out in its annual financial statements for the previous year.

(2) Under MIFIDPRU 4.5.7R, if there is a material increase in the firm’s projected relevant expenditure for the current year, the firm must recalculate its fixed overheads requirement on the basis of the projected increased relevant expenditure, taking into account the impact of that change.

(3) However, under MIFIDPRU 4.5.9R, if there is a material change that results in a decrease in the firm’s projected relevant expenditure for the current year, the firm must obtain permission from the FCA before substituting a reduced fixed overheads requirement calculated on the basis of the projected decrease.

(4) In many cases, a material change of the type specified in MIFIDPRU 4.5.7R(1) or MIFIDPRU 4.5.9R(1) would result from planned changes to the firm’s business. Examples of these changes may include:

(a) starting or ceasing a major business line;

(b) acquiring or disposing of a major business; or

(c) undertaking a significant investment, upgrade or restructuring programme.
A firm that is planning to implement a material change to its business should calculate the anticipated impact of that change on its fixed overheads requirement (and its broader own funds requirement) before executing the relevant change. This should include considering the potential impact on its ICARA process and its obligations under MIFIDPRU 7.

Firms that have been providing investment services and/or activities for less than one year

4.5.11 R (1) This rule applies where a firm has been in business for less than one year.

(2) For the purposes of the calculation in MIFIDPRU 4.5.1R, a firm must use the relevant expenditure included in its projections for the first 12 months’ trading, as submitted in its application for authorisation.

4.6 Overall K-factor requirement

4.6.1 R The K-factor requirement of a MIFIDPRU investment firm is the sum of each of the following that apply to the firm:

(1) K-AUM requirement;
(2) K-CMH requirement;
(3) K-ASA requirement;
(4) K-COH requirement;
(5) K-NPR requirement;
(6) K-CMG requirement;
(7) K-TCD requirement;
(8) K-DTF requirement; and
(9) K-CON requirement.

4.6.2 G (1) The rules and guidance in MIFIDPRU 4.7 to 4.16 explain how a MIFIDPRU investment firm should calculate each component of its overall K-factor requirement.

(2) The manner in which firms carry on activities that are potentially relevant to one or more K-factor metrics may vary considerably. It is not practical for the FCA to give an exhaustive set of rules and guidance covering every conceivable business arrangement that firms may operate when carrying on such activities.
(3) If a firm is unsure whether a particular arrangement is within scope of one or more components of the K-factor requirement, the FCA expects the firm to apply a purposive approach to the interpretation of the requirement, as required by GEN 2.2.1R. Among other factors, the FCA would therefore expect the firm to consider:

(a) whether the arrangement is sufficiently analogous to another arrangement that is clearly covered by any rules or associated guidance;

(b) the risks that the relevant component of the K-factor requirement is designed to address and whether the same or similar risks arise in relation to the arrangement in question; and

(c) where the component of the K-factor requirement is calculated by reference to a specific investment service and/or activity, the approach that the firm has adopted to applying other rules or guidance elsewhere in the Handbook to the arrangement, where those rules or guidance refer to the same investment service and/or activity.

(4) The FCA expects that if asked, a firm will be able to justify the approach that the firm has taken to applying the K-factor requirement to a particular activity.

(5) MIFIDPRU investment firms are reminded that even if an activity does not contribute towards the K-factor requirement, they should still consider, in accordance with the requirements in MIFIDPRU 7, whether that activity may give rise to potential material risks of harm or may be relevant to the firm’s wind-down analysis.

4.7 K-AUM requirement

4.7.1 R The K-AUM requirement of a MIFIDPRU investment firm is equal to 0.02% of the firm’s average AUM.

4.7.2 R When measuring its AUM, a MIFIDPRU investment firm must include any amounts that relate to the MiFID business of the firm that is carried on by any tied agents acting on its behalf.

4.7.3 G The definition of AUM does not include any amounts arising from the firm’s provision of the ancillary service in paragraph 3 of Part 3A of Schedule 2 to the Regulated Activities Order (i.e. providing advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings).
4.7.4 R A firm must calculate its K-AUM requirement on the first business day of each month.

4.7.5 R (1) A firm must calculate the amount of its average AUM by:

(a) taking the total AUM as measured on the last business day of each of the previous 15 months;

(b) excluding the 3 most recent monthly values; and

(c) calculating the arithmetic mean of the remaining 12 monthly values.

(2) When measuring the value of its AUM on the last business day of each month, a firm must convert any amounts in foreign currencies on that date into the firm’s functional currency.

(3) For the purposes of the currency conversion in (2), a firm must:

(a) determine the conversion rate by reference to an appropriate market rate; and

(b) record the rate used.

4.7.6 G (1) The effect of MIFIDPRU 4.7.5R(2) is that when measuring the value of AUM at the end of each month, a firm must apply the relevant conversion rate on that date to the AUM attributable to that month. The AUM for each relevant preceding month should continue to be measured by reference to the conversion rate that was applicable at the end of that particular preceding month.

(2) For purposes of MIFIDPRU 4.7.5R(3), where a firm is carrying out a conversion that involves sterling, the FCA considers that an example of an appropriate market rate is the relevant daily spot exchange rate against sterling published by the Bank of England.

4.7.7 R (1) When measuring the amount of its AUM, a firm must:

(a) where available, use the market value of the relevant assets;

(b) where a market value is not available for an asset, use an alternative measure of fair value, which may include an estimated value calculated on a best efforts basis;

(c) exclude any amounts that are included in the firm’s calculation of its CMH.
(2) When measuring the amount of its AUM, a firm may offset any negative values or liabilities attributable to positions within the relevant portfolios, so that AUM is equal to the net total value of the relevant assets.

4.7.8 R Where the firm has delegated the management of assets to another entity, the firm must include the value of those assets in its measurement of AUM.

4.7.9 R (1) Subject to (2), where a financial entity has formally delegated the management of assets to the firm, the firm may exclude the value of those assets from its measurement of AUM.

(2) The exclusion in (1) does not apply if the financial entity has excluded the relevant assets from the financial entity’s calculation of its own capital requirements because the financial entity is also acting as a delegated manager.

(3) For the purposes of (1), formal delegation requires a legally binding agreement between the financial entity and the firm that sets out the rights and obligations of each party in relation to the delegation of the relevant portfolio management activities.

4.7.10 G (1) MIFIDPRU 4.7.8R and 4.7.9R apply where one entity delegates management of assets to another entity. For these purposes, delegation involves a delegating entity (“A”) assuming a duty to the relevant client to manage the assets, and A then delegating the performance of that duty (in whole or in part) to another entity (“B”).

(2) The following are not delegation for the purposes of MIFIDPRU 4.7.8R or 4.7.9R:

(a) where A only arranges for B to provide a service directly to a client, so that B owes a duty directly to the client to manage the assets and A does not; or

(b) where A advises a client to use B’s management services for the client’s assets, but A does not assume any responsibility to the client for managing the assets.

(3) MIFIDPRU 4.7.8R states that a MIFIDPRU investment firm cannot reduce its AUM by delegating management of assets to another entity. This is because the firm will normally continue to owe a duty directly to the client, even if performance of that duty has been delegated (wholly or partly) to another entity.

(4) However, MIFIDPRU 4.7.9R(1) permits a firm to which the management of assets has been formally delegated to exclude the value of the assets when measuring its AUM if the
delegating entity is a financial entity. However, if the delegation does not meet the requirements to be a formal delegation, the firm may not exclude the relevant assets from its measurement of AUM. The definition of a financial entity covers:

(a) entities that are subject to an AUM-based capital requirement that is similar to the K-AUM requirement;

(b) an insurance undertaking that forms part of the same financial conglomerate as the firm if the FCA is the coordinator for that financial conglomerate; and

(c) an undertaking that is part of the same investment firm group as the firm, provided that the investment firm group is subject to prudential consolidation under MIFIDPRU 2.5 and both entities are included within the resulting consolidated situation of the UK parent entity of that investment firm group.

(5) MIFIDPRU 4.7.9R(1) is a limited exclusion that applies where assets under management have been delegated to the firm by a financial entity. This reflects the fact that the financial entity will either have a minimum AUM-based capital requirement or the FCA will have additional supervisory powers to take into account the position of the financial entity because it forms part of the same financial conglomerate or prudential consolidation group as the firm. However, even where a financial entity is included within the same financial conglomerate or investment firm group to which MIFIDPRU 2.5 applies, MIFIDPRU 4.7.9R(1) may be disapplied by MIFIDPRU 4.7.9R(2) for sub-delegation arrangements. This is because extended chains of delegation may involve additional operational risks.

(6) MIFIDPRU 4.7.9R(2) applies if a firm is managing a portfolio under sub-delegation arrangements. Its effect is illustrated by the following example: Firm A (a third country entity that is a financial entity) formally delegates the management of a portfolio of assets to Firm B (a MIFIDPRU investment firm). Firm B formally sub-delegates the management of part of the portfolio to Firm C (another MIFIDPRU investment firm). Firm B may apply the exclusion in MIFIDPRU 4.7.9R(1), on the basis that Firm A is a financial entity. However, if Firm B applies the MIFIDPRU 4.7.9R(1) exclusion, Firm C cannot also exclude the value of the sub-delegated assets from Firm C’s measurement of AUM. This is because MIFIDPRU 4.7.9R(2) disapplies the MIFIDPRU 4.7.9R(1) exclusion if the delegating entity has already applied a similar exclusion in relation to the same portfolio.
(7) **MIFIDPRU 4.7.9R(2)** also applies if the delegating entity is a financial entity in a third country and is applying an equivalent exclusion. For example, Firm D (an entity in a third country) delegates the management of a portfolio to Firm E (a financial entity in a third country). Firm E sub-delegates the management of part of that portfolio to Firm F (a MIFIDPRU investment firm). The third country rules to which Firm E is subject permit Firm E to exclude the value of the assets delegated by Firm D from Firm E’s AUM-based capital requirement. If Firm E is relying on that exclusion, Firm F cannot rely on the exclusion in **MIFIDPRU 4.7.9R(1)**.

4.7.11 **G** Where a financial entity (“A”) provides investment advice of an ongoing nature to a MIFIDPRU investment firm (“B”) and B undertakes discretionary portfolio management, the arrangement does not fall within **MIFIDPRU 4.7.9R**. This is because the arrangement is not a formal delegation of the management of assets by A to B, but involves 2 distinct activities: ongoing investment advice provided by A and discretionary portfolio management undertaken by B. In this situation, if A is a MIFIDPRU investment firm, it must include any assets in relation to which it is providing the advice in its measurement of AUM. Where B undertakes discretionary portfolio management in relation to the same assets, B must also include those assets in its own measurement of AUM.

4.7.12 **R**

(1) This rule applies where a firm has been managing assets for its clients under discretionary portfolio management or non-discretionary arrangements constituting investment advice of an ongoing nature for less than 15 months.

(2) For the purposes of calculating average AUM under **MIFIDPRU 4.7.5R**, a firm must use the modified calculation in **MIFIDPRU TP 4.11R(1)** with the following adjustments:

(a) in **MIFIDPRU TP 4.11R(1)(b)**, \( n \) is the relevant number of months for which the firm has been managing assets for its clients under discretionary portfolio management or non-discretionary arrangements constituting investment advice of an ongoing nature (with the month during which the firm begins that activity counted as month zero); and

(b) during month zero of the calculation, the firm must:

(i) use a best efforts estimate of expected AUM for that month based on the firm’s projections when beginning the new activity; and

(ii) use the estimate in (i) as its average AUM;
(c) during month 1 of the calculation and each month thereafter, the firm must apply the approach in (a) using observed historical data from the preceding months; and

(d) the modified calculation ceases to apply on the date that falls 15 months after the date on which the firm began managing assets under (1).

4.7.13 G MIFIDPRU 4.10.26G to MIFIDPRU 4.10.32G and MIFIDPRU 4 Annex 12G contain additional guidance on the interaction between the measurement of a firm’s AUM and the measurement of a firm’s COH.

Investment advice of an ongoing nature

4.7.14 G (1) The definition of investment advice of an ongoing nature includes:

(a) the recurring provision of investment advice; or

(b) investment advice given in the context of the continuous or periodic assessment and monitoring, or review of a client portfolio of financial instruments, including of the investments undertaken by the client on the basis of a contractual arrangement.

(2) In either case, the firm must provide investment advice as part of the relevant arrangement. This means that the firm must provide a personal recommendation to the client. Therefore, where a firm merely provides generic advice to a client that does not result in a personal recommendation, the firm does not need to include the value of any assets that are the subject of the generic advice in its measurement of AUM. Firms should refer to the guidance in PERG 13.3 for further information on investment advice, personal recommendations and generic advice.

(3) For example, a firm may undertake a periodic review of a client’s portfolio to assess whether the balance between investments in equities and fixed income products is appropriate. If the firm advises the client only in general terms to invest a higher proportion of the portfolio in equities and a lower proportion in bonds, this would not normally constitute investment advice, unless the firm also gave advice on investing in specific equities or bonds. Provided that the firm does not give advice relating to specific investments (i.e. a personal recommendation), it therefore would not need to include the value of the portfolio when measuring its AUM.
4.7.15  G  
(1)  When giving investment advice of an ongoing nature, the assets that the firm must include within its measurement of AUM will depend on the scope of the firm’s obligation to provide investment advice.

(2)  In some circumstances, a firm may have assumed a duty to provide investment advice in relation to the client’s entire portfolio. For example, a financial adviser may agree to carry out periodic reviews of a client’s entire portfolio and to make recommendations to the client about the specific financial instruments in which the client should invest. In that case, the firm must include the entire value of the client’s portfolio (to the extent that the portfolio consists of financial instruments) in the firm’s measurement of AUM. This is because the firm has assumed a duty to provide investment advice of an ongoing nature in relation to the entire portfolio.

(3)  In other situations, the scope of the firm’s duty to provide investment advice may be more limited. For example, a firm may agree with a client that the firm will provide investment advice only on a particular subset of assets or only when specifically requested by the client. In that case, the firm’s duty to provide investment advice of an ongoing nature is limited to the relevant subset of assets, or the specific financial instruments in respect of which the client requests advice. Therefore, the firm would be required to include only the value of those particular assets or financial instruments when measuring its AUM.

(4)  A firm may have assumed different duties in respect of different parts of a client’s portfolio. For example, a firm may have agreed to carry out a general review of whether the client’s portfolio is appropriately balanced in a manner that would constitute only generic advice, rather than a personal recommendation. However, the firm may also be under a duty to provide investment advice on the equities held within the portfolio. In that case, the general review would not constitute investment advice (as it is only generic advice) and therefore the firm does not need to include the entire value of the client’s portfolio in the firm’s measurement of AUM. However, as the firm does have an ongoing duty to provide investment advice in relation to the equities held in the portfolio, the firm must include the value of those assets within its measurement of AUM.

(5)  Where a firm provides recurring investment advice to a client without assuming a continuing duty, the firm is only required to include the value of the particular financial instruments in respect of which it provides investment advice in the firm’s measurement of its AUM.
4.7.16 G (1) *Investment advice of an ongoing nature* includes arrangements involving periodic or continuous *investment advice* and arrangements involving recurring *investment advice*.

(2) Periodic or continuous *investment advice* is most likely to arise where a *firm* agrees with a *client* that the *firm* will keep the *client’s* portfolio under review or will provide advice to the *client* at various points during a specified period. For example, a *firm* may agree to manage a *client’s* portfolio on a non-discretionary basis so that the *firm* has an ongoing duty to make personal recommendations to the *client*, but the *client* decides whether to proceed with each transaction. Alternatively, the *firm* may agree with the *client* to review the *client’s* portfolio on, for example, a quarterly basis and to provide the *client* with personal recommendations following each review.

(3) Recurring *investment advice* does not require the *firm* to have assumed an ongoing or periodic duty to provide *investment advice* to the *client*. Instead, the *firm* provides *investment advice* to the same *client* repeatedly, even though there is no agreement with the *client* to establish a formal ongoing relationship. When considering whether *investment advice* is recurring for these purposes, a *firm* should assess whether, in substance, the type and pattern of advice that it provides is similar to periodic or continuous advice. This means that a *firm* cannot prevent what are, in substance, ongoing advisory arrangements for a *client* from constituting *investment advice of an ongoing nature* by artificially separating them into multiple individual agreements to provide advice to that *client*. If requested by the FCA, a *firm* should be able to justify why the *firm* has concluded that a particular set of advisory arrangements with a *client* does not constitute *investment advice of an ongoing nature*.

(4) *Investment advice of an ongoing nature* does not include genuinely isolated or sporadic instances of *investment advice* provided to the same *client* that do not, in substance, amount to ongoing arrangements. However, a *firm* should assess the potential harms arising from any *investment advice* that is not *investment advice of an ongoing nature* as part of its ICARA process.

4.7.17 G (1) Where a *firm* provides *investment advice* in the context of the continuous or periodic assessment and monitoring or review of a *client’s portfolio of financial instruments*, the value of *AUM* that the *firm* includes in respect of that portfolio should be determined by the scope of the *firm’s* duty to the *client*.

(2) If the *firm* is under a duty to review the *client’s* entire portfolio and provide *investment advice* as a result, the value
of all financial instruments in the portfolio should be included in AUM. If the firm’s duty is limited to specific financial instruments, only those financial instruments need to be included in AUM.

4.7.18 R For the purposes of the calculation of average AUM in MIFIDPRU 4.7.5R:

(1) if the firm is under a duty to undertake a continuous assessment of the portfolio (or a subset of the portfolio), the firm must measure the value of AUM of the portfolio (or the relevant subset of it) on the last business day of each month during which that duty applies; and

(2) if the firm is under a duty to undertake periodic assessments of the portfolio (or a subset of the portfolio), the firm must use the value of the portfolio (or the relevant subset of it) at the time of the last review as the relevant value of AUM for each month until the next periodic review occurs (or the firm’s duty ends, if earlier).

4.7.19 G The requirement in MIFIDPRU 4.7.18R(2) is illustrated by the following example:

(1) On 1 March, the firm reviews the client’s entire portfolio of financial instruments and provides investment advice to the client. The value of the client’s portfolio is 100 on that date. The firm is required to carry out its next review of the client’s portfolio on 1 June. The firm would include a value of 100 in its AUM for each of March, April and May.

(2) On 1 June, the firm reviews the client’s entire portfolio again and provides further investment advice to the client. The value of the client’s portfolio on that date is 110. The firm would include a value of 110 in its AUM for June and each subsequent month until the time of the next review, or until the firm’s duty to carry out a review of the client’s portfolio ends (if earlier).

4.7.20 G (1) Where a firm provides recurring investment advice to a client, the value of AUM that the firm must include in respect of that client should be measured by the value of the financial instruments that are the subject of the relevant investment advice.

(2) Under MIFIDPRU 4.7.5R, to calculate its average AUM, a firm must take the 15 most recent monthly values of AUM and exclude the most recent 3 months before calculating the arithmetic mean of the remaining values. MIFIDPRU 4.7.21R explains how a firm should measure the monthly value of
4.7.21 R (1) Subject to (2), for the purposes of the calculation of average AUM under MIFIDPRU 4.7.5R, the value of AUM for recurring investment advice given in relation to a client in any given month is the sum of:

(a) the AUM arising from the recurring investment advice given by the firm to that client during that month; and

(b) the AUM arising from the recurring investment advice given by the firm to that client during the immediately preceding 11 months.

(2) When measuring AUM under (1), a firm may adjust the AUM figure to reflect the fact that the firm has previously given investment advice in relation to the same assets during the preceding 11 months.

4.7.22 G (1) The effect of MIFIDPRU 4.7.21R is illustrated by the following example.

(2) A firm provides recurring investment advice to a client. The dates on which the firm provides advice and the value of the financial instruments that are the subject of the advice are set out in the table below. In October 2022, the firm provides advice in relation to the same assets worth 25 on which the firm advised in March 2022, plus additional assets worth 45.

<table>
<thead>
<tr>
<th>Date of advice</th>
<th>Value of financial instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2022</td>
<td>50</td>
</tr>
<tr>
<td>February 2022</td>
<td>No advice given</td>
</tr>
<tr>
<td>March 2022</td>
<td>25</td>
</tr>
<tr>
<td>April 2022</td>
<td>100</td>
</tr>
<tr>
<td>May 2022</td>
<td>No advice given</td>
</tr>
<tr>
<td>June 2022</td>
<td>50</td>
</tr>
<tr>
<td>July 2022</td>
<td>No advice given</td>
</tr>
<tr>
<td>August 2022</td>
<td>No advice given</td>
</tr>
<tr>
<td>September 2022</td>
<td>80</td>
</tr>
<tr>
<td>Month</td>
<td>Value of AUM</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>October 2022</td>
<td>70 (consisting of the same assets in March 2022 worth 25 and 45 of new assets)</td>
</tr>
<tr>
<td>November 2022</td>
<td>No advice given</td>
</tr>
<tr>
<td>December 2022</td>
<td>10</td>
</tr>
<tr>
<td>January 2023</td>
<td>No advice given</td>
</tr>
<tr>
<td>February 2023</td>
<td>No advice given</td>
</tr>
<tr>
<td>March 2023</td>
<td>30</td>
</tr>
</tbody>
</table>

(3) MIFIDPRU 4.7.21R means that AUM from recurring investment advice is cumulative across a rolling 12-month period. The following table shows how the firm in (2) would calculate the AUM attributable to the provision of recurring investment advice to the client.

<table>
<thead>
<tr>
<th>Month</th>
<th>Value of AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2022</td>
<td>50</td>
</tr>
<tr>
<td>February 2022</td>
<td>50</td>
</tr>
<tr>
<td>March 2022</td>
<td>75 (i.e. 50 + 25)</td>
</tr>
<tr>
<td>April 2022</td>
<td>175 (i.e. 50 + 25 + 100)</td>
</tr>
<tr>
<td>May 2022</td>
<td>175</td>
</tr>
<tr>
<td>June 2022</td>
<td>225 (i.e. 50 + 25 + 100 + 50)</td>
</tr>
<tr>
<td>July 2022</td>
<td>225</td>
</tr>
<tr>
<td>August 2022</td>
<td>225</td>
</tr>
<tr>
<td>September 2022</td>
<td>305 (i.e. 50 + 25 + 100 + 50 + 80)</td>
</tr>
<tr>
<td>October 2022</td>
<td>350 (i.e. 50 + 25 + 100 + 50 + 80 + 70 = 375)</td>
</tr>
</tbody>
</table>
### Table

<table>
<thead>
<tr>
<th>Month</th>
<th>Value Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2022</td>
<td>350 (375 – 25 (adjustment for the same assets in March 2022) = 350)</td>
</tr>
<tr>
<td>December 2022</td>
<td>360 (i.e. 50 + 25 + 100 + 50 + 80 + 70 + 10 = 385, 385 – 25 (adjustment for the same assets in March 2022) = 360)</td>
</tr>
<tr>
<td>January 2023</td>
<td>310 (i.e. 25 + 100 + 50 + 80 + 70 + 10 = 335, 335 – 25 (adjustment for the same assets in March 2022) = 310)</td>
</tr>
<tr>
<td>February 2023</td>
<td>310</td>
</tr>
<tr>
<td>March 2023</td>
<td>340 (i.e. 100 + 50 + 80 + 70 + 10 + 30)</td>
</tr>
</tbody>
</table>

(4) At the end of March 2023, the *firm* would therefore calculate **average AUM** and the **K-AUM requirement** resulting from the above example of **investment advice of an ongoing nature** as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of the most recent 15 months of AUM, excluding the 3 most recent monthly values</td>
<td>50 + 50 + 75 + 175 + 175 + 225 + 225 + 225 + 305 + 350 + 350 + 360 = 2,565</td>
</tr>
<tr>
<td>Average AUM</td>
<td>2,565 / 12 = 213.75</td>
</tr>
<tr>
<td>K-AUM requirement</td>
<td>213.75 * 0.0002 = 0.043</td>
</tr>
</tbody>
</table>

### 4.8 K-CMH requirement

4.8.1 R The **K-CMH requirement** of a **MIFIDPRU investment firm** is equal to the sum of:
(1) 0.4% of average CMH held by the firm in segregated accounts; and

(2) 0.5% of average CMH held by the firm in non-segregated accounts.

4.8.2 G (1) Generally, a MIFIDPRU investment firm should be holding client money in one or more segregated accounts. Under MIFIDPRU 4.8.9E, where a firm complies with the applicable requirements of CASS 7 in relation to an amount of client money, there is a presumption that the client money is being held in a segregated account.

(2) As a result, the K-CMH requirement for non-segregated accounts is most likely to be relevant where:

(a) the K-CMH requirement applies on a consolidated basis and:

   (i) the consolidated situation includes one or more entities to which CASS does not apply, such as third country entities, that receive money from customers; and

   (ii) the arrangements under which the entity in (i) holds money received from customers do not meet the conditions in MIFIDPRU 4.8.8R (as they apply on a consolidated basis under MIFIDPRU 2.5.30R); or

(b) a MIFIDPRU investment firm has not complied with the CASS 7 requirements, in which case the firm should treat any non-compliant arrangements as non-segregated accounts for the purposes of calculating any K-CMH requirement that includes that period of non-compliance.

(3) However, the scenario in (2)(b) does not affect any obligation that the firm has under CASS, or under any other rule, to take specified action or to notify the FCA where the firm has identified that it has breached the requirements of CASS.

4.8.3 R When calculating its CMH in accordance with this section, a MIFIDPRU investment firm must include any amounts that relate to MiFID business of the firm that is carried on by any tied agent acting on its behalf.

4.8.4 G As a result of the restrictions in SUP 12.6.5R and SUP 12.6.15R, the FCA generally expects that MIFIDPRU 4.8.3R would not be directly relevant to MIFIDPRU investment firms on an individual basis. However, where this section applies on a consolidated basis in
accordance with MIFIDPRU 2.5 (Prudential consolidation), the UK parent entity must include any CMH attributable to a tied agent of a third country investment firm included within the consolidated situation.

4.8.5 G (1) The definition of CMH includes only client money which is MiFID client money. Therefore, client money which is received in connection with business other than MiFID business does not need to be included within a MIFIDPRU investment firm’s calculation of CMH, except to the extent that MIFIDPRU 4.8.6R applies.

(2) The definition of MiFID client money includes the following:

(a) money deposited into a client bank account in accordance with CASS 7.13.3.R;

(b) money originally received in connection with MiFID business which a firm has placed in a qualifying money market fund in accordance with CASS 7.13.3R(4). This means that while the units or shares in the relevant qualifying money market fund must still be treated by the firm as client assets for the purposes of CASS and must be dealt with in accordance with CASS 7.13.26R, the value of those units or shares must be included in CMH for the purposes of MIFIDPRU;

(c) an amount of the firm’s own money that the firm has paid into its client bank account for the purposes of:

(i) prudent segregation;

(ii) alternative approach mandatory prudent segregation; or

(iii) clearing arrangement mandatory prudent segregation; and

(d) money received from a client in connection with MiFID business which a firm has allowed a third party (such as an exchange, a clearing house or an intermediate broker) to hold in accordance with CASS 7.14 (Client money held by a third party).

(3) Where a firm controls money under a mandate in accordance with CASS 8, the money is not MiFID client money if it is not client money received or held by the firm. A firm is not required to include any money it controls but does not hold within its calculation of CMH.

(4) Although money that is not MiFID client money does not contribute to the K-CMH requirement, a MIFIDPRU
*investment firm* should still consider any potential material harms that may arise in connection with receiving *money* from *clients* as part of their *ICARA process* under *MIFIDPRU 7*. This includes any material harms that may arise in relation to amounts received that are not treated as *client money*, such as under a *title transfer collateral arrangement*.

4.8.6 R If a *MIFIDPRU* investment firm is unsure whether *client money* should be classified as *MiFID client money*, it must treat the relevant amount as *MiFID client money* for the purposes of this section until the firm is satisfied that the amount is not *MiFID client money*.

4.8.7 G *MIFIDPRU* 4.8.6R applies only for the purposes of determining how the *client money* concerned should be treated for the purposes of *MIFIDPRU*. It does not affect how the *client money* should be treated for the purposes of other provisions in the *Handbook* (such as *CASS* or *COBS*) or under any other legislation.

4.8.8 R An arrangement is a *segregated account* if it is an arrangement in respect of which a *firm* (“A”) ensures that all of the following conditions are met:

1. A keeps records and accounts enabling A, at any time and without delay, to distinguish assets held for one *client* from assets held for any other *client* and from A’s own assets;

2. A maintains its records and accounts in a way that ensures their accuracy, and in particular that they correspond to the assets held for *clients* and may be used as an audit trail;

3. A conducts, on a regular basis, reconciliations between A’s internal accounts and records and those of any third parties by whom those assets are held;

4. A takes the necessary steps to ensure that deposited *client* funds are held in an account or accounts identified separately from any accounts used to hold funds belonging to A;

5. A operates adequate organisational arrangements to minimise the risk of the loss or diminution of *client* assets or of rights in connection with those assets, as a result of misuse of the assets, fraud, poor administration, inadequate record-keeping or negligence; and

6. the applicable national law provides that, in the event of A’s insolvency or entry into resolution or administration, assuming that A has complied with (1) to (5), *client* funds cannot be used to satisfy claims against A, other than claims by the relevant *clients*.

4.8.9 E (1) This rule applies for the purposes of *MIFIDPRU* 4.8.8R.
(2) A MIFIDPRU investment firm which holds client money must comply with, among other requirements, the applicable requirements on:

(a) organisational requirements in relation to client money in CASS 7.12;

(b) segregation of client money in CASS 7.13 or client money held by a third party in CASS 7.14;

(c) records, accounts and reconciliations in CASS 7.15; and

(d) acknowledgement letters in CASS 7.18.

(3) Compliance with (2) in relation to an arrangement may be relied on as tending to establish compliance with the conditions for that arrangement to be classified as a segregated account in MIFIDPRU 4.8.8R.

(4) Contravention of (2) in relation to an arrangement may be relied on as tending to establish contravention of the conditions for that arrangement to be classified as a segregated account in MIFIDPRU 4.8.8R.

4.8.10 G The effect of MIFIDPRU 4.8.9E is that if a MIFIDPRU investment firm complies with the provisions of CASS specified in MIFIDPRU 4.8.9E(2) for a particular arrangement for client money, it can proceed on the basis that the client money is being held in a segregated account for the purposes of the K-CMH requirement. However, if the firm does not comply with the relevant CASS provisions in relation to a client money arrangement, this will generally be evidence that the relevant client money should be treated as being held in a non-segregated account for the purposes of calculating the K-CMH requirement.

4.8.11 G Where consolidation under MIFIDPRU 2.5 (Prudential consolidation) applies to an investment firm group, MIFIDPRU 2.5.30R and MIFIDPRU 2.5.31R explain how to calculate the consolidated K-CMH requirement.

4.8.12 R A firm must calculate its K-CMH requirement on the first business day of each month.

4.8.13 R A firm must calculate the amount of its average CMH by:

(1) taking the total CMH as measured at the end of each business day during the previous 9 months;

(2) excluding the daily values for the most recent 3 months; and
(3) calculating the arithmetic mean of the daily values for the remaining 6 months.

4.8.14 R For the purpose of the calculation in MIFIDPRU 4.8.13R, a firm must measure CMH in accordance with, to the extent applicable:

(1) any records, accounts and reconciliations that the firm maintains to comply with the requirements of CASS 7.15 (Records, accounts and reconciliations); and

(2) any values contained in accounting records.

4.8.15 R Where a firm has been holding CMH for less than 9 months, it must calculate its average CMH using the modified calculation in MIFIDPRU TP 4.11R(1) with the following adjustments:

(1) in MIFIDPRU TP 4.11R(1)(b), n is the relevant number of months for which the firm has been holding CMH (with the month during which the firm begins that activity counted as month zero);

(2) during month zero of the calculation, the firm must:

(a) use a best efforts estimate of expected CMH for that month based on the firm’s projections when beginning the new activity; and

(b) use the estimate in (a) as its average CMH;

(3) during month 1 of the calculation and each month thereafter, the firm must apply the approach in (1) using observed historical data from the preceding months;

(4) the modified calculation ceases to apply on the date that falls 9 months after the date on which the firm began holding CMH.

4.8.16 G (1) Under MIFIDPRU 4.8.13R(1), a firm must measure its CMH at the end of each business day. The relevant amount should reflect any subsequent adjustment that the firm must apply as a result of any requirement to carry out internal reconciliations in relation to client money (for example, under CASS 7.15). Therefore, where an internal reconciliation subsequently identifies that the amount of CMH recorded for a particular business day is incorrect, the firm should update the relevant amount to reflect the correct figure.

(2) Where the K-CMH requirement applies on a consolidated basis, the guidance in (1) also applies in relation to any reconciliations carried out in accordance with the requirements of the jurisdiction in which any third country entity included in the consolidated situation is based.
4.9 K-ASA requirement

4.9.1 R The K-ASA requirement of a MIFIDPRU investment firm is equal to 0.04% of the firm’s average ASA.

4.9.2 R When calculating its K-ASA requirement in accordance with this section, a MIFIDPRU investment firm must include within its ASA any amounts that relate to MiFID business of the firm that is carried on by any tied agents acting on its behalf.

4.9.3 G Due to the limited types of activities in respect of which a tied agent may be exempt from the requirement for authorisation in the UK (as explained in SUP 12.2.7G), the FCA generally expects that MIFIDPRU 4.9.2R would not be directly relevant to a MIFIDPRU investment firm on an individual basis. However, where MIFIDPRU 4.9 applies on a consolidated basis in accordance with MIFIDPRU 2.5 (Prudential consolidation), the UK parent entity must include any ASA attributable to a tied agent of a third country investment firm included within the consolidated situation.

4.9.4 R A firm must exclude from its measurement of ASA any units or shares in a qualifying money market fund that are treated as MiFID client money.

4.9.5 G (1) The definition of ASA includes only client assets held by a MIFIDPRU investment firm in the course of MiFID business. Therefore, client assets which are held in connection with business other than MiFID business do not need to be included within a MIFIDPRU investment firm’s calculation of ASA, except to the extent that MIFIDPRU 4.9.6R applies.

(2) As explained in MIFIDPRU 4.8.5G, the definitions of MiFID client money and CMH include amounts that a MIFIDPRU investment firm has placed with qualifying money market funds in accordance with CASS 7.13.3R(4). As a result, although the resulting units or shares in a qualifying money market fund may be treated as client assets for the purposes of the custody rules, under MIFIDPRU 4.9.4R, their value must be included in CMH not in ASA.

(3) Although client assets that a firm holds other than in the course of MiFID business do not contribute to the K-ASA requirement, a MIFIDPRU investment firm should still consider any potential material harms that may arise in connection with receiving assets from clients as part of its ICARA process under MIFIDPRU 7.

(4) As part of its ICARA process, a firm should also consider material harms that may arise in relation to amounts received that are not treated as client assets for the purposes of the custody rules but in relation to which the firm may have future
obligations to a client, such as under a title transfer collateral arrangement.

4.9.6 R If a MIFIDPRU investment firm is unsure whether client assets are held in the course of MiFID business, it must treat those assets as held in the course of MiFID business for the purposes of this section until it is satisfied that the assets are not held in the course of MiFID business.

4.9.7 R A firm must calculate its K-ASA requirement on the first business day of each month.

4.9.8 R A firm must calculate the amount of its average ASA by:

(1) taking the total ASA as measured at the end of each business day for the previous 9 months;

(2) excluding the values for the most recent 3 months; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 months.

4.9.9 R When measuring ASA, a firm must:

(1) where available, use the market value of the relevant assets; and

(2) where a market value is not available for an asset, use an alternative measure of fair value, which may include an estimated value calculated on a best efforts basis.

4.9.10 G The values used by a firm under MIFIDPRU 4.9.8R should be consistent with the information on client assets in any relevant regulatory data reported by the firm to the FCA, and in any internal or external reconciliations and records maintained in accordance with CASS 6.6 (Records, accounts and reconciliations) unless a rule or relevant guidance requires the firm to take a different approach.

4.9.11 R Where either of the following applies, a firm must include the value of the relevant assets in its measurement of ASA:

(1) the firm has delegated the safeguarding and administration of assets to another entity; or

(2) another entity has delegated the safeguarding and administration of assets to the firm.

4.9.12 G The effect of MIFIDPRU 4.9.11R is that a firm will not reduce its level of ASA by delegating the safeguarding of assets to a third party. However, a firm will increase the level of its ASA by accepting the delegation of safeguarding and administration of assets to the firm by a third party. This reflects the harm that may result from a breach of
the firm’s direct safeguarding responsibilities or the firm’s responsibilities in relation to the selection, appointment and periodic review of any third party to which the firm has delegated safeguarding.

4.9.13 R Where a firm has been safeguarding assets constituting ASA for less than 9 months, it must calculate its average ASA using the modified calculation in MIFIDPRU TP 4.11R(1) with the following adjustments:

1. in MIFIDPRU TP 4.11R(1)(b), n is the relevant number of months for which the firm has been safeguarding assets (with the month during which the firm begins that activity counted as month zero); and

2. during month zero of the calculation, the firm must:
   a. use a best efforts estimate of expected ASA for that month based on its projections when beginning the new activity;
   b. use the estimate in (a) as its average ASA;

3. during month 1 of the calculation and each month thereafter, the firm must apply the approach in (1) using observed historical data from the preceding months; and

4. the modified calculation ceases to apply on the date that falls 9 months after the date on which the firm began safeguarding assets constituting ASA.

4.10 K-COH requirement

4.10.1 R The K-COH requirement of a MIFIDPRU investment firm is equal to the sum of:

1. 0.1% of average COH attributable to cash trades; and

2. 0.01% of average COH attributable to derivatives trades.

4.10.2 R When calculating its K-COH requirement in accordance with this section, a MIFIDPRU investment firm must include within its COH any amounts that relate to MiFID business of the firm that is carried on by any tied agent acting on its behalf.

4.10.3 G The definition of COH includes orders that a firm handles when carrying on either of the following types of MiFID business:

1. reception and transmission of client orders; and

2. execution of orders on behalf of a client.
4.10.4 R A *firm* is not required to include the following in its measurement of *COH*:

1. an order executed by a *firm* in its own name (including where the *firm* executes an order in its own name on behalf of a *client*);

2. an order that a *firm* handles when acting in the capacity of the operator of a *multilateral trading facility* or *organised trading facility*;

3. a transaction that falls within the definition of reception and transmission of *client* orders only as a result of the situation described in recital 44 of *MiFID*; and

4. orders that are not ultimately executed.

4.10.5 G *MIFIDPRU* 4.10.6G to *MIFIDPRU* 4.10.17G contain further guidance on whether particular arrangements are included within the measurement of *COH*.

**Execution of orders in the firm’s own name**

4.10.6 G Where a *firm* executes an order in its own name (irrespective of whether the order is ultimately for the benefit of a *client*), the order is included within the *firm*’s measurement of its *DTF* under *MIFIDPRU* 4.15 (K-DTF requirement) and not within its measurement of *COH* under this section.

**The extended (“bringing together”) definition of reception and transmission**

4.10.7 G Recital 44 of *MiFID* describes transactions that result from a *firm* bringing together 2 or more investors (such as introducing an issuer to a potential source of funding), but where the *firm* does not otherwise interpose itself within the chain of execution of any resulting order. In practice, this is most likely to be relevant in the context of *corporate finance business* or private equity business. A *firm* may exclude these transactions from its measurement of *COH* provided that its role does not go beyond this “extended” definition of reception and transmission. This is further described in the guidance in *PERG* 13.3 (Investment Services and Activities).

**Matched principal trading**

4.10.8 G A *firm* that trades in a matched principal capacity will be placing orders in its own name. These orders must therefore be included in the measurement of the *firm’s DTF* and are not included in the calculation of *COH*.

**Name give-up activities**
4.10.9 G (1) The FCA understands that activities that are described as involving “name give-up” may take different forms.

(2) In certain cases, a firm may distribute indications of interest that indicate a willingness to enter into a transaction, but do not have fixed terms. The firm may then pass the names of the counterparties to each other following a match to allow them to facilitate the trade. These indications of interest and name-passing are not included within the measurement of COH. However, this does not mean that every transaction which begins with an indication of interest is outside the scope of COH. Where a firm is subsequently instructed to transmit an order on firm terms, or to execute an order, that transaction will be within the scope of COH, even if the order results from a process that began with an initial indication of interest.

(3) In some circumstances, a firm may disseminate orders on firm terms that result in a transaction as soon as they are confirmed by the recipient, following which the firm will disclose the name of the relevant counterparty. This activity is included within the measurement of COH because it involves reception and transmission of an order on firm terms.

Exchange give-up activities

4.10.10 G (1) A firm may facilitate trading by its clients on exchanges. Once a transaction has been executed, the relevant trade is then given up to the client’s clearing firm.

(2) A firm should consider the exact capacity in which it is acting, and whether it incurs any liability as principal, when determining whether orders resulting from exchange give-up activities are included within the measurement of COH.

(3) If the firm enters into the transaction in its own name and therefore incurs principal liability, even for a short period, in relation to the trade before it is given up, the order should be included within the firm’s measurement of DTF and not within its measurement of COH.

(4) If the firm does not incur liability as principal and merely acts as agent in the name of a third party in relation to the trade, the order should be included within the firm’s measurement of COH.

Exchange block trades

4.10.11 G (1) A firm may be involved in negotiating a bilateral trade in relation to an exchange-traded instrument between counterparties that takes place off-exchange because the size of the trade exceeds certain specified levels. In some cases,
the exchange may provide communications functionality to facilitate the block trades, but the trades are not executed on the exchange’s public market.

(2) A firm must determine the capacity in which the firm is acting in relation to the block trade to determine if the value of the trade should be included in the firm’s measurement of COH.

(3) If the firm enters into the block trade in its own name and the trade is then given up to a client, the firm should include the value of that trade in its measurement of DTF.

(4) If the firm executes the block trade as agent by committing the client to the terms of the trade, the firm should include the value of that trade in its measurement of COH.

(5) If the firm receives firm terms of the block trade from the client and transmits the terms to the counterparty in order for the counterparty to confirm the terms to create a binding transaction, the firm should include the value of that trade in its measurement of COH.

Broker functionality

4.10.12 G A firm may be a member of an exchange and may provide functionality whereby trades can be executed and booked directly into the account of the relevant client. In this case, the FCA considers that the trades should be included in the firm’s measurement of COH, as the firm is still being used to execute the relevant trade.

Orders connected with the operation of trading venues

4.10.13 G (1) A firm which is operating a multilateral trading facility or operating an organised trading facility does not need to include any orders it handles solely in that capacity in its measurement of COH. However, it should consider as part of its ICARA process whether that activity gives rise to the risk of material potential harm which may require it to hold additional own funds or liquid assets under MIFIDPRU 7.

(2) However, if the operator of an organised trading facility is engaging in matched principal trading, as permitted by MAR 5A.3.5R, any matched principal trades are included in its measurement of DTF under MIFIDPRU 4.15 (K-DF requirement).

4.10.14 G A firm that executes client orders on a multilateral trading facility or an organised trading facility when the firm is not acting in the capacity of the trading venue operator must include the orders in its measurement of COH (unless the firm executes the orders in its own
name, in which case it must include the orders in its measurement of DTF).

4.10.15 G In certain circumstances, the same firm may both act as the operator of a multilateral trading facility or an organised trading facility and also submit an order on that trading venue on behalf of a client. In this case, although the firm is not required to measure COH in relation to its role as the operator of the trading venue, it must still measure COH (or DTF if it is possible to enter into transactions in its own name on the trading venue and it is executing in that capacity) in relation to the order that it executes for the client.

Orders that are never executed

4.10.16 G (1) The effect of MIFIDPRU 4.10.4R(4) is that where a firm receives a client order but that order is not ultimately executed, it does not have to include the value of that order in its measurement of COH. However, as part of its ICARA process, a firm should consider whether the fact that an order has not been executed gives rise to any material risks to the firm or to its clients. This may depend on the reasons why the client order has not been executed.

(2) If, for example, the order was not executed because market conditions did not allow the firm (or another entity to whom the order was ultimately transmitted) to achieve an appropriate outcome for the client, this may be consistent with the firm’s contractual and regulatory duties. In that case, this may not give rise to any additional material risks.

(3) However, if the firm failed to transmit or execute an order because of an oversight or an internal systems failure, this may indicate that the firm has been failing in its duties to its client or in its regulatory obligations. Alternatively, the firm may have successfully transmitted an order, but failed to select an appropriate entity to receive and execute the order, and therefore may have failed to comply with its obligations to act in the best interests of the client when transmitting the order. In this case, the firm should consider as part of its ICARA process whether the failures may give rise to material risks and how these risks should be addressed.

4.10.17 G (1) Although failure to achieve the execution of an individual order does not necessarily indicate potential material harms, a series or pattern of failures may be evidence of potential material harms.

(2) A firm’s analysis under its ICARA process is separate from the application of any individual regulatory or other legal duties owed to an individual client. Therefore, while a firm may conclude that an isolated oversight in relation to a client order
does not give rise to the risk of material harm under the ICARA process, this does not affect any obligations that the firm owes to the client.

Calculating COH

4.10.18 R A firm must calculate its K-COH requirement on the first business day of each month.

4.10.19 R (1) A firm must calculate the amount of its average COH by:

(a) taking the total COH measured throughout each business day over the previous 6 months;

(b) excluding the daily values for the most recent 3 months; and

(c) calculating the arithmetic mean of the daily values of the remaining 3 months.

(2) When measuring the value of COH for a particular business day, a firm must convert any amounts in foreign currencies on that date into the firm’s functional currency.

(3) For the purposes of the currency conversion in (2), a firm must:

(a) determine the conversion rate by reference to an appropriate market rate; and

(b) record the rate used.

Measuring the value of orders for COH

4.10.20 R (1) When measuring its COH, a firm must use the sum of the absolute value of each buy order and sell order, as determined in accordance with the remainder of this rule.

(2) For cash trades relating to financial instruments, the value of the order is the amount paid or received on the trade at the time at which it is executed, unless the firm has applied the approach in MIFIDPRU 4.10.23R.

(3) For derivatives trades other than orders relating to interest rate derivatives, the value of the order is the notional amount of the contract, determined in accordance with MIFIDPRU 4.14.20R(2).

(4) For orders relating to interest rate derivatives, the value of the order is the notional amount of the contract determined in accordance with MIFIDPRU 4.14.20R(2), adjusted in accordance with MIFIDPRU 4.10.25R.
(5) A firm may calculate the value of an order by deducting any transaction costs to reflect the consideration received or paid by the client for the relevant instruments, provided that the transaction costs are not paid separately to the firm by the client.

4.10.21 G (1) Under the general approach in MIFIDPRU 4.10.20R(2), a firm determines the gross value of an order by multiplying the market price of the instrument by the quantity of the instrument being purchased or sold.

(2) However, MIFIDPRU 4.10.20R(5) permits (but does not require) a firm to calculate the value of an order by reference to the consideration paid or received by the client for the instruments (i.e. net of transaction costs), provided that the transaction costs are included in the gross value of the order and are not paid by the client to the firm separately.

(3) For example, Firm A executes an order for a client to buy 100 shares. The total cost of the order, including transaction costs, is £100. The client receives shares worth £88, after the firm uses £12 to cover transaction costs. Under the standard approach in MIFIDPRU 4.10.20R(2), the firm may record the value of the order in its COH as £100 (i.e. the gross cost of the order). The firm may, for example, choose this approach for reasons of simplicity and administrative convenience.

(4) Alternatively, in the example above, the firm may apply the approach under MIFIDPRU 4.10.20R(5) to record the value of the order in its COH as £88 (i.e. net of transaction costs paid by the client in relation to the transaction).

(5) However, a firm cannot rely on MIFIDPRU 4.10.20R(5) to reduce the value of an order by transaction costs that are paid separately by the client to the firm. For example, Firm B executes an order for a client to buy 100 shares. The total cost of the order is £100. The client additionally pays £12 to Firm B for transaction costs. In this case, the firm must record the net value of the order under MIFIDPRU 4.10.20R(5) in its COH as £100 (and not £88), as the transaction costs have been paid separately.

(6) The effect of MIFIDPRU 4.10.19R(2) is that when measuring the value of COH at the end of each business day, a firm must apply the relevant conversion rate on that date to any amounts in foreign currencies forming part of the COH attributable to that business day. The COH for each preceding business day should continue to be measured by reference to the conversion rate that was applicable on that preceding day.
(7) For the purposes of MIFIDPRU 4.10.19R(3), where a firm is carrying out a conversion that involves sterling, the FCA considers that an example of an appropriate market rate is the relevant daily spot exchange rate against sterling published by the Bank of England.

4.10.22 G For cash trades relating to exchange-traded options, the amount paid or received under MIFIDPRU 4.10.20R(2) is the premium paid for the option.

4.10.23 R (1) By way of derogation from MIFIDPRU 4.10.20R(2), a firm that receives and transmits an order that is a cash trade may apply the approach in this rule to determine the value of that order for the purposes of measuring COH.

(2) Where a firm applies the approach in this rule, the value of the order shall be determined by reference to:

(a) for an order which specifies a fixed price or limit price at which the order should be executed, that price; or

(b) for an order which does not specify a price, the market price of the relevant instrument at the end of the day on which the order is transmitted by the firm.

(3) A firm that applies the approach in this rule must apply it either:

(a) in relation to all cash trades that the firm receives and transmits; or

(b) only in relation to cash trades that the firm receives and transmits where it does not receive timely information from the executing entity about the terms on which the order was executed.

(4) A firm that applies the approach in this rule must document which basis in (3) applies.

4.10.24 G (1) The effect of MIFIDPRU 4.10.23R is to permit a firm that receives and transmits orders that are cash trades to determine the COH attributable to the orders using an alternative approach. A firm may either:

(a) apply the standard approach in MIFIDPRU 4.10.20R(2) and use the price at which the relevant order was ultimately executed, once this has been confirmed by the entity that executes the order; or

(b) apply the alternative approach in MIFIDPRU 4.10.23R and use a deemed price that is determined by reference to the limit price of the order or, if there is no limit
price, the end-of-day market price at the time at which the order is transmitted.

(2) However, a firm must not use the alternative approach in MIFIDPRU 4.10.23R for regulatory arbitrage to reduce its K-COH requirement. To prevent this, a firm may only apply the alternative approach either:

(a) in relation to all cash trades that the firm receives and transmits; or

(b) in relation to cash trades that the firm receives and transmits where the firm does not receive timely information from the broker about the terms on which the order was executed. In this case, the firm must apply the standard approach in MIFIDPRU 4.10.20R(2) in relation to all other cash trades. This is designed to ensure that the firm can record daily information for COH in circumstances where information about the ultimate execution of the order is otherwise missing or significantly delayed.

4.10.25 R (1) For the purposes of MIFIDPRU 4.10.20R(4), a firm must adjust the notional amount of an interest rate derivative by multiplying the notional amount by the duration.

(2) The duration in (1) shall be determined in accordance with the following formula:

\[
\text{Duration} = \frac{\text{time to maturity (in years)}}{10}
\]

Interaction between K-COH requirement and K-AUM requirement

4.10.26 G MIFIDPRU 4.10.27G to MIFIDPRU 4.10.32G and MIFIDPRU 4 Annex 12G explain the circumstances in which a firm must include orders that arise in connection with portfolio management or investment advice in, or may exclude orders from, its measurement of COH.

4.10.27 G (1) The basic definition of COH includes:

(a) orders that the firm executes when providing execution services for a client; and

(b) orders that the firm has received from a client and transmitted to another entity for execution.

(2) The rules and guidance in MIFIDPRU 4.10.28R to 4.10.32G explain how this definition applies in particular scenarios and certain exclusions or modifications that may apply.
4.10.28 R A firm may exclude from its calculation of COH any order that the firm generates in the course of providing either of the following in relation to a portfolio, if the portfolio is included in the firm’s calculation of its K-AUM requirement:

(1) portfolio management; or

(2) investment advice of an ongoing nature.

4.10.29 R (1) This rule applies where:

(a) portfolio management has been delegated to a firm by a financial entity; and

(b) as a result of the delegation in (a), the firm has excluded the delegated portfolio from its calculation in AUM in accordance with MIFIDPRU 4.7.9R.

(2) The firm in (1) must include in its measurement of COH any orders that the firm executes in the course of providing portfolio management in relation to the delegated portfolio.

(3) The firm in (1) is not required to include in its measurement of COH:

(a) any order that the firm passes back to the delegating financial entity for execution (whether the order is executed by that financial entity or is transmitted by the financial entity to another entity for execution); or

(b) any order that the firm places with another entity for execution in the course of providing portfolio management in relation to the delegated portfolio.

4.10.30 G The exclusions in MIFIDPRU 4.7.9R, MIFIDPRU 4.10.28R and MIFIDPRU 4.10.29R(3) may result in a firm that carries on delegated portfolio management having no K-AUM requirement or K-COH requirement in relation to all or part of a delegated portfolio. Where one or more exclusions apply, a firm should still assess as part of its ICARA process whether the activity of providing delegated portfolio management may give rise to potential material harms that may need to be covered by additional financial resources. Firms should refer to the rules and guidance in MIFIDPRU 7 for additional information on the ICARA process.

4.10.31 G (1) MIFIDPRU 4.10.29R does not apply where a financial entity (“A”) carries on portfolio management in relation to a portfolio and a MIFIDPRU investment firm (“B”) provides investment advice of an ongoing nature to A in relation to that portfolio. In this situation, A has not delegated portfolio management to B. Instead, A provides the service of portfolio management to A’s client, and B provides the separate service
of investment advice to A. If A is a MIFIDPRU investment firm, A will include the value of the relevant portfolio when calculating its K-AUM requirement. B will calculate its own K-AUM requirement in relation to the same portfolio.

(2) Although MIFIDPRU 4.10.29R does not apply in this scenario, B may benefit from the separate exclusion in MIFIDPRU 4.10.28R(2) and therefore would not be required to include any orders that result from its ongoing investment advice within B’s calculation of COH, because B will calculate a K-AUM requirement in relation to the relevant portfolio.

4.10.32 G When measuring COH for the purposes of MIFIDPRU 4.10.19R, a firm must include:

(1) an order that the firm executes, or receives and transmits, as a result of providing investment advice (other than investment advice of an ongoing nature, if the firm calculates a K-AUM requirement in relation to the advice) to a client and subsequently receiving instructions from the client to transmit or execute the relevant order; and

(2) an order that a firm receives from another firm (“X”), where:

(a) X provides investment advice (including investment advice of an ongoing nature) to a client;

(b) as a result of the advice in (a), the client instructs X to place an order with the firm; and

(c) the firm executes or receives and transmits the order received from X.

Firms with less than 6 months data on COH

4.10.33 R (1) This rule applies where a firm has been handling client orders constituting COH for less than 6 months.

(2) For the purposes of its calculation of average COH under MIFIDPRU 4.10.19R, a firm must use the modified calculation in MIFIDPRU TP 4.11R(1) with the following adjustments:

(a) in MIFIDPRU TP 4.11R(1)(b), n is the relevant number of months for which the firm has been handling client orders constituting COH (with the month during which the firm begins that activity being counted as month zero); and

(b) during month zero of the calculation, the firm must:
(i) generate a best efforts estimate of expected COH for that month based on the firm’s projections when beginning the new activity; and

(ii) use the estimate in (i) as its average COH;

(c) during month 1 of the calculation and each month thereafter, the firm must apply the approach in (a) using observed historical data from the preceding months; and

(d) the modified calculation ceases to apply on the date that falls 6 months after the date on which the firm began handling client orders constituting COH.

4.11 Trading book and dealing on own account: general provisions

4.11.1 G References to trading book positions in MIFIDPRU include all trading book positions of the firm, including positions in:

(1) equity instruments;

(2) debt instruments (including securitisation instruments);

(3) collective investment undertakings;

(4) foreign exchange;

(5) gold; and

(6) commodities and emissions allowances.

4.11.2 G (1) For the purposes of the definition of a position held with trading intent in relation to the trading book, positions arising from client servicing include those arising out of contracts in relation to which a firm is acting as principal (even in the context of activity described as ‘broking’ or ‘customer business’). This applies even if the nature of the business means that the only risks incurred by the firm are counterparty risks (i.e. no market risk charges apply).

(2) If the nature of the business means that the only risks incurred by the firm are counterparty risks, the position will generally still be a position held with trading intent.

(3) The FCA understands that business carried out under International Uniform Brokerage Execution (“Give-Up”) Agreements involve back to back trades as principal. If so, positions arising out of business carried out under such agreements should be allocated to a firm’s trading book.
4.11.3 R (1) A MIFIDPRU investment firm must manage its trading book in accordance with Chapter 3 of Title I of Part Three of the UK CRR in the form in which it stood at 31 December 2021, with the following modifications:

(a) if a firm is unsure whether a position is a position held with trading intent or is held to hedge a position held with trading intent, the firm must include that position within its trading book;

(b) the following provisions of the UK CRR do not apply:

(i) article 102(1);

(ii) article 102(4);

(iii) article 104(2)(g); and

(iv) article 106;

(c) the reference in article 104(1) of the UK CRR to “policies and procedures for determining which position to include in the trading book” is a reference to “policies and procedures for identifying which positions form part of the trading book”.

(2) Any reference to the UK CRR in this rule is to the UK CRR as applied and modified by (1).

4.11.4 R The following requirements only apply to a firm that deals on own account, whether on its own behalf or on behalf of its clients:

(1) the K-NPR requirement;

(2) the K-CMG requirement; and

(3) the K-TCD requirement.

4.11.5 R The K-DTF requirement applies to a firm that:

(1) deals on own account; or

(2) executes orders on behalf of clients in the firm’s own name.

4.11.6 G A MIFIDPRU investment firm that deals on own account is also subject to the K-CON requirement in accordance with MIFIDPRU 5.

4.11.7 G A MIFIDPRU investment firm that has permission to operate an organised trading facility may rely on that permission to:
(1) carry out matched principal trading in certain types of financial instruments with client consent, in accordance with MAR 5A.3.5R(1); and

(2) deal on own account in illiquid sovereign debt instruments in accordance with MAR 5A.3.5R(2).

In either case, the firm will be dealing on own account and is therefore subject to the requirements in MIFIDPRU 4.11.4R and MIFIDPRU 4.11.5R to the extent relevant to the transactions it undertakes. MIFIDPRU 5 explains how the K-CON requirement applies to such firms.

4.11.8 R A firm to which MIFIDPRU 4.11.4R applies is required to calculate its K-NPR requirement and K-CMG requirement only in relation to:

(1) trading book positions; and

(2) positions other than trading book positions where the positions give rise to foreign exchange risk or commodity risk.

4.11.9 R (1) This rule applies where a firm has deliberately taken a position to hedge against the adverse impact of a foreign exchange rate on:

(a) the firm’s own funds requirement; or

(b) an item which the firm has deducted from its own funds.

(2) A firm may exclude a position in (1) from its net open currency positions for the purpose of article 352 of the UK CRR (as applied by MIFIDPRU 4.12.2R) if the firm has prior permission from the FCA.

(3) To obtain the permission in (2), a firm must:

(a) complete the application form in MIFIDPRU 4 Annex 1R and submit it to the FCA using the online notification and application system;

(b) in the application, demonstrate to the satisfaction of the FCA that the position is:

(i) used for one of the hedging purposes in (1)(a) or (1)(b); and

(ii) of a non-trading or structural nature.

(4) This rule replaces article 352(2) UK CRR where that article would otherwise apply under MIFIDPRU 4.12.2R.
4.11.10 R A firm to which MIFIDPRU 4.11.4R applies is required to calculate its K-TCD requirement only in relation to the following:

(1) transactions that form part of its trading book; and

(2) transactions specified in MIFIDPRU 4.14.3R(7).

4.12 K-NPR requirement

4.12.1 R A MIFIDPRU investment firm must calculate its K-NPR requirement by reference to every position referred to in MIFIDPRU 4.11.8R that does not form part of a portfolio for which the firm has been granted a K-CMG permission.

4.12.2 R (1) The K-NPR requirement of a MIFIDPRU investment firm must be calculated in accordance with Title IV of Part Three of the UK CRR in the form in which it stood at 31 December 2021.

(2) Any reference in this section to the UK CRR is to the UK CRR as applied by (1) and modified by the rules in this section.

(3) When applying the UK CRR in accordance with (1):

(a) any provision in the UK CRR relating to the effect that the market risk of a position has on the “own funds requirement” should be interpreted as relating instead to the effect that the position has on the K-NPR requirement of the MIFIDPRU investment firm;

(b) article 363 of the UK CRR does not apply;

(c) any reference in Title IV of Part Three of the UK CRR to:

(i) article 363 of the UK CRR (permission to use internal models) refers to MIFIDPRU 4.12.4R to MIFIDPRU 4.12.7R; and

(ii) permissions granted under article 363 of the UK CRR refers to equivalent permissions granted under MIFIDPRU 4.12.4R to MIFIDPRU 4.12.7R.

Instruments for which no treatment is specified in the UK CRR

4.12.3 R (1) Where a MIFIDPRU investment firm has a position in a financial instrument for which no treatment is specified in the UK CRR, it must consider whether:

(a) the position is sufficiently similar to a position for which a treatment is specified in the UK CRR; and
(b) the application of the treatment in (a) would be prudent and appropriate.

(2) If there is a treatment in the UK CRR that meets the requirements in (1), the firm must calculate the K-NPR requirement resulting from that position by applying that treatment.

(3) If there are multiple treatments in the UK CRR that meet the requirements in (1), the firm must calculate the K-NPR requirement resulting from that position by applying the most appropriate treatment.

(4) If there are no appropriate treatments in the UK CRR, the firm must add an appropriate percentage of the current value of the position to its overall K-NPR requirement. An appropriate percentage is either 100%, or a percentage that takes into account the characteristics of the position.

(5) A firm must document its policies and procedures for calculating the K-NPR requirement of positions under this rule in its trading book policy statement.

Permission to use internal models

4.12.4 R (1) A firm must obtain prior permission from the FCA before using an internal model to calculate any of the following requirements under Part Three, Title IV, Chapter 5 of the UK CRR:

(a) general risk of equity instruments;
(b) specific risk of equity instruments;
(c) general risk of debt instruments;
(d) specific risk of debt instruments;
(e) foreign exchange risk; and
(f) commodities risk.

(2) To obtain the permission in (1), a firm must:

(a) complete the application form in MIFIDPRU 4 Annex 2R and submit it to the FCA using the online notification and application system; and

(b) in the application, demonstrate to the satisfaction of the FCA that:
(i) the firm meets the conditions for the use of the internal model specified in Part Three, Title IV, Chapter 5 of the UK CRR, as supplemented by the rules and guidance in this section; and

(ii) the internal model covers a significant share of the positions of the relevant risk category in (1).

(3) A firm must obtain a separate permission under this rule for each risk category in (1).

4.12.5 G MIFIDPRU 4.12.8R to 4.12.65G contain rules and guidance setting out requirements for internal models and explaining the factors that the FCA will consider when deciding whether to grant permission to use an internal model.

4.12.6 R (1) A firm that has a permission under MIFIDPRU 4.12.4R for an internal model must obtain approval from the FCA before it:

(a) implements a material change to the use of the model; or

(b) makes a material extension to the use of the model.

(2) To determine if a change or extension is material for the purposes of (1), a firm must apply the criteria and methodology set out in articles 3, 7a and 7b of the Market Risk Model Extensions and Changes RTS.

(3) To obtain the approval in (1), a firm must:

(a) complete the application form in MIFIDPRU 4 Annex 3R and submit it to the FCA using the online notification and application system; and

(b) perform an initial calculation of stressed value-at-risk in accordance with article 365(2) of the UK CRR on the basis of the model as changed or extended and submit the results as part of the application in (a).

4.12.7 R (1) A firm that has a permission under MIFIDPRU 4.12.4R for an internal model must notify the FCA before it:

(a) implements a change to the use of the model that is not a material change; or

(b) extends the use of the model in a manner that is not material.

(2) A firm must notify the FCA by completing the form in MIFIDPRU 4 Annex 4R and submitting it using the online notification and application system.
Use of internal models: risk capture

4.12.8 R A MIFIDPRU investment firm that has a permission to use an internal model in accordance with Part Three, Title IV, Chapter 5 of the UK CRR must:

1. identify any material risks (or group of risks are material in aggregate) that are not captured by those models;

2. hold own funds to cover those risk(s) in addition to the own funds required to comply with the K-NPR requirement, calculated in accordance with Part Three, Title IV, Chapter 5 of the UK CRR; and

3. hold additional own funds for value-at-risk (VaR) and stressed value-at-risk (sVaR) models that apply to the firm.

4.12.9 G (1) The methodology for identifying the risks in MIFIDPRU 4.12.8R and calculating additional own funds for VaR and sVaR models is called the “Risks not in VaR (RNIV) framework”. A firm is responsible for identifying these additional risks and this should be an opportunity for risk managers and the firm’s management to better understand the shortcomings of the firm’s models. Following this initial assessment, the FCA will engage with the firm to provide challenge and ensure an appropriate outcome.

2. The RNIV framework is intended to ensure that own funds are held to meet all risks that are not captured, or not captured adequately, by the firm’s VaR and sVaR models. These include, but are not limited to, missing and/or illiquid risk factors such as cross-risks, basis risks, higher-order risks, and calibration parameters. The RNIV framework is also intended to cover event risks that could adversely affect the relevant business.

3. A firm should systematically identify and measure all risks that are not captured, or not captured adequately. This analysis should be carried out at least quarterly, but the FCA may request more frequent analysis. The measurement of these risks should capture the losses that could arise due to the risk factor(s) of all products that are within the scope of the permission for the relevant internal model, but are not adequately captured by the relevant internal model.

4. On a quarterly basis, the firm should identify and assess individual risk factors covered by the RNIV framework. The FCA will review the results of this exercise and may require that firms identify additional risk factors as being eligible for measurement.
(5) (a) Where sufficient data is available, and where it is appropriate to do so, the FCA expects a firm to calculate a VaR and sVaR metric for each risk factor within scope of the framework. The stressed period for the RNIV framework should be consistent with that used for sVaR. No offsetting or diversification may be recognised across risk factors included in the RNIV framework. The multipliers used for VaR and sVaR should be applied to generate a K-NPR requirement.

(b) If it is not appropriate to calculate a VaR and sVaR metric for a risk factor, a firm should instead measure the size of the risk based on a stress test. The confidence level and capital horizon of the stress test should be commensurate with the liquidity of the risk, and should be at least as conservative as comparable risk factors under the internal model approach. The capital charge should be at least equal to the losses arising from the stress test.

Standardised approach for options

4.12.10 R (1) A MIFIDPRU investment firm may use its own estimates for delta for the purposes of the standardised approach for options under article 329, article 352(1) or article 358 of the UK CRR if:

(a) the option is:

(i) an over-the-counter option; or

(ii) is traded on an exchange, but delta for the option is not available from that exchange;

(b) the firm adequately reflects non-delta risks in the K-NPR requirement in accordance with the Non-Delta Risk of Options RTS;

(c) the model the firm uses meets the minimum standards set out in MIFIDPRU 4.12.12G to MIFIDPRU 4.12.18G (Minimum standards for own estimates of delta) for each type of option for which it calculates delta;

(d) the firm notifies the FCA that the requirements in (a) to (c) have been met before the firm begins to use its own estimates for the relevant delta; and

(e) the notification in (d) is made using the form in MIFIDPRU 4 Annex 5R and submitted using the online notification and application system.
(2) The value of delta is 1 where:

(a) a MIFIDPRU investment firm is not permitted to use its own estimates for delta in accordance with (1); and

(b) if the option is traded on an exchange, delta is not available from that exchange.

4.12.11 G If a MIFIDPRU investment firm has notified the FCA under MIFIDPRU 4.12.10R that a model meets the minimum standards for a particular option type, but is subsequently unable to demonstrate to the FCA that the model meets those minimum standards, the FCA may apply a capital add-on and agree a risk mitigation plan. If a firm does not comply with the risk mitigation plan within the mandated timeframe, the FCA may take further supervisory measures. This may include variation of a firm’s Part 4A permission so that the firm is no longer allowed to trade the relevant option types.

Minimum standards for own estimates of delta

4.12.12 G The sophistication of a pricing model used to calculate own estimates of delta for use in the standardised approach for options should be proportionate to the complexity and risk of each option and the overall risk of the firm’s options trading business. In general, the FCA considers that the risk of sold options will be higher than the risk of the same options when bought.

4.12.13 G Delta should be recalculated at least daily. A firm should also recalculate delta promptly if there are significant movements in the market parameters used as inputs to calculate delta.

4.12.14 G The pricing model used to calculate delta should be:

(1) based on appropriate assumptions that have been assessed and challenged by suitably qualified parties independent of the development process;

(2) independently tested, including validation of the mathematics, assumptions and software implementation; and

(3) developed or approved independently of the trading desk.

4.12.15 G A firm should use generally accepted industry standard pricing models for the calculation of own deltas where these are available, such as for relatively simple options.

4.12.16 G The IT systems used to calculate delta should be sufficient to ensure delta is calculated accurately and reliably.
4.12.17 G A firm should have adequate systems and controls in place when using a pricing model to calculate delta. This should include the following documented policies and procedures:

(1) clearly defined responsibilities of the various areas involved in the calculation;

(2) frequency of independent testing of the accuracy of the model used to calculate delta; and

(3) guidelines for the use of unobservable inputs, where relevant.

4.12.18 G A firm should ensure its risk management functions are aware of weaknesses of the model used to calculate a delta. Where a firm identifies weaknesses, it should ensure that estimates of delta result in a prudent contribution to the K-NPR requirement. The outcome should be prudent across the whole portfolio of options and underlying positions at all times.

Netting: convertible

4.12.19 R The netting of a convertible and an offsetting position in the underlying instrument is permitted for the purposes of article 327(2) of the UK CRR (Netting).

4.12.20 G For the purposes of article 327(2) of the UK CRR, the convertible should be:

(1) treated as a position in the equity into which it converts; and

(2) the component of the firm’s K-NPR requirement attributable to the general and specific risk in its equity instruments should be adjusted by making:

(a) an addition equal to the current value of any loss that the firm would make if it did convert to equity; or

(b) a deduction equal to the current value of any profit that the firm would make if it did convert to equity (subject to a maximum deduction equal to the K-NPR requirement that would be attributable to the notional position underlying the convertible).

Offsetting derivative instruments

4.12.21 G Article 331(2) of the UK CRR (Interest rate risk in derivative instruments) sets out conditions that must be met before a firm not using interest rate pre-processing models can fully offset interest rate risk on derivative instruments. One of the conditions is that the reference rate (for floating-rate positions) or coupon (for fixed-rate positions) should be ‘closely matched’. The FCA will normally consider a difference of less than 15 basis points as indicative of the
reference rate or coupon being ‘closely matched’ for the purposes of this requirement. A firm that wishes to use sensitivity models to calculate interest rate risk on derivative instruments in accordance with article 331(1) of the UK CRR should refer to MIFIDPRU 4.12.66R.

Exclusion of overshootings when determining multiplication factor addends

4.12.22 G (1) The FCA’s starting assumption is that all overshootings should be taken into account to calculate addends. If a firm believes that an overshooting should not count for that purpose, it should seek a variation of its VaR model permission from the FCA in accordance with MIFIDPRU 4.12.4R to exclude the overshooting.

(2) An example of when a firm’s overshooting might properly be disregarded is when it has arisen as a result of a risk that is not captured in a firm’s VaR model but against which own funds are already held.

Derivation of notional positions for standardised approaches: general

4.12.23 G MIFIDPRU 4.12.24G to MIFIDPRU 4.12.38G set out guidance for the derivation of notional positions for standardised approaches to market risk under the UK CRR.

Futures and forwards on a basket or index of debt securities

4.12.24 G Futures or forwards on a basket or index of debt securities should be converted into forwards on single debt securities as follows:

(1) futures or forwards on a single currency basket or index of debt securities should be treated as either:

(a) a series of forwards, one for each of the constituent debt securities in the basket or index, of an amount that is a proportionate part of the total underlying the contract, according to the weighting of the relevant debt security in the basket; or

(b) a single forward on a notional debt security; and

(2) futures or forwards on multiple currency baskets or indices of debt securities should be treated as either:

(a) a series of forwards (using the method in (1)(a)); or

(b) a series of forwards, each one on a notional debt security to represent one of the currencies in the basket or index, of an amount that is a proportionate part of the total underlying the contract according to the weighting of the relevant currency in the basket.
4.12.25  G  Notional debt securities derived through this treatment should be assigned a specific risk position risk adjustment and a general market risk position risk adjustment equal to the highest that would apply to the debt securities in the basket or index.

4.12.26  G  The debt security with the highest specific risk position risk adjustment within the basket might not be the same as the one with the highest general market risk position risk adjustment. A firm should select the highest percentages, even if they relate to different debt securities in the basket or index, and regardless of the proportion of those debt securities in the basket or index.

Bonds where coupons and principal are paid in different currencies

4.12.27  G  Where a debt security pays coupons in one currency but will be redeemed in a different currency, it should be treated as:

1. a debt security denominated in the coupon’s currency; and

2. a foreign currency forward to capture the fact that the debt security’s principal will be repaid in a different currency from that in which it pays coupons, specifically:

   (a) a notional forward sale of the coupon currency and purchase of the redemption currency, in the case of a long position in the debt security; or

   (b) a notional forward purchase of the coupon currency and sale of the redemption currency, in the case of a short position in the debt security.

Interest rate risk on other futures, forwards and swaps

4.12.28  G  Other futures, forwards, and swaps for which a treatment is not specified in article 328 of the UK CRR (Interest rate futures and forwards) should be treated as positions in zero specific risk securities, each of which:

1. has a zero coupon;

2. has a maturity equal to that of the relevant contract; and

3. is long or short, as set out in the table in MIFIDPRU 4.12.29G.

4.12.29  G  This table belongs to MIFIDPRU 4.12.28G.

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Foreign currency forward or future

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<th></th>
<th>A long position denominated in the currency purchased</th>
<th>and</th>
<th>A short position denominated in the currency sold</th>
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Gold forward or future

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<tr>
<th></th>
<th>A long position if the forward or future involves an actual (or notional) sale of gold</th>
<th>or</th>
<th>A short position if the forward or future involves an actual (or notional) purchase of gold</th>
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Equity forward or future

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<th>A long position if the contract involves an actual (or notional) sale of the underlying equity</th>
<th>or</th>
<th>A short position if the contract involves an actual (or notional) purchase of the underlying equity</th>
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Deferred start interest rate swaps or foreign currency swaps

4.12.30 4.12.30G Interest rate swaps or foreign currency swaps with a deferred start should be treated as two notional positions (one long, one short). The paying leg should be treated as a short position in a zero specific risk security with a coupon equal to the fixed rate of the swap. The receiving leg should be treated as a long position in a zero specific risk security that also has a coupon equal to the fixed rate of the swap.

4.12.31 4.12.31G The maturities of the notional positions in MIFIDPRU 4.12.30G are set out in the table in MIFIDPRU 4.12.32G.

4.12.32 4.12.32G This table belongs to MIFIDPRU 4.13.31G.

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<th>Paying leg</th>
<th>Receiving leg</th>
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<td>Receiving fixed and paying floating</td>
<td>The maturity equals the start date of the swap</td>
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<td>Paying fixed and receiving floating</td>
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Swaps where only one leg is an interest rate leg

4.12.33 G  For interest rate risk, a firm should treat a swap (such as an equity swap) with only one interest rate leg as a notional position in a zero specific risk security:

(1) with a coupon equal to that on the interest rate leg;

(2) with a maturity equal to the date that the interest rate will be reset; and

(3) that is a long position if the firm is receiving interest payments and is a short position if making interest payments.

Foreign exchange forwards, futures and contracts for differences

4.12.34 G  (1) A firm should treat a foreign currency forward, future or contract for differences as two notional currency positions as follows:

(a) a long notional position in the currency that the firm has contracted to buy; and

(b) a short notional position in the currency that the firm has contracted to sell.

(2) In (1), the notional positions should have a value equal to either:

(a) the contracted amount of each currency to be exchanged in a forward, future or contract for differences held outside the trading book; or

(b) the present value of the amount of each currency to be exchanged in a forward, future or contract for differences held in the trading book.

Foreign currency swaps

4.12.35 G  (1) A firm should treat a foreign currency swap as:

(a) a long notional position in the currency in which the firm has contracted to receive interest and principal; and

(b) a short notional position in the currency in which the firm has contracted to pay interest and principal.

(2) In (1), the notional positions should have a value equal to either:

(a) the nominal amount of each currency underlying the swap if it is held outside the trading book; or
(b) the present value amount of all cash flows in the relevant currency in the case of a swap held in the trading book.

Futures, forwards and contract for differences on a single commodity

4.12.36 G Where a forward, future or contract for differences settles according to:

(1) the difference between the price set on trade date and the price prevailing at contract expiry, the notional position should:

(a) equal the total quantity underlying the contract; and

(b) have a maturity equal to the expiry date of the contract;

(2) the difference between the price set on trade date and the average of prices prevailing over a certain period up to contract expiry, a notional position should be derived for each of the reference dates used in the averaging period to calculate the average price, which:

(a) equals a fractional share of the total quantity underlying the contract; and

(b) has a maturity equal to the relevant reference date.

Buying or selling a single commodity at an average of spot prices prevailing in the future

4.12.37 G Commitments to buy or sell at the average spot price of the commodity prevailing over some period between trade date and maturity should be treated as a combination of:

(1) a position equal to the full amount underlying the contract with a maturity equal to the maturity date of the contract, which should be:

(a) long, where the firm will buy at the average price; or

(b) short, where the firm will sell at the average price; and

(2) a series of notional positions, one for each of the reference dates where the contract price remains unfixed, each of which should:

(a) be long if the position under (1) is short, or short if the position under (1) is long;

(b) be equal to a fractional share of the total quantity underlying the contract; and
(c) have a maturity date of the relevant reference date.

Cash legs of repurchase agreements and reverse repurchase agreements

4.12.38 G The forward cash leg of a repurchase agreement or reverse repurchase agreement should be treated as a notional position in a zero specific risk security that:

(1) is a short notional position in the case of a repurchase agreement and a long notional position in the case of a reverse repurchase agreement;

(2) has a value equal to the market value of the borrowing or deposit;

(3) has a maturity equal to that of the borrowing or deposit, or the next date the interest rate is reset (if earlier); and

(4) has a coupon equal to:

   (a) zero, if the next interest payment date coincides with the maturity date; or

   (b) the interest rate on the borrowing or deposit, if any interest is due to be paid before the maturity date.

Expectations relating to internal models

4.12.39 G MIFIDPRU 4.12.40G to MIFIDPRU 4.12.65G describe some of the standards that the FCA expects to be met when it is considering an application under MIFIDPRU 4.12.4R to use an internal model.

High-level standards

4.12.40 G A firm should be able to demonstrate that it meets the risk management standards in article 368 of the UK CRR (Qualitative requirements) on a legal entity and business-line basis where appropriate. This is particularly important for a subsidiary in a group subject to matrix management where the business lines cut across legal entity boundaries.

Categories of position

4.12.41 G A VaR model permission generally sets out the broad classes of position within each risk category in its scope. It may also specify how individual products within one of the classes may be brought into or taken out of the scope of the VaR model permission. The broad classes of permission are:

(1) linear products, which comprise securities with linear pay-offs (such as bonds and equities) and derivative products which
have linear pay-offs in the underlying risk factor (such as interest rate swaps, FRAs, and total return swaps);

(2) European, American and Bermudan put and call options (including caps, floors, and swaptions) and investments with these features;

(3) Asian options, digital options, single barrier options, double barrier options, look-back options, forward-starting options, compound options and investments with these features; and

(4) all other option-based products (such as basket options, quantos, outperformance options, timing options, and correlation-based products) and investments with these features.

Data standards

4.12.42 G A firm should ensure that the data series used by its VaR model is reliable. Where a reliable data series is not available, the firm may use proxies or any other reasonable value-at-risk measurement if the model meets the requirements in article 367(2)(e) of the UK CRR (Requirements on risk measurement). The technique must be appropriate and must not materially understate the modelled risks.

4.12.43 G Data may be insufficient if, for example, it contains missing data points or data points that contain stale data. For less liquid risk factors or positions, the FCA expects the firm to make a conservative assessment of those risks, using a combination of prudent valuation techniques and alternative VaR estimation techniques to ensure there is a sufficient cushion against risk over the close-out period, which takes account of the illiquidity of the risk factor or position.

4.12.44 G A firm is expected to update data sets to maintain standards of reliability in accordance with the frequency set out in its VaR model permission, or more frequently if necessary due to volatility in market prices or rates. This is in order to ensure a prudent calculation of the VaR measure.

Aggregating VaR measures

4.12.45 G (1) In determining whether it is appropriate for a firm to use empirical correlations within risk categories and across risk categories within a model, the FCA will consider whether such an approach is sound and implemented with integrity. In general, the FCA expects a firm to determine the aggregate VaR measure by adding the relevant VaR measure for each category, unless the firm's permission provides for a different method of aggregating VaR measures that is empirically sound.
(2) The FCA does not expect a firm to use the square root of the sum of the squares approach when aggregating measures across risk categories unless the assumption of zero correlation between these categories is empirically justified. If correlations between risk categories are not empirically justified, the VaR measures for each category should simply be added to determine its aggregate VaR measure. However, to the extent that a firm’s VaR model permission provides for a different way of aggregating VaR measures:

(a) that method applies instead; and

(b) if the correlations between risk categories used for that purpose cease to be empirically justified then the firm is expected to notify the FCA immediately.

Testing prior to model validation

4.12.46 G A firm should demonstrate its ability to comply with the requirements for a VaR model permission. In general, a firm should have a back-testing programme in place and should provide 3 months of back-testing history.

4.12.47 G A firm should carry out a period of initial monitoring or live testing before the FCA will recognise a VaR model. This will be agreed on a firm-by-firm basis.

4.12.48 G The FCA will take into account the results of internal model validation procedures used by the firm to assess the VaR model when assessing the firm’s VaR model and risk management.

Back-testing

4.12.49 G MIFIDPRU 4.12.50G to MIFIDPRU 4.12.53G provide further guidance on how a firm should comply with the requirements in article 366 of the UK CRR (Regulatory back testing and multiplication factors).

4.12.50 G If the day on which a loss is made is day n, the value-at-risk measure for that day will be calculated on day n-1, or overnight between day n-1 and day n. Profit and loss figures are produced on day n+1, and back-testing also takes place on day n+1. The firm’s supervisor should be notified of any overshootings by close of business on day n+2.

4.12.51 G Any overshooting initially counts for the purpose of the calculation of the plus factor, even if subsequently the FCA agrees to exclude it. Therefore, where the firm experiences an overshooting and already has 4 or more overshootings during the previous 250 business days, changes to the multiplication factor resulting from changes to the plus factor become effective at day n+3.
4.12.52 G A longer time period generally improves the power of back-testing. However, a longer time period may not be desirable if the VaR model or market conditions have changed to the extent that historical data is no longer relevant.

4.12.53 G The FCA will review a firm’s processes and documentation relating to the derivation of profit and loss used for back-testing when assessing a VaR model permission application under MIFIDPRU 4.12.4R. A firm’s documentation should clearly set out the basis for cleaning profit and loss. To the extent that certain profit and loss elements are not updated every day (for example, certain reserve calculations), the documentation should clearly set out how such elements are included in the profit and loss series.

Planned changes to the VaR model

4.12.54 G Under MIFIDPRU 4.12.6R, a firm must provide the FCA with details of any significant planned changes to the VaR model before those changes are implemented. This must include detailed information about the nature of the change, including an estimate of the impact on VaR numbers and the incremental risk charge. Material changes to internal models or material extensions to the use of internal models will require prior approval from the FCA.

Bias from overlapping intervals for 10-day VaR and stressed VaR

4.12.55 G The use of overlapping intervals of 10-day holding periods for article 365 of the UK CRR (VaR and sVaR calculation) introduces an autocorrelation into the data that would not exist should truly independent 10-day periods be used. This may give rise to an under-estimation of the volatility and the VaR at the 99% confidence level. To obtain clarity on the materiality of the bias, a firm should measure the bias arising from the use of overlapping intervals for 10-day VaR and sVaR when compared to using independent intervals. A report on the analysis, including a proposal for a multiplier on VaR and sVaR to adjust for the bias, should be submitted to the FCA for review and approval.

Stressed VaR calculation

4.12.56 G Under article 365 of the UK CRR (VaR and sVaR calculation), a firm that uses an internal model for calculating its K-NPR requirement must calculate, at least weekly, a sVaR of their current portfolio. The FCA would expect a sVaR internal model to contain the features in MIFIDPRU 4.12.57G to MIFIDPRU 4.12.60G before the FCA will grant permission to use the relevant model.

Quantile estimator

4.12.57 G A firm should calculate the sVaR measure to be greater than or equal to the average of the second and third worst loss in a 12-month time
series comprising of 250 observations. The FCA expects, as a minimum, that a corresponding linear weighting scheme should be applied if the firm uses a larger number of observations.

Meaning of ‘period of significant financial stress relevant to the institution’s portfolio’

4.12.58 G A firm should ensure that the sVaR period chosen is equivalent to the period that would maximise VaR, given the firm’s portfolio. A stressed period should be identified at each legal entity level at which capital is reported. Therefore, group level sVaR measures should be based on a period that maximises the group level VaR, whereas entity level sVaR should be based on a period that maximises VaR for that entity.

Antithetic data

4.12.59 G The firm should consider whether the use of antithetic data in the calculation of the sVaR measure is appropriate to the firm’s portfolio. The firm should provide a justification to the FCA for using or not using antithetic data as part of an application to use an internal model.

Absolute and relative shifts

4.12.60 G In its application to use an internal model, the firm should explain the reasons for the choice of absolute or relative shifts for both VaR and sVaR methodologies. In particular, the firm should evidence the statistical processes driving the risk factor changes for both VaR and sVaR.

4.12.61 R A firm that uses an internal model must submit the following information to the FCA on a quarterly basis:

1. analysis to support the equivalence of the firm’s current approach to a VaR-maximising approach on an ongoing basis;
2. the reasons for the selection of key major risk factors used to find the period of significant financial stress;
3. a summary of ongoing internal monitoring of stressed period selection for the current portfolio;
4. analysis to support capital equivalence of upscaled 1-day VaR and sVaR measures to corresponding full 10-day VaR and sVaR measures;
5. a graphed history of sVaR/VaR ratio;
6. analysis to demonstrate accuracy of partial revaluation approaches specifically for sVaR purposes (for firms using revaluation ladders or spot/vol-matrices), including a review of the ladders/matrices or spot/vol-matrices, ensuring that they...
are extended to include wider shocks to risk factors that occur in stress scenarios; and

(7) minutes of risk committee meetings or other evidence of governance and senior management oversight of sVaR methodology.

4.12.62 G Under article 372 of the UK CRR (Requirement to have an internal IRC model), a firm that uses an internal model for calculating own funds requirements for specific risk of traded debt instruments must also have an internal incremental default and migration risk (IRC) model in place to capture the default and migration risk of its trading book positions that are incremental to the risks captured by its VaR model. When the FCA considers a firm’s application for permission to use an IRC internal model under MIFIDPRU 4.12.4R, it expects that the matters in MIFIDPRU 4.12.63G to MIFIDPRU 4.12.65G will be included to demonstrate compliance with the standards in article 372.

Basis risks for migration

4.12.63 G The FCA expects the IRC model to capitalise pre-default basis risk. In this respect, the model should reflect that in periods of stress the basis could widen substantially. The firm should disclose to the FCA its material basis risks that are incremental to those already captured in existing market risk capital measures (VaR-based and others). This must take into account actual close-out periods during periods of illiquidity.

Price/spread change model

4.12.64 G The price/spread change model used to capture the profit and loss impact of migration should calibrate spread changes to long-term averages of differences between spreads for relevant ratings. These should either be conditioned on actual rating events, or use the entire history of spreads regardless of migration. Point-in-time estimates are not acceptable, unless the firm can demonstrate that they are as conservative as long-term averages.

Dependence of the recovery rate on the economic cycle

4.12.65 G To achieve a soundness standard comparable to those under the Internal Ratings Based (IRB) approach, loss given default (LGD) estimates should reflect the economic cycle. Therefore, the FCA expects a firm to incorporate dependence of the recovery rate on the economic cycle into the IRC model. If the firm uses a conservative parameterisation to comply with the IRB standard of the use of downturn estimates, the firm should submit evidence of this in its quarterly reporting to the FCA. A firm should note that for trading portfolios that contain long and short positions, downturn estimates will not be a conservative choice in all cases.
Permission to use sensitivity models to calculate interest rate risk on derivative instruments

4.12.66 R (1) A firm must obtain prior permission from the FCA to use a sensitivity model in accordance with article 331(1) of the UK CRR to calculate the interest rate risk for positions in:

(a) derivative instruments under articles 328 to 330 of the UK CRR; or

(b) any bond which is amortised over its residual life, rather than via one final payment of principal.

(2) To obtain the permission in (1), a firm must:

(a) where the permission relates to one or more of the derivative instruments in (1)(a), mark to market the instruments and manage the interest rate risk on the instruments on a discounted cash flow basis;

(b) complete the form in MIFIDPRU 4 Annex 6R and submit it using the online notification and application system; and

(c) in its application under (b), demonstrate to the satisfaction of the FCA that:

(i) the model generates positions that have the same sensitivity to interest rate changes as the underlying cash flows; and

(ii) the sensitivity in (i) is assessed with reference to independent movements in sample rates across the yield curve, with at least one sensitivity point in each of the maturity bands set out in Table 2 in article 339 of the UK CRR.

(3) Where a firm has been granted permission to apply a sensitivity model under this rule, any relevant positions must be included in the firm’s calculation of its general risk of debt instruments for its K-NPR requirement.

4.13 K-CMG requirement

4.13.1 R (1) Subject to (2), the K-CMG requirement applies to a MIFIDPRU investment firm for portfolios for which the firm has been granted a K-CMG permission.

(2) A MIFIDPRU investment firm must include a position specified in MIFIDPRU 4.11.8R within the calculation of its K-NPR requirement if that position:
(a) is included in a portfolio for which the firm has been granted a K-CMG permission;

(b) is a proprietary position of the firm that results from a trade that has settled;

(c) is not included in the calculation of the required margin under the margin model of the clearing member or authorised central counterparty in MIFIDPRU 4.13.9R(2)(b); and

(d) is not a position to which the clearing member or authorised central counterparty has applied a “haircut” of the type specified in MIFIDPRU 4.13.6R(2).

4.13.2 G MIFIDPRU 4.13.1R(2) is intended to cover the risks arising from proprietary trades that form part of a portfolio for which a firm has a K-CMG permission. Where trades have settled, the resulting proprietary position of the firm may no longer be included within the margin requirement calculated by the clearing member or authorised central counterparty for that portfolio and therefore would not contribute to the firm’s K-CMG requirement. The firm should therefore include these positions within its calculation of the K-NPR requirement to take account of the resulting market risk. For these purposes, a firm is not required to apply this approach to a position that results from client servicing.

4.13.3 G In an application for a K-CMG permission, a firm must identify each portfolio for which it wishes to calculate a K-CMG requirement.

4.13.4 G MIFIDPRU 4.11.8R(2) includes positions held outside the trading book that give rise to foreign exchange or commodities risk. The FCA considers that it is unlikely that such positions would be eligible for a K-CMG permission. Therefore, even if the FCA has granted a K-CMG permission in relation to all portfolios in the firm’s trading book, a firm may need to calculate a K-NPR requirement in relation to positions it holds outside of the trading book.

4.13.5 R The K-CMG requirement of a MIFIDPRU investment firm must be calculated using the following formula:

\[ K\text{-CMG requirement} = TM \times 1.3 \]

where TM is the third highest amount of total margin as calculated under MIFIDPRU 4.13.6R required from the firm on a daily basis over the preceding 3 months.

4.13.6 R For the purposes of MIFIDPRU 4.13.5R, the total margin must be calculated as the sum of the following in relation to all clearing
members and to the extent that MIFIDPRU 4.13.9R(2)(c)(i) applies, all authorised central counterparties:

(1) the amount of margin required by the margin model referenced in MIFIDPRU 4.13.9R(2)(e); plus

(2) the value of any “haircut” applied by the clearing member or authorised central counterparty to positions included in the portfolio that represent settled trades and which the clearing member or authorised central counterparty is treating as collateral to secure the present or future obligations of the MIFIDPRU investment firm.

4.13.7 G MIFIDPRU 4.13.6R requires a MIFIDPRU investment firm to determine the amount of margin that is required under the relevant margin model of each clearing member (or, for a self-clearing firm, of each authorised central counterparty) for portfolios in respect of which the firm has been granted a K-CMG permission. For these purposes, the clearing member’s (or, where applicable, authorised central counterparty’s) margin model must satisfy the criteria in MIFIDPRU 4.13.14R. The effect of MIFIDPRU 4.13.6R is that if, notwithstanding the requirement under the margin model, the MIFIDPRU investment firm agrees with the clearing member or authorised central counterparty to provide a different amount of margin, it is the amount required under the model that must be used for the purposes of calculating the firm’s K-CMG requirement and not the amount of margin that is actually provided by the firm. This ensures that the firm’s K-CMG requirement is not artificially reduced by commercial negotiations that may result in the clearing member or authorised central counterparty accepting a lower amount of margin than the model requires.

4.13.8 G The calculation in MIFIDPRU 4.13.5R means that for each trading day during the calculation period, the firm must calculate the total combined margin in accordance with MIFIDPRU 4.13.6R provided to all clearing members in aggregate in respect of the relevant portfolios. The K-CMG requirement is then calculated on the basis of the third highest daily aggregate amount.

4.13.9 R To obtain a K-CMG permission for a portfolio, a firm must:

(1) complete the application form in MIFIDPRU 4 Annex 7R and submit it using the online notification and application system;

(2) in the application, demonstrate to the satisfaction of the FCA that:

(a) the firm is not part of a group containing a credit institution;
(b) the clearing and settlement of the transactions in the relevant portfolio take place under the responsibility of a clearing member of an authorised central counterparty;

(c) the clearing member in (b) is one of the following:

(i) a MIFIDPRU investment firm (which may be the firm itself, where it is self-clearing);

(ii) a UK credit institution;

(iii) a designated investment firm;

(iv) a third country investment firm; or

(v) a credit institution established in a third country;

(d) transactions in the relevant portfolio are either:

(i) centrally cleared in an authorised central counterparty; or

(ii) settled on a delivery-versus-payment basis under the responsibility of the clearing member in (b);

(e) the firm is required to provide total margin calculated on the basis of a margin model that satisfies the criteria in MIFIDPRU 4.13.14R and is operated by:

(i) where the clearing member in (b) (where applicable, including the firm itself) is a MIFIDPRU investment firm or a third country investment firm, the authorised central counterparty in (b); or

(ii) in any other case, the relevant clearing member in (b);

(f) the reasons for the firm’s choice of calculating a K-CMG requirement for the portfolio have been clearly documented and approved by the firm’s management body or risk management function; and

(g) the choice of the portfolio to be subject to a K-CMG requirement has not been made with a view to engaging in regulatory arbitrage between the K-NPR requirement and the K-CMG requirement in a disproportionate or prudentially unsound manner.

4.13.10 R (1) A firm that has been granted a K-CMG permission for a portfolio must notify the FCA immediately if it becomes
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aware that any of the conditions in MIFIDPRU 4.13.9R are no longer met in relation to the portfolio.

(2) The notification in (1) must be made using the form in MIFIDPRU 4 Annex 8R and submitted via the online notification and application system.

4.13.11 G The FCA may revoke a K-CMG permission for a portfolio where one or more of the conditions in MIFIDPRU 4.13.9R is no longer met in relation to that portfolio. The FCA may review the appropriateness of any K-CMG permissions as part of any SREP it undertakes in relation to the firm in accordance with MIFIDPRU 7.

4.13.12 R A firm that is an indirect client of a clearing member may obtain a K-CMG permission if:

(1) the indirect clearing arrangement satisfies all of the conditions in MIFIDPRU 4.13.9R and both the clearing member and the client of the clearing member that is providing clearing services to the firm are entities that are listed in MIFIDPRU 4.13.9R(2)(c); and

(2) the FCA is satisfied that the relevant arrangement does not result in undue risks.

4.13.13 R (1) A firm that is relying on a K-CMG permission must ensure that:

(a) the individuals in the firm who are responsible for the firm’s risk management function, or for the oversight of that function, have a reasonable understanding of the operation of the margin model referred to in MIFIDPRU 4.13.9R(2)(e); and

(b) the firm integrates this understanding of the margin model into its ICARA process for the purposes of considering whether:

(i) the resulting K-CMG requirement is sufficient to cover the relevant risks to which the firm is exposed; and

(ii) the K-CMG permission remains appropriate in relation to the portfolio(s) for which it was granted.

(2) For the purposes of (1), a firm may use suitable advice or analysis provided by an appropriate third party, but the firm is responsible for ensuring that the individuals in (1)(a) have the necessary knowledge and understanding of the margin model.

(3) An appropriate third party under (2) includes:
(a) a suitably qualified professional adviser;

(b) the relevant clearing member; or

(c) another undertaking within the same investment firm group as the firm where individuals within that undertaking have the requisite knowledge and understanding of the margin model.

4.13.14 R (1) The criteria referred to in MIFIDPRU 4.13.9R(2)(e) are that:

(a) the margin requirements are sufficient to cover losses that may result from at least 99% of the exposures movements over an appropriate time horizon with at least a two-business day holding period; and

(b) the margin model used by the clearing member or authorised central counterparty to call the margin is always designed to achieve a level of prudence similar to that required in the provisions on margin requirements in article 41 of EMIR.

(2) If the parameters of a margin model operated by a clearing member or authorised central counterparty do not meet the criteria in (1)(a), those criteria shall nonetheless be deemed to be met if:

(a) an adjustment mechanism is applied to produce an alternative margin requirement; and

(b) the alternative requirement in (a) is at least equivalent to the margin requirement that would be produced by a margin model that meets the criteria in (1)(a).

(3) An adjustment mechanism under (2) may be applied by either of the following, provided that the conditions in (4) are met:

(a) the relevant clearing member; or

(b) the MIFIDPRU investment firm that has been granted the relevant K-CMG permission.

(4) The conditions are that the MIFIDPRU investment firm that has been granted the relevant K-CMG permission:

(a) can provide to the FCA upon request a reasonable explanation of the adjustment that has been applied under (2); and

(b) monitors and reviews the effectiveness of the adjustment mechanism on an ongoing basis as part of its ICARA process.
4.13.15  G  (1) MIFIDPRU 4.13.14R(2) permits the output of a margin model of a clearing member or authorised central counterparty to be adjusted to meet the criteria in MIFIDPRU 4.13.14R(1)(a). The adjustment is used solely to determine the K-CMG requirement of a firm. It does not affect the actual amount of margin that the clearing member or authorised central counterparty will receive from the firm, which will continue to be determined by the underlying (unadjusted) model.

(2) For example, the clearing member’s or authorised central counterparty’s original margin model may produce margin requirements that are sufficient to cover losses that may result from at least 95% of the exposures movements over a two-business day holding period. This would not meet the minimum criteria in MIFIDPRU 4.13.14R(1)(a). To determine the firm’s K-CMG requirement, the output of that model may be adjusted to produce a requirement that would cover losses that may result from at least 99% of the exposures movements over that same holding period. If the conditions in MIFIDPRU 4.13.14R(3) and (4) are satisfied, the minimum criteria in MIFIDPRU 4.13.14R(1)(a) will be deemed to be met when the adjustment is applied. This is the case even though the actual margin received by the clearing member or authorised central counterparty is determined by the underlying (unadjusted) model.

4.13.16  G  Where the margin model of a clearing member uses parameters that are more conservative than the minimum criteria in MIFIDPRU 4.13.14R(1), the output of the model may be adjusted downwards under MIFIDPRU 4.13.14R(2) to produce margin requirements that are consistent with the minimum criteria. The requirements in MIFIDPRU 4.13.14R(3) and (4) still apply to a downwards adjustment. A firm is not required to apply a downwards adjustment to a more conservative model.

4.13.17  G  The FCA will consider whether the firm’s reasons for choosing a K-CMG requirement under MIFIDPRU 4.13.9R(2)(f) have taken adequate account of the nature of, and risks arising from, the firm’s trading activities, including whether:

(1) the main activities of the firm are essentially trading activities that are subject to clearing and margining under the responsibility of a clearing member; and

(2) other activities performed by the firm are immaterial in comparison to those main activities.

4.13.18  G  (1) For the purposes of MIFIDPRU 4.13.9R(2)(g), the fact that a K-CMG permission for a portfolio may result in a K-CMG requirement that is lower than the equivalent K-NPR requirement for that portfolio does not automatically mean
that the choice to apply a *K-CMG requirement* has been made with a view to engaging in regulatory arbitrage in a disproportionate or prudentially unsound manner.

(2) When considering whether the condition in *MIFIDPRU 4.13.9R(2)(g)* is satisfied, a *firm* should consider whether the *K-CMG requirement* that would result from the relevant *K-CMG permission* more closely reflects the underlying economic risk of the relevant *portfolio* when compared with the equivalent *K-NPR requirement* for the same *portfolio*.

(3) The *FCA* considers that even in circumstances where the *K-CMG requirement* is considerably lower than the equivalent *K-NPR requirement*, this does not automatically prevent a *firm* from meeting the conditions for a *K-CMG permission*. A significant difference between the two requirements may result from the calculation of the *K-CMG requirement* being better adapted for capturing the economic risks of the particular *portfolio* in question. For example, the margin model underlying the *K-CMG requirement* may have been specifically designed for *firms* that specialise in trading that type of *portfolio*. A *firm* that is applying for a *K-CMG permission* should provide a clear explanation of how the conditions in *MIFIDPRU 4.13.9R(2)* are satisfied for the *portfolio*. The *firm* should keep the appropriateness of a *K-CMG permission* under regular review as part of its ICARA process.

4.13.19 R (1) Except where (2) applies, a *firm* that has a *K-CMG permission* for a *portfolio* must calculate a *K-CMG requirement* for that *portfolio* for a continuous period of at least 24 *months* from the date that the permission is granted.

(2) The requirement in (1) does not apply if:

(a) the *FCA* revokes the relevant *K-CMG permission* in relation to that *portfolio* on its own initiative in the circumstances described in *MIFIDPRU 4.13.11G*; or

(b) the business strategy or operations of the *trading desk* with responsibility for the *portfolio* have changed to such an extent that it has become a different *trading desk*.

4.13.20 R (1) Where a *firm* that has been granted a *K-CMG permission* in relation to a *portfolio* subsequently chooses to calculate a *K-NPR requirement* for that *portfolio*, the *firm* must submit the notification in (2) to the *FCA* before the *firm* begins to calculate the *K-NPR requirement*.

(2) The notification in (1) must:
4.14 K-TCD requirement

4.14.1 R (1) The K-TCD requirement of a MIFIDPRU investment firm is an amount equal to the sum of the TCD own funds requirement for all transactions specified in (2).

(2) This rule applies to the transactions in MIFIDPRU 4.14.3R where the transactions:

(a) are recorded in the trading book of a firm dealing on own account (whether for itself or on behalf of a client); or

(b) in the case of the transactions specified in MIFIDPRU 4.14.3R(7), are carried out by a firm that has the necessary permissions to deal on own account.

4.14.2 G (1) The effect of MIFIDPRU 4.14.1R(2)(b) is that where a firm is authorised to deal on own account, it must include in the calculation of its K-TCD requirement any transactions specified in MIFIDPRU 4.14.3R(7). This applies even if the firm’s involvement in the transaction does not constitute dealing on own account and the transaction may not be recorded in its trading book.

(2) A firm that is not authorised to deal on own account is not subject to the K-TCD requirement under MIFIDPRU 4.14.1R, even if it is involved in a transaction that would otherwise fall within MIFIDPRU 4.14.3R(7).

Transactions to which K-TCD applies

4.14.3 R Subject to MIFIDPRU 4.14.5R, the transactions to which MIFIDPRU 4.14.1R applies are as follows:
(1) derivative contracts listed in Annex II to the UK CRR, with the exception of the following:

(a) derivative contracts directly or indirectly cleared through a CCP, where all of the following conditions are met:

(i) the positions and assets of the firm related to the contracts are distinguished and segregated, at the level of both the clearing member and the CCP, from the position and assets of the clearing member and the other clients of that clearing member and, as a result of that distinction and segregation, those positions and assets are bankruptcy remote under applicable law in the event of default or insolvency of the clearing member or one or more of its other clients;

(ii) the legal requirements applicable to or binding the clearing member facilitate the transfer of the client’s positions relating to the contracts and of the corresponding collateral to another clearing member within the applicable margin period of risk in the event of default or insolvency of the original clearing member; and

(iii) the firm has obtained an independent, written and reasoned legal opinion that concludes that, in the event of a legal challenge, the firm would bear no losses on account of the insolvency of its clearing member or of any of its clearing member's clients;

(b) exchange-traded derivative contracts; and

(c) derivative contracts held for hedging a position of the firm resulting from an activity outside the trading book;

(2) long settlement transactions;

(3) repurchase transactions;

(4) securities or commodities lending or borrowing transactions;

(5) margin lending transactions;

(6) any other types of securities financing transactions; and

(7) credits and loans referred to in the activity in point 2 of paragraph 1 of Part 3A of Schedule 2 to the Regulated Activities Order, if the firm is:
4.14.4 R A derivative contract that is directly or indirectly cleared through an authorised central counterparty is deemed to meet the conditions in MIFIDPRU 4.14.3R(1)(a).

4.14.5 R The K-TCD requirement does not apply to transactions with the following counterparties:

(1) central governments and central banks, where the underlying exposures would receive a 0% risk weight under article 114 of the UK CRR;  

(2) multilateral development banks listed in article 117(2) of the UK CRR; or 

(3) international organisations listed in article 118 of the UK CRR.

4.14.6 R (1) With the prior consent of the FCA, a firm may exclude transactions with the following counterparties from the calculation of its K-TCD requirement under MIFIDPRU 4.14.1R:

(a) its parent undertaking;  

(b) its subsidiary; 

(c) a subsidiary of its parent undertaking; or  

(d) an undertaking with which the firm is linked by majority common management.

(2) To obtain the FCA consent in (1), the firm must demonstrate all of the following to the satisfaction of the FCA:

(a) the counterparty is subject to appropriate prudential requirements and is one of the following:

   (i) a credit institution;  

   (ii) an investment firm; or  

   (iii) a financial institution;  

(b) the counterparty is:

   (i) included in the same prudential consolidation group as the firm on a full basis in accordance
with the *UK CRR* or the consolidation provisions in *MIFIDPRU* 2.5; or

(ii) supervised along with the *firm* for compliance with the group capital test in *MIFIDPRU* 2.6;

(c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the *firm*;

(d) the counterparty is established in the *UK*; and

(e) there is no current or foreseen material practical or legal impediment to the prompt transfer of *own funds* or repayment of liabilities from the counterparty to the *firm*.

(3) To apply for *FCA* consent under (1), a *firm* must complete the form in *MIFIDPRU* 4 Annex 10R and submit it using the online notification and application system.

**Calculation of TCD own funds requirement**

4.14.7 **R** The *TCD own funds requirement* for each transaction or netting set must be calculated using the following formula:

\[
TCD\ own\ funds\ requirement = \alpha \times EV \times RF \times CVA
\]

where:

(1) \( \alpha = 1.2 \)

(2) \( EV = \) the exposure value calculated in accordance with *MIFIDPRU* 4.14.8R

(3) \( RF = \) the risk factor applicable to the counterparty type as set out in the table in *MIFIDPRU* 4.14.29R

(4) \( CVA = \) the credit valuation adjustment calculated in accordance with *MIFIDPRU* 4.14.30R

**Exposure value**

4.14.8 **R** The exposure value must be calculated using the following formula:

\[
\text{Exposure value} = \text{Max (0; RC + PFE – C)}
\]

where:

(1) \( RC = \) the replacement cost calculated in accordance with *MIFIDPRU* 4.14.9R (which may be a positive value, thereby increasing the exposure value, or a negative value, thereby decreasing the exposure value)
(2) PFE = potential future exposure calculated in accordance with MIFIDPRU 4.14.10R

(3) C = collateral as determined in accordance with MIFIDPRU 4.14.24R and MIFIDPRU 4.14.25R (which may be a positive value, thereby decreasing the exposure value, or a negative value, thereby increasing the exposure value)

Replacement cost

4.14.9 R (1) A firm must calculate the replacement cost for all transactions referred to in MIFIDPRU 4.14.3R.

(2) The replacement cost must be determined as follows:

(a) for derivative contracts, the replacement cost is the CMV;

(b) for long settlement transactions, the replacement cost is the settlement amount of cash to be paid or to be received by the firm upon settlement, with a receivable being treated as a positive amount and a payment being treated as a negative amount;

(c) unless (d) applies, for repurchase transactions and securities or commodities lending or borrowing transactions, the replacement cost is the amount of cash lent or borrowed, with cash lent by the firm being treated as a positive amount and cash borrowed by the firm being treated as a negative amount;

(d) for securities financing transactions, where both legs of the transaction are securities, the replacement cost is the CMV of the security lent by the firm, increased by the corresponding volatility adjustment in MIFIDPRU 4.14.25R; and

(e) for margin lending transactions and the credits and loans referred to in MIFIDPRU 4.14.3R(7), the replacement cost is the book value of the asset in accordance with the applicable accounting framework.

Potential future exposure

4.14.10 R (1) A firm is required to calculate potential future exposure (PFE) only for derivative contracts.

(2) A firm must calculate the potential future exposure for derivative contracts in a netting set using one of the following approaches:
(a) the hedging approach in *MIFIDPRU* 4.14.14R; or

(b) the derivative netting ratio approach in *MIFIDPRU* 4.14.18R.

4.14.11  R  Where a single derivative contract cannot be allocated to a *netting set* with other derivative contracts, it must be treated as a separate *netting set* for the purposes of *MIFIDPRU* 4.14.10R.

4.14.12  R  A *firm* must apply its chosen approach under *MIFIDPRU* 4.14.10R:

(1) continuously for at least 24 months; and

(2) consistently across all its *netting sets*.

Potential future exposure: hedging approach

4.14.13  G  (1) If a derivative contract has a negative replacement cost, a *firm* should still calculate a PFE in relation to that contract if it is possible for the replacement cost to become positive before the maturity date.

(2) As the replacement cost of an individual written option can never be a positive amount, written options are exempt from the requirement to calculate a PFE, unless they are subject to netting with contracts other than written options for the purposes of calculating PFE in accordance with *MIFIDPRU* 4.14.14R and *MIFIDPRU* 4.14.16R.

(3) If a written option is subject to netting for the purposes of calculating PFE, a *firm* may cap the PFE in relation to that option at an amount that would result in a replacement cost of zero.

4.14.14  R  (1) For the purposes of calculating the PFE of derivative contracts included within a *netting set* under *MIFIDPRU* 4.14.16R, a *firm* must:

(a) calculate the effective notional amount of each contract (EN) in accordance with *MIFIDPRU* 4.14.20R;

(b) allocate each derivative contract to an asset class in accordance with (2) and (3); and

(c) calculate a separate net notional amount for each asset class in (b) by netting the EN of all derivative contracts allocated to that asset class, with long positions to be treated as positive amounts and short positions to be treated as negative amounts.

(2) Subject to (3), a *firm* must assign derivative contracts to separate asset classes as follows:
(a) except as specified in (b) to (d), a derivative contract must be allocated to the relevant asset class specified in the table in MIFIDPRU 4.14.22R;

(b) interest rate derivatives must be allocated to separate asset classes according to their currency;

(c) foreign exchange derivatives must be allocated to separate asset classes according to each currency pair; and

(d) derivative contracts falling within the “other” class in MIFIDPRU 4.14.22R may be allocated to the same class if their primary risk driver is identical, but otherwise must each be treated as a separate class.

(3) Derivative contracts that would fall within a specific asset class under (2) must be allocated to a separate asset class if:

(a) they reference the basis between two risk factors and are denominated in a single currency (i.e. they are basis transactions), in which case all basis transactions referencing that same pair of risk factors must be allocated to a separate asset class; or

(b) they reference the volatility of a risk factor (i.e. they are volatility transactions), in which case all volatility transactions referencing that same risk factor must be allocated to a separate asset class.

4.14.15 G (1) MIFIDPRU 4.14.14R(2) defines the main asset classes to which derivative contracts should be assigned to calculate the potential future exposure of a netting set. For example, a single name equity derivative would be allocated to the equity single name asset class in MIFIDPRU 4.14.22R, while a credit derivative would be allocated to the credit asset class in that rule.

(2) MIFIDPRU 4.14.14R(3) requires basis transactions or volatility swaps that would otherwise fall within one of the main asset classes in MIFIDPRU 4.14.14R(2) to be allocated to separate asset classes. The separate asset classes are defined according to the relevant risk factor or pair of risk factors.

(3) For example, an equity index future on Equity Index A and another equity index future on Equity Index B would be allocated to the same asset class under MIFIDPRU 4.14.14R(2)(a), as they both fall within the asset class (i.e. equity indices) in MIFIDPRU 4.14.22R. However, a volatility swap that references Equity Index A must be allocated to a separate class under MIFIDPRU 4.14.14R(3)(b), but can be
grouped with another volatility swap that also references Equity Index A (i.e. the same risk factor).

(4) For derivative contracts relating to foreign exchange, a firm may net contracts relating to a currency pair (for example, USD/EUR) against contracts relating to the inverse pair (i.e. in this example, EUR/USD) by treating one pair as a long position and the inverse pair as a short position.

(5) For interest rate derivative contracts that have multiple legs, the firm should add together the notional amounts of the positive (receive) and negative (pay) legs, after adjusting for the duration and the supervisory delta in accordance with the calculation of the effective notional amount in MIFIDPRU 4.14.20R. The net amount should then be included in the calculation of PFE.

4.14.16 R For the purposes of MIFIDPRU 4.14.10R(2)(a), a firm must calculate the potential future exposure of derivative contracts included within a netting set by:

(1) multiplying the absolute value of the net notional amount under MIFIDPRU 4.14.14R(1)(c) for each asset class within the netting set by the supervisory factor for that asset class specified in MIFIDPRU 4.14.22R;

(2) adding together the product of the calculation in (1) for all asset classes within the netting set; and

(3) multiplying the sum under (2) by:

(a) 0.42, for netting sets of transactions with financial or non-financial counterparties for which, if required, collateral is exchanged bilaterally with the counterparty in accordance with the conditions laid down in article 11 of EMIR; or

(b) 1, for other netting sets.

Potential future exposure: derivative netting ratio approach

4.14.17 G (1) If a derivative contract has a negative replacement cost, a firm should still calculate a potential future exposure (PFE) in relation to that contract if it is possible for the replacement cost to become positive before the maturity date.

(2) As the replacement cost of an individual written option can never be a positive amount, written options are exempt from the requirement to calculate a PFE, unless they are subject to netting with contracts other than written options for the purposes of calculating PFE in accordance with MIFIDPRU 4.14.18R.
A firm must calculate a net potential future exposure for each netting set using the following formula:

\[ \text{PFEnet} = \frac{\text{RCnet}}{\text{RCgross}} \cdot \text{PFEgross} \]

where:

1. PFEnet = the net potential future exposure for the netting set;
2. PFEgross = the sum of the potential future exposure of all derivative contracts included in the netting set, calculated by multiplying the absolute value of the effective notional amount of each derivative contract (as calculated in accordance with MIFIDPRU 4.14.20R) by the relevant supervisory factor for the corresponding asset class specified in MIFIDPRU 4.14.22R;
3. RCnet = the sum of the replacement cost (as determined in accordance with MIFIDPRU 4.14.9R) of all transactions included in the netting set, unless that sum is a negative amount, in which case RCnet is zero; and
4. RCgross = the sum of the replacement cost (as determined in accordance with MIFIDPRU 4.14.9R) of all transactions included in the netting set that have a positive CMV.

For the purposes of MIFIDPRU 4.14.10R(2)(b), the potential future exposure for the derivative contracts included within a netting set is the product of multiplying PFEnet (as determined in accordance with MIFIDPRU 4.14.18R) by:

1. 0.42, for netting sets of transactions with financial or non-financial counterparties for which, if required, collateral is exchanged bilaterally with the counterparty in accordance with the conditions laid down in article 11 of EMIR; or
2. 1, for other netting sets.

Effective notional amount

The effective notional amount is calculated as follows:

\[ \text{Effective notional amount} = N \times D \times SD \]

where:

(a) \( N \) = the notional amount, determined in accordance with (2);
(b) \( D \) = the duration, calculated in accordance with (3); and
(c) SD = the supervisory delta, calculated in accordance with (5).

(2) The notional amount, unless clearly stated and fixed until maturity, is determined as follows:

(a) for foreign exchange derivative contracts:

(i) if one leg of the contract is in the domestic currency, the notional amount is the notional amount of the foreign currency leg of the contract, converted into the domestic currency;

(ii) if both legs of the contract are denominated in currencies other than the domestic currency, the notional amount of each leg must be converted into the domestic currency and the leg with the larger value in the domestic currency is the notional amount; and

(iii) the term “domestic currency”, when used in this rule, refers to the currency in which the firm reports to the FCA;

(b) for equity and commodity derivatives contracts and emissions allowances and derivatives thereof, the notional amount is the product of the market price of one unit of the instrument and the number of units referenced by the trade;

(c) for transactions with multiple pay-offs that are state contingent including digital options or target redemption forwards, a firm must calculate the notional amount for each state and use the largest resulting calculation;

(d) where the notional is a formula of market values, the firm must use the CMVs to determine the trade notional amount;

(e) for variable notional swaps such as amortising and accreting swaps, a firm must use the average notional over the remaining life of the swap as the trade notional amount;

(f) leveraged swaps must be converted to the notional amount of the equivalent unleveraged swap so that where all of the rates in a swap are multiplied by a factor, the stated notional amount is multiplied by the factor on the interest rates to determine the notional amount; and
(g) for a derivative contract with multiple exchanges of principal, the stated notional amount must be multiplied by the number of exchanges of principal in the derivative contract to determine the notional amount.

(3) The duration must be determined in accordance with the following:

(a) for all derivative contracts other than interest rate contracts and credit derivative contracts, the duration is 1;

(b) for interest rate contracts and credit derivative contracts, the duration is determined in accordance with the following formula in which the time to maturity is specified in years:

\[
\text{Duration} = \frac{(1 - \exp(-0.05 \times \text{time to maturity}))}{0.05}
\]

(4) The maturity of a contract must be determined as follows:

(a) for an option, the maturity is the latest contractual exercise date as specified by the contract;

(b) for a derivative contact that is structured such that on specified dates, any outstanding exposure is settled and the terms are reset so that the fair value of the contract is zero, the remaining maturity is the time until the next reset date;

(c) for any other derivative contract, the maturity is the latest date on which the contract may still be executed; and

(d) in each case, if the derivative contract references the value of another interest rate or credit instrument, the time period must be determined on the basis of that underlying instrument.

(5) The supervisory delta must be determined as follows:

(a) for options and swaptions, the firm may calculate the supervisory delta itself by using an appropriate model if:

(i) the model the firm uses meets the minimum standards set out in MIFIDPRU 4.12.12G to 4.12.18G (Minimum standards for own estimates of delta), as modified by MIFIDPRU 4.14.21R, for each type of option or swaption for which it calculates delta;
(ii) the firm has notified the FCA that the minimum standards in (i) are met before the firm begins to use its own estimates for the relevant supervisory delta; and

(iii) the notification in (ii) is made using the form in MIFIDPRU 4 Annex 5R and submitted using the online notification and application system;

(b) for transactions other than options and swaptions, or transactions in respect of which a firm is unable to use an appropriate model in accordance with (a), the supervisory delta is 1 or -1; and

(c) in each case, the supervisory delta must reflect the relationship between the contract and the underlying, whereby a contract that increases exposure (by increasing RC) as the underlying increases shall have a positive supervisory delta, and a contract that decreases exposure (by decreasing RC) as the underlying increases shall have a negative supervisory delta.

4.14.21 R (1) When applying the minimum standards in MIFIDPRU 4.12.12G to 4.12.18G for the purposes of MIFIDPRU 4.14.20R(5)(a), the standards apply with the following modifications:

(a) a reference to the “standardised approach” is a reference to the rules in this section relating to the calculation of the K-TCD requirement; and

(b) a reference to the K-NPR requirement is a reference to the K-TCD requirement.

(2) In addition to the minimum standards in MIFIDPRU 4.12.12G to 4.12.18G a firm must also confirm to the FCA that the relevant model estimates the rate of change of the value of the option for small changes in the market value of the underlying.

4.14.22 R The supervisory factor for each asset class is set out in the following table:

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Supervisory factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>0.5%</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>4%</td>
</tr>
<tr>
<td>Credit</td>
<td>1%</td>
</tr>
<tr>
<td>Equity single name</td>
<td>32%</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----</td>
</tr>
<tr>
<td>Equity index</td>
<td>20%</td>
</tr>
<tr>
<td>Commodity and emission allowance</td>
<td>18%</td>
</tr>
<tr>
<td>Other</td>
<td>32%</td>
</tr>
</tbody>
</table>

4.14.23 R Transactions relating to gold or gold derivatives must be allocated to the foreign exchange asset class in *MIFIDPRU* 4.14.22R.

Value of collateral

4.14.24 R (1) This *rule* applies for the purposes of determining the value of C under *MIFIDPRU* 4.14.8R.

(2) For the transactions specified in *MIFIDPRU* 4.14.3R(1), (5) and (7), the value of the C is the notional amount of collateral received by the *firm*, decreased in accordance with the relevant volatility adjustment specified in *MIFIDPRU* 4.14.25R.

(3) Unless (4) applies, for the transactions specified in *MIFIDPRU* 4.14.3R(2), (3), (4) and (6), the value of the C is the sum of:

(a) the CMV of the *security* leg; and

(b) the net amount of collateral posted or received by the *firm*.

(4) For *securities financing transactions* where both legs of the transaction are *securities*, the value of the C is the CMV of the *security* borrowed by the *firm*.

(5) Where the *firm* is purchasing or has lent the *security*, the CMV of the *security* shall be treated as a negative amount and shall be decreased to a larger negative amount, using the volatility adjustment specified in *MIFIDPRU* 4.14.25R.

(6) Where the *firm* is selling or has borrowed the security, the CMV of the *security* shall be treated as a positive amount and be decreased by the volatility adjustment specified in *MIFIDPRU* 4.14.25R.

(7) Where different types of transactions are covered by a contractual netting agreement that meets the requirements in *MIFIDPRU* 4.14.28R(3), the applicable volatility adjustments in column C (volatility adjustment other transactions) of the table in *MIFIDPRU* 4.14.25R must be
applied to the respective amounts calculated under (3)(a) and (b) on an issuer basis within each asset class.

(8) Where there is a currency mismatch between the transaction and the collateral received or posted, an additional currency mismatch volatility adjustment of 8% shall apply.

4.14.25 R (1) A *firm* must apply the volatility adjustments in (2) to all transactions referred to in *MIFIDPRU* 4.14.3R.

(2) Collateral for bilateral and cleared transactions shall be subject to volatility adjustments in accordance with the following table:

<table>
<thead>
<tr>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset class</strong></td>
<td><strong>Volatility adjustment: repurchase transactions and securities lending and borrowing transactions</strong></td>
<td><strong>Volatility adjustment: other transactions</strong></td>
</tr>
<tr>
<td>Debt securities issued by central governments or central banks</td>
<td>≤ 1 year</td>
<td>0.707%</td>
</tr>
<tr>
<td></td>
<td>&gt; 1 year ≤ 5 years</td>
<td>2.121%</td>
</tr>
<tr>
<td></td>
<td>&gt; 5 years</td>
<td>4.243%</td>
</tr>
<tr>
<td>Debt securities issued by other entities</td>
<td>≤ 1 year</td>
<td>1.414%</td>
</tr>
<tr>
<td></td>
<td>&gt; 1 year ≤ 5 years</td>
<td>4.243%</td>
</tr>
<tr>
<td></td>
<td>&gt; 5 years</td>
<td>8.485%</td>
</tr>
<tr>
<td>Securitisation positions (excluding re-securitisation positions)</td>
<td>≤ 1 year</td>
<td>2.828%</td>
</tr>
<tr>
<td></td>
<td>&gt; 1 year ≤ 5 years</td>
<td>8.485%</td>
</tr>
<tr>
<td></td>
<td>&gt; 5 years</td>
<td>16.970%</td>
</tr>
<tr>
<td>Listed equities and convertibles</td>
<td></td>
<td>14.143%</td>
</tr>
<tr>
<td>Other financial instruments (including re-securitisation positions) and commodities</td>
<td></td>
<td>17.678%</td>
</tr>
<tr>
<td>Gold</td>
<td></td>
<td>10.607%</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>0%</td>
</tr>
</tbody>
</table>
4.14.26 G The references to years in column A of the table in MIFIDPRU 4.14.25R are references to the remaining maturity of the relevant security or position.

4.14.27 G The following is an example of how the volatility adjustment under MIFIDPRU 4.14.24R and MIFIDPRU 4.14.25R applies. A firm enters into an OTC derivative contract and receives collateral in the form of a debt security issued by a central bank with a maturity of 6 years. The notional value of the debt security is 100. MIFIDPRU 4.14.24R(2) requires the notional value of the collateral to be decreased by the applicable volatility adjustment. In accordance with the table in MIFIDPRU 4.14.25R, the relevant volatility adjustment is 6%. The resulting value of the collateral after the volatility adjustment has been applied is therefore 94.

Netting

4.14.28 R For the purposes of calculating its K-TCD requirement, a firm may, in the following order:

(1) first, treat perfectly matching contracts included in a netting agreement as if they were a single contract with a notional principal equivalent to the net receipts;

(2) second, net other transactions subject to novation under which all obligations between the firm and its counterparty are automatically amalgamated in such a way that the novation legally substitutes one set single net amount for the previous gross obligations; and

(3) third, net other transactions where the firm ensures that the following conditions have been met:

(a) the transactions are covered by a netting contract with the counterparty, or by another agreement that creates a single legal obligation, such that the firm would have either a claim to receive, or obligation to pay, only the net sum of the positive and negative mark-to-market values of the individual transactions if a counterparty fails to perform due to any of the following:

(i) default;

(ii) bankruptcy;

(iii) liquidation; or

(iv) similar circumstances;

(b) in the event of default of a counterparty, the netting contract does not contain any clause that permits a non-defaulting counterparty to make limited payments only.
or no payments at all, to the estate of the defaulting party even if the defaulting party is a net creditor;

(c) the firm has obtained an independent, written and reasoned legal opinion that, in the event of a legal challenge to the netting agreement, the firm’s claims and obligations would be equivalent to those referred to in (a) under each of the following legal regimes:

(i) the law of the jurisdiction in which the counterparty is incorporated;

(ii) if a foreign branch of a counterparty is involved, the law of the jurisdiction in which the branch is located;

(iii) the law that governs the individual transactions included in the netting agreement; or

(iv) the law that governs any contract or agreement necessary to effect the netting.

Risk factor

4.14.29 R The risk factor for a counterparty is set out in the following table:

<table>
<thead>
<tr>
<th>Counterparty type</th>
<th>Risk factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central governments, central banks and public sector</td>
<td>1.6%</td>
</tr>
<tr>
<td>entities</td>
<td></td>
</tr>
<tr>
<td>Credit institutions and investment firms</td>
<td>1.6%</td>
</tr>
<tr>
<td>Other counterparties</td>
<td>8%</td>
</tr>
</tbody>
</table>

Credit valuation adjustment

4.14.30 R (1) For the purposes of this rule, the “credit valuation adjustment” (CVA) means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty that reflects the CMV of the credit risk of the counterparty to the firm, but does not reflect the CMV of the credit risk of the firm to the counterparty.

(2) The CVA for all transactions is 1.5, except for the transactions in (3).

(3) The CVA for the following transactions is 1:
(a) the following transactions, if they do not exceed the clearing threshold specified in article 10(3) and (4) of EMIR:

(i) transactions with non-financial counterparties (as defined in point (9) of article 2 of EMIR); or

(ii) transactions with non-financial counterparties established in a third country;

(b) intra-group transactions as provided for in article 3 of EMIR;

(c) long settlement transactions;

(d) securities financing transactions unless the FCA has notified the firm that the firm’s CVA risk exposures arising from those transactions are material; and

(e) credits and loans referred to in MIFIDPRU 4.14.3R(7).

4.15 K-DTF requirement

4.15.1 R Subject to MIFIDPRU 4.15.11R, the K-DTF requirement of a MIFIDPRU investment firm is equal to the sum of:

(1) 0.1% of average DTF attributable to cash trades; and

(2) 0.01% of average DTF attributable to derivatives trades.

4.15.2 G (1) The definition of DTF includes transactions that a firm enters into when dealing on own account or when executing client orders in the firm’s own name.

(2) A firm that has permission to operate an organised trading facility may engage in:

(a) matched principal trading in certain types of financial instruments with client consent, in accordance with MAR 5A.3.5R(1); and/or

(b) dealing on own account in illiquid sovereign debt instruments in accordance with MAR 5A.3.5R(2).

(3) Where a firm engages in either activity in (2), it must include those transactions in the measurement of its DTF.

(4) Except for the transactions in (2), DTF does not include orders that a firm handles in the course of operating an organised trading facility. However, DTF includes transactions entered into by a firm in its own name through an organised trading
facility where the firm is not operating that organised trading facility.

4.15.3 R A firm must calculate its K-DTF requirement on the first business day of each month.

4.15.4 R (1) A firm must calculate the amount of its average DTF as:

(a) taking the total DTF as measured throughout each business day in each of the previous 9 months;

(b) excluding the daily values for the most recent 3 months; and

(c) calculating the arithmetic mean of the daily values for the remaining 6 months.

(2) When measuring the value of DTF for a particular business day, a firm must convert any amounts in foreign currencies on that date into the firm’s functional currency.

(3) For the purposes of the currency conversion in (2), a firm must:

(a) determine the conversion rate by reference to an appropriate market rate; and

(b) record the rate that was chosen.

4.15.5 G (1) The effect of MIFIDPRU 4.15.4R(2) is that when measuring the value of DTF at the end of each business day, a firm must apply the relevant conversion rate on that date to any amounts in foreign currencies forming part of the DTF attributable to that business day. The DTF for each preceding business day should continue to be measured by reference to the conversion rate that was applicable on that preceding day.

(2) For the purposes of MIFIDPRU 4.15.4R(3), where a firm is carrying out a conversion that involves sterling, the FCA considers that an example of an appropriate market rate would be the relevant daily spot exchange rate against sterling published by the Bank of England.

4.15.6 R (1) When measuring its DTF, a firm must use the sum of the absolute value of each buy order and sell order, as determined in accordance with this rule.

(2) For cash trades relating to financial instruments, the value of the order is the amount paid or received on the trade.

(3) For derivatives trades other than orders relating to interest rate derivatives, the value of the order is the notional amount of the
contract, determined in accordance with MIFIDPRU 4.14.20R(2).

(4) For orders relating to interest rate derivatives, the value of the order is the notional amount of the contract determined in accordance with MIFIDPRU 4.14.20R(2), adjusted in accordance with MIFIDPRU 4.15.8R.

4.15.7 G For cash trades relating to exchange-traded options, the amount paid or received on the trade under MIFIDPRU 4.15.6R(2) is the premium paid for the option.

4.15.8 R (1) For the purposes of MIFIDPRU 4.15.6R(4), a firm must adjust the notional amount of an interest rate derivative by multiplying that notional amount by the duration.

(2) For the purposes of (1), the duration must be determined in accordance with the following formula:

\[
\text{Duration} = \frac{\text{time to maturity (in years)}}{10}
\]

4.15.9 G When measuring DTF for the purposes of MIFIDPRU 4.15.4R, a firm must include transactions executed by a firm in its own name either for itself or on behalf of a client.

4.15.10 R (1) This rule applies where a firm has had a daily trading flow for less than 9 months.

(2) For the purposes of its calculation of average DTF under MIFIDPRU 4.15.4R, a firm must use the modified calculation in MIFIDPRU TP 4.11R(1) with the following adjustments:

(a) in MIFIDPRU TP 4.11R(1)(b), n is the relevant number of months for which the firm has had a daily trading flow (with the month during which the firm begins that activity being counted as month zero); and

(b) during month zero of the calculation, the firm must:

(i) use a best efforts estimate of expected DTF for that month based on its projections when beginning the new activity; and

(ii) use the estimate in (i) as its average DTF;

(c) during month 1 of the calculation and each month thereafter, the firm must apply the approach in (a) using observed historical data from the preceding months;
(d) the modified calculation ceases to apply on the date that falls 9 months after the date on which the firm first had a daily trading flow.

Adjusted coefficient in stressed market conditions

4.15.11 R (1) This rule applies where a firm’s measurement of its DTF under MIFIDPRU 4.15.4R includes a proportion of daily trading flow that occurred on a trading segment of a trading venue to which stressed market conditions (as defined in article 6 of the Market Making RTS) applied.

(2) Where this rule applies, a firm may apply the following adjusted coefficients:

(a) for cash trades, a coefficient determined in accordance with (3) instead of the relevant coefficient in MIFIDPRU 4.15.1R(1); or

(b) for derivatives trades, a coefficient determined in accordance with (4) instead of the relevant coefficient in MIFIDPRU 4.15.1R(2).

(3) For cash trades, the adjusted coefficient must be determined by using the following formula:

\[ C_{adjCash} = C \times \left( \frac{DTF_{excl}}{DTF_{incl}} \right) \]

where:

(a) \( C_{adjCash} \) = the adjusted coefficient in (2)(a);

(b) \( C \) = the original coefficient in MIFIDPRU 4.15.1R(1);

(c) \( DTF_{excl} \) = the average DTF of cash trades calculated in accordance with MIFIDPRU 4.15.4R, excluding the value of any cash trade that occurred on a trading segment of a trading venue between the time at which the trading venue determined that:

(i) stressed market conditions began to apply; and

(ii) stressed market conditions ceased to apply;

(d) \( DTF_{incl} \) = the average DTF of all cash trades calculated in accordance with MIFIDPRU 4.15.4R.

(4) For derivative trades, the adjusted coefficient must be determined by using the following formula:

\[ C_{adjDer} = C \times \left( \frac{DTF_{excl}}{DTF_{incl}} \right) \]
where:

(a) \( \text{CadjDer} = \) the adjusted coefficient in (2)(b);

(b) \( \text{C} = \) the original coefficient in MIFIDPRU 4.15.1R(2);

(c) \( \text{DTFexcl} = \) the average DTF of derivative trades calculated in accordance with MIFIDPRU 4.15.4R, excluding the value of any derivative trade that occurred on a trading segment of a trading venue between the time at which the trading venue determined that:

(i) stressed market conditions began to apply; and

(ii) stressed market conditions ceased to apply;

(d) \( \text{DTFincl} = \) the average DTF of all derivative trades calculated in accordance with MIFIDPRU 4.15.4R.

4.15.12 G (1) MIFIDPRU 4.15.11R permits a firm to apply a reduced coefficient for the purposes of determining its K-DTF requirement where part of the firm's average DTF for the relevant period is attributable to transactions that took place on a segment of a trading venue to which stressed market conditions applied. The relevant coefficient must be calculated separately for cash trades and derivatives trades.

(2) MIFIDPRU 4.15.11R permits a firm to substitute a reduced coefficient that applies to the firm's average DTF for the relevant calculation period. The size of the reduction is proportional to the value of trades that were placed on a segment of a trading venue during stressed market conditions within the calculation period, relative to the overall value of trades entered into by the firm during that period.

4.15.13 G (1) The following is an example of how the adjusted coefficient in MIFIDPRU 4.15.11R applies.

(2) A firm executes total cash trades in its own name worth £9,600m during the 6-month calculation period for determining average DTF under MIFIDPRU 4.15.4R(1)(c). That 6-month period includes 128 business days.

(3) The total £9,600m of cash trades includes £375m of cash trades that were executed on trading venues during stressed market conditions (as defined in article 6 of the Market Making RTS).

(4) In this example:
DTFincl = £9,600m / 128 days = £75m
DTFexcl = (£9,600m - £375m) / 128 days = £9,225m / 128 days = £72.07m
C = 0.1%
CadjCash = 0.1% x (72.07 / 75) = 0.1% x 0.961 = 0.0961%

(5) To calculate its *K-DTF requirement* for this calculation period, the firm multiplies the full amount of its *average DTF* for the period by the adjusted coefficient (CadjCash). Therefore:

*K-DTF requirement for cash trades* = £75m x 0.0961% = £72,075

4.16 K-CON requirement

4.16.1 G MIFIDPRU 5 contains the provisions relating to the calculation of the K-CON requirement of a MIFIDPRU investment firm.

Application under MIFIDPRU 4.11.9R – permission to exclude hedges from article 352 of the UK CRR

4 Annex 1R [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 1R

Application under MIFIDPRU 4.11.9R for permission to exclude positions taken to hedge against the adverse effect of the exchange rate on the own funds or an item deducted from capital from net open currency positions for the purpose of article 352 of the UK CRR

Details of Senior Manager responsible for this application:

*If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm in respect of which of the following this application is made:
☐ exclusion of a position or positions from the individual net FX requirement of one or more MIFIDPRU investment firm in the same group only

☐ exclusion of a position or positions from the consolidated net FX requirement only

☐ exclusion of a position or positions from both the individual and consolidated net FX requirement

2. Please list all MIFIDPRU investment firms in respect of whose individual net FX requirement this application is made.

<table>
<thead>
<tr>
<th>FRN</th>
<th>MIFIDPRU investment firm name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For group applications, the section of the form that follows must be completed separately for each entity requiring the permission, including for the consolidated situation of the consolidating UK parent if the application is also being made on a consolidated basis.

3. Please confirm the FRN and name of the MIFIDPRU investment firm or consolidating UK parent this section relates to:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Please confirm to which of the following this application relates:

a. Positions which are deliberately taken in order to hedge against the adverse effect of the exchange rate on the firm’s (or for an application on a consolidated basis, the group’s) own funds requirement

b. Positions which are deliberately taken in order to hedge against the adverse effect of the exchange rate on an item which the firm (or for an application on a consolidated basis, the group’s) has deducted from its own capital

5. Please describe the positions requested to be excluded:

6. For each of the statements in the below table, please confirm whether it is met and provide further information to demonstrate how it is met:
<table>
<thead>
<tr>
<th>Statement</th>
<th>Meets Statement? (Yes/No)</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Structural FX positions are deliberately taken in order to protect capital adequacy ratios against adverse movements in FX rates.</td>
<td></td>
<td>Please demonstrate how the statement is met by providing supporting commentary and evidence.</td>
</tr>
<tr>
<td>b. Positions are of a non-trading or structural nature.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Mismatches resulting in an open position are avoided as much as possible.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Positions are monitored proactively and on a regular basis to detect and remediate mismatches, where applicable.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Positions are accounted for so that capital ratios are protected.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Any residual risks arising from structural FX positions are considered and capitalised in the ICARA assessment of the firm.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Any residual risks arising from structural FX positions are avoided as far as possible.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Policies and procedures are clearly articulated and are made available to the Board and to regulators on an annual basis.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. The structural FX hedging strategy is clearly articulated to investors and is included in MIFIDPRU 8 disclosures.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j. Books containing structural FX positions are segregated from other trading activities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k. Traders’ remuneration structures do not in any way incentivise structural FX positions becoming a profit centre.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l. Oversight of structural FX positions is carried out by the appropriate committees of the Boards of both the foreign</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Page 246 of 605
| entity and the group on at least a quarterly basis. |  |
Application under MIFIDPRU 4.12.4R – internal market risk models

4 Annex 2R  [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 2R

Application under MIFIDPRU 4.12.4R for permission to use an advanced internal market risk model

MIFIDPRU 4.12.8R to 4.12.65G set out requirements for internal models and explain the factors that the FCA will consider when deciding whether to grant permission to use an advanced internal model. Please refer to these rules and guidance when completing your application.

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please list all MIFIDPRU investment firms covered by the model on behalf of which this application is made:

<table>
<thead>
<tr>
<th>FRN</th>
<th>MIFIDPRU investment firm name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Please confirm which of the following the applicant firm wishes to calculate using an internal model:

   a. General risk of equity instruments
   b. Specific risk of equity instruments
   c. General risk of debt instruments
   d. Specific risk of debt instruments
   e. Foreign exchange risk
   f. Commodities risk
3. For the risk categories selected, please explain which classes of position within each risk category the applicant firm would like to apply the model to (e.g. government debt instruments, corporate debt instruments, etc.).

4. Please confirm the scope of the consolidated application for the model:

☐ Not applicable, as the model will only be used at solo level

☐ The use of the model at solo and consolidated level will involve the same types of instruments

☐ The consolidated application for a model will include a wider range of instrument types than those covered by the model at solo level  

Give details below

5. For applications on consolidated basis, please specify the FRN and name of the consolidating UK parent entity.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name</th>
</tr>
</thead>
</table>

6. Please explain how the applicant firm, and other group undertakings in scope of this application (if applicable), meet the relevant conditions for the use of internal model specified in Part Three, Title IV, Chapter 5 of the UK CRR as it applied on 31 December 2021.

7. Please explain how the internal model this application relates to covers a significant share of the positions of each relevant risk category.

8. Proposed implementation date (date from which the applicant firm proposes to start using the model, subject to receiving the necessary approval).

   DD/MM/YYYY

9. Please attach the following information to support your application:

   a. Organisational charts for all functions that either execute trading activities or execute a control function over trading activities including internal audit.

   b. A list of all policies that govern activities by all of the above functions.
c. List of all meetings where trading activities and the activities of control functions are discussed (we may request minutes and supporting documentation for some of these meetings).

d. 6 months of front-office profit/loss (P/L) flashes and all subsequent P/L reporting for the same period.

e. All management reporting by finance and product control functions for 6 months that:

i. Provide P/L explanations

ii. Validate trade booking and any necessary adjustments

iii. Contain monthly confirmation of position reconciliations

iv. Contain monthly price testing reports

f. All management reporting by Risk Management staff, including:

i. A list of all market risk limits currently in place

ii. All market risk reporting concerning limits

iii. All changes to market risk limits in the past 6 months along with any supporting documentation

g. All documentation related to the advanced market risk model (VAR), including:

i. Model description

ii. Model validation

iii. List of all pricing models used within the advanced market risk model

iv. List of model validation documents for (iii) and the date of last review

v. List of all risks not captured by the advanced market risk model

vi. List of all documentation describing how items in (v) are estimated

vii. List of all validation of items in (vi)

h. Model output and pro-forma reporting for at least 3 months, which provides:

i. A comparison of clean P/L, raw P/L and model output

ii. An explanation of significant deviations between clean P/L and raw P/L

iii. An explanation of any exceptions

iv. An explanation for any significant deviations in the number of exceptions observed
i. All management reporting by Compliance functions for the past 6 months that:

   i. Attests to the adherence to policies and procedures by trading staff
   
   ii. Reports any violation of policies and procedures by trading staff

j. The following documentation from internal audit:

   i. A list of all audit activities for the current year
   
   ii. All audit reports from the previous year

k. A status report on all outstanding actions identified by internal audit in trading and control functions.
Application under MIFIDPRU 4.12.6R – material change or extension to internal market risk models

4 Annex 3R  [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 3R

Application under MIFIDPRU 4.12.6R for permission to make a material change or a material extension to the use of an advanced internal market risk model

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm to which of the following the application relates:

   a. A material change to the use of an internal model   □

   b. A material extension to the use of an internal model □

2. In order to determine if a change or extension to an internal market risk model is material, a firm must apply the criteria and methodology set out in articles 3, 7a and 7b of the onshored Market Risk Model Extensions and Changes RTS 529/2014.

   Please identify which of the RTS conditions the change or extension fulfils to be considered a material change or extension.

3. Please list all MIFIDPRU investment firms covered by the model on behalf of which this application is made:

<table>
<thead>
<tr>
<th>FRN</th>
<th>MIFIDPRU investment firm name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Please confirm to which of the following this material change/extension applies:
   a. General risk of equity instruments
   b. Specific risk of equity instruments
   c. General risk of debt instruments
   d. Specific risk of debt instruments
   e. Foreign exchange risk
   f. Commodities risk

5. If the permission to use the model was originally granted on both solo and consolidated basis, please confirm if the permission for the material change/extension is also being sought on both solo and consolidated basis.
   - [ ] Yes, the permission to change/extend the model is being sought at both solo and consolidated level
   - [ ] No, the permission to change/extend the model is being sought at solo level only (i.e. it does not affect the use of the model at consolidated level)
   - [ ] Not applicable; the model is, and will continue to be, used at solo level only

6. For applications on consolidated basis, please specify the FRN and name of the consolidating UK parent entity.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name</th>
</tr>
</thead>
</table>

7. Please explain the rationale for the proposed change/extension.

8. Please describe the proposed change/extension in detail.

9. Proposed implementation date.
   
   *This is the date from which changes are intended to affect capital calculations, subject to receiving the necessary approval.*

   DD/MM/YYYY
Notification under MIFIDPRU 4.12.7R – non-material change or extension to use of an internal model

4 Annex

4R

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 4R

Notification under MIFIDPRU 4.12.7R of the intended non-material change or extension to the use of an internal model

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please list all MIFIDPRU investment firms covered by the model on behalf of which this notification is made:

FRN | MIFIDPRU investment firm name

2. If the permission to use the model was originally granted on both a solo and consolidated basis, please confirm if this notification is also being made on both a solo and consolidated basis.

☐ Yes, this notification is made at both solo and consolidated level

☐ No, this notification is made at solo level only (i.e. it does not affect the use of the model at consolidated level)

☐ Not applicable, the model is, and will continue to be, used at solo level only

3. For notifications on consolidated basis, please specify the FRN and name of the consolidating UK parent entity.

FRN |  |
4. Please confirm which of the following the notification relates to:

   a. non-material change to the use of an internal model ☐
   b. non-material extension to the use of an internal model ☐

3. Please provide details of the model this notification relates to:

4. In order to determine if a change or extension to an internal market risk model is material or not, a firm must apply the criteria and methodology set out in articles 3, 7a and 7b of the Market Risk Model Extensions and Changes RTS.

   Please confirm that you have determined the change or extension to be non-material based on the application of the specific criteria and methodologies set out in the RTS.

   Yes

5. Please provide a summary of the intended non-material change or extension:

6. Effective date of the change or extension:

   DD/MM/YYYY
Notification under MIFIDPRU 4.12.10R and 4.14.20R – use of own delta estimates for standardised approach for options (K-NPR)

4 Annex 5R [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 5R

Notification under MIFIDPRU 4.12.10R and 4.14.20R of the intended use of own delta estimates

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please list all MIFIDPRU investment firms on behalf of which this notification is made:

<table>
<thead>
<tr>
<th>FRN</th>
<th>FCA investment firm name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Please confirm for which of the following purposes you intend to use own estimates for delta:

   a. the standardised approach for options under UK CRR Article 329 [☐]
   b. the standardised approach for options under UK CRR Article 352(1) [☐]
   c. the standardised approach for options under UK CRR Article 358 [☐]
   d. calculating TCD own funds requirement (supervisory delta) [☐]

   Note: Article 329, 352(1) and 358 UK CRR as applicable at 31 December 2021.

3. Please confirm the basis on which this notification is made (select one):

   [☐] Individual basis for each MIFIDPRU investment firm covered by this notification
   [☐] Consolidated basis of a UK parent entity

   Where the model will be used to estimate delta only for derivatives included in the consolidated situation, but not held by an individual MIFIDPRU investment firm.
Individual and consolidated basis

*Where the same model is used to estimate delta for the same type of derivatives at both levels.*

4. For notifications on consolidated basis, please specify the FRN and name of the consolidating UK parent entity.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name</th>
</tr>
</thead>
</table>

5. The pricing model used to calculate delta estimates is required to meet the following minimum standards set out in MIFIDPRU 4.12.12G to MIFIDPRU 4.12.18G for each type of option (and as modified by MIFIDPRU 4.14.21R for supervisory delta):

   a. The level of sophistication of the pricing model is proportionate to the complexity and risk of each option, and the overall risk of the firm’s/group’s options trading business.

   b. Delta is re-calculated at least daily, and promptly following significant movements in the market parameters used as inputs to calculate delta.

   c. The pricing model used to calculate delta:

      i. is based on appropriate assumptions that have been assessed and challenged by suitably qualified parties independent of the development process

      ii. has been independently tested, including validation of the mathematics, assumptions, and software implementation and

      iii. has been developed or approved independently of the trading desk.

   d. Where available, generally accepted industry standard pricing models, such as for relatively simple options, have been used for the calculation of own deltas.

   e. The IT systems used to calculate delta are sufficient to ensure that delta can be calculated accurately and reliably.

   f. Adequate systems and controls are in place when using a pricing model to calculate a delta. This includes the following documented policies and procedures:

      i. clearly defined responsibilities of the various areas involved in the calculation

      ii. frequency of independent testing of the accuracy of the model used to calculate delta; and

      iii. guidelines for the use of unobservable inputs, where relevant.

   g. Risk management functions are aware of weaknesses of the model used to calculate a delta.
h. Where a weakness is identified, estimates of delta result in a prudent contribution to the K-NPR requirement or, for supervisory delta, the K-TCD requirement. The outcome is prudent across the whole portfolio of options and underlying positions at all times.

i. The relevant model estimates the rate of change of the value of the option for small changes in the market value of the underlying (supervisory delta only).

Please confirm that the pricing model used by the firm/group to calculate delta estimates meets these minimum standards and that the firm/group is able to demonstrate this by providing supporting evidence upon request.

☐ Yes

4. Please complete the Option Price Template\(^1\) and attach it with the notification.

☐ Attached

5. Date from when own estimates will be used:

\[
DD/MM/YYYY
\]

\(^{1}\) Editor’s note: This template is available at the following address: https://www.fca.org.uk/publication/documents/option-price-template-for-notification.xlsx
Application under MIFIDPRU 4.12.66R to use sensitivity models to calculate interest rate risk on derivative instruments

MIFIDPRU 4 Annex 6R

Application under MIFIDPRU 4.12.66R for permission to use sensitivity models to calculate interest rate risk on derivative instruments in accordance with article 331(1) of the UK CRR

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please list all group undertakings in respect of which this application is being made.

<table>
<thead>
<tr>
<th>FRN</th>
<th>Undertaking name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Please confirm the scope of the consolidated application for the model:

- [ ] Not applicable, as the model will only be applied at solo level
- [ ] The use of the model at solo and consolidated level will involve the same types of instruments
- [ ] The consolidated application for a model will include a wider range of instrument types than those covered by the model at solo level

Give details below

For group applications, the below section must be completed separately for each entity requiring the permission, including for the consolidated situation of the consolidating UK parent if the application concerns a consolidated application of the model. Questions 4 and onwards
must be completed separately for each set of instruments for which a net sensitivity position, weighted by maturity, is computed.

3. Please confirm the FRN and name of the MIFIDPRU investment firm or consolidating UK parent this section relates to:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name</th>
</tr>
</thead>
</table>

4. Please give a brief description of the nature of the firm’s business and a full and clear explanation of why it is applying for this permission.

5. Please provide summary information for each of the items listed in the below table. For some items you are required to attach additional documentation.

<table>
<thead>
<tr>
<th>Item</th>
<th>Summary Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Describe the current methodology used for interest rate risk on derivative instruments covered in articles 328 to 330 UK CRR.</td>
<td></td>
</tr>
<tr>
<td>b. Describe the sensitivity models used to calculate interest rate risk under article 331 UK CRR.</td>
<td></td>
</tr>
<tr>
<td>c. Product scope of the requested permission – please indicate the instruments for which net sensitivity positions are used and the currencies in which those positions are denominated.</td>
<td></td>
</tr>
<tr>
<td>d. For the product scope requested, confirm that the interest rate risk is managed on a discounted cashflow basis.</td>
<td></td>
</tr>
<tr>
<td>e. For the product scope requested, briefly indicate any growth plans for the exposures.</td>
<td></td>
</tr>
<tr>
<td>f. Capital impact of changing the calculation methodology from the existing approach (i.e. the capital impact of applying article 331 UK CRR) and total capital and market risk capital held at the same date.</td>
<td></td>
</tr>
<tr>
<td>g. Provide worked examples of capital calculation under the current methodology and the new (article 331 UK CRR) methodology for a test portfolio composed of:</td>
<td></td>
</tr>
<tr>
<td>• Long 100,000 1Y ATM equity index call option</td>
<td></td>
</tr>
</tbody>
</table>
• Short 100,000 1Y ATM equity index put option
• Long 100,000 2Y ATM equity index call option
• Short 100,000 5Y ATM equity index call option
• Short 3M equity index futures in sufficient quantity to hedge the equity delta of the options

Assume that the base index level is 100 and that the equity index volatility is 20%. Please use the interest rate curve included for the purposes of calculating the interest rate exposure. All options are European style exercise.

h. Provide documentation describing how you construct interest rate curves from market data. List all models that rely on these curves to calculate sensitivity to interest rate movements. For each model, provide the list of products to which it applies and the date of the last validation.

i. Explain how you calculate the interest rate sensitivity of your portfolio in each bucket.

j. Explain how you handle interest rate basis risk.

4. Please complete the following interest rate inputs template and submit it with your application.

☐ Attached

5. Please confirm whether each of the standards in the table below is met and provide information to demonstrate how it is met:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Meets Standard? (Yes/No)</th>
<th>Firm Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Sensitivity models generate positions which have the same sensitivity to interest rate changes as the underlying cash flows.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Sensitivities are assessed with reference to independent movements in</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Editor’s note: This template is available at the following address: http://www.fca.org.uk/your-fca/documents/forms/crr-article-331-interest-rate-inputs
sample rates across the yield curve, with at least one sensitivity point in each of the maturity bands set out in Table 2 in article 339 UK CRR.

c. Sensitivities are appropriate to produce accurate valuation changes based on the assumed interest rate changes set out in Table 2 of article 339 UK CRR.
Application under MIFIDPRU 4.13.9R – permission for K-CMG

4 Annex 7R  [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/][xxx]]

MIFIDPRU 4 Annex 7R

Application under MIFIDPRU 4.13.9R for permission to apply K-CMG to a portfolio, instead of K-NPR

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm that the applicant firm is not part of a group containing a credit institution.

☐ Yes

2. Please list the portfolios to which this application relates. Please allocate a different name to each portfolio, and then complete the remaining questions below separately in relation to each portfolio.

<table>
<thead>
<tr>
<th>#</th>
<th>Portfolio name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td></td>
</tr>
<tr>
<td>Portfolio 2</td>
<td></td>
</tr>
<tr>
<td>Portfolio 3</td>
<td></td>
</tr>
<tr>
<td>Portfolio ...</td>
<td></td>
</tr>
</tbody>
</table>

The questions that follow must be completed separately for each portfolio this application relates to.

3. Please state the name of the portfolio for which a K-CMG permission is requested.

If the K-CMG permission in respect of this portfolio is granted, please confirm if it will also be applied for the purpose of calculating the group’s consolidated market risk requirement (where applicable).
4. Please list all types of positions within the portfolio.

5. Please list all models used to value the positions within the portfolio.

6. Please confirm whether the portfolio covers all of the firm’s trading book positions.

   If the firm has positions outside of the trading book that give rise to foreign exchange or commodities risk, the FCA would generally expect it to calculate K-NPR in relation to these positions.

   ☐ Yes
   ☐ No  Give details below

7. Please confirm that the clearing and settlement of transactions in the relevant portfolio take place under the responsibility of a clearing member of an authorised or recognised central counterparty.

   ☐ Yes

8. Please confirm which of the following applies:

<table>
<thead>
<tr>
<th>The firm itself is the clearing member</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm is a direct client of the clearing member</td>
<td>Yes/No</td>
</tr>
<tr>
<td>The firm is an indirect client of the clearing member</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

9. Where the firm is not the clearing member itself, please provide the following information:

<table>
<thead>
<tr>
<th>Name of clearing member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of clearing member</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>FRN/LEI of clearing member</td>
</tr>
</tbody>
</table>

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Where the firm is an indirect client of the clearing member, please provide the following information:

<table>
<thead>
<tr>
<th>Name of intermediary</th>
<th>Status of intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Select one of the following:</td>
</tr>
<tr>
<td></td>
<td>● other MIFIDPRU investment firm</td>
</tr>
<tr>
<td></td>
<td>● a designated investment firm</td>
</tr>
<tr>
<td></td>
<td>● a third country investment firm</td>
</tr>
<tr>
<td></td>
<td>● a UK credit institution</td>
</tr>
<tr>
<td></td>
<td>● a third country credit institution</td>
</tr>
</tbody>
</table>

Where the clearing member and/or the intermediary do not have an FRN or LEI, please explain why and, if applicable, provide alternative details.

10. One of the conditions of the K-CMG permission is that transactions in the relevant portfolio are either:

   a. centrally cleared in an authorised or recognised central counterparty; or

   b. settled on a delivery-versus-payment basis under the responsibility of the clearing member.

Please explain how this specific condition is satisfied:

11. In order to meet the conditions of the K-CMG permission, the firm is required to provide total margin calculated on the basis of a margin model that meets the criteria set out in MIFIDPRU 4.13.14R.

   a. Please confirm whether the margin model is operated:

<table>
<thead>
<tr>
<th>By the authorised or recognised central counterparty [applies to self-clearing firms]</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>By the relevant clearing member [applies to firms other than self-clearing firms]</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

   b. Please provide further details of the margin model, including how it satisfies the specific criteria in MIFIDPRU 4.13.14R:

   c. Please confirm if the parameters of the margin model meet the EMIR standards.
☐ Yes
☐ No  
Give details below of the mathematical adjustments that have been applied to produce an alternative margin requirement (see MIFIDPRU 4.13.14R(2))

<table>
<thead>
<tr>
<th>d. If you answered “no” under (c), please demonstrate that the alternative requirement is at least equivalent to the margin requirement that would be produced by a margin model that meets the EMIR standards.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>e. Please attach a copy of the agreement with the clearing member concerning the margin model and collateral used.</th>
</tr>
</thead>
</table>

| ☐ Attached |

12. Please explain the rationale for the decision to calculate a K-CMG requirement in relation to the portfolio to which this application relates. In your response, please demonstrate that you have taken adequate account of the nature of, and risk arising from, the firm’s trading activities, including whether:

<table>
<thead>
<tr>
<th>a. the main activities of the firm are essentially trading activities that are subject to clearing and margining under the responsibility of a clearing member; and</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>b. other activities performed by the firm are material in comparison to those main activities.</th>
</tr>
</thead>
</table>

13. Please confirm that the rationale for the decision has been clearly documented and approved by the firm’s management body or risk management function.

| ☐ Yes |

14. Please show how the firm’s capital requirement calculated using K-CMG compares with that calculated using K-NPR.

15. Please confirm who within the firm is accountable for the operation of the margin model used. Please provide details of the specific role or function where the knowledge about the margin model sits within the firm (e.g. Head of Risk Management, Head of Models, etc.), rather than an individual’s name.
16. Please confirm that the firm’s understanding of the margin model is integrated into its ICARA process to determine whether:

   a. the resulting K-CMG requirement is sufficient to cover the relevant risks to which the firm is exposed; and
      □ Yes
   
   b. the K-CMG permission remains appropriate in relation to the portfolio for which it was granted.
      □ Yes

17. Please confirm your understanding that you must notify the FCA immediately if any of the conditions in MIFIDPRU 4.13.9R are no longer met by any of the portfolios to which this application relates.
    □ Yes
Notification under MIFIDPRU 4.13.10R – K-CMG conditions no longer satisfied

4 Annex 8R [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 8R

Notification under MIFIDPRU 4.13.10R that a firm no longer satisfies all the conditions of a K-CMG permission previously granted in relation to a portfolio

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please identify the relevant K-CMG permission by providing the following information:

| K-CMG permission reference number |  |
| Portfolio name |  |

2. Please identify the condition(s) no longer being met in respect of the relevant K-CMG permission:

3. Please confirm the date the firm ceased to satisfy all the conditions of that K-CMG permission:

   DD/MM/YYYY

4. Please confirm what the firm’s and/or group’s (if applicable) revised capital requirement would be if it was required to calculate K-NPR for this portfolio. Please state this as at the date of this notification:
<table>
<thead>
<tr>
<th></th>
<th>Existing capital requirement using K-CMG</th>
<th>Capital requirement using K-NPR</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIFIDPRU investment firm’s individual requirement</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Consolidated capital requirement</td>
<td>£</td>
<td>£</td>
</tr>
</tbody>
</table>

4. Please confirm whether the firm/group would be able to meet its revised capital requirements if it was required to calculate K-NPR for this portfolio.

Yes/No

*Note: The FCA may review or revoke the K-CMG permission in response to this notification.*
Notification under MIFIDPRU 4.13.20R – cancellation of K-CMG permission

4 Annex 9R  [Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 9R

Notification under MIFIDPRU 4.13.20R to cancel a K-CMG permission for a portfolio and calculate K-NPR instead

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please identify the relevant K-CMG permission by providing the following information:

   a. K-CMG permission reference number
   b. Portfolio name
   c. Date K-CMG permission was granted \( DD/MM/YYYY \)
   d. Date K-CMG permission should cease to apply \( DD/MM/YYYY \)

2. Please provide the rationale for the decision to calculate a K-NPR requirement rather than a K-CMG requirement for the above portfolio:

3. A firm that has obtained a K-CMG permission in relation to a portfolio must calculate a K-CMG requirement for that portfolio for a continuous period of at least 24 months from the date that the permission is granted. The exception is where the business strategy or operations of the trading desk with responsibility for the relevant portfolio have changed to such an extent that it has become a different trading desk.
If this notification is made following a period shorter than 24 months from the date the permission was granted, please confirm if the firm meets the above exception criteria:

☐ Yes
☐ No

Please provide further details below:

Note: The FCA is unlikely to grant another K-CMG permission in relation to the portfolio to which this notification relates for at least 24 months from when the previous K-CMG permission ceases to apply.
Application under MIFIDPRU 4.14.6R – permission to exclude transactions with some counterparties from K-TCD

MIFIDPRU 4 Annex 10R

Application under MIFIDPRU 4.14.6R for permission to exclude transactions with some counterparties from K-TCD requirement

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
</table>

1. Please list all MIFIDPRU investment firms in respect of which this application is being made.

<table>
<thead>
<tr>
<th>FRN</th>
<th>MIFIDPRU investment firm name</th>
</tr>
</thead>
</table>

For group applications, the below section must be completed separately for each entity requiring the permission, including for the consolidated situation of the consolidating UK parent if the application is also being made on a consolidated basis.

2. Please confirm the FRN and name of the MIFIDPRU investment firm or consolidating UK parent this section relates to:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Name</th>
</tr>
</thead>
</table>

3. Please provide the following information about the counterparty or counterparties that the applicant firm wishes to exclude from the calculation of its K-TCD requirement.

<table>
<thead>
<tr>
<th>FRN/LEI</th>
<th>Name</th>
<th>Relationship</th>
<th>Type of firm</th>
<th>Location</th>
</tr>
</thead>
</table>
4. Confirm whether the applicant firm and the counterparty or counterparties are:

<table>
<thead>
<tr>
<th>Part of the same prudential consolidation group under the UK CRR</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part of the same prudential consolidation group under MIFIDPRU 2.5</td>
<td>Yes/No</td>
</tr>
<tr>
<td>Supervised together for compliance with the group capital test under MIFIDPRU 2.6</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

5. Please attach a group structure chart which clearly identifies the applicant firm and the above counterparty or counterparties.

☐ Attached

6. In order for a firm to be granted permission to exclude transactions with a counterparty or counterparties from its K-TCD requirement, the counterparty or counterparties concerned must be subject to the same risk evaluation measurement and control procedures as the firm.

Please explain how the firm’s counterparty or counterparties satisfy this requirement and provide supporting information to substantiate your response.

☐ Supporting information attached

7. To the best of your knowledge, are there any current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities from the counterparty, or counterparties, to the firm?

☐ Yes  ▶ Give details below

☐ No
Application under MIFIDPRU 4.5.9R – permission to rebase fixed overhead requirement

4 Annex 11R

[Editor’s note: the form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 4 Annex 11R

Application under MIFIDPRU 4.5.9R for permission to rebase fixed overhead requirement to a lower amount where firm’s/group’s projected relevant expenditure decreases by a material amount

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm if this application is made in respect of the applicant’s individual fixed overheads requirement (FOR), a consolidated FOR, or both.

☐ Individual FOR

☐ Consolidated FOR

☐ Individual and consolidated FOR

2. Please confirm the basis on which this application is made by selecting one or both of the following options:

a. There has been a decrease of 30% or more in the firm’s/group’s projected relevant expenditure for the current year

□

b. There has been a decrease of £2 million or more in the firm’s/group’s fixed overheads requirement based on projected relevant expenditure for the current year

□

2. Please attach relevant forecast information which demonstrates the projected decrease in the relevant expenditure in (1) and the revised fixed overhead requirement calculation on the basis of that projected decrease. If applicable, please provide this information in respect of individual and consolidated FOR separately.

□ Attached
3. Please explain the key drivers for this material change in the firm’s and/or group’s projected relevant expenditure for the current year.

4. Please explain the impact of the reduction on the firm’s/group’s ICARA process and the conclusions documented in the firm’s/group’s last ICARA document.

5. Please demonstrate that the firm and/or group members continue to hold own funds and liquid assets to comply with the threshold requirements under MIFIDPRU 7.

4 Annex 12G
Guidance on the interaction between K-AUM and K-COH

12.1 G (1) This annex contains guidance on the interaction between the K-AUM requirement and the K-COH requirement in certain scenarios.

(2) The scenarios contained in this annex are not intended to be exhaustive. MIFIDPRU investment firms should analyse any arrangement that is not covered by the guidance in this annex by reference to the rules and guidance in MIFIDPRU 4.7 (in relation to the K-AUM requirement) and MIFIDPRU 4.10 (in relation to the K-COH requirement). Firms should also refer to the guidance in MIFIDPRU 4.6.2G.

12.2 G (1) The following table indicates whether a MIFIDPRU investment firm is required to calculate a K-AUM requirement or a K-COH requirement in a particular scenario.

(2) In the table, a reference to:

(a) “DPM” is to the activity of discretionary portfolio management;

(b) “IF1” is to the first MIFIDPRU investment firm;

(c) “IF2” is to the second MIFIDPRU investment firm;

(d) “IF3” is to the third MIFIDPRU investment firm;
(e) A dash (-) indicates that there is no second **MIFIDPRU investment firm** involved in the relevant scenario;

(f) “Yes” means that the relevant requirement applies to that activity; and

(g) “No” means that the relevant requirement does not apply to that activity.

<table>
<thead>
<tr>
<th></th>
<th>IF1</th>
<th>IF1 K-AUM</th>
<th>IF1 K-COH</th>
<th>IF2</th>
<th>IF2 K-AUM</th>
<th>IF2 K-COH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DPM, executes the resulting orders</td>
<td>Yes</td>
<td>No</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>DPM, delegates DPM to IF2</td>
<td>Yes</td>
<td>No</td>
<td>Undertakes delegated DPM and executes the resulting orders</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>DPM, delegates DPM to IF2. Receives orders back from IF2 to execute</td>
<td>Yes</td>
<td>No</td>
<td>Undertakes delegated DPM and passes orders back to IF1 to execute</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>DPM, delegates DPM to IF2</td>
<td>Yes</td>
<td>No</td>
<td>Undertakes delegated DPM and passes orders back to IF3 to execute</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>DPM, delegates DPM to IF2. Receives orders back from IF2 and passes them to IF3 to execute</td>
<td>Yes</td>
<td>No</td>
<td>Undertakes delegated DPM and passes orders back to IF1</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>6</td>
<td>DPM, passes orders to IF2 for execution</td>
<td>Yes</td>
<td>No</td>
<td>Executes orders on behalf of IF1</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>DPM, receives ongoing advice from IF2</td>
<td>Yes</td>
<td>No</td>
<td>Gives ongoing advice on assets managed by IF1</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>8</td>
<td>Provides ongoing investment advice in relation to assets and executes resulting orders</td>
<td>Yes</td>
<td>No</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Provides ongoing investment advice in relation to assets, with orders executed by IF2</td>
<td>Yes</td>
<td>No</td>
<td>Executes orders received from IF1 for execution</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------</td>
<td>-----</td>
<td>---</td>
<td>-----------------------------------------------</td>
<td>----</td>
<td>-----</td>
</tr>
<tr>
<td>10</td>
<td>Provides “one-off” investment advice to a client. Any orders are passed to IF2 for execution</td>
<td>No</td>
<td>Yes</td>
<td>Executes orders received from IF1 for execution</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>11</td>
<td>Provides “one-off” investment advice to a client. Executes any resulting orders</td>
<td>No</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Execution only of client orders</td>
<td>No</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Client orders received are passed to IF2 for execution</td>
<td>No</td>
<td>Yes</td>
<td>Executes orders received from IF1 for execution</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

5 Concentration risk

5.1 Application and purpose

Application: Who?

5.1.1 R This chapter applies to:

(1) a MIFIDPRU investment firm; and

(2) a UK parent entity that is required by MIFIDPRU 2.5.7R to comply with MIFIDPRU 5 on the basis of its consolidated situation.

5.1.2 R Where this chapter applies on the basis of the consolidated situation of the UK parent entity, any reference to a “firm” or “MIFIDPRU investment firm” in this chapter is a reference to the hypothetical single MIFIDPRU investment firm created under the consolidated situation.

5.1.3 G MIFIDPRU 2.5.45G and 2.5.46G contain additional guidance on how a UK parent entity should apply the requirements in this chapter on a consolidated basis.

5.1.4 G MIFIDPRU 5.2 to 5.10 do not apply to a commodity and emission allowance dealer in the circumstances set out in MIFIDPRU 5.11.

Application: What?
5.1.5 R MIFIDPRU 5.2 applies to all of a firm’s activities that may give rise to concentration risk.

5.1.6 G MIFIDPRU 5.2 is therefore relevant to both a MIFIDPRU investment firm that deals on own account and one that does not (e.g. an SNI MIFIDPRU investment firm).

5.1.7 R MIFIDPRU 5.3 to 5.10 apply to a firm when dealing on own account in relation to transactions that are recorded in the trading book.

5.1.8 G MIFIDPRU 5.3 to 5.10 apply whether a firm is dealing on own account for itself or on behalf of a client.

5.1.9 G A MIFIDPRU investment firm that has permission to operate an organised trading facility may rely on that permission to:

(1) engage in matched principal trading in certain types of financial instruments with client consent, in accordance with MAR 5A.3.5R(1); and

(2) deal on own account in illiquid sovereign debt instruments in accordance with MAR 5A.3.5R(2).

Purpose

5.1.10 G This chapter contains:

(1) Rules and guidance on how a MIFIDPRU investment firm must monitor and control concentration risk (MIFIDPRU 5.2).

(2) Rules and guidance on the concentration risk requirements that apply to the trading book exposures of a MIFIDPRU investment firm that is dealing on own account (MIFIDPRU 5.3 to 5.10). MIFIDPRU 5.3 sets out an overview of these requirements.

(3) Rules and guidance on when a commodity and emission allowance dealer is exempt from the requirements of this chapter (MIFIDPRU 5.11).

Interpretation

5.1.11 G In this chapter, references to client include any counterparty of the firm.

5.1.12 R Subject to MIFIDPRU 5.1.13R to MIFIDPRU 5.1.16R, a group of connected clients means:

(1) two or more persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others; or

(2) two or more persons between whom there is no relationship of control as described in (1) but who are to be regarded as constituting
a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding or repayment difficulties.

5.1.13 R Where a central government has direct control over, or is directly interconnected with, more than one person, they do not all have to be treated as a single group of connected clients. Instead, the existence of a group of connected clients may be assessed separately at the level of each person directly controlled by or directly interconnected with the central government, which must include all of the natural and legal persons which are controlled by or interconnected with that person, including the central government.

5.1.14 R Regional governments and local authorities, whether in the United Kingdom or a third country, may be treated in the same way as central governments under MIFIDPRU 5.1.13R if there is no difference in the risk they pose compared to central governments.

5.1.15 G (1) There may be no difference in the risk posed by a regional government or local authority if it has specific revenue-raising powers, or if there are specific institutional arrangements which reduce the risk of default.

(2) The PRA maintains a list of all regional governments and local authorities within the United Kingdom which it treats as exposures to the central government of the United Kingdom, in accordance with article 115 of the UK CRR. A firm may have regard to this list when applying the test in MIFIDPRU 5.1.14R to regional governments and local authorities in the United Kingdom.

5.1.16 R Two or more persons do not constitute a single group of connected clients solely because of their direct exposure to the same central counterparty for clearing purposes.

Exposures to trustees

5.1.17 R For the purposes of this chapter, if a firm has an exposure to a person (‘A’) when A is acting on its own behalf, and also an exposure to A when A acts in the capacity of trustee, custodian or general partner of an investment trust, unit trust, venture capital or other investment fund, pension fund or a similar fund (a “fund”), the firm may treat the latter exposure as if it was to the fund as a separate client, unless such treatment would be misleading.

5.1.18 G When considering whether such treatment would be misleading, a firm should consider factors such as:

(1) the degree of independence of control of the fund, including the relation of the fund’s board and senior management to the firm or to other funds or to both;
(2) the terms on which the counterparty, when acting as trustee, is able to satisfy its obligation to the firm out of the fund of which it is trustee;

(3) whether the beneficial owners of the fund are connected to the firm, or related to other funds managed within the firm’s group, or both; and

(4) for a counterparty that is connected to the firm itself, whether the exposure arises from a transaction entered into on an arm’s length basis.

5.1.19 G In deciding whether a transaction is at arm’s length, the following factors should be taken into account:

(1) the extent to which the person to whom the firm has an exposure (‘A’) can influence the firm’s operations through, for example, the exercise of voting rights;

(2) the management role of A where A is also a director of the firm; and

(3) whether the exposure would be subject to the firm’s usual monitoring and recovery procedures if repayment difficulties emerged.

5.2 Monitoring obligation

5.2.1 R A firm must monitor and control its concentration risk using sound administrative and accounting procedures and robust internal control mechanisms.

5.2.2 G MIFIDPRU 5.2.1R requires a firm to monitor and control all sources of concentration risk. This is not limited to trading book exposures, but also includes any concentration in assets not recorded in a trading book (for example, trade debts) and off-balance sheet items. It also includes any concentration risk that may arise from the following:

(1) the location of client money;

(2) the location of custody assets;

(3) a firm’s own cash deposits; and

(4) earnings.

5.3 Overview of concentration risk requirements for dealing on own account

5.3.1 G MIFIDPRU 5.4 to 5.10 contain the concentration risk requirements that apply to the trading book exposures of a MIFIDPRU investment firm that is dealing on own account:

(1) MIFIDPRU 5.4 explains how a firm should calculate the value of its exposure to each client or group of connected clients (the exposure value or EV).
(2) MIFIDPRU 5.5.1R explains how a firm should calculate the concentration risk soft limit for its exposure to a client or group of connected clients.

(3) MIFIDPRU 5.5.3R explains how a firm should calculate the value by which its exposure to each client or group of connected clients exceeds the concentration risk soft limit (the exposure value excess or EVE). The EVE is relevant to the calculation of the K-CON requirement.

(4) MIFIDPRU 5.6 contains the obligation to calculate the K-CON requirement and to notify the FCA if the value of a firm's exposure to a client or group of connected clients exceeds the concentration risk soft limit.

(5) MIFIDPRU 5.7 explains how to calculate the K-CON requirement.

(6) MIFIDPRU 5.8 contains rules designed to prevent firms from avoiding the K-CON requirement.

(7) MIFIDPRU 5.9 contains the ‘hard’ concentration risk limits, and associated provisions.

(8) MIFIDPRU 5.10 excludes certain exposures from the concentration risk requirements in MIFIDPRU 5.4 to 5.9.

5.4 Calculation of exposure value (EV)

5.4.1 R For the purposes of MIFIDPRU 5.5 to 5.10, a firm must calculate an exposure value (EV) for each client or group of connected clients by adding together the following items:

(1) the positive excess of the firm’s long positions over its short positions in all the trading book financial instruments issued by the client in question, using the approach specified for K-NPR in MIFIDPRU 4.12.2R to calculate the net position for each instrument; and

(2) the exposure value of contracts and transactions referred to in MIFIDPRU 4.14.3R with the client in question, calculated using the approach specified for K-TCD in MIFIDPRU 4.14.8R.

5.4.2 R For the purposes of MIFIDPRU 5.4.1R(1), where a firm calculates a K-CMG requirement in relation to a portfolio, it must calculate its net position for the exposures in that portfolio using the approach specified for K-NPR in MIFIDPRU 4.12.2R.

5.4.3 R The EV with regard to a group of connected clients must be calculated by adding together the exposures to the individual clients within the group, which must be treated as a single exposure.
5.4.4 R When calculating EVs, a firm must take all reasonable steps to identify underlying assets in relevant transactions and the counterparty of the underlying exposures.

5.5 The concentration risk soft limit and exposure value excess

The concentration risk soft limit

5.5.1 R (1) The concentration risk soft limit for EVs to an individual client or group of connected clients is 25% of a firm’s own funds, subject to (2) and (3).

(2) Where an individual client is a MIFIDPRU-eligible institution, the concentration risk soft limit for that client is the higher of:

(a) 25% of the firm’s own funds; or

(b) £150 million or 100% of the firm’s own funds, whichever is the lower.

(3) Where a group of connected clients includes one or more MIFIDPRU-eligible institutions, the concentration risk soft limit for the group is the higher of:

(a) 25% of the firm’s own funds; or

(b) £150 million or 100% of the firm’s own funds, whichever is the lower, provided that for the sum of exposure values with regard to all connected clients that are not MIFIDPRU-eligible institutions, the concentration risk soft limit remains at 25% of the firm’s own funds.

5.5.2 G The Handbook definition of MIFIDPRU-eligible institution includes private or public undertakings, including the branches of such undertakings, provided that those undertakings, if they were established in the UK, would be UK credit institutions or MIFIDPRU investment firms, and provided that those undertakings have been authorised in a third country that applies prudential supervisory and regulatory requirements comparable to those applied in the UK.

The exposure value excess (EVE)

5.5.3 R (1) A firm that exceeds the concentration risk soft limit for a client or group of connected clients must calculate the exposure value excess (EVE).

(2) A firm must calculate the EVE for an individual client or group of connected clients using the following formula:

\[
EVE = EV - L
\]

where:
L = the *concentration risk soft limit* specified in MIFIDPRU 5.5.1R.

5.6 **Obligations for a firm that exceeds the concentration risk soft limit**

5.6.1 For as long as a firm exceeds the *concentration risk soft limit* for one or more clients or groups of connected clients, it must calculate the K-CON requirement.

5.6.2 When a firm exceeds the *concentration risk soft limit* for a client or group of connected clients, it must notify the FCA without delay of the amount of the EVE, and the name of the individual client or group of connected clients.

5.6.3 A firm must make the notification referred to in MIFIDPRU 5.6.2R by completing Part A of the form in MIFIDPRU 5 Annex 1R and submitting it using the online notification and application system.

5.7 **Calculating K-CON**

5.7.1 The K-CON requirement of a MIFIDPRU investment firm is equal to the sum of the CON own funds requirement for each client or group of connected clients for which the EV exceeds the concentration risk soft limit.

5.7.2 The CON own funds requirement for each client or group of connected clients in MIFIDPRU 5.7.1R must be calculated by:

1. determining the own funds requirement for the excess (OFRE) in accordance with MIFIDPRU 5.7.3R; and
2. applying the relevant multiplication factor or factors in accordance with MIFIDPRU 5.7.4R.

5.7.3 (1) The OFRE must be calculated using the following formula:

\[
OFRE = \frac{OFR}{EV} \times EVE
\]

(2) (a) The OFR for an individual client is the sum of:

(i) the TCD own funds requirement for exposures to that client; and

(ii) the K-NPR requirement for the exposures to that client, subject to (b).

(b) Where exposures arise from the positive excess of a firm’s long positions over its short positions in all the trading book financial instruments issued by the client in question, the net position of each instrument calculated using the approach specified for K-NPR in MIFIDPRU 4.12.2R shall only include specific-risk requirements.
(c) A firm that calculates a K-CMG requirement for a portfolio must calculate the OFR using the approach specified for K-NPR in MIFIDPRU 4.12.2R, subject to (b).

(d) The OFR for a group of connected clients must be calculated by adding together the exposures to individual clients within the group, and then determining a single own funds requirement for exposures to the group as if the group were a single undertaking.

5.7.4 R (1) Where the excess has persisted for 10 business days or less, the CON own funds requirement is the OFRE multiplied by 200%.

(2) Where the excess has persisted for more than 10 business days:

(a) the EVE must be apportioned according to the tranches in each row of Column 1 of Table 1;

(b) the proportion of the EVE in each tranche must be calculated as a percentage of the overall EVE;

(c) the OFRE must be pro-rated according to the proportion of EVE falling within each tranche;

(d) each portion of the OFRE must be multiplied by the relevant Factor in Column 2 of Table 1; and

(e) the CON own funds requirement is the sum of the amounts calculated in accordance with (d).

(3)

| Table 1 |
|------------------|------------------|
| Column 1:        | Column 2: Factors |
| **EVE as a percentage of own funds** |                  |
| For the amount up to and including 40% | 200%              |
| For the amount over 40% up to and including 60% | 300%              |
| For the amount over 60% up to and including 80% | 400%              |
| For the amount over 80% up to and including 100% | 500%              |
5.7.5  G  (1)  K-CON is an additional K-factor own funds requirement for concentration risk in the trading book.

(2) A firm must calculate a CON own funds requirement for each client or group of connected clients for which the exposure value exceeds the concentration risk soft limit. The CON own funds requirement for each client or group of connected clients is then added together to determine the K-CON requirement.

(3) Determining the CON own funds requirement for each client or group of connected clients involves a two-step calculation:

(a) The first step involves an exposure-based calculation, known as the OFRE (the own funds requirement for the excess).

(b) The second step involves applying a multiplying factor to the OFRE (or applying different multiplying factors to tranches of the OFRE) based on the length of time for which the excess has persisted and by how much (as a percentage of own funds) the exposure value exceeds the concentration risk soft limit.

(4) The reference to how long an excess has persisted relates to how long a firm has had an exposure to a client or group of connected clients that exceeds the concentration risk soft limit, irrespective of whether the constituent parts that make up that total exposure change over the duration of that total exposure.

(5) The 10-business day period referred to in MIFIDPRU 5.7.4R runs from the start of the business day on which the excess occurred.

5.7.6  G  The following example shows how to calculate the CON own funds requirement for an excess to a client that has persisted for 10 business days or less:

(1) A firm has:

(a) own funds of 1000;

(b) a concentration risk soft limit of 250 (25% of 1000);

(c) an EV of 262; and

(d) an EVE of 12 (262 - 250 = 12).
(2) The exposure is all due to debt securities that have a specific risk own funds requirement of 8% (according to Table 1 in article 336 of UK CRR) for the purposes of K-NPR. There is zero K-TCD to this client.

In this example, the \( \text{OFR} = 262 \times 8\% = 20.96 \)

(3) To calculate the \( \text{OFRE} \):

\[
\text{OFRE} = \frac{\text{OFR}}{\text{EV} \times \text{EVE}} = \frac{20.96}{262 \times 12} = 0.96
\]

(4) As the excess has persisted for 10 business days or less:

\[
\text{CON own funds requirement} = 0.96 \times 200\% = 1.92
\]

5.7.7 G The following example shows how to calculate the \( \text{CON own funds requirement} \) for an excess that has persisted for more than 10 business days:

(1) A firm has:

- \( \text{own funds} \) of 1000;
- a concentration risk soft limit of 250 (25% of 1000);
- an \( \text{EV} \) of 780; and
- an \( \text{EVE} \) of 530 (780 - 250 = 530).

(2) The exposure is all due to debt securities that have a specific risk own funds requirement of 8% (according to Table 1 in article 336 of UK CRR) for the purposes of K-NPR. There is zero K-TCD to this client.

In this example, the \( \text{OFR} = 780 \times 8\% = 62.4 \)

(3) To calculate the \( \text{OFRE} \):

\[
\text{OFRE} = \frac{\text{OFR}}{\text{EV} \times \text{EVE}} = \frac{62.4}{780 \times 530} = 0.42
\]

(4) As the excess has persisted for more than 10 business days, the \( \text{CON own funds requirement} \) is calculated by apportioning the \( \text{OFRE} \) in accordance with the relevant \( \text{EVE} \) tranche in Table 2, multiplying each part of the \( \text{OFRE} \) by the applicable factor, and then adding the resulting amounts together:

<table>
<thead>
<tr>
<th>Application of Table 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \text{K-CON factor tranche as per Table 1} )</td>
</tr>
</tbody>
</table>

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(5) The CON own funds requirement is the total amount in the last column, 95.2.

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 40%</td>
<td>400</td>
<td>(400/530 \times 42.4 = 32)</td>
<td>(32 \times 200% = 64)</td>
</tr>
<tr>
<td>40%-60%</td>
<td>130</td>
<td>(130/530 \times 42.4 = 10.4)</td>
<td>(10.4 \times 300% = 31.2)</td>
</tr>
<tr>
<td>Total:</td>
<td>530</td>
<td>42.4</td>
<td>95.2</td>
</tr>
</tbody>
</table>

5.8 Procedures to prevent investment firms from avoiding the K-CON own funds requirement

5.8.1 R A firm must not deliberately avoid the K-CON requirement by:

(1) undertaking artificial transactions to close out an exposure and create a new exposure; or

(2) temporarily transferring an exposure to another undertaking, whether within the same group or not.

5.8.2 R A firm must maintain systems which ensure that any closing out or transfer that is prohibited by MIFIDPRU 5.8.1R is immediately reported to the FCA in accordance with SUP 15.7 (Form and method of notification).

5.9 The ‘hard’ limits on concentration risk

5.9.1 R (1) Whilst an exposure exceeding the concentration risk soft limit has persisted for 10 business days or less, a firm’s EV for the individual client or group of connected clients must not exceed 500% of the firm’s own funds.

(2) Whilst a firm has one or more exposures exceeding the concentration risk soft limit that have persisted for more than 10 business days, the aggregate EVEs for all such exposures must not exceed 600% of the firm’s own funds.

5.9.2 G (1) An exposure exceeding the concentration risk soft limit persists for as long as the overall exposure exceeds the concentration risk soft limit, irrespective of whether the constituent parts that make up that total exposure change over the duration of that total exposure.

(2) For the purpose of MIFIDPRU 5.9.1R(2), the 600% limit applies to the aggregate of all individual EVEs for excesses that have persisted for more than 10 business days, irrespective of whether the individual concentrated exposures are connected to one another.
(3) The 10 business day period referred to in MIFIDPRU 5.9.1R runs from the start of the business day on which the excess occurred.

5.9.3 R If a firm breaches the requirement in MIFIDPRU 5.9.1R, it must notify the FCA without delay of:

(1) the amounts of the exposure or exposures which give rise to the breach;

(2) the name or names of the clients concerned; and

(3) any steps which the firm or any other person has taken or intends to take to rectify the breach and prevent any future potential occurrence.

5.9.4 R A firm must make the notification referred to in MIFIDPRU 5.9.3R using Part B of the form in MIFIDPRU 5 Annex 1R, and must submit it using the online notification and application system.

5.10 Exclusions

5.10.1 R The requirements in MIFIDPRU 5.4 to 5.9 do not apply to the following exposures:

(1) exposures which are entirely deducted from a MIFIDPRU investment firm's own funds;

(2) exposures incurred in the ordinary course of the settlement of payment services, foreign currency transactions, securities transactions and the provision of money transmission;

(3) exposures constituting claims against:

   (a) central governments, central banks, public sector entities, international organisations or multilateral development banks and exposures guaranteed by or attributable to such persons, where those exposures would receive a 0% risk weight under articles 114 to 118 of the UK CRR;

   (b) regional governments and local authorities of the UK or a third country which pose no difference in risk compared to a central government covered by (a); and

   (c) central counterparties and default fund contributions to central counterparties;

(4) exposures incurred by a firm to its parent undertaking, to other subsidiaries or connected undertakings of that parent undertaking or to its own subsidiaries or connected undertakings, insofar as those undertakings are supervised on a consolidated basis in accordance with MIFIDPRU 2.5 or with UK CRR, are supervised for compliance with the group capital test in accordance with MIFIDPRU 2.6, or are
supervised in accordance with comparable standards in force in a third country, and provided that the following conditions are met:

(a) there is no current or foreseen material practical or legal impediment to the prompt transfer of capital or repayment of liabilities; and

(b) the risk evaluation, measurement and control procedures of the parent undertaking include the firm and any relevant subsidiary or connected undertaking.

5.11 Exemption for commodity and emission allowance dealers

5.11.1 R A commodity and emission allowance dealer is not required to comply with MIFIDPRU 5.2 to 5.10 where all of the following conditions are met:

(1) the other counterparty is a non-financial counterparty;

(2) both counterparties are subject to appropriate centralised risk evaluation, measurement and control procedures;

(3) the transaction can be assessed as reducing risks directly relating to the commercial activity or treasury financing activity of the non-financial counterparty or of that group; and

(4) the firm complies with MIFIDPRU 5.11.2R.

5.11.2 R (1) Before relying on the exemption in MIFIDPRU 5.11.1R, a firm must notify the FCA.

(2) A firm must notify the FCA annually thereafter in order to continue to rely on the exemption in MIFIDPRU 5.11.1R.

(3) The notification must explain how the firm expects to meet or continue to meet the conditions in MIFIDPRU 5.11.1R.

(4) If there is a material change to the information provided in (1) or (2), a firm must notify the FCA without delay.

(5) The notifications in (1), (2) and (4) must be made using the form in MIFIDPRU 5 Annex 2R, and must be submitted using the online notification and application system.
Notification under MIFIDPRU 5.6.3R and 5.9.3R that limits for concentration risk have been exceeded

5 Annex [Editor’s note: The forms can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 5 Annex 1R (A)

Notification under MIFIDPRU 5.6.3R that the concentration risk soft limit has been exceeded

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm the basis on which this notification is made (select one):
   - ☐ Individual basis of a MIFIDPRU investment firm
   - ☐ Consolidated basis of a UK parent entity

2. Please provide the following information:
   a. Client or group of connected clients to which this notification relates
   b. Exposure Value Excess (EVE) amount £
   c. Date soft limit exceeded DD/MM/YYYY

3. Please confirm your understanding that the firm is required to calculate the K-CON requirement for as long as it exceeds the concentration risk soft limit for one or more clients or groups of connected clients.
   - Yes
MIFIDPRU 5 Annex 1R (B)

Notification under MIFIDPRU 5.9.3R of the concentration risk hard limit breach

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
</table>

1. Please confirm the basis on which this notification is made (select one):
   - [ ] Individual basis of a MIFIDPRU investment firm
   - [ ] Consolidated basis of a UK parent entity

2. Please provide the following information:

<table>
<thead>
<tr>
<th>Client or group of connected clients concerned</th>
<th>Amount of exposure(s) which give rise to the breach (£)</th>
<th>Details of the breach including circumstances, threshold breached, time it is expected to persist, etc.</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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</tbody>
</table>

3. Date the breach occurred:

   DD/MM/YYYY

4. Please explain what steps have been, and/or are intended to be, taken by the firm or any other person to rectify the breach and prevent any potential reoccurrence:

   

5. Please confirm your understanding that the firm is required to calculate the K-CON requirement for as long as it exceeds the concentration risk soft limit for one or more clients or groups of connected clients.

   Yes
Notification under MIFIDPRU 5.11.2R of use of exemption for commodity and emission allowance dealers

5 Annex

[Editor’s note: The form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 5 Annex 2R

Notifications under MIFIDPRU 5.11.2R in respect of the exemption from K-CON requirement for commodity and emission allowance dealers

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please select the notification that applies:

   a. Notification that we intend to rely on the exemption for commodity and emission allowance dealers from the requirements for concentration risk (K-CON).

   b. Annual notification that we intend to rely on the exemption for commodity and emission allowance dealers from the requirements for concentration risk (K-CON).

   c. Notification of a material change to the information provided as part of previous notification of reliance on the exemption from the requirements for concentration risk (K-CON).

2. Please confirm the basis on which this notification is made (select one):

   □ Individual basis of a MIFIDPRU investment firm
   □ Consolidated basis of a UK parent entity

3. For notifications 1.a. and 1.b., please explain below how you expect to meet or continue to meet the specific conditions under MIFIDPRU 5.11.1R:
Notification date (i.e. effective date for the exemption to apply):

DD/MM/YYYY

3. For notification 1.c., please explain the material change to how you previously stated you would meet or continue to meet the specific conditions under MIFIDPRU 5.11.1R:

Please confirm the date the material change is effective from:

DD/MM/YYYY
6 Basic liquid assets requirement

6.1 Application and purpose

6.1.1 R This chapter applies to:

(1) a MIFIDPRU investment firm; and

(2) a UK parent entity that is required by MIFIDPRU 2.5.11R to comply with MIFIDPRU 6 on the basis of its consolidated situation.

6.1.2 R Where this chapter applies on the basis of the consolidated situation of the UK parent entity, any reference to a “firm” or “MIFIDPRU investment firm” in this chapter is a reference to the hypothetical single MIFIDPRU investment firm created under the consolidated situation.

6.1.3 G MIFIDPRU 2.5.47R and 2.5.48G contain additional rules and guidance on how a UK parent entity should apply the requirements in this chapter on a consolidated basis. A UK parent entity may apply for an exemption from the application of this chapter on a consolidated basis under MIFIDPRU 2.5.19R.

Purpose and interpretation

6.1.4 G This chapter contains:

(1) a basic liquid assets requirement for MIFIDPRU investment firms (MIFIDPRU 6.2); and

(2) rules and guidance on which assets count as core liquid assets for the purposes of the basic liquid assets requirement (MIFIDPRU 6.3).

6.1.5 G (1) Where this chapter applies to a MIFIDPRU investment firm on a solo basis, the firm must comply with this chapter relying only on the core liquid assets it holds itself.

(2) However, the FCA recognises that there are circumstances in which it may be appropriate for a firm to rely on liquidity support provided by other entities within its group. Therefore, a firm that is subject to prudential consolidation may apply for an exemption from the application of this chapter on an individual basis under MIFIDPRU 2.3.2R(1).

6.1.6 G MIFIDPRU 7 contains requirements relating to a MIFIDPRU investment firm’s systems and controls for the identification, monitoring and management of material potential harms that arise out of liquidity risk.

6.1.7 G The basic liquid assets requirement in this chapter is based on a proportion of a firm’s fixed overheads requirement and any guarantees provided to
clients. A firm may need to hold more liquid assets to comply with its liquid assets threshold requirement under MIFIDPRU 7.

6.2 Basic liquid assets requirement

6.2.1 R A firm must hold an amount of core liquid assets equal to the sum of:

(1) one third of the amount of its fixed overhead requirement; and

(2) 1.6% of the total amount of any guarantees provided to clients.

6.2.2 R Where a firm calculates a total amount for guarantees under MIFIDPRU 6.2.1R(2), it must calculate:

(1) the total value of guarantees that the firm has outstanding at the end of each business day; or

(2) an average value for the guarantees that the firm has had outstanding over an appropriate time period, which must be updated at regular, appropriate intervals.

6.2.3 G (1) MIFIDPRU 6.2.2R(2) is intended to allow a firm to smooth out its liquidity requirement for guarantees, where the value of its outstanding guarantees fluctuates on a daily basis.

(2) An appropriate time period for calculating and updating this amount is likely to be a period that produces an average value that is representative of the overall liquidity risk arising out of the provision of guarantees to clients.

6.2.4 G The approach in MIFIDPRU 6.2.2R(2) is illustrated by the following example:

(1) a firm that executes orders on behalf of a client may guarantee the settlement of any resulting transactions between the client and a third party;

(2) in this case, it may be appropriate for the firm to use the principles for calculating average COH to calculate an average value for the guarantees that the firm has had outstanding over an appropriate time period;

(3) average COH is calculated as the arithmetic mean of historic daily COH values. The firm could use the arithmetic mean of historic daily values for outstanding guarantees to calculate its amount for guarantees;

(4) average COH is calculated by reference to the historic three-month period beginning six months ago (i.e. excluding the three most recent months). The firm could calculate its amount for guarantees by reference to the same time period, if this produces an average value
for guarantees that is representative of the overall liquidity risk in these guarantees; and

(5) a firm could update this calculation monthly, in line with the requirement to update average COH in MIFIDPRU 4, if this produces a value that is representative of the overall liquidity risk.

6.3 Core liquid assets

6.3.1 R Subject to MIFIDPRU 6.3.3R to 6.3.5R, a core liquid asset means any of the following, when denominated in pound sterling:

(1) coins and banknotes;
(2) short-term deposits at a UK-authorised credit institution;
(3) assets representing claims on or guaranteed by the UK government or the Bank of England;
(4) units or shares in a short-term MMF;
(5) units or shares in a third country fund that is comparable to a short-term MMF; and
(6) trade receivables, if the conditions in MIFIDPRU 6.3.3R are met.

6.3.2 G When assessing whether a third country fund is comparable to a short-term MMF, a firm should consider factors such as:

(1) whether the restrictions on instruments eligible for inclusion in the fund are comparable to the restrictions on instruments in article 10(1) of the Money Market Funds Regulation; and
(2) whether the fund is subject to requirements concerning portfolio diversification and risk management which are comparable to the requirements applicable to short-term MMFs in the Money Market Funds Regulation.

6.3.3 R A firm may treat trade receivables as core liquid assets if:

(1) the firm is:

(a) an SNI MIFIDPRU investment firm; or
(b) a MIFIDPRU investment firm that does not have permission to carry on:
   (i) dealing on own account; or
   (ii) underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;

(2) they are receivable within 30 days;
(3) they account for no more than one third of the requirement based upon the fixed overheads requirement in MIFIDPRU 6.2.1R(1);

(4) they are not used to meet the requirement for guarantees in MIFIDPRU 6.2.1R(2); and

(5) they are subject to a minimum haircut of 50%.

6.3.4 R (1) If a firm’s relevant expenditure or guarantees are incurred in a currency other than pound sterling, the firm may also treat the following assets as liquid assets, when denominated in that currency:

(a) coins and banknotes;

(b) short-term deposits at a credit institution;

(c) assets representing claims on or guaranteed by a central bank or government in a third country;

(d) units or shares in a short-term MMF;

(e) units or shares in a third country fund that is comparable to a short-term MMF; and

(f) trade receivables, if the conditions in MIFIDPRU 6.3.3R are met.

(2) The assets in (1) must not account for more than the proportion of fixed overheads or guarantees that the firm incurs in that currency.

(3) This rule is subject to MIFIDPRU 6.3.5R.

6.3.5 R A firm must not treat any of the following as a core liquid asset:

(1) any asset that belongs to a client; and

(2) any other asset that is encumbered.

6.3.6 G (1) For the purposes of MIFIDPRU 6.3.5R(1), an asset may belong to a client even if the asset is held in the firm’s own name. Examples of assets belonging to a client include money or other assets held under the FCA’s client asset rules.

(2) For the purposes of MIFIDPRU 6.3.5R(2), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the firm’s ability to liquidate, sell, transfer, or assign the asset.
7 Governance and risk management

7.1 Application

7.1.1 G (1) MIFIDPRU 7 applies to the following:

(a) a MIFIDPRU investment firm;

(b) a UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5; and

(c) a parent undertaking that operates a group ICARA process in accordance with MIFIDPRU 7.9.5R.

(2) MIFIDPRU 7.1.3R explains how each section of MIFIDPRU 7 applies to the undertakings in (1).

7.1.2 G The following table summarises the content of MIFIDPRU 7:

<table>
<thead>
<tr>
<th>Section</th>
<th>Summary of content</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIFIDPRU 7.2</td>
<td>General requirements relating to a firm’s governance arrangements</td>
</tr>
<tr>
<td>MIFIDPRU 7.3</td>
<td>Requirements relating to risk, remuneration and nomination committees</td>
</tr>
<tr>
<td>MIFIDPRU 7.4</td>
<td>The overall financial adequacy rule and a firm’s baseline obligations in relation to the ICARA process</td>
</tr>
<tr>
<td>MIFIDPRU 7.5</td>
<td>The requirements of the ICARA process relating to capital and liquidity planning, stress testing and wind-down planning</td>
</tr>
<tr>
<td>MIFIDPRU 7.6</td>
<td>Rules and guidance explaining how a firm should assess and monitor the adequacy of its own funds</td>
</tr>
<tr>
<td>MIFIDPRU 7.7</td>
<td>Rules and guidance explaining how a firm should assess and monitor the adequacy of its liquid assets</td>
</tr>
<tr>
<td>MIFIDPRU 7.8</td>
<td>Requirements relating to the periodic review of the ICARA process and record keeping requirements</td>
</tr>
</tbody>
</table>
### MIFIDPRU 7.9
Requirements for firms to monitor group risk and rules explaining when an investment firm group may operate a group-level ICARA process.

### MIFIDPRU 7.10
Guidance explaining the FCA’s general approach to the SREP.

### MIFIDPRU 7 Annex 1G
General guidance on assessing potential harms that is potentially relevant to all MIFIDPRU investment firms.

### MIFIDPRU 7 Annex 2G
Additional guidance on assessing potential harms that is relevant for MIFIDPRU investment firms dealing on own account and firms with significant investments on their balance sheet.

### MIFIDPRU 7 Annex 3R to 6R
Notification forms.

### MIFIDPRU 7 Annex 7G
Table mapping the rules in MIFIDPRU 7 about the ICARA process to their associated guidance provisions.

#### 7.1.3 R

<table>
<thead>
<tr>
<th>Section of MIFIDPRU 7</th>
<th>Application to SNI MIFIDPRU investment firms</th>
<th>Application to non-SNI MIFIDPRU investment firms</th>
<th>Application at the level of an investment firm group</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIFIDPRU 7.2 (Senior management and systems and controls)</td>
<td>Applies</td>
<td>Applies</td>
<td>Applies to the UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5</td>
</tr>
<tr>
<td>MIFIDPRU 7.3 (Risk, remuneration and nomination committees)</td>
<td>Does not apply</td>
<td>Applies if the firm does not qualify for the exclusion in MIFIDPRU 7.1.4R</td>
<td>Does not apply</td>
</tr>
<tr>
<td>MIFIDPRU 7.4 (Overall financial)</td>
<td>Applies</td>
<td>Applies</td>
<td>Applies if the investment firm group is</td>
</tr>
<tr>
<td>adequacy rule and baseline ICARA obligations</td>
<td></td>
<td>operating a group ICARA process</td>
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<td>---------------------------------------------</td>
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<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.5</strong> (Capital and liquidity planning, stress testing and wind-down planning)</td>
<td>Applies</td>
<td>Applies</td>
<td></td>
</tr>
<tr>
<td>Applies if the investment firm group is operating a group ICARA process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6</strong> (Assessing adequacy of own funds)</td>
<td>Applies</td>
<td>Applies</td>
<td></td>
</tr>
<tr>
<td>Applies if the investment firm group is operating a group ICARA process</td>
<td></td>
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</tr>
<tr>
<td><strong>MIFIDPRU 7.7</strong> (Assessing adequacy of liquid assets)</td>
<td>Applies</td>
<td>Applies</td>
<td></td>
</tr>
<tr>
<td>Applies if the investment firm group is operating a group ICARA process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.8</strong> (Periodic review of the ICARA process and record keeping)</td>
<td>Applies</td>
<td>Applies</td>
<td></td>
</tr>
<tr>
<td>Applies if the investment firm group is operating a group ICARA process</td>
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<tr>
<td><strong>MIFIDPRU 7.9</strong> (Group risks and the group ICARA process)</td>
<td>Applies</td>
<td>Applies</td>
<td></td>
</tr>
<tr>
<td>Applies if the investment firm group is operating a group ICARA process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.10</strong> (The FCA’s general approach to the SREP)</td>
<td>Applies as guidance</td>
<td>Applies as guidance</td>
<td></td>
</tr>
</tbody>
</table>

7.1.4 R (1) **MIFIDPRU 7.3** (Risk, remuneration and nomination committees) does not apply to a non-SNI MIFIDPRU investment firm:
(a) where the value of the firm’s on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £100 million or less; or

(b) where:

(i) the value of the firm’s on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £300 million or less; and

(ii) the conditions in (2) are (where they are relevant to a firm) satisfied.

(2) The conditions referred to in (1)(b)(ii) are that the:

(a) exposure value of the firm’s on- and off-balance sheet trading book business is equal to or less than £150 million; and

(b) exposure value of the firm’s on- and off-balance sheet derivatives business is equal to or less than £100 million.

(3) For the purposes of paragraph (1), paragraph (4) applies where a non-SNI MIFIDPRU investment firm does not have monthly data covering the 4-year period referred to in that paragraph.

(4) Where this paragraph applies, a non-SNI MIFIDPRU investment firm must calculate the rolling averages referred to in paragraph (2) using the data points that it does have.

7.1.5 G (1) For the purposes of MIFIDPRU 7.1.4R(3), the FCA expects a non-SNI MIFIDPRU investment firm to have insufficient data for a period only where it did not carry on any MiFID business during that period, or where (for periods prior to the application of MIFIDPRU) the firm did not record the relevant data on a monthly basis.

(2) Where a firm does not have all the monthly data points, the firm should use the data points it has in the way that paints the most representative picture of the period in question. For example, if a firm has monthly data for 2 years of the 4-year period, but prior to that only recorded the relevant data on a quarterly basis, the firm could sensibly calculate its rolling average by using the quarterly figure for each of the three monthly data points in each quarter.

7.1.6 R (1) The amounts referred to in MIFIDPRU 7.1.4R must be calculated on an individual basis, and:

(a) in the case of on-balance sheet assets, in accordance with the applicable accounting framework;
(b) in the case of off-balance sheet items, using the full nominal value.

(2) The value of the on-balance sheet assets and off-balance sheet items in MIFIDPRU 7.1.4R(1)(a) and (b) must be the arithmetic mean of the assets and items over the preceding 4 years, based on monthly data points.

(3) A firm may choose the day of the month that it uses for the data points in (2), but once that day has been chosen the firm may only change it for genuine business reasons.

7.1.7 R (1) When calculating the amounts referred to in MIFIDPRU 7.1.4R(1)(a) and (b), a firm must use the total amount of its on-balance sheet assets and off-balance sheet items.

(2) A firm must calculate the exposure values referred to in MIFIDPRU 7.1.4R(2)(a) and (b) by adding together the following items:

(a) the positive excess of the firm’s long positions over its short positions in all trading book financial instruments, using the approach specified for K-NPR in MIFIDPRU 4.12.2R to calculate the net position for each instrument; and

(b) the exposure value of contracts and transactions referred to in MIFIDPRU 4.14.3R, calculated using the approach specified for K-TCD in MIFIDPRU 4.14.8R.

(3) Any amounts in foreign currencies must be converted into sterling using the relevant conversion rate.

(4) A firm must determine the conversion rate in (3) by reference to an appropriate market rate and must record which rate was chosen.

7.1.8 G An example of an appropriate market rate for the purposes of MIFIDPRU 7.1.7R(4) is the relevant daily spot exchange rate against sterling published by the Bank of England.

7.1.9 R (1) This rule applies to a non-SNI MIFIDPRU investment firm that did not meet the conditions in MIFIDPRU 7.1.4R(1)(a) or (b) but subsequently does.

(2) MIFIDPRU 7.3 (Risk, remuneration and nomination committees) ceases to apply to the firm in (1) if:

(a) the firm has met the conditions in MIFIDPRU 7.1.4R(1)(a) or (b) for a continuous period of at least 6 months (or such longer period as may have elapsed before the firm submits the notification in (b)); and
(b) the firm has notified the FCA that it has met the conditions in (a).

(3) The notification in (2)(b) must be submitted through the online notification and application system using the form in MIFIDPRU 7Annex 3R.

7.1.10 G The effect of MIFIDPRU 7.1.9R(2)(a) is that a firm may move between meeting the conditions in MIFIDPRU 7.1.4R(3)(a) and (b) during the 6-month period.

7.1.11 R Where a non-SNI MIFIDPRU investment firm has met the conditions in MIFIDPRU 7.1.4R(1)(a) or (b) but then ceases to do so, it must comply with MIFIDPRU 7.3 within 6 months from the date on which the firm ceased to meet the conditions.

7.1.12 R (1) Where a non-SNI MIFIDPRU investment firm ceases to meet the conditions in MIFIDPRU 7.1.4R(1)(a) or (b), it must promptly notify the FCA.

(2) The notification in (1) must be submitted through the online notification and application system using the form in MIFIDPRU 7 Annex 3R.

7.1.13 G Where a firm ceases to meet the conditions in MIFIDPRU 7.1.4R(1)(a) or (b), but subsequently meets the conditions again within a period of 6 months, the firm will still be subject to MIFIDPRU 7.3 6 months after the date on which it first ceased to meet the conditions. The firm will only cease to be subject to MIFIDPRU 7.3 where it meets the conditions in MIFIDPRU 7.1.9R.

7.2 Senior management and systems and controls

Internal governance

7.2.1 R (1) A MIFIDPRU investment firm must have robust governance arrangements, including:

(a) a clear organisational structure with well defined, transparent and consistent lines of responsibility;

(b) effective processes to identify, manage, monitor and report the risks the firm is or might be exposed to, or the firm poses or might pose to others; and

(c) adequate internal control mechanisms, including sound administration and accounting procedures.

(2) The arrangements in (1) must:
(a) be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the firm; and

(b) be compatible with the requirements in the FCA Handbook relating to risk management and internal governance, for example those in MIFIDPRU 7 and SYSC, that apply to the firm.

7.2.2 When establishing and maintaining the arrangements in MIFIDPRU 7.2.1R(1), a firm should consider at least the following:

(1) the requirements that apply to the firm under MIFIDPRU 7 and SYSC 19G (MIFIDPRU Remuneration Code);

(2) the legal structure of the firm, including its ownership and funding structure;

(3) whether the firm is part of a group;

(4) the type of activities for which the firm is authorised, including the complexity and volume of those activities;

(5) the business model and strategy of the firm, including its risk strategy, risk appetite and risk profile;

(6) the types of client the firm has;

(7) the outsourced functions and distribution channels of the firm; and

(8) the firm’s existing IT systems, including continuity systems.

7.3 Risk, remuneration and nomination committees

Risk committee

7.3.1 Subject to (2), a non-SNI MIFIDPRU investment firm to which this rule applies must establish a risk committee.

(2) Subject to (3), a firm must ensure that:

(a) at least 50% of the members of the risk committee are members of the management body who do not perform any executive function in the firm; and

(b) the chair of the risk committee is a member of the management body who does not perform any executive function in the firm.

(3) The requirements in (2) do not apply to a firm that, solely because of its legal structure, cannot have members of the management body who do not perform any executive function in the firm.
(4) Members of the risk committee must have the appropriate
knowledge, skills and expertise to fully understand, manage and
monitor the risk strategy and the risk appetite of the firm.

(5) The risk committee must advise the management body on the firm’s
overall current and future risk appetite and strategy and assist the
management body in overseeing the implementation of that strategy
by senior management.

(6) Notwithstanding the role of the risk committee, the management
body of a firm has overall responsibility for the firm’s risk
strategies and policies.

7.3.2 G (1) MIFIDPRU 7.3.1R(2) only applies to firms that are required to
establish a risk committee under MIFIDPRU 7.3.1R(1).

(2) The chair may be included for the purposes of calculating the 50%
referred to in MIFIDPRU 7.3.1R(2)(a).

(3) Where a firm has established a risk committee, its responsibilities
should typically include:

(a) providing advice to the firm’s management body on risk
strategy, including the oversight of current risk exposures
of the firm, with particular, but not exclusive, emphasis on
prudential risks;

(b) developing proposals for consideration by the management
body in respect of overall risk appetite and tolerance, as
well as the metrics to be used to monitor the firm’s risk
management performance;

(c) overseeing and challenging the design and execution of
stress and scenario testing;

(d) overseeing and challenging the day-to-day risk
management and the executive’s oversight arrangements;

(e) overseeing and challenging due diligence on risk issues
relating to material transactions and strategic proposals
that are subject to approval by the management body;

(f) providing advice to the firm’s remuneration committee, as
appropriate, in relation to the development,
implementation and review of remuneration policies and
practices that are consistent with, and promote, effective
risk management;

(g) providing advice, oversight and challenge necessary to
embed and maintain a supportive risk culture throughout
the firm.
Remuneration committee

7.3.3 R (1) Subject to (2), a non-SNI MIFIDPRU investment firm to which this rule applies must establish a remuneration committee.

(2) The obligation in (1) will be deemed to be satisfied where:

(a) the non-SNI MIFIDPRU investment firm is part of an investment firm group that is subject to prudential consolidation in accordance with MIFIDPRU 2.5; and

(b) the UK parent entity has established a remuneration committee that:

(i) meets the requirements of MIFIDPRU 7.3.3R(3) (read in conjunction with MIFIDPRU 7.3.3R(4));

(ii) has the power to comply with those obligations on behalf of the non-SNI MIFIDPRU investment firm; and

(iii) has members with the appropriate knowledge, skills and expertise in relation to the non-SNI MIFIDPRU investment firm.

(3) Subject to (4), a firm must ensure that:

(a) at least 50% of the members of the remuneration committee are members of the management body who do not perform any executive function in the firm; and

(b) the chair of the remuneration committee is a member of the management body who does not perform any executive function in the firm.

(4) The requirements in (3) do not apply to a firm that, solely because of its legal structure, cannot have members of the management body who do not perform any executive function in the firm.

(5) A firm must ensure that the remuneration committee is constituted in a way that enables it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

(6) The remuneration committee must be responsible for preparing decisions regarding remuneration, including decisions which have implications for the risk and risk management of the firm and which are to be taken by the management body.

(7) When preparing the decisions, the remuneration committee must take into account the public interest and the long-term interests of shareholders, investors and other stakeholders in the firm.
7.3.4  G  
(1)  *MIFIDPRU* 7.3.3R(3) only applies to *firms* that are required to establish a *remuneration* committee under *MIFIDPRU* 7.3.3R(1).

(2)  The chair may be included for the purposes of calculating the 50% referred to in *MIFIDPRU* 7.3.3R(3)(a).

Nomination committee

7.3.5  R  
(1)  A *non-SNI MIFIDPRU investment firm* to which this *rule* applies must establish a nomination committee.

(2)  Subject to (3), a *firm* must ensure that:

(a)  at least 50% of the members of the nomination committee are members of the *management body* who do not perform any executive function in the *firm*; and

(b)  the chair of the nomination committee is a member of the *management body* who does not perform any executive function in the *firm*.

(3)  The requirements in (2) do not apply to a *firm* that, solely because of its legal structure, cannot have members of the *management body* who do not perform any executive function in the *firm*.

(4)  A *firm* must ensure that the nomination committee:

(a)  is able to use any forms of resources the nomination committee deems appropriate, including external advice; and

(b)  receives appropriate funding.

7.3.6  G  
(1)  *MIFIDPRU* 7.3.5R(2) only applies to *firms* that are required to establish a nomination committee under *MIFIDPRU* 7.3.5R(1).

(2)  The chair may be included for the purposes of calculating the 50% referred to in *MIFIDPRU* 7.3.5R(2)(a).

Establishing committees at group level

7.3.7  G  
(1)  A *firm* may apply to the *FCA* for a modification under section 138A of the *Act* to permit the *firm* to establish a risk committee, remuneration committee, or nomination committee at *group* level instead of complying with the requirement on an individual basis.

(2)  The *FCA* may grant a modification under section 138A of the *Act* if:

(a)  compliance by the *firm* with the requirement to establish a committee on an individual basis would be unduly
7.4 Internal capital adequacy and risk assessment (ICARA) process: overview and baseline obligations

7.4.1 R This section applies to a MIFIDPRU investment firm.

Purpose

7.4.2 G MIFIDPRU 7.4 to MIFIDPRU 7.9 contain rules and guidance which supplement the overarching requirements for MIFIDPRU investment firms under:

(1) the appropriate resources threshold condition in Schedule 6 to the Act (as explained in COND 2.4) under which a firm must have appropriate resources in relation to the regulated activities that it carries on; and

(2) Principle 4 (Financial prudence) under which a firm must maintain adequate financial resources.

7.4.3 G (1) The overall purpose of the rules in MIFIDPRU 7.4 to MIFIDPRU 7.9, together with the other requirements in MIFIDPRU, is to ensure that a MIFIDPRU investment firm:

(a) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down its business; and

(b) holds financial resources that are adequate for the business it undertakes.

(2) The requirement for adequate financial resources is designed to achieve 2 key outcomes for MIFIDPRU investment firms:
(a) to enable a firm to remain financially viable throughout the economic cycle, with the ability to address any potential material harms that may result from its ongoing activities (including both regulated activities and unregulated activities); and

(b) to enable the firm to conduct an orderly wind-down while minimising harm to consumers or to other market participants, and without threatening the integrity of the wider UK financial system.

(3) The rules and guidance in MIFIDPRU 7.4 to MIFIDPRU 7.9 build on the FCA’s general approach to assessing the adequacy of financial resources explained in Finalised Guidance FG20/1. Firms should also refer to that guidance when considering their obligations under those sections of MIFIDPRU.

7.4.4 G The FCA recognises that:

(1) there is a vast range of potential harms and it will not be possible for the FCA or firms to eliminate all potential risks and sources of harm;

(2) the FCA and firms should focus on material harms, adopting a proportionate and risk-based approach to each firm’s business and operating model; and

(3) some firms may still fail, but the FCA and firms should aim to ensure that any wind-down of those firms occurs in an orderly manner, minimising the impact on consumers and the wider market.

Proportionality and application to different business models

7.4.5 G Although all MIFIDPRU investment firms are subject to the appropriate resources threshold condition and Principle 4, the practical steps that a firm must take to meet these requirements will vary according to the firm’s business model and operating model. Therefore, a firm with a more complex business or operating model should generally take a more detailed approach to the monitoring and management of a wider range of potential harms than a smaller firm carrying on simpler activities.

7.4.6 G MIFIDPRU 7.4 to MIFIDPRU 7.8 contain a set of core requirements that every MIFIDPRU investment firm should incorporate into its ICARA process. This does not mean that the manner in which each firm implements these core requirements will be identical. When considering the appropriate way to satisfy these core requirements, a firm should focus on the potential material harms that may arise:

(1) from the ongoing operation of its business; and
(2) during a wind-down of its business.

Overall financial adequacy rule

7.4.7 R (1) A firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

(a) the firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and

(b) the firm’s business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

(2) The requirement in (1) is known as the overall financial adequacy rule.

7.4.8 G (1) The overall financial adequacy rule establishes the standard that the FCA applies to determine whether a MIFIDPRU investment firm has adequate financial resources. The amount and quality of own funds and liquid assets that each firm must hold will vary according to its business model and operating model, the environment in which it operates and the nature of its internal systems and controls.

(2) The remainder of this section explains the basic requirements of the ICARA process. The ICARA process is the collective term for the internal systems and controls that a firm must operate to identify and manage potential material harms that may arise from the operation of its business, and to ensure that its operations can be wound down in an orderly manner.

(3) A firm should use the ICARA process to identify whether it complies with the overall financial adequacy rule. The focus of the ICARA process is on identifying and managing risks that may result in material harms. Depending on the nature of the potential harms identified, the only realistic option to manage them and to comply with the overall financial adequacy rule may be to hold additional own funds or additional liquid assets above the firm’s own funds requirement or basic liquid assets requirement. However, in other cases, there may be more appropriate or effective ways to manage the potential harms. MIFIDPRU 7.4.16G contains further guidance on reducing the risk of material potential harms.

(4) MIFIDPRU 7.6 contains rules and guidance about how a firm should use the ICARA process to assess the own funds that the firm requires to comply with the overall financial adequacy rule.
(5) **MIFIDPRU 7.7** contains rules and guidance about how a firm should use the ICARA process to assess the liquid assets that the firm requires to comply with the overall financial adequacy rule.

(6) **MIFIDPRU 7.10** contains guidance on how the FCA will normally conduct a SREP on a firm’s ICARA process or may conduct a thematic review of a sector in which multiple firms are active. Where the FCA considers that the firm’s ICARA process has not adequately identified and managed the risks of material harm, the FCA may require the firm to take corrective action. In appropriate cases, this may include requiring the firm to hold additional own funds or liquid assets to ensure that the firm is complying with the overall financial adequacy rule. The FCA may also take supervisory action in connection with the prudential requirements of a MIFIDPRU investment firm outside the context of a SREP. Where the FCA has conducted a sectoral review, it may impose additional requirements on some or all firms that are active in the relevant sector.

ICARA process: baseline obligations

7.4.9 R  (1) A firm must have in place appropriate systems and controls to identify, monitor and, if proportionate, reduce all material potential harms:

(a) that the ongoing operation of the firm’s business may cause to:

(i) the firm’s clients and counterparties;

(ii) the markets in which the firm operates; and

(iii) the firm itself; and

(b) that may result from winding down the firm’s business, to ensure that the firm can be wound down in an orderly manner.

(2) If any material potential harms remain after a firm has implemented the systems and controls in (1), the firm must assess whether to:

(a) hold additional own funds to address the harms in accordance with MIFIDPRU 7.6.2R; and

(b) hold additional liquid assets to address the harms in accordance with MIFIDPRU 7.7.2R.

(3) The requirements in this rule apply to a firm’s entire business, including:
(a) all regulated activities, irrespective of whether they are MiFID business; and

(b) any unregulated activities.

(4) The systems, controls and procedures operated by a firm to comply with the requirements in this rule are known as the ICARA process.

7.4.10 R A firm’s ICARA process must be proportionate to the nature, scale and complexity of the business carried on by the firm.

7.4.11 R A firm must ensure that its ICARA process complies with the requirements in MIFIDPRU 7.4 to MIFIDPRU 7.8 in a consistent and coherent manner.

7.4.12 G (1) MIFIDPRU 7.4.11R requires a firm to ensure that the inputs to, analyses applied by, and conclusions arising from, its ICARA process are properly linked and reflect a consistent and coherent analysis of the firm’s business and operating model.

(2) The following are examples of the consistency and coherence required by the ICARA process:

(a) the potential material harms that the firm identifies under MIFIDPRU 7.4.13R are consistent with the firm’s articulation of its business model and strategy under MIFIDPRU 7.5.2R(1) and with the firm’s stated risk appetite under MIFIDPRU 7.5.2R(2);

(b) the firm’s analysis under MIFIDPRU 7.5.2R(4) of the own funds and liquid assets that are necessary to comply with the overall financial adequacy rule is consistent with:

(i) the potential impact of the potential material harms that the firm identifies under MIFIDPRU 7.4.13R;

(ii) the firm’s projections of its future requirements under MIFIDPRU 7.5.2R(4); and

(iii) the impact of the stressed scenarios that the firm has identified under MIFIDPRU 7.5.2R(5);

(c) the potential recovery actions specified by the firm under MIFIDPRU 7.5.5R(2) are consistent with the firm’s projections of its future requirements under MIFIDPRU 7.5.2R(4) and the potential stressed scenarios that the firm has identified under MIFIDPRU 7.5.2R(5);

(d) the firm’s wind-down planning under MIFIDPRU 7.5.7R is consistent with the levels of own funds and liquid assets that the firm has assessed would be necessary to wind-down the firm for the purposes of the overall financial adequacy rule and with the firm’s assessment of the
potential harms that might result from winding down its business under MIFIDPRU 7.4.13R; and

(e) the firm’s wind-down planning is consistent with the potential recovery actions specified by the firm under MIFIDPRU 7.5.5R(2) and the circumstances in which the firm has concluded that no further recovery actions would be feasible or desirable.

ICARA process: identifying harms

7.4.13 R As part of its ICARA process, a firm must assess its business model and identify all material harms that could result from:

(1) the ongoing operation of the firm’s business; and

(2) the winding-down of the firm’s business.

7.4.14 G When assessing potential material harms for the purpose of MIFIDPRU 7.4.13R, the FCA considers that the following non-exhaustive list of considerations will be relevant:

(1) the level of detail required in the assessment is likely to vary depending on the complexity of the business and operating model. More complex business and operating models are likely to involve a wider range of potential material harms and so will generally require a more detailed assessment;

(2) the obligation under MIFIDPRU 7.4.13R is to identify all material harms that could result from the firm’s business, even if those harms can be appropriately mitigated. It is important that a firm starts by identifying all potential material harms that could arise from its business and operating model. The issue of how the identified harms can be mitigated should be considered separately, including assessing under MIFIDPRU 7.6 and 7.7 whether the firm should hold additional own funds and liquid assets;

(3) the potential for harm may evolve throughout the course of an economic cycle. Therefore, the assessment should consider how the risk of harm may develop in the future, rather than simply performing a static assessment based on current economic circumstances;

(4) risks to the firm itself may result in an increased risk of harm to the firm’s clients or counterparties and therefore should form part of the assessment. For example, if the firm is affected by a significant disruption or suffers a significant loss, this may prevent the firm from providing important services to clients or from being able to meet its liabilities to counterparties. Significant and unexpected financial losses sustained by a firm may also decrease the financial resources available to the firm to address other potential harms and
may increase the risk of disorderly wind-down and sudden disruption of services to the firm’s clients; and

(5) firms should refer to the guidance in Finalised Guidance FG20/1 on “Identifying and assessing the risk of harm” when assessing the impact of potential harms.

7.4.15 G (1) MIFIDPRU 7 Annex 1 contains additional guidance on identifying potential material harms that are relevant to the business models of most firms.

(2) MIFIDPRU 7 Annex 2 contains additional guidance on identifying potential material harms that are likely to be relevant to firms that deal on own account or hold significant investments on their balance sheets. This guidance is intended to apply in addition to the general guidance in MIFIDPRU 7 Annex 1.

(3) The FCA may issue further guidance or publish additional information to reflect its observations of how firms are implementing the ICARA process or to take into account developments in relation to particular products or sectors. Firms should consider any additional guidance or information that the FCA has published when applying the requirements in this section.

ICARA process: risk mitigation

7.4.16 G (1) The ICARA process is an internal risk management process that a MIFIDPRU investment firm must operate on an ongoing basis. As part of that process, a firm should consider whether the risk of material potential harms can be reduced through proportionate measures (other than holding additional financial resources) and, if so, whether it is appropriate to implement the measures. The nature of any potential measures will vary depending on the firm’s business and operating model. Examples may include implementing additional internal systems and controls, strengthening governance and oversight processes or changing the manner in which the firm conducts certain business. A firm will need to form a judgement about what is appropriate and proportionate for its particular circumstances. That judgement will be informed by the firm’s risk appetite.

(2) A firm must assess whether it should hold additional own funds or additional liquid assets to mitigate any material potential harms that it has identified. This may be the case where the firm cannot identify other appropriate, proportionate measures to mitigate harms, or where it has applied these measures, but a residual risk of material harm remains. Any assessment must be realistic and based on severe but plausible assumptions.

7.5 ICARA process: capital and liquidity planning, stress testing, wind-down planning and recovery planning
7.5.1 R This section applies to a MIFIDPRU investment firm.

Business model assessment and capital and liquidity planning

7.5.2 R As part of its ICARA process, a firm must:

(1) have a clearly articulated business model and strategy;

(2) have a clearly articulated risk appetite that is consistent with the business model and strategy identified under (1);

(3) identify any material risks of misalignment between the firm's business model and operating model and the interests of its clients and the wider financial markets, and evaluate whether those risks have been adequately mitigated;

(4) consider on a forward-looking basis the own funds and liquid assets that will be required to meet the overall financial adequacy rule, taking into account any planned future growth; and

(5) consider relevant severe but plausible stresses that could affect the firm's business and consider whether the firm would still have sufficient own funds and liquid assets to meet the overall financial adequacy rule.

Stress testing and reverse stress testing requirement

7.5.3 G MIFIDPRU 7.5.2R(5) requires a firm to use stress testing to identify whether it holds sufficient own funds and liquid assets. Firms should refer to Finalised Guidance FG20/1 for specific guidance on the FCA’s expectations in relation to stress testing.

7.5.4 G (1) As part of their business model assessment and capital and liquidity planning under MIFIDPRU 7.5.2R, firms with more complex businesses or operating models should also undertake:

(a) more in-depth stress testing of their business model and strategy; and

(b) reverse stress testing.

(2) Firms should refer to MIFIDPRU 7 Annex 1.15G to MIFIDPRU 7 Annex 1.20G for additional information about the FCA’s expectations in relation to more in-depth stress testing and reverse stress testing.

(3) The FCA may request individual firms to carry out more in-depth stress testing or reverse stress testing. In appropriate cases, the FCA will consider whether it is necessary or desirable to impose a requirement on a firm to carry out such stress testing. This may involve inviting a firm to apply for the voluntary imposition of a requirement under section 55L(5) of the Act or the FCA imposing a
Recovery actions

7.5.5 R As part of its ICARA process, a firm must identify:

(1) levels of own funds and liquid assets that the firm considers, if reached, may indicate that there is a credible risk that the firm will breach its threshold requirements; and

(2) potential recovery actions that the firm would expect to take:

(a) to avoid a breach of the firm’s threshold requirements where the firm’s own funds or liquid assets fall below the levels identified in (1); and

(b) to restore compliance with its threshold requirements if the firm were to breach its threshold requirements during a period of financial difficulty.

7.5.6 G (1) When a firm is considering potential recovery actions that the firm may take for the purposes of MIFIDPRU 7.5.5R, it should consider at least the following:

(a) the governance arrangements of the firm, and in particular which individuals will be responsible for taking the relevant decisions within the required timeframe;

(b) the key business lines operated by the firm and the critical functions that the firm will need to maintain, and the steps necessary to ensure that these can continue to operate;

(c) the level of own funds and liquid assets that the firm is likely to need to restore compliance with the threshold requirements;

(d) the options available to the firm to raise additional own funds or liquid assets;

(e) the options available to the firm to conserve existing own funds or liquid assets;

(f) any significant risks that may arise in connection with proposed recovery actions; and

(g) any material impediments that may exist to implementing proposed recovery actions and whether these can be resolved or mitigated.

(2) A firm should adopt a proportionate approach to identifying potential recovery actions, taking into account the nature, scale and complexity of the firm’s business and operating model. The actions
that the firm proposes must be credible and justifiable, taking into account the circumstances in which the actions may be likely to be required.

Wind-down planning and wind-down triggers

7.5.7 R As part of its ICARA process, a firm must:

(1) identify the steps and resources that would be required to ensure the orderly wind-down and termination of the firm’s business in a realistic timescale; and

(2) evaluate the potential harms arising from winding down the firm’s business and identify how to mitigate them.

7.5.8 G When carrying out a wind-down planning assessment under MIFIDPRU 7.5.7R and determining the timeline and any required actions, a firm should refer to the guidance in the FCA’s Wind-Down Planning Guide and in Finalised Guidance FG20/1.

7.5.9 R (1) A firm must use its wind-down analysis under MIFIDPRU 7.5.7R to assess the amount of own funds and liquid assets that would be required to ensure an orderly wind-down of its business for the purposes of the overall financial adequacy rule.

(2) The firm’s assessment in (1) must not result in amounts that are lower than:

(a) in the case of own funds, the firm’s fixed overheads requirement; and

(b) in the case of liquid assets, the firm’s basic liquid assets requirement.

7.5.10 G (1) The overall financial adequacy rule requires a MIFIDPRU investment firm to hold sufficient own funds and liquid assets to ensure that it can wind-down its business in an orderly manner (as well as operate its business on an ongoing basis). MIFIDPRU 7.5.9R requires a firm to use its wind-down analysis to assess the appropriate level of own funds and liquid assets for these purposes.

(2) A firm’s assessment of the amounts that it needs to hold under the overall financial adequacy rule to ensure that it can be wound down in an orderly manner must never be lower than its wind-down triggers. The firm may conclude that it requires amounts that are higher than these minimum amounts to ensure an orderly wind-down.

(3) In appropriate cases, the FCA may consider that either or both of a firm’s wind-down triggers should be set at a higher level. In this case, the FCA may invite a firm to apply for a requirement under section 55L(5) of the Act, or may impose a requirement on the
FCA’s own initiative under section 55L(3) of the Act, for the firm to use an alternative wind-down trigger.

(4) If the firm’s own funds fall below the own funds wind-down trigger or if the firm’s liquid assets fall below the liquid assets wind-down trigger, the FCA would normally expect that the firm would commence winding down, unless the firm’s governing body has determined that there is an imminent and credible likelihood of recovery. The supervisory actions that the FCA may take in these circumstances are explained in further detail in MIFIDPRU 7.6 in relation to the own funds wind-down trigger and MIFIDPRU 7.7 in relation to the liquid assets wind-down trigger.

(5) Where a firm’s own funds or liquid assets fall below the level that is required to ensure an orderly wind-down of the firm, the firm will breach the overall financial adequacy rule. However, as explained further in MIFIDPRU 7.6 in relation to own funds and MIFIDPRU 7.7 in relation to liquid assets, this does not mean that a firm must commence winding down immediately. It is only when the firm breaches one or both of the wind-down triggers that there is a general presumption that the firm should wind-down. Where the firm has breached the overall financial adequacy rule but continues to hold own funds and liquid assets that exceed the wind-down triggers, the FCA would typically take the intervention measures set out in MIFIDPRU 7.6.15G and MIFIDPRU 7.7.17G. However, there may be cases where the firm’s financial position and the projections of its likely future financial resources mean that commencing a wind-down is appropriate, even though the firm has not yet breached the wind-down triggers. The FCA will consider the appropriate supervisory actions according to the facts in each case.

7.6 ICARA process: assessing and monitoring the adequacy of own funds

7.6.1 R This section applies to a MIFIDPRU investment firm.

7.6.2 R As part of its ICARA process, a firm must produce a reasonable estimate of the own funds it needs to hold to address:

(1) any potential material harms that the firm has identified under MIFIDPRU 7.4.13R and in relation to which it has not taken any measures to reduce the impact of the harms under MIFIDPRU 7.4.9R; and

(2) any residual potential material harms that remain after the firm has taken measures to reduce the impact of the harms under MIFIDPRU 7.4.9R.

7.6.3 R (1) A firm must assess on the basis of its analysis under MIFIDPRU 7.6.2R whether it should hold additional own funds in excess of its
own funds requirement to comply with the overall financial adequacy rule.

(2) When carrying out the assessment in (1), a firm must not:

(a) determine that it needs a lower level of own funds for an activity or harm than is required by a rule in MIFIDPRU 4 (Own funds requirements) or MIFIDPRU 5 (Concentration risk); or

(b) use components of the own funds requirement to cover potential material harms that cannot reasonably be attributed to that component.

7.6.4 G (1) The overall financial adequacy rule requires a firm to hold adequate own funds to ensure that:

(a) the firm is able to remain financially viable throughout the economic cycle, with the ability to address any potential material harms that may result from its ongoing activities; and

(b) the firm’s business can be wound down in an orderly manner.

(2) To comply with the overall financial adequacy rule, a firm must therefore hold the higher of:

(a) the amount of own funds that the firm requires at any given point in time to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle; and

(b) the amount of own funds that a firm would need to hold to ensure that the firm can be wound down in an orderly manner.

(3) The own funds threshold requirement is the amount of own funds that a firm needs to hold at any given time to comply with the overall financial adequacy rule.

(4) The firm’s analysis of potential material harms under MIFIDPRU 7.6.2R is particularly relevant when it is considering the level of own funds that are necessary for the ongoing operation of its business. It is also be relevant when considering how the firm should address potential material harms as part of an orderly wind-down.

(5) The following diagram summarises the process that a firm should undertake to determine its own funds threshold requirement:
The own funds threshold requirement cannot be lower than the K-factor requirement or the fixed overheads requirement.

The K-factor requirement does not apply to SNI MIFIDPRU investment firms and the permanent minimum capital requirement (PMR) is not linked to harm.

Unless otherwise specified by the FCA.

7.6.5 R (1) Unless (2) applies, a firm must meet its own funds threshold requirement with own funds that satisfy the following conditions:

(a) subject to (b), at least 75% of the own funds threshold requirement must be met with any combination of common equity tier 1 capital and additional tier 1 capital; and

(b) at least 56% of the own funds threshold requirement must be met with common equity tier 1 capital.

(2) The FCA may specify an alternative combination of own funds for the purpose of (1) in a requirement applied to a firm.
7.6.6 G (1) MIFIDPRU 7.6.7G and 7.6.8G explain the approach a non-SNI MIFIDPRU investment firm should apply to carry out the assessment in MIFIDPRU 7.6.3R.

(2) MIFIDPRU 7.6.9G explains the approach that an SNI MIFIDPRU investment firm should apply to carry out the assessment in MIFIDPRU 7.6.3R.

(3) MIFIDPRU 7.6.10G explains the approach that all MIFIDPRU investment firms should apply when assessing their own funds threshold requirement.

7.6.7 G (1) MIFIDPRU 4 and 5 explain how a firm must determine its own funds requirement. Where, as part of its ICARA process, a firm has identified potential material harms that cannot be fully mitigated, the firm should first consider the extent to which the impact of the residual harm on own funds is covered (wholly or partly) by the framework in MIFIDPRU 4 and 5.

(2) Example 1: If the potential material harm arises from the ordinary course of the firm’s portfolio management business, a non-SNI MIFIDPRU investment firm should consider the potential impact of the harm by comparison with the firm’s K-AUM requirement. If the harm is a harm that might typically arise from portfolio management, the firm may treat the harm as covered by the K-AUM requirement. However, if the harm is unusual in nature or might be particularly severe (for example, fraud or other irregularities), it would be unreasonable for the firm to treat the harm as fully covered by the K-AUM requirement. This is because the K-AUM requirement is designed to address typical harms from ordinary portfolio management, and not every conceivable material harm that might result from this activity.

(3) Example 2: If the potential material harm arises from the ordinary course of the firm investing its own proprietary capital in positions allocated to the trading book, a non-SNI MIFIDPRU firm should consider the nature of that harm. For example, if the harm relates to the ordinary operational aspects of dealing on own account, the firm may treat the harm as covered by the K-DTF requirement, unless the harm is unusual or particularly severe. If the harm arises from adverse market movements in relation to the firm’s trading book positions, the firm may treat the harm as covered by the K-NPR requirement (or K-CMG requirement if the position arises in a portfolio for which the firm has received a K-CMG permission), unless the relevant positions have particular features that mean the harm may be unusual or particularly severe.

(4) Example 3: Some components of the K-factor requirement, such as the K-CON requirement, reflect specific types of harm. In this case, the firm should consider the purpose of the relevant requirement. As the K-CON requirement is designed to address the potential
harm arising from a firm having concentrated exposures to a counterparty or group of connected counterparties, a non-SNI MIFIDPRU investment firm should only compare a harm to the K-CON requirement where that harm arises from, or is connected to, these concentrated exposures.

(5) Example 4: When assessing harms that may occur during a wind-down of the firm’s business, a non-SNI MIFIDPRU investment firm should consider the potential impact of the harm by comparison with its fixed overheads requirement. In this case, the firm should identify the likely costs of winding down the firm and the potential financial impact of any material harms that might occur while doing so and compare the aggregate amount with the fixed overheads requirement. This will allow a firm to determine whether they are holding sufficient own funds to ensure an orderly wind-down, as required by the overall financial adequacy rule.

7.6.8 G (1) Some harms may not fit within the own funds requirement framework in MIFIDPRU 4 or 5 because they cannot reasonably be attributed to the activities or risks that the rules in those chapters are designed to address. Where the harms are potentially material in nature, a non-SNI MIFIDPRU investment firm will need to assess their potential financial impact separately and cannot treat those harms as covered (either wholly or partly) by a requirement under MIFIDPRU 4 or 5. This includes potential material harms resulting from any regulated activities that are not MiFID business and from any unregulated activities.

(2) Example 1: A non-SNI MIFIDPRU investment firm undertakes significant amounts of corporate finance business. The K-factor requirement does not include any components which are designed to address the potential harms arising from this type of business, as none of the K-factor metrics relate to corporate finance business. If the firm identifies potential material harms that may arise from its corporate finance activities, it cannot therefore compare that harm to any part of the K-factor requirement. In this case, the firm will need to assess the potential financial impact of that harm and will need to hold additional own funds to cover that impact.

(3) Example 2: A non-SNI MIFIDPRU investment firm holds client money in connection with designated investment business that is not MiFID business. The K-CMH requirement applies only to MiFID client money. If the firm identifies potential material harms that result from holding client money for non-MiFID business, it will therefore need to assess the potential financial impact of that harm and hold additional own funds to cover that impact. Similarly, if there are material issues arising from currency mismatches in relation to MiFID client money, this may be a risk that is not adequately covered by the K-CMH requirement.
(4) A firm is not required to map the financial impact of every potential material harm to components of its K-factor requirement. In some circumstances, it may be impractical or disproportionate to allocate the potential financial impact of harms in this way. Alternatively, it may not be clear that a harm can be allocated to one or more components of the K-factor requirement. A firm may therefore hold an amount that is additional to its K-factor requirement to address a particular harm without determining whether that harm might already be partly covered by the K-factor requirement.

(5) Example 3: A non-SNI MIFIDPRU investment firm determines that there is a risk of material harm from a cyber incident affecting its IT systems. The firm’s IT systems are used across all its business lines and the firm considers that it is impractical to allocate the financial impact of the cyber incident between particular components of the K-factor requirement. In this situation, the firm may hold an additional amount of own funds (i.e. over and above its K-factor requirement) to cover the potential financial impact of the cyber incident without mapping the impact of the harm to specific components of the K-factor requirement. However, the firm should clearly record the basis on which it has determined the amount of additional own funds that are required.

7.6.9 G (1) An SNI MIFIDPRU investment firm is not subject to the K-factor requirement. In practice, this means that its own funds requirement is typically determined by the fixed overheads requirement, although for smaller firms, the permanent minimum capital requirement may be determinative.

(2) An SNI MIFIDPRU investment firm should therefore identify all relevant potential material harms from its ongoing business operations that cannot be mitigated by other means and estimate their impact on the firm’s own funds. It should then compare the aggregate financial impact on own funds with the firm’s fixed overheads requirement (or, if higher, the permanent minimum capital requirement).

(3) Separately, an SNI MIFIDPRU investment firm should also identify the likely costs of winding down the firm and the potential financial impact of any material harms that might occur while doing so and should compare the aggregate amount with the fixed overheads requirement. This will allow the firm to determine if it is holding sufficient own funds to ensure an orderly wind-down, as required by the overall financial adequacy rule.

(4) Where an SNI MIFIDPRU investment firm is close to exceeding one or more of the thresholds in MIFIDPRU 1.2.1R that would result in the firm being reclassified as a non-SNI MIFIDPRU investment firm, the firm should begin to compare its assessment of the own funds that it needs to comply with the overall financial adequacy rule with the K-factor requirement that would apply to
the firm if it were a non-SNI MIFIDPRU investment firm. The guidance in MIFIDPRU 7.6.7G and 7.6.8G is relevant in these circumstances. Comparison with the future K-factor requirement will ensure that the firm is better prepared to comply with the additional obligations in MIFIDPRU 4 and 5, and that its ICARA process is calibrated appropriately, at the point at which the firm becomes a non-SNI MIFIDPRU investment firm.

7.6.10 G (1) MIFIDPRU 7.6.7G to MIFIDPRU 7.6.9G explain the approach that a firm should take to determine if a potential harm is covered by the firm's own funds requirement. Where a firm has identified potential harms that are not covered by its own funds requirement, or are covered only partly by its own funds requirement, the firm should aggregate the estimated financial impact of those harms to determine the overall additional amount of own funds (i.e. above its own funds requirement) that the firm needs to comply with the overall financial adequacy rule.

(2) Where the FCA disagrees with a firm’s assessment of the amount of own funds that is required by the overall financial adequacy rule, the FCA may provide individual guidance to that firm about the amount of own funds that the FCA considers is necessary to comply with that rule. Alternatively, the FCA may apply a requirement to the firm that specifies an amount of own funds that the firm must hold for that purpose.

(3) The effect of MIFIDPRU 7.6.3R(2) is that a firm must not:

(a) determine that it needs a lower level of own funds for an activity or harm than is required by a component of the own funds requirement that addresses that risk or harm; or

(b) use components of the own funds requirement to cover harms that cannot be attributed to that component.

This is illustrated by the example in (4).

(4) Example: A non-SNI MIFIDPRU investment firm carries on portfolio management and determines that its K-AUM requirement is £50,000. However, the firm estimates that the actual financial impact of potential harm that may result from its portfolio management activities is only £30,000. The firm also carries on corporate finance advisory business (which does not give rise to a K-factor requirement) and estimates that the financial impact of the potential harm arising from this business is £40,000. The firm should not conclude that its own funds threshold requirement is £70,000. This is because the firm is not permitted to:

(a) conclude that the amount of own funds that it holds in relation to its portfolio management activities is less than the K-AUM requirement. This means that the firm is not
permitted to substitute its own estimate of £30,000 for the minimum K-AUM requirement of £50,000; or

(b) use part of the K-AUM requirement to cover potential material harms that do not arise in connection with portfolio management. This means that the firm cannot reallocate part of the own funds that should be held to cover the K-AUM requirement to cover risks arising from its corporate finance business.

(5) Instead, assuming that there are no other relevant potential materials harms to be taken into account, the firm should conclude that its own funds threshold requirement is £90,000, which is the sum of the K-AUM requirement and the firm’s estimate of the potential financial impact of harms arising from its corporate finance business.

Requirement to notify the FCA of certain levels of own funds

7.6.11 R (1) A firm must notify the FCA immediately in each case where its own funds fall below the level of the firm’s:

(a) early warning indicator;

(b) own funds threshold requirement; or

(c) own funds wind-down trigger, or the firm considers that there is a reasonable likelihood that its own funds will fall below that level in the foreseeable future.

(2) A notification under (1) must include the following information:

(a) a clear statement of the current level of the firm’s own funds in comparison to:

(i) its own funds threshold requirement; and

(ii) in the case of a notification under (1)(c), the firm’s own funds wind-down trigger;

(b) an explanation of why the firm’s own funds have reached the current level;

(c) in the case of a notification made under (1)(a), where the firm has identified that its own funds may fall below a level specified by the firm for the purposes of MIFIDPRU 7.5.5R(1), the recovery actions that the firm intends to take, as identified under MIFIDPRU 7.5.5R(2)(a) and 7.5.6G;

(d) in the case of a notification made under (1)(a), confirmation of whether the firm expects that its own funds...
could fall below its own funds threshold requirement in the foreseeable future and an explanation of why the firm expects this to happen;

(e) in the case of a notification made under (1)(b), the recovery actions specified for the purposes of MIFIDPRU 7.5.5R(2)(b) and 7.5.6G that the firm has already taken or will take to restore compliance with its own funds threshold requirement; and

(f) in the case of a notification made under (1)(c), the firm’s intentions in relation to activating its wind-down plan.

(3) A firm must submit the notification in (1) through the online notification and application system using the form in MIFIDPRU 7 Annex 4R.

7.6.12 G In appropriate cases, the FCA may consider that the early warning indicator should be set at a different level from 110% of a firm’s own funds threshold requirement. In this case, the FCA may invite a firm to apply for a requirement in accordance with section 55L(5) of the Act, or may impose a requirement on the FCA’s own initiative in accordance with section 55L(3) of the Act, to provide for notification to the FCA if the firm’s own funds reach the alternative level.

7.6.13 G (1) The notification requirement in MIFIDPRU 7.6.11R does not replace a firm’s obligations under:

(a) Principle 11 to disclose appropriately to the FCA anything relating to the firm of which the FCA would reasonably expect notice; or

(b) the general notification requirements in SUP 15.3.

(2) Where a firm has submitted a notification under MIFIDPRU 7.6.11R, the notification will generally discharge a firm’s obligations under Principle 11 and the general notification requirements in SUP 15.3 in relation to the matters contained in the notification. However, a firm must still consider whether the FCA should be notified of developments before any of the notification indicators in MIFIDPRU 7.6.11R occur. In addition, Principle 11 and SUP 15.3 may require a firm to notify the FCA of additional material information that is not specifically referenced in MIFIDPRU 7.6.11R.

(3) A MIFIDPRU investment firm should notify the FCA at an early stage of any significant event which creates a material risk of a firm ceasing to hold adequate financial resources, even if the impact of that event has not yet fully materialised.

FCA approach to intervention in relation to own funds
7.6.14 G (1) The table in MIFIDPRU 7.6.15G explains the interventions that the FCA would generally expect to make where there is evidence that a MIFIDPRU investment firm may be at risk of breaching the requirements that apply to its own funds. The table sets out the points at which the FCA would normally intervene and what actions it would normally take.

(2) The FCA would generally expect that the interventions in the table would be cumulative – i.e. in a declining prudential situation, as the firm hits each intervention point in turn, the FCA would take some or all of the actions associated with that particular point. The actions are intended to be proportionate and progressively stronger responses to address the prudential concerns raised by each intervention point.

(3) However, if a firm experiences a sudden adverse event which causes the firm to hit multiple intervention points simultaneously, the FCA may immediately take the actions associated with the most severe point.

(4) The actions specified in the table do not prevent the FCA from taking alternative or additional actions in appropriate cases. The purpose of the table is to provide greater clarity for firms on the FCA’s general expectations and approach to interventions, to assist firms’ own planning and responses.

7.6.15 G This table belongs to MIFIDPRU 7.6.14G.

<table>
<thead>
<tr>
<th>Intervention point</th>
<th>Purpose</th>
<th>Potential FCA supervisory actions</th>
</tr>
</thead>
</table>
| **Early warning indicator:** | This is intended as an early warning to the FCA that the firm may be at risk of breaching its own funds threshold requirement. This will allow the firm and the FCA to consider any preventative action that may be appropriate. | Where the notification is not the expected result of planned action by the firm, the FCA would normally expect the following to occur:  
(a) a dialogue between the FCA and the firm based on the information provided in the notification to understand the reason for the decline in the firm’s own funds and the firm’s future plans; and  
(b) enhanced monitoring and supervision of the firm by the FCA.  
After having considered the information provided by the firm about its proposed actions, if the FCA reasonably considers that the firm may breach its own funds |

This table belongs to MIFIDPRU 7.6.14G.
threshold requirement in the foreseeable future, the FCA may consider the following additional actions:

(c) requesting that the firm cease making discretionary distributions of capital, loans to affiliated entities, payments of dividends or payments of variable remuneration;

(d) requesting that the firm take some or all of the recovery actions identified by the firm under MIFIDPRU 7.5.5R(2) and 7.5.6G;

(e) requesting that the firm report additional information to the FCA;

(f) requesting that the firm improve its internal risk management and systems and controls;

(g) requesting that the firm cease making acquisitions; or

(h) where appropriate, inviting the firm to apply for a requirement under section 55L(5) of the Act, or imposing a requirement on the FCA’s own initiative under section 55L(3) of the Act, in relation to (c) – (g) above.

### Threshold requirement notification:

**Firm** holding insufficient **own funds** to meet its **own funds threshold requirement**

In the **FCA’s** view, where a **firm** is failing to hold sufficient **own funds** to comply with its **own funds threshold requirement**, the **firm** will be failing to meet the appropriate resources **threshold condition**.

The **FCA** would normally expect that:

(a) the **firm** will have taken any relevant recovery actions identified by the **firm** under MIFIDPRU 7.5.5R(2)(a) and 7.5.6G before breaching its own funds threshold requirement and will be preparing to take, or will have taken, any relevant recovery actions identified under MIFIDPRU 7.5.5R(2)(b); and

(b) the **firm** will cease making discretionary distributions of
This trigger is intended to prompt the firm and the FCA to address the breach of threshold conditions in a timely manner.

Where appropriate, the focus should be on recovery of the firm (unless the firm chooses to exit the market by voluntarily winding down). However, any proposed actions for recovery must be credible and achievable within a reasonable and realistic timeframe.

capital, loans to affiliated entities, payments of dividends or payments of variable remuneration.

After having considered the information provided by the firm about its proposed actions, if the FCA reasonably considers that the firm may fail to restore its own funds to the level required by the own funds threshold requirement within a reasonable timeframe, the FCA may consider the following additional actions:

(c) requesting that the firm cease taking on new business;

(d) Requesting that the firm report additional information to the FCA;

(e) requesting that the firm’s parent undertaking provides additional own funds for the firm;

(f) where appropriate, inviting the firm or its parent undertaking to apply for a requirement under section 55L(5) or section 143K(1) of the Act, or imposing a requirement on the FCA’s own initiative under section 55L(3) or section 143K(2) of the Act, in relation to (a) – (e) above; or

(g) where appropriate, inviting the firm to apply for variation or cancellation of permission under section 55H of the Act, or varying or cancelling the firm’s permission on the FCA’s own initiative under section 55J of the Act.

The FCA would also expect the firm to consider whether it is appropriate to trigger the firm’s wind-down plan under MIFIDPRU 7.5.7R to ensure an orderly wind-down of its business. This may be the case where the firm’s identified
Wind-down actions will require a reasonable length of time to execute, such as where the firm will need to transfer customers or close out its own positions.

<table>
<thead>
<tr>
<th>Wind-down trigger notification: Firm's own funds fall below its own funds wind-down trigger</th>
</tr>
</thead>
<tbody>
<tr>
<td>The own funds wind-down trigger is intended to specify a level of own funds that is sufficient to ensure an orderly wind-down of the firm. Where the firm's own funds requirement is determined by the fixed overheads requirement and the firm has not identified that it needs to hold additional own funds to comply with the overall financial adequacy rule, the own funds wind-down trigger may be equal to the firm's own funds threshold requirement. In that case, the FCA may proceed directly to applying the interventions in this row, rather than those specified for a breach of the own funds threshold requirement. In order to maximise the</td>
</tr>
<tr>
<td>The FCA would normally expect the following to occur:</td>
</tr>
<tr>
<td>(a) the firm's governing body will make a formal decision to initiate the firm’s wind-down plan, unless the governing body has a reasonable basis for determining that there is an imminent and credible likelihood of the firm’s recovery; and</td>
</tr>
<tr>
<td>(b) where the firm decides to initiate its wind-down plan, the FCA will invite the firm to apply for a requirement under section 55L(5) of the Act, or will impose a requirement on the FCA’s own initiative under section 55L(3) of the Act, that prevents the firm from taking on any new business.</td>
</tr>
<tr>
<td>The FCA may consider the following additional actions if it has concerns that without such actions, the potential risk of harm to consumers or the markets is likely to increase:</td>
</tr>
<tr>
<td>(c) taking appropriate action to protect any client money or client assets, including, where appropriate, inviting the firm to apply for a requirement under section 55L(5) of the Act, or imposing a requirement on the FCA’s own initiative under section 55L(3) of the Act, to achieve any necessary protection; and</td>
</tr>
<tr>
<td>(d) where appropriate, inviting the firm to apply for variation or cancellation of permission under section 55H of the Act, or varying or cancelling the firm's</td>
</tr>
</tbody>
</table>
potential for an orderly wind-down, the FCA expects that firms that breach this trigger should normally commence winding down immediately, unless the firm’s governing body and the FCA determine that there is an imminent and credible likelihood of recovery.

If a firm refuses to commence an orderly wind-down despite its governing body or the FCA having concluded that there is no imminent and credible likelihood of recovery, the FCA will consider the full range of its supervisory powers. In particular, the FCA may use a combination of its own initiative powers under section 55L(3) and section 55J of the Act to:

(e) prevent the firm from continuing to carry on any regulated activities; and

(f) require the firm to take appropriate actions to ensure the fair treatment and appropriate protection of clients and counterparties during any run-off period for its existing regulated business.

7.7 ICARA process: assessing and monitoring the adequacy of liquid assets

7.7.1 This section applies to a MIFIDPRU investment firm.

7.7.2 (1) As part of its ICARA process, a firm must produce a reasonable estimate of the maximum amount of liquid assets that the firm would require to:

(a) fund its ongoing business operations during each quarter over the next 12 months; and

(b) ensure that the firm could be wound down in an orderly manner.

(2) The assessment in (1) must take into account any potential material harms that the firm has identified under MIFIDPRU 7.4.9R and been unable to reduce appropriately through its systems and controls.

(3) Without prejudice to the ongoing nature of the ICARA process, the firm must update the analysis in (1) immediately following any material change in the firm’s business model or operating model.
(4) To produce the estimate in (1), the firm must ensure that it has in place reliable management information systems to provide timely and forward-looking information on its liquidity position.

7.7.3  G  (1) The overall financial adequacy rule requires a firm to hold adequate liquid assets to ensure that:

(a) the firm is able to remain financially viable throughout the economic cycle, with the ability to address any potential harm that may result from its ongoing activities; and

(b) the firm’s business can be wound down in an orderly manner.

(2) To comply with the overall financial adequacy rule, a firm must therefore hold the sum of the basic liquid assets requirement and the higher of:

(a) the amount of liquid assets that the firm requires to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle; or

(b) the additional amount of liquid assets that a firm would need to hold when commencing its wind-down process to ensure that the firm could be wound down in an orderly manner.

(3) The firm should use the analysis it produces under MIFIDPRU 7.7.2R to ensure that it complies with the overall financial adequacy rule.

(4) The liquid assets threshold requirement is the amount of liquid assets that a firm needs to hold at any given time to comply with the overall financial adequacy rule.

7.7.4  G  (1) When considering the liquid assets that are required to fund its ongoing business operations under MIFIDPRU 7.7.2R(1), a firm should consider, among other factors:

(a) the ordinary level of liquid assets that would typically be required to operate the firm’s underlying business, taking into account any seasonal variations;

(b) any material harms that may realistically occur during the next 12 months and their potential impact on the firm’s liquidity position;

(c) any liquid assets that a firm may need to use as collateral or to meet margining requirements; and
(d) any estimated gaps in funding, including during periods of severe but plausible stress.

(2) The liquid assets that a firm requires at any given time during the 12-month period in MIFIDPRU 7.7.2R(1) may fluctuate, depending on the timing of a firm’s expected liabilities and the nature of its business. Therefore, a firm should divide the 12-month period into quarters and assess the highest amount of liquid assets that it would require in each quarter. The FCA accepts that forecasts of the liquid assets that a firm requires may become less accurate for later quarters, but expects firms to use a 12-month time horizon to ensure that adequate attention is given to potential harms and significant liquidity outflows that may occur during that period.

(3) As a firm’s liquidity requirements are typically dynamic in nature, MIFIDPRU 7.7.2R requires a firm to update its liquid assets assessment where there has been a material change in the firm’s business model or operating model. This ensures that the firm updates its liquidity analysis to reflect material changes in its circumstances that may affect the availability of liquid assets or the firm’s liquidity requirements, while also assessing future needs over a rolling 12-month time horizon.

(4) As part of its reporting obligations under MIFIDPRU 9, a firm must report liquidity information to the FCA on a regular basis. The FCA will use this information to monitor both the liquid assets that the firm is holding and the firm’s assessment of its liquid assets threshold requirement.

7.7.5 G (1) A firm’s basic liquid assets requirement provides a minimum level of core liquid assets that the firm must maintain at all times. The purpose of the basic liquid assets requirement is to ensure that the firm always has a minimum stock of liquid assets to fund the initial stages of its wind-down process if wind-down becomes necessary. The firm cannot, therefore, use the value of the core liquid assets that it holds to meet the basic liquid assets requirement as liquid assets for the liquidity needs of its ongoing business.

(2) The basic liquid assets requirement may, however, be insufficient to provide the liquid assets that the firm has assessed would be necessary to facilitate an orderly wind-down as part of its wind-down planning under MIFIDPRU 7.5.7R. Therefore, the firm may identify that it needs to hold an additional amount of liquid assets to meet its funding needs as part of the wind-down process. This is not necessarily the whole amount of the liquid assets that would be required to fund the entire wind-down process, because in some circumstances, the firm may reasonably expect to generate additional liquid assets during wind-down. However, the firm should identify if it could have a funding gap during the wind-down
process that the firm needs to cover by holding more liquid assets at the point that wind-down begins.

(3) The following diagram summarises the process that a firm should undertake to determine its liquid assets threshold requirement:

Liquid assets threshold requirement determination

* When a firm assesses the amount of liquid assets it needs for ongoing operations, it cannot use the value of the core liquid assets held to meet the basic liquid assets requirement to fund those operations.

** The basic liquid assets requirement may be insufficient to provide the liquid assets that the firm has assessed would be necessary to facilitate an orderly wind-down. Therefore, the firm may identify that it needs to hold an additional amount of liquid assets to meet its funding needs to commence its wind-down process.

*** Unless otherwise specified by the FCA.

7.7.6 R (1) Subject to (2) and (3), a firm may hold the liquid assets necessary to comply with its liquid assets threshold requirement in any combination of:

(a) any core liquid asset, except trade receivables under MIFIDPRU 6.3.3R; or
(b) any non-core liquid asset, as defined in MIFIDPRU 7.7.8R, provided that the firm applies an appropriate haircut in accordance with MIFIDPRU 7.7.9R.

(2) This rule does not apply in relation to the liquid assets that a firm is holding to meet its basic liquid assets requirement, which must be core liquid assets.

(3) A firm may only use a non-core liquid asset for the purpose in (1) if the firm is satisfied that the asset can easily and promptly be converted into cash, even in stressed market conditions.

7.7.7 G When considering whether a non-core liquid asset meets the requirement in MIFIDPRU 7.7.6R(3), a firm should take into account the following principles:

(1) low risk: assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination tends to increase an asset’s liquidity. Low duration, low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all tend to enhance an asset’s liquidity;

(2) ease and certainty of valuation: an asset’s liquidity tends to increase if market participants are more likely to agree on its valuation. Assets with more standardised, homogenous and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a high-quality liquid asset should be easy to calculate and not depend on strong assumptions. The inputs into the pricing formula should also be publicly available. In practice, this should rule out the inclusion of most structured or exotic products;

(3) low correlation with risky assets: the stock of assets should not be subject to wrong-way (highly correlated) risk. For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the financial sector;

(4) listed on a developed and recognised exchange: being listed tends to increase an asset’s transparency and liquidity;

(5) active and sizable market: the asset should have an active market at all times. This means that:

(a) there should be historical evidence of market breadth and market depth. This could be demonstrated by low bid-ask spreads, high trading volumes, a large and diverse number of market participants, and the existence of a repo market. Diversity of market participants reduces market concentration and increases the reliability of the liquidity in the market; and
there should be robust market infrastructure in place. The presence of multiple committed market makers increases liquidity as quotes will most likely be available for buying or selling the asset;

(6) low volatility: assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering forced sales to meet liquidity requirements. Volatility of traded prices and spreads are simple proxy measures of market volatility. There should be historical evidence of relative stability of market terms (e.g. prices and haircuts) and volumes during stressed periods; and

(7) flight to quality: historically, the market has shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and financial system stress is one simple measure that could be used.

7.7.8 R (1) Except as specified in (2), the following assets are eligible as non-core liquid assets:

(a) short-term deposits at a credit institution that does not have a Part 4A permission in the UK to accept deposits;

(b) assets representing claims on, or guaranteed by, multilateral development banks and international organisations;

(c) assets representing claims on, or guaranteed by, any third country central bank or government;

(d) financial instruments; and

(e) any other instrument eligible as collateral against the margin requirement of an authorised central counterparty.

(2) A firm must not treat any of the following as a non-core liquid asset:

(a) any asset that belongs to a client;

(b) any other asset that is encumbered; or

(c) any asset issued by the firm or any of its affiliated entities, except a short-term deposit with an affiliated credit institution.

7.7.9 G (1) For the purposes of MIFIDPRU 7.7.8R(2)(a), an asset may belong to a client even if the asset is held in the firm’s own name. Examples of assets belonging to a client include money or other assets held under the FCA’s client asset rules.
For the purposes of MIFIDPRU 7.7.8R(2)(b), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the firm’s ability to liquidate, sell, transfer, or assign the asset.

A firm must apply an appropriate haircut to the value of a non-core liquid asset to reflect the potential loss of value when converting the asset into cash during stressed market conditions.

The FCA considers that a minimum haircut of no less than that in the range specified in the table in MIFIDPRU 7.7.12G is likely to be appropriate for the purposes of MIFIDPRU 7.7.10R.

This table belongs to MIFIDPRU 7.7.11G.

<table>
<thead>
<tr>
<th>Non-core liquid asset</th>
<th>Haircut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term deposits at a credit institution that does not have permission in the UK to accept deposits</td>
<td>0%</td>
</tr>
<tr>
<td>Assets representing claims on, or guaranteed by, multilateral development banks or international organisations</td>
<td>0%</td>
</tr>
<tr>
<td>Assets representing claims on, or guaranteed by, any third country central bank or government</td>
<td>0% - 50%</td>
</tr>
<tr>
<td>Regulated covered bonds, or comparable covered bonds regulated in a third country</td>
<td>7% - 30%</td>
</tr>
<tr>
<td>Asset-backed securities eligible for ‘STS’ designation under the Securitisation Regulation, and backed by residential loans, personal loans, leases or commercial loans for purposes other than commercial real estate development, or comparable asset-backed securities regulated in a third country</td>
<td>25% - 35%</td>
</tr>
<tr>
<td>High-quality corporate debt securities</td>
<td>15% - 50%</td>
</tr>
<tr>
<td>Shares that form part of a major stock index</td>
<td>50%</td>
</tr>
<tr>
<td>Financial instruments not covered above for which there is a liquid market as defined in article 42(1)(17) of MiFIR or article 42(1)(17) of EU MiFIR</td>
<td>55%</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----</td>
</tr>
<tr>
<td>Other instruments eligible as collateral against the margin requirement of an authorised central counterparty</td>
<td>25% - 55%</td>
</tr>
</tbody>
</table>

7.7.13 G For the purposes of applying MIFIDPRU 7.7.10R and 7.7.11G to shares or units in a CIU:

(1) where a firm is aware of the exposures underlying the CIU, it may look through to the underlying exposures to assign an appropriate haircut;

(2) where a firm is not aware of the exposures underlying the CIU, it should assume that the CIU invests, up to the maximum amount allowed under its mandate, in the highest risk assets permissible; and

(3) in either case, a firm should consider applying an additional haircut to reflect any additional loss of value that could result from the underlying exposures being held through a CIU.

Requirement to notify the FCA of certain levels of liquid assets

7.7.14 R (1) A firm must notify the FCA immediately in each case where:

(a) its liquid assets fall below its liquid assets threshold requirement; or

(b) its liquid assets fall below its liquid assets wind-down trigger or the firm considers that there is a reasonable likelihood that its liquid assets will fall below its liquid assets wind-down trigger in the foreseeable future.

(2) A notification under (1) must include the following information:

(a) a clear statement of the current level of the firm's liquid assets in comparison to:

(i) the firm’s liquid assets threshold requirement; and

(ii) in the case of a notification under (1)(b), the firm’s liquid assets wind-down trigger;
(b) an explanation of why the firm’s liquid assets have reached the current level;

(c) in the case of a notification under (1)(a), an explanation of the recovery actions specified for the purposes of MIFIDPRU 7.5.5R(2)(b) and 7.5.6G that the firm has already taken or will take to restore compliance with its liquid assets threshold requirement; and

(d) in the case of a notification under (1)(b), the firm’s intentions in relation to activating its wind-down plan.

(3) A firm must submit the notification in (1) through the online notifications and applications system using the form in MIFIDPRU 7 Annex 5R.

7.7.15 G (1) The notification requirement in MIFIDPRU 7.7.14R does not replace a firm’s obligations under:

(a) Principle 11 to disclose appropriately to the FCA anything relating to the firm of which the FCA would reasonably expect notice; or

(b) the general notification requirements in SUP 15.3.

(2) Where a firm has submitted a notification under MIFIDPRU 7.7.14R, the notification will generally discharge a firm’s obligations under Principle 11 and the general notification requirements in SUP 15.3 in relation to the matters contained in the notification. However, a firm must still consider whether the FCA should be notified of developments before any of the notification indicators in MIFIDPRU 7.7.14R occur. In addition, Principle 11 and SUP 15.3 may require a firm to notify the FCA of additional material information that is not specifically referenced in MIFIDPRU 7.7.14R.

(3) A MIFIDPRU investment firms should notify the FCA at an early stage of any significant event which creates a material risk of a firm ceasing to hold adequate financial resources, even if the impact of that event has not yet fully materialised.

FCA approach to intervention in relation to liquid assets

7.7.16 G (1) The table in MIFIDPRU 7.7.17G explains the interventions that the FCA would generally expect to make where a MIFIDPRU investment firm has breached, or there is evidence that the firm may be at risk of breaching, its liquid assets requirements. The table sets out the points at which the FCA would normally intervene and what actions it would normally take. Note that unlike for own funds, there is no early warning indicator requirement in relation to liquid assets.
(2) The FCA would generally expect that the interventions in the table would be cumulative – i.e. in a declining prudential situation, as the firm hits each intervention point in turn, the FCA would take some or all of the actions associated with that particular point. The actions are intended to be proportionate and progressively stronger responses to address the prudential concerns raised by each intervention point.

(3) However, if the firm experiences a sudden adverse event which causes the firm to hit multiple intervention points simultaneously, the FCA may immediately take the actions associated with the most severe point.

(4) The actions specified in the table do not prevent the FCA from taking alternative or additional actions in appropriate cases. The purpose of the table is to provide greater clarity for firms on the FCA’s general expectations and approach to interventions, to assist firms’ own planning and responses.

7.7.17 G This table belongs to MIFIDPRU 7.7.16G.

<table>
<thead>
<tr>
<th>Intervention point</th>
<th>Purpose</th>
<th>Potential FCA supervisory actions</th>
</tr>
</thead>
</table>
| Threshold requirement notification: Firm holding insufficient liquid assets to meet its liquid assets threshold requirement | The liquid assets threshold requirement is the amount of liquid assets that the firm needs at any point in time to comply with the overall financial adequacy rule. The FCA will monitor a firm’s assessment of its liquid assets threshold requirement through the information that the firm provides under MIFIDPRU 7.5.6G before breaching its liquid assets threshold requirement and will be considering whether to take, or will have taken, any relevant recovery actions identified under MIFIDPRU 7.5.5R(2)(b); | The FCA would normally expect that:
(a) the firm will have considered taking the recovery actions identified under MIFIDPRU 7.5.5R(2)(a) and MIFIDPRU 7.5.6G before breaching its liquid assets threshold requirement and will be considering whether to take, or will have taken, any relevant recovery actions identified under MIFIDPRU 7.5.5R(2)(b);
(b) the firm’s governing body will regularly evaluate whether the firm should take additional actions to restore its level of liquid assets to at least the level of the liquid assets threshold requirement; and
(c) the FCA will consider whether to request the firm to report |
conditions in a timely manner.

Where a firm has ceased to hold sufficient liquid assets to meet its liquid assets threshold requirement, the focus should be on restoring liquid assets to at least the level of the liquid assets threshold requirement and recovery of the firm (unless the firm chooses to exit the market by voluntarily winding down). However, any proposed actions for recovery must be credible and achievable within a reasonable and realistic timeframe.

If, having considered the information provided by the firm about its proposed actions, the FCA reasonably considers that the firm may fail to restore its liquid assets to the level required by the liquid assets threshold requirement within a reasonable timeframe, the FCA may consider the following actions:

(d) requesting that the firm cease making discretionary payments;

(e) requesting that the firm cease taking on new business;

(f) requesting that the firm’s parent undertaking provides additional liquid assets for the firm;

(g) where appropriate, inviting the firm or its parent undertaking to apply for a requirement under section 55L(5) or section 143K(1) of the Act, or imposing a requirement on the FCA’s own initiative under section 55L(3) or section 143K(2) of the Act, in relation to (a) – (f) above; or

(h) where appropriate, inviting the firm to apply for variation or cancellation of permission under section 55H of the Act, or varying or cancelling the firm’s permission on the FCA’s own initiative under section 55J of the Act.

The FCA would also expect the firm to consider whether it is appropriate to trigger the firm’s wind-down plan under MIFIDPRU 7.5.7R to ensure an orderly wind-down of its business. This may be the case where the firm’s
identified wind-down actions will require a reasonable length of time to execute, such as where the firm will need to transfer customers or close out its own positions.

| Wind-down trigger notification: | The *liquid assets* wind-down trigger is an absolute minimum level of *liquid assets* that a firm must maintain at all times to provide the necessary financial resources to commence wind-down. This is equal to the firm's basic *liquid assets requirement* (or such higher amount as the FCA may have imposed for these purposes in a requirement).

In order to maximise the potential for an orderly wind-down, the FCA expects that firms that breach this trigger should normally commence winding down immediately unless the firm's governing body and the FCA determine that there is an imminent and credible likelihood of recovery. |
<table>
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<tr>
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<tbody>
<tr>
<td>The FCA would normally expect the following to occur:</td>
<td>(a) the firm's governing body will make a formal decision to initiate the firm's wind-down plan, unless the governing body has a reasonable basis for determining that there is an imminent and credible likelihood of the firm's recovery; and</td>
</tr>
<tr>
<td></td>
<td>(b) where the firm decides to initiate its wind-down plan, the FCA will invite the firm to apply for a requirement under section 55L(5) of the Act, or will impose a requirement on the FCA's own initiative under section 55L(3) of the Act, that prevents the firm from taking on any new business.</td>
</tr>
<tr>
<td></td>
<td>The FCA may consider the following additional actions if it has concerns that without these actions, the potential risk of harm to consumers or the markets is likely to increase:</td>
</tr>
<tr>
<td></td>
<td>(c) taking appropriate action to protect any client money or client assets, including, where appropriate, inviting the firm to apply for a requirement under section 55L(5) of the Act, or imposing a requirement on the FCA's own initiative under section 55L(3) of the Act, to achieve any necessary protection; and</td>
</tr>
<tr>
<td></td>
<td>(d) where appropriate, inviting the firm to apply for variation or cancellation of permission</td>
</tr>
</tbody>
</table>
under section 55H of the Act, or varying or cancelling the firm’s permission on the FCA’s own initiative under section 55J of the Act.

If a firm refuses to commence an orderly wind-down despite its governing body or the FCA having concluded that there is no imminent and credible likelihood of recovery, the FCA will consider the full range of its supervisory powers. In particular, the FCA may use a combination of its own initiative powers under section 55L(3) and section 55J of the Act to:

(e) prevent the firm from continuing to carry on any regulated activities; and

(f) direct the firm to take appropriate actions to ensure the fair treatment and appropriate protection of clients and counterparties during any run-off period for its existing regulated business.

7.8 Reviewing and documenting the ICARA process

7.8.1 R This section applies to a MIFIDPRU investment firm.

7.8.2 R A firm must review the adequacy of its ICARA process:

(1) at least once every 12 months; and

(2) irrespective of any review carried out under (1), following any material change in the firm’s business model or operating model.

7.8.3 G The effect of MIFIDPRU 7.8.2R(2) is that if there is a significant change in the firm’s business model or operating model, the firm should not wait until the next scheduled review of its ICARA process, but should carry out a review promptly. For example, if a firm launches a material new product or business line or merges with another business, the firm should, as part of its preparation for that event, analyse the impact on the firm’s ICARA process. Similarly, if a firm’s business undergoes a significant change due to external factors (for example, significant changes in the
structure of a market sector), the *firm* should consider the effects on the *firm’s ICARA process* in a timely manner.

7.8.4 R (1) A *firm* must notify the FCA of the date on which the *firm* will submit *data item* MIF007 (ICARA assessment questionnaire) in accordance with:

(a) in the case of a *non-SNI MIFIDPRU* investment *firm*, *MIFIDPRU* 9.2.2R; and

(b) in the case of an *SNI MIFIDPRU* investment *firm*, *MIFIDPRU* 9.2.4R.

(2) The submission date that the *firm* notifies under (1) continues to apply unless the *firm* notifies the FCA of a change of the submission date in accordance with (3).

(3) A *firm* may notify the FCA of a revised submission date for the purpose of (1), provided that the revised date will not result in the *firm* not submitting *data item* MIF007 to the FCA for more than 12 months.

(4) The notifications in (1) and (3) must be submitted through the online notification and application system using the form in *MIFIDPRU 7 Annex 6R*.

(5) The FCA may direct a *firm* to submit *data item* MIF007 on a different date from the date in (2) to ensure that the FCA has access to appropriate and timely information on the *firm’s* financial position.

(6) If the FCA gives a direction to a *firm* in accordance with (5), the *firm* must submit *data item* MIF007 to the FCA on the date specified in that direction until the FCA directs otherwise.

7.8.5 G (1) *Firms* may operate different internal arrangements for reviewing the adequacy of their *ICARA process*. When considering the timetable for a review, a *firm* should take into account the following 3 dates:

(a) the date on which the underlying data used to carry out the review of the *ICARA process* was prepared (the “reference date”);

(b) the date on which the *firm’s* review of the *ICARA process* is carried out (the “review date”); and

(c) the date on which the *firm* will submit *data item* MIF007 to report on its review of the *ICARA process* (the “submission date”), as notified to the FCA under *MIFIDPRU 7.8.4R*. 
(2) When deciding on a submission date under \textit{MIFIDPRU} 7.8.4R, a firm should consider the following:

(a) the period between the reference date and the review date should be reasonable, taking into account the time that the firm is likely to need to carry out a robust assessment of its ICARA process to meet the requirements in this section and the importance of using relevant data for these purposes; and

(b) the period between the review date and the submission date should also be reasonable, taking into account the importance of the FCA receiving timely information in relation to the firm and the time that is required for the firm to complete data item MIF007 accurately and completely.

(3) A firm should design its internal timetable for the review of its ICARA process and the submission of data item MIF007 in a reasonable way, reflecting the importance of proper internal risk management. The FCA has provided firms with flexibility under \textit{MIFIDPRU} 7.8.4R to adopt a review and reporting timetable that fits best with the firm’s internal processes. However, under \textit{MIFIDPRU} 7.8.4R(5), the FCA may direct a firm to report on an alternative date if the FCA considers that the firm’s proposed review and reporting timetable would not result in the FCA receiving the necessary information in an appropriate and timely manner.

(4) A firm may change the date on which it submits data item MIF007 by notifying the FCA in accordance with \textit{MIFIDPRU} 7.8.4R(3). However, a firm is not permitted to specify a revised date that would result in the firm not submitting data item MIF007 to the FCA for more than 12 months. For example, a firm has a submission date of 1 April each year. The firm submits data item MIF007 on 1 April 2023. On 1 March 2024, the firm wishes to change its submission date to 31 December. The firm would not be permitted to change the submission date in this way, as the next submission date would be 31 December 2024, which would be more than 12 months after 1 April 2023. However, the firm could have notified the FCA on, for example, 1 December 2023 that it intended to change its submission date to 31 December. This is because the next submission of data item MIF007 would then have occurred on 31 December 2023, which would be within 12 months of the previous submission on 1 April 2023.

\textbf{7.8.6 R} Where a firm carries out a review of its ICARA process in accordance with \textit{MIFIDPRU} 7.8.2R(2) following a change in its business model or operating model:
the firm must submit data item MIF007 to the FCA within 20 business days of the governing body having approved the ICARA document resulting from that review in accordance with MIFIDPRU 7.8.8R; and

(2) the requirement in MIFIDPRU 7.8.4R to notify the FCA of the submission date of data item MIF007 does not apply to a data item submitted under (1).

7.8.7 R (1) A firm must document any review carried out under MIFIDPRU 7.8.2R.

(2) The documentation produced by the firm to comply with (1):

(a) may consist of multiple documents, provided that the relationship between them is clear, they are prepared on a consistent basis and they can all be provided to the FCA promptly if requested; and

(b) is collectively referred to as the ICARA document.

(3) The ICARA document must include the following:

(a) a clear description of the firm’s business model and strategy and how it aligns with the firm’s risk appetite;

(b) an explanation of the activities carried on by the firm, with a focus on the most material activities;

(c) where the firm has concluded that the ICARA process is fit for purpose, a clear explanation of why the firm reached this conclusion;

(d) where the firm has concluded that the ICARA process requires further improvement, a clear explanation of:

(i) the improvements needed;

(ii) the steps needed to make those improvements and the timescale for taking them; and

(iii) who within the firm is responsible for taking the steps in (ii);

(e) a clear explanation of any other changes to the firm’s ICARA process that have occurred following the review and the reasons for those changes;

(f) an analysis of the effectiveness of the firm’s risk management processes during the period covered by the review;
(g) a summary of the material harms identified by the firm under MIFIDPRU 7.4.13R and any steps taken to mitigate them;

(h) an overview of the business model assessment and capital and liquidity planning undertaken by the firm under MIFIDPRU 7.5.2R;

(i) a clear explanation of how the firm is complying with the overall financial adequacy rule, including a clear breakdown of the following as at the review date:

(i) available own funds;

(ii) available liquid assets; and

(iii) the firm’s assessment of its threshold requirements;

(j) a summary of any stress testing and reverse stress testing carried out by the firm;

(k) the levels of own funds and liquid assets that, if reached, the firm has identified under MIFIDPRU 7.5.5R(1) may indicate that there is a credible risk that the firm will breach its threshold requirements;

(l) the potential recovery actions that the firm has identified under MIFIDPRU 7.5.5R(2) and 7.5.6G; and

(m) an overview of the firm’s wind-down planning under MIFIDPRU 7.5.7R, including:

(i) any required actions;

(ii) the anticipated timelines for actions to be taken; and

(iii) any key assumptions or qualifications.

Senior management responsibility for the ICARA process

7.8.8 R (1) The content of the ICARA document must be reviewed and approved by the firm’s governing body within a reasonable period after the review under MIFIDPRU 7.8.2R has been completed.

(2) As part of its review under (1), the governing body must specifically review and approve the key assumptions underlying the ICARA document.

7.8.9 G (1) Under COCON 2.2.2R, senior conduct rules staff members must take reasonable steps to ensure that the business of the firm for
which they are responsible complies with the relevant requirements and standards of the regulatory system.

(2) In particular, COCON 4.2.12G explains that senior conduct rules staff members should take reasonable steps to ensure that the business for which they are responsible:

(a) has operating procedures and systems with well-defined steps for complying with the detail of relevant requirements and standards of the regulatory system; and

(b) is run prudently.

(3) The FCA considers that the ICARA process is a key requirement of the regulatory system for MIFIDPRU investment firms and is an essential part of a firm’s internal systems and procedures for ensuring that the firm’s business is run prudently. Accordingly, senior conduct rules staff members should take an active role in contributing to the analysis required under the ICARA process in respect of the business areas for which they are responsible and in embedding its requirements into those business areas.

(4) Firms and senior conduct rules staff members should refer to the provisions in COCON, and in particular the guidance in COCON 3 and COCON 4, for further information on the FCA’s general approach to assessing compliance with the relevant conduct rules.

Record keeping requirements

7.8.10 R (1) A firm must keep adequate records of the following:

(a) its ICARA document; and

(b) the review and approval of the ICARA document by the firm’s governing body under MIFIDPRU 7.8.8R.

(2) A firm must retain the records in (1) for at least 3 years from the date on which the relevant document was approved.

7.9 ICARA process: firms forming part of a group

7.9.1 G This section contains:

(1) a requirement for individual MIFIDPRU investment firms to take into account group risk as part of their ICARA process;

(2) rules and guidance on the extent to which an investment firm group may manage risks on a group basis and may operate a group ICARA process; and
(3) rules and guidance on the extent to which the position of multiple MIFIDPRU investment firms may be combined with a single ICARA document.

Analysis of group risk by individual firms

7.9.2 R Where a MIFIDPRU investment firm is a part of a group, the firm’s ICARA process must take into account any material risks or potential harms that may result from the firm’s relationship with other members of that group or the group as a whole.

7.9.3 G The requirement in MIFIDPRU 7.9.2R applies in relation to:

(1) any group, irrespective of whether that group is an investment firm group; and

(2) any relationship that the firm has with any member of that group, irrespective of whether the other entity is an authorised person.

Group ICARA process

7.9.4 G (1) An investment firm group to which MIFIDPRU 2.5 (Prudential consolidation) applies is not normally required to operate an ICARA process on a consolidated basis.

(2) However, in exceptional circumstances, the FCA may determine that a particular investment firm group should operate an ICARA process on a consolidated basis. For example, the FCA may conclude that the individual ICARA process operated by a MIFIDPRU investment firm within an investment firm group, or the group ICARA process operated by an investment firm group, does not adequately reflect certain material risks that arise in the context of the investment firm group as a whole. Therefore, in appropriate cases, the FCA may:

(a) invite a UK parent entity to apply for the imposition of a requirement to operate a consolidated ICARA process under section 55L(5) or section 143K(1) of the Act; or

(b) impose a requirement on the FCA’s own initiative on a UK parent entity to operate a consolidated ICARA process under section 55L(3) or section 143K(3) of the Act.

(3) Where the FCA decides to impose a requirement on a UK parent entity to operate an ICARA process on a consolidated basis, it will normally discuss its expectations around the operation of that ICARA process in further detail with the UK parent entity.

(4) In appropriate cases, the FCA may specify that a particular entity (whether or not it is an authorised person) should be excluded from the consolidated situation. Where this is the case, the consolidated ICARA process should reflect the modified scope of
the consolidated situation. The FCA may adopt this approach where, for example, the inclusion of the entity within the consolidated situation would result in a misleading assessment of the financial resources available to, or the harms posed by, the relevant investment firm group.

7.9.5 R Subject to MIFIDPRU 7.9.7R, an investment firm group (whether it is subject to MIFIDPRU 2.5 or not) may operate a group ICARA process, provided that the following conditions are satisfied:

(1) the group ICARA process is consistent with the manner in which the business of the investment firm group, and the risks arising from it, are operated and managed in practice;

(2) any assessment under the group ICARA process of own funds or liquid assets that are required to cover the identified risks is allocated between individual firms within the investment firm group on a reasonable basis and that basis is properly documented;

(3) each MIFIDPRU investment firm covered by the group ICARA process complies with the overall financial adequacy rule on an individual basis;

(4) each MIFIDPRU investment firm covered by the group ICARA process maintains a separate wind-down plan for the purposes of MIFIDPRU 7.5.7R and applies the wind-down triggers on an individual basis;

(5) the notification requirements in MIFIDPRU 7.6.11R and 7.7.14R apply in relation to each individual MIFIDPRU investment firm included within the group ICARA process, using the amounts determined in accordance with (2) to (4);

(6) the management of any risks on a group basis takes place within one of the following entities:

(a) a MIFIDPRU investment firm within the investment firm group; or

(b) the UK parent entity of the investment firm group;

(7) the governing body of the relevant entity in (6) has accepted overall responsibility for the group ICARA process and for ensuring compliance with this rule;

(8) the requirement in MIFIDPRU 7.8.8R for the governing body of an individual MIFIDPRU investment firm to approve the content of the ICARA document applies to the governing body of the relevant entity in (7); and
(9) each individual MIFIDPRU investment firm included within the group ICARA process submits data item MIF007 (ICARA assessment questionnaire) to the FCA on an individual basis, reflecting the position of that firm as it results from the conclusions of the group ICARA process.

7.9.6 R Except as specified in MIFIDPRU 7.9.5R, a MIFIDPRU investment firm that is included within a group ICARA process is not required to comply with the requirements in MIFIDPRU 7.4 to MIFIDPRU 7.8 on an individual basis.

7.9.7 R (1) An investment firm group must not:

(a) operate a group ICARA process if the FCA has directed the investment firm group to manage or assess the risks arising from its business on a different basis because one or more of the conditions in (2) applies in relation to that investment firm group; or

(b) include within a group ICARA process any MIFIDPRU investment firm that the FCA has directed to manage or assess the risks arising from its business on a different basis because one or more of the conditions in (2) applies in relation to that firm.

(2) The relevant conditions are that:

(a) there is a material risk that potential harms arising in relation to the firm or investment firm group would not be adequately captured through a group ICARA process;

(b) there is a material risk that a group ICARA process would result in excessive complexity that would interfere with the FCA’s ability to supervise the compliance of the investment firm group, or any of the individual MIFIDPRU investment firms within it, with its obligations under MIFIDPRU 7; or

(c) the investment firm group previously operated, or the firm was previously included within, a group ICARA process that did not meet the requirements in MIFIDPRU 7.9.

7.9.8 R Except as otherwise specified in MIFIDPRU 7.9.5R, a group ICARA process must comply with the requirements in MIFIDPRU 7.4 to MIFIDPRU 7.8 as if the references in those sections to a “MIFIDPRU investment firm” are references to the investment firm group operating that group ICARA process.

7.9.9 G (1) Under MIFIDPRU 7.9.7R, if an investment firm group is operating a group ICARA process that is inadequate to address the potential harms arising from its business, the FCA may direct all
members of the *investment firm group*, or individual *MIFIDPRU investment firms* within it, to apply the *ICARA process* on an individual basis.

(2) In addition, a *group ICARA process* must satisfy the requirements in *MIFIDPRU 7.9.5R* on an ongoing basis. If any of the conditions in that *rule* for the use of the *group ICARA process* are not met, all *MIFIDPRU investment firms* covered by that *group ICARA process* must operate individual *ICARA processes* instead.

(3) An *investment firm group* that wishes to operate a *group ICARA process* must therefore ensure that its risk management processes are sufficiently robust to satisfy the requirements in *MIFIDPRU 7.9.5R* and that there is appropriate accountability of the responsible *governing body* in accordance with the requirements of that *rule*.

(4) The *FCA* considers that it is important that there is a proper analysis of how the *overall financial adequacy rule* and wind-down planning arrangements apply to each individual *MIFIDPRU investment firm* within the *investment firm group*. This reflects the fact that the solvency of *firms* must be assessed on an individual basis and legal entities must be wound down separately.

**Combined ICARA documents covering multiple group entities**

7.9.10 **R** Where an *investment firm group* contains multiple *MIFIDPRU investment firms*, the *ICARA document* for each *firm* may be combined within a single document, provided that:

(1) to the extent that any risks are managed under a *group ICARA process*, this is clearly documented and explained; and

(2) for any risks that are managed on an individual basis, and for any requirements that *MIFIDPRU 7.9.5R* specifies must always apply on an individual basis under a *group ICARA process*, the combined *ICARA document* clearly explains the position of each individual *firm* and how it complies with the relevant requirements.

7.9.11 **G** The effect of *MIFIDPRU 7.9.10R* is that even where an *investment firm group* does not operate a *group ICARA process*, a single *ICARA document* can be used to document the individual *ICARA processes* operated by multiple *MIFIDPRU investment firms* within that *investment firm group*. However, the single *ICARA document* must clearly explain how each *MIFIDPRU investment firm* meets the applicable requirements on an individual basis.

**7.10 Supervisory review and evaluation process**

Application
This section contains guidance on the FCA’s approach to the supervisory review and evaluation process (SREP) of the ICARA process.

Although there are no rules in this section that impose direct obligations on MIFIDPRU investment firms or UK parent entities, these entities may find the guidance in this section helpful in understanding the FCA’s general approach to considering whether MIFIDPRU investment firms are complying with the overall financial adequacy rule and the other requirements of the ICARA process.

The guidance in this section relates only to the FCA’s approach to the SREP. It does not apply to any other supervisory action that the FCA may take, except where stated.

Purpose

The own funds and liquid assets necessary to comply with the overall financial adequacy rule need to be assessed by the firm and, where appropriate, the FCA. This involves:

1. the ICARA process applied by the firm, or, in the circumstances set out in MIFIDPRU 7.9, by the investment firm group;

2. the FCA’s monitoring of the information provided by a firm under its ongoing reporting obligations in MIFIDPRU 9; and

3. in appropriate cases, a SREP, which is conducted by the FCA.

Decision to conduct a SREP

There is no mandatory frequency with which the FCA will conduct a SREP on a particular MIFIDPRU investment firm or investment firm group. Instead, the FCA will prioritise its resources to conduct SREPs by taking into account a range of factors, which include:

(a) the nature, scale and complexity of the business carried on by a firm or investment firm group;

(b) the FCA’s analysis of the risks associated with the firm or investment firm group and its potential to cause harm to consumers or to the financial markets;

(c) the information provided by a firm or other members of its group to the FCA under any notification and reporting obligations under MIFIDPRU or other obligations in the Handbook;
(d) the history of the firm’s or investment firm group’s interactions with the FCA;

(e) any broader concerns about the types of products or services offered by the firm or the investment firm group, or the markets in which it operates; and

(f) any concerns relating to the firm or investment firm group which may be notified to the FCA by other regulators (including non-financial services regulators).

(2) In appropriate cases, the FCA may conduct a review of a particular population of MIFIDPRU investment firms or investment firm groups that share common features (for example, because they are all active in a particular market sector). As a result, the FCA may issue guidance on a sectoral basis or impose additional requirements on all, or only a subset of, the entities included within that review.

(3) The scale of a SREP that the FCA carries out on an individual MIFIDPRU investment firm or investment firm group may vary, depending on the nature of the FCA’s concerns and the potential degree of risk posed by the firm or investment firm group. In certain cases, the FCA may limit its review to only a subset of the information and factors that it would normally consider under the general approach described in MIFIDPRU 7.10.4G and 7.10.5G.

Information and factors considered by the FCA when conducting a SREP

7.10.4 G When conducting a SREP, the FCA will take into the following:

(1) the firm’s or investment firm group’s ICARA document;

(2) any relevant information provided by the firm or other members of its group as part of its reporting obligations under MIFIDPRU 9 or other obligations in the Handbook;

(3) any other information or documents requested by the FCA for the purposes of the SREP;

(4) interviews with members of the firm’s governing body, or its employees, advisers, service providers, and auditors;

(5) information shared by other authorities; and

(6) any other relevant information that the FCA holds.

7.10.5 G The following is a non-exhaustive list of factors that the FCA will normally consider when conducting its SREP:

(1) the extent to which the firm’s or investment firm group’s risk management framework includes a clearly defined risk appetite;
(2) the governance arrangements operated by the firm or investment firm group, including whether there are clear lines of accountability and evidence of appropriate senior management involvement;

(3) whether the firm or investment firm group has appropriately identified and assessed the materiality of:

(a) the harms that may arise from the ongoing operation of the firm’s or group’s business;

(b) the harms that may result from a disorderly wind-down of the firm or other members of its group;

(4) whether the firm or investment firm group has adequate systems and controls in place to monitor and manage the risks arising from its business;

(5) whether the firm or investment firm group has properly integrated its ICARA process into day-to-day decision making within its business;

(6) whether the firm, and where applicable, other individual members of its investment firm group, have adequate own funds and liquid assets to comply with the overall financial adequacy rule;

(7) whether the capital and liquidity planning and business model analysis (and, where applicable, stress testing and reverse stress testing) conducted by the firm or investment firm group is based on plausible scenarios that are relevant to the business it undertakes; and

(8) whether the wind-down planning assessment conducted by the firm, and where applicable, other individual members of its investment firm group, is adequate, contains a clear explanation of the key steps needed to ensure an orderly wind-down and is based on realistic assumptions.

Examples of actions that the FCA may take following a SREP

7.10.6 G (1) Once the FCA has completed a SREP, it will consider whether any corrective action is necessary to ensure that (among other outcomes) a firm:

(a) complies with the overall financial adequacy rule;

(b) has an appropriate plan in place to ensure an orderly wind-down; and
(c) appropriately identifies and manages the material potential harms that may result from the ongoing operation of the firm’s business.

(2) When considering the action that it may take, the FCA will consider its powers and the potential harms that it has identified during the SREP. The following is a non-exhaustive list of actions that the FCA may take:

(a) requiring a firm to hold additional own funds or liquid assets;

(b) requiring a firm to implement new risk management or governance arrangements;

(c) requiring a firm to provide to the FCA, within a specified period, an improvement plan to ensure that the firm complies with the applicable requirements in the Handbook or other legislation;

(d) requiring a firm to apply a particular policy for provisioning or for the treatment of assets when calculating its own funds or own funds requirement;

(e) restricting the activities that a firm may undertake as part of its business (which may be on a permanent basis, for a specified period of time, or until certain specified conditions are met);

(f) requiring a firm to reduce the level of risk involved in the products or services it provides, including in relation to activities that it has outsourced to third parties;

(g) requiring a firm to reduce or limit the amount of variable remuneration it pays;

(h) requiring a firm to reduce or limit its distributions of profits;

(i) imposing additional or more frequent reporting requirements on a firm;

(j) requiring a firm to hold an own funds or liquid assets buffer in excess of the amounts necessary to comply with the overall financial adequacy rule;

(k) requiring a firm to make additional public disclosures;

(l) requiring a firm to strengthen its data security, confidentiality or data protection processes;
(m) requiring a firm to provide additional information to clients or counterparties;

(n) withdrawing a permission previously granted under MIFIDPRU to apply a specific treatment (such as a K-CMG permission, or a permission to use an internal model for the purposes of the K-NPR requirement);

(o) requiring a firm to use a different wind-down trigger;

(p) requiring a firm to modify its legal structure or the structure of its group, where doing so would improve the FCA’s ability to supervise the firm;

(q) giving individual guidance to the firm on any of the above matters or on any other matter that the FCA considers is relevant.

7.10.7 G The FCA would normally expect to take the actions described in MIFIDPRU 7.10.6G by using one or more of the following approaches:

(1) exercising the powers under section 55J of the Act permitting the FCA to vary or cancel a firm’s permission on the FCA’s own initiative;

(2) inviting a firm to make a voluntary application for the imposition of a requirement under section 55L(5) of the Act;

(3) imposing a requirement on a firm on the FCA’s own initiative under section 55L(3) of the Act;

(4) withdrawing a MIFIDPRU permission in accordance with the rules in MIFIDPRU;

(5) imposing a requirement on a parent undertaking in accordance with section 143K of the Act;

(6) requiring a firm or parent undertaking to provide additional information to the FCA under section 165 of the Act;

(7) requiring a report by a skilled person in accordance with section 166 of the Act; or

(8) giving individual guidance to a firm under section 139A of the Act, as further described in SUP 9.3.

General FCA approach to requiring a firm to hold additional own funds or liquid assets

7.10.8 G (1) Following a SREP, the FCA may conclude that a firm should hold an additional amount of own funds or liquid assets to comply with the overall financial adequacy rule.
(2) In this case, the FCA will normally specify an amount of own funds and/or liquid assets that the firm should hold by:

(a) issuing individual guidance; or

(b) imposing a requirement on the firm.

(3) The amount in (2) normally represents the FCA’s assessment of the firm’s overall own funds threshold requirement or liquid assets threshold requirement. However, in some cases, it may be specified on a different basis (such as by reference to a specific component of the threshold requirement or to a particular risk or harm).

(4) Where the FCA has undertaken a sectoral review, as described in MIFIDPRU 7.10.3G(2), it may issue guidance to, or impose a requirement on, some or all firms that are active in that sector, without conducting an individual SREP in relation to each firm. The guidance or requirement may relate to:

(a) additional amounts of own funds or liquid assets that the firms must hold; or

(b) other actions that the firms must undertake.

7.10.9 G (1) The FCA will determine whether a requirement or guidance is more appropriate. Where the FCA issues guidance, this will normally explain how the FCA will approach supervising the overall financial adequacy rule in relation to the firm. The FCA expects that the firm would normally confirm to the FCA that the firm will treat the amounts specified in that guidance as its threshold requirements going forward (and will therefore hold the relevant of own funds and liquid assets to comply with the overall financial adequacy rule), unless the firm subsequently determines under its ICARA process that higher amounts are required.

(2) Where the FCA applies a requirement in connection with the overall financial adequacy rule, it may invite a firm to make a voluntary application under section 55L(5) of the Act to impose a requirement on the firm to hold the level of own funds or liquid assets that the FCA has assessed as being the firm’s threshold requirements.

(3) If a firm declines to make a voluntary application to impose the relevant requirement, the FCA may use its powers under section 55L(3) of the Act to impose the requirement on the firm on the FCA’s own initiative.

(4) The FCA may also consider whether it is appropriate to invite a parent undertaking of the firm to make a voluntary application under section 143K(1) of the Act, or to impose a requirement on
the parent undertaking on the FCA’s own initiative under section 143K(3) of the Act. This requirement may operate by reference to the status of the investment firm group as a whole. Examples of when the FCA may choose to apply this approach include where:

(a) an investment firm group is operating an ICARA process that covers multiple firms in accordance with MIFIDPRU 7.9; or

(b) the FCA considers that the potential harms arising from a firm’s membership of its group can be addressed more effectively by imposing a requirement on the parent undertaking.

(5) Guidance on a threshold requirement issued by the FCA (or, where applicable, a requirement to hold a minimum level of own funds or liquid assets imposed on a firm by the FCA) will apply until the FCA issues guidance on a revised threshold requirement (or varies or removes the requirement relating to own funds or liquid assets) in relation to the firm.

(6) If a firm subsequently determines, as a result of its ICARA process, that it needs to hold a higher level of own funds or liquid assets to satisfy the overall financial adequacy rule, it must hold that higher level. This is because the FCA’s assessment of a firm’s threshold requirement (or a requirement applied to the firm by the FCA) reflects an assessment carried out at that point in time and does not relieve the firm of its obligation to comply with the overall financial adequacy rule at all times.

(7) A firm’s business model or operating model may change significantly, with the result that the firm considers that the threshold requirement specified in the guidance issued by, or the requirement applied by, the FCA exceeds the amount of own funds or liquid assets that the firm requires to comply with the overall financial adequacy rule. In this case, the firm:

(a) should undertake its own assessment of the amounts that the firm requires to comply with the overall financial adequacy rule or, where applicable, to address the risks in relation to which the requirement was imposed; and

(b) having undertaken the determination in (a), may contact the FCA to request a review of the existing guidance or requirement.

7.10.10

The following is a non-exhaustive list of situations in which the FCA may assess that a firm must hold additional own funds to comply with the overall financial adequacy rule:

(1) the business of the firm or investment firm group may result in material harm that is not sufficiently covered by the firm’s
assessment of its own funds threshold requirement and has not otherwise been adequately mitigated;

(2) the firm or investment firm group does not comply with the governance requirements in MIFIDPRU 7.2 or 7.3;

(3) the firm's or investment firm group's ICARA process does not comply with the relevant requirements in MIFIDPRU 7;

(4) the adjustments in relation to the prudent valuation of the firm's or investment firm group's trading book are insufficient to enable the firm or investment firm group to sell out or hedge its positions within a short period without incurring material losses under normal market conditions;

(5) the review of the firm's use of internal models or own estimates of delta for the purposes of the K-NPR requirement or K-TCD requirement indicates that non-compliance with the requirements for applying those models is likely to lead to inadequate levels of own funds;

(6) the manner in which the firm or investment firm group operates its business suggests that there is a significant risk that it will fail to comply with the overall financial adequacy rule in the foreseeable future; or

(7) the firm's wind-down plan does not identify realistic and credible actions for ensuring an orderly wind-down or is based on unreasonable or unrealistic assumptions.

7.10.11 G The FCA may provide guidance on a firm's own funds threshold requirement (or, where applicable, impose a requirement) by reference to:

(1) a percentage of the firm's own funds requirement;

(2) the requirement that would result from applying a modified coefficient to one or more K-factor metrics for the purposes of the firm's K-factor requirement; and/or

(3) a fixed amount.

7.10.12 G A firm must meet any own funds threshold requirement with own funds that satisfy the conditions in MIFIDPRU 7.6.5R unless the FCA applies an alternative requirement to the firm.

7.10.13 G The following is a non-exhaustive list of situations in which the FCA may assess that a firm needs to hold additional liquid assets to comply with the overall financial adequacy rule:

(1) the business of the firm or investment firm group may result in material harm that is not sufficiently covered by the liquid assets
threshold requirement as assessed by the firm and has not otherwise been adequately mitigated;

(2) the firm or investment firm group does not comply with the governance requirements in MIFIDPRU 7.2 or 7.3 in one or more material respects;

(3) the firm’s or investment firm group’s ICARA process does not comply with the requirements in MIFIDPRU 7;

(4) the firm or investment firm group’s funding profile indicates that there may be a significant liquidity mismatch between amounts payable and receivables;

(5) the manner in which the firm or investment firm group operates its business suggests that there is a significant risk that it will fail to comply with the overall financial adequacy rule in the foreseeable future; or

(6) the firm’s wind-down plan does not identify realistic and credible actions for ensuring an orderly wind-down or is based on unreasonable or unrealistic assumptions.

7.10.14 G (1) A firm can normally meet its liquid assets threshold requirement with any type of liquid assets. This is subject to the overriding requirement that in all cases, a firm must meet its basic liquid assets requirement with core liquid assets.

(2) However, in appropriate cases, the FCA may require a firm to meet all or part of its liquid assets threshold requirement with a more limited subset of liquid assets. For example, in certain cases, the FCA may require a firm to hold core liquid assets to cover particular risks or may disallow the use of certain non-core liquid assets.

(3) The FCA may also:

(a) require a firm to apply modified haircuts to non-core liquid assets; or

(b) impose certain requirements relating to a firm’s funding profile and the matching of expected liquidity outflows and inflows.

(4) Where the FCA wishes to apply the approaches in (2) or (3), it will normally invite the firm to apply for the imposition of a requirement to that effect under section 55L(5) of the Act. In appropriate cases, the FCA may impose such a requirement on its own initiative in accordance with section 55L(3) of the Act.
Purpose

1.1 G (1) This annex contains guidance on how a MIFIDPRU investment firm can assess the potential harms arising from its business as part of the ICARA process.

(2) This guidance is designed to be of relevance to all firms, but not every aspect of this guidance will be relevant to every firm. A firm should consider this guidance in light of its particular business model.

(3) A firm’s ICARA process must be proportionate to the nature, scale and complexity of its activities. This guidance should be interpreted by reference to what is proportionate and appropriate for a particular firm.

General approach to assessing material potential harms

1.2 G (1) For the purposes of its ICARA process, a firm should identify potential harms by considering plausible hypothetical scenarios that may occur in relation to the activities that the firm carries on. The firm should also consider the possibility that certain scenarios may occur at the same time or that there may be a correlation between connected scenarios.

(2) A firm should generally estimate the nature and size of potential harms by using its own knowledge and experience.

(3) Where appropriate, a firm may use peer analysis to estimate potential harms. In this case, the firm should take into account any material differences between the firm’s business and the business carried on by its peer, and to the extent that it is aware of them, any material differences in their respective systems and controls.

(4) A firm may, but is not required to, use statistical models to identify potential harms, but where it does, the firm should consider the following factors:

(a) the importance of ensuring that the statistical model is properly integrated into the firm’s wider approach to mitigating risk under the ICARA process and appropriately takes into account the guidance on assessing harm in MIFIDPRU 7;

(b) the FCA’s expectation that relevant individuals within the firm who are responsible for the firm’s risk management function or for the oversight of that function should fully understand how the model operates, including any relevant assumptions or limitations and
should be able to explain how this contributes to compliance with the *overall financial adequacy rule*;

(c) the accuracy of the model depends on ensuring that the inputs into the model are appropriate and properly reflect the *firm’s business*;

(d) the importance of periodically checking that the outputs of the model remain appropriate. This includes model validation; and

(e) the fact that excessive reliance on the model may result in the *firm* failing to operate wider risk management systems and controls.

(5) In some cases, it may be reasonable for a *firm* to take into account the impact of insurance when assessing potential harms and considering how the *firm* manages risks. However, *firms* should note that in many cases, insurance may not be an adequate substitute for financial resources that are required to address harm immediately. *Firms* should also consider the terms of any insurance, including any limitations or exclusions, when assessing the extent to which insurance may be an appropriate and effective risk mitigant.

Examples of situations that may result in material harm to clients

1.3 G The following are non-exhaustive examples of risks to *clients* or to the market that may arise from a *firm’s business*:

(1) breach of an investment mandate, resulting in *clients* being exposed to risks outside of their specified tolerance or to investments which are otherwise unsuitable for their objectives;

(2) trading or dealing errors that result in losses to *clients*;

(3) outages in, or other problems with, the *firm’s systems* that cause disruption to the continuity of the *firm’s services* (for example, by preventing the *firm’s clients* from being able to see the value of their investments or from being able to issue trading instructions), leading to financial losses for *clients*;

(4) corporate finance advice which results in a legal claim against the *firm*;

(5) losses to *clients* caused by the activities of the *firm’s tied agents or appointed representatives* (including in respect of any business which is not MiFID business for which the *firm* may be liable as principal) for which the *firm* is responsible;
(6) provision of unsuitable *investment advice*, for example in relation to pension transfers or investments, resulting in *clients* suffering losses;

(7) failure to comply with any applicable provisions of *CASS*, resulting in potential losses to *clients*; and

(8) the inability to return money received by the *firm* by way of *title transfer collateral arrangement* promptly to a *client* when required.

Examples of situations that may result in harm to the firm

1.4 G (1) Events that result in material harm to a *firm* may affect the viability of the *firm*’s business. In turn, that may affect the *firm*’s ability to meet its obligations to *clients* or to its other counterparties and may increase the risk of a disorderly wind-down.

(2) The following are non-exhaustive examples of situations that may result in material harm to a *firm*:

(a) claims on *tied agents* or *appointed representatives* that result in the *firm* being liable as principal;

(b) the failure of significant *clients* or counterparties upon which the *firm* relies to generate a significant proportion of its revenue;

(c) significant operational events, such as the failure of key systems or internal fraud; and

(d) obligations of the *firm* relating to liabilities under a defined benefit pension scheme.

Assessing the harm that may result from insufficient liquidity

1.5 G When assessing potential harms that may occur in connection with its business, a *firm* should consider any potential impact on its liquid assets. Where a *firm* has insufficient liquid assets to cover the relevant harm, it may find itself unable to pay its debts as they fall due. In turn, this could trigger an unexpected insolvent wind-down, which has the potential to cause harm to *clients*, counterparties and the wider markets.

1.6 G (1) The systems that the *firm* uses to identify and monitor liquidity risk should be tailored to its business lines, the currencies in which it operates and its structure (taking into account, for example, whether it operates branches or supports subsidiaries or other *group* entities). In addition, those systems should consider liquidity costs, benefits and risks, including intra-day liquidity risk.
(2) The systems that a firm uses to identify and monitor liquidity risk should be proportionate to the complexity, size, structure and risk profile of the firm and the scope of its operations.

1.7 G When a firm is assessing the quality and amount of liquid assets that it has available, the following is a non-exhaustive list of factors that may be relevant:

(1) the extent to which assets held by the firm can be converted into cash within a reasonable time period;

(2) any legal or operational restrictions that may apply to the firm or to particular assets, which may affect the firm’s ability to realise assets or to access cash in a timely manner;

(3) the extent to which liquid assets may be held, or the proceeds of the firm’s assets may be received, in currencies other than the expected currency of the firm’s liabilities and the ease with which those currencies can be converted (including in stressed market conditions); and

(4) any legal or practical restrictions on the transferability of funds between the firm and other members of its group, including in stressed market conditions.

1.8 G When a firm is assessing the amount of liquid assets it may need to address potential harms, the following is a non-exhaustive list of factors that may be relevant:

(1) any concentration of the firm’s funding arrangements, including in relation to:

(a) counterparties (or groups of connected counterparties) providing funding;

(b) products or facilities used to provide funding; and

(c) currencies;

(2) the extent to which the firm may be exposed to mismatches between the maturity of its assets and its liabilities;

(3) whether stressed market conditions could lead to accelerated cash outflows from the firm or longer-term reductions in the availability of liquid assets;

(4) whether intra-day obligations could affect the firm’s ability to meet its payment and settlement obligations in a timely manner (including potential margin calls in relation to the firm’s own positions, or positions of the firm’s clients in respect of which the firm has an obligation to meet the relevant margin call);
(5) any requirements on the firm (whether or not they are legally binding) arising from any off-balance sheet arrangements, including:

(a) commitments under any credit or liquidity facilities (including those which may be cancelled at any time) or guarantees;

(b) obligations under any liquidity facilities supporting securitisation programmes; or

(c) obligations in relation to client money;

(6) payments that the firm may make to maintain its franchise, reputation or brand or to ensure the continued viability of its business, even though the firm may be under no legal obligation to make the payments; and

(7) the possibility of other unexpected payment obligations, such as:

(a) direct or indirect costs arising from litigation;

(b) redress payments; or

(c) fines or penalties.

1.9 G (1) When considering liquidity risk and potential harms, a firm should consider whether it has sufficient diversification in funding sources.

(2) A firm should consider whether there may be a correlation between different market conditions and the firm’s ability to access funding from different sources.

(3) When analysing what level of funding diversification is appropriate for its business, a firm should consider the following:

(a) the maturity date of any funding arrangements;

(b) the nature of the counterparty providing the funding;

(c) whether the funding arrangement is secured or unsecured;

(d) if the funding arrangement is in the form of a financial instrument, the relevant type of instrument;

(e) the currency of the funding arrangement; and

(f) the geographical market of the funding arrangement.
A firm should regularly assess whether its ability to raise short, medium and long-term liquidity is sufficient for its ongoing requirements.

1.10 G (1) A firm should consider whether it has appropriately addressed potential harms arising from liquidity risk in relation to the following aspects of the firm’s significant business activities:

(a) product pricing;
(b) performance measurement and incentives; and
(c) the approval process for new products.

1.11 G (1) A firm should take into account the liquidity risk arising from any significant business activities and product lines, whether or not they are accounted for on the firm’s balance sheet.

A firm should clearly identify the liquidity costs and benefits attributable to particular significant business and product lines and relevant individuals within business line management for those areas should have an appropriate understanding of such costs and benefits.

A firm should address all significant business activities, including those that involve the creation of contingent exposures which may not have an immediate balance sheet impact.

Incorporating liquidity pricing into a firm’s processes may assist in aligning the risk-taking incentives of individual business lines within a firm with the liquidity risk and potential harms that may result from the activities of those business lines.

Firms should consider intra-day liquidity positions when considering the liquidity risk and potential harms that may result from their operations.

As part of their ICARA process, a firm should identify:

(a) any significant time-critical payment or settlement obligations and any arrangements that are in place to prioritise the payments;
(b) any significant payment or settlement obligations that the firm may have as a result of acting as a custodian or a settlement agent;
(c) any potential net funding shortfalls that the firm may have at different points during the day;
(d) potential significant disruptions to its intra-day liquidity flows and any arrangements in place to deal with these; and

(e) any arrangements necessary to ensure the proper management of collateral.

1.12 G When identifying liquidity risk and potential material harms that may result in relation to a firm’s use and management of collateral, the following considerations are relevant:

(1) the firm’s ability to distinguish clearly at any time between encumbered assets and assets that are unencumbered and available to meet the firm’s liquidity needs, particularly in an emergency situation;

(2) the jurisdiction in which the assets are based or registered and any legal or regulatory restrictions that may apply to the availability or use of the assets as a result;

(3) any operational restrictions that may apply in relation to the assets;

(4) the extent to which collateral deposited by the firm with a counterparty or third party may have been rehypothecated;

(5) the extent to which the assets available to the firm to use as collateral are likely to be acceptable to the firm’s major counterparties and liquidity providers;

(6) the impact of any existing financing or security arrangements entered into by the firm (which may contain financial covenants, warranties, events of default or negative pledge clauses) on the firm’s ability to provide collateral; and

(7) the potential impact of severe but plausible stressed scenarios on the firm’s ability to provide collateral where necessary and on any collateral received by the firm.

1.13 G A firm that has significant positions in foreign currencies should consider the liquidity risk and potential harms that may arise as a result of the positions.

1.14 G As part of its assessment under MIFIDPRU 7.9.2R, a firm that forms part of a group should consider the extent to which membership of that group may have an impact on the firm’s own liquidity position.

In-depth stress testing and reverse stress testing
1.15 G The guidance in MIFIDPRU 7 Annex 1.16G to MIFIDPRU 7 Annex 1.20G is relevant to firms with more complex businesses or operating models.

1.16 G Stress testing carried out by a firm should involve the following:

(1) identifying severe but plausible adverse scenarios which are relevant to the firm and the market in which it operates;

(2) stating clear assumptions, when compared to the firm’s business-as-usual projections, which are consistent with the scenarios identified in (1);

(3) considering the impact of the scenarios identified in (1) against the firm’s own risk appetite, by reference to:
   (a) individual business lines or portfolios; and
   (b) the overall position of the firm as a whole;

(4) assessing the impact of the scenarios in (1) on the firm’s:
   (a) available own funds and liquid assets; and
   (b) own funds requirement and basic liquid assets requirement;

(5) estimating the effects of scenarios identified in (1) on each of the following as they relate to the firm, both before and after taking into account any realistic management actions:
   (a) profits and losses;
   (b) cash flows;
   (c) the liquidity position; and
   (d) the overall financial position; and

(6) the firm’s governing body regularly reviewing the scenarios identified in (1) to ensure that their nature and severity remain appropriate and relevant to the firm.

1.17 G When considering the impact of the scenarios in MIFIDPRU 7 Annex 1.16G(1) on a firm’s available liquid assets, the FCA considers that the following factors are relevant:

(1) correlations between funding markets;

(2) the effectiveness of diversification across the firm’s chosen sources of funding;
(3) any potential additional margin calls or collateral requirements;
(4) contingent claims, including potential draws on committed lines extended to third parties or other entities within the firm’s group;
(5) liquid assets absorbed by off-balance sheet vehicles and activities (including conduit financing);
(6) the transferability of liquid assets;
(7) access to central bank market operations and liquidity facilities;
(8) estimates of future balance sheet growth;
(9) the continued availability of market liquidity in a number of currently highly liquid markets;
(10) the ability to access secured and unsecured funding;
(11) currency convertibility; and
(12) access to payment or settlement systems on which the firm relies.

1.18 G Reverse stress testing carried out by a firm should involve the following:

(1) identifying a range of adverse circumstances which would cause the firm’s business model to become unviable;
(2) assessing the likelihood that the adverse circumstances in (1) will occur;
(3) determining whether the risk of the firm’s business model becoming unviable is unacceptably high when compared with the firm’s risk appetite or tolerance; and
(4) where the firm determines under (3) that the risk is unacceptably high, adopting effective arrangements, processes, systems or other measures to prevent or mitigate that risk. This may include making appropriate changes to the firm’s business model or operating model.

1.19 G For the purposes of reverse stress testing, the following are non-exhaustive examples of when a firm’s business model may become unviable:

(1) all or a substantial portion of the firm’s counterparties are unwilling to continue transacting with the firm or seeking to terminate their contracts with it. In some circumstances, the failure of a single major counterparty or client may cause a
firm’s business to become unviable, particularly if this could result in wider market disruption;

(2) another member of the firm’s group is unable or unwilling to provide the support which is necessary for the firm to continue its business (for example, by withdrawing access to shared services or funding arrangements);

(3) the firm’s existing shareholders or owners are unwilling to provide new capital when required; or

(4) a sustained and continued reliance on income or revenue generated from a peripheral activity (for example, interest income derived from client money).

1.20 G The following table is a simple example of how a firm might analyse and record the outcome of stress testing using the guidance in MIFIDPRU 7 Annex 1.18G.

<table>
<thead>
<tr>
<th>Example scenario</th>
<th>Likelihood</th>
<th>Mitigants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure of a significant counterparty leads to a liquidity shortfall that causes the firm to default on its own obligations</td>
<td>Medium – above firm’s risk appetite</td>
<td>Contingency funding plan</td>
</tr>
<tr>
<td>30% drop in revenue over a 6-month period leads to sustained losses and management actions have little impact</td>
<td>Low – in line with firm’s risk appetite</td>
<td></td>
</tr>
<tr>
<td>Management actions after a stress event fail to rebuild capital and the firm’s group and shareholders are unwilling to inject further capital</td>
<td>Low – in line with firm’s risk appetite</td>
<td></td>
</tr>
<tr>
<td>Large numbers of staff and outsourced providers are absent due to illness during a pandemic and the firm is not able to operate revenue-</td>
<td>High – above firm’s risk appetite</td>
<td>Identify back up outsourcing providers and enable staff to work from home</td>
</tr>
</tbody>
</table>


Generating activities for a month

| Cyber-attack results in the firm being unable to access systems and provide services for 3 weeks. This results in loss of revenue, a liquidity shortfall and fines from regulators | Medium – above firm’s risk appetite | Improvements to cyber resilience |

1.21 G A firm’s business model may become unviable long before the firm’s financial resources have been exhausted. The FCA recognises that not every business failure is the result of a lack of financial resources and individual firms may vary in their assessment of when they would be unwilling or unable to continue carrying on their activities. Examples of where a firm’s business model may become unviable before its financial resources are exhausted include:

(1) the firm has a sustained and continued reliance on income or revenue generated from a peripheral or ancillary activity, such as interest income derived from client money; or

(2) the firm is reliant on title transfer collateral arrangements to meet its basic liquid assets requirement on a sustained basis.

7 Annex 2 Additional guidance on assessing potential harms that is relevant for firms dealing on own account or firms with significant investments on their balance sheet

Purpose

2.1 G (1) This annex contains guidance on how a MIFIDPRU investment firm should assess the potential harms arising from its business as part of its ICARA process. This guidance is primarily intended to be relevant to firms that deal on own account or hold significant investments on their balance sheets. It should be interpreted in light of the firm’s individual business model.

(2) Firms are reminded that their ICARA process must be proportionate to the nature, scale and complexity of their activities. This guidance should be interpreted by reference to what is proportionate for a particular firm.

2.2 G A firm that deals on own account or holds significant investments on its balance sheets may be at increased risk of events that result in significant losses or other harm to the firm. In turn, this may increase
the risk of a firm defaulting on its obligations to counterparties or becoming insolvent and entering a disorderly wind-down.

Examples of situations that may result in material harm to the firm

2.3 G The following are examples of situations that may result in harm to the firm:

(1) material adverse changes in the book value of the firm’s assets;
(2) the failure of the firm’s clients or counterparties; and
(3) losses incurred or payments due in connection with positions taken by the firm in financial instruments, foreign currencies and commodities (irrespective of whether those positions form part of the firm’s trading book or not).

2.4 G When a firm is assessing potential harms connected with material changes in the book value of the firm’s assets, the following non-exhaustive list of factors may be relevant:

(1) changes in the creditworthiness or the default of a client or counterparty, where that change or default may result in the firm realising assets below their book value or recording impairments, revaluations or write-downs;
(2) changes in market conditions which may affect relevant prices, indices or rates, including changes in equity, debt or foreign exchange markets or interest rates;
(3) operational events or natural disasters that may affect the value of the firm’s assets;
(4) any concentration of the firm’s assets in relation to a specific:
   (a) client or counterparty (or group of connected clients or counterparties);
   (b) economic sector or sub-sector; or
   (c) geographical market.

This concentration assessment should not be limited to the particular risks covered by the requirements in MIFIDPRU 5, but should involve a broader assessment of the risks that may arise in relation to the concentration;

(5) whether any of the firm’s assets are, or have a value which depends on, complex products, such as interests in securitisations or structured products which are complex or opaque;
(6) the extent to which the firm has used leverage (including contingent leverage); and

(7) whether the firm has any exposures under off-balance sheet items, such as commitments or guarantees.

2.5 G When a firm is assessing potential harms arising from the failure of its clients or counterparties, the following non-exhaustive list of factors may be relevant:

(1) changes in the creditworthiness or the default of a client or counterparty, which may result in direct losses for the firm or the need to revalue or replace transactions;

(2) changes in market conditions which may result in the firm incurring greater costs to replace a transaction that the client or counterparty has failed to settle;

(3) the risk that collateral received from the client or counterparty may not be as effective as expected at covering the losses arising from that client or counterparty’s failure or default; and

(4) any concentration of the firm’s exposures in relation to the client or counterparty or the economic sector or geographical market in which that client or counterparty is active.

2.6 G Where a firm is subject to the K-TCD requirement or the K-CON requirement, the FCA would generally expect the firm to consider whether those requirements are sufficient to cover the harms that may result from the failure of its clients or counterparties to fulfil their obligations. In some cases, those requirements may not apply in relation to the client, counterparty or position in question, or may not adequately address the relevant risks. Where this is the case, the firm should consider other measures to address the potential harm.

2.7 G Where a firm is assessing potential harms arising from the firm’s positions in financial instruments, foreign currencies and commodities, the following non-exhaustive list of factors may be relevant:

(1) the extent to which the relevant position may involve risks that are not adequately captured by the firm’s K-NPR requirement, K-CMG requirement or K-CON requirement, such as:

(a) basis risk between certain products;

(b) risks arising from approximate valuations applied to non-linear products;

(c) the risk that large movements in pegged currencies may be underestimated; or
(d) risks arising from inadequate proxy market data;

(2) whether a position is illiquid or distressed, or whether it may become so under severe but plausible market conditions, and how this may affect the expected holding period for that position;

(3) the extent to which it is possible to hedge a position under both normal, and severe but plausible, market conditions;

(4) whether a position is difficult to value because of a lack of recent observable market data;

(5) whether the intra-day exposure associated with a position differs significantly from the end-of-day exposure;

(6) any known weaknesses in any model used by the firm to assess the risks arising from the position; and

(7) the concentration of the portfolio in which the position is held, including by reference to:

(a) issuers or counterparties;

(b) economic sectors or sub-sectors; and

(c) geographical markets.

7 Annex Notification under MIFIDPRU 7.6.11R in relation to level of own funds

R [Editor’s note: The form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 7 Annex 3R

Notification under MIFIDPRU 7.1.9R and SYSC 19G.1.8R that a firm meets the conditions in MIFIDPRU 7.1.4R(1) and SYSC 19G.1.1R(2) and need not apply the requirements to establish certain committees or the additional remuneration requirements

Notification under MIFIDPRU 7.1.12R and SYSC 19G.1.11R that a firm no longer meets the conditions in MIFIDPRU 7.1.4R(1) and SYSC 19G.1.1R(2) and must apply the requirements to establish certain committees and the additional remuneration requirements

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).
1. Please confirm which notification applies:
   a. The firm meets the conditions in MIFIDPRU 7.1.4R(1)(a) or (b) and SYSC 19G.1.1R(2)(a) or (b) ☐
   b. The firm no longer meets the conditions in MIFIDPRU 7.1.4R(1)(a) or (b) and SYSC 19G.1.1R(2)(a) or (b) ☐

2. Please confirm the applicability of the following threshold(s) to the firm:
   a. The value of the firm’s on-balance sheet assets and off-balance sheet items over the last four-year period was an average of:
      i. £100m or less ☐
      ii. More than £100m but less than £300m ☐
      iii. More than £300m ☐

   Section b. and c. should only be completed by firms who deal on own account.
   b. The exposure value of the firm’s on- and off-balance sheet trading book business is £150m or less ☐
   c. The exposure value of the firm’s on- and off-balance sheet derivatives business is £100m or less ☐
MIFIDPRU 7 Annex 4R

Notification under MIFIDPRU 7.6.11R of own funds falling below certain level

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm to which of the following the notification relates:

   a. Own funds of an individual firm ☐

   b. Consolidated own funds ☐

   This would only apply in a scenario where the FCA has imposed a requirement on a UK parent entity to operate an ICARA on a consolidated basis. In this case, references in this form to a “firm” refer to the consolidated situation of the relevant UK parent entity.

2. Please confirm which notification applies:

   a. Early warning indicator notification ☐

   b. Threshold requirement notification ☐

   c. Wind-down trigger notification ☐

3. Please confirm the current level of the firm’s own funds in comparison to its own funds threshold requirement and, for a wind-down trigger notification, own funds wind-down trigger:

   a. Own funds amount £
b. Own funds threshold requirement amount
£

c. Own funds wind-down trigger amount (for a wind-down trigger notification)
£

d. As at date
DD/MM/YYYY

4. Please explain why the firm’s own funds have reached the current level:


4. Early warning indicator notification

a. Does the firm expect that in the foreseeable future its own funds could fall below its own funds threshold requirement?

Yes/No

Note: The firm will be required to make a separate notification when its own funds fall below its own funds threshold requirement.

i. Please explain why the firm has this expectation:


ii. If you have responded “No”, does the firm expect that its own funds could fall below the level specified as part of the firm’s ICARA process in accordance with MIFIDPRU 7.5.1R(1), which, if reached, may indicate that it is likely to breach its threshold requirement?

Yes/No

b. If applicable, please explain what recovery actions the firm intends to take, as identified under MIFIDPRU 7.5.5R(2)(a) and 7.5.6G:


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5. Threshold requirement notification

Please explain what recovery actions specified for the purposes of MIFIDPRU 7.5.5R(2)(b) and 7.5.6G the firm has already taken or will take to restore compliance with its own funds threshold requirement:

6. Wind-down trigger notifications

Please explain the firm’s intentions in relation to activating its wind-down plan:

7 Annex Notification under MIFIDPRU 7.7.14R in relation to level of liquid assets

[Editor’s note: The form can be found at this address: https://www.fca.org.uk/publication/forms/[xxx]]

MIFIDPRU 7 Annex 5R

Notification under MIFIDPRU 7.7.14R of liquid assets falling below certain level

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm to which of the following the notification relates:

   a. Liquid assets of an individual firm □
b. Consolidated liquid assets  

This would only apply in a scenario where the FCA has imposed a requirement on a UK parent entity to operate an ICARA on a consolidated basis. In this case, references in this form to a “firm” refer to the consolidated situation of the relevant UK parent entity.

2. Please confirm which notification applies:

   a. Threshold requirement notification  

   b. Wind-down trigger notification

3. Please confirm the current level of the firm’s liquid assets in comparison to the liquid assets threshold requirement and, for a wind-down trigger notification, liquid assets wind-down trigger:

   a. Liquid assets amount

   b. Liquid assets threshold requirement amount

   c. Liquid assets wind-down trigger amount (for a wind-down trigger notification)

   d. As at date

4. Please explain why the firm’s liquid assets have reached the current level:

5. Threshold requirement notifications

Please explain what recovery actions specified for the purposes of MIFIDPRU 7.5.5R(2)(b) and 7.5.6G the firm has already taken or will take to restore compliance with its liquid assets threshold requirement:

6. Wind-down trigger notifications

Please explain the firm’s intentions in relation to activating its wind-down plan:
MIFIDPRU 7 Annex 6R

Notification under MIFIDPRU 7.8.4R of a revised ICARA assessment questionnaire (data item MIF007) submission date

Details of Senior Manager responsible for this notification:

*If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm the basis on which you undertake the ICARA:

   - ☐ Individual basis
   - ☐ Group
   - ☐ Consolidated basis (*This option will apply only where the FCA has imposed a requirement on a UK parent undertaking to operate an ICARA process on a consolidated basis*)

2. If you undertake the ICARA on group or consolidated basis, please list all group entities:

<table>
<thead>
<tr>
<th>FRN</th>
<th>Entity name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Please confirm the current and revised submission date for data item MIF007.

<table>
<thead>
<tr>
<th>Current MIF007 submission date</th>
<th>Revised MIF007 submission date</th>
</tr>
</thead>
<tbody>
<tr>
<td>DD/MM/YYYY</td>
<td>DD/MM/YYYY</td>
</tr>
</tbody>
</table>
7 Annex  Map of rules and guidance relating to the ICARA process

7.1 G (1) The table in this annex identifies the rules in MIFIDPRU 7 that impose obligations relating to the ICARA process and the guidance provisions corresponding to those rules.

(2) MIFIDPRU investment firms may find this annex helpful when designing and reviewing their ICARA processes to ensure that all mandatory requirements have been met.

(3) Firms should not use this table as a substitute for reading and applying the detailed rules and guidance in MIFIDPRU 7.

<table>
<thead>
<tr>
<th>MIFIDPRU rule</th>
<th>Basic obligation</th>
<th>Associated guidance</th>
<th>Content of guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU 7.4: baseline ICARA obligations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIFIDPRU 7.4.7R</td>
<td>The overall financial adequacy rule</td>
<td>MIFIDPRU 7.4.8G</td>
<td>Explanation of the link between the overall financial adequacy rule and the ICARA process</td>
</tr>
<tr>
<td>MIFIDPRU 7.4.9R</td>
<td>The requirement to operate an ICARA process to identify, monitor and, if proportionate, reduce all material potential harms relevant to the firm</td>
<td>MIFIDPRU 7.4.16G</td>
<td>Guidance on how firms should seek to mitigate the risk of potential harms</td>
</tr>
<tr>
<td>MIFIDPRU 7.4.10R</td>
<td>The requirement for the ICARA process to be proportionate to the nature, scale and complexity of the firm’s business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIFIDPRU 7.4.11R</td>
<td>The requirement for the ICARA process to be</td>
<td>MIFIDPRU 7.4.12G</td>
<td>Explanation of the FCA’s expectations in relation to</td>
</tr>
<tr>
<td>Source</td>
<td>Requirement</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.4.13R</strong></td>
<td>The requirement to identify all material harms that may result from the firm’s business</td>
<td>Internally consistent</td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.4.14G</strong></td>
<td>Explanation of the basic factors that will be relevant when identifying potential harms</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.4.15G</strong></td>
<td>Cross-reference to additional guidance in MIFIDPRU 7 Annex 1R and MIFIDPRU 7 Annex 2R</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7 Annex 1G</strong></td>
<td>Guidance on assessing potential harms that is potentially relevant to all firms</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7 Annex 2G</strong></td>
<td>Additional guidance on assessing potential harms that is relevant for a firm that is dealing on own account or that has significant investments on its balance sheet</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**MIFIDPRU 7.5: Capital and liquidity planning, stress testing, wind-down planning and recovery planning**

<table>
<thead>
<tr>
<th>Source</th>
<th>Requirement</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU 7.5.2R</strong></td>
<td>Business model assessment and capital and liquidity planning requirements, including stress testing</td>
<td></td>
</tr>
<tr>
<td><strong>MIFIPRU 7.5.3G</strong></td>
<td>Guidance referring to Finalised Guidance FG20/1</td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.5.4G</strong></td>
<td>Guidance on stress testing obligations and reverse stress testing for firms with more complex businesses or operating models</td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7 Annex 1.15G to 7 Annex 1.20G</strong></td>
<td>Additional guidance on more in-depth</td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.5.5R</strong></td>
<td>Recovery planning requirements</td>
<td><strong>MIFIDPRU 7.5.6G</strong></td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.5.7R</strong></td>
<td>Wind-down planning requirements</td>
<td><strong>MIFIDPRU 7.5.8G</strong></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.5.9R</strong></td>
<td>Requirement to use wind-down analysis to assess levels of own funds and liquid assets required under overall financial adequacy rule</td>
<td><strong>MIFIDPRU 7.5.10G</strong></td>
</tr>
</tbody>
</table>

**MIFIDPRU 7.6: Assessing and monitoring the adequacy of own funds**

<table>
<thead>
<tr>
<th><strong>MIFIDPRU 7.6.2R</strong></th>
<th>Requirement to produce a reasonable estimate of impact of potential harms on own funds</th>
<th><strong>MIFIDPRU 7.6.4G</strong></th>
<th>Guidance on how the assessment of potential harms interacts with the own funds threshold requirement and the overall financial adequacy rule and how the firm should conduct its assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU 7.6.3R</strong></td>
<td>Requirement to use assessment under MIFIDPRU 7.6.2R to assess if additional own funds required to meet overall financial adequacy rule</td>
<td><strong>MIFIDPRU 7.6.6G</strong></td>
<td>Guidance explaining the circumstances in which the guidance in MIFIDPRU 7.6.7G to MIFIDPRU 7.6.10G is relevant</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>MIFIDPRU 7.6.7G</strong></td>
<td>Guidance on how a non-SNI MIFIDPRU investment firm should assess whether harms may be</td>
</tr>
<tr>
<td>Reference</td>
<td>Description</td>
<td></td>
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<td>-----------</td>
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<tr>
<td><strong>MIFIDPRU 7.6.8G</strong></td>
<td>Guidance on circumstances in which harms may not be covered by a non-SNI MIFIDPRU investment firm’s own funds requirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6.9G</strong></td>
<td>Guidance on how an SNI MIFIDPRU investment should assess whether harms may be covered by its own funds requirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6.10G</strong></td>
<td>Guidance on how a firm’s assessment of potential harms contributes to determining its own funds threshold requirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6.11R</strong></td>
<td>Requirement to meet <em>own funds threshold requirement</em> with specified types of own funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6.12G</strong></td>
<td>Guidance on the FCA’s ability to set an alternative <em>early warning indicator</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6.13G</strong></td>
<td>Guidance explaining how notifications under MIFIDPRU 7.6.11R interact with general notification obligations under Principle 11 or SUP 15.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.6.14G</strong></td>
<td>Explanation of FCA’s approach to intervention when</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### MIFIDPRU 7.7: Assessing and monitoring the adequacy of liquid assets

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU 7.7.2R</strong></td>
<td>Requirement to produce reasonable estimate of liquid assets required by the firm</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.3G</strong></td>
<td>Guidance on the interaction between the overall financial adequacy rule and the liquid assets that a firm must hold</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.4G</strong></td>
<td>Guidance on how a firm should assess the liquid assets required for the ongoing operation of its business</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.5G</strong></td>
<td>Guidance on the basic liquid assets requirement and how to determine the firm’s liquid assets threshold requirement</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.6R</strong></td>
<td>Requirement to meet liquid assets threshold requirement with core liquid assets and non-core liquid assets</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.7G</strong></td>
<td>General principles applicable to non-core liquid assets</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.8R</strong></td>
<td>Basic definition of non-core liquid assets</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.9G</strong></td>
<td>Guidance on exclusions for non-core liquid assets</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.10R</strong></td>
<td>Requirement to apply appropriate haircut to non-core liquid assets</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.11G and 7.7.12G</strong></td>
<td>Guidance on minimum haircuts for non-core liquid assets</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.7.13G</strong></td>
<td>Guidance on approach to applying haircuts to shares or units in collective investment undertakings</td>
</tr>
<tr>
<td>FCA 2021/38</td>
<td>MIFIDPRU 7.7.14R</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>MIFIDPRU 7.7.16G and 7.7.17G</td>
</tr>
</tbody>
</table>

**MIFIDPRU 7.8: Reviewing and documenting the ICARA process**

<table>
<thead>
<tr>
<th>FCA 2021/38</th>
<th>MIFIDPRU 7.8.2R</th>
<th>Requirement to review the ICARA process at least annually</th>
<th>MIFIDPRU 7.8.3G</th>
<th>Guidance on reviewing the ICARA process following a material change in the firm’s business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MIFIDPRU 7.8.5G</td>
<td>Guidance on interaction between the firm’s ICARA review and its submission date for its MIF007 return</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FCA 2021/38</th>
<th>MIFIDPRU 7.8.4R</th>
<th>Requirement for firm to notify the FCA of the submission date of the firm’s MIF007 (ICARA assessment questionnaire) return</th>
<th>MIFIDPRU 7.8.5G</th>
<th>Guidance on interaction between the firm’s ICARA review and its submission date for its MIF007 return</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>FCA 2021/38</th>
<th>MIFIDPRU 7.8.6R</th>
<th>Requirement to submit MIF007 return following review of ICARA process due to a material change in the firm’s business</th>
<th></th>
<th></th>
</tr>
</thead>
</table>

| FCA 2021/38 | MIFIDPRU 7.8.7R | Requirement to document review of the ICARA process and minimum |  |  |
### MIFIDPRU 7.8: Firms governing body requirements

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU 7.8.8R</strong></td>
<td>Requirement for firm's governing body to review and approve the ICARA document</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.8.9G</strong></td>
<td>Guidance on the interaction between the obligations in COCON and the ICARA process</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.8.10R</strong></td>
<td>Record keeping requirements in relation to the ICARA process</td>
</tr>
</tbody>
</table>

### MIFIDPRU 7.9: Firms forming part of a group

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU 7.9.2R</strong></td>
<td>Requirement for any firm that forms part of a group to assess risks arising from that group or its other members</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.9.3G</strong></td>
<td>Guidance on the entities included within a firm’s assessment of group risk</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.9.4R</strong></td>
<td>Ability of investment firm group to operate the ICARA process on a group-level basis</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.9.4G</strong></td>
<td>Guidance that an investment firm group is not required to operate an ICARA process on a consolidated basis</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.9.6R</strong></td>
<td>Disapplication of individual ICARA process requirement in relation to MIFIDPRU investment firm included in a group ICARA process</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.9.7R</strong></td>
<td>Circumstances in which a group ICARA process cannot be used</td>
</tr>
<tr>
<td><strong>MIFIDPRU 7.9.9G</strong></td>
<td>Guidance on when the FCA may prohibit the use of a group-level ICARA process in relation to one or more firms</td>
</tr>
</tbody>
</table>
**8 Disclosure**

8.1 [Deliberately left blank]

8.1.1 R [Deliberately left blank]

**9 Reporting**

9.1 **Application**

9.1.1 R This chapter applies to:

(1) a *MIFIDPRU* investment firm;

(2) a *UK parent entity* that is required under *MIFIDPRU* 2.5.7R to comply with *MIFIDPRU* 9 on the basis of its *consolidated situation*; and

(3) a *GCT parent undertaking* that is required to submit reports on its compliance with the *group capital test* in accordance with *MIFIDPRU* 2.6.10R.

9.1.2 R (1) The provisions of *SUP* 16.3 (General provisions on reporting) listed in (2) apply to reports submitted under this chapter as if the reports had been submitted under *SUP* 16.

(2) The provisions are:

(a) *SUP* 16.3.6R to *SUP* 16.3.10G (How to submit reports);

(b) *SUP* 16.3.11R to *SUP* 16.3.12G (Complete reporting); and
9.1.3 G Under SUP 16.3.14R (as applied to reports under this chapter by MIFIDPRU 9.1.2R), a £250 administrative fee applies where a firm does not submit a complete report by the date on which that report is due under the applicable requirements and submission procedures. SUP 16.3.14AG explains that the FCA may also take disciplinary action in appropriate cases.

9.2 Periodic reporting requirements

9.2.1 R A non-SNI MIFIDPRU investment firm must:

(1) submit the data items specified in column (A) of the table in MIFIDPRU 9.2.2R to the FCA with the frequency specified in column (C) of that table;

(2) complete the data items in (1) with data that show the position on the relevant reporting reference date in column (D) of the table in MIFIDPRU 9.2.2R; and

(3) submit the data items in (1) before the submission deadline in column (E) of the table in MIFIDPRU 9.2.2R.

9.2.2 R The following table belongs to MIFIDPRU 9.2.1R:

<table>
<thead>
<tr>
<th>(A) Data item</th>
<th>(B) Data item description</th>
<th>(C) Reporting frequency</th>
<th>(D) Reporting reference dates</th>
<th>(E) Submission deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIF001</td>
<td>Capital</td>
<td>Quarterly</td>
<td>Last business day in: (1) March; (2) June; (3) September; (4) December</td>
<td>20 business days after the reporting reference date</td>
</tr>
<tr>
<td>MIF002</td>
<td>Liquidity</td>
<td>Quarterly</td>
<td>Last business day in: (1) March; (2) June; (3) September; (4) December</td>
<td>20 business days after the reporting reference date</td>
</tr>
<tr>
<td>Reference</td>
<td>Type</td>
<td>Frequency</td>
<td>Reporting Schedule</td>
<td>Reporting Period</td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
<td>-----------</td>
<td>-------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>MIF003</td>
<td>Metrics monitoring</td>
<td>Quarterly</td>
<td>Last business day in: (1) March; (2) June; (3) September; (4) December</td>
<td>20 business days after the reporting reference date</td>
</tr>
<tr>
<td>MIF004</td>
<td>Non-K-CON concentration risk reporting</td>
<td>Quarterly</td>
<td>Last business day in: (1) March; (2) June; (3) September; (4) December</td>
<td>20 business days after the reporting reference date</td>
</tr>
<tr>
<td>MIF005</td>
<td>K-CON concentration risk reporting</td>
<td>Quarterly</td>
<td>(1) The firm’s accounting reference date; (2) The firm’s accounting reference date plus 3 months; (3) The firm’s accounting reference date plus 6 months; (4) The firm’s accounting reference date plus 9 months;</td>
<td>20 business days after the reporting reference date</td>
</tr>
<tr>
<td>MIF007</td>
<td>ICARA assessment questionnaire</td>
<td>Annually (note 2)</td>
<td>The reference date according to which the firm reviews the adequacy of its ICARA process under MIFIDPRU 7.8.2R</td>
<td>The date notified to the FCA by the firm under MIFIDPRU 7.8.4R (or such other date as directed by the FCA)</td>
</tr>
</tbody>
</table>
Note 1 Where a firm is included in a group ICARA process in accordance with MIFIDPRU 7.9.5R, the firm must still submit data item MIF007 on an individual basis, containing information about the firm that has been derived from that group ICARA process. Data item MIF007 does not apply on a consolidated basis.

Note 2 Under MIFIDPRU 7.8.2R, in certain circumstances, a firm may carry out a review of its ICARA process more frequently than the minimum required annual frequency. If so, the firm must submit data item MIF007 separately after each review.

9.2.3 R An SNI MIFIDPRU investment firm must:

(1) submit the data items specified in column (A) of the table in MIFIDPRU 9.2.4R to the FCA with the frequency specified in column (C) of that table;

(2) complete the data items in (1) with data that show the position on the relevant reporting reference date specified in column (D) of the table in MIFIDPRU 9.2.4R; and

(3) submit the data items in (1) before the submission deadline in column (E) of the table in MIFIDPRU 9.2.4R.

9.2.4 R The following table belongs to MIFIDPRU 9.2.3R:

<table>
<thead>
<tr>
<th>(A) Data item</th>
<th>(B) Data item description</th>
<th>(C) Reporting frequency</th>
<th>(D) Reporting reference dates</th>
<th>(E) Submission deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIF001</td>
<td>Capital</td>
<td>Quarterly</td>
<td>Last business day in:</td>
<td>20 business days after</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1) March;</td>
<td>the reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(2) June;</td>
<td>reference date</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(3) September;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(4) December</td>
<td></td>
</tr>
<tr>
<td>MIF002</td>
<td>Liquidity</td>
<td>Quarterly</td>
<td>Last business day in:</td>
<td>20 business days after</td>
</tr>
<tr>
<td>(Note 1)</td>
<td></td>
<td></td>
<td>(1) March;</td>
<td>the reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(2) June;</td>
<td>reference date</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(3) September;</td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>MIF003</th>
<th>Metrics monitoring</th>
<th>Quarterly</th>
<th>Last business day in: (1) March; (2) June; (3) September; (4) December</th>
<th>20 business days after the reporting reference date</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIF007 (note 2)</td>
<td>ICARA assessment questionnaire</td>
<td>Annually (note 3)</td>
<td>The reference date according to which the firm reviews the adequacy of its ICARA process under MIFIDPRU 7.8.2R</td>
<td>The date notified to the FCA by the firm under MIFIDPRU 7.8.4R (or such other date as directed by the FCA)</td>
</tr>
</tbody>
</table>

**Note 1**  
If, exceptionally, the FCA has exempted an SNI MIFIDPRU investment firm from the liquidity requirements in MIFIDPRU 6, the firm is not required to submit MIF002.

**Note 2**  
Where a firm is included in a group ICARA process in accordance with MIFIDPRU 7.9.5R, the firm must still submit data item MIF007 on an individual basis, containing information about the firm that has been derived from that group ICARA process. Data item MIF007 does not apply on a consolidated basis.

**Note 3**  
Under MIFIDPRU 7.8.2R, in certain circumstances, a firm may carry out a review of its ICARA process more frequently than the minimum required annual frequency. If so, the firm must submit data item MIF007 separately after each review.

**9.2.5 R**  
Where a firm is required to submit any of the data items MIF001 to MIF005 under MIFIDPRU 9.2.1R or 9.2.3R, it must submit the data items:

1. in the format specified in MIFIDPRU 9 Annex 1R; and
2. in accordance with the instructions in MIFIDPRU 9 Annex 2G.
9.2.6 R Where an investment firm group contains multiple MIFIDPRU investment firms, the firms may designate a single MIFIDPRU investment firm or the UK parent entity to submit all necessary data items under this section on their behalf.

9.2.7 G Where a MIFIDPRU investment firm (“A”) designates another MIFIDPRU investment firm or a UK parent entity (“B”) to submit data items under MIFIDPRU 9.2.6R, A remains responsible for the timely submission and accuracy of any data items submitted by B on A’s behalf.

9.3 Reporting on a consolidated basis

9.3.1 R (1) A UK parent entity that is required by MIFIDPRU 2.5.7R to comply with this chapter on a consolidated basis must:

(a) submit data items in accordance with MIFIDPRU 9.2.1R on the basis of its consolidated situation if it is treated as a non-SNI MIFIDPRU investment firm under MIFIDPRU 2.5.21R; or

(b) submit data items in accordance with MIFIDPRU 9.2.3R on the basis of its consolidated situation if it is treated as an SNI MIFIDPRU investment firm under MIFIDPRU 2.5.21R.

(2) For the purposes of (1), MIFIDPRU 9.2 applies with the following modifications:

(a) a reference to a “firm” is a reference to the hypothetical single MIFIDPRU investment firm created under the consolidated situation; and

(b) the submission deadline for consolidated data items under column (E) of the tables in MIFIDPRU 9.2.2R and MIFIDPRU 9.2.4R is 30 business days after the reporting reference date.

9.3.2 G MIFIDPRU 2.5 sets out guidance on how to apply the requirements in MIFIDPRU on the basis of the consolidated situation of a UK parent entity. The guidance may assist a UK parent entity in completing the data items required under this section.

9.4 Group capital test reporting

9.4.1 R A GCT parent undertaking that is required to report on the group capital test under MIFIDPRU 2.6.10R must:

(1) submit the data item specified in column (A) of the table in MIFIDPRU 9.4.2R to the FCA with the frequency specified in column (C) of that table;
(2) complete the data item in (1) with data that show the position on the relevant reporting reference date specified in column (D) of the table in MIFIDPRU 9.4.2R; and

(3) submit the data item in (1) before the submission deadline in column (E) of the table in MIFIDPRU 9.4.2R.

9.4.2 R The following table belongs to MIFIDPRU 9.4.1R:

<table>
<thead>
<tr>
<th>(A) Data item</th>
<th>(B) Data item description</th>
<th>(C) Reporting frequency</th>
<th>(D) Reporting reference dates</th>
<th>(E) Submission deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIF006</td>
<td>Group capital test reporting</td>
<td>Quarterly</td>
<td>Last business day in: (1) March; (2) June; (3) September; (4) December</td>
<td>20 business days after the reporting reference date</td>
</tr>
</tbody>
</table>

9.4.3 R (1) This rule applies where:

(a) a GCT parent undertaking is a responsible UK parent; and

(b) MIFIDPRU 2.6.10R(2)(b)(i) applies in relation to a subsidiary of that responsible UK parent.

(2) Where this rule applies, the responsible UK parent must submit an additional data item under MIFIDPRU 9.4.1R that shows the position of the subsidiary in (1)(b).

9.4.4 R Where a GCT parent undertaking is required to submit data item MIF006 under MIFIDPRU 9.4.1R or 9.4.3R, it must submit that data item:

(1) in the format specified in MIFIDPRU 9 Annex 1R; and

(2) in accordance with the instructions in MIFIDPRU 9 Annex 2G.

9.4.5 G Under MIFIDPRU 2.6.11R, a GCT parent undertaking may designate a single parent undertaking in the UK to submit data items to the FCA on behalf of all GCT parent undertakings within the same investment firm group. However, each GCT parent undertaking remains
responsible for ensuring the timely submission and accuracy of any
data items submitted on its behalf.

Data items for MIFIDPRU 9

9 Annex 1R
This annex consists of forms which can be found through the following link:
[Editor’s note: insert link to document containing data items for MIFIDPRU 9 reporting]
Data items for MIFIDPRU 9 Annex 1R

**MIF001 – Own funds**

<table>
<thead>
<tr>
<th>Basis of completion</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Is this report on behalf of a consolidation group?</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Own funds held</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 If yes, please list the firm reference numbers (FRN) of all FCA regulated entities in the consolidated situation and the group reference number, if applicable.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed overheads requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 CET1 own funds held (net of deductions - see MIFIDPRU 3.3)</td>
</tr>
<tr>
<td>4 AT1 own funds held (net of deductions - see MIFIDPRU 3.4)</td>
</tr>
<tr>
<td>5 T2 own funds held (net of deductions - see MIFIDPRU 3.5)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Permanent minimum requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Total annual eligible expenditure</td>
</tr>
<tr>
<td>7 Indicate if varied due to material change in business model.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>K-factors requirement – non-SNI firms only</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Permanent minimum requirement</td>
</tr>
<tr>
<td>9 Total K-factor requirement</td>
</tr>
<tr>
<td>10 K-AUM</td>
</tr>
<tr>
<td>11 K-CMH (segregated)</td>
</tr>
<tr>
<td>12 K-CMH (non-segregated)</td>
</tr>
<tr>
<td>13 K-ASA</td>
</tr>
<tr>
<td>14 K-COH (cash trades)</td>
</tr>
<tr>
<td>15 K-COH (derivative trades)</td>
</tr>
<tr>
<td>16 K-DTF (cash trades)</td>
</tr>
<tr>
<td>17 [Not used]</td>
</tr>
<tr>
<td>18 K-DTF (derivatives)</td>
</tr>
</tbody>
</table>
Transitional requirement
24 Transitional own funds requirement (if used)
25 Please indicate which transitional provisions are being relied upon

Own funds threshold requirement/wind-down trigger
26 Own funds threshold requirement
27 Own funds wind-down trigger
### Basis of completion
1. Is this report on behalf of a consolidation group? 
   - Yes/No
2. If yes, please list the firm reference numbers of all FCA regulated entities in the consolidated situation.

### Basic liquid asset requirement
3. Basic liquid asset requirement based on fixed overheads
   - number
4. Basic liquid asset requirement based on client guarantees
   - number

### Core liquid assets held
5. Core liquid assets held, excluding receivables from trade debtors
   - number
6. Value of qualifying trade receivables
   - number

### Liquid assets threshold requirement/wind-down trigger
7. Liquid asset threshold requirement
   - number
8. Liquid asset wind-down trigger
   - number

### Non-core liquid assets held
9. Value of non-core liquid assets post-haircut
   - number
### MIF003 – Monitoring metrics

**Basis of completion**

1. Is this report on behalf of a consolidation group?  
   - A: Yes/No

2. If yes, please list the firm reference numbers of all FCA regulated entities in the consolidated situation and the group reference number, if applicable.
   - FRN

**Metrics**

3. AUM

4. AUM at T

5. AUM at T - 1 month

6. AUM at T - 2 months

7. CMH (segregated)

8. CMH (segregated) at T

9. CMH (segregated) at T - 1 month

10. CMH (segregated) at T - 2 months

11. CMH (non-segregated)

12. CMH (non-segregated) at T

13. CMH (non-segregated) at T - 1 month

14. CMH (non-segregated) at T - 2 months

15. ASA

16. ASA at T

17. ASA at T - 1 month

18. ASA at T - 2 months

19. COH (cash)

20. COH (derivatives)

21. Average DTF (cash)
22 Average DTF (derivatives)

23 DTFexcl (cash)

24 DTFexcl (derivatives)

25 On- and off-balance sheet total

26 Annual gross revenue from MiFID services and activities

27 Permission to deal on own account

Yes/No
### MIF004 – Non-K-CON concentration

**Basis of completion**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is this report on behalf of a consolidation group?</td>
<td>Yes/No</td>
</tr>
<tr>
<td>2</td>
<td>If yes, please list the firm reference numbers (FRN) of all FCA regulated entities in the consolidated situation and the group reference number, if applicable.</td>
<td></td>
</tr>
</tbody>
</table>

**All positions or exposures (not including intragroup exposures)**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Counterparty 1</td>
<td>LEI No</td>
<td>Value of exposures/positions with that counterparty</td>
</tr>
<tr>
<td>4</td>
<td>Counterparty 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Counterparty 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Counterparty 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Counterparty 5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Intragroup exposures only**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Counterparty 1</td>
<td>LEI No</td>
<td>Value of exposures/positions with that counterparty</td>
</tr>
<tr>
<td>9</td>
<td>Counterparty 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Counterparty 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Counterparty 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Counterparty 5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Location of client money**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Entity 1</td>
<td>LEI No</td>
<td>% of client money held at that institution</td>
</tr>
<tr>
<td>14</td>
<td>Entity 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Entity 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Entity 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entity 1</td>
<td>Entity 2</td>
<td>Entity 3</td>
</tr>
<tr>
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</tr>
<tr>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Location of client securities</strong></td>
<td>A</td>
<td>B</td>
<td>LEI No</td>
</tr>
<tr>
<td>18</td>
<td>Entity 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Entity 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Entity 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Entity 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Entity 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Location of firm's own cash</strong></td>
<td>A</td>
<td>B</td>
<td>LEI No</td>
</tr>
<tr>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td></td>
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<td></td>
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<td>26</td>
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<td></td>
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<tr>
<td>27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Earnings</strong></td>
<td>A</td>
<td>B</td>
<td>LEI No or code</td>
</tr>
<tr>
<td>28</td>
<td>Client 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Client 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Client 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Client 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Client 5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## MIF005 – K-CON Concentration risk reporting where the ‘soft’ limit has been exceeded

### Basis of completion

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is this report on behalf of a consolidation group?</td>
</tr>
<tr>
<td>2</td>
<td>If yes, please list the firm reference numbers (FRN) of all FCA regulated entities in the consolidated situation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LEI</td>
<td>Exposure Value</td>
<td>Exposure Value Excess</td>
<td>Own Funds Requirement for the Excess</td>
<td>£150m/100% limit for MIFIDPRU-eligible institutions used (Yes/No)</td>
</tr>
<tr>
<td>3</td>
<td>Counterparty or group of connected counterparties to whom the exposure relates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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MIF006 – GCT reporting

Holding company identifier

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Holding company name</td>
</tr>
<tr>
<td>2</td>
<td>Holding company FRN</td>
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</tbody>
</table>

Capital of holding company

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>CET1 own funds held</td>
<td>number</td>
</tr>
<tr>
<td>4</td>
<td>AT1 own funds held</td>
<td>number</td>
</tr>
<tr>
<td>5</td>
<td>T2 own funds held</td>
<td>number</td>
</tr>
</tbody>
</table>

6. Book value and type of investments

<table>
<thead>
<tr>
<th>Subsidiary company identifier</th>
<th>Book value and type of investments in subsidiary:</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRN</td>
<td>LEI</td>
</tr>
<tr>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>1</td>
<td>number</td>
</tr>
<tr>
<td>2</td>
<td>number</td>
</tr>
<tr>
<td>3</td>
<td>number</td>
</tr>
<tr>
<td>+</td>
<td></td>
</tr>
</tbody>
</table>
### Part A: Basis of completion of the ICARA process

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is this report on behalf of a consolidation group?</td>
</tr>
<tr>
<td>2</td>
<td>If yes, please list the firm reference numbers of all FCA regulated entities in the consolidated situation.</td>
</tr>
<tr>
<td>3</td>
<td>Has the ICARA process review been completed through a group-level arrangement?</td>
</tr>
<tr>
<td>4</td>
<td>What is the ICARA process reference date of this ICARA questionnaire?</td>
</tr>
<tr>
<td>5</td>
<td>Has the ICARA process/document been reviewed and approved by the firm’s governing body?</td>
</tr>
<tr>
<td>6</td>
<td>On what date was the ICARA process/document signed off by the firm’s governing body?</td>
</tr>
</tbody>
</table>

### Part B: Assessing and monitoring the adequacy of own funds

#### Own funds held as at ICARA process reference date

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>CET1 own funds held (net of deductions - see MIFIDPRU 3.3)</td>
</tr>
<tr>
<td>8</td>
<td>AT1 own funds held (net of deductions - see MIFIDPRU 3.4)</td>
</tr>
<tr>
<td>9</td>
<td>T2 own funds held (net of deductions - see MIFIDPRU 3.5)</td>
</tr>
</tbody>
</table>

#### Own funds threshold requirement - identified through the ICARA process

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Own funds threshold requirement</td>
</tr>
<tr>
<td>11</td>
<td>Own funds to address risks from ongoing activities</td>
</tr>
<tr>
<td>12</td>
<td>Own funds necessary for orderly wind-down</td>
</tr>
</tbody>
</table>

#### Additional own funds requirement specified by the FCA

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Has the FCA specified an own funds requirement for the firm?</td>
</tr>
<tr>
<td>14</td>
<td>If yes, what is the basis for the FCA specified requirement?</td>
</tr>
<tr>
<td>15</td>
<td>Own funds threshold requirement</td>
</tr>
<tr>
<td>16</td>
<td>Own funds wind-down trigger</td>
</tr>
<tr>
<td>17</td>
<td>Own funds threshold requirement set by the FCA</td>
</tr>
<tr>
<td>18</td>
<td>Own funds wind-down trigger set by the FCA</td>
</tr>
</tbody>
</table>

#### Part B1: Breakdown of additional own funds requirement to address risks from ongoing activities (Non-SNI firms only)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>18</td>
<td>Additional own funds for asset management activity</td>
</tr>
<tr>
<td>19</td>
<td>Additional own funds for holding client money</td>
</tr>
<tr>
<td>20</td>
<td>Additional own funds for safeguarding assets</td>
</tr>
<tr>
<td>21</td>
<td>Additional own funds for reception and transmission of orders, or executing client orders</td>
</tr>
<tr>
<td>22</td>
<td>Additional own funds for market risk</td>
</tr>
<tr>
<td>23</td>
<td>Additional own funds for positions associated with clearing risk</td>
</tr>
<tr>
<td>24</td>
<td>Additional own funds for trading activity on the firm's own account</td>
</tr>
</tbody>
</table>
25  Additional own funds for trading activity in clients' names  
26  Additional own funds for trading counterparty risk  
27  Additional own funds for concentration risk  
28  Additional own funds for risks from ongoing activities not captured in rows A16 - A24  
29  Description of risks

Part B2: Breakdown of additional own funds necessary for orderly wind-down (Non-SNI firms only)

30  Description of risks

Part C: Assessing and monitoring the adequacy of liquid assets held

Liquid assets held as at ICARA process reference date

31  Core liquid assets (see MIFIDPRU 6.3)  
32  Non-core liquid assets - post-haircut (see MIFIDPRU 7.7)

Liquid assets required as identified through the ICARA process

33  Liquid assets threshold requirement  
34  Additional liquid assets required to fund ongoing business operations at any given point in time (MIFIDPRU 7.7)  
35  Quarter 1  
36  Quarter 2  
37  Quarter 3  
38  Quarter 4  
39  Additional liquid assets required to start wind-down (MIFIDPRU 7.7)

Meeting debts as they fall due

40  Has the firm at any point not been able to meet its debts as they fall due?  
41  Please provide details

Additional liquid assets requirement specified by the FCA

42  Has the FCA specified a liquid asset requirement for the firm?  
If yes, basis for the FCA specified requirement  
43  Liquid assets threshold requirement  
44  Liquid assets wind-down trigger  
45  Liquid assets threshold requirement specified by the FCA  
46  Liquid assets wind-down trigger specified by the FCA

Part D: MiFID investment services and activities and business model information

MiFID investment services and activities

Indicate the MiFID investment services and activities the firm provides

47  Reception and transmission of orders in relation to one or more financial instruments [A1]  
48  Execution of orders on behalf of clients [A2]
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>49</td>
<td>Dealing on own account [A3]</td>
</tr>
<tr>
<td>50</td>
<td>Portfolio management [A4]</td>
</tr>
<tr>
<td>51</td>
<td>Investment advice [A5]</td>
</tr>
<tr>
<td>52</td>
<td>Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis [A6]</td>
</tr>
<tr>
<td>53</td>
<td>Placing of financial instruments without a firm commitment basis [A7]</td>
</tr>
<tr>
<td>54</td>
<td>Operation of an MTF [A8]</td>
</tr>
<tr>
<td>55</td>
<td>Operation of an OTF [A9]</td>
</tr>
</tbody>
</table>

**Other business activities**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>56</td>
<td>Indicate the other business services and activities the firm provides</td>
</tr>
<tr>
<td>57</td>
<td>Holding client assets or client money for non-MiFID business</td>
</tr>
<tr>
<td>58</td>
<td>Receive money or assets from clients under title transfer collateral agreements</td>
</tr>
<tr>
<td>59</td>
<td>Operating 'name give-up' as an inter-dealer broker</td>
</tr>
<tr>
<td>60</td>
<td>Clearing activities</td>
</tr>
<tr>
<td>61</td>
<td>Corporate finance business</td>
</tr>
<tr>
<td>62</td>
<td>Venture capital business</td>
</tr>
<tr>
<td>63</td>
<td>Are you part of a financial conglomerate</td>
</tr>
<tr>
<td>64</td>
<td>Delegation of discretionary portfolio management to other firms</td>
</tr>
<tr>
<td>65</td>
<td>If yes, what is the current value delegated to other firms</td>
</tr>
<tr>
<td>66</td>
<td>Discretionary portfolio management delegated from other firms</td>
</tr>
<tr>
<td>67</td>
<td>If yes, what is the current value delegated from other firms</td>
</tr>
<tr>
<td>68</td>
<td>Provide advice of an ongoing nature</td>
</tr>
<tr>
<td>69</td>
<td>If yes, what is the current value of assets included within the K-AUM calculation</td>
</tr>
<tr>
<td>70</td>
<td>Calculation of AUM at ICARA process reference date excluding offsetting - when calculating AUM has the firm applied any offsetting of negative values or liabilities attributed to positions within the relevant portfolios?</td>
</tr>
<tr>
<td>71</td>
<td>If yes, what is the AUM value without any offsetting</td>
</tr>
</tbody>
</table>
Guidance notes for MIFIDPRU 9 Annex 2G

MIF001 – Adequate financial resources (Own funds)

Introduction

This data item provides the FCA with information on the solvency of an FCA investment firm. It is intended to reflect the underlying adequate financial resources requirements contained in MIFIDPRU and allows monitoring against the requirements set out there, and also against those individual requirements placed on firms. We have provided references to the underlying rules to assist completion of this data item.

This data item applies to all FCA investment firms. In the text below we have identified where particular data elements do not apply to all firms.

Consolidated reports

This form applies to both individual FCA investment firms and to consolidation groups. If completed on behalf of a consolidation group, it should be completed on the basis of the consolidated situation and references to an FCA investment firm should be taken to refer to the situation that would result if the consolidation group were treated as a single large FCA investment firm. Firms should refer to MIFIDPRU 2.5 for further information on how MIFIDPRU applies on a consolidated basis.

Currency

All figures should be reported in Sterling. Figures should be reported in 000s.

Defined Terms

The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology, including, where appropriate, the FCA investment firm’s accounting framework, without departing from their full meaning or effect.

The terms used in this guidance note have the same meaning as the terms used in MIFIDPRU. Defined terms are not italicised in this note.

Data elements

These are referred to by row first, then column.
Basis of completion

1A – Basis of completion

Is the MIF001 report on behalf of a consolidation group? Enter ‘Yes’ in this cell if the report is being completed by a prudential consolidation group.

2A – Details of other firms within the group

If the answer to cell 1A is yes, please list the firm reference numbers (FRN) of all FCA regulated entities in the consolidated situation, and the group reference number, if applicable.

Own funds held

This section applies to all FCA investment firms.

FCA investment firms are required to hold own funds in excess of their own funds threshold requirement. Own funds held to meet the own funds threshold requirement must be made up of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital.

3A – Common Equity Tier 1 capital

FCA investment firms should enter the amount of CET1 capital they hold for their own funds. CET1 capital should be calculated in accordance with Article 50 of the UK CRR as applied and modified by Section 3.3 of MIFIDPRU – Common equity tier 1 capital. This cell must always be completed with a positive number.

4A – Additional Tier 1 capital

FCA investment firms should enter the amount of AT1 capital they hold for their own funds. AT1 capital should be calculated in accordance with Article 61 of the UK CRR as applied and modified by Section 3.4 of MIFIDPRU – Additional tier 1 capital.

FCA investment firms are not required to hold/issue AT1 capital. If no AT1 has been issued or is held, enter a zero in this cell.

5A – Tier 2 capital

FCA investment firms should enter the amount of T2 capital they hold for their own funds. T2 capital should be calculated in accordance with Article 71 of the UK CRR as applied and modified by Section 3.5 of MIFIDPRU – Tier 2 capital.

FCA investment firms are not required to hold/issue T2 capital. If no T2 has been issued or is held, enter a zero in this cell.

6A – total annual fixed overheads

The fixed overheads requirement is one quarter of the FCA investment firm’s previous financial year’s annual relevant expenditure after the distribution of profits. The annual relevant expenditure should be calculated in accordance with MIFIDPRU 4.5. The number
entered should be the total annual relevant expenditure, not the fixed overheads requirement.

If there has been a material increase to the FCA investment firm’s relevant expenditure during the year (as specified in MIFIDPRU 4.5), the revised projected relevant expenditure should be included here.

If there has been a material decrease in the FCA investment firm’s relevant expenditure during the year (as specified in MIFIDPRU 4.5), the revised projected relevant expenditure should only be included here if the firm has obtained permission from the FCA to substitute a reduced fixed overheads requirement based on that relevant expenditure.

7A – variation in fixed overheads

FCA investment firms should select ‘Yes’ if its FOR has changed due to a material change in its business model (as defined in MIFIDPRU 4.5). If this is the case, the number entered into cell A6 should be the equivalent annual relevant expenditure for the FCA investment firm’s amended FOR.

8A – Permanent minimum requirement (PMR)

If completed on an individual basis, FCA investment firms should enter one of the following numbers:

- 75 if the firm has a PMR of £75,000
- 150 if the firm has a PMR of £150,000
- 750 if the firm has a PMR of £750,000

Where a transitional provision allows an FCA investment firm to substitute an alternative PMR, this figure should reflect its standard requirement (and not the alternative lower figure under the transitional provision).

If completed on a consolidated basis, FCA investment firms should enter the consolidated PMR, calculated in accordance with MIFIDPRU 2.5.27R.

K-factor requirements

This section does not apply to SNI firms and these firms should leave it blank. Where a non-SNI firm does not have permission to carry out the relevant activity, the cell should be left blank.

In this section, non-SNI firms should provide the relevant K-factor requirement. Values should be provided in thousands, rather than units.

For example, if the firm has calculated its average AUM to be £1 million, its K-AUM requirement is £200. The number to be entered in cell 10A is 0.2.

9A – Total K-factor requirement
FCA investment firms should enter the total amount of their K-factor requirement. This figure should be the sum of cells 10A to 23A.

**10A – K-AUM**

FCA investment firms should input their K-AUM requirement calculated in accordance with MIFIDPRU 4.7.

**11A – K-CMH (segregated)**

FCA investment firms should enter their K-CMH requirement for segregated accounts, calculated in accordance with MIFIDPRU 4.8.

A segregated account is defined in the Handbook Glossary.

**12A – K-CMH (non-segregated)**

FCA investment firms should enter their K-CMH requirement for non-segregated accounts, calculated in accordance with MIFIDPRU 4.8.

A non-segregated account is an account that does not satisfy the conditions to be a segregated account.

**13A – K-ASA**

FCA investment firms should enter their K-ASA requirement calculated in accordance with MIFIDPRU 4.9.

**Client orders handled**

**14A – K-COH (cash trades)**

FCA investment firms should enter their K-COH requirement for cash trades calculated in accordance with MIFIDPRU 4.10.

**15A – K-COH (derivative trades)**

FCA investment firms should enter their K-COH requirement for derivatives trades calculated in accordance with MIFIDPRU 4.10.

**Daily Trading Flow**

**16A – K-DTF (cash trades)**

FCA investment firms should enter the value of their K-DTF requirement for cash trades calculated in accordance with MIFIDPRU 4.15.

**17A – this cell has been deliberately left blank**

**18A – K-DTF (derivative trades)**

FCA investment firms should enter the value of their K-DTF requirement for derivative trades calculated in accordance with MIFIDPRU 4.15.
19A – this cell has been deliberately left blank

20A – K-NPR (K-factor requirement)

FCA investment firms should enter the capital requirement calculated for net position risk in accordance with MIFIDPRU 4.12.

21A – K-CMG

FCA investment firms should enter the total capital requirement calculated for K-CMG in accordance with MIFIDPRU 4.13. The value given shall be the sum of the individual K-CMG requirements for each portfolio for which the firm has obtained a K-CMG permission from the FCA.

22A – K-TCD

FCA investment firms should enter their total capital requirement calculated for K-TCD in accordance with MIFIDPRU 4.14.

23A – K-CON

FCA investment firms should enter their total own funds requirement calculated for K-CON in accordance with MIFIDPRU 5.7.

Transitional requirements

This section applies to all FCA investment firms if they are relying on transitional provisions to limit their own funds requirement. Firms that are not relying on transitional provisions should leave these fields blank.

24A – Transitional requirement

FCA investment firms should enter the current amount of any transitional own funds requirement.

Note, that where an FCA investment firm changes its permissions during this period in a manner that would result in an increase in its permanent minimum requirement under MIFIDPRU, it will no longer be able to take advantage of any transitional provisions that limit its permanent minimum own funds requirement. Before the FCA will grant any change in permission, it will assess whether the investment firm is able to meet the full permanent minimum own funds requirement and any other additional requirements that may apply as a result of the change.

25A – Basis of transitional

FCA investment firms should identify by reference to the relevant provision in MIFIDPRU the transitional provision or provisions they are relying on for their own funds requirement entered in cell 24A.

Own funds threshold requirement/wind-down trigger

This section applies to all FCA investment firms.
26A – Own funds threshold requirement

An FCA investment firm should enter the higher of:

- its own assessment of its own funds threshold requirement as determined through the ICARA process (MIFIDPRU 7.6) or
- the amount specified by the FCA to be its own funds threshold requirement

It is possible that both the FCA investment firm and the FCA have determined that no additional own funds are required to that set by the MIFIDPRU 4 requirements. In this case, the FCA investment firm should enter the higher of its PMR, its FOR and its KFR (where this applies).

27A – Own funds wind-down trigger

An FCA investment firm should enter its Fixed Overhead Requirement unless the FCA has specified an alternative own funds wind-down trigger.
MIF002 – Adequate financial resources (Liquid assets)

Introduction

This data item provides the FCA with information on the liquidity position of the FCA investment firm. This data item is intended to reflect the underlying adequate financial resources requirements in MIFIDPRU 6 and MIFIDPRU 7. It allows monitoring against these MIFIDPRU requirements and any individual requirements placed on a firm. We have provided references to the underlying rules to assist in its completion.

This data item applies to all FCA investment firms. In the text below we have identified where elements do not apply to all firms.

Additional information on liquid assets held may be required as part of the MIF007 – ICARA reporting form. We would also expect to see additional details in the FCA investment firm’s report on its ICARA process, which must be provided to the FCA if requested.

MIFIDPRU 6 provides further information on the basic liquid assets requirement and core liquid assets. MIFIDPRU 7.7 provides further information on the liquid assets threshold requirement and non-core liquid assets.

Consolidated reports

This form applies to both individual FCA investment firms and to consolidation groups. If completed on behalf of a consolidation group, it should be completed on the basis of the consolidated situation and references to FCA investment firm should be taken to refer to the consolidation group.

Currency

All figures should be reported in Sterling. Figures should be reported in 000s.

Defined Terms

The descriptions 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.

Data elements

These are referred to by row first, then column.

Basis of completion

1A asks FCA investment firms to specify the basis on which this report is being completed.

2A asks for the FRNs of all the FCA investment firms that form part of the consolidation group.
Basic liquid asset requirement

**3A – Basic liquid asset requirement based on fixed overheads**

Enter the value of the basic liquid asset requirement that is based on the requirement to hold liquid assets equivalent to one third of the FCA investment firm’s fixed overheads requirement. Where the firm is making use of an FOR transitional provision, the basic liquid asset requirement is one third of its transitional FOR.

**4A – Basic liquid asset requirement based on client guarantees**

Enter the basic liquid asset requirement that is based on the requirement to hold core liquid assets equivalent to 1.6% of the value of guarantees that have been provided to clients.

Core liquid assets held

**5A – Core liquid assets held (excluding receivables from trade debtors)**

Enter the total core liquid assets held. Trade receivables should not be included in this figure.

**6A – Value of qualifying trade receivables**

Enter the value of receivables from trade debtors that would qualify as core liquid assets. The value reported should be before applying any haircuts.

To be counted as core liquid assets, the relevant conditions in MIFIDPRU 6.3.3R must be met.

Liquid assets threshold requirement/wind-down trigger

**7A – Liquid assets threshold requirement**

An FCA investment firm should enter the higher of:

- its own assessment of its liquid assets threshold requirement as determined through the ICARA process as set out in MIFIDPRU 7.7 or
- the amount specified by the FCA to be its liquid assets threshold requirement

**8A – Liquid assets wind-down trigger**

An FCA investment firm should enter its basic liquid assets requirement unless the FCA has specified to the firm an amount that should be its liquid assets wind-down trigger.

Non-core liquid assets held

Information on what can be counted as a non-core liquid asset and the relevant haircuts is provided in MIFIDPRU 7.7.

**9A – Value of non-core liquid assets post-haircut**

Enter the total value of any non-core liquid assets that the firm has and is using, to satisfy its liquid assets threshold requirement.
The value reported should be after applying any haircuts. See MIFIDPRU 7.7 for details on assets that are eligible as non-core liquid assets and MIFIDPRU 7.7.11G for more information on haircuts.
MIF003 – Monitoring metrics

Introduction

This data item provides the FCA with information on the size and complexity of an FCA investment firm. The data item is intended to reflect the SNI thresholds in MIFIDPRU and allows monitoring against those thresholds. It also allows the FCA to see any trends in the FCA investment firm’s data. We have provided references to the underlying rules to assist in its completion.

This data item applies to all FCA investment firms. In the text below we have identified where particular data elements do not apply to all firms.

This data item should be completed on the basis of an FCA investment firm’s MiFID business activities. If an FCA investment firm cannot determine the split between its MiFID activities and any other business activities it undertakes, it should count everything as being a MiFID activity for these purposes.

Consolidated reports

This form applies to both individual FCA investment firms and to consolidation groups. If completed on behalf of a consolidation group, it should be completed on the basis of the consolidated situation and references to an FCA investment firm should be taken to refer to the situation that would result if the consolidation group were treated as a single large FCA investment firm. Firms should refer to MIFIDPRU 2.5 for further information on how MIFIDPRU applies on a consolidated basis.

Currency

All figures should be reported in Sterling. Figures should be reported in 000s.

Defined Terms

The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology, including, where appropriate, the FCA investment firm’s accounting framework, without departing from their full meaning or effect.

The terms used in this guidance note have the same meaning as the terms used in MIFIDPRU. Defined terms are not italicised in this note.

Data elements

These are referred to by row first, then column.

Basis of completion

1A – Basis of completion

The FCA investment firm should indicate whether MIF003 is being completed on an individual or on a consolidated basis.

2A – details of other firms within the group

Enter the firm reference numbers of all the FCA regulated entities in the consolidated situation, and the group reference number, where applicable.

Metrics
FCA investment firms should only submit information for the activities they undertake at the time at which the report is submitted (or that they have undertaken in the past, where the historical activities continue to be reflected in the calculation of one or more K-factor metrics).

Where the FCA investment firm does not undertake an activity and there is no historical activity that continues to be reflected in the calculation of the relevant K-factor metric, it should leave the field blank. For example, an FCA investment firm may have ceased discretionary portfolio management on 1 March. As the calculation of average AUM is based on a 15-month period, the firm would report a positive number for its average AUM in cell 3A until 1 June in the following year on the basis of its historical activities.

Unless specified, we are not asking for the K-factor requirement but the value of the underlying activity that is used to calculate the K-factor requirement.

### 3A – Average AUM
Enter the average AUM as calculated in accordance with MIFIDPRU 4.7. This will be the value used to calculate K-AUM.

The next three fields ask for the AUM at a point in time, rather than an average over a specific time period. FCA investment firms should use the value of AUM as at the last business day of each calendar month.

Where an FCA investment firm cannot determine the split of AUM for MiFID and non-MiFID activities, it must report its total AUM here.

### 4A – AUM at T
Enter the assets under management on the reporting date.

### 5A – AUM at T-1 month
Enter the total assets under management on the last working day of the month before the reporting date.

### 6A – AUM at T-2 months
Enter the total assets under management on the last working day of the second month before the reporting date.

### 7A – CMH (segregated)
Enter the average CMH held in segregated accounts as calculated in accordance with MIFIDPRU 4.8. This is the amount of MiFID client money (as defined in the Handbook Glossary) that the firm holds in segregated accounts. This will be the value used to calculate K-CMH (segregated).

A segregated account is defined in in the Handbook Glossary.

The next three fields ask for the CMH (segregated) at a point in time, rather than an average over a specific time period. FCA investment firms should use the value of CMH on the last business day of each calendar month. Over time this will provide us with a time series of the actual CMH of the FCA investment firm.

Where an FCA investment firm cannot determine the split of CMH (segregated) for MiFID and non-MiFID activities, it must report its total CMH (segregated) here.

### 8A – CMH (segregated) at T
Enter the amount of MiFID client money in segregated accounts on the reporting date.

**9A – CMH (segregated) at T – 1 month**

Enter the amount of MiFID client money in segregated accounts on the last working day of the month before the reporting date.

**10A – CMH (segregated) at T – 2 months**

Enter the amount of MiFID client money in segregated accounts on the last working day of the second month before the reporting date.

**11A – CMH (non-segregated)**

Enter the average CMH held in non-segregated accounts as calculated in accordance with MIFIDPRU 4.8. This is the amount of MiFID client money (as defined in the Handbook Glossary) that the firm holds in non-segregated accounts. This will be the value used to calculate K-CMH (non-segregated).

A non-segregated account is an account that does not satisfy the conditions to be a segregated account.

The next three fields ask for the CMH (non-segregated) at a point in time, rather than an average over a specific time period. FCA investment firms should use the value of CMH on the last business day of each calendar month. Over time this will provide us with a time series of the actual CMH of the FCA investment firm.

Where an FCA investment firm cannot determine the split of CMH (non-segregated) for MiFID and non-MiFID activities, it must report its total CMH (non-segregated) here.

**12A – CMH (non-segregated) at T**

Enter the amount of MiFID client money in non-segregated accounts on the reporting date.

**13A – CMH (non-segregated) at T – 1 month**

Enter the amount of MiFID client money in non-segregated accounts on the last working day of the month before the reporting date.

**14A – CMH (non-segregated) at T – 2 months**

Enter the amount of MiFID client money in non-segregated accounts on the last working day of the second month before the reporting date.

**15A – Average ASA**

Enter the average ASA, calculated in accordance with MIFIDPRU 4.9. ASA is the amount of client assets safeguarded and administered by the firm, where such assets are held in connection with MiFID business. This includes where such assets have been deposited by the firm into accounts opened with third parties.

The next three fields ask for the ASA at a point in time, rather than an average over a specific time period. FCA investment firms should use the value of ASA on the last business day of each calendar month. Over time this will provide us with a time series of the actual ASA of the FCA investment firm.

Where an FCA investment firm cannot determine the split of ASA for MiFID and non-MiFID activities, it must report its total ASA here.
16A – ASA at T
Enter the total amount of assets safeguarded and administered in connection with the FCA investment firm’s MiFID business on the reporting date.

17A – ASA at T – 1 month
Enter the total amount of assets safeguarded and administered in connection with MiFID business on the last working day of the month before the reporting date.

18A – ASA at T – 2 months
Enter the total amount of assets safeguarded and administered in connection with MiFID business on the last working day of the second month before the reporting date.

The next two fields ask for average COH, both cash and derivatives, that the firm will then use to calculate its K-COH requirement. The K-COH requirement should not be input here.

19A – Average COH (cash)
Enter the average COH for cash trades, calculated in accordance with MIFIDPRU 4.10 on the reporting date.

20A – Average COH (derivatives)
Enter the average COH for derivatives trades, calculated in accordance with MIFIDPRU 4.10 on the reporting date.

21A – Average DTF (cash)
Enter the average DTF for cash trades, calculated in accordance with MIFIDPRU 4.15 on the reporting date.

22A – Average DTF (derivatives)
Enter the average DTF or derivatives trades, calculated in accordance with MIFIDPRU 4.15 on the reporting date.

**DTF in stressed market conditions**

This applies where a proportion of the DTF occurred on a trading segment of a trading venue to which stressed market conditions apply. Stressed market conditions are as defined in Article 6 of the Market Making RTS.

Cells 23A and 24A can be left blank where the firm has not experienced stressed market conditions since they previously submitted this form.

23A – DTFexcl (cash)
Enter DTFexcl (cash) calculated in accordance with MIFIDPRU 4.15.10R 3(c).

24A – DTFexcl (derivatives)
Enter DTFexcl (derivatives) calculated in accordance with MIFIDPRU 4.15.10R 4(c).

**25A - On- and off-balance sheet total**
Enter the sum of the on- and off-balance sheet assets using figures from the last financial year for which accounts have been finalised and approved by the management body.

Where the accounts have not been finalised and approved after 6 months from the end of the previous financial year, provisional figures may be used.

26A – Annual gross revenue from MiFID services and activities

Enter the sum of the annual gross revenues from MiFID services and activities using figures from the last financial year for which accounts have been finalised and approved by the management body.

Where the accounts have not been finalised and approved after 6 months from the end of the previous financial year, provisional figures may be used.

Where an FCA investment firm cannot determine the split of revenue between MiFID and non-MiFID activities, it must report its total revenue here (i.e. effectively, it should assume that all revenue results from MiFID services and activities).

27A – Permission to deal on own account

Indicate if the FCA investment firm has permission to deal on own account.

If the report is being completed on behalf of a consolidation group, enter a ‘Yes’ in this cell where any FCA regulated entity within the group has permission to deal on own account for MiFID business.
MIF004 – Non-K-CON Concentration risk monitoring

Introduction

This data item provides the FCA with information on where the FCA investment firm may have various types of concentration risk. We have provided references to the underlying rules to assist in its completion.

This data item only applies to a non-SNI FCA investment firm. We have specified where particular data items do not apply to all non-SNIs. Firms should only complete the sections where they undertake the activity. Where a section does not apply to a particular firm, it should enter ‘N/A’ into the first field in that section. For example, a firm that does not hold client money will put ‘N/A’ in cell 13A.

Information provided in the section on earnings (Rows 28 to 31) can be taken from quarters based on their most recent accounting reference date.

Consolidated reports

This form applies to both individual FCA investment firms and to consolidation groups. If completed on behalf of a consolidation group, it should be completed on the basis of the consolidated situation and references to an FCA investment firm should be taken to refer to the situation that would result if the consolidation group were treated as a single large FCA investment firm. Firms should refer to MIFIDPRU 2.5 for further information on how MIFIDPRU applies on a consolidated basis.

Currency, figures and percentages

Unless specified as a percentage, all figures should be reporting in Sterling. Figures should be reported in 000s. Percentages should be rounded to the nearest whole number.

Defined Terms

The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology, including, where appropriate, the FCA investment firm’s accounting framework, without departing from their full meaning or effect.

The terms used in this guidance have the same meaning as the terms used in MIFIDPRU. Defined terms are not italicised in this note.

Data elements

These are referred to by row first, then column.

In this report, we are asking for the location of the FCA investment firm’s client money and client securities, where these relate to its MiFID investment business, and the FCA investment firm’s own cash. By location we mean the entities the investment firm uses for these purposes. We are also asking for information about the source of an FCA investment firm’s earnings.

This is a broader concept than would generally be considered a concentration risk and that previously used in the CRR for large exposures. However, the potential risk from these areas is something that we require investment firms to monitor.

Basis of completion

1A – Basis of completion
Is the MIF004 report on behalf of a consolidation group? Enter ‘Yes’ in this cell if the report is being completed by a prudential consolidation group.

2A – details of other firms within the group

If the answer to cell 1A is yes, enter the firm reference numbers (FRN) of all the FCA regulated entities in the consolidated situation, and the group reference number, where applicable.

All positions or exposures (not including intragroup exposures)

This section only applies to FCA investment firms who deal on own account. These firms should report the total value of all exposures or positions to a counterparty, including exposures in and outside of its trading book, such as bilateral loans.

Firms should include positions or exposures to central governments, public sector entities, or other exposures that are excluded from K-CON under MIFIDPRU 5.10.1R, except that they should not include intragroup exposures. Intragroup exposures are captured in a separate data item.

Row 3 will indicate where the largest exposure/position with a counterparty is, followed by rows 3 to 7 in decreasing amounts. If a firm has less than 5 exposures, it should leave subsequent rows blank.

Where firms have exposures to multiple counterparties who constitute a single group of connected clients under MIFIDPRU 5 (Concentration risk), they should report separately on each counterparty for the purposes of this data item. However, firms are reminded that MIFIDPRU 5.2 requires them to account for groups of connected clients when monitoring and controlling concentration risk.

Cells 3A to 7A, inclusive – LEI number

Enter the Legal Entity Identifier (LEI) number of up to 5 counterparties that the FCA investment firm has the largest exposures/positions with. The LEI number must be used if available. If the counterparty does not have an LEI number, the FCA investment firm should use its internal reference number for that counterparty. This internal reference number should be consistent over time and across regulatory returns.

Cells 3B to 7B, inclusive – value of exposures/positions with that counterparty

Enter the total amount of the exposures/positions held with each counterparty, starting with the largest.

Intragroup exposures

This section only applies to FCA investment firms who deal on own account. By intragroup we mean exposures to other entities within the same group. Group for these purposes is as defined in s.421 of the Financial Services and Markets Act 2000 (FSMA). It is not limited to other entities within the FCA investment firm’s consolidated situation.

Where this section is being completed on the basis of the consolidated situation, there may still be intragroup exposures from inside the consolidated situation to entities that are part of the same group, as defined in s.421 FSMA, but are outside of the consolidated situation.

FCA investment firms that are completing the form on a consolidated basis should not include intragroup exposures between firms that are part of the consolidated situation.
Firms should report the total value of all exposures or positions to a counterparty, including exposures in and outside of its trading book, such as bilateral loans.

Firms should provide details of the largest 5 intragroup exposures only. These could be to another group FCA investment firm, or to any other entity within the group. This section can be left blank where there are no intragroup exposures.

Row 8 will indicate where the largest exposure/position with a counterparty is, followed by rows 9 to 12 in decreasing amounts. If a firm has less than 5 exposures, it should leave subsequent rows blank.

**Cells 8A to 12A, inclusive – LEI number**

Enter the LEI number of up to 5 group entities that the FCA investment firm has the largest exposures/positions with. The LEI number must be used if available. If the counterparty does not have an LEI number, the FCA investment firm should use its FRN, if available. If the counterparty has neither an LEI nor an FRN it should use its internal reference number for that counterparty. This internal reference number should be consistent over time and across regulatory returns.

**Cells 8B to 12B, inclusive – value of exposures/positions with that counterparty**

Enter the total amount of the exposures/positions held with each counterparty, starting with the largest.

**Location of client money**

This section only applies to FCA investment firms that have permission to hold client money. It only relates to MiFID client money (as defined in the Glossary). If a firm is unable to determine whether an amount of client money is MiFID client money, it must treat it as being MiFID client money for these purposes.

Row 13 will indicate where the largest percentage of the FCA investment firm’s MiFID client money is held, followed by rows 14 to 17 in decreasing amounts. If an FCA investment firm uses less than five entities to hold its MiFID client money, it should leave subsequent rows blank. In that case, the sum of percentages should be 100%.

**Cells 13A – 17A, inclusive – LEI number**

Enter the LEI number of up to five entities where MiFID client money is placed, beginning with the largest percentage. The LEI must be used if available. Where cash has been placed with a money market fund (MMF), the LEI of the MMF itself must be reported. If an LEI is not available, the FRN must be used where available. If the entity does not have an LEI number or an FRN, the FCA investment firm should use its internal reference number for that counterparty. This internal reference number should be consistent over time and across regulatory returns.

**Cells 13B – 17B, inclusive – percentage of client money held at that institution**

Enter the percentage of MiFID client money held at each institution, starting with the largest. Percentages should be rounded to the nearest whole number.

**Cells 13C to 17C, inclusive – MMF (Yes/No)**

Specify “Yes” or “No” to indicate if the cash has been placed with a money market fund (MMF) rather than deposited with a credit institution or central bank.

**Location of client securities**
This section only applies to FCA investment firms that have permission to hold client securities/assets. It relates to client securities/assets held in connection with the FCA investment firm’s MiFID business.

Row 18 will indicate where the largest percentage of the FCA investment firm’s client securities are held, followed by rows 19 to 22 in decreasing amounts. If an FCA investment firm uses less than five entities to hold its client securities, it should leave subsequent rows blank. In that case, the sum of percentages should be 100%.

**Cells 18A to 22A, inclusive – LEI number**

Enter the LEI number of up to five institutions where its client securities are held, beginning with the largest percentage. The LEI must be used if available. If not, the FRN must be used if available. If the entity does not have an LEI number or an FRN, the FCA investment firm should use its internal reference number for that counterparty. This internal reference number should be consistent over time and across regulatory returns.

**Cells 18B to 22B, inclusive – percentage of client securities held at that institution**

Enter the percentage of client securities held at each institution, starting with the largest. Percentages should be rounded to the nearest whole number.

**Location of the investment firm’s own cash and holdings in MMFs**

Row 23 will indicate where the largest percentage of the FCA investment firm’s own cash is held, followed by rows 24 to 27 in decreasing amounts. If an FCA investment firm uses less than five entities to hold its own cash, it should leave subsequent rows blank. In that case, the sum of percentages should be 100%.

For these purposes, FCA investment firms should report their holdings in money market funds (MMFs) alongside their holdings in cash (e.g. on deposit at a credit institution).

**Cells 23A to 27A, inclusive – LEI number**

FCA investment firms should enter the LEI number of up to five institutions where its own cash is held or MMFs it has holdings in, beginning with the largest percentage. The LEI must be used if available. For holdings in a money market fund (MMF), the LEI of the MMF itself must be reported. If an LEI is not available, the FRN must be used. If the entity does not have an LEI number or an FRN, the FCA investment firm should use its internal reference number for that institution. This internal reference number should be consistent over time and across regulatory returns.

**Cells 23B to 27B, inclusive – percentage of FCA investment firm’s own cash/MMF holdings at that institution**

FCA investment firms should enter the percentage of its own cash/MMF holdings at each institution, calculated as a proportion of the value of its total combined cash and MMF holdings, and starting with the largest. Percentages should be rounded to the nearest whole number.

**Cells 23C to 27C, inclusive – MMF (Yes/No)**

Indicate if the cash has been placed with an MMF rather than e.g. deposited with a credit institution.

**Earnings**
Information provided in this section can be taken from quarters based on the most recent accounting reference date.

Row 23 will indicate where the largest percentage of the FCA investment firm’s earnings are from, followed by rows 24 to 27 in decreasing amounts. If an FCA investment firm’s earnings are from less than five sources, it should leave subsequent rows blank. In that case, the sum of percentages should be 100%.

Earnings includes all earnings from regulated or unregulated activities, not just earnings from MiFID business. This should include any earnings from group members, e.g. in exchange for the provision of intragroup services.

**Cells 28A to 32A, inclusive – LEI number**

FCA investment firms should enter the LEI number of up to five clients from which it generates its earnings, beginning with the largest percentage. The LEI must be used if available. If not, the FRN must be used. If the client does not have an LEI number or an FRN, the FCA investment firm should use its internal reference number for that client. This internal reference number should be consistent over time and across regulatory returns.

A client may be an institution or a natural person. Where the client is a natural person, the FCA investment firm should use its own internal reference number for that client. This internal reference number should be consistent over time and across regulatory returns.

**Cells 28B to 32B, inclusive – percentage of total revenue earned from the client**

FCA investment firms should enter the percentage of its earnings from each client, starting with the largest. Percentages should be rounded to the nearest whole number.

**Cells 28C to 32C, inclusive – type of earning**

FCA investment firms should indicate the type of earning that they are reporting. It may include more than one type of income stream. Where this is the case, FCA investment firms should list the main income type for that client. Options include:

- Interest and dividend income from trading book positions
- Interest and dividend income from non-trading book positions
- Fee and commission income
- Provision of intragroup services
- Other sources of income
**MIF005 – K-CON – concentration risk reporting where the ‘soft limit’ has been exceeded**

**Introduction**

This data item only applies to non-SNI FCA investment firms who deal on own account. It provides the FCA with information about the FCA investment firm’s balance sheet concentration risk and any additional own funds that the firm is required to hold as a result. We have provided references to the underlying rules to assist in its completion.

**Consolidated reports**

This form applies to both individual FCA investment firms and to consolidation groups. If completed on behalf of a consolidation group, it should be completed on the basis of the consolidated situation and references to an FCA investment firm should be taken to refer to the situation that would result if the consolidation group were treated as a single large FCA investment firm. Firms should refer to MIFIDPRU 2.5 for further information on how MIFIDPRU applies on a consolidated basis.

**Currency and figures**

All figures should be reporting in Sterling. Figures should be reported in 000s.

**Defined Terms**

The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology, including, where appropriate, the FCA investment firm’s accounting framework, without departing from their full meaning or effect.

The terms used in this guidance have the same meaning as the terms used in MIFIDPRU. Defined terms are not italicised in this note.

**Groups of connected counterparties**

MIFIDPRU 5 (Concentration risk) requires FCA investment firms to treat exposures to a group of connected counterparties (referred to in the rules as a “group of connected clients”) as a concentrated exposure to a single counterparty for the purpose of calculating K-CON. Where an FCA investment firm has a concentrated exposure to a group of connected counterparties, it should report this as a single item, rather than reporting separately on the connected counterparties in the group.

**Data elements**

These are referred to by row first, then column.

**Instructions**

This section asks FCA investment firms to provide additional information relating to their trading book exposures that exceed the ‘soft limit’, which is generally 25% of their own funds but may be the lower of £150 million or 100% of own funds if a client is a MIFIDPRU-eligible institution. Trading book exposures above this limit require K-CON to be calculated and additional own funds to be held.

**Cell 1A – Basis of completion**

Is the MIF005 report on behalf of a consolidation group? Enter ‘Yes’ in this cell if the report is being completed by a prudential consolidation group.
Cell 2A – Details of other firms within the group

If the answer to cell 1A is yes, enter the firm reference numbers (FRN) of all the FCA regulated entities in the consolidated situation, and the group reference number, where applicable.

Cell 3A – LEI number

Enter the LEI number of the counterparty, where the ‘soft limit’, as outlined in MIFIDPRU 5.5, has been exceeded. If the counterparty does not have an LEI number, the FCA investment firm should use its internal reference number for that counterparty. This internal reference number should be consistent over time and across regulatory returns.

For a group of connected counterparties, the FCA investment firm should use an LEI number for one member of the group, but this number should be used consistently over time and across regulatory returns to refer to the relevant group of connected counterparties. If none of the connected counterparties has an LEI number, the FCA investment firm should use its internal reference number for that group of connected counterparties, or if it does not have one for that group, then its internal reference number for an individual counterparty within that group. This internal reference number should be consistent over time and across regulatory returns.

Cell 3B – Exposure Value

Enter the exposure value for that counterparty/group of connected counterparties as calculated in accordance with MIFIDPRU 5.4.

Cell 3C – Exposure Value Excess

Enter the exposure value excess for that counterparty/group of connected counterparties as calculated in accordance with MIFIDPRU 5.5.

Cell 3D – Own funds requirement for that excess

Enter the own funds requirement for the excess for that counterparty/group of connected counterparties as calculated in accordance with MIFIDPRU 5.7.

Cell 3E - £150m/100% limit for MIFIDPRU-eligible institutions used (Yes/No)

Indicate if the counterparty/group of connected counterparties includes a credit institution or an FCA investment firm, and the £150m/100% limit in MIFIDPRU 5.5.1R is being used, where this is higher than 25% of its own funds.
MIF006 – GCT reporting – instructions for completion

The aim of this data item is to ensure that any parent undertaking that has investments in relevant financial undertakings (as defined in the Glossary) in the same investment firm group is holding appropriate amounts and quality of capital to cover the value of those investments.

The quality of capital held by the parent undertaking should be at least equivalent to the quality of capital that has been invested by the parent undertaking in the relevant financial undertakings forming part of the same investment firm group. The template must be completed by the parent undertaking that has to meet the GCT requirement in MIFIDPRU 2.6.5R. The exception is a responsible UK parent which, in accordance with MIFIDPRU 2.6.10R (2)(b)(i), is reporting on the position of one of its subsidiaries that is a parent undertaking of another relevant financial undertaking. In that case, the responsible UK parent must submit two MIF006 reports: one containing data relating to that subsidiary that is a parent undertaking; the other containing data relating to the responsible UK parent itself.

However, if the responsible UK parent has chosen to hold own funds instruments to cover the group capital test requirements in relation to both itself and a subsidiary in accordance with MIFIDPRU 2.6.10R (2)(b)(ii), the responsible UK parent will submit only one MIF006 report. In that case, the responsible UK parent should complete MIF006 by including information relating to its own direct investments in relevant financial undertakings and the relevant investments of its subsidiary.

Currency

All figures should be reporting in Sterling. Figures should be reported in 000s.

Defined Terms

The descriptions in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology, including, where appropriate, the FCA investment firm’s accounting framework, without departing from their full meaning or effect.

The terms used in this guidance have the same meaning as the terms used in MIFIDPRU. Defined terms are not italicised in this note.

Cell 1A

The parent undertaking should enter its name – free text.

Cell 2A

The parent undertaking should enter its FCA firm reference number (FRN). If the parent undertaking does not have an FRN, it may be a third country parent or an unregulated UK parent, and it should enter its LEI number.

Identifying the relevant subsidiaries

The relevant subsidiaries for the purposes of the group capital test are:

• FCA investment firms
• Collective portfolio management investment firms
• Financial institutions (including authorised payment institutions, electronic money issuers and AIFMD and UCITS collective portfolio management firms)
Ancillary services undertakings
Tied agents – including appointed representatives that meet the definition of tied agent

Capital of the parent undertaking

Cell 3A – CET1
The parent undertaking should input the amount of its own CET1 own funds.

Cell 4A – AT1
The parent undertaking should input the amount of its own AT1 own funds.

Cell 5A – T2
The parent undertaking should input the amount of its own T2 own funds.

Row 6.1
This row will contain the information needed to be able to identify the subsidiary and the types of capital the parent entity has invested in that subsidiary.

Subsidiary company identifier

Cell 6.1A
Enter the firm reference number (FRN) of the subsidiary if this is an authorised firm in the UK.

Cell 6.1B
Enter the LEI of the subsidiary if the subsidiary is not authorised in the UK.

Firms may complete both the FRN and the LEI. At least one of them must be completed.

Cell 6.1C
A parent undertaking may choose to hold own funds instruments to cover the GCT requirements of a third country undertaking for this subsidiary. In this case, it will indicate in this cell that the firm identified in this row is an indirect subsidiary.

Book value and type of investments/contingent liabilities in subsidiaries

Cell 6.1D
The parent undertaking enters its total CET1 investment in this subsidiary.

Cell 6.1E
The parent undertaking enters its total AT1 investment in this subsidiary.

Cell 6.1F
The parent undertaking enters its total T2 investment in this subsidiary.

Cell 6.1G
The parent undertaking enters its total contingent liabilities to this subsidiary. Note: The parent undertaking must hold CET1 capital against any contingent liabilities it has in respect of this subsidiary.
Where there is more than one subsidiary, please continue with Rows 6.2, 6.3 etc until all subsidiaries have been captured.
MIF007 – ICARA Questionnaire

Introduction

This data item provides the FCA with information on the overall financial position of the FCA investment firm. This data item is intended to reflect the overall financial adequacy rule (OFAR) requirements contained in MIFIDPRU and allows monitoring against the MIFIDPRU requirements, and also any individual requirements placed on a firm. We have provided references to the underlying rules to assist in its completion.

This data item applies to all FCA investment firms. In the text below we have identified where elements do not apply to all firms.

Further information about the ICARA process is in MIFIDPRU 7.

Group ICARA processes

Under MIFIDPRU 7.9.5R, an investment firm group may operate a group ICARA process if certain conditions are met. In this situation, each individual MIFIDPRU investment firm that is included within the group ICARA process must submit this data item separately, using the conclusions arising from the group process.

Currency

All figures should be reported in Sterling. Figures should be reported in 000s.

Defined Terms

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.

Part A: Basis of completion of the ICARA process

1A asks FCA investment firms to specify the basis on which the ICARA process is being completed.

2A asks for the FRNs of all the FCA investment firms that form part of the consolidation group, where the answer to 1A is ‘Yes’.

3A asks if the ICARA process review has been completed through a group-level arrangement.

4A asks for the ICARA process reference date of the information included in the questionnaire. This is the date at which the information used to complete the ICARA process was prepared. See MIFIDPRU 7.8.6G (1)(a).

5A asks whether the ICARA process and resulting document have been reviewed and signed off by the FCA investment firm’s governing body.

6A asks for the date that the ICARA process and resulting document were signed off by the FCA investment firm’s governing body.

Part B: Assessing and monitoring the adequacy of own funds

Part B should be completed by all FCA investment firms. It should be completed with information as at the accounting reference date.
Own funds held as at the ICARA accounting reference date

7A – Common Equity Tier 1 capital

FCA investment firms should enter the amount of CET1 capital they hold for their own funds. CET1 capital should be calculated in accordance with Article 50 of the UK CRR as applied and modified by Section 3.3 of MIFIDPRU – Common equity tier 1 capital. This cell must always be completed with a positive number.

8A – Additional Tier 1 capital

FCA investment firms should enter the amount of AT1 capital they hold for their own funds. AT1 capital should be calculated in accordance with Article 61 of the UK CRR as applied and modified by Section 3.4 of MIFIDPRU – Additional tier 1 capital. FCA investment firms are not required to hold/issue AT1 capital. If no AT1 has been issued, or is held, a zero should be entered in this cell.

9A – Tier 2 capital

FCA investment firms should enter the amount of T2 capital they hold for their own funds. T2 capital should be calculated in accordance with Article 71 of the UK CRR as applied and modified by Section 3.5 of MIFIDPRU – Tier 2 capital. FCA investment firms are not required to hold/issue T2 capital. If no T2 has been issued, or is held, a zero should be entered in this cell.

Own funds threshold requirement

10A – Own funds threshold requirement identified through the ICARA process

FCA investment firms should enter their own funds threshold requirement as determined through the ICARA process set out in MIFIDPRU 7.6. This amount should not include any additional own funds amount specified by the FCA.

If the FCA investment firm has determined that no additional own funds are required to that set by the MIFIDPRU 4 requirements, it should enter the higher of its PMR, its FOR and its KFR (where this applies).

11A – Own funds to address risks from ongoing activities

FCA investment firms should enter their assessment of the own funds needed to address risks from ongoing activities, as identified through the ICARA process (MIFIDPRU 7.6). For non-SNI firms this amount cannot be lower than the K-Factor requirement.

Where this amount is higher than the own funds necessary for an orderly wind-down it should be equal to the amount entered in cell 10A.

12A – Own funds necessary for an orderly wind-down

FCA investment firms should enter their assessment of the own funds necessary for orderly wind-down, as identified through the ICARA process (MIFIDPRU 7.6). For all firms this amount cannot be lower than the Fixed Overhead Requirement.

Where this amount is higher than the own funds necessary to address risks from ongoing activities it should be equal to the amount entered in cell 10A.
Additional own funds requirement specified by the FCA

This asks FCA investment firms to confirm whether the following have been set by the FCA.

- own funds threshold requirement
- own funds wind-down trigger

13A – Has the FCA specified an own funds requirement for the firm?

FCA investment firms should indicate whether the FCA has specified an own funds requirement amount. This could be as the result of a SREP or through other means.

If the answer is ‘Yes’, FCA investment firms should put a ‘Yes’ in at least one of 14A and 15A. Both can be completed if appropriate.

The basis for the FCA specified own funds requirement can be as either an own funds thresholds requirement or an own funds wind-down trigger, or both.

14A – Own funds threshold requirement

FCA investment firms should indicate whether the FCA has specified an own funds threshold requirement. If ‘Yes’, 16A must be completed.

15A – Own funds wind-down trigger

FCA investment firms should indicate whether the FCA has specified an own funds wind-down trigger. If ‘Yes’, 17A must be completed.

16A – Own funds threshold requirement set by the FCA

FCA investment firms should state their own funds threshold requirement where this has been set by the FCA.

17A – Own funds wind-down trigger set by the FCA

FCA investment firms should state their own funds wind-down trigger where this has been set by the FCA.

Part B1: Breakdown of additional own funds requirement to address risks from ongoing activities

This section only applies to non-SNI firms. SNI firms should leave this section blank.

This section asks for a breakdown of how the value in cell 11A has been reached.

Where a non-SNI firm does not calculate a particular K-factor because it does not carry on the relevant activity, it should leave that entry blank.

The sum of rows 18A to 27A should be equal to the amount put in 11A.

18A – Additional own funds for asset management activity

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm due to their asset management activity, that is not covered by K-AUM.
19A – Additional own funds for holding client money

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm due to holding client money, that is not covered by K-CMH.

20A – Additional own funds for safeguarding assets

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm due to safeguarding assets, that is not covered by K-ASA.

21A – Additional own funds for reception and transmission of orders, or executing client orders

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm due to reception and transmission of orders, or executing client orders, that is not covered by K-COH.

22A – Additional own funds for market risk

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm to the firm from its market risk, that is not covered by K-NPR.

23A – Additional own funds for positions associated with clearing risk

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm to the firm from its market risk, that is not covered by K-CMG.

24A – Additional own funds for trading activity on the firm’s own account

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm to the firm from its trading activity in the market, that is not covered by K-DTF.

25A – Additional own funds for trading activity in clients’ names

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm to the firm from its trading activity in the market that is not covered by K-DTF.

26A – Additional own funds for trading counterparty risk

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm to the firm from its activity in the market that is not covered by K-TCD.

27A – Additional own funds for concentration risk

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm to the firm from any concentration risk that is not covered by K-CON.
28A – Additional own funds for other risks from ongoing activities

FCA investment firms should enter the amount of the additional own funds that they have identified as a result of the ICARA process as being required to cover material harm from ongoing activities, that are not covered by the own funds amounts in rows A18 to A26.

29A – Description of the risks captured in 28A

FCA investment firms should enter a description of the risks that have led to the additional own funds requirement stated in 28A. This only needs to be at a very high level. We expect full details to be provided in the ICARA document.

Part B2: Breakdown of additional own funds requirement necessary for orderly wind-down

This section only applies to non-SNI firms if the amount entered in 12A is higher than the FOR. SNI firms should leave this section blank.

30A – Description of risks

FCA investment firms should enter a description of the risks that have led to the additional own funds identified as necessary. This only needs to be at a very high level. We expect full details to be provided in the ICARA document.

Part C: Assessing and monitoring the adequacy of liquid assets held

Part C must be completed by all FCA investment firms.

Liquid assets held as at the ICARA accounting reference date

FCA investment firms are reminded that:

• their basic liquid asset requirement must be met from core liquid assets
• they are not obliged to hold any non-core liquid assets and they can meet their base and additional liquid asset requirements using core liquid assets
• non-core liquid assets can only be counted towards any additional liquid asset requirement an FCA investment firm has identified and a haircut must be applied

31A – Core liquid assets held

FCA investment firms should enter the total value of the core liquid assets they hold. The definition of core liquid assets is in MIFIDPRU 6.3.

33A – Non-core liquid assets – post-haircut

FCA investment firms should enter the total post-haircut value of any non-core liquid assets that they are using to satisfy any additional liquid assets requirement. See MIFIDPRU 7.7 for details on assets that are eligible as non-core liquid assets and MIFIDPRU 7.7.11G for more information on haircuts.
Liquid assets required as identified through the ICARA process

33A – Liquid assets threshold requirement

FCA investment firms should enter their liquid assets threshold requirement from their ICARA assessment here.

This will be the sum of the firm’s basic liquid asset requirement; and the higher of

- the amount of liquid assets the firm requires at any given point in time to fund its ongoing business operations (cell 34A)
- the additional amount of liquid assets the firm requires to start its wind-down (cell 39A)

This amount should not include any additional liquid assets amount specified by the FCA.

34A – Liquid assets required to fund ongoing business operations

FCA investment firms should enter the amount of liquid assets they need to fund ongoing business operations at any given point in time, taking into account periods of stress in the economic cycle. More information on this assessment is in MIFIDPRU 7.7.

35A to 38A – Breakdown of liquid assets estimate to fund ongoing business operations by quarter

As part of the ICARA process to estimate funding needs for ongoing business operations, FCA investment firms must produce a reasonable estimate of the amount of liquid assets they would require to fund their ongoing business during each quarter over the next 12 months from the ICARA assessment date. FCA investment firms should enter those quarterly values into cells A35 to A38. See MIFIDPRU 7.7 and particularly MIFIDPRU 7.7.4G, for more information and guidance on this assessment.

35A – Quarter 1

Enter the maximum amount of liquid assets required at any point during the first quarter after the ICARA assessment.

36A – Quarter 2

Enter the maximum amount of liquid assets required at any point during the second quarter after the ICARA assessment.

37A – Quarter 3

Enter the maximum amount of liquid assets required at any point during the third quarter after the ICARA assessment.

38A – Quarter 4

Enter the maximum amount of liquid assets required at any point during the fourth quarter after the ICARA assessment.

39A – Liquid assets required to begin an orderly wind-down
FCA investment firms should enter their assessment of the liquid assets they need to hold to begin an orderly wind-down, as determined through the ICARA process (MIFIDPRU 7.7).

Meeting debts as they fall due

40A – Has the firm at any point not been able to meet its debts as they fall due?

FCA investment firms should indicate if at any point during the previous accounting period they have been unable to meet their debts as they fall due.

41A – Please provide details

FCA investment firms should provide full details of issue(s) referred to in 40A, including:

• reasons they were unable to meet their debts as they fell due
• what action they took to remedy the situation
• what changes have been made to systems and controls to prevent this from re-occurring

Additional liquid assets requirement set by the FCA

This section asks the FCA investment firm to indicate whether the FCA has set a liquid assets requirement for it. This could be the liquid assets threshold requirement or the liquid assets wind-down trigger.

42A– Has the FCA specified a liquid asset requirement for the firm?

FCA investment firms should indicate whether the FCA has specified a liquid asset requirement amount. This could be as the result of a SREP or through other means. If the answer is ‘Yes’, FCA investment firms must also answer ‘Yes’ to at least one of 43A and 44A. Both can be completed if appropriate.

43A – Liquid assets threshold requirement

FCA investment firms should indicate whether the FCA has specified a liquid assets threshold requirement. If ‘Yes’, 45A must be completed.

44A – Liquid assets wind-down trigger

FCA investment firms should indicate whether the FCA has specified liquid assets wind-down trigger. If ‘Yes’, 46A must be completed.

45A – Liquid assets threshold requirement set by the FCA

FCA investment firms should state their liquid assets threshold requirement where this has been set by the FCA.

46A – Liquid assets wind-down trigger set by the FCA

FCA investment firms should state their liquid assets wind-down trigger where this has been set by the FCA.

Part D: MiFID investment services and activities and business model information
Part D should be completed by all FCA investment firms.

47A to 55A – MiFID investment services and activities

FCA investment firms should put a ‘Yes’ for each MiFID service they provide. Where a service is not provided, please put a ‘No’.

NB. FCA investment firms must have the relevant FSMA permissions for the services they provide.

Other business activities

56A – 62A

FCA investment firms should put a ‘Yes’ for each business activity they carry on. Where a service is not provided, please put a ‘No’.

63A – Financial conglomerate

The FCA investment firm should put a ‘Yes’ where it is part of a financial conglomerate. They should put a ‘No’ where they are not.

Firms should refer to the financial conglomerate decision tree in GENPRU 3 Annex 4R.

All firms are reminded that they should inform us where their group structure changes.

64A – delegation of discretionary portfolio management to other firms

FCA investment firms should put a ‘Yes’ if they delegate the discretionary portfolio management of assets to another firm. They should put a ‘No’ where they do not.

65A should only be completed where 64A has been answered ‘Yes’. It should be left blank otherwise. Firms should enter the amount delegated to other firms.

66A – delegation of discretionary portfolio management from other firms

FCA investment firms should put a ‘Yes’ if they undertake the discretionary portfolio management of assets on a delegated basis on behalf of other firms. They should put a ‘No’ where they do not.

67A should only be completed where 66A has been answered ‘Yes’. It should be left blank otherwise. Firms should enter the amount of assets delegated from other firms.

68A – provision of advice on an ongoing nature

FCA investment firms should put a ‘Yes’ if they provide advice of an ongoing nature. They should put a ‘No’ where they do not.

69A should only be completed where 68A has been answered ‘Yes’. It should be left blank otherwise. Firms should enter the amount of assets under ongoing advice they have included within their K-AUM calculation.

70A - Calculation of AUM at ICARA accounting reference date excluding offsetting

FCA investment firms should enter ‘Yes’ if at the ICARA accounting reference date they have calculated their AUM and applied any offsetting of negative values or liabilities.
attributed to positions (see MIFIDPRU 4.7.5R to 4.7.7R). They should enter a ‘No’ where they have not.

71A should only be completed where 70A has been answered ‘Yes’. It should be left blank otherwise.

FCA investment firms should enter the value of AUM according to MIFIDPRU 4.7.5R at the ICARA accounting reference date **without** applying any offsetting according to MIFIDPRU 4.7.7(2)R.

**NB.** FCA investment firms must have the relevant FSMA permissions for the services they provide.
10 Firms acting as clearing members and indirect clearing firms

10.1 Application

10.1.1 R This chapter applies to a MIFIDPRU investment firm that is:

(1) a clearing member; or

(2) an indirect clearing firm.

10.1.2 R This chapter also applies to the UK parent entity of an investment firm group that contains a clearing member or an indirect clearing firm.

10.2 Categorisation of clearing firms as non-SNI MIFIDPRU investment firms

10.2.1 R (1) A MIFIDPRU investment firm that is a clearing member or an indirect clearing firm is a non-SNI MIFIDPRU investment firm.

(2) The classification in (1) applies irrespective of whether the firm satisfies the conditions in MIFIDPRU 1.2 (SNI MIFIDPRU investment firms) or not.

10.2.2 R (1) This rule applies where:

(a) an investment firm group contains a clearing member or an indirect clearing firm; and

(b) the UK parent entity of the investment firm group in (a) is subject to prudential consolidation in accordance with MIFIDPRU 2.5.

(2) Where this rule applies, the UK parent entity in (1) must comply with the relevant obligations in MIFIDPRU on a consolidated basis as if it were a non-SNI MIFIDPRU investment firm.

(3) The requirement in (2) applies irrespective of whether the UK parent entity satisfies the conditions in MIFIDPRU 2.5.21R or not.

10.2.3 G (1) The effect of MIFIDPRU 10.2.1R is that a firm that acts as a clearing member or indirect clearing firm will always be a non-SNI MIFIDPRU investment firm. This is the case even where the firm may otherwise satisfy all the other criteria in MIFIDPRU 1.2 to be classified as an SNI MIFIDPRU investment firm.

(2) The effect of MIFIDPRU 10.2.2R is that where the consolidated situation of a UK parent entity includes a clearing member or indirect clearing firm, the UK parent entity will always be a non-SNI MIFIDPRU investment firm on a consolidated basis.
MIFIDPRU 10.2.1R applies equally to a firm that is a self-clearing firm.

### 10.3 Application of K-DTF requirement to clearing activities

#### 10.3.1 R

1. This rule applies to transactions in financial instruments in relation to which a MIFIDPRU investment firm provides clearing services in its capacity as a clearing member or an indirect clearing firm.

2. Except where MIFIDPRU 10.3.2R applies, a firm must include the transactions in (1) in its calculation of DTF for the purposes of the K-DTF requirement in accordance with the remainder of this rule.

3. The transactions in (1) must be included in a firm’s DTF on the following basis:

   (a) where the order that gave rise to the clearing transaction was a cash trade, the clearing transaction must also be treated as if it were a cash trade (irrespective of whether it would otherwise meet that definition); and

   (b) where the order that gave rise to the clearing transaction was a derivatives trade, the clearing transaction must also be treated as if it were a derivatives trade (irrespective of whether it would otherwise meet that definition).

#### 10.3.2 R

1. This rule applies where a firm:

   (a) executes an order:

      (i) in its own name (whether for its own account or on behalf of a client); or

      (ii) in the name of a client; and

   (b) also provides clearing services in its capacity as a clearing member or indirect clearing firm in relation to a transaction that results from the order in (a).

2. Where this rule applies, the value of the relevant order in (1)(a) is not included in the firm’s measurement of DTF attributable to clearing services under MIFIDPRU 10.3.1R, provided that the value of the order has already been included in one of the following in relation to the firm’s execution services:

   (a) the calculation of the firm’s COH under MIFIDPRU 4.10 (K-COH requirement); or

   (b) the calculation of the firm’s DTF under MIFIDPRU 4.15 (K-DTF requirement).
10.3.3 G 

(1) **MIFIDPRU 10.3.1R** requires a **MIFIDPRU investment firm** to calculate an additional **K-DTF requirement** for any clearing transactions it undertakes in relation to financial instruments.

(2) **MIFIDPRU 10.3.2R** applies to a **MIFIDPRU investment firm** that both executes an order and subsequently provides clearing services in relation to the resulting transaction (including where the firm is acting as a self-clearing firm). In this case, the firm is not required to include the clearing transaction in its calculation of DTF, provided that the value of the original executed order has already been included in either the firm’s measurement of its DTF or COH.

(3) The intention of **MIFIDPRU 10.3.2R** is that a firm is not required to “double-count” the value of the original order and the resulting clearing transaction where the firm is involved in both executing and clearing the same trade.

10.3.4 R 

Where prudential consolidation applies to a **UK parent entity** under **MIFIDPRU 2.5.7R**, the UK parent entity must include within the calculation of its consolidated K-DTF requirement any transactions that are cleared by clearing members or indirect clearing firms that are included within its consolidated situation.

10.4 Own funds requirement for CCP default fund exposures

10.4.1 R 

This section applies to:

(1) a **MIFIDPRU investment firm** that is a clearing member; and

(2) a **UK parent entity** to which consolidation under **MIFIDPRU 2.5.7R** applies, where the relevant investment firm group includes one or more clearing members.

10.4.2 R 

(1) A **MIFIDPRU investment firm** must include its pre-funded contributions to the default fund of a CCP in the calculation of its K-TCD requirement in accordance with the remainder of this rule.

(2) The firm must apply the rules and guidance in **MIFIDPRU 4.14 (K-TCD requirement)** in relation to the relevant default contribution with the following modifications:

(a) the transactions specified in **MIFIDPRU 4.14.3R** are deemed to include pre-funded contributions made by the firm to the default fund of a CCP;

(b) for the purposes of **MIFIDPRU 4.14.7R**, the value of $\alpha$ shall be 1;

(c) for the purposes of **MIFIDPRU 4.14.9R**, the replacement cost (RC) of the default fund contribution is the book value
of that asset in accordance with the applicable accounting framework;

(d) for the purposes of MIFIDPRU 4.14.29R, the applicable risk factor is:

(i) the value of a C-factor calculated in accordance with the methodology in MIFIDPRU 10.4.3R where that C-factor has been published by an authorised central counterparty in relation to the default fund of the CCP;

(ii) in the case of an authorised central counterparty that has not published a C-factor relating to its default fund, 1.6%; and

(iii) where the CCP is not an authorised central counterparty, 8%; and

(e) for the purposes of MIFIDPRU 4.14.30R, the credit valuation adjustment (CVA) is 1.

10.4.3 R (1) For the purposes of MIFIDPRU 10.4.2R(2)(d), a C-factor is:

(a) in the case of an authorised central counterparty that is subject to national rules implementing the requirements in BCBS 282 (Capital requirements for bank exposures to central counterparties) published by the Basel Committee on Banking Supervision in April 2014, a value determined in accordance with the formula in (2); or

(b) in the case of any other authorised central counterparty, a value determined in accordance with the formula in (3).

(2) The relevant formula under (1)(a) is:

\[ \text{C-factor} = \max\left( \frac{K_{CCP}}{DF_{CCP} + DF_{CM^{pref}}} ; 8\% \cdot 2\% \right) \]

where, in each case, the values of \( K_{CCP}, DF_{CCP} \) and \( DF_{CM^{pref}} \) are calculated in accordance with the methodology in BCBS 282.

(3) The relevant formula under (1)(b) is:

\[ \text{C-factor} = \left( 1 + \beta \cdot \frac{N}{N - 2} \right) \cdot \frac{K_{CM}}{DF_{CM}} \]

where, in each case, the values of \( \beta, N, K_{CM} \) and \( DF_{CM} \) are calculated in accordance with the methodology in BCBS 227.
(Capital requirements for bank exposures to central counterparties) published by the Basel Committee on Banking Supervision in July 2012.

10.4.4 G An authorised central counterparty may publish C-factors for the purposes of national rules implementing both BCBS 227 and BCBS 282. In this case, the effect of MIFIDPRU 10.4.3R(1)(a) is that the C-factor published for the purpose of BCBS 282 must be used. Where the default fund relates to derivatives, the C-factor published for the purposes of the Standardised Approach to Counterparty Credit Risk (SA-CCR) will normally be the relevant C-factor.

10.4.5 G (1) Where a MIFIDPRU investment firm that is a clearing member or an indirect clearing firm has trade exposures to a CCP, it should consider whether the exposures arise from a transaction listed in MIFIDPRU 4.14.3R as being within scope of the K-TCD requirement. MIFIDPRU 4.14.3R(1)(a) and MIFIDPRU 4.14.4R exclude from the scope of the K-TCD requirement derivatives contracts that are directly or indirectly cleared through an authorised central counterparty.

(2) However, the exclusion in (1) does not apply to a pre-funded contribution of a clearing member to the default fund of a CCP, as this exposure is not a contract cleared through the authorised central counterparty. MIFIDPRU 10.4.2R explains how a firm should calculate the K-TCD requirement for the contribution.

10.4.6 R Where this section applies to a UK parent entity in accordance with MIFIDPRU 10.4.1R(2), the requirement in MIFIDPRU 10.4.2R and the modifications it makes to the rules and guidance in MIFIDPRU 4.14 apply to the UK parent entity in relation to any pre-funded contributions to the default fund of a CCP made by any entities included within the consolidated situation.

TP 1 Own funds transitional provisions

Application

1.1 R MIFIDPRU TP 1 applies to:

(1) a MIFIDPRU investment firm;

(2) a UK parent entity that is required by MIFIDPRU 2.5.7R to comply with MIFIDPRU 3 on the basis of its consolidated situation; and

(3) a parent undertaking to which the group capital test applies.

Purpose
1.2 G MIFIDPRU TP 1 contains transitional provisions relating to certain permissions granted by the FCA before 1 January 2022 for the purposes of the own funds provisions of the UK CRR. These provisions set out where a firm with such a permission may continue to rely on it under the MIFIDPRU regime.

1.3 G MIFIDPRU TP 1 also contains transitional provisions relating to the continued eligibility of additional tier 1 instruments issued before 1 January 2022 under the UK CRR (in the form in which the UK CRR stood prior to that date).

Continuing application of certain UK CRR permissions

1.4 R MIFIDPRU TP 1.5 applies for the duration of a permission to which it relates, except to the extent that the FCA revokes, varies or replaces the permission.

1.5 R (1) This rule applies to any permission listed in column (A) of the table in MIFIDPRU TP 1.6R where that permission was granted to a firm by the FCA for the purposes of the UK CRR before 1 January 2022.

(2) Where this rule applies, a permission in column (A) of the table in MIFIDPRU TP 1.6R is deemed to have been granted for its remaining duration on equivalent terms by the FCA under the corresponding provision in column (B) of that table.

1.6 R This table belongs to MIFIDPRU TP 1.5R.

<table>
<thead>
<tr>
<th>(A) UK CRR permission granted before 1 January 2022</th>
<th>(B) Deemed basis for permission on or after 1 January 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 26(2) UK CRR: inclusion of interim or year-end profits in common equity tier 1 capital before the firm has taken a formal decision confirming the final profit or loss for the year</td>
<td>MIFIDPRU 3.3.2R</td>
</tr>
<tr>
<td>Article 26(3) UK CRR: classification of an issuance of capital instruments as common equity tier 1 capital</td>
<td>MIFIDPRU 3.3.3R</td>
</tr>
</tbody>
</table>

1.7 G The effect of MIFIDPRU TP 1.5 and MIFIDPRU TP 1.6 is that a permission that was initially granted under article 26(2) or 26(3) of the
UK CRR will continue to produce an equivalent effect under the corresponding provisions in MIFIDPRU 3.3. The duration of the original permission is not affected. For example, a permission granted on 1 June 2021 for a one-year duration will be treated from 1 January 2022 as if it had been granted under MIFIDPRU 3.3, but will still expire on 1 June 2022.

Additional tier 1 capital instruments issued before 1 January 2022

1.8 R (1) This rule applies where:

(a) a firm which became a MIFIDPRU investment firm on 1 January 2022 issued instruments before that date which satisfied the conditions to be classified as additional tier 1 instruments under the UK CRR in the form in which it stood immediately before 1 January 2022; and

(b) the instruments in (1) remain in issue on 1 January 2022.

(2) Where this rule applies, by no later than 1 February 2022, a MIFIDPRU investment firm must:

(a) notify the FCA using the form in MIFIDPRU TP 1 Annex 1R, submitted via the online notification and application system, to confirm whether:

(i) the relevant instruments satisfy the conditions in MIFIDPRU 3.4 to be classified as additional tier 1 instruments; or

(ii) the relevant instruments do not satisfy the relevant conditions in MIFIDPRU 3.4 and the firm has therefore ceased to recognise them as part of its additional tier 1 capital or has otherwise redeemed or replaced them; or

(b) apply to the FCA under section 138A of the Act for a modification of the relevant provisions in MIFIDPRU 3.4 to continue to allow the firm to classify the instruments as additional tier 1 instruments for the purposes of MIFIDPRU.

1.9 G (1) A MIFIDPRU investment firm may have issued instruments that, immediately before 1 January 2022, met the conditions in the UK CRR (in the form in which it then stood) to be classified as additional tier 1 instruments and which remain in issue on 1 January 2022.

(2) Although MIFIDPRU 3.4 contains provisions for the classification of instruments under MIFIDPRU as additional
tier 1 instruments which are broadly equivalent to those in the UK CRR, the trigger event under article 54(1)(a) of the UK CRR does not apply under MIFIDPRU. This is because the own funds requirement under MIFIDPRU is calculated on a different basis and therefore the trigger event for conversion of additional tier 1 instruments under MIFIDPRU is defined by reference to different criteria.

1.10 G An additional tier 1 instrument issued before 1 January 2022 under the UK CRR may satisfy the conditions in MIFIDPRU 3.4 so that it can be classified as an additional tier 1 instrument for the purposes of MIFIDPRU. This may depend upon how the trigger events were defined in the terms of the relevant instrument and whether additional trigger events (i.e. over and above the mandatory UK CRR trigger event that was applicable at the time of issuance) were also included.

1.11 G (1) A firm may apply to the FCA under section 138A of the Act to modify the provisions of MIFIDPRU 3.4 for existing additional tier 1 instruments issued under the UK CRR before 1 January 2022, to allow those instruments to be recognised as additional tier 1 instruments under MIFIDPRU.

(2) In the application, the FCA would expect a firm to demonstrate how the conversion or write-down of the additional tier 1 instruments would function to enable the firm to continue to satisfy its own funds requirement under MIFIDPRU in times of financial stress.

(3) If the FCA grants a modification under section 138A of the Act in such circumstances, it may grant it on a temporary basis to facilitate the firm’s orderly transition to the MIFIDPRU regime.

Continuing validity of IFPRU own funds notifications

1.12 R (1) This rule applies to any notification listed in column (A) of the table in MIFIDPRU TP 1.13R, where the notification was validly submitted by a firm or parent undertaking to the FCA for the purposes of the relevant rule in the IFPRU sourcebook before 1 January 2022.

(2) Where this rule applies, a notification in column (A) of the table in MIFIDPRU TP 1.13R is deemed to have been a valid notification for the purposes of the corresponding provision in column (B) in the same row of that table.

1.13 R The table belongs to MIFIDPRU TP 1.12R.
<table>
<thead>
<tr>
<th>IFPRU notification submitted before 1 January 2022</th>
<th>Deemed notification for the purposes of MIFIDPRU on or after 1 January 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IFPRU 3.2.10R:</strong> notification of issuance of own funds instruments</td>
<td><strong>MIFIDPRU 3.6.5R(1) (for a MIFIDPRU investment firm)</strong>  &lt;br&gt; <strong>MIFIDPRU 3.6.8R(1)(b) (for a UK parent entity to which consolidation under MIFIDPRU 2.5.7R applies)</strong>  &lt;br&gt; <strong>MIFIDPRU 3.7.4R(1)(b) (for a parent undertaking to which the group capital test applies)</strong></td>
</tr>
<tr>
<td><strong>IFPRU 3.2.13R:</strong> notification of issuance of ordinary shares or debt instruments under a debt securities programme</td>
<td><strong>MIFIDPRU 3.6.5R(1) (for a MIFIDPRU investment firm)</strong>  &lt;br&gt; <strong>MIFIDPRU 3.6.8R(1)(b) (for a UK parent entity to which consolidation under MIFIDPRU 2.5.7R applies)</strong>  &lt;br&gt; <strong>MIFIDPRU 3.7.4R(1)(b) (for a parent undertaking to which the group capital test applies)</strong></td>
</tr>
</tbody>
</table>

1.14 G The effect of MIFIDPRU TP 1.12R and 1.13R is that a notification that was validly submitted for the purposes of the rules relating to the issuance of own funds in IFPRU is valid for the purposes of the notification requirements relating to the issuance of own funds in MIFIDPRU 3.6 or 3.7. This means that:

1. a **MIFIDPRU investment firm** or **parent undertaking** to which IFPRU applied is not required to submit another notification to the FCA in relation to pre-existing instruments to treat those instruments as **additional tier 1 instruments** or **tier 2 instruments** under MIFIDPRU; and

2. where the **MIFIDPRU investment firm** or **parent undertaking** issues the same class of instruments on or after 1 January 2022, it can rely on the exemption from the notification requirement in MIFIDPRU 3.6.5R(2), provided that the instruments are identical in all material respects to the previous issuance notified to the FCA under IFPRU.

1.15 G MIFIDPRU TP 1.12R and 1.13R do not affect the underlying criteria in MIFIDPRU 3 for classifying an instrument as own funds. Instead, the provisions deem existing notifications to be notifications for equivalent purposes under MIFIDPRU. This means that if the instruments that are the subject of the notifications do not meet the criteria in MIFIDPRU 3 to be classified as own funds, a **firm** or **parent undertaking** must not treat those instruments as such. It is the responsibility of the **firm** or **parent undertaking** relying on the...
transitional provisions in this annex to assess whether the relevant criteria are met in relation to any particular instrument.
MIFIDPRU TP 1 Annex 1R

Notification under MIFIDPRU TP 1.8R of the intended treatment of instruments which were issued and met the conditions to be classified as additional tier 1 instruments in accordance with the UK CRR before 1 January 2022

Details of Senior Manager responsible for this notification:

*If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
<th>Job title / position</th>
<th>Individual reference number (if applicable)</th>
</tr>
</thead>
</table>

1. Please confirm which of the following the notifying firm will be under MIFIDPRU:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking □

   b. MIFIDPRU investment firm that is a consolidating UK parent entity □

   c. MIFIDPRU investment firm that is a GCT parent undertaking □

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) □

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) □

2. This notification is made in respect of the following classes/issuances of AT1 instruments issued before 1 January 2022 which:
• met the conditions to be classified as additional tier 1 (AT1) instruments in accordance with the UK CRR in the form in which it stood immediately before 1 January 2022; and

• remain in issue on 1 January 2022:

<table>
<thead>
<tr>
<th>Class / issuance of AT1 instruments</th>
<th>Outstanding nominal value of class / issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Please confirm which of the following the notification relates to:

a. The relevant instruments satisfy the conditions in MIFIDPRU 3.4 to be classified as AT1 instruments for the purposes of MIFIDPRU ☐

b. The relevant instruments do not satisfy the conditions in MIFIDPRU 3.4 and the firm has therefore ceased to recognise them as forming part of its AT1 capital for the purposes of MIFIDPRU or has otherwise redeemed or replaced them ☐

Note: Where the relevant instruments do not satisfy the conditions in MIFIDPRU 3.4, a firm may apply under section 138A of FSMA for a modification of the relevant provisions to continue to allow it to classify the instruments as AT1 instruments for the purposes of MIFIDPRU. A firm does not have to submit this notification if it has applied by 1 February 2022 for a modification that allows it to classify all its CRR AT1 instruments as MIFIDPRU AT1 instruments.

4. Where the notification relates to 3b, please explain how the firm ensures compliance with own funds requirements following the declassification:


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TP 2  Own funds requirements: transitional provisions

Application

2.1 R  MIFIDPRU TP 2 applies to a MIFIDPRU investment firm on an individual basis.

2.2 R  MIFIDPRU TP 2.23R applies to a UK parent entity when it is applying MIFIDPRU 4 on the basis of its consolidated situation in accordance with MIFIDPRU 2.5.

Purpose

2.3 G  MIFIDPRU TP 2 contains temporary transitional provisions that permit certain MIFIDPRU investment firms to apply a lower own funds requirement than would otherwise apply under MIFIDPRU 4.3. These provisions are designed to provide a smooth transition for firms from their regulatory capital requirements under previous prudential regimes to the requirements under MIFIDPRU.

2.4 G (1) MIFIDPRU TP 2 permits a firm (or, in the case of MIFIDPRU TP 2.23R, a UK parent entity) to substitute an alternative requirement for one or more of its standard permanent minimum capital requirement, its fixed overheads requirement or its K-factor requirement. Where a firm does so, the alternative requirement also replaces the standard requirement for the purposes of calculating the firm’s own funds requirement under MIFIDPRU 4.3.

(2) For example, under MIFIDPRU TP 2.21R, a former exempt BIPRU commodities firm may substitute alternative requirements for its fixed overheads requirement and its K-factor requirement. During the transitional period, the own funds requirement of the firm under MIFIDPRU 4.3.2R would be the highest of:

(a) its permanent minimum capital requirement;
(b) the alternative requirement substituted for its standard fixed overheads requirement; and
(c) the alternative requirement substituted for its standard K-factor requirement.

References to “UK CRR”

2.5 R  Any reference in MIFIDPRU TP 2 to the “UK CRR” is as a reference to the UK CRR in the form in which it stood on 31 December 2021.

Duration of transitional arrangements
2.6 R  MIIFIDPRU TP 2 applies until 1 January 2027, except in the circumstances set out in MIIFIDPRU TP 2.19R or MIIFIDPRU TP 2.20R(4).

Transitional provisions for fixed overheads requirement and K-factor requirement for former IFPRU investment firms and BIPRU firms

2.7 R (1) This rule applies to a MIIFIDPRU investment firm that, under the rules in force on 31 December 2021, was classified as:

(a) an IFPRU investment firm (other than an exempt IFPRU commodities firm); or

(b) a BIPRU firm (other than an exempt BIPRU commodities firm).

(2) A firm may substitute the alternative requirement in (3) for each of:

(a) its fixed overheads requirement under MIIFIDPRU 4.5; and

(b) to the extent applicable, its K-factor requirement under MIIFIDPRU 4.6.

(3) Subject to (4), the alternative requirement is an amount equal to twice the following, if it had continued to apply to the firm:

(a) for a former IFPRU investment firm, the own funds requirement in Chapter 1 of Title I of Part Three of the UK CRR; or

(b) for a former BIPRU firm, the variable capital requirement in GENPRU 2.1.40R and 2.1.45R.

(4) The alternative requirement in (3) is subject to:

(a) for a former IFPRU investment firm (other than a collective portfolio management investment firm), article 93(1) of the UK CRR, with the reference to the initial capital requirement in that provision being read as a reference to the base own funds requirement that would have applied under IFPRU 3.1 if it had continued to apply to the firm;

(b) for a former BIPRU firm (other than a collective portfolio management investment firm), the base capital requirement that would have applied under GENPRU 2.1.47R and 2.1.48R; or

(c) for a collective portfolio management investment firm, the base own funds requirement that applies under IPRU(INV) 11.3.1R(1).
2.8 G (1) The effect of MIFIDPRU TP 2.7R(2) is that even where MIFIDPRU TP 2.7R applies, it does not affect the calculation of a MIFIDPRU investment firm’s permanent minimum capital requirement under MIFIDPRU 4.4. MIFIDPRU TP 2.13R to MIFIDPRU 2.18R set out the circumstances in which separate transitional arrangements may also apply to the permanent minimum capital requirement of a former IFPRU investment firm or BIPRU firm.

(2) Therefore, where the permanent minimum capital requirement (where applicable, as limited by MIFIDPRU TP 2.13R to 2.18R) is higher than the alternative requirement in MIFIDPRU TP 2.7R(3), the firm must still ensure that it has sufficient own funds to meet that higher permanent minimum capital requirement in accordance with MIFIDPRU 4.3.

2.9 G Where a MIFIDPRU investment firm applies the transitional arrangements in MIFIDPRU TP 2.7, the alternative requirement under MIFIDPRU TP 2.7R(3) reflects how the previous requirements under the UK CRR or GENPRU would have applied to the firm on an ongoing basis. The firm should therefore recalculate the alternative requirement under the UK CRR or GENPRU regularly. The FCA considers that it would be appropriate for the firm to carry out such calculations at least as frequently as it reports information on its own funds requirement to the FCA under MIFIDPRU 9.

Transitional provisions for fixed overheads requirement and K-factor requirement for former exempt CAD firms

2.10 R (1) This rule applies to a MIFIDPRU investment firm that under the rules in force on 31 December 2021 was classified as an exempt CAD firm.

(2) A firm may substitute the alternative requirement in (3) for each of:

(a) its fixed overheads requirement under MIFIDPRU 4.5; and
(b) to the extent applicable, its K-factor requirement under MIFIDPRU 4.6.

(3) The alternative requirement is:

(a) from 1 January 2022 to 31 December 2022, an amount equal to the firm’s permanent minimum capital requirement after any transitional relief that may apply under MIFIDPRU TP 2.12R has been taken into account; and

(b) from 1 January 2023 to 31 December 2026:
(i) in relation to the firm’s fixed overheads requirement, the relevant percentage specified in (4) of the firm’s fixed overheads requirement (as that requirement would be determined if the substitution in (2)(a) did not apply); and

(ii) in relation to the firm’s K-factor requirement, the relevant percentage specified in (4) of the firm’s K-factor requirement (as that requirement would be determined if the substitution in (2)(b) did not apply).

(4) The relevant percentage is:

(a) from 1 January 2023 to 31 December 2023: 10%;
(b) from 1 January 2024 to 31 December 2024: 25%;
(c) from 1 January 2025 to 31 December 2025: 45%; and
(d) from 1 January 2026 to 31 December 2026: 70%.

Transitional provisions for K-factor requirement for firms not in existence before 1 January 2022

2.11 R (1) This rule applies to a MIFIDPRU investment firm that immediately before 1 January 2022:

(a) was not in existence; or
(b) did not have a Part 4A permission that permitted the firm to carry on any investment services and/or activities.

(2) A firm may substitute the alternative requirement in (3) for its K-factor requirement under MIFIDPRU 4.6 (to the extent that such a requirement applies).

(3) The alternative requirement is an amount equal to twice the fixed overheads requirement of the firm calculated in accordance with MIFIDPRU 4.5 from time to time.

Transitional provisions for permanent minimum capital requirement: former exempt CAD firms

2.12 R (1) This rule applies to a MIFIDPRU investment firm that under the rules in force on 31 December 2021 was classified as an exempt CAD firm.

(2) A firm may substitute the alternative requirement in (3) for its permanent minimum capital requirement under MIFIDPRU 4.4.
(3) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022: £50,000;
(b) from 1 January 2023 to 31 December 2023: £55,000;
(c) from 1 January 2024 to 31 December 2024: £60,000;
(d) from 1 January 2025 to 31 December 2025: £65,000; and
(e) from 1 January 2026 to 31 December 2026: £70,000.

(4) This rule is subject to MIFIDPRU TP 2.19R.

Transitional provisions for permanent minimum capital requirement: former IFPRU investment firms

2.13 R (1) Subject to (2), this rule applies to a MIFIDPRU investment firm that under the rules in force on 31 December 2021 was classified as an IFPRU 50K firm.

(2) This rule does not apply to a firm to which MIFIDPRU TP 2.18R applies.

(3) A firm may substitute the alternative requirement in (4) for its permanent minimum capital requirement under MIFIDPRU 4.4.

(4) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022: £50,000;
(b) from 1 January 2023 to 31 December 2023: £55,000;
(c) from 1 January 2024 to 31 December 2024: £60,000;
(d) from 1 January 2025 to 31 December 2025: £65,000; and
(e) from 1 January 2026 to 31 December 2026: £70,000.

(5) This rule is subject to MIFIDPRU TP 2.19R.

2.14 R (1) Subject to (2), this rule applies to a MIFIDPRU investment firm that:

(a) under the rules in force on 31 December 2021 was classified as an IFPRU 125K firm; or

(b) is a collective portfolio management investment firm that would be subject to a permanent minimum capital requirement of £150,000 under MIFIDPRU 4.4.3R if this rule did not apply.
(2) This rule does not apply to a firm to which MIFIDPRU TP 2.18R applies.

(3) A firm may substitute the alternative requirement in (4) for its permanent minimum capital requirement under MIFIDPRU 4.4.

(4) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022: £125,000;

(b) from 1 January 2023 to 31 December 2023: £130,000;

(c) from 1 January 2024 to 31 December 2024: £135,000;

(d) from 1 January 2025 to 31 December 2025: £140,000; and

(e) from 1 January 2026 to 31 December 2026: £145,000.

(5) This rule is subject to MIFIDPRU TP 2.19R.

2.15 R  (1) This rule applies to a MIFIDPRU investment firm that under the rules in force on 31 December 2021 was classified as an IFPRU 730K firm.

(2) A firm may substitute the alternative requirement in (3) for its permanent minimum capital requirement under MIFIDPRU 4.4.

(3) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022: £730,000;

(b) from 1 January 2023 to 31 December 2023: £735,000;

(c) from 1 January 2024 to 31 December 2024: £740,000;

(d) from 1 January 2025 to 31 December 2025: £745,000; and

(e) from 1 January 2026 to 31 December 2026: £750,000.

(4) This rule is subject to MIFIDPRU TP 2.19R.

Transitional provisions for permanent minimum capital requirement: former BIPRU firms

2.16 R  (1) This rule applies to a MIFIDPRU investment firm that under the rules in force on 31 December 2021 was classified as a BIPRU firm (other than an exempt BIPRU commodities firm or a collective portfolio management investment firm).

(2) This rule does not apply to a firm to which MIFIDPRU TP 2.18R applies.
(3) A firm may substitute the alternative requirement in (4) for its 
permanent minimum capital requirement under MIFIDPRU 4.4.

(4) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022: £50,000;
(b) from 1 January 2023 to 31 December 2023: £55,000;
(c) from 1 January 2024 to 31 December 2024: £60,000;
(d) from 1 January 2025 to 31 December 2025: £65,000; and
(e) from 1 January 2026 to 31 December 2026: £70,000.

(5) This rule is subject to MIFIDPRU TP 2.19R.

2.17 G (1) The transitional arrangements in MIFIDPRU TP 2.13R to 2.16R 
permit the relevant MIFIDPRU investment firms to substitute an 
alternative requirement for their permanent minimum capital 
requirement. Those provisions do not affect the fixed overheads 
requirement or, where applicable, the K-factor requirement for 
such firms.

(2) The effect of (1) is that where the fixed overheads requirement or 
the K-factor requirement of the relevant MIFIDPRU investment 
firm (in each case, as modified by any other relevant transitional 
arrangements in this section) is higher than the alternative 
requirement substituted for the firm’s permanent minimum capital 
requirement, the firm’s own funds requirement under MIFIDPRU 
4.3 will still be the higher of those other two requirements.

Transitional provisions for permanent minimum capital requirement: former 
IFPRU and BIPRU firms that relied on IFPRU 1.1.12R or BIPRU 1.1.23R 
(former “matched principal” firms)

2.18 R (1) This rule applies to a firm that, under the rules in force on 31 
December 2021, was classified as one of the following:

(a) an IFPRU 50K firm, due to the application of IFPRU 
1.1.12R (Meaning of dealing on own account);
(b) an IFPRU 125K firm, due to the application of IFPRU 
1.1.12R (Meaning of dealing on own account); or
(c) a BIPRU firm, due to the application of BIPRU 1.1.23R 
(Meaning of dealing on own account).

(2) A firm may substitute the alternative requirement in (3) for its 
permanent minimum capital requirement under MIFIDPRU 4.4.
(3) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022:
   
   (i) for a former BIPRU firm or a former IFPRU 50K firm: £50,000; or
   
   (ii) for a former IFPRU 125K firm: £125,000;

(b) from 1 January 2023 to 31 December 2023: £190,000;

(c) from 1 January 2024 to 31 December 2024: £330,000;

(d) from 1 January 2025 to 31 December 2025: £470,000; and

(e) from 1 January 2026 to 31 December 2026: £610,000.

Disapplication of permanent minimum capital requirement transitional provisions because of changes to a firm’s permissions

2.19 R The transitional arrangements in MIFIDPRU TP 2.12R to 2.16R cease to apply if there is a change to the permissions of the relevant MIFIDPRU investment firm, or any limitation or requirement that applies to the firm, on or after 1 January 2022 that increases the permanent minimum capital requirement that would apply to the firm under MIFIDPRU 4.4.

Transitional provisions for own funds requirement: former local firms

2.20 R (1) Subject to (4), this rule applies to a MIFIDPRU investment firm that:

(a) was in existence before 25 December 2019; and

(b) under the rules in force on 31 December 2021, was classified as a local firm.

(2) A firm may substitute the alternative requirement in (3) for its own funds requirement under MIFIDPRU 4.3.

(3) The alternative requirement is as follows:

(a) from 1 January 2022 to 31 December 2022: £250,000;

(b) from 1 January 2023 to 31 December 2023: £350,000;

(c) from 1 January 2024 to 31 December 2024: £450,000;

(d) from 1 January 2025 to 31 December 2025: £550,000; and

(e) from 1 January 2026 to 31 December 2026: £650,000.

(4) This rule ceases to apply to a firm where:
(a) there is a change to the permissions of the firm, or any limitation or requirement that applies to the firm, on or after 1 January 2022; and

(b) if the change in (a) had occurred immediately before 1 January 2022, the firm would have ceased to meet the definition of a local firm.

Transitional provisions for fixed overheads and K-factor requirements: exempt commodities firms

2.21 R (1) This rule applies to a MIFIDPRU investment firm that, under the rules in force on 31 December 2021, was classified as:

(a) an exempt IFPRU commodities firm; or

(b) an exempt BIPRU commodities firm.

(2) A firm may substitute the alternative requirement in (3) for each of:

(a) its fixed overheads requirement under MIFIDPRU 4.5; and

(b) to the extent applicable, its K-factor requirement under MIFIDPRU 4.6.

(3) Subject to (5), the alternative requirement is:

(a) from 1 January 2022 to 31 December 2022: an amount equal to the firm’s permanent minimum capital requirement;

(b) from 1 January 2023 to 31 December 2026:

(i) in relation to the firm’s fixed overheads requirement, the relevant percentage specified in (4) of the firm’s fixed overhead requirement (as that requirement would be determined if the substitution in (2)(a) did not apply); and

(ii) in relation to the firm’s K-factor requirement, the relevant percentage specified in (4) of the firm’s K-factor requirement (as that requirement would be determined if the substitution in (2)(b) did not apply).

(4) The relevant percentage is:

(a) from 1 January 2023 to 31 December 2023: 10%;

(b) from 1 January 2024 to 31 December 2024: 25%
(c) from 1 January 2025 to 31 December 2025: 45%; and

(d) from 1 January 2026 to 31 December 2026: 70%.

(5) Subject to (6), if the firm was subject to IPRU(INV) 3 on 31 December 2021, the alternative requirement can never be lower than the amount of the financial resources requirement that would have applied to the firm if it had continued to be subject to IPRU(INV) 3 in the form in which that chapter stood on that date.

(6) When determining the amount of the financial resources requirement under IPRU(INV) 3 for the purposes of (5), a firm may determine the delta of an option as follows:

(a) if an option is traded on an exchange, the firm must use the delta provided by that exchange; or

(b) if the delta is not available from the exchange, or if the option is an over-the-counter option, the firm may use its own estimates of delta where the conditions in MIFIDPRU 4.12.10R are met.

2.22 MIFIDPRU TP 2.21R(5) means that the alternative fixed overheads requirement and alternative K-factor requirement of an exempt IFPRU commodities firm or an exempt BIPRU commodities firm under the transitional arrangements are subject to a floor if the firm was previously subject to IPRU(INV) 3. The base requirement under IPRU(INV) 3-71R (in the form in which it stood on 31 December 2021) is calculated by reference to the highest of an absolute minimum requirement, an expenditure requirement and a volume of business requirement. The firm should therefore recalculate the alternative requirement under IPRU(INV) 3 regularly. The FCA considers that it would be appropriate for the firm to carry out such calculations at least as frequently as it reports information on its own funds requirement to the FCA under MIFIDPRU 9.

Transitional provisions for consolidated own funds requirement

2.23 R (1) This rule applies to a UK parent entity that is required to apply prudential consolidation to an investment firm group in accordance with MIFIDPRU 2.5.

(2) A UK parent entity may substitute the alternative requirements in (3) for the following, as they result from applying MIFIDPRU 4 to its consolidated situation:

(a) the consolidated fixed overheads requirement; and

(b) the consolidated K-factor requirement.
(3) Subject to (8), the alternative requirement is:

(a) in relation to the fixed overheads requirement, an amount calculated in accordance with the formula in (4); and

(b) in relation to the K-factor requirement, an amount calculated in accordance with the formula in (6).

(4) The formula for calculating the alternative requirement for the consolidated fixed overheads requirement is:

\[ A = B - C \]

where:

\[ A = \text{the alternative requirement for the consolidated fixed overheads requirement}. \]

\[ B = \text{the consolidated fixed overheads requirement that results from applying MIFIDPRU 4 to the consolidated situation in accordance with MIFIDPRU 2.5 without applying MIFIDPRU TP 2}. \]

\[ C = \text{the transitional credit, determined in accordance with (5)}. \]

(5) For the purposes of (4), the transitional credit (C) is the sum of the output of the following formula as applied to each MIFIDPRU investment firm in the investment firm group:

\[ C = D - E \]

where:

\[ D = \text{the individual fixed overheads requirement that would apply to the MIFIDPRU investment firm under MIFIDPRU 4, ignoring any transitional relief under MIFIDPRU TP 2}. \]

\[ E = \text{the alternative requirement that applies to the MIFIDPRU investment firm under MIFIDPRU TP 2 in place of the individual fixed overheads requirement. If no alternative requirement applies to the firm in place of its individual fixed overheads requirement, the value of E is equal to D}. \]

(6) The formula for calculating the alternative requirement for the consolidated K-factor requirement is:

\[ F = G - H \]

where:
F = the alternative requirement for the consolidated \( K \)-factor requirement.

G = the consolidated \( K \)-factor requirement that results from applying MIFIDPRU 4 to the consolidated situation in accordance with MIFIDPRU 2.5 without applying MIFIDPRU TP 2.

H = the transitional credit, determined in accordance with (7).

(7) For the purposes of (6), the transitional credit (H) is the sum of the output of the following formula as applied to each MIFIDPRU investment firm in the investment firm group:

\[
H = J - K
\]

where:

\( J \) = the \( K \)-factor requirement that would apply to the individual MIFIDPRU investment firm under MIFIDPRU 4, ignoring any transitional relief under MIFIDPRU TP 2.

\( K \) = the alternative requirement that applies to the MIFIDPRU investment firm under MIFIDPRU TP 2 in place of the individual \( K \)-factor requirement. If no alternative requirement applies to the firm in place of its individual \( K \)-factor requirement, the value of \( K \) is equal to \( J \).

(8) The alternative requirement can never be lower than the following:

(a) in relation to the consolidated fixed overheads requirement, the sum of the following in relation to the investment firm group:

(i) for each MIFIDPRU investment firm that is subject to an alternative requirement under MIFIDPRU TP 2 in place of its individual fixed overheads requirement, that alternative requirement; and

(ii) for every other MIFIDPRU investment firm, the firm’s individual fixed overheads requirement;

(b) in relation to the consolidated \( K \)-factor requirement, the sum of the following in relation to the MIFIDPRU investment firms in the investment firm group:

(i) for each MIFIDPRU investment firm that is subject to an alternative requirement under MIFIDPRU TP
2 in place of its individual K-factor requirement, that alternative requirement; and

(ii) for other MIFIDPRU investment firms, the individual K-factor requirement.

Interaction between alternative fixed overheads requirement and basic liquid assets requirement

2.24 R (1) This rule applies where:

(a) a firm is applying an alternative requirement for its fixed overheads requirement under any of the following:

(i) MIFIDPRU TP 2.7R(2)(a);

(ii) MIFIDPRU TP 2.10R(2)(a);

(iii) MIFIDPRU TP 2.21R(2)(a); or

(b) a UK parent entity is applying an alternative requirement for its consolidated fixed overheads requirement under MIFIDPRU TP 2.23R(2)(a).

(2) Where this rule applies to a firm in (1)(a), the requirement in MIFIDPRU 6.2.1R(1) applies as if the reference to the fixed overheads requirement is a reference to the alternative requirement.

(3) Where this rule applies to a UK parent entity in (1)(b), the requirement in MIFIDPRU 6.2.1R(1), as it applies on a consolidated basis, applies as if the reference to the fixed overheads requirement is a reference to the alternative requirement.

2.25 G (1) The effect of MIFIDPRU TP 2.24R is that where a firm is applying an alternative requirement for its fixed overheads requirement under a transitional provision in this annex, the amount of core liquid assets that it must hold under MIFIDPRU 6.2.1R(1) is calculated by reference to the alternative requirement. This does not affect any amount of core liquid assets that the firm must hold under MIFIDPRU 6.2.1R(2) in relation to guarantees provided to clients.

(2) MIFIDPRU TP 2.24R also applies on an equivalent basis to a UK parent entity that is applying an alternative requirement for its consolidated fixed overheads requirement.

(3) The following is an example of how MIFIDPRU TP 2.24R applies in practice:
(a) A former exempt CAD firm is calculating its basic liquid assets requirement under MIFIDPRU 6.2.1R after MIFIDPRU has been in force for 18 months. The firm’s fixed overheads requirement (calculated without any transitional relief) is 900. The firm has provided total guarantees to clients of 100.

(b) Under MIFIDPRU TP 2.10R(2)(a), the firm can apply an alternative requirement of 10% of its standard fixed overheads requirement in accordance with MIFIDPRU TP 2.10R(4)(a). The alternative requirement is therefore 90 (i.e. 10% of 900).

(c) Under MIFIDPRU TP 2.24R, the firm calculates the amount of core liquid assets that it requires under MIFIDPRU 6.2.1R(1) by reference to the alternative requirement. This means that the firm must hold core liquid assets of 30 for these purposes (i.e. one third of 90).

(d) Under MIFIDPRU 6.2.1R(2), the firm must also hold core liquid assets of 1.6% of the total amount of the guarantees it has provided to clients. In this case, that means that the firm must hold a further 1.6 in core liquid assets (i.e. 1.6% of 100). This amount is not affected by the transitional relief in MIFIDPRU TP 2.24R.

(e) The firm would therefore need to hold core liquid assets of 31.6 to satisfy its basic liquid assets requirement.

Continuing validity of UK CRR market risk permissions

2.26 R (1) This rule applies to any permission listed in column (A) of the table in MIFIDPRU TP 2.27R, where that permission was granted to a firm by the FCA for the purposes of the UK CRR before 1 January 2022.

(2) Where this rule applies, a permission in column (A) of the table in MIFIDPRU TP 2.27R is deemed to have the effect described in column (B) in the same row of that table.

2.27 R This table belongs to MIFIDPRU TP 2.26R.

<table>
<thead>
<tr>
<th>(A) UK CRR permission granted before 1 January 2022</th>
<th>(B) Effect of permission under MIFIDPRU on or after 1 January 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articles 329, 352(1) or 358 UK CRR: permission to use own estimates for</td>
<td>The permission in column (A) is deemed to be a valid notification</td>
</tr>
</tbody>
</table>
delta for the purposes of the
standardised approach for the market
risk of options

under MIFIDPRU 4.12.10R for
equivalent purposes

| Article 331 UK CRR: permission to use sensitivity models to calculate interest rate risk | The permission in column (A) is deemed to have been granted on equivalent terms for its remaining duration under MIFIDPRU 4.12.66R |

2.28 G (1) MIFIDPRU 4.12.10R requires a MIFIDPRU investment firm that wishes to use its own estimates of delta for the purposes of the standardised approach for the market risk of options to notify the FCA that it meets certain minimum standards before doing so. Previously, firms that were subject to the UK CRR were required to seek the FCA’s permission before using their own estimates of delta for these purposes. The effect of MIFIDPRU TP 2.25R and 2.26R is that any permission granted for these purposes to a former CRR firm that has subsequently become a MIFIDPRU investment firm will be treated as a valid notification for the purposes of MIFIDPRU 4.12.10R. This means that the firm does not need to submit a new notification under MIFIDPRU 4.12.10R to use its own estimates of delta under that rule for which the firm previously had permission.

(2) The effect of MIFIDPRU TP 2.26R and 2.27R is that a former CRR firm that was granted a permission to use interest rate sensitivity models under article 331 UK CRR and that has subsequently become a MIFIDPRU investment firm can treat that permission as having been granted on equivalent terms for the purposes of the corresponding requirement under MIFIDPRU. The duration of the original permission is not affected. For example, if a firm was granted permission to use an interest rate sensitivity model on 1 June 2021 for a one-year duration, that permission will be treated from 1 January 2022 as if it had been granted under MIFIDPRU, but will still expire on 1 June 2022.

TP 3 Group capital test: transitional arrangements

Application

3.1 R MIFIDPRU TP 3 applies to:

(1) a MIFIDPRU investment firm;

(2) a UK parent entity; and
(3) a GCT parent undertaking in an investment firm group.

Purpose

3.2 G MIFIDPRU TP 3 contains transitional provisions which allow an investment firm group to apply the group capital test on a temporary basis before the FCA has determined an application under MIFIDPRU 2.4.17R, provided that certain conditions are met.

Temporary application of the group capital test

3.3 R (1) This rule applies to an investment firm group where:

(a) the UK parent entity or a MIFIDPRU investment within that investment firm group has submitted an application to the FCA under MIFIDPRU 2.4.17R by no later than 1 February 2022; and

(b) the management body of the UK parent entity or MIFIDPRU investment firm has determined that there is a reasonable basis to conclude that the investment firm group satisfies the requirements in MIFIDPRU 2.4.17R(2)(a) and (b).

(2) This rule applies from 1 January 2022 until the earlier of the following:

(a) 1 January 2024; or

(b) the date specified in the notification to the UK parent entity or MIFIDPRU investment firm of the FCA’s decision in relation to the application in (1)(a).

(3) Where this rule applies, the undertakings in MIFIDPRU TP 3.1 may apply the group capital test in accordance with MIFIDPRU 2.6, even though the FCA has not granted permission to use the group capital test under MIFIDPRU 2.4.17R.

3.4 G Under MIFIDPRU 2.4.18R(2)(g), an application submitted under MIFIDPRU 2.4.17R must demonstrate how the investment firm group would comply with the consolidated requirements under MIFIDPRU 2.5 if the FCA did not grant permission to apply the group capital test. The application must also explain the timeframe in which the investment firm group would expect to comply with the consolidated requirements. If the FCA does not grant the application, it will use this information to determine an appropriate date under MIFIDPRU TP 3.3R(2)(b) on which the transitional arrangements will end.
TP 4  K-factor metric calculations: transitional

Application

4.1 R  *MIFIDPRU* TP 4 applies to a *MIFIDPRU investment firm* where:

1. immediately before 1 January 2022, the firm was carrying on *investment services and/or activities*; and

2. the *investment services and/or activities* in (1) result in *K-factor metrics* that are relevant to the calculation of the following on or after 1 January 2022:

   i. the firm’s *K-factor requirement*; or

   ii. an alternative requirement in *MIFIDPRU* TP 2 that is calculated by reference to the *K-factor requirement*.

4.2 R  *MIFIDPRU* TP 4.11 applies to a *UK parent entity* where the following conditions are met:

1. the UK parent entity is required to apply *MIFIDPRU* 4 on a *consolidated basis* in accordance with *MIFIDPRU* 2.5.7R; and

2. the consolidated situation of the UK parent entity includes one or more of the following:

   a. a *MIFIDPRU investment firm* to which *MIFIDPRU* TP 4.1R applies; or

   b. a *third country* entity to which *MIFIDPRU* TP 4.1R would apply if it were established in the UK.

Purpose

4.3 G  (1) The standard rules in *MIFIDPRU* 4 require a *MIFIDPRU investment firm* to collect data on the *K-factor metrics* that are relevant to the *investment services and/or activities* that the firm carries on. Certain *K-factor average metric* calculations are based on average values and require a minimum level of historical data.

(2) *MIFIDPRU* TP 4 contains transitional rules for the calculation of a firm’s *K-factor requirement* where a firm was carrying on *investment services and/or activities* immediately before *MIFIDPRU* began to apply, but does not have the historical data necessary to calculate the relevant *K-factor average metric*.

(3) *MIFIDPRU* TP 4 is not relevant to the calculation of the following elements of the *K-factor requirement* because they do not use historical data:
(1) the K-NPR requirement;
(2) the K-TCD requirement; and
(3) the K-CON requirement.

Duration

4.4 G The duration of the transitional arrangements in MIFIDPRU TP 4 depends on the relevant K-factor average metric. Under MIFIDPRU TP 4.5.R(3), the transitional arrangements cease to apply when a firm has (or should have) collected sufficient historical information to perform the necessary calculations in accordance with the standard calculation rules for the relevant K-factor average metric in MIFIDPRU 4.

Missing historical data for K-factor calculations: transitional provisions for individual MIFIDPRU firms

4.5 R (1) This rule applies to the extent that a MIFIDPRU investment firm does not have the necessary historical data to calculate the K-factor average metric required for any of the following in accordance with the relevant rules in MIFIDPRU 4:

(a) its K-AUM requirement;
(b) its K-CMH requirement;
(c) its K-ASA requirement;
(d) its K-COH requirement;
(e) its K-DTF requirement; or
(f) its K-CMG requirement.

(2) Subject to MIFIDPRU TP 4.13R(2)(a), a firm may either:

(a) use reasonable estimates to fill any missing historical data points in the calculation of the relevant K-factor average metric; or

(b) as an exception to the standard calculation rules in MIFIDPRU 4, use the modified calculation in MIFIDPRU TP 4.11R to calculate the relevant K-factor average metric.

(3) This rule ceases to apply in relation to a K-factor metric on the earlier of the following:
(a) the date on which the firm has collected sufficient historical information to calculate the K-factor average metric in accordance with the rules in MIFIDPRU 4; or

(b) the date that falls \( n \) months after the date on which MIFIDPRU first began to apply, where \( n \) is the number of months' worth of data points required to calculate that K-factor average metric in accordance with the standard calculation rules in MIFIDPRU 4.

4.6 G (1) MIFIDPRU TP 4.5R(3) specifies the date on which the transitional arrangements for calculating a K-factor average metric will cease to apply and the firm must therefore use the standard calculation rules in MIFIDPRU 4 for that K-factor average metric. This date may vary depending on the position of the individual firm.

(2) Under MIFIDPRU TP 4.5R(3)(a), once a firm has sufficient historical information to perform the calculation in the standard way, it is no longer permitted to use either reasonable estimates for missing data points or to use the modified calculation in MIFIDPRU 4.11R. For example, on the date on which MIFIDPRU begins to apply, Firm A already has historical data on its AUM covering the previous 10 months. The standard calculation of average AUM in MIFIDPRU 4 requires 15 months of historical data. Since the firm must begin collecting AUM data no later than the date that MIFIDPRU begins to apply, the firm will have sufficient data to perform the standard calculation 5 months later. At that point, the transitional arrangements under MIFIDPRU TP 4 will no longer apply to the firm’s calculation of average AUM.

(3) MIFIDPRU TP 4.5R(3)(b) acts as a “long-stop” date for the transitional arrangements under MIFIDPRU TP 4. A firm must begin collecting data on its K-factor metrics no later than the date that MIFIDPRU begins to apply. Therefore, a MIFIDPRU investment firm should have sufficient historical data to perform the standard calculation of a K-factor metric once sufficient months have elapsed to cover at least the standard calculation period for that K-factor metric. For example, the standard calculation for average CMH requires 9 months of historical data. For the purposes of MIFIDPRU TP 4.5.R(3)(b), the value of \( n \) is therefore 9, and the transitional arrangements under MIFIDPRU TP 4 will cease to apply to the calculation of average CMH 9 months after MIFIDPRU first begins to apply.

4.7 R (1) A firm must apply its chosen approach under MIFIDPRU TP 4.5R(2) consistently for a specific K-factor average metric.
(2) A firm may apply different approaches under MIFIDPRU TP 4.5R(2) for different K-factor average metrics.

4.8 G MIFIDPRU TP 4.7R prevents a firm from changing its approach to missing historical data points for a particular K-factor average metric. For example, if a firm is missing the necessary historical data points and chooses to apply the modified calculation in MIFIDPRU TP 4.11R to determine average AUM, it cannot subsequently decide to estimate the missing values for average AUM instead. However, a firm may choose, for example, to use reasonable estimates for missing values for average AUM, but to apply the modified calculation in MIFIDPRU TP 4.11R for the purposes of missing values for average COH. In the example, this could reflect the fact that the firm has a reasonable basis on which to estimate AUM, but is unable to produce reasonable estimates for COH.

4.9 R If the FCA requests it, a firm that uses reasonable estimates in accordance with MIFIDPRU TP 4.5R(2)(a) must explain how it has determined the relevant estimates.

4.10 G If a firm does not have a reasonable basis on which to estimate missing historical data points for a K-factor average metric, it should apply the modified calculation in MIFIDPRU TP 4.11R.

4.11 R (1) A firm that is using the modified calculation for determining a K-factor average metric, other than for the K-CMG requirement, must apply the following requirements:

(a) the firm must calculate the arithmetic mean of the daily values (or in the case of AUM, monthly values) for the K-factor metric over the previous n months, excluding the most recent y months;

(b) n is the number of months that have elapsed since MIFIDPRU began to apply (with the month during which MIFIDPRU begins to apply being counted as month 1);

(c) y is the greater of:

(i) zero; or

(ii) n minus x; and

(d) x is a fixed value, being:

(i) 12 for average AUM;

(ii) 6 for average CMH, average ASA or average DTF; and

(iii) 3 for average COH.
A firm that uses the modified calculation for determining the level of margin for the purposes of the K-CMG requirement must apply the following requirements:

(a) the firm must calculate the third highest amount of total margin as calculated under MIFIDPRU 4.13.5R required from the firm on a daily basis over the preceding \( n \) months; and

(b) \( n \) is the number of months that have elapsed since MIFIDPRU began to apply (with the month during which MIFIDPRU begins to apply being counted as month 1).

4.12 G

(1) The following are worked examples of the modified calculation in MIFIDPRU TP 4.11R.

(2) Firm A has chosen to apply the modified calculation for average AUM. MIFIDPRU has been in force for 6 months. Firm A would calculate its average AUM as follows:

(a) the value of \( n \) is 6, being the length of time that MIFIDPRU has been in force;

(b) the value of \( y \) is zero, as zero is greater than \( n \) minus \( x \) (i.e. 6 minus 12). This means that Firm A must not exclude any of the most recent months of daily figures; and

(c) when calculating average AUM for present purposes, Firm A must therefore calculate the arithmetic mean of the previous 6 months of daily values for AUM.

(3) Firm B applies the modified calculation for COH, as it is unable to generate reasonable estimates for missing data points for COH. MIFIDPRU has been in force for 4 months. Firm B would calculate its COH as follows:

(a) the value of \( n \) is 4, being the length of time that MIFIDPRU has been in force;

(b) the value of \( y \) is 1, as \( n \) minus \( x \) (i.e. 4 minus 3) is greater than zero; and

(c) when calculating average COH for present purposes, Firm B must therefore calculate the arithmetic mean of the previous 4 months of daily values for COH, excluding the values for the most recent month.

(4) MIFIDPRU has been in force for 10 months. Although Firm C would like to apply the modified calculation for average CMH, under MIFIDPRU TP 4.5R(3)(b), this is not permitted. This is
because the standard calculation of *average CMH* under *MIFIDPRU 4* requires only 9 *months* of daily values. Firm C should therefore have collected sufficient data by that time to be able to apply the standard calculation.

Missing historical data for K-factor calculations: transitional provisions for investment firm groups to which consolidation applies

4.13 R (1) If the conditions in (2) are met, a *UK parent entity* may apply the transitional arrangements in *MIFIDPRU TP 4.5R* to *MIFIDPRU TP 4.11R*, as modified by *MIFIDPRU TP 4.14R*, when calculating *K-factor average metrics* on a *consolidated basis*.

(2) The conditions are as follows:

(a) to the extent that it is relying on the transitional arrangements in *MIFIDPRU TP 4*, each *MIFIDPRU investment firm* in the *investment firm group* must apply the same approach under *MIFIDPRU TP 4.5R(2)* to calculate a specific *K-factor average metric* on an individual basis; and

(b) the *UK parent entity* must apply the same approach under *MIFIDPRU TP 4.5R(2)* to calculate a specific *K-factor average metric* on a *consolidated basis* as the firms in (a) have applied on an individual basis.

4.14 R Where a *UK parent entity* is applying *MIFIDPRU TP 4.5R* to *4.11R* in accordance with *MIFIDPRU TP 4.13R*, the following modifications apply:

(1) a reference to a “*K-factor metric*” or a “*K-factor average metric*” is a reference to that *K-factor metric* or *K-factor average metric* as it applies on a *consolidated basis*;

(2) a reference to the “*K-AUM requirement*”, “*K-COH requirement*”, “*K-ASA requirement*”, “*K-CMH requirement*”, “*K-DTF requirement*” or “*K-CMG requirement*” is a reference to those requirements as they apply on a *consolidated basis*;

(3) a reference to *MIFIDPRU 4* is a reference to that chapter as it applies on a *consolidated basis* in accordance with *MIFIDPRU 2.5*; and

(4) a reference to a “*firm*” is a reference to the *UK parent entity*.

4.15 G (1) Under *MIFIDPRU 2.5*, a *third country* entity that would be a *MIFIDPRU investment firm* if it were established in the *UK* may contribute towards a consolidated *K-factor metric*. A *UK parent entity* may rely on the transitional arrangements in *MIFIDPRU*...
TP 4 in relation to missing data points relating to such entities that the UK parent entity requires to calculate the consolidated K-factor requirement.

(2) However, under MIFIDPRU 2.5.9R, a UK parent entity must ensure that any subsidiaries that are not subject to MIFIDPRU (including third country entities) implement the necessary arrangements to ensure that the UK parent entity can comply with consolidated requirements. As a result, the guidance in MIFIDPRU TP 4.6G(2) is equally applicable to third country entities within the investment firm group, which must ensure that they begin to collect the necessary data once MIFIDPRU begins to apply.

TP 6 Application of criteria to be classified as an SNI MIFIDPRU investment firm: transitional

Application

6.1 R MIFIDPRU TP 6 applies to the following:

(1) a MIFIDPRU investment firm; and

(2) a UK parent entity, in accordance with MIFIDPRU TP 6.9R.

Purpose

6.2 G (1) MIFIDPRU TP 6 explains how a MIFIDPRU investment firm, or a UK parent entity which is applying MIFIDPRU 1.2 on a consolidated basis, should determine whether it meets the conditions to be classified as an SNI MIFIDPRU investment firm on the date on which MIFIDPRU begins to apply.

(2) Under MIFIDPRU TP 6.4R, a MIFIDPRU investment firm or a UK parent entity may use either the reasonable estimates approach or the alternative calculation in MIFIDPRU TP 4.5R(2) to determine missing historical data points for the purposes of applying the average AUM or average COH conditions under MIFIDPRU 1.2.1R(1) and (2).

(3) Under MIFIDPRU TP 6.7R, a MIFIDPRU investment firm or a UK parent entity must use its best efforts to estimate any missing historical data points for the purposes of applying the condition relating to total annual gross revenue from investment services and/or activities in MIFIDPRU 1.2.1R(7).

(4) The transitional arrangements in MIFIDPRU TP 6 apply only to the extent that the firm has missing historical data points. If a firm has observed historical data covering any part of
relevant period, the *firm* should use those data points when applying the relevant calculations.

### Duration

6.3 G The duration of the transitional arrangements in *MIFIDPRU* TP 6 depends on the relevant condition for classification as an SNI *MIFIDPRU investment firm* under *MIFIDPRU* 1.2. Under *MIFIDPRU* TP 6.4R(5) and *MIFIDPRU* TP 6.7R(3), the transitional arrangements cease to apply once a *firm* or *UK parent entity* has (or should have) collected sufficient historical information to apply the relevant condition in accordance with the applicable methodology in *MIFIDPRU* 1.2.

### Missing historical data for application of SNI classification criteria: transitional for individual MIFIDPRU investment firms

6.4 R (1) This *rule* applies to the extent that a *MIFIDPRU investment firm* does not have the necessary historical data to determine whether the following conditions are met:

- (a) the *average AUM* condition in *MIFIDPRU* 1.2.1R(1); or
- (b) the *average COH* condition in *MIFIDPRU* 1.2.1R(2).

(2) If a *firm* decides to apply the alternative approach in *MIFIDPRU* 1.2.4R for the purposes of assessing whether a condition in (1) is met, this *rule* applies to the extent that the *firm* does not have the necessary historical data to apply that alternative approach to the relevant condition.

(3) Where this *rule* applies, a *firm* may (subject to (4) and *MIFIDPRU* TP 6.5R) use either of the approaches set out in *MIFIDPRU* TP 4.5R(2) to assess whether the relevant condition in (1) is met.

(4) A *firm’s* choice of approach under (3) must be consistent with any choice that the *firm* has made under *MIFIDPRU* TP 4.5R(2) in relation to the same *K-factor average metric* for the purposes of applying the transitional arrangements in *MIFIDPRU* TP 4.

(5) This *rule* ceases to apply in relation to a condition in (1) on the earlier of the following:

- (a) the date on which the *firm* has collected sufficient historical information necessary to apply the condition in accordance with the applicable methodology under *MIFIDPRU* 1.2; or
(b) the date that falls \( n \) months after the date on which MIFIDPRU began to apply, where \( n \) is the number of months’ worth of data points required to apply that condition in accordance with the applicable methodology under MIFIDPRU 1.2.

6.5 R (1) This rule applies where a firm has chosen to apply both of the approaches below to determine whether the average AUM condition in MIFIDPRU 1.2.1R(1) or the average COH conditions in MIFIDPRU 1.2.1R(2) is met:

(a) the alternative approach in MIFIDPRU 1.2.4R; and

(b) the modified calculation under MIFIDPRU TP 4.5R(2)(b).

(2) Where this rule applies, the modified calculation applies as if:

(a) in MIFIDPRU TP 4.11R(1)(a), the words “excluding the most recent \( y \) months” were deleted; and

(b) MIFIDPRU TP 4.11R(1)(c) and (d) were omitted.

6.6 R (1) A firm must apply its chosen approach under MIFIDPRU TP 6.4R(2) consistently in relation to a specific condition in MIFIDPRU TP 6.4R(1).

(2) A firm may apply different approaches under MIFIDPRU TP 6.4R(2) in relation to different conditions in MIFIDPRU TP 6.4R(1).

6.7 R (1) This rule applies to the extent that a MIFIDPRU investment firm does not have the necessary historical data to determine if the condition relating to the total annual gross revenue from investment services and/or activities in MIFIDPRU 1.2.1R(7) is met.

(2) Where this rule applies, a firm must use its best efforts to estimate any missing historical data points for the calculation of the condition in (1).

(3) This rule ceases to apply in relation to a condition in (1) on the earlier of the following:

(a) the date on which the firm has collected sufficient historical information necessary to apply the condition in accordance with the standard methodology under MIFIDPRU 1.2; or
(b) the date on which two complete financial years for the firm have elapsed after the date that MIFIDPRU began to apply.

6.8 R If the FCA requests, a firm must provide a reasonable explanation of how the firm has determined any estimate under MIFIDPRU TP 6.4R(3) or MIFIDPRU TP 6.7R(2).

6.9 G (1) It is unnecessary to provide transitional arrangements for the following conditions:

(a) the average ASA condition in MIFIDPRU 1.2.1R(3);

(b) the average CMH condition in MIFIDPRU 1.2.1R(4);

(c) whether the firm has permission to deal on own account in MIFIDPRU 1.2.1R(5);

(d) the condition relating to the balance sheet total of the firm in MIFIDPRU 1.2.1R(6); and

(e) the average DTF condition in MIFIDPRU 1.2.1R(9).

(2) The average ASA and average CMH conditions require that the firm has not held any MiFID client money, or any client assets in the course of MiFID business, during the preceding 9 months, excluding the most recent 3 months. A firm should already have information on whether it has held client money or client assets in the past. If the firm is unable to determine whether any amounts of client money or client assets were held in connection with MiFID business, it should apply MIFIDPRU 4.8.6R or MIFIDPRU 4.9.6R and treat the amounts as if they were held in connection with MiFID business for these purposes.

(3) The conditions in (1)(c) and (1)(d) do not rely on historical information and therefore can be assessed by the firm at the point at which MIFIDPRU first begins to apply without any need for transitional arrangements.

(4) The average DTF condition requires that the firm must not have entered into any transactions by dealing on own account or through the execution of orders on behalf of clients in the firm’s own name during the preceding 9 months, excluding the most recent 3 months. The FCA considers that a firm should already know whether it executed any transactions in that capacity during the relevant period.

6.10 G (1) MIFIDPRU TP 6.4R(5) and MIFIDPRU TP 6.7R(3) specify the date on which the transitional arrangements for applying certain conditions under MIFIDPRU 1.2.1R will cease to
apply. From that date onwards, the firm will need to apply the standard methodology for determining whether it meets the relevant condition. This date may vary depending on the position of the individual firm and the relevant condition.

(2) Under MIFIDPRU TP 6.4R(5)(a), if a firm has sufficient historical information to apply a condition in MIFIDPRU TP 6.4R(1), it is no longer permitted to rely on the transitional arrangements. The following are examples of how this requirement applies:

(a) Example 1: On the date on which MIFIDPRU begins to apply, Firm A already has historical data on its AUM covering the previous 10 months. Assuming that the firm is applying the standard criteria under MIFIDPRU 1.2.1R (and not the alternative approach in MIFIDPRU 1.2.4R), the average AUM condition under MIFIDPRU 1.2.1R(1) requires 15 months of historical data. Since the firm must be collecting AUM data once MIFIDPRU begins to apply, Firm A will have sufficient data to apply the standard calculation for the average AUM condition 5 months later. At that point, the firm will no longer be able to rely on the transitional arrangements under MIFIDPRU TP 6, but instead must use the observed historical data to determine whether the condition in MIFIDPRU 1.2.1R(1) is met.

(b) Example 2: Firm B has notified the FCA under MIFIDPRU 1.2.4R that it is using the alternative approach to applying the average AUM condition in MIFIDPRU 1.2.1R. Firm B has 13 months of historical data on its AUM. Under MIFIDPRU TP 6.4R(5)(a), Firm B may not rely on the transitional arrangements in MIFIDPRU TP 6. Although the standard calculation for the AUM condition in MIFIDPRU 1.2.1R(1) would require 15 months of historical data, the alternative approach under MIFIDPRU 1.2.4R(2) requires only 12 months of data. As Firm B has sufficient observed historical data to apply its chosen methodology, the transitional arrangements do not apply.

6.11 G (1) MIFIDPRU 6.4R(4) and 6.6R are designed to ensure consistency in a firm’s approach to applying the transitional arrangements in MIFIDPRU TP 4 and MIFIDPRU TP 6.

(2) MIFIDPRU TP 6.4R(4) requires a firm to be consistent in its choice of approaches for the purposes of MIFIDPRU TP 4 and MIFIDPRU TP 6. For example, Firm A does not have
sufficient information to calculate its *average AUM* for the purposes of the condition in *MIFIDPRU 1.2.1R(1)* and the *K-AUM requirement* under *MIFIDPRU 4.7*. If Firm A chooses to use the reasonable estimates approach under *MIFIDPRU TP 4.5R(2)* to calculate its *K-AUM requirement*, the firm must also use the reasonable estimates approach under *MIFIDPRU TP 6.4R(3)* to apply the *average AUM* condition in *MIFIDPRU 1.2.1R(1)*. The estimates that Firm A uses for both purposes must be consistent.

(3) *MIFIDPRU TP 6.6R* prevents a *firm* from alternating between approaches for the purposes of *MIFIDPRU TP 6*. For example, Firm B chooses under *MIFIDPRU TP 6.4R(3)* to apply the alternative calculation in *MIFIDPRU TP 4.11R* for the purposes of the determining whether the *average COH* condition in *MIFIDPRU TP 6.4R(1)* is met. Firm B may not later decide to switch to applying the reasonable estimates approach to determine whether that condition is met.

6.12 G Under *MIFIDPRU TP 5*, a *MIFIDPRU investment firm* is required to collect at least 1 *month* of *K-factor metrics* that are relevant to any *investment services and/or activities* it carries on before *MIFIDPRU* begins to apply in full. When determining any estimate for the purposes of *MIFIDPRU TP 6.4R(3)* or *MIFIDPRU TP 6.7R(2)*, a *firm* should consider any observed historical data that is available. Where the observed historical data covers a short period, a *firm* should take into account possible seasonal variations in figures or other factors which may be relevant to the accuracy of the estimate.

Missing historical data for application of SNI classification criteria: transitional for investment firm groups to which consolidation applies.

6.13 R (1) A *UK parent entity* to which consolidation under *MIFIDPRU 2.5* applies may apply the transitional arrangements in *MIFIDPRU TP 6.4R* to 6.12G to its *consolidated situation* in accordance with this *rule*.

(2) Where a *UK parent entity* is applying *MIFIDPRU TP 6.4R* to 6.12G in accordance with (1), the following modifications apply:

(a) a reference to a condition in *MIFIDPRU 1.2.1R* is a reference to that condition as it applies on a *consolidated basis*; and

(b) a reference to a “*MIFIDPRU investment firm*” or a “*firm*” is a reference to the *UK parent entity*.

(3) Any estimate produced by the *UK parent entity* of an *investment firm group* under *MIFIDPRU TP 6.4R(3)* or *MIFIDPRU TP 6.7R(2)* for the purposes of its *consolidated
situation must be consistent with any estimates produced on an individual basis by any MIFIDPRU investment firms forming part of that investment firm group.

TP 7 Former non-CRR firms and parent undertakings: transitional for own funds instruments

Application

7.1 R MIFIDPRU TP 7 applies to a MIFIDPRU investment firm that, immediately before 1 January 2022:

(1) was an authorised person; and

(2) was not classified as a CRR firm in accordance with the rules then in force.

7.2 R (1) MIFIDPRU TP 7 also applies to the following if the conditions in (2) are met:

(a) a UK parent entity to which MIFIDPRU 3 applies on a consolidated basis in accordance with MIFIDPRU 2.5.7R; and

(b) a parent undertaking to which the group capital test applies.

(2) The conditions are that immediately before 1 January 2022 the UK parent entity or parent undertaking:

(a) formed part of the same investment firm group as a firm, which, on 1 January 2022 became a MIFIDPRU investment firm; and

(b) was not required to hold own funds on either an individual or a consolidated basis in accordance with the UK CRR.

Purpose

7.3 G (1) Before MIFIDPRU applied, certain firms that subsequently became MIFIDPRU investment firms determined their available capital resources according to various provisions in GENPRU or IPRU-INV. In addition, certain other firms were not subject to a dedicated prudential sourcebook in the FCA Handbook that contained a detailed regime for recognising the eligibility of capital resources.

(2) The rules on own funds in MIFIDPRU 3 broadly replicate the approach to recognising capital resources under the UK CRR.
The purpose of MIFIDPRU TP 7 is to permit firms that were not CRR firms immediately before MIFIDPRU began to apply to recognise instruments as own funds under MIFIDPRU without requiring separate permission from, or notification to, the FCA if those instruments:

(a) were issued before MIFIDPRU began to apply; and

(b) meet the conditions to be classified as own funds under MIFIDPRU 3 (other than the conditions relating to the requirements to seek prior FCA consent or to notify the FCA).

(3) Under MIFIDPRU TP 1, a permission recognising the issuance of capital instruments as common equity tier 1 capital under the UK CRR is deemed to be an equivalent permission under MIFIDPRU. Therefore, a notification made before MIFIDPRU began to apply by a former CRR firm in relation to the issuance of additional tier 1 instruments and tier 2 instruments will continue to be valid.

(4) MIFIDPRU TP 7 also applies to UK parent entities to which MIFIDPRU 3 applies on a consolidated basis and parent undertakings to which the group capital test applies, where those entities were not required to hold own funds on an individual or consolidated basis under the UK CRR immediately before MIFIDPRU began to apply. This means that provided that the existing instruments issued by these entities meet the relevant conditions in MIFIDPRU 3, they can be treated as own funds for the purposes of the application of MIFIDPRU 3 on a consolidated basis or the group capital test as long as the entity complies with MIFIDPRU TP 7.

Eligibility of pre-MIFIDPRU capital resources meeting requirements in MIFIDPRU 3 to qualify as own funds under MIFIDPRU without a separate permission or notification

7.4 R (1) This rule applies to any capital instrument that:

(a) was issued by a firm, UK parent entity or parent undertaking before 1 January 2022; and

(b) was still in issue on 1 January 2022.

(2) The firm, UK parent entity or parent undertaking in (1)(a) is deemed to have been granted the permission, or to have complied with the notification obligation, in column (A) of the table in MIFIDPRU 7.5R in relation to a capital instrument where the following conditions are met:
(a) the conditions in column (B) of the same row of the table in MIFIDPRU 7.5R are met in relation to that instrument; and

(b) the firm has submitted the notification in MIFIDPRU TP 7 Annex 1R using the online notification and application system by no later than 1 January 2022.

(3) A deemed permission or notification under (2) ceases to apply in relation to a capital instrument if the terms of the instrument are varied on or after 1 January 2022 and the instrument ceases to meet:

(a) in relation to an instrument being treated as common equity tier 1 capital, the conditions in MIFIDPRU 3.3 (other than the condition for prior FCA permission to classify the instrument as common equity tier 1 capital);

(b) in relation to an instrument being treated as additional tier 1 capital, the conditions in MIFIDPRU 3.4; and

(c) in relation to an instrument being treated as tier 2 capital, the conditions in MIFIDPRU 3.5.

7.5 R This table belongs to MIFIDPRU TP 7.4R.

<table>
<thead>
<tr>
<th>(A) Requirement for permission or notification with which the firm, UK parent entity or parent undertaking is deemed to have complied</th>
<th>(B) Conditions for deemed compliance to apply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual MIFIDPRU investment firms</td>
<td></td>
</tr>
<tr>
<td>Article 26(3) UK CRR (as applied and modified by MIFIDPRU 3.3.1R) and MIFIDPRU 3.3.3R: Requirement for prior FCA permission to classify an issuance of capital instruments by a firm as common equity tier 1 capital</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as common equity tier 1 capital in MIFIDPRU 3.3, except for the requirement for prior FCA permission under article 26(3) of the UK CRR and MIFIDPRU 3.3.3R</td>
</tr>
<tr>
<td>MIFIDPRU 3.6.5R(1)(a): Requirement to notify the FCA of the intention to issue additional tier 1 instruments</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as additional tier 1 capital in MIFIDPRU 3.4</td>
</tr>
<tr>
<td><strong>MIFIDPRU 3.6.5R(1)(b):</strong> Requirement to notify the FCA of the intention to issue tier 2 instruments</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as tier 2 capital in MIFIDPRU 3.5</td>
</tr>
<tr>
<td>---</td>
<td></td>
</tr>
<tr>
<td><strong>UK parent entities to which consolidation under MIFIDPRU 2.5.7R applies</strong></td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as common equity tier 1 capital in MIFIDPRU 3.3.3R.</td>
</tr>
<tr>
<td>Article 26(3) UK CRR (as applied and modified by MIFIDPRU 3.3.1R) and MIFIDPRU 3.3.3R, as they apply on a consolidated basis under MIFIDPRU 2.5.7R(1): Requirement for prior FCA permission to classify an issuance of capital instruments by a UK parent entity as common equity tier 1 capital</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as common equity tier 1 capital in MIFIDPRU 3.3.3R.</td>
</tr>
<tr>
<td><strong>MIFIDPRU 3.6.5R(1)(a), as modified by MIFIDPRU 3.6.8R:</strong> Requirement to notify the FCA of the intention to issue additional tier 1 instruments</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as additional tier 1 capital in MIFIDPRU 3.4 (as it applies on a consolidated basis).</td>
</tr>
<tr>
<td><strong>MIFIDPRU 3.6.5R(1)(b), as modified by MIFIDPRU 3.6.8R:</strong> Requirement to notify the FCA of the intention to issue tier 2 instruments</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as tier 2 capital in MIFIDPRU 3.5 (as it applies on a consolidated basis).</td>
</tr>
<tr>
<td><strong>Parent undertakings to which the group capital test applies</strong></td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as common equity tier 1 capital in MIFIDPRU 3.3, except for the requirement for prior FCA permission under article 26(3) of the UK CRR and MIFIDPRU 3.3.3R.</td>
</tr>
<tr>
<td>Article 26(3) UK CRR (as applied and modified by MIFIDPRU 3.3.1R) and MIFIDPRU 3.3.3R, as they apply to a parent undertaking under MIFIDPRU 3.7.4R(1)(a): Requirement for prior FCA permission to classify an issuance of capital instruments by a parent undertaking as common equity tier 1 capital</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as common equity tier 1 capital in MIFIDPRU 3.3, except for the requirement for prior FCA permission under article 26(3) of the UK CRR and MIFIDPRU 3.3.3R.</td>
</tr>
<tr>
<td><strong>MIFIDPRU 3.6.5R(1)(a), as modified by MIFIDPRU 3.7.4R(1)(b):</strong> Requirement to notify the FCA of the intention to issue additional tier 1 instruments</td>
<td>Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as additional tier 1 capital in MIFIDPRU 3.4.</td>
</tr>
</tbody>
</table>
Requirement to notify the FCA of the intention to issue tier 2 instruments

Immediately before MIFIDPRU began to apply, the capital instruments met the conditions to be classified as tier 2 capital in MIFIDPRU 3.5

**7.6 G** Where a firm, UK parent entity or parent undertaking is deemed under MIFIDPRU TP 7.3R and 7.4R to have notified the FCA of its intention to issue additional tier 1 instruments or tier 2 instruments, MIFIDPRU 3.6.5R(2)(a) will apply to a subsequent issuance of the same class of instruments. In practice, this means that provided that the subsequent issuance of the same class is on terms that are identical in all material respects to the existing class of those instruments, a notification to the FCA under MIFIDPRU 3.6.5R(1) is not required.
MIFIDPRU TP7 Annex 1R

Notification under MIFIDPRU TP 7.4R(2)(b) on treating pre-MIFIDPRU capital instruments as own funds under MIFIDPRU 3

Details of Senior Manager responsible for this notification:

*If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

<table>
<thead>
<tr>
<th>Name of individual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job title / position</td>
<td></td>
</tr>
<tr>
<td>Individual reference number (if applicable)</td>
<td></td>
</tr>
</tbody>
</table>

1. Please confirm which of the following the notifying firm will be under MIFIDPRU:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking  

   b. MIFIDPRU investment firm that is a consolidating UK parent entity  

   c. MIFIDPRU investment firm that is a GCT parent undertaking  

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm)  

   e. GCT parent undertaking (other than a MIFIDPRU investment firm)

2. This notification is made in respect of the following capital instruments issued by the entity before 1 January 2022 and which will still be in issue on that date:

<table>
<thead>
<tr>
<th>Type of instruments</th>
<th>Nominal value of instruments</th>
<th>Treatment under MIFIDPRU</th>
</tr>
</thead>
</table>
Select one of the following for each type of instrument:

- CET1
- AT1
- T2

3. Please confirm that the instruments above meet the relevant conditions for classification as own funds under MIFIDPRU, aside from any requirement to notify or seek permission from the FCA.

Yes
Commodity and emission allowance dealers

TP 8

8.1 R

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>MIFIDPRU 6</td>
<td>R</td>
<td>The rules and guidance in MIFIDPRU 6 do not apply to a commodity and emission allowance dealer.</td>
<td>Until 1 January 2027</td>
</tr>
</tbody>
</table>

IFPRU waivers: transitional

Application

9.1 R  MIFIDPRU TP 9 applies to a non-SNI MIFIDPRU investment firm.

9.2 R  MIFIDPRU TP 9 applies where, immediately before 1 January 2022, a waiver given in relation to a rule listed in column A of the table in MIFIDPRU TP 9.5R has effect.

Duration of transition

9.3 R  This section applies to each waiver in MIFIDPRU TP 9.2R, until the direction given in respect of that waiver ceases to have effect on its terms, or is revoked, whichever is the earlier.

Transitional

9.4 R  Each waiver given in relation to a rule listed in column A of the table in MIFIDPRU TP 9.5R is treated as a waiver given to the firm in relation to the rule listed in the same row in column B of the table.

Table
9.5 R Table of FCA rules

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>SYSC 4.3A.8R</td>
<td>MIFIDPRU 7.3.5R</td>
</tr>
<tr>
<td>SYSC 7.1.18R</td>
<td>MIFIDPRU 7.3.1R</td>
</tr>
<tr>
<td>SYSC 19A.3.12R</td>
<td>MIFIDPRU 7.3.3R</td>
</tr>
</tbody>
</table>

TP 10 Transitional capital and liquidity requirements for former IFPRU investment firms, BIPRU firms or their groups with ICG or ILG issued before 1 January 2022

Purpose

10.1 G (1) MIFIDPRU TP 10 contains transitional rules that explain how a firm or a group that was subject to individual capital guidance or individual liquidity guidance immediately before 1 January 2022 should take that guidance into account when first determining the own funds threshold requirement under MIFIDPRU.

(2) The general purpose of MIFIDPRU TP 10 is to ensure that a firm does not apply an inappropriately low own funds threshold requirement at the outset of the MIFIDPRU regime, before the firm has properly considered the outcome of its ICARA process. MIFIDPRU TP 10 is also designed to ensure that the FCA has sufficient opportunity to review a firm’s conclusions from its ICARA process, if the FCA considers it necessary, before any pre-MIFIDPRU individual capital guidance or individual liquidity guidance ceases to be relevant to the firm.

(3) MIFIDPRU TP 10 also requires a firm for which pre-MIFIDPRU individual capital guidance or individual liquidity guidance is relevant to submit data item MIF007 (ICARA assessment questionnaire) for the first time by no later than 31 March 2023. This will ensure that the FCA can begin considering the firm’s approach to the firm’s own funds threshold requirement and any pre-MIFIDPRU guidance by no later than that date.

Application

10.2 R (1) MIFIDPRU TP 10 applies to an undertaking in (2) or (3) where the condition in (4) is met.

(2) This rule applies to a MIFIDPRU investment firm that, under the rules in force on 31 December 2021, was classified as:

(a) an IFPRU investment firm; or
(b) a BIPRU firm.

(3) This rule also applies to the following where they form part of an investment firm group containing a MIFIDPRU investment firm to which (2) applies:

(a) a UK parent entity; and

(b) an authorised person.

(4) The relevant condition is that on 31 December 2021, the firm in (2), or any investment firm group (or any larger group that included the investment firm group) of which it formed a part, was subject to either or both of the following:

(a) individual capital guidance (including, for these purposes, any specified capital planning buffer and any other obligation to hold a capital buffer under IFPRU 10); or

(b) individual liquidity guidance.

(5) For the purposes of MIFIDPRU TP 10:

(a) “pre-MIFIDPRU ICG” means the individual capital guidance in (4); and

(b) “pre-MIFIDPRU ILG” means the individual liquidity guidance in (4).

Requirement to submit an ICARA assessment questionnaire by 31 March 2023

10.3 R (1) A MIFIDPRU investment firm to which MIFIDPRU TP 10 applies must submit data item MIF007 for the first time by no later than the end of 31 March 2023.

(2) This rule applies notwithstanding any provision in MIFIDPRU 7.8 or in MIFIDPRU 9.2 that would otherwise permit the firm to submit data item MIF007 for the first time on a later date.

10.4 G (1) The effect of MIFIDPRU TP 10.3R is that where, on 31 December 2021, a MIFIDPRU investment firm was classified as an IFPRU investment firm or a BIPRU firm and the firm was subject to individual capital guidance or individual liquidity guidance (or both), the firm must submit data item MIF007 for the first time by no later than 31 March 2023. This requirement also applies where the firm forms part of an investment firm group and that group (or a larger group of which it forms part) was, on 31 December 2021, subject to individual capital guidance or individual liquidity guidance (or both) issued on a consolidated basis.
(2) Under MIFIDPRU 7.8, in order to submit data item MIF007, a firm must have carried out a review of its ICARA process and documented that review in an ICARA document. Therefore, a firm to which MIFIDPRU TP 10.3R applies must ensure that it has taken these steps to allow sufficient time to submit data item MIF007 by no later than 31 March 2023. When reviewing its ICARA process, the firm should consider the potential relevance of any pre-MIFIDPRU ICG or pre-MIFIDPRU ILG to which it is subject (including where it forms part of a group that is subject to such guidance on a consolidated basis).

(3) A firm may choose to submit data item MIF007 for the first time on an earlier date. Firms are reminded that under MIFIDPRU 7.8.2R, they must review the adequacy of their ICARA process at least once every 12 months. A firm may therefore wish to choose a review date during 2022 that aligns with the firm’s preferred date for an annual review in subsequent years. The FCA has specified a deadline of 31 March 2023 for the submission of data item MIF007 by firms subject to MIFIDPRU TP 10.3R to allow firms flexibility about their choice of review date, while also allowing a sufficient period of time to complete and submit data item MIF007 if their chosen review date falls near the end of 2022.

Individual capital guidance

10.5 R (1) This rule applies to a firm that on 31 December 2021 was subject to pre-MIFIDPRU ICG that was issued to the firm on an individual basis.

(2) This rule applies from 1 January 2022 until the earliest of:

(a) 6 months after the date on which the firm submits data item MIF007 in accordance with MIFIDPRU TP 10.3R;

(b) the date on which the FCA first communicates to the firm the outcome of a SREP carried out on the firm; or

(c) the date on which the FCA first issues individual guidance to, or imposes a requirement on, the firm for the purposes of specifying the amount of own funds that the firm must hold to comply with the overall financial adequacy rule.

(3) During the period in (2), the firm’s own funds threshold requirement must be at least equal to the transitional requirement in (4).

(4) A firm must calculate the transitional requirement by:
(a) determining the absolute amount of *own funds* that the *firm* was required to hold to comply with the pre-MIFIDPRU ICG on:

(i) in the case of an *IFPRU investment firm*, the following dates: 31 December 2020, 31 March 2021, 30 June 2021 and 30 September 2021; and

(ii) in the case of a *BIPRU firm*, the reporting reference dates of the two most recent FSA003 *data items* submitted on or before 31 December 2021; and

(b) calculating the arithmetic mean of the absolute values in (a).

10.6 G (1) As part of its ICARA process, a *firm* to which MIFIDPRU TP 10 applies must assess its *own funds threshold requirement* (i.e. the amount of *own funds* that the *firm* must hold to comply with the *overall financial adequacy rule*). The transitional requirement in MIFIDPRU TP 10.5R(4) is a “floor” to the amount of a *firm’s own funds threshold requirement*, not a maximum amount and applies only during the transitional period specified in MIFIDPRU TP 10.5R(2).

(2) The transitional requirement is therefore relevant only to extent that the *firm* would otherwise have sought to apply an *own funds threshold requirement* during the transitional period that is lower than the transitional requirement.

(3) The transitional requirement is intended to ensure that a *firm* that is subject to pre-MIFIDPRU ICG does not apply an inappropriately low *own funds threshold requirement* as a result of its ICARA process before the FCA has been able to consider the *firm’s assessment*. The transitional period will therefore allow the FCA sufficient time to understand the *firm’s approach* to assessing its *own funds threshold requirement* under MIFIDPRU, during which the *firm* must ensure that it maintains *own funds* at least equal to the transitional requirement.

(4) Once the transitional period in MIFIDPRU TP 10.5R(2) has expired, the transitional requirement no longer applies. In its ICARA document, the *firm* should therefore explain what it considers its *own funds threshold requirement* will be when the “floor” under the transitional requirement is no longer applicable. The FCA can then review the *firm’s assessment* during the transitional period to determine if the *firm* has formed a reasonable judgement about its *own funds threshold requirement.*
10.7 G (1) The reference dates in MIFIDPRU TP 10.5R(4)(a)(i) for an IFPRU investment firm are designed to be aligned to the reference dates of the firm’s COREP – Own Funds reports.

(2) Under MIFIDPRU TP 10.5R(4)(a)(ii), the reference dates for a BIPRU firm are determined in accordance with the reference dates of its FSA003 (Capital adequacy) reports.

(3) In each case, this means that the firm can use its previous regulatory capital returns to assist in the calculation of its transitional requirement under MIFIDPRU TP 10.

10.8 G (1) The following is a worked example of the effect of MIFIDPRU TP 10.5R.

(2) An IFPRU investment firm has been issued with pre-MIFIDPRU ICG specifying that the firm should hold own funds of 200% of its Pillar 1 requirement under the UK CRR, plus a £50 million fixed add-on. The pre-MIFIDPRU ICG applies to the firm on 31 December 2021. From 1 January 2022, the firm will be a MIFIDPRU investment firm.

(3) Under MIFIDPRU TP 10.3R, the firm must submit data item MIF007 by no later than 31 March 2023. The firm chooses to review its ICARA process on 1 December 2022 and submits data item MIF007 for the first time on 15 January 2023.

(4) As part of its ICARA process, the firm assesses its own funds threshold requirement – i.e. the amount of own funds that the firm considers it will need to hold to comply with the overall financial adequacy rule. The firm will then need to compare the firm’s assessment with the transitional requirement under MIFIDPRU TP 10.5R and apply the higher of the two amounts. This is because under MIFIDPRU TP 10.5R(3), the firm’s own funds threshold requirement must be at least equal to the transitional requirement in MIFIDPRU TP 10.5R(4). However, the own funds threshold requirement can still be higher than the transitional requirement if:

(a) the firm’s own funds requirement under MIFIDPRU 4.3 (as limited by any applicable transitional provision) exceeds the transitional requirement under MIFIDPRU TP 10.5R; or

(b) the firm determines that it should hold a higher level of own funds to comply with the overall financial adequacy rule.

(5) The firm’s Pillar 1 requirement on each of the reference dates in MIFIDPRU TP 10.5R(4)(a)(i) was as follows:
(a) 31 December 2020: £70 million
(b) 31 March 2021: £115 million
(c) 30 June 2021: £125 million
(d) 30 September 2021: £90 million

(6) The firm would calculate the absolute amounts required by its pre-MIFIDPRU ICG as follows:

(a) 31 December 2020:
   £70m x 200% = £140m
   £140m + £50m = £190m

(b) 31 March 2021:
   £115m x 200% = £230m
   £230m + £50m = £280m

(c) 30 June 2021:
   £125m x 200% = £250m
   £250m + £50m = £300m

(d) 30 September 2021:
   £90m x 200% = £180m
   £180m + £50m = £230m

(7) The firm would calculate the arithmetic mean of those absolute values as:

   £190m + £280m + £300m + £230m = £1,000m

   £1,000m / 4 = £250m

(8) Under MIFIDPRU TP 10.5R(3), the firm’s own funds threshold requirement can therefore be no lower than £250m from 1 January 2022 until the earliest of:

(a) 15 July 2023 (i.e. 6 months after 15 January 2023, which was the date on which the firm first submitted data item MIF007);

(b) the date on which the FCA informs the firm of the outcome of a SREP carried out on the firm; or

(c) the date on which the FCA otherwise issues individual guidance to, or imposes a requirement on, the firm for the purposes of specifying the amount of own funds that
the firm needs to hold to comply with the overall financial adequacy rule.

However, the transitional requirement under MIFIDPRU TP 10.5R does not limit the firm’s own funds threshold requirement during the period in (8). If the firm’s own assessment of its own funds threshold requirement under its ICARA process results in a number that is higher £250m, the firm must therefore hold own funds that are at least equal to the higher amount. If the firm’s assessment results in a number that is lower than £250m, then the firm must hold own funds of at least £250m until the period in (8) has elapsed.

10.9 G The worked example in MIFIDPRU TP 10.8G is based on a simple example of pre-MIFIDPRU ICG that is based on a fixed percentage of the firm’s Pillar 1 requirement and a simple fixed add-on. Many firms may have pre-MIFIDPRU ICG that is set by reference to a more complicated calculation. Where relevant, this may also include capital planning buffers and other capital buffers required under IFPRU 10. This may include the use of scalars, other add-ons and percentages of particular components of the Pillar 1 calculation. When determining the absolute amounts for the purpose of MIFIDPRU TP 10.5R(4)(a), the firm must follow whatever methodology was specified in the applicable pre-MIFIDPRU ICG.

10.10 R (1) This rule applies to the UK parent entity of, and firms forming part of, an investment firm group that on 31 December 2021 was subject to pre-MIFIDPRU ICG issued on a consolidated basis.

(2) This rule applies from 1 January 2022 until the earliest of:

(a) 6 months after the date on which all firms in the investment firm group have first submitted data item MIF007 in accordance with MIFIDPRU TP 10.3R;

(b) the date on which the FCA has first communicated to each MIFIDPRU investment firm in the investment firm group the outcome of a SREP carried out on the firm; or

(c) the date on which the FCA had first issued individual guidance to, or imposed a requirement on, each MIFIDPRU investment firm in the investment firm group for the purposes of specifying the amount of own funds that the firm must hold to comply with the overall financial adequacy rule.

(3) Where this rule applies, the UK parent entity of the investment firm group must:

(a) determine the absolute amount of own funds that was required on a consolidated basis to comply with the pre-
MIFIDPRU ICG on:

(i) in the case of individual capital guidance set under IFPRU, the following dates: 31 December 2020, 31 March 2021, 30 June 2021 and 30 September 2021; and

(ii) in the case individual capital guidance set under BIPRU, the reporting reference dates of the two most recent consolidated FSA003 data items submitted on or before 31 December 2021;

(b) calculate the arithmetic mean of the absolute values in (a); and

(c) allocate the amount in (b) between the entities in the investment firm group on an equivalent basis to that used by the group to comply with the consolidated pre-MIFIDPRU ICG immediately before 1 January 2022.

(4) During the period in (2):

(a) the own funds threshold requirement of each MIFIDPRU investment firm included in the pre-MIFIDPRU ICG must be at least equal to the amount allocated to that firm under (3)(c); and

(b) any other authorised person included in the pre-MIFIDPRU ICG must hold financial resources that cover at least the amount allocated to that authorised person under (3)(c).

(5) The UK parent entity must record the basis for any allocation under (3)(c).

Individual liquidity guidance

10.11 R (1) This rule applies to a firm that on 31 December 2021 was subject to pre-MIFIDPRU ILG issued on an individual basis.

(2) This rule applies from 1 January 2022 until the earliest of:

(a) 6 months after the date on which the firm submits data item MIF007 in accordance with MIFIDPRU TP 10.3R;

(b) the date on which the FCA first communicates to the firm the outcome of a SREP carried out on the firm; or

(c) the date on which the FCA first issues individual guidance to, or imposes a requirement on, the firm for the purposes of specifying the amount of liquid assets that the firm must hold to comply with the overall
During the period in (2), the firm’s liquid assets threshold requirement must be at least equal to the liquidity resources that the firm would need to hold to comply with the pre-MIFIDPRU ILG if the firm had continued to be subject to that individual liquidity guidance.

The ICARA document that is the subject of data item MIF007 referred to in (2)(a) must explain any difference between the firm’s assessment of its liquid assets threshold requirement and the transitional requirement that applies under (3).

10.12 G (1) MIFIDPRU TP 10.11R requires a firm that is subject to pre-MIFIDPRU ILG to apply a minimum transitional “floor” to its liquid assets threshold requirement from 1 January 2022 until the earlier of:

(a) 6 months after the firm has first submitted data item MIF007 to the FCA under MIFIDPRU TP2; or

(b) the date on which the FCA has either communicated to the firm the outcome of a SREP carried out on the firm or the FCA has otherwise issued the firm with individual guidance or imposed a requirement on the firm in connection with the amount of liquid assets that it must hold to satisfy the overall financial adequacy rule.

(2) Under MIFIDPRU TP 10.11R(4), the “floor” is determined as the amount of liquid assets that the firm would need to hold to comply with its pre-MIFIDPRU ILG if that guidance had continued to apply to the firm. This means that the firm should continue to calculate the impact of the pre-MIFIDPRU ILG and where appropriate, update the resulting required amount of liquidity resources during the transitional period in MIFIDPRU TP 10.11R(2).

The purpose of MIFIDPRU TP 10.11R is to apply an equivalent approach in relation to the liquid assets threshold requirement to that described in MIFIDPRU TP 10.6G in relation to the own funds threshold requirement. This ensures that the FCA has sufficient time to understand the firm’s approach to determining its liquid assets threshold requirement before the “floor” of the transitional requirement for liquidity ceases to apply.

The transitional requirement under MIFIDPRU TP 10.11R(4) specifies a minimum level for the liquid assets threshold requirement. During the transitional period in MIFIDPRU TP 10.10R(2), the firm may nonetheless determine that its liquid assets threshold requirement is higher than the transitional
requirement because:

(a) the firm’s basic liquid assets requirement under MIFIDPRU 6 (as limited by any other applicable transitional provision) exceeds the transitional requirement; or

(b) the firm determines that it should hold a higher level of liquid assets to comply with the overall financial adequacy rule.

10.13 R (1) This rule applies to the UK parent entity of, and firms forming part of, an investment firm group that on 31 December 2021 was subject to pre-MIFIDPRU ILG issued on a consolidated basis.

(2) This rule applies from 1 January 2022 until the earliest of:

(a) 6 months after the date on which all firms in the investment firm group have first submitted data item MIF007 in accordance with MIFIDPRU TP 10.3R;

(b) the date on which the FCA has first communicated to each MIFIDPRU investment firm in the investment firm group the outcome of a SREP carried out on the firm; or

(c) the date on which the FCA has first issued individual guidance to, or imposed a requirement on, each MIFIDPRU investment firm in the investment firm group for the purposes of specifying the amount of liquid assets that the firm must hold to comply with the overall financial adequacy rule.

(3) Where this rule applies, the UK parent entity of the investment firm group must allocate the consolidated liquidity resources that would be required to comply with the pre-MIFIDPRU ILG if it continued to apply on an ongoing basis between the entities in the investment firm group in accordance with (4).

(4) The allocation in (3) must be on an equivalent basis to that used by the group to comply with the consolidated pre-MIFIDPRU ILG immediately before 1 January 2022.

(5) During the period in (2):

(a) the liquid assets threshold requirement of each MIFIDPRU investment firm included in the consolidated pre-MIFIDPRU ILG must be at least to the amount allocated to that firm by the UK parent entity under (3); and

(b) any other authorised person included in the
consolidated pre-MIFIDPRU ICG must hold liquidity resources that cover at least the amount allocated to that authorised person under (3).

(6) The UK parent entity must record the basis for any allocation under (3).

(7) Each ICARA document that is the subject of data item MIF007 referred to in (2)(a) must explain any difference between the firm’s assessment of its liquid assets threshold requirement and the transitional requirement that applies under (5).

Sch 1 Record keeping requirements

Sch 1.1 G (1) The aim of the guidance in the following table is to provide an overview of the relevant record keeping requirements in MIFIDPRU.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Subject of record</th>
<th>Contents of record</th>
<th>When record must be made</th>
<th>Retention period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIFIDPRU</strong> 4.7.5R</td>
<td>Currency conversion rate</td>
<td>The market rate chosen to convert AUM amounts in foreign currencies into the firm’s functional currency</td>
<td>At the time of the relevant measurement</td>
<td>Not specified</td>
</tr>
<tr>
<td><strong>MIFIDPRU</strong> 4.10.19R(3)(b)</td>
<td>Currency conversion rate</td>
<td>The market rate chosen to convert COH amounts in foreign currencies into the firm’s functional currency</td>
<td>At the time of the relevant measurement</td>
<td>Not specified</td>
</tr>
<tr>
<td><strong>MIFIDPRU</strong> 4.10.23R(4)</td>
<td>Basis on which firm has applied the alternative approach in MIFIDPRU 4.10.23R to determine the value of</td>
<td>The basis in MIFIDPRU 4.10.23R(3) on which the firm is applying the alternative approach in MIFIDPRU 4.10.23R to determine the value of an order when measuring COH</td>
<td>At the time that the firm decides to apply the alternative approach</td>
<td>Not specified</td>
</tr>
<tr>
<td>MIFIDPRU 4.15.4R</td>
<td>Currency conversion rate</td>
<td>The market rate chosen to convert <em>DTF</em> amounts in foreign currencies into the firm’s functional currency</td>
<td>At the time of the relevant measurement</td>
<td>Not specified</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>MIFIDPRU 7.1.7R(4)</td>
<td>Currency conversion rate</td>
<td>The market rate chosen to convert the value of amounts in foreign currencies into pounds sterling for the purposes of determining the application of certain governance requirements under MIFIDPRU 7</td>
<td>At the time of the relevant measurement</td>
<td>Not specified</td>
</tr>
<tr>
<td>MIFIDPRU 7.8.10R</td>
<td>ICARA document approval</td>
<td>The firm’s ICARA document and records of the governing body review and approval under MIFIDPRU 7.8.8R</td>
<td>At the time that the governing body approves the ICARA document under MIFIDPRU 7.8.8R</td>
<td>3 years from the date on which the governing body gave its approval under MIFIDPRU 7.8.8R</td>
</tr>
</tbody>
</table>

Sch 1.2  G  *MIFIDPRU investment firms* are also reminded of the general record keeping obligations that apply under *SYSC 9* (Record keeping).

**Sch 2  Notification requirements**

Sch 2.1  G  (1) The aim of the *guidance* in the following table is to provide an overview of the relevant notification requirements in *MIFIDPRU*.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.
<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Subject of notification</th>
<th>Trigger events</th>
<th>Time allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIFIDPRU 1.2.4R(3)</td>
<td>Applying alternative calculation for AUM or COH for SNI MIFIDPRU investment firm criteria</td>
<td>Decision to apply alternative approach</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 1.2.4R(4)</td>
<td>Ceasing to apply alternative calculation for AUM or COH for SNI MIFIDPRU investment firm criteria</td>
<td>Decision to cease applying alternative approach</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 1.2.7R(2)</td>
<td>Use of end-of-day value for calculating average CMH for SNI MIFIDPRU investment firm criteria</td>
<td>Record-keeping or reconciliation error as described in MIFIDPRU 1.2.7R(1)</td>
<td>Immediate notification</td>
</tr>
<tr>
<td>MIFIDPRU 1.2.13R(2)(b)</td>
<td>Non-SNI investment firm meeting criteria to be classified as an SNI MIFIDPRU investment firm</td>
<td>Meeting SNI MIFIDPRU investment firm criteria for at least 6 months</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 1.2.16R</td>
<td>Firm ceasing to meet one of the criteria to be classified as an SNI MIFIDPRU investment firm</td>
<td>Ceasing to meet one or more of the SNI MIFIDPRU investment firm criteria</td>
<td>Prompt notification</td>
</tr>
<tr>
<td>MIFIDPRU 2.5.17R(2)(f)</td>
<td>Application of proportional consolidation to a participation meeting the conditions in MIFIDPRU 2.5.17R</td>
<td>Decision to apply proportional consolidation</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 3.3.3R(2)</td>
<td>Notification of subsequent issuance of capital instruments qualifying as common equity tier 1 capital</td>
<td>Proposed issuance of capital instruments of an existing class of common equity tier 1 capital</td>
<td>No fewer than 20 business days before the issuance</td>
</tr>
<tr>
<td>MIFIDPRU 3.6.3R</td>
<td>Notification of proposed reduction, repurchase, call or redemption of own funds instruments where conditions in MIFIDPRU 3.6.4R are met</td>
<td>Proposed redemption of own funds instruments where conditions in</td>
<td>No later than the 20th business day before the day on which the</td>
</tr>
<tr>
<td>MIFIDPRU 3.6.5R</td>
<td>Notification of proposed issuance of additional tier 1 instruments or tier 2 instruments</td>
<td>Proposed issuance of additional tier 1 instruments or tier 2 instruments</td>
<td>At least 20 business days before the intended issuance date</td>
</tr>
<tr>
<td>MIFIDPRU 4.12.7R</td>
<td>Notification of non-material change or non-material extension in use of an internal model for the K-NPR requirement</td>
<td>Proposal to implement a non-material change to a model or to extend the use of a model in a non-material manner</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 4.12.10R</td>
<td>Use of own estimates for delta for standardised approach to market risk of options</td>
<td>Decision to apply own estimates for delta where conditions in MIFIDPRU 4.12.10R are met</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 4.13.10R</td>
<td>Notification that conditions for use of K-CMG permission are no longer met</td>
<td>Portfolio ceasing to meet conditions in MIFIDPRU 4.13.9R for use of a K-CMG permission</td>
<td>Immediate notification</td>
</tr>
<tr>
<td>MIFIDPRU 4.13.20R</td>
<td>Notification that firm will calculate the K-NPR requirement for a portfolio for which it previously had a K-CMG permission</td>
<td>Decision to calculate the K-NPR requirement for a portfolio where conditions in MIFIDPRU 4.13.19R are met</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 5.6.3R</td>
<td>Notification that concentration risk soft limit has been exceeded</td>
<td>Exceeding concentration risk soft limit for a client or group of connected clients as specified in MIFIDPRU 5.6.2R</td>
<td>Notification without delay</td>
</tr>
<tr>
<td>MIFIDPRU 5.9.3R</td>
<td>Notification that “hard” exposure limits in MIFIDPRU 5.9.1R have been exceeded</td>
<td>Exceeding limit in MIFIDPRU 5.9.1R</td>
<td>Notification without delay</td>
</tr>
<tr>
<td>-----------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-----------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>MIFIDPRU 5.11.2R</td>
<td>Exemption from MIFIDPRU 5.2 to MIFIDPRU 5.10 for commodity and emission allowance dealers</td>
<td>Decision to apply exemption where conditions in MIFIDPRU 5.11.1R are met</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 7.1.9R</td>
<td>Notification that firm has met necessary conditions to fall within either MIFIDPRU 7.1.4R(1)(a) or (b) for a continuous period of at least 6 months</td>
<td>Meeting conditions in either MIFIDPRU 7.1.4R(1)(a) or (b) for a continuous period of at least 6 months</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU 7.1.12R</td>
<td>Notification that firm no longer meets the conditions necessary to fall within MIFIDPRU 7.1.4R(1)(a) or (b)</td>
<td>No longer meeting conditions in MIFIDPRU 7.1.4R(1)(a) or (b) when the firm previously did so</td>
<td>Prompt notification</td>
</tr>
<tr>
<td>MIFIDPRU 7.6.11R</td>
<td>Notification where own funds fall below certain specified levels</td>
<td>Own funds falling below levels specified in MIFIDPRU 7.6.11R</td>
<td>Immediate notification</td>
</tr>
<tr>
<td>MIFIDPRU 7.7.14R</td>
<td>Notification where liquid assets fall below certain specified levels</td>
<td>Liquid assets falling below levels specified in MIFIDPRU 7.7.14R</td>
<td>Immediate notification</td>
</tr>
<tr>
<td>MIFIDPRU 7.8.4R</td>
<td>Firm’s choice of submission date(s) or change of submission date(s) for data item MIF007 (ICARA assessment questionnaire)</td>
<td>Initial choice of submission date or change of submission date for data item MIF007</td>
<td>Not applicable</td>
</tr>
<tr>
<td>MIFIDPRU TP 1.8R</td>
<td>Notification of firm’s intentions in relation to additional tier 1 instruments issued before 1 January 2022</td>
<td>Firm has outstanding additional tier 1 instruments on 1 January 2022</td>
<td>By no later than 1 January 2022</td>
</tr>
</tbody>
</table>
**MIFIDPRU TP 7.4R**

**Notification to treat capital instruments issued before 1 January 2022 as own funds under MIFIDPRU 3**

**Firm** has issued capital instruments before 1 January 2022 that it wishes to treat as own funds under MIFIDPRU 3

By no later than 1 January 2022

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### Sch 3 Fees and other payment requirements

Sch 3.1 **G**

*MIFIDPRU* does not contain any *rules* that directly impose fees or other payments. However, *MIFIDPRU* 9.1.2R(2)(c) applies the administrative fee in *SUP* 16.3.14R for failure to submit reports by their due date to the late submission of any reports that are required under *MIFIDPRU* 9.

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### Sch 4 Rights of action for damages

Sch 4.1 **G**

1. The table below sets out the *rules* in *MIFIDPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss a result of the contravention.

2. If “Yes” appears in the column headed “For private person”, the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that person’s fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If “Yes” appears in the column headed “Removed”, this indicates that the FCA has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

3. The column headed “For other person” indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that person’s fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

<table>
<thead>
<tr>
<th>Chapter/Appendix</th>
<th>Rights of action under section 138D of the <em>Act</em></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For private person</td>
</tr>
</tbody>
</table>

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Sch 5 Rules that can be waived or modified

Sch 5.1 G The rules in MIFIDPRU may be waived or modified by the FCA under section 138A of the Act (Modification or waiver of rules) where the conditions in that section are met.
Part 2: Comes into force on 1 December 2021

TP 5 Advance data collection

Application

5.1 R MIFIDPRU TP 5 applies to:

(1) a MIFIDPRU investment firm; and

(2) a UK parent entity.

Duration

5.2 R MIFIDPRU TP 5 applies from 1 December 2021 until 1 January 2022 (the “relevant period”).

Purpose

5.3 G (1) MIFIDPRU TP 5 requires MIFIDPRU investment firms and UK parent entities to begin collecting data on K-factor metrics one month before the MIFIDPRU sourcebook begins to apply in full.

(2) If firms and parent undertakings will be using the alternative calculation in MIFIDPRU TP 4 after MIFIDPRU begins to apply in full, the data covering the relevant period will allow them to calculate their K-factor requirement during the first month.

(3) If firms and parent undertakings will be using the reasonable estimates approach in MIFIDPRU TP 4 after MIFIDPRU begins to apply in full, the data covering the relevant period will provide at least one month’s observed historical data which must be used in the relevant calculations. The observed data may also be helpful for verifying whether any remaining estimated historical data points are reasonable.

Requirement to collect data on K-factor metrics

5.4 R (1) A MIFIDPRU investment firm or UK parent entity must collect the required information in (2) throughout the relevant period.

(2) The required information is:

(a) for a MIFIDPRU investment firm, data on the K-factor metrics that the firm would be required to collect to calculate its individual K-factor requirement if MIFIDPRU applied in full; and
(b) for a UK parent entity, data on the K-factor metrics that the investment firm group would be required to collect to calculate its K-factor requirement on a consolidated basis if MIFIDPRU applied in full.

5.5 G MIFIDPRU TP 5.4R only requires a firm or parent undertaking to collect data on K-factor metrics that are relevant to the investment services and or activities that it carries on (or in the case of a parent undertaking, that relevant entities within its investment firm group carry on).
Annex C

Amendments to the Senior Management Arrangements, Systems and Controls (SYSC) sourcebook

In this Annex, underlining indicates new text, unless otherwise stated.

SYSC 19A (IFPRU Remuneration Code) and SYSC 19C (BIPRU Remuneration Code) are deleted in their entirety. The deleted text is not shown but the chapters are marked [deleted] as shown below.

19A IFPRU Remuneration Code [deleted]

19C BIPRU Remuneration Code [deleted]

Insert the following new chapter after SYSC 19F (Remuneration and performance management). The text is not underlined.

19G MIFIDPRU Remuneration Code

19G.1 General application

Application: non-SNI MIFIDPRU investment firms

19G.1.1 R (1) Subject to (2), the MIFIDPRU Remuneration Code applies to a non-SNI MIFIDPRU investment firm.

(2) The provisions in (4) do not apply to a non-SNI MIFIDPRU investment firm:

(a) where the value of the firm's on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £100 million or less; or

(b) where:

(i) the value of the firm's on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £300 million or less; and

(ii) the conditions in (3) are (where they are relevant to a firm) satisfied.

(3) The conditions referred to in (2)(b)(ii) are:

(a) that the exposure value of the firm's on- and off-balance sheet trading book business is equal to or less than £150 million; and

(b) that the exposure value of the firm's on- and off-balance sheet derivatives business is equal to or less than £100 million.
(4) The provisions referred to in (2) are:

(a) SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements);

(b) SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy);

(c) SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and

(d) SYSC 19G.6.35R(2) (Discretionary pension benefits).

(5) For the purposes of paragraph (2), paragraph (6) applies where a non-SNI MIFIDPRU investment firm does not have monthly data covering the 4-year period referred to in that paragraph.

(6) Where this paragraph applies, a non-SNI MIFIDPRU investment firm must calculate the rolling averages referred to in paragraph (2) using the data points that it does have.

19G.1.2 G (1) For the purposes of SYSC 19G.1.1R(5), the FCA expects a non-SNI MIFIDPRU investment firm to have insufficient data for a period only where it did not carry on any MiFID business during that period, or where (for periods prior to the application of the MIFIDPRU Remuneration Code) the firm did not record the relevant data on a monthly basis.

(2) Where a firm doesn’t have all the monthly data points, the firm should use the data points it has in the way that paints the most representative picture of the period in question. For example, if a firm has monthly data for 2 years of the 4-year period, but prior to that only recorded the relevant data on a quarterly basis, the firm could sensibly calculate its rolling average by using the quarterly figure for each of the 3 monthly data points in each quarter.

19G.1.3 R (1) The amounts referred to in SYSC 19G.1.1R must be calculated on an individual basis, and:

(a) in the case of on-balance sheet assets, in accordance with the applicable accounting framework;

(b) in the case of off-balance sheet items, using the full nominal value.

(2) The value of the on-balance sheet assets and off-balance sheet items in SYSC 19G.1.1R(2)(a) and (b) must be an arithmetic mean of the assets and items over the preceding 4 years, based on monthly data points.

(3) A firm may choose the day of the month that it uses for the data points in (2), but once that day has been chosen the firm may only change it for genuine business reasons.
19G.1.4 R (1) When calculating the amounts referred to in SYSC 19G.1.1R(2)(a) and (b), a firm must use the total amount of its on-balance sheet assets and off-balance sheet items.

(2) A firm must calculate the exposure values referred to in SYSC 19G.1.1R(3)(a) and (b) by adding together the following items:

(a) the positive excess of the firm’s long positions over its short positions in all trading book financial instruments, using the approach specified for K-NPR in MIFIDPRU 4.12.2R to calculate the net position for each instrument; and

(b) the exposure value of contracts and transactions referred to in MIFIDPRU 4.14.3R, calculated using the approach specified for K-TCD in MIFIDPRU 4.14.8R.

(3) Any amounts in foreign currencies must be converted into pound sterling using the relevant conversion rate.

(4) A firm must determine the relevant conversion rate referred to in (3) by reference to an appropriate market rate and must record which rate was chosen.

19G.1.5 G The FCA considers that an example of an appropriate market rate for the purposes of SYSC 19G.1.4R(4) is the relevant daily spot exchange rate against pound sterling published by the Bank of England.

Application: SNI MIFIDPRU investment firms

19G.1.6 R (1) The provisions in (2) apply to a SNI MIFIDPRU investment firm.

(2) The provisions referred to in (1) are:

(a) SYSC 19G.2 (Remuneration policies and practices);

(b) SYSC 19G.3.1R to SYSC 19G.3.3R (Oversight of remuneration policies and practices);

(c) SYSC 19G.3.6R to SYSC 19G.3.8G (Control functions);

(d) SYSC 19G.4.1R to SYSC 19G.4.5R and SYSC 19G.4.7G(1) and (2) (Fixed and variable components of remuneration);

(e) SYSC 19G.6.1R (Remuneration and capital);

(f) SYSC 19G.6.2R (Exceptional government intervention); and

(g) SYSC 19G.6.5R to SYSC 19G.6.6G (Assessment of performance).

Application: summary of application to MIFIDPRU investment firms
19G.1.7 G (1) The effect of the application provisions in SYSC 19G.1.1R to 19G.1.6R is summarised in the following table.

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>Applicable sections</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-SNI MIFIDPRU investment firm not falling within SYSC 19G.1.1R(2)</strong></td>
<td>The MIFIDPRU Remuneration Code</td>
</tr>
<tr>
<td><strong>Non-SNI MIFIDPRU investment firm falling within SYSC 19G.1.1R(2)</strong></td>
<td>The MIFIDPRU Remuneration Code except for: SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements); SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy); SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and SYSC 19G.6.35R(2) (Discretionary pension benefits)</td>
</tr>
<tr>
<td><strong>SNI MIFIDPRU investment firm</strong></td>
<td>SYSC 19G.2 (Remuneration policies and practices); SYSC 19G.3.1R to SYSC 19G.3.3R (Oversight of remuneration policies and practices); SYSC 19G.3.6R to SYSC 19G.3.8G (Control functions); SYSC 19G.4.1R to SYSC 19G.4.5R and SYSC 19G.4.7G(1) and (2) (Fixed and variable components of remuneration); SYSC 19G.6.1R (Remuneration and capital); SYSC 19G.6.2R (Exceptional government intervention); and SYSC 19G.6.5R to SYSC 19G.6.6G (Assessment of performance)</td>
</tr>
</tbody>
</table>

(2) MIFIDPRU 1.2 contains provisions regarding the classification of a firm as a SNI MIFIDPRU investment firm and non-SNI MIFIDPRU investment firm.
Application: where the application of SYSC 19G.1.1R changes in relation to a firm

19G.1.8 R (1) This rule applies to a non-SNI MIFIDPRU investment firm that did not meet either condition in SYSC 19G.1.1R(2)(a) or (b) but subsequently does.

(2) The provisions referred to in SYSC 19G.1.1R(2) cease to apply to the firm in (1) if:

(a) the firm has met the conditions in either SYSC 19G.1.1R(2)(a) or (b) for a continuous period of at least 6 months (or such longer period as may have elapsed before the firm submits the notification in (b)); and

(b) it has notified the FCA that it has met the conditions in (a).

(3) The notification in (2)(b) must be submitted through the online notification and application system using the form in MIFIDPRU 1Annex 3R.

19G.1.9 G The effect of SYSC 19G.1.8R(2)(a) is that a firm may move between meeting the conditions in SYSC 19G.1.1R(2)(a) and (b) during the 6-month period.

19G.1.10 R Where a non-SNI MIFIDPRU investment firm has met the conditions in SYSC 19G.1.1R(2)(a) or (b) but then ceases to do so, it must comply with the provisions referred to in SYSC 19G.1.1R(2) within 12 months from the date on which the firm ceased to meet the conditions.

19G.1.11 R (1) Where a non-SNI MIFIDPRU investment firm ceases to meet the conditions in SYSC 19G.1.1R(2)(a) or (b), it must promptly notify the FCA.

(2) The notification in (1) must be submitted through the online notification and application system using the form in MIFIDPRU 1Annex 3R.

19G.1.12 G Where a firm ceases to meet the conditions in SYSC 19G.1.1R(2)(a) or (b), but subsequently meets the conditions again within a period of 6 months, the firm will still be subject to the provisions referred to in SYSC 19G.1.1R(2) for 12 months after the date on which it first ceased to meet the conditions. The firm only ceases to be subject to the provisions referred to in SYSC 19G.1.1R(2) where it meets the conditions in SYSC 19G.1.8R(2).

19G.1.13 R The requirements in SYSC 19G.1.8R(2)(b) and SYSC 19G.1.11R(1) do not apply where a non-SNI MIFIDPRU investment firm has notified the FCA in accordance with the requirements of MIFIDPRU 7.1.9R(2)(b) or MIFIDPRU 7.1.12R(1) of the same event.
Application: collective portfolio management investment firms

19G.1.14 G The MIFIDPRU Remuneration Code applies to a collective portfolio management investment firm.

19G.1.15 G (1) A collective portfolio management investment firm must assess the thresholds in SYSC 19G.1.1R(2) and (3) on the basis of the total of both its MiFID business and non-MiFID business.

(2) SYSC 19G.1.20R to SYSC 19G.1.23G explain the position for firms subject to the MIFIDPRU Remuneration Code and another FCA remuneration code.

Application: levels of application

19G.1.16 G SYSC 19G.1.1R to SYSC 19G.1.15R and SYSC 19G.1.17R explain when the MIFIDPRU Remuneration Code applies to a firm on an individual basis. SYSC 19G.1.18R and 19G.1.19R explain when the MIFIDPRU Remuneration Code applies on a consolidated basis, and what that means.

19G.1.17 R The MIFIDPRU Remuneration Code applies to a firm on an individual basis where the FCA has granted a firm permission under MIFIDPRU 2.4.17R and MIFIDPRU 2.4.18R to apply the group capital test.

19G.1.18 R (1) Subject to (3), where MIFIDPRU 2.5 applies to a UK parent entity, the MIFIDPRU Remuneration Code applies to that UK parent entity on a consolidated basis.

(2) A UK parent entity that is treated as an SNI MIFIDPRU investment firm in accordance with MIFIDPRU 2.5.21R is also treated as an SNI MIFIDPRU investment firm when applying the MIFIDPRU Remuneration Code on a consolidated basis.

(3) A UK parent entity that is treated as a non-SNI MIFIDPRU investment firm in accordance with MIFIDPRU 2.5.21R is also treated as a non-SNI MIFIDPRU investment firm when applying the MIFIDPRU Remuneration Code on a consolidated basis.

(4) The following provisions only apply to a firm on an individual basis:

(a) SYSC 19G.1.1R(2), (3), (5) and (6);

(b) The provisions listed in SYSC 19G.1.1R(4);

(c) SYSC 19G.1.2G to 19G.1.5G; and

(d) SYSC 19G.1.8G to 19G.1.13G.

(5) For the purposes of the MIFIDPRU Remuneration Code, application on a consolidated basis means on the basis of the situation that results from applying the requirements in the MIFIDPRU Remuneration
Code to a UK parent entity as if that undertaking, together with all the investment firms, financial institutions, ancillary services undertakings and tied agents in the investment firm group, formed a single MIFIDPRU investment firm.

(6) For the purposes of (5), the terms investment firm, financial institution, ancillary services undertaking and tied agent apply to undertakings established in third countries, which, if established in the UK, would satisfy the definitions of those terms.

(7) Where an undertaking in a third country is included in the consolidated situation of a UK parent entity as a result of (6), the MIFIDPRU Remuneration Code only applies in relation to material risk takers at that undertaking who oversee or are responsible for business activities that take place in the UK.

19G.1.19 G (1) Where the MIFIDPRU Remuneration Code applies on a consolidated basis, the effect of SYSC 19G.1.18R(5) is that the UK parent entity and all the investment firms, financial institutions, ancillary services undertakings and tied agents in the investment firm group are treated for these purposes as a single MIFIDPRU investment firm. This means, for example, treating a staff member of an undertaking within the investment firm group as if they were a staff member of the UK parent entity.

(2) When considering which rules in the MIFIDPRU Remuneration Code apply on a consolidated basis, a UK parent entity must consider whether it is treated as an SNI MIFIDPRU investment firm or a non-SNI MIFIDPRU investment firm under MIFIDPRU 2.5.21R (which, as SYSC 19G.1.18R(2) and (3) explain, also determines its categorisation under the MIFIDPRU Remuneration Code).

(3) The effect of SYSC 19G.1.18R(4)(b) is that a UK parent entity need not comply with the provisions listed in SYSC 19G.1.1R(4) on a consolidated basis. These provisions apply on an individual basis where a firm exceeds the thresholds in SYSC 19G.1.1R(2)(a) or (b). As these thresholds are not relevant where the MIFIDPRU Remuneration Code applies on a consolidated basis, the provisions concerning them are also disapplied.

Application: firms subject to different remuneration requirements

19G.1.20 R (1) Where a firm is subject to the MIFIDPRU Remuneration Code and, as a result of the application of any of the requirements listed in (2), to provisions imposing different remuneration requirements, only one of which can be complied with, it must comply with the most stringent of the relevant provisions.

(2) The requirements referred to in (1) are:

(a) different requirements in the MIFIDPRU Remuneration Code;
(b) the AIFM Remuneration Code;
(c) the Dual-regulated firms Remuneration Code; and
(d) the UCITS Remuneration Code.

19G.1.21 G (1) SYSC 19G.1.20R states that where different remuneration requirements apply to a firm it must comply with the most stringent of the relevant provisions. Some non-exhaustive examples follow.

(2) Example 1: A firm may be subject to different requirements under the MIFIDPRU Remuneration Code on an individual basis and on a consolidated basis. This scenario may arise because a firm is an SNI MIFIDPRU investment firm on an individual basis but a non-SNI MIFIDPRU investment firm on a consolidated basis.

(3) Example 2: Different remuneration requirements may apply to a firm when an investment firm group contains both a PRA-designated investment firm and an FCA investment firm (but not a credit institution). This may lead to a firm being subject to both the MIFIDPRU Remuneration Code and the Dual-regulated firms Remuneration Code.

(4) Example 3: A staff member at a collective portfolio management investment firm may be a material risk taker and also AIFM Remuneration Code Staff or UCITS Remuneration Code Staff. In this case the material risk taker will be subject to the MIFIDPRU Remuneration Code and the requirements of the AIFM Remuneration Code or the UCITS Remuneration Code.

19G.1.22 G The effect of SYSC 19G.1.20R is that a firm must consider which requirement is the most stringent on a provision by provision basis.

19G.1.23 G SYSC 19G.1.20R is not relevant where a firm can comply with both sets of remuneration requirements, for example requirements to establish, implement and maintain remuneration policies and practices on both an individual basis and a consolidated basis.

Application: staff

19G.1.24 G The term ‘staff’ should be interpreted broadly in the MIFIDPRU Remuneration Code to include, for example, employees of the firm itself, partners or members (in the case of partnership structures), employees of other entities in the group, employees of joint service companies, and secondees.

Application: performance periods

19G.1.25 G The rules in the MIFIDPRU Remuneration Code apply to each performance period, regardless of whether it is annual, quarterly, or another frequency. A
A firm must comply with the MIFIDPRU Remuneration Code in a manner that is appropriate to its size and internal organisation and to the nature, scope and complexity of its activities.

Application: carried interest

(1) The MIFIDPRU Remuneration Code applies to remuneration, including carried interest (which represents a share in the profits of a fund managed by the firm’s staff, as compensation for the management of the fund).

(2) Where arrangements concerning carried interest meet the conditions in (3), the following provisions do not apply:

(a) SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements);
(b) SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy);
(c) SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and
(d) SYSC 19G.6.30R to SYSC 19G.6.34G (Performance adjustment).

(3) The conditions referred to in (2) are that:

(a) the value of the carried interest must be determined by the performance of the fund in which the carried interest is held;
(b) the period between the award of the carried interest and any payment under it must be at least 4 years; and
(c) there are provisions for the forfeiture or cancellation of carried interest that include at least the circumstances set out in SYSC 19G.6.31R(3)(a) and (b).

For the purposes of the MIFIDPRU Remuneration Code, a carried interest must be valued at the time of its award.

Application: general

While the rules in the MIFIDPRU Remuneration Code set out the minimum regulatory requirements that a MIFIDPRU investment firm must comply with, the FCA considers it good practice for a firm to assess whether going beyond those regulatory requirements would contribute to sound risk management or a healthy firm culture.
When?

19G.1.30 R A firm must apply the MIFIDPRU Remuneration Code from the start of its first performance period that begins on or after 1 January 2022.

19G.2 Remuneration policies and practices

General requirements

19G.2.1 R A MIFIDPRU investment firm must establish, implement and maintain remuneration policies and practices.

19G.2.2 G The remuneration policies and practices referred to in SYSC 19G.2.1R should cover all aspects of remuneration within the scope of the MIFIDPRU Remuneration Code, and all staff.

19G.2.3 G In line with the record-keeping requirements in SYSC 9, a firm should ensure that its remuneration policies and practices (including performance assessment processes and decisions) are clear and documented.

Proportionality

19G.2.4 R A firm’s remuneration policies and practices must be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the firm.

19G.2.5 G The proportionality principle in SYSC 19G.2.4R means that the content and level of detail of a firm’s remuneration policy may depend on a number of factors. These may include the number of staff it employs, the different types of roles, the activities it carries out, and whether the firm is part of a group with a group-wide remuneration policy.

Gender neutral remuneration policies and practices

19G.2.6 R A firm must ensure that its remuneration policy is a gender neutral remuneration policy and the practices referred to in SYSC 19G.2.1R are gender neutral.

19G.2.7 G Firms are reminded that the Equality Act 2010 prohibits discrimination on the basis of an individual’s protected characteristics both before and after employment is offered. The Act applies to pay and all other contractual terms, including variable remuneration. A firm must ensure that its remuneration policy complies with the Equality Act 2010.

Risk management, business strategy and avoiding conflicts of interest

19G.2.8 R A firm must ensure that its remuneration policies and practices are consistent with, and promote sound and effective, risk management.

19G.2.9 R A firm must ensure that its remuneration policies and practices are in line with the business strategy, objectives and long-term interests of the firm.
19G.2.10 G For the purposes of SYSC 19G.2.9R, the business strategy, objectives and long-term interests of the firm should include consideration of:

(1) the firm’s risk appetite and strategy, including environmental, social and governance risk factors;

(2) the firm’s culture and values; and

(3) the long-term effects of the investment decisions taken.

19G.2.11 R A firm must ensure that its remuneration policy:

(1) contains measures to avoid conflicts of interest;

(2) encourages responsible business conduct; and

(3) promotes risk awareness and prudent risk taking.

19G.2.12 R A MIFIDPRU investment firm must not pay variable remuneration to members of the management body who do not perform any executive function in the firm.

19G.3 Governance and oversight

Oversight of remuneration policies and practices

19G.3.1 R A MIFIDPRU investment firm must ensure that its management body in its supervisory function adopts and periodically reviews the remuneration policy and has overall responsibility for overseeing its implementation.

19G.3.2 G (1) Each firm should assess the most appropriate frequency for the periodic reviews referred to in SYSC 19G.3.1R, taking into account all relevant factors.

(2) The development and review of the remuneration policy should be supported by the control functions, including (where they exist) risk management, compliance, internal audit and human resources, and by business units.

(3) The processes and decision-making around the development, review and amendment of remuneration policies and practices are subject to the general record-keeping requirements set out in SYSC 9.

19G.3.3 R A firm’s remuneration committee, where it has one, must oversee the implementation of the firm’s remuneration policies and practices established under SYSC 19G.2.1R.

19G.3.4 R A non-SNI MIFIDPRU investment firm must, at least annually, conduct a central and independent internal review of whether the implementation of its remuneration policies and practices complies with the remuneration
policy and practices adopted by the management body in its supervisory function.

19G.3.5 G (1) The FCA would expect the central and independent internal review to assess whether the implementation of the remuneration policies and practices:

(a) results in remuneration awards that are in line with the firm’s business strategy;

(b) reflects the risk profile, long-term objectives and other relevant goals of the firm; and

(c) complies with all relevant legal requirements.

(2) A non-SNIFIDPRU investment firm may outsource part or all of the independent review in SYSC 19G.3.4R. The management body in its supervisory function remains responsible for ensuring the review is carried out and any necessary follow up actions are taken.

(3) A non-SNIFIDPRU investment firm should document appropriately the results of the review and the actions taken to remedy any findings.

Control functions

19G.3.6 R A MIFIDPRU investment firm must ensure that staff engaged in control functions:

(1) are independent from the business units they oversee;

(2) have appropriate authority; and

(3) are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

19G.3.7 R A MIFIDPRU investment firm must ensure that the remuneration of the senior officers in risk management and compliance functions is directly overseen by the remuneration committee, or, if such a committee has not been established, by the management body in its supervisory function.

19G.3.8 G SYSC 19G.3.6R and SYSC 19G.3.7R are designed to manage the conflicts of interest which may arise if other business areas had undue influence over the remuneration of staff in control functions. Conflicts of interest can easily arise when staff members are involved in the determination of remuneration for their own business area. Where these could arise, they need to be managed by having in place independent control functions (in particular risk management, compliance and human resources functions).

19G.4 Fixed and variable components of remuneration
Categorising fixed and variable remuneration

19G.4.1 R A MIFIDPRU investment firm must ensure that the remuneration policy makes a clear distinction between criteria for setting fixed and variable remuneration.

19G.4.2 G (1) The effect of SYSC 19G.4.1R is that all remuneration paid to a staff member must be clearly categorised as either fixed or variable remuneration.

(2) In allocating individual remuneration components to fixed or variable remuneration, it is the quality and purpose of the component that is decisive, not the label applied to it.

(3) The FCA considers that:

(a) fixed remuneration:

(i) should primarily reflect a staff member’s professional experience and organisational responsibility as set out in the staff member’s job description and terms of employment; and

(ii) should be permanent, pre-determined, non-discretionary, non-revocable and not dependent on performance; and

(b) variable remuneration:

(i) should be based on performance or, in exceptional cases, other conditions;

(ii) where based on performance, should reflect the long-term performance of the staff member as well as performance in excess of the staff member’s job description and terms of employment; and

(iii) includes discretionary pension benefits.

19G.4.3 G Returns made by staff on co-investment arrangements are shares in the profits as a pro rata return on an investment. The FCA does not usually consider these returns to be remuneration for the purposes of the MIFIDPRU Remuneration Code. However, the FCA considers these returns will be remuneration if the investment was made using a loan provided by the firm or by an undertaking in the same group as the firm, and if the loan was either not provided on commercial terms or had not been repaid in full by the date on which the returns on investment were paid.

19G.4.4 G (1) In relation to remuneration received by a partner or a member in a limited liability partnership, the FCA’s view on how to categorise certain payments received by those individuals is as follows:
(a) at the end of each year, the residual profits of a partnership or limited liability partnership are distributed among the partners or members. The level of ownership of each partner or member is reflected in the number of ownership shares they have. Residual profits are distributed according to the ownership shares, so are not linked to work or performance. In the FCA’s view, payments on this basis are not remuneration;

(b) a partner or member may receive an amount fixed at the beginning of the year and subject only to the firm making a profit. These are often called fixed profit shares. A partner or member usually takes drawings on it throughout the year, often monthly. If profits at year-end are insufficient, drawings may have to be paid back. The FCA considers that drawings on fixed profit shares are usually fixed remuneration;

(c) a partner or member may receive a discretionary share of the profit at the end of the year. These may be distributed to all partners or members but are usually dependent on the performance of the individual or their business unit. Awards may be at the discretion of the remuneration committee. The FCA considers that payments made on this basis are usually variable remuneration.

(2) A firm that is a partnership or limited liability partnership may use a benchmarking approach instead of, or in addition to, the approach in (1) to categorise payments made to partners or members of limited liability partnerships. For example, it may take into account:

(a) the remuneration structures of other individuals performing similar tasks or working in similar businesses as the partner or member in question; or

(b) the return expected in a similar investment context where the partner or member has invested in a fund or firm.

(3) Where a partner or member of a limited liability partnership works full-time for a firm the FCA would expect a reasonable portion of the partner’s or member’s profit share to be categorised as remuneration. Where a partner or member works part-time and receives less remuneration than a partner or member who works full-time, the FCA would expect a smaller proportion of the part-time partner or member’s profit share to be classed as remuneration.

Balance of fixed and variable components of total remuneration

19G.4.5  R  A MIFIDPRU investment firm must ensure that:

(1) the fixed and variable components of the total remuneration are appropriately balanced; and
(2) the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component.

19G.4.6 R For the purposes of SYSC 19G.4.5R, a non-SNI MIFIDPRU investment firm must set an appropriate ratio between the variable component and the fixed component of the total remuneration in their remuneration policies.

19G.4.7 G (1) When determining what is an appropriate balance and an appropriate ratio for the purposes of SYSC 19G.4.5R and SYSC 19G.4.6R respectively, a firm should consider all relevant factors, including:

(a) the firm’s business activities and associated prudential and conduct risks; and

(b) the role of the individual in the firm and, in the case of material risk takers, the impact that different categories of staff have on the risk profile of the non-SNI MIFIDPRU investment firm or of the assets it manages.

(2) It may be appropriate for some staff to receive only fixed remuneration. The FCA does not consider it would be an appropriate balance for any individual to receive only variable remuneration.

19G.4.8 G A non-SNI MIFIDPRU investment firm may set different ratios for different categories of staff. For example, the FCA considers that it will usually be appropriate to set a lower ratio of variable to fixed remuneration for control functions than for the business units they control.

19G.4.9 G Ratios may differ from one performance period to the next.

19G.4.10 G When setting a ratio, a firm should consider all potential scenarios, including that a firm exceeds its financial objectives. The ratio should reflect the highest amount of variable remuneration that can be awarded in the most positive scenario. A firm should be satisfied that it has considered all relevant factors and should be able to explain its decision to the FCA if requested.

19G.4.11 R When a firm is assessing whether the award of variable remuneration is consistent with the ratio set in accordance with SYSC 19G.4.6R, it may exclude from that calculation any amount of severance pay that:

(1) exceeds the maximum amount of severance pay that can be paid under the firm’s remuneration policy (in accordance with SYSC 19G.6.12R(2)); and

(2) the firm has become obliged to pay as a result of a legal obligation that has arisen after the date on which the firm adopted the relevant version of its remuneration policy.
19G.4.12 G As explained in SYSC 19.6.12R(2), where severance pay is payable a firm’s remuneration policy must set out the maximum level of severance pay or the criteria for determining the amount. Firms should therefore take these policies into account when establishing the ratio between variable and fixed remuneration in accordance with SYSC 19G.4.6R. The FCA accepts that in rare circumstances, for reasons that wouldn’t have been clear to a firm when setting its remuneration policy, a firm may become legally obliged to pay a higher amount of severance pay, for example as a result of legal proceedings. In these situations, SYSC 19G.4.11 states that the difference between the maximum severance pay permitted under the firm’s remuneration policy and the higher amount the firm is legally obliged to pay may be excluded from an assessment of whether an award of variable remuneration is consistent with the ratio set in accordance with SYSC 19G.4.6R.

19G.5 Application of remuneration requirements to material risk takers

Identifying material risk takers

19G.5.1 R A material risk taker is a staff member at a non-SNI MIFIDPRU investment firm whose professional activities have a material impact on the risk profile of the firm or of the assets that the firm manages.

19G.5.2 R A non-SNI MIFIDPRU investment firm must assess at least once a year which of its staff members are material risk takers.

19G.5.3 R For the purposes of SYSC 19G.5.1R, a staff member’s professional activities are deemed to have a material impact on a firm’s risk profile or the assets the firm manages if one or more of the following criteria are met:

1. the staff member is a member of the management body in its management function;

2. the staff member is a member of the management body in respect of the management body in its supervisory function;

3. the staff member is a member of the senior management;

4. the staff member has managerial responsibility for business units that are carrying on at least one of the following regulated activities:
   (a) arranging (bringing about) deals in investments;
   (b) dealing in investments as agent;
   (c) dealing in investments as principal;
   (d) managing investments;
   (e) making investments with a view to transactions in investments;
(f) advising on investments (except P2P agreements); and/or

(g) operating an organised trading facility;

(5) the staff member has managerial responsibilities for the activities of a control function;

(6) the staff member has managerial responsibilities for the prevention of money laundering and terrorist financing;

(7) the staff member is responsible for managing a material risk within the firm;

(8) in a firm that has permission for carrying on at least one of the regulated activities in (4)(a) to (g), the staff member is responsible for managing one of the following activities:

(a) information technology;

(b) information security; and/or

(c) outsourcing arrangements of critical or important functions as referred to in article 30(1) of the MiFID Org Regulation; and

(9) the staff member has authority to take decisions approving or vetoing the introduction of new products.

19G.5.4 G The FCA considers the following are key indicators that the professional activities of a staff member (X) have a material impact on the risk profile of the firm or of the assets that the firm manages for the purposes of SYSC 19G.5.1R:

(1) there is no sufficiently senior and experienced material risk taker who supervises X on a day-to-day basis or to whom X reports;

(2) X is responsible for key strategic decisions; and

(3) X is responsible for significant revenue, material assets under management or for approving transactions.

19G.5.5 G The FCA expects individuals in the following roles would usually be categorised as material risk takers:

(1) in relation to portfolio management business, heads of key areas including equities, fixed income, alternatives, private equity;

(2) heads of investment research;

(3) individuals responsible for a high proportion of revenue;

(4) senior advisors where they can exert key strategic influence;
chief market strategists, where media profile is linked to reputational risk and risk to market integrity;

heads of a trading or broking desk; and

all *individuals* with responsibility for information technology, information security and outsourcing where there is not a single person with responsibility for all three areas. For example, if there is a chief operating officer and a chief information technology officer who are both equally senior and have shared responsibility for these areas, then both should be identified as *material risk takers.*

19G.5.6  G  (1)  A *firm* should update its assessment under SYSC 19G.5.2R as necessary throughout the year.

(2) It is important that *firms* consider all types of roles that may have a material impact on the *firm’s* risk profile or on the assets it manages. The categories of staff referred to in SYSC 19G.5.3G are intended to be a starting point only. A *firm* should develop its own additional criteria to identify further *individuals* based on the specific types of activities and risks relevant to the *firm.*

(3) In identifying its *material risk takers,* a *firm* should consider all types of risks involved in its professional activities. These may include prudential, operational, market, conduct and reputational risks.

(4) The decisive factor when identifying *material risk takers* is not the name of the function or role, but the authority and responsibility held by the *individual.*

19G.5.7  R  (1) If a non-SNI MIFIDPRU *investment firm* is part of an FCA *investment firm group* to which prudential consolidation applies, its *material risk takers* must be identified at both *individual* and consolidated level.

(2) The *UK parent entity* of a *firm* is responsible for the *material risk taker* identification process at a consolidated level and must identify as *material risk takers:*

(a) all staff members whose professional activities have a material impact on the risk profile of the *investment firm group*; and

(b) all staff members of an *undertaking* in the *investment firm group* (‘*undertaking A*’) whose professional activities have a material impact on:

(i) the risk profile of another *undertaking* within the *investment firm group* to whom the MIFIDPRU *Remuneration Code* applies on an individual basis (‘*undertaking B*’); or
(ii) the risk profile of any assets managed by undertaking B.

19G.5.8 G It may be helpful for the UK parent entity to coordinate the process for identifying material risk takers across the group entities.

Exemption for individuals

19G.5.9 R (1) The provisions in (2) do not apply in relation to a material risk taker (X), where X’s annual variable remuneration:

(a) does not exceed £167,000; and

(b) does not represent more than one-third of X’s total annual remuneration.

(2) The provisions referred to in (1) are:

(a) SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements);

(b) SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy);

(c) SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and

(d) SYSC 19G.6.35R(2) (Discretionary pension benefits).

19G.5.10 G (1) SYSC 19G.5.9R applies only to material risk takers of non-SNI MIFIDPRU investment firms that do not fall within SYSC 19G.1.1R(2).

(2) A non-SNI MIFIDPRU investment firm not falling within SYSC 19G.1.1R(2) should therefore assess whether staff members are material risk takers before applying the thresholds in SYSC 19G.5.9R.

(3) As the provisions listed in SYSC 19G.5.9R(2) don’t apply on a consolidated basis (see 19G.1.18R(4)(b)), the exemption for individuals in SYSC 19G.5.9R(1) will not be relevant on a consolidated basis.

19G.5.11 R When considering whether an individual that becomes a material risk taker at a point during the firm's performance period falls within SYSC 19G.5.9R, a firm must:

(1) apply the full £167,000 variable remuneration threshold;

(2) apply the requirement that the variable remuneration must not be more than one-third of the individual’s total remuneration to the relevant portion of the total remuneration paid for the part of the performance period that the individual is a material risk taker at that firm; and
(3) include any guaranteed variable remuneration, for example a 'sign-on bonus’, in the individual’s variable remuneration for the part of the performance period that the individual is a material risk taker at that firm.

19G.5.12 G (1) An individual may become a material risk taker at any point during the firm’s performance period, either by changing role within the firm or by joining the firm.

(2) The effect of SYSC 19G.5.11R is illustrated by the following example:

An individual (‘X’), becomes a material risk taker 6 months into the firm’s performance period. X receives annual fixed remuneration of £900,000. This means X will receive £450,000 for the 6 months of the performance period for which X is a material risk taker. X receives variable remuneration of £100,000 in respect of the first 6 months. X falls below the thresholds in SYSC 19G.5.9R because X’s variable remuneration of £100,000 is:

(a) less than the £167,000 threshold in SYSC 19G.5.9R(1), and

(b) less than one-third of the £450,000 fixed remuneration received (which would be £150,000) for the purposes of SYSC 19G.5.9R(2).

19G.5.13 G The FCA considers it good practice for a firm to consider whether applying any of the rules applicable to material risk takers to other members of staff would contribute to sound risk management or a healthy firm culture.

19G.6 Variable remuneration

Remuneration and capital

19G.6.1 R A MIFIDPRU investment firm must ensure that variable remuneration does not affect the firm’s ability to ensure a sound capital base.

Exceptional government intervention

19G.6.2 R A MIFIDPRU investment firm that benefits from exceptional government intervention must ensure that:

(1) no variable remuneration is paid to members of its management body, unless it is justified to do so; and

(2) variable remuneration is limited to a portion of net revenue when its payment to staff that are not members of its management body would be inconsistent with:

(a) the maintenance of the firm’s sound capital base; and
(b) its timely exit from exceptional government intervention.

19G.6.3 G An example of where it may be justifiable to pay variable remuneration to a member of the management body of a MIFIDPRU investment firm that benefits from exceptional government intervention is where that person was not in office at the time the exceptional government intervention was first required.

Assessment of performance

19G.6.4 R A non-SNI MIFIDPRU investment firm must ensure that where variable remuneration is performance-related:

1. the total amount of the variable remuneration is based on a combination of the assessment of the performance of:
   1(a) the individual;
   1(b) the business unit concerned; and
   1(c) the overall results of the firm;

2. the assessment of performance is part of a multi-year framework that ensures:
   2(a) the assessment of performance is based on longer-term performance; and
   2(b) the payment of performance-based remuneration is spread over a period that takes account of the business cycle of the firm and its business risks.

19G.6.5 R When assessing individual performance to determine the amount of variable remuneration to be paid to an individual, a MIFIDPRU investment firm must take into account financial as well as non-financial criteria.

19G.6.6 G (1) For some firms it may be appropriate to give equal weight to financial and non-financial criteria for the purposes of SYSC 19G.6.5R. For other firms a slightly different split may be appropriate.

(2) Non-financial criteria under SYSC 19G.6.5R should:
   2(a) form a significant part of the performance assessment process;
   2(b) override financial criteria, where appropriate;
   2(c) include metrics on conduct, which should make up a substantial portion of the non-financial criteria; and
(d) include how far the *individual* adheres to effective risk management and complies with relevant regulatory requirements.

(3) Examples of non-financial criteria under SYSC 19G.6.5R include:

(a) measures relating to building and maintaining positive customer relationships and outcomes, such as positive customer feedback;

(b) performance in line with firm strategy or values, for example by displaying leadership, teamwork or creativity;

(c) adherence to the firm’s risk management and compliance policies;

(d) achieving targets relating to:

(i) environmental, social and governance factors; and

(ii) diversity and inclusion.

(4) A *firm* should ensure that when it assesses individual performance, the assessment process and any variable *remuneration* awarded in accordance with SYSC 19G.6.4R does not discriminate on the basis of the protected characteristics of an *individual* in accordance with the Equality Act 2010.

General requirements for awards of non-standard forms of variable remuneration

19G.6.7 R (1) A *non-SNI MIFIDPRU investment firm* must ensure that all guaranteed variable *remuneration*, retention awards, severance pay and buy-out awards falling under SYSC 19G.6.8R to SYSC 19G.6.14G are:

(a) subject to malus and clawback;

(b) in the case of *non-SNI MIFIDPRU investment firms* to which those *rules* apply:

(i) subject to the requirements in SYSC 19G.6.19R and SYSC 19G.6.21G (Shares, instruments and alternative arrangements), SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy), and SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and

(ii) included in the variable component of the variable to fixed ratio for the performance period in which the award is made.
(2) A non-SNI MIFIDPRU investment firm must ensure that each decision it makes to award variable remuneration falling within the scope of (1) is appropriate, taking all relevant circumstances into account.

Guaranteed variable remuneration

19G.6.8 R A non-SNI MIFIDPRU investment firm must not award, pay or provide guaranteed variable remuneration to a material risk taker unless:

(1) it occurs in the context of hiring a new material risk taker;

(2) it is limited to the first year of service; and

(3) the firm has a strong capital base.

19G.6.9 G (1) Guaranteed variable remuneration is sometimes referred to as a ‘sign-on bonus’ or ‘golden handshake’.

(2) Guaranteed variable remuneration can be used as a way to compensate new staff members where they have lost the opportunity to receive variable remuneration by leaving their previous employment during the performance period. These awards may be called ‘lost opportunity bonuses’.

(3) The FCA expects non-SNI MIFIDPRU investment firms to award guaranteed remuneration only rarely and not as common practice.

Retention awards

19G.6.10 R Retention awards must only be paid to material risk takers:

(1) after a defined event; or

(2) at a specified point in time.

19G.6.11 G (1) Retention awards are bonuses which are dependent on an individual remaining in a role until a defined event or for a set period of time. For example, retention bonuses can be used under restructurings, in wind-down or in the context of specific projects within a firm.

(2) The payment of a retention award may be made dependent on the material risk taker meeting certain performance criteria that have been defined in advance.

(3) The FCA expects non-SNI MIFIDPRU investment firms to make retention awards to material risk takers only rarely and not as common practice.

Severance pay
19G.6.12 R  (1) A non-SNI MIFIDPRU investment firm must ensure that payments to material risk takers relating to the early termination of an employment contract reflect the individual’s performance over time and do not reward failure or misconduct.

(2) A non-SNI MIFIDPRU investment firm must set out in its remuneration policy whether severance payments may be paid, and any maximum amount or criteria for determining the amount.

Buy-out awards

19G.6.13 R  A non-SNI MIFIDPRU investment firm must ensure that remuneration packages relating to compensation for, or buy out from, a material risk taker’s contracts in previous employment:

(1) align with the long term interests of the firm; and

(2) contain provisions on periods of retention, deferral, vesting and ex post risk adjustment that are no shorter than any corresponding periods that applied to unvested variable remuneration under the previous contract of employment, and which remained outstanding.

19G.6.14 G  Buy-out awards involve a firm compensating a new staff member, or ‘buying out’ their previous contract with another employer, where the deferred variable remuneration of the staff member was reduced, revoked or cancelled by the previous employer. This could be because they terminated their contract or because the individual has to pay back some money, for example where the employer has paid for a training course or qualification for the individual that was attached to a retention clause.

Risk adjustment

19G.6.15 R  A non-SNI MIFIDPRU investment firm must ensure that any measurement of performance used as a basis to calculate pools of variable remuneration takes into account all types of current and future risks and the cost of the capital and liquidity required in accordance with MIFIDPRU.

19G.6.16 R  A non-SNI MIFIDPRU investment firm must ensure that the allocation of variable remuneration components within the firm takes into account all types of current and future risks.

19G.6.17 R  For the purposes of SYSC 19G.6.15R and SYSC 19G.6.16R, a non-SNI MIFIDPRU investment firm must:

(1) determine at what level the adjustments should be applied (for example at business unit, trading desk or individual level), which risks are relevant, and which risk adjustment techniques and measures are most appropriate; and

(2) in considering all types of current and future risks, include both financial risks (for example economic profit or economic capital) and
non-financial risks (for example reputation, conduct and customer outcomes, values and strategy).

19G.6.18 R A non-SNI MIFIDPRU investment firm must ensure that its total variable remuneration is generally considerably contracted, including through malus or clawback arrangements, where the financial performance of the firm is subdued or negative.

Shares, instruments and alternative arrangements

19G.6.19 R A non-SNI MIFIDPRU investment firm to which this rule applies must ensure that at least 50% of the variable remuneration paid to a material risk taker in relation to a performance period consists of any of the following eligible instruments:

(1) shares, or subject to the firm’s legal structure, equivalent ownership interests;

(2) share-linked instruments, or subject to the firm’s legal structure, equivalent non-cash instruments;

(3) instruments that comply with the requirements in SYSC 19G Annex 1R; or

(4) non-cash instruments (including those settled in cash) which reflect the instruments of the portfolios managed.

19G.6.20 R Where an eligible instrument that falls within the scope of SYSC 19G.6.19R(1) or (2) relates to an ownership interest in a parent undertaking of the MIFIDPRU investment firm, it will only satisfy the requirements of SYSC 19G.6.19R where its value moves in line with the value of an equivalent ownership interest in the MIFIDPRU investment firm.

19G.6.21 G (1) Where a MIFIDPRU investment firm is unable to issue eligible instruments, the firm may apply to the FCA for a modification under section 138A of the Act to permit the firm to use alternative arrangements. The firm will need to provide a detailed explanation in its application of the alternative arrangements it is proposing to operate.

(2) The FCA may grant a modification under section 138A of the Act for these purposes only where it is satisfied that:

(a) compliance by the firm with the requirement to issue variable remuneration in eligible instruments would be unduly burdensome or would not achieve the purpose for which the rules were made; and

(b) granting the modification would not adversely affect the advancement of any of the FCA’s objectives.
(3) As part of its assessment of whether the modification would adversely affect the advancement of its objectives, the FCA will consider whether the proposed alternative arrangements for variable remuneration achieve similar outcomes to the standard requirements applicable to eligible instruments. In particular, the FCA will normally consider the following non-exhaustive list of factors:

(a) whether the proposed alternative arrangement ensures suitable alignment between the interests of the staff member and the long-term interests of the firm, its clients and creditors;

(b) whether the proposed alternative arrangement is subject to a retention policy that is of sufficient length to align the incentives of the staff member with the long-term interests of the firm, its clients and creditors;

(c) whether the proposed alternative arrangement is clear and transparent to the staff member and contains sufficient detail on the applicable conditions;

(d) whether the firm will ensure that any amounts that are subject to deferral and retention arrangements cannot be accessed, transferred or redeemed by the staff member during the deferral and retention periods;

(e) whether the proposed alternative arrangement would facilitate the appropriate application of malus and clawback requirements;

(f) whether the proposed alternative arrangements adequately ensure that the value of the variable remuneration received does not increase during the deferral period through distributions or other payments on the instrument; and

(g) where the proposed alternative arrangements allow for predetermined changes of the value received as variable remuneration during deferral and retention periods, based on the performance of the firm or the managed assets, whether the following conditions would be met:

(i) the change of the value is based on predefined performance indicators that are based on the credit quality of the firm or the performance of the managed assets;

(ii) where deferral and retention must be applied, value changes are calculated at least annually and at the end of the retention period;
(iii) the rate of possible positive and negative value changes is equally based on the level of positive or negative credit quality changes or performance measured;

(iv) where the value change under (i) is based on the performance of assets managed, the percentage of value change should be limited to the percentage of value change of the managed assets;

(v) where the value change under (i) is based on the credit quality of the firm, the percentage of value change should be limited to the percentage of the annual total gross revenue in relation to the firm’s total own funds.

(4) If a firm cannot issue eligible instruments because of its legal structure, that is likely to be a reason for the FCA to conclude that requiring the firm to comply with SYSC 19G.6.19R would not achieve the purpose for which that rule was made.

Retention policy

19G.6.22 R A non-SNI MIFIDPRU investment firm to which this rule applies must establish an appropriate retention policy for eligible instruments that is designed to align the interests of the staff member with the longer-term interests of the firm, its creditors and clients.

19G.6.23 G (1) In considering what is an appropriate retention policy for the purposes of SYSC 19G.6.22R, a firm should consider at least the following:

(a) the length of the deferral period referred to in SYSC 19G.6.24R(1);

(b) the length of the firm’s business cycle;

(c) the types of risks relevant to the role of the staff member; and

(d) how long it could take for the risks underlying the staff member’s performance to crystallise.

(2) The greater the impact of the material risk taker on the risk profile of the firm and of the assets managed, the longer the retention period should be. Different retention periods for different material risk takers may be appropriate, particularly where the applicable deferral periods differ.

Deferral

19G.6.24 R (1) A non-SNI MIFIDPRU investment firm to which this rule applies must not award, pay or provide a variable remuneration component unless at least 40% is deferred over a period which is at least 3 years.
(2) Where the variable remuneration is a particularly high amount, and in all cases where the variable remuneration is £500,000 or more, at least 60% of the amount must be deferred.

(3) Deferred variable remuneration must vest no faster than on a pro-rata basis.

(4) The first deferred portion of the variable remuneration must not vest sooner than a year after the start of the deferral period.

19G.6.25 R (1) A non-SNI MIFIDPRU investment firm must take into account the factors in (2) when determining:

(a) the amount of variable remuneration to be deferred under SYSC 19G.6.24R(1) and (2);

(b) the length of the deferral period under SYSC 19G.6.24R(1); and

(c) the speed of vesting of the variable remuneration for the purposes of SYSC 19G.6.24R(3).

(2) The factors referred to in (1) are:

(a) the firm’s business cycle, the nature of its business and its risk profile;

(b) the activities and responsibilities of the staff member in question and how these may impact the risk profile of the firm or the assets the firm manages;

(c) whether the deferred variable remuneration is paid out in instruments or cash;

(d) the amount of the variable remuneration; and

(e) the ratio of variable to fixed remuneration.

19G.6.26 G (1) Where appropriate, a firm should tailor the proportion of deferred variable remuneration, the deferral period and the speed of vesting in different ways for different categories of material risk taker.

(2) The FCA considers that it may be appropriate for the most senior material risk takers at a firm (for example members of the management body), to be subject to a deferral period longer than the 3-year minimum.

(3) It may be appropriate for firms to apply different proportions of deferred variable remuneration, deferral periods or vesting arrangements to the portion of variable remuneration paid out in cash and the portion paid out in instruments.
(4) In the FCA’s view, the higher the amount of the variable remuneration, and the higher the ratio of variable to fixed remuneration, the more appropriate it is likely to be to defer a greater proportion of the variable remuneration.

(5) In certain circumstances variable remuneration below £500,000 may still be considered ‘particularly high’ and so subject to 60% deferral. A firm should take into account the average remuneration at the firm, the ratio of the variable to fixed remuneration of the material risk taker, and the amount of variable remuneration compared to that of other staff at the firm.

(6) After the first deferred portion of the variable remuneration vests in accordance with SYSC 19G.6.24R(4), the FCA does not expect vesting to take place more often than once a year.

19G.6.27 R A non-SNI MIFIDPRU investment firm must pay out at least 50% of the variable remuneration deferred under SYSC 19G.6.24R in instruments falling within SYSC 19G.6.19R.

19G.6.28 G The FCA considers it good practice for the deferred portion to contain a higher proportion of instruments than the non-deferred portion.

19G.6.29 R A non-SNI MIFIDPRU investment firm may only pay to a material risk taker interest or dividends on an instrument which is subject to deferral under SYSC 19G.24R where:

(1) the rate of interest or level of dividends paid on that instrument is no higher than would have been paid to an ordinary holder of such an instrument; and

(2) payment is not made before the date on which the instrument vests.

Performance adjustment

19G.6.30 R A non-SNI MIFIDPRU investment firm must ensure that any variable remuneration, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the firm as a whole, and justified on the basis of the performance of the firm, the business unit and the individual concerned.

19G.6.31 R A non-SNI MIFIDPRU investment firm must:

(1) ensure that all of the total variable remuneration is subject to in-year adjustments, malus or clawback arrangements;

(2) set specific criteria for the application of malus and clawback; and

(3) ensure that the criteria for the application of malus and clawback in particular cover situations where the material risk taker:
(a) participated in or was responsible for conduct which resulted in significant losses to the firm; and/or

(b) failed to meet appropriate standards of fitness and propriety.

19G.6.32 R A non-SNI MIFIDPRU investment firm must:

(1) set minimum malus and clawback periods as part of its remuneration policies;

(2) ensure that malus can be applied until the award has vested in its entirety; and

(3) ensure that the clawback period spans at least the combined length of any deferral and retention periods.

19G.6.33 G (1) The effect of SYSC 19G.6.31R(1) is that (save in the circumstances explained in (2)) a non-SNI MIFIDPRU investment firm must include in its remuneration policy the possibility of applying in-year adjustments, malus and clawback to the variable remuneration of its material risk takers. Where performance adjustment is required, the appropriate tool or tools (in-year adjustments, malus or clawback) should then be applied.

(2) A non-SNI MIFIDPRU investment firm that is not required by SYSC 19G.6.24R to apply deferral will not be able to apply malus, so should foresee the use of in-year adjustments and clawback arrangements only. Alternatively, the firm may choose to use deferral, which would enable the use of malus arrangements in addition to in-year adjustments and clawback.

(3) A non-SNI MIFIDPRU investment firm should ensure that the malus and clawback periods it sets and applies allow sufficient time for any potential risks to crystallise. This may mean that different periods are set for different categories of material risk takers.

(4) In setting appropriate malus and clawback periods, a non-SNI MIFIDPRU investment firm should take into account all relevant factors, including:

(a) the nature of the material risk taker’s activities;

(b) the material risk taker’s impact on the risk profile of the firm or of the assets it manages; and

(c) the length of the business cycle that is relevant for the material risk taker’s role.

(5) For a non-SNI MIFIDPRU investment firm that satisfies the conditions in SYSC 19G.1.1R(2)(a) or (b), the FCA considers that 3
years will generally be an appropriate starting point for the firm’s consideration of the appropriate clawback period.

(6) The FCA’s ‘General guidance on the application of ex-post risk adjustment to variable remuneration’ provides further detail of the FCA’s expectations on firms’ use of malus and clawback arrangements.

19G.6.34 G  (1) In the FCA’s view, malus should be applied when, as a minimum:

(a) there is reasonable evidence of staff member misbehaviour or material error;

(b) the firm or the relevant business unit suffers a material downturn in its financial performance; or

(c) the firm or the relevant business unit suffers a material failure of risk management.

(2) In the FCA’s view, clawback should, in particular, be applied in cases of fraud or other conduct with intent or severe negligence which led to significant losses.

Discretionary pension benefits

19G.6.35 R  (1) A non-SNI MIFIDPRU investment firm must ensure that:

(a) any discretionary pension benefits it awards or pays to material risk takers are:

(i) in line with its business strategy, objectives, values and long-term interests; and

(ii) paid only in eligible instruments;

(b) it applies malus and clawback arrangements to discretionary pension benefits in the same way as to other elements of variable remuneration.

(2) A non-SNI MIFIDPRU investment firm to which this paragraph applies must ensure that:

(a) where a material risk taker leaves the firm before retirement age, any discretionary pension benefits are held by the firm for a period of 5 years; and

(b) where a material risk taker reaches retirement age, any discretionary pension benefits are subject to a 5-year retention period by that individual.

Personal investment strategies
19G.6.36 R A non-SNI MIFIDPRU investment firm must take all reasonable steps to ensure that material risk takers do not use personal hedging strategies or remuneration- and liability-related contracts of insurance to undermine the remuneration rules in the MIFIDPRU Remuneration Code.

19G.6.37 G Actions a firm may take under SYSC 19G.6.36R include requesting an undertaking or declaration from its material risk takers and implementing policies regarding dealing in financial instruments.

Avoidance of the MIFIDPRU Remuneration Code

19G.6.38 R A non-SNI MIFIDPRU investment firm must not pay variable remuneration through financial vehicles or methods that facilitate non-compliance with the MIFIDPRU Remuneration Code or MIFIDPRU.

19G.7 Remuneration committee

19G.7.1 G (1) MIFIDPRU 7.3.3R(1) requires a non-SNI MIFIDPRU investment firm to establish a remuneration committee, unless MIFIDPRU 7.3.3R(2) applies.

(2) The FCA encourages non-SNI MIFIDPRU investment firms that are not required to establish a remuneration committee under MIFIDPRU 7.3.3R(1) to consider whether establishing and maintaining a remuneration committee would contribute to the better alignment of risk and individual reward across the firm.

19G Other instruments for use in variable remuneration

Annex 1

Purpose

1.1 G SYSC 19G.6.19R requires that at least 50% of variable remuneration must be paid in eligible instruments. Under SYSC 19G.6.19R(3), eligible instruments include instruments that meet the requirements set out in this Annex. The instruments within the scope of this Annex include additional tier 1 instruments, tier 2 instruments and other instruments which can be fully converted to common equity tier 1 instruments, or written down, and that adequately reflect the firm’s credit quality.

Requirements for instruments

1.2 R An instrument under SYSC 19G.6.19R(3) must satisfy the following requirements:

(1) the instrument must be issued by the firm;
(2) the instrument must not be secured or subject to a guarantee or any other arrangement that enhances the seniority of the claims of its holder in insolvency;

(3) the terms of the instrument must provide that any distributions on the instrument will be paid on at least an annual basis and will be paid to the holder;

(4) the instrument must be priced at its value at the time of issuance under the accounting framework applicable to the firm;

(5) the valuation of the instrument in (4) must be subject to independent review;

(6) if the instrument is part of an issuance which has the sole purpose of being used for variable remuneration, the price at which the instrument is redeemed, called, repurchased or converted must be subject to an independent valuation in accordance with the accounting framework applicable to the firm;

(7) if the instrument is not perpetual, at the time at which it is awarded as variable remuneration, the remaining period before the maturity of the instrument must be at least equal to the sum of any deferral and retention periods that would apply to the staff member to whom the instrument is awarded;

(8) the instrument must not be subject to redemption, call or repurchase during any deferral and retention periods that would apply to the material risk taker to whom the instrument is awarded;

(9) any right to redeem, call or repurchase the instrument must be exercisable only at the sole discretion of the firm;

(10) the holder of the instrument must have no rights to accelerate the future scheduled payment of interest or principal, except in the insolvency or liquidation of the firm;

(11) the terms of the instrument must provide that the claim on the principal amount of the instrument is wholly subordinated to the claim of all non-subordinated creditors;

(12) one of the requirements in SYSC 19G Annex 1.3R must be satisfied; and

(13) the instrument must be either:
(a) a convertible instrument, in which case the requirements in SYSC 19 Annex 1.4R and SYSC 19 Annex 1.5R must be satisfied; or

(b) a write-down instrument, in which case the requirements in SYSC 19 Annex 1.6R must be satisfied.

1.3 R (1) An instrument under SYSC 19G.6.19R(3) must meet either the conditions in (2) or the conditions in (4).

(2) The first set of conditions is as follows:

(a) the instrument must be part of an issuance which has the sole purpose of being used as variable remuneration; and

(b) the terms of the instrument must ensure that any distributions payable on the instrument are paid at a rate which is:

(i) consistent with market rates for similar issuances issued by other firms with comparable credit quality; and

(ii) subject to (3), no higher than 8% above the Consumer Price Index 12-month rate as published by the UK Office of National Statistics from time to time.

(3) If the instrument has been awarded to a member of staff whose professional duties are predominantly performed outside the UK and the instruments are denominated in a currency other than pound sterling, a firm may substitute another similar independently-calculated consumer price index for a relevant third country in place of the rate specified in (2)(b)(ii).

(4) The second set of conditions is that, at the time at which the instrument was awarded as variable remuneration, at least 60% of that class of instrument in issuance was:

(1) issued other than for use as variable remuneration; and

(2) not held by any person who has close links to:

(i) the firm;

(ii) the firm’s group; or

(iii) a connected undertaking included within the firm’s investment firm group.

Additional requirements for convertible instruments
A firm must satisfy the following requirements in relation to an instrument referred to SYSC 19G.6.19R(3) that is a convertible instrument:

(1) the instrument must contain a trigger event which, if it occurs, results in the full principal amount of the instrument being converted into common equity tier 1 capital of the firm;

(2) the trigger event in (1) must occur where the common equity tier 1 capital of the firm falls below a specified level that is no lower than 64% of the firm’s own funds requirement;

(3) the firm issuing the instrument must ensure the following to the extent necessary to give full effect to the required conversion following the trigger event in (1):

(a) where applicable, the firm has sufficient authorised share capital;

(b) the firm has all necessary permissions, authorisations and corporate authorities; and

(c) there are no other restrictions in the firm’s constitutional documents, contractual arrangements or applicable national law that would prevent the firm from issuing the required common equity tier 1 capital instruments.

The rate of conversion of the principal amount into common equity tier capital of the firm specified in the terms governing an instrument under SYSC 19G.6.19R(3) that is a convertible instrument must be set at a level that ensures that the value of the common equity tier 1 capital received by the holder upon conversion:

(1) would not be higher than the value of the instrument at the time that it was originally awarded as variable remuneration; and

(2) if the convertible instrument is part of an issuance which has the sole purpose of being used as variable remuneration, would not be higher than the value of the instrument at the time of conversion.

Additional requirements for write-down instruments

A firm must satisfy the following requirements in relation to an instrument under SYSC 19G.6.19R(3) that is a write-down instrument:

(1) the instrument must contain a trigger event which, if it occurs, results in the principal amount of the instrument being written down;
(2) the trigger event in (1) must occur where the common equity tier 1 capital of the firm falls below a specified level that is no lower than 64% of the firm’s own funds requirement;

(3) the aggregate principal amount of write-down instruments that must be written down following the trigger event in (1) must be at least equal to the lower of the following:

(a) the amount required to ensure that the common equity tier 1 capital of the firm referenced in the trigger event is restored to a level that is higher than the specified trigger; or

(b) the full principal amount of the instrument;

(4) any write-down in the principal amount of the instrument following the trigger event in (1) must:

(a) apply on a pro rata basis across all write-down instruments that contain the same trigger event;

(b) generate items that, under the accounting framework applicable to the firm, qualify as common equity tier 1 capital;

(c) result in a proportional reduction in the holder’s entitlement to receive:

(i) distributions paid in connection with the instrument;

(ii) payment if the instrument is called or redeemed; and

(iii) repayment in the insolvency or liquidation of the firm;

(5) any write-down in the principal amount of the instrument following the trigger event in (1) may be permanent or temporary, but if it is temporary, any subsequent write-up must comply with the following requirements:

(a) it cannot increase the principal amount of the instrument beyond its level before the write-down occurred;

(b) it must be at the absolute discretion of the firm;

(c) the firm must have a reasonable basis to conclude that the write-up is appropriate, having regard to the following factors, among others:

(i) the importance of effectively aligning the interests of the recipient with the longer-term interests of the firm, its clients and its creditors;
(ii) the financial position of the firm and the effect of the write-up on the firm’s own funds; and

(iii) if the firm or any member of its group has been subject to exceptional government intervention, whether the write-up is consistent with the objective of ensuring the timely exit from that support;

(d) it must be applied on a pro rata basis between all recipients of instruments falling under SYSC 19G.6.19R(3) that are write-down instruments where those instruments have previously been subject to a write-down.

...  

SYSC TP MIFIDPRU Remuneration Code transitional provision 11

Application

11.1 R SYSC TP 11 applies to an undertaking to whom the MIFIDPRU Remuneration Code will apply for the first time in the performance period beginning on or after 1 January 2022.

Duration of transitional

11.2 R SYSC TP 11 applies to remuneration awarded for performance or services provided in the performance period before the performance period to which the MIFIDPRU Remuneration Code first applies.

11.3 G While the MIFIDPRU Remuneration Code comes into force on 1 January 2022, it only applies to performance periods that begin on or after that date (see SYSC 19G.1.30R). This transitional provision therefore addresses the position for remuneration for performance or services provided in any performance period prior to the performance period to which the MIFIDPRU Remuneration Code first applies.

Transitional

11.4 R (1) Where an undertaking was subject to any of the remuneration codes listed in (2) immediately before the MIFIDPRU Remuneration Code came into force, that remuneration code (and any related reporting requirements) continues to apply in accordance with SYSC TP 11.2.

(2) The remuneration codes referred to in (1) are:

(a) SYSC 19A (IFPRU Remuneration Code); and
SySC 19C (BIPRU Remuneration Code).

11.5 G (1) The effect of the transitional provision in SySC TP 11.4 is to preserve the application of the IFPRU and BIPRU remuneration codes to performance or services provided in any performance period prior to the performance period to which the MIFIDPRU Remuneration Code first applies.

(2) This means, for example, that remuneration paid to a member of the Remuneration Code staff of an IFPRU investment firm for performance in a performance period from 2019 to 2020 would continue to be subject to the remuneration rules in SySC 19A (the IFPRU Remuneration Code).

(3) As the application of the transitional provision is determined by the date of the performance period in which the performance or services were provided (not when the remuneration was awarded or paid out) this would remain the case even if the member of the Remuneration Code staff was paid the remuneration after the MIFIDPRU Remuneration Code applied to a firm.

11.6 R The reference in SySC TP 11.4R(1) to an undertaking being subject to a remuneration code includes the situation in which those rules include an obligation for a firm to ensure a parent undertaking complies with certain requirements.

11.7 G Under previous remuneration codes, certain obligations were not applied directly to unregulated parent undertakings but were applied indirectly through the imposition of an obligation on a firm within the group to ensure compliance by the parent undertaking. SySC TP 11.6R makes clear that the transitional provision in SySC TP 11.4R also applies to those indirect obligations on the parent undertaking. This means that where provisions in SySC 19A or SySC 19C applied on an indirect basis to a parent undertaking before the MIFIDPRU Remuneration Code began to apply, those remain the relevant obligations for performance or services provided during the performance period in which the MIFIDPRU Remuneration Code began to apply.
Annex D

Amendments to the Supervision manual (SUP)

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

16 Reporting requirements

16.1 Application

…


<table>
<thead>
<tr>
<th>(1) Section(s)</th>
<th>(2) Categories of firm to which section applies</th>
<th>(3) Applicable rules and guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUP 16.18</td>
<td>A full-scope UK AIFM and a small authorised UK AIFM</td>
<td>SUP 16.8.3R</td>
</tr>
<tr>
<td>SUP 16.20</td>
<td>An IFPRU 730k firm to which MIFIDPRU 4.4.1R applies and a qualifying parent undertaking that is required to send a recovery plan, a group recovery plan or information for a resolution plan to the FCA</td>
<td>Entire Section</td>
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<td>…</td>
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</tbody>
</table>

…

16.3 General provisions on reporting

…

Notifications regarding financial information reporting under the UK CRR

Underwriting agents: submission to the Society of Lloyd’s

Service of Notices Regulations
16.3.22 G The Financial Services and Markets Act 2000 (Service of Notices) Regulations 2001 (SI 2001/1420) contain provisions relating to the service of documents on the FCA. They do not apply to reports required under SUP 16, because of the specific rules in this section.

...  

16.3.26 G Examples of reports covering a group are:

(1) the compliance reports required from banks under SUP 16.6.4R;
(2) annual controllers reports required under SUP 16.4.5R;
(3) annual close links reports required under SUP 16.5.4R;
(4) consolidated financial reports required from banks under SUP 16.12.5R;
(5) consolidated reporting statements required from securities and futures firms under SUP 16.12.11R;
(6) reporting in relation to defined liquidity groups under SUP 16.12.

...  

16.7A Annual report and accounts  

...  

Requirement to submit annual report and accounts

16.7A.3 R A firm in the RAG in column (1) and which is a type of firm in column (2) must submit its annual report and accounts to the FCA annually on a single entity basis.

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAG</td>
<td>Firm type</td>
</tr>
<tr>
<td>1 UK bank</td>
<td></td>
</tr>
<tr>
<td>Dormant account operator</td>
<td></td>
</tr>
<tr>
<td>A non-UK bank</td>
<td></td>
</tr>
<tr>
<td>2.2 The Society</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IFPRU investment firms</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------</td>
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<td>3</td>
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<td>4</td>
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<td></td>
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</tr>
<tr>
<td>5</td>
<td>All firms</td>
</tr>
<tr>
<td>6</td>
<td>All firms other than firms subject to IPRU (INV) Chapter 13 that are not exempt CAD firms</td>
</tr>
<tr>
<td>7</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>8</td>
<td>All firms other than firms subject to IPRU (INV) Chapter 13 that are not exempt CAD firms</td>
</tr>
</tbody>
</table>
Requirement to submit annual report and accounts for mixed-activity holding companies

16.7A.5  R  A firm in the RAG group in column (1), which is a type of firm in column (2) and whose ultimate parent is a mixed-activity holding company must:

(1)  submit the annual report and accounts of the mixed-activity holding company to the FCA annually; and

(2)  notify the FCA that it is covered by this reporting requirement by email using the email address specified in SUP 16.3.10G(3), by its accounting reference date.

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAG</td>
<td>Firm type</td>
</tr>
<tr>
<td>1</td>
<td>UK bank</td>
</tr>
<tr>
<td>3</td>
<td>IFPRU investment firm MIFIDPRU investment firm</td>
</tr>
<tr>
<td></td>
<td>BIPRU firm</td>
</tr>
<tr>
<td>4</td>
<td>IFPRU investment firm MIFIDPRU investment firm</td>
</tr>
<tr>
<td></td>
<td>BIPRU firm</td>
</tr>
<tr>
<td>7</td>
<td>IFPRU investment firm MIFIDPRU investment firm</td>
</tr>
<tr>
<td></td>
<td>BIPRU firm</td>
</tr>
</tbody>
</table>

Time period for firms submitting annual report and accounts for mixed-activity holding companies

16.7A.9  R  Firms must submit the annual report and accounts of a mixed-activity holding company in accordance with SUP 16.7A.5R within 7 months of their accounting reference date.

...
Purpose

16.12.2 G (1) Principle 4 requires firms to maintain adequate financial resources. The Interim Prudential sourcebooks, BIPRU, GENPRU and IFPRU. The prudential sourcebooks, which are contained in the Prudential Standards block in the Handbook, set out the FCA’s detailed capital adequacy requirements. By submitting regular data, firms enable the FCA to monitor their compliance with Principle 4 and their prudential requirements.

16.12.3-A G (1) Investment firms subject to the UK CRR should refer to any relevant technical standards to determine their specific reporting obligations, as those obligations may extend beyond those specified in this chapter.

(2) Where a firm submits a data item pursuant any applicable provision of the UK CRR any data item with the same name and purpose does not have to be submitted again regardless of RAG. [deleted]

16.12.3-B G In relation to an investment firm subject to the UK CRR, where an expression appearing in italics in this chapter is also used in the UK CRR, the italicised expression:

(1) has the same meaning as the corresponding expression used in the UK CRR; or

(2) is interpreted in the context of the risk or requirement in the UK CRR that corresponds to the risk or requirement referred to in the italicised expression. [deleted]

16.12.3B G Firms’ attention is drawn to SUP 16.3.25G regarding a single submission for all firms in the group.

16.12.4 R Table of applicable rules containing data items, frequency and submission periods

<table>
<thead>
<tr>
<th>RAG number</th>
<th>Regulated Activities</th>
<th>Provisions containing:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>applicable data items</td>
</tr>
<tr>
<td></td>
<td></td>
<td>reporting frequency /</td>
</tr>
<tr>
<td></td>
<td></td>
<td>due date</td>
</tr>
</tbody>
</table>

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| RAG 1 | • accepting deposits  
  • *meeting of repayment claims*  
  • managing dormant account funds (including the investment of such funds) | *RAG 1 firms* should complete their prudential reporting requirements as set out in the *PRA Rulebook.* |

| RAG 3 | • dealing in investment as principal  
  • dealing in investments as agent  
  • advising on investments (except P2P agreements) (excluding retail investment activities)  
  • arranging (bringing about) deals in investments (excluding retail investment activities)  
  • advising on P2P agreements (when carried on exclusively with or for professional clients) | *SUP 16.12.10R*  
  *SUP 16.12.11R* except FSA001 and FSA002 on consolidated basis for *FINREP firms* | *SUP 16.12.10R*  
  *SUP 16.12.12R* | *SUP 16.12.10R*  
  *SUP 16.12.13R* |
| RAG 4 | managing investments  
|       | establishing, operating or winding up a collective investment scheme  
|       | establishing, operating or winding up a stakeholder pension scheme  
|       | establishing, operating or winding up a personal pension scheme  
|       | managing an AIF  
|       | managing a UK UCITS  
|       | operating an electronic system in relation to lending (FCA-authorised persons only)  
|       | SUP 16.12.14R  
|       | SUP 16.12.15R  
|       | SUP 16.12.16R  
| ...  | ...  
| ...  | ...  
| ...  | ...  

| RAG 7 | retail investment activities  
|       | advising on P2P agreements (except when carried on exclusively with or for professional clients)  
|       | advising on pensions transfers & opt-outs  
|       | SUP 16.12.22AR  
|       | SUP 16.12.23AR  
|       | SUP 16.12.24AR  
| ...  | ...  
| ...  | ...  
| ...  | ...  

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• arranging (bringing about deals) in retail investments

<table>
<thead>
<tr>
<th>RAG 8</th>
<th>making arrangements with a view to transactions in investments</th>
<th>SUP 16.12.25AR of SUP 16.12.25CR for UK designated investment firms except FSA001 and FSA002 on consolidated basis for FINREP firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>operating a multilateral trading facility</td>
<td>SUP 16.12.26R</td>
</tr>
<tr>
<td></td>
<td>operating an organised trading facility</td>
<td>SUP 16.12.27R</td>
</tr>
</tbody>
</table>

Group liquidity reporting

16.12.4B G Reporting at group level for liquidity purposes by firms falling within BIPRU 12 (Liquidity) is by reference to defined liquidity groups. Guidance about the different types of defined liquidity groups and related material is set out in SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12). [deleted]

Investment firm group reporting

16.12.4C G MIFIDPRU 9 contains reporting requirements for:

(1) UK parent entities of investment firm groups that are subject to consolidation under MIFIDPRU 2.5; and

(2) parent undertakings that are subject to the group capital test.

The reporting requirements apply even if the UK parent entity or parent undertaking is not an authorised person.

Regulated Activity Group 1

Regulated Activity Group 2.2

16.12.9 R The applicable data items referred to in SUP 16.12.4R are set out according to type of firm in the table below.
The applicable reporting frequencies for submission of *data items* and periods referred to in *SUP 16.12.4R* are set out in the table below and are calculated from a *firm’s accounting reference date*, unless indicated otherwise.

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.

<table>
<thead>
<tr>
<th>Description of data item</th>
<th>Frequency</th>
<th>Submission deadline</th>
<th>Description of data item</th>
<th>Frequency</th>
<th>Submission deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td>…</td>
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<td>…</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA001 (notes 15, note 20) or Quarterly or half yearly</td>
<td>(note 14)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>…</td>
<td>…</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Large Exposures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA008 (Notes note 20–24)</td>
<td>Quarterly</td>
<td>20 <em>business days</em> (note 19)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>…</td>
<td>…</td>
<td>…</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 1</td>
<td>The <em>Society</em> must prepare its reports in the format specified in <em>IPRU(INS) Appendix 9.11</em>, unless Note 2 applies.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note 14  |  **BIPRU firms** report half yearly on 30 business days submission. All UK consolidation group reports report half yearly on 45 business days submission. All other firms report monthly on 20 business days submission.

Note 15  |  This data item only applies to BIPRU firms. [deleted]

Note 21  |  This will not be applicable to BIPRU firms. [deleted]

16.12.9A  |  A member’s adviser that is also an IFPRU investment firm or a MIFIDPRU investment firm will also fall under one of the higher number RAGs that apply to IFPRU investment firms MIFIDPRU investment firms. That means it will have to report data items in addition to those that it has to supply under RAG 2.2.

Regulated Activity Group 3

…

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

[Editor’s note: The existing table in SUP 16.12.11R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]
<table>
<thead>
<tr>
<th>Section</th>
<th>Format (note)</th>
<th>Format (note)</th>
<th>Format (note)</th>
<th>Format (note)</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet</td>
<td>FSA029 (note 2)</td>
<td>FSA029 (note 5)</td>
<td>FSA029</td>
<td>FSA029</td>
<td>Section A</td>
</tr>
<tr>
<td>Income statement</td>
<td>FSA030 (note 2)</td>
<td>FSA030 (note 5)</td>
<td>FSA030</td>
<td>FSA030</td>
<td>Section B</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>MIF001 (notes 2 and 3)</td>
<td>FSA033 (note 5)</td>
<td>FSA034 or FSA035 or FIN071 (note 7)</td>
<td>FSA031</td>
<td>Section D1</td>
</tr>
<tr>
<td>Supplementary capital data for collective portfolio management investment firms</td>
<td>FIN067 (note 13)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICARA assessment questionnaire</td>
<td>MIF007 (note 3)</td>
<td></td>
<td></td>
<td></td>
<td>Section F</td>
</tr>
<tr>
<td>Threshold conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Section C</td>
</tr>
<tr>
<td>Client money and client assets</td>
<td>FSA039</td>
<td>FSA039</td>
<td>FSA039</td>
<td>FSA039</td>
<td>Section C</td>
</tr>
<tr>
<td>CFTC</td>
<td>FSA040 (note 8)</td>
<td>FSA040 (note 8)</td>
<td>FSA040 (note 8)</td>
<td>FSA040 (note 8)</td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>MIF002 (notes 2, 3 and 10)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Metrics reporting</th>
<th>MIF003 (notes 2 and 3)</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration risk (non-K-CON)</td>
<td>MIF004 (notes 2, 3 and 11)</td>
<td></td>
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<tr>
<td>Concentration risk (K-CON)</td>
<td>MIF005 (notes 2, 3 and 11)</td>
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<td></td>
</tr>
<tr>
<td>Group capital test</td>
<td>MIF006 (notes 3 and 12)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Liquidity Questionnaire</td>
<td>MLA-M (note 9)</td>
<td>MLA-M (note 9)</td>
<td>MLA-M (note 9)</td>
<td>MLA-M (note 9)</td>
<td>MLA-M (note 9)</td>
</tr>
</tbody>
</table>

**Note 1**  
All firms (except MIFIDPRU investment firms in relation to items reported under MIFIDPRU 9) must, when submitting the completed data item required, use the format of the data item set out in SUP 16 Annex 24R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25G.

**Note 2**  
A UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5 must also submit this report on the basis of the consolidated situation.

**Note 3**  
Data items MIF001 – MIF007 must be reported in accordance with the rules in MIFIDPRU 9.

**Note 4**  
Only applicable to a firm that is a sole trader or partnership. Where the firm is a partnership, this report must be submitted by each partner.

**Note 5**  
Except if the firm is an adviser (as referred to in IPRU(INV) 3-60(4)R).
| Note 6 | Only required in the case of an *adviser* (as referred to in *IPRU(INV)* 3-60(4)R) that is a *sole trader*. |
| Note 7 | FSA034 must be completed by a *firm* not subject to the exemption in *IPRU(INV) 5.4.2R*, unless it is a *firm* whose permitted business includes establishing, operating or winding up a personal pension scheme, in which case FIN071 must be completed.  
FSA035 must be completed by a *firm* subject to the exemption in *IPRU(INV) 5.4.2R*. |
| Note 8 | Only applicable to *firms* granted a *Part 30 exemption order* and operating an arrangement to cover forward profits on the London Metals Exchange. |
| Note 9 | Only applicable to RAG 3 *firms* carrying on *home financing* or *home finance administration* connected to regulated mortgage contracts, unless as at 26 April 2014 the *firm’s Part 4A permission* was and remains subject to a restriction preventing it from undertaking new *home financing* or *home finance administration* connected to *regulated mortgage contracts*. |
| Note 10 | Does not apply to an *SNI MIFIDPRU investment firm* which has been granted an exemption from the liquidity requirements in *MIFIDPRU 6*. |
| Note 11 | Only applicable to a *non-SNI MIFIDPRU investment firm*. |
| Note 12 | Only applicable to a *parent undertaking* to which the *group capital test* applies. |
| Note 13 | Only applicable to *firms* that are *collective portfolio management investment firms*. |

16.12.11A G  The column in the table in *SUP 16.12.11R* that deals with *IFPRU firms* covers some liquidity items that only have to be reported by an *ILAS BIPRU firm* (please see notes 28 and 33).
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.

[Editor’s note: The existing table in SUP 16.12.12R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

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<th>Investment firm group</th>
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**Note 1**
Annual regulated business revenue up to and including £5 million.

**Note 2**
Annual regulated business revenue over £5 million.

**Note 3**
Reporting frequencies and reporting periods for this data item are calculated on a calendar year basis and not by reference to the firm’s accounting reference date. The relevant quarters end on the last business day of March, June, September and December.

**Note 4**
The reporting period for MIF007 is determined by the date on which the firm reviews its ICARA process under MIFIDPRU 7.8.2R and the submission date that applies under MIFIDPRU 7.8.4R.

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.

[Editor’s note: The existing table in SUP 16.12.13R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

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Regulated Activity Group 4

...  

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

[Editor's note: The existing table in SUP 16.12.15R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

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<th>Description of data item</th>
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The applicable *data items* referred to in SUP 16.12.4R are set out according to *firm* type in the table below:
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<th>FSA035</th>
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<td>FIN069</td>
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**Note 1**

All firms, except MIFIDPRU investment firms in relation to items reported under MIFIDPRU 9, must, when submitting the completed data item required, use the format of the data item set out in SUP 16 Annex 24. Guidance notes for completion of the data items are contained in SUP 16 Annex 25.

**Note 2**

Only applicable to a firm that is a sole trader or partnership. Where the firm is a partnership, this report must be submitted by each partner.
<table>
<thead>
<tr>
<th>Note 3</th>
<th>A UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5 must also submit this report on the basis of the consolidated situation.</th>
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<tbody>
<tr>
<td>Note 4</td>
<td>Data items MIF001 – MIF007 must be reported in accordance with the rules in MIFIDPRU 9.</td>
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<tr>
<td>Note 5</td>
<td>FSA034 must be completed by a firm not subject to the exemption in IPRU(INV) 5.4.2R, unless it is a firm whose permitted business includes establishing, operating or winding up a personal pension scheme, in which case FIN071 must be completed. FSA035 must be completed by a firm subject to the exemption in IPRU(INV) 5.4.2R.</td>
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<td>Note 6</td>
<td>Does not apply to an SNI MIFIDPRU investment firm which has been granted an exemption from the liquidity requirements in MIFIDPRU [6].</td>
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<td>Only applicable to a non-SNI MIFIDPRU investment firm.</td>
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<td>Note 8</td>
<td>Only applicable to a parent undertaking to which the group capital test applies.</td>
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<td>Note 9</td>
<td>Only applicable to firms that are collective portfolio management investment firms.</td>
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16.12.15A  G The column in the table in SUP 16.12.15R that deals with IFPRU firms covers some liquidity items that only have to be reported by an ILAS BIPRU firm (please see notes 25 and 30). [deleted]

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.

[Editor’s note: The existing table in SUP 16.12.16R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]
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<td>20 business days</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 1: Annual regulated business revenue up to and including £5 million.

Note 2: Annual regulated business revenue over £5 million.

Note 3: Reporting frequencies and reporting periods for this data item are calculated on a calendar year basis and not by reference to the firm’s accounting reference date. The relevant quarters end on the last business day of March, June, September and December.

Note 4: The reporting period for MIF007 is determined by the date on which the firm reviews its ICARA process under MIFIDPRU 7.8.2R and the submission date that applies under MIFIDPRU 7.8.4R.

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.

[Editor’s note: The existing table in SUP 16.12.17R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]
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<tr>
<th>Code</th>
<th>Duration</th>
<th>Notes</th>
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<tr>
<td>FSA031</td>
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<td></td>
</tr>
<tr>
<td>FSA033</td>
<td>20 business days</td>
<td></td>
</tr>
<tr>
<td>FSA034</td>
<td>20 business days</td>
<td></td>
</tr>
<tr>
<td>FSA035</td>
<td>20 business days</td>
<td></td>
</tr>
<tr>
<td>FSA039</td>
<td>30 business days</td>
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<td>FIN071</td>
<td>20 business days</td>
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</tr>
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<td>MIF001</td>
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<td>MIF002</td>
<td>20 business days</td>
<td></td>
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<tr>
<td>MIF003</td>
<td>20 business days</td>
<td></td>
</tr>
<tr>
<td>MIF004</td>
<td>20 business days</td>
<td></td>
</tr>
<tr>
<td>MIF005</td>
<td>20 business days (note 1)</td>
<td>30 business days (note 2)</td>
</tr>
<tr>
<td>------------</td>
<td>---------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>MIF006</td>
<td>20 business days</td>
<td></td>
</tr>
<tr>
<td>MIF007</td>
<td>The submission date that applies under MIFIDPRU 7.8.4R</td>
<td></td>
</tr>
<tr>
<td>Section A RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
</tr>
<tr>
<td>Section B RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
</tr>
<tr>
<td>Section C RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
</tr>
<tr>
<td>Section D1 RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
</tr>
<tr>
<td>Section F RMAR</td>
<td></td>
<td>30 business days</td>
</tr>
<tr>
<td>Note 1</td>
<td>For reports relating to the position of an individual firm.</td>
<td></td>
</tr>
<tr>
<td>Note 2</td>
<td>For reports relating to the consolidated situation of an investment firm group.</td>
<td></td>
</tr>
</tbody>
</table>

... Regulated Activity Group 6 ...

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

<p>| Description of data item | Firms’ prudential category and applicable data items (note 1) |</p>
<table>
<thead>
<tr>
<th><strong>Solvency statement (note 6)</strong></th>
<th><strong>Balance sheet</strong></th>
<th><strong>Income statement</strong></th>
<th><strong>Capital adequacy</strong></th>
<th><strong>Threshold conditions</strong></th>
<th><strong>Client money and client assets</strong></th>
<th><strong>Pillar 2 questionnaire</strong></th>
<th><strong>Note 1</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FSA029</td>
<td>FSA030</td>
<td>FSA033</td>
<td></td>
<td>FSA039</td>
<td>FSA019 (note 8)</td>
<td>When submitting the completed data item required, a firm must use the format of the data item set out in SUP 16 Annex 24. Guidance notes for completion of the data items are contained in SUP 16 Annex 25.</td>
</tr>
<tr>
<td></td>
<td>No standard format</td>
<td></td>
<td></td>
<td></td>
<td>FSA034 or FSA035 or FIN071 or FIN072 (note 4)</td>
<td>FSA031</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>FSA032 or Section D1 RMAR (notes 5 and 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Section F RMAR (Note 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Section C RMAR (note 7) or FSA039</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Note 2</strong></td>
<td>[deleted]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Note 3</strong></td>
<td>[deleted]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note 4  FSA034 must be completed by a firm not subject to the exemption in IPRU(INV) 5.4.2R, unless it is a firm whose permitted business includes establishing, operating or winding up a personal pension scheme, in which case FIN071 must be completed.

FSA035 must be completed by a firm subject to the exemption in IPRU(INV) 5.4.2R, unless the firm is the depositary of a UCITS scheme in which case FIN072 must be completed.

Note 5  FSA032 must be completed by a firm subject to IPRU(INV) Chapter 13 which is an exempt CAD firm. [deleted]

Note 6  Only applicable to a firm that is a partnership, when the report must be submitted by each partner.

Note 7  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, and F RMAR only apply to a firm subject to IPRU(INV) Chapter 13 which is not an exempt CAD firm. [deleted]

Note 8  Only applicable to a firm that is the depositary of a UCITS scheme.

... 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:

[Editor’s note: The existing table in SUP 16.12.22AR is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

<table>
<thead>
<tr>
<th>Description of data item</th>
<th>Firms’ prudential category and applicable data item (note 1)</th>
</tr>
</thead>
</table>

Page 577 of 605
<table>
<thead>
<tr>
<th></th>
<th><strong>MIFIDPRU investment firms</strong></th>
<th><strong>Firms subject to IPRU(INV) Chapter 13</strong></th>
<th><strong>Firms that are also in one or more of RAGs 2 to 6 and not subject to IPRU(INV) Chapter 13</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency statement</td>
<td>No standard format (note 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet</td>
<td>FSA029 (note 3)</td>
<td>Section A RMAR</td>
<td></td>
</tr>
<tr>
<td>Income statement</td>
<td>FSA030 (note 3)</td>
<td>Section B RMAR</td>
<td></td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>MIF001 (notes 3 and 6)</td>
<td>Section D1 RMAR (note 9)</td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>MIF002 (notes 3, 4 and 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metrics monitoring</td>
<td>MIF003 (notes 3 and 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentration risk (non-K-CON)</td>
<td>MIF004 (notes 3, 5 and 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentration risk (K-CON)</td>
<td>MIF005 (notes 3, 5 and 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group capital test</td>
<td>MIF006 (notes 6 and 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Topic</td>
<td>Section RMAR</td>
<td>Section RMAR</td>
<td>Section RMAR</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td>ICARA assessment questionnaire</td>
<td>MIF007 (note 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplementary capital data for collective portfolio management</td>
<td>FIN067 (note 10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>investment firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional indemnity insurance</td>
<td>Section E RMAR</td>
<td>Section E RMAR</td>
<td>Section E RMAR</td>
</tr>
<tr>
<td>(note 15)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Threshold conditions</td>
<td>Section F RMAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and competence</td>
<td>Section G RMAR</td>
<td>Section G RMAR</td>
<td>Section G RMAR</td>
</tr>
<tr>
<td>COBS data</td>
<td>Section H RMAR</td>
<td>Section H RMAR</td>
<td>Section H RMAR</td>
</tr>
<tr>
<td>Client money and client assets</td>
<td>Section C RMAR</td>
<td>Section C RMAR</td>
<td></td>
</tr>
<tr>
<td>Fees and levies</td>
<td>Section J RMAR</td>
<td>Section J RMAR</td>
<td></td>
</tr>
<tr>
<td>Adviser charges</td>
<td>Section K RMAR (note 7)</td>
<td>Section K RMAR (note 7)</td>
<td>Section K RMAR (note 7)</td>
</tr>
<tr>
<td>Note 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>When submitting the completed data item required, a firm (except a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIFIDPRU investment firm in relation to an item reported under</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIFIDPRU 9) must use the format of the data item set out in SUP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 Annex 24R, or SUP 16 Annex 18AR in the case of the RMAR.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guidance notes for completion of the data items are contained in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUP 16 Annex 25, or SUP 16 Annex 18BG in the case of the RMAR.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 2</td>
<td>Only applicable to a firm that is a sole trader or partnership. Where the firm is a partnership, this report must be submitted by each partner.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 3</td>
<td>A UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5 must also submit this report on the basis of the consolidated situation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 4</td>
<td>Does not apply to an SNI MIFIDPRU investment firm which has been granted an exemption from the liquidity requirements in MIFIDPRU 6.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 5</td>
<td>Only applicable to a non-SNI MIFIDPRU investment firm.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 6</td>
<td>Data items MIF001 – MIF007 must be reported in accordance with the rules in MIFIDPRU 9.</td>
<td></td>
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</tr>
<tr>
<td>Note 7</td>
<td>This item only applies to firms that provide advice on retail investment products and P2P agreements.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 8</td>
<td>Only applicable to a parent undertaking to which the group capital test applies.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 9</td>
<td>Where a firm submits data items for both RAG 7 and RAG 9, the firm must complete Section D1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 10</td>
<td>Only applicable to firms that are collective portfolio management investment firms.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16.12.22B G The column in the table in SUP 16.12.22AR that deals with IFPRU firms covers some liquidity items that only have to be reported by an ILAS BIPRU firm (see notes 18 and 24). [deleted]

16.12.23A 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.
[Editor’s note: The existing table in SUP 16.12.23AR is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

<table>
<thead>
<tr>
<th>Data item</th>
<th>Frequency</th>
<th>Non-SNI MIFIDPRU investment firm</th>
<th>SNI MIFIDPRU investment firm</th>
<th>Investment firm group</th>
<th>Annual regulated business revenue up to and including £5 million</th>
<th>Annual regulated business revenue over £5 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency statement</td>
<td>Annually</td>
<td>Annually</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA029</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA030</td>
<td>Quarterly</td>
<td>Quarterly</td>
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<tr>
<td>FIN067</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td></td>
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<td>MIF001</td>
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<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
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<td>MIF002</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
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<td></td>
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<tr>
<td>MIF003</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
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<td></td>
</tr>
<tr>
<td>MIF004</td>
<td>Quarterly (note 1)</td>
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</tr>
<tr>
<td>Section</td>
<td>RMAR</td>
<td>Frequency</td>
<td>Frequency</td>
<td>Frequency</td>
<td>Frequency</td>
<td></td>
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<td>----------</td>
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<td>-----------</td>
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<td></td>
</tr>
<tr>
<td>MIF005</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIF006</td>
<td>Quarterly (note 1)</td>
<td>Quarterly (note 1)</td>
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<tr>
<td>Section A</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Quarterly</td>
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<tr>
<td>Section B</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Quarterly</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Section C</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Quarterly</td>
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<td></td>
</tr>
<tr>
<td>Section D1</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Quarterly</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Section E</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Quarterly</td>
<td></td>
</tr>
<tr>
<td>Section F</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
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<tr>
<td>Section G</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
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</tr>
<tr>
<td>Section H</td>
<td>RMAR</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td></td>
</tr>
<tr>
<td>Section J</td>
<td>RMAR</td>
<td>Annually</td>
<td>Annually</td>
<td>Annually</td>
<td>Annually</td>
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### Section K RMAR

<table>
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<tr>
<th>Reporting frequency</th>
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<th>Annually</th>
<th>Annually</th>
<th>Annually</th>
<th>Annually</th>
</tr>
</thead>
</table>

#### Note 1

Reporting frequencies and reporting periods for this data item are calculated on a calendar year basis and not by reference to the firm’s accounting reference date. The relevant quarters end on the last business day of March, June, September and December.

#### Note 2

The reporting period for MIF007 is determined by the date on which the firm reviews its ICARA process under MIFIDPRU 7.8.2R and the submission date that applies under MIFIDPRU 7.8.4R.

16.12.24AR 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.

[Editor’s note: The existing table in SUP 16.12.24AR is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

<table>
<thead>
<tr>
<th>Data item</th>
<th>Quarterly</th>
<th>Half yearly</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency statement</td>
<td></td>
<td></td>
<td>3 months</td>
</tr>
</tbody>
</table>
| FSA029              | 20 business days  
(note 1)  
30 business days  
(note 2) |             |             |
| FSA030              | 20 business days  
(note 1)  
30 business days  
(note 2) |             |             |
<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIN067</td>
<td>20 business days</td>
</tr>
<tr>
<td>MIF001</td>
<td>20 business days (note 1) 30 business days (note 2)</td>
</tr>
<tr>
<td>MIF002</td>
<td>20 business days (note 1) 30 business days (note 2)</td>
</tr>
<tr>
<td>MIF003</td>
<td>20 business days (note 1) 30 business days (note 2)</td>
</tr>
<tr>
<td>MIF004</td>
<td>20 business days (note 1) 30 business days (note 2)</td>
</tr>
<tr>
<td>MIF005</td>
<td>20 business days (note 1) 30 business days (note 2)</td>
</tr>
<tr>
<td>MIF006</td>
<td>20 business days</td>
</tr>
<tr>
<td>MIF007</td>
<td>The submission date that applies under MIFIDPRU 7.8.4R</td>
</tr>
<tr>
<td>Section A RMAR</td>
<td>30 business days</td>
</tr>
<tr>
<td>Section B RMAR</td>
<td>30 business days</td>
</tr>
</tbody>
</table>
### Section C RMAR

| 30 business days | 30 business days |

### Section D1 RMAR

| 30 business days | 30 business days |

### Section E RMAR

| 30 business days | 30 business days |

### Section F RMAR

| 30 business days |

### Section G RMAR

| 30 business days |

### Section H RMAR

| 30 business days |

### Section J RMAR

| 30 business days |

### Section K RMAR

| 30 business days |

### Note 1

For reports relating to the position of an individual firm.

### Note 2

For reports relating to the consolidated situation of an investment firm group.

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#### 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:

[Editor's note: The existing table in SUP 16.12.25AR is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

<table>
<thead>
<tr>
<th>Description of data item</th>
<th>Firms’ prudential category and applicable data items (note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MIFIDPRU investment firms</td>
</tr>
<tr>
<td></td>
<td>IPRU(INV) Chapter 3</td>
</tr>
<tr>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Section A</td>
<td>Section B</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>RMAR</td>
<td>RMAR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Solvency statement (note 2)</th>
<th>No standard format</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet FSA029 (note 3)</td>
<td>FSA029</td>
<td>FSA029</td>
</tr>
<tr>
<td>Income statement FSA030 (note 3)</td>
<td>FSA030</td>
<td>FSA030</td>
</tr>
<tr>
<td>Capital adequacy MIF001 (notes 3 and 5)</td>
<td>FSA033</td>
<td>FSA034 or FSA035 or FIN071 (note 4)</td>
</tr>
<tr>
<td>Liquidity MIF002 (notes 3 and 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metrics monitoring MIF003 (notes 3 and 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentration risk (non-K-CON) MIF004 (notes 3, 5 and 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentration risk (K-CON) MIF005 (notes 3, 5 and 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group capital test MIF006 (notes 5 and 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICARA assessment questionnaire MIF007 (note 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold conditions</td>
<td>FSA039</td>
<td>FSA039</td>
</tr>
<tr>
<td>-----------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Section F RMAR (note 17)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client money and client assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note 1**
All firms (except MIFIDPRU investment firms in relation to items reported under MIFIDPRU 9) when submitting the completed data item required, must use the format of the data item set out in SUP 16 Annex 24. Guidance notes for completion of the data items are contained in SUP 16 Annex 25.

**Note 2**
Only applicable to a firm that is a sole trader or partnership. Where the firm is a partnership, this report must be submitted by each partner.

**Note 3**
A UK parent entity of an investment firm group to which consolidation applies under MIFIDPRU 2.5 must also submit this report on the basis of the consolidated situation.

**Note 4**
FSA034 must be completed by a firm not subject to the exemption in IPRU(INV) 5.4.2R, unless it is a firm whose permitted business includes establishing, operating or winding up a personal pension scheme, in which case FIN071 must be completed.

FSA035 must be completed by a firm subject to the exemption in IPRU(INV) 5.4.2R.

**Note 5**
Data items MIF001 – MIF007 must be reported in accordance with the rules in MIFIDPRU 9.

**Note 6**
Only applicable to a parent undertaking to which the group capital test applies.
Only applicable to a **non-SNI MIFIDPRU investment firm.**

16.12.25B G The column in the table in SUP 16.12.25AR that deals with **IFPRU firms** cover some liquidity items that only have to be reported by an **ILAS BIPRU firm** (see notes 23 and 28). [deleted]

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.

[Editor's note: The existing table in SUP 16.12.26R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]

<table>
<thead>
<tr>
<th>Data item</th>
<th>Non-SNI MIFIDPRU investment firm</th>
<th>SNI MIFIDPRU investment firm</th>
<th>Investment firm group</th>
<th>Firm other than a MIFIDPRU investment firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency statement</td>
<td>Annually</td>
<td>Annually</td>
<td></td>
<td>Annually</td>
</tr>
<tr>
<td>FSA029</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>FSA030</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>FSA031</td>
<td></td>
<td></td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td>FSA033</td>
<td></td>
<td></td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td>FSA034</td>
<td></td>
<td></td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td>FSA035</td>
<td></td>
<td></td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td>Code</td>
<td>Section A RMAR</td>
<td>Section B RMAR</td>
<td>Half yearly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>----------</td>
<td>----------------</td>
<td>----------------</td>
<td>-------------</td>
<td>-----------</td>
</tr>
<tr>
<td>FSA039</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td>Half yearly</td>
<td></td>
</tr>
<tr>
<td>FIN071</td>
<td></td>
<td></td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td>MIF001</td>
<td>Quarterly (note 3)</td>
<td>Quarterly (note 3)</td>
<td>Quarterly (note 3)</td>
<td></td>
</tr>
<tr>
<td>MIF002</td>
<td>Quarterly (note 3)</td>
<td>Quarterly (note 3)</td>
<td>Quarterly (note 3)</td>
<td></td>
</tr>
<tr>
<td>MIF003</td>
<td>Quarterly (note 3)</td>
<td>Quarterly (note 3)</td>
<td>Quarterly (note 3)</td>
<td></td>
</tr>
<tr>
<td>MIF004</td>
<td>Quarterly (note 3)</td>
<td></td>
<td>Quarterly (note 3)</td>
<td></td>
</tr>
<tr>
<td>MIF005</td>
<td>Quarterly</td>
<td></td>
<td>Quarterly</td>
<td></td>
</tr>
<tr>
<td>MIF006</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIF007</td>
<td>Annually (note 4)</td>
<td>Annually (note 4)</td>
<td></td>
<td>Half yearly (note 1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Half yearly (note 1)</td>
</tr>
<tr>
<td>Section</td>
<td>Reporting Frequency</td>
<td>Reporting Periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>---------------------</td>
<td>-------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section C RMAR</td>
<td>Half yearly (note 1) Quarterly (note 2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section D1 RMAR</td>
<td>Half yearly (note 1) Quarterly (note 2)</td>
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<td></td>
</tr>
<tr>
<td>Section F RMAR</td>
<td>Half yearly</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Note 1**: Annual regulated business revenue up to and including £5 million.
- **Note 2**: Annual regulated business revenue over £5 million.
- **Note 3**: Reporting frequencies and reporting periods for this data item are calculated on a calendar year basis and not by reference to the firm’s accounting reference date. The relevant quarters end on the last business day of March, June, September and December.
- **Note 4**: The reporting period for MIF007 is determined by the date on which the firm reviews its ICARA process under MIFIDPRU 7.8.2R and the submission date that applies under MIFIDPRU 7.8.4R.

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.

[Editor’s note: The existing table in SUP 16.12.27R is deleted in its entirety. The deleted text is not shown. The following table is inserted to replace the deleted text.]
<table>
<thead>
<tr>
<th>Data item</th>
<th>Quarterly</th>
<th>Half yearly</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency statement</td>
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<td>3 months</td>
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<tr>
<td>FSA029</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(note 1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(note 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA030</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(note 1)</td>
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</tr>
<tr>
<td></td>
<td>30 business days</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>FSA031</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA033</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSA034</td>
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<tr>
<td>FSA035</td>
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</tr>
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<td>FSA039</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>FIN071</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIF001</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(note 1)</td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(note 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIF002</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(note 1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(note 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIF003</td>
<td>20 business days</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(note 1)</td>
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</tr>
<tr>
<td></td>
<td>30 business days (note 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>MIF004</td>
<td>20 business days (note 1)</td>
<td>30 business days (note 2)</td>
<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>MIF006</td>
<td>20 business days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIF007</td>
<td>The submission date that applies under MIFIDPRU 7.8.4R</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section A RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
<td></td>
</tr>
<tr>
<td>Section B RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
<td></td>
</tr>
<tr>
<td>Section C RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
<td></td>
</tr>
<tr>
<td>Section D1 RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
<td></td>
</tr>
<tr>
<td>Section F RMAR</td>
<td>30 business days</td>
<td>30 business days</td>
<td></td>
</tr>
</tbody>
</table>

**Note 1**
For reports relating to the position of an individual firm.

**Note 2**
For reports relating to the consolidated situation of an investment firm group.
Regulated Activity Group 9

16.12.28A R The applicable *data items*, reporting frequencies and submission deadlines 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. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

<table>
<thead>
<tr>
<th>Description of data item</th>
<th>Data item (note 1)</th>
<th>Frequency</th>
<th>Submission deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual regulated business revenue up to and including £5 million</td>
<td>Annual regulated business revenue over £5 million</td>
<td></td>
</tr>
<tr>
<td></td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Professional indemnity insurance (note 2)</td>
<td>Section E RMAR</td>
<td>Half yearly</td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

Note 1 ...  

Note 2 This item only applies to *firms* that may be subject to an *FCA requirement* to hold professional indemnity insurance and are not exempt *CAD firms MIFIDPRU investment firms*.

SUP 16.17 (Remuneration reporting) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.
16.17 Remuneration reporting [deleted]

Insert the following new section after SUP 16.28 (Home insurance and motor insurance pricing reporting). The text is not underlined.

16.29 MIFIDPRU Remuneration Report

Application

16.29.1 R This section applies to a MIFIDPRU investment firm, except where:

(1) the MIFIDPRU investment firm is part of a group to which prudential consolidation applies in accordance with provisions of the UK CRR and the PRA Rulebook; and

(2) the reports in (3) have been submitted to the PRA on behalf of the consolidation group and each covers the MIFIDPRU investment firm.

(3) the reports referred to in (2) are:

(a) the Remuneration Benchmarking Information Report; and

(b) the Higher Earners Report.

Purpose

16.29.2 G The purpose of this section is to ensure that the FCA receives regular information in a standard format to assist it in assessing the effectiveness of a MIFIDPRU investment firm’s remuneration and incentive arrangements.

Reporting requirement

16.29.3 R A firm to which this section applies must submit the MIFIDPRU Remuneration Report:

(1) in the format set out in SUP 16 Annex 51R;

(2) in accordance with the instructions in SUP 16 Annex 51G; and

(3) online through the appropriate systems accessible from the FCA’s website.

16.29.4 R The information in the MIFIDPRU Remuneration Report must be denominated in pound sterling.

16.29.5 R Where a MIFIDPRU investment firm does not form part of an investment firm group to which consolidation applies under MIFIDPRU 2.5, it must
complete the report on a solo basis in respect of remuneration awarded in the last completed financial year to all relevant staff of the firm who mainly carried on their professional activities within the UK.

16.29.6 R Where a MIFIDPRU investment firm forms part of an investment firm group to which consolidation applies under MIFIDPRU 2.5, it must not complete the report on a solo basis. The MIFIDPRU investment firm must complete the report on a consolidated basis in respect of remuneration awarded in the last completed financial year to all relevant staff of the firm who mainly undertook their professional activities within the UK.

16.29.7 G SUP 16.3.25G permits a single report to be submitted to meet the reporting requirements of all firms in a group.

Frequency and timing of report

16.29.8 R (1) A firm to which this section applies must submit a MIFIDPRU Remuneration Report to the FCA annually.

(2) The firm must submit that report to the FCA within 4 months of the end of the firm’s accounting reference date.
In SUP 16 Annex 24 (Data items for SUP 16.12), replace existing data item FIN067 with the data item below and delete data item FIN068. The deleted data item is not shown.

**FIN067 – CPMI – additional information**

<table>
<thead>
<tr>
<th>Capital held as own funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CET1 own funds held</td>
</tr>
<tr>
<td>2</td>
<td>AT1 own funds held</td>
</tr>
<tr>
<td>3</td>
<td>T2 own funds held</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IPRU-INV Funds under management requirement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Total funds under management</td>
</tr>
<tr>
<td>5</td>
<td>Funds under management requirement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IPRU-INV Fixed overheads requirement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Total annual relevant expenses</td>
</tr>
<tr>
<td>7</td>
<td>Indicate if varied due to material change in business model.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional negligence</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Capital requirement, or PII</td>
</tr>
<tr>
<td>9</td>
<td>Additional own funds held (IPRU-INV 11.3.14EU)</td>
</tr>
<tr>
<td>10</td>
<td>PII capital requirement (IPRU-INV 11.3.15EU AND 11.13.16R)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liquid asset requirement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Liquid asset requirement</td>
</tr>
<tr>
<td>12</td>
<td>Liquid assets held</td>
</tr>
</tbody>
</table>
In SUP 16 Annex 25 (Guidance notes for data items in SUP 16 Annex 24R), replace the existing guidance for data item FIN067 with the guidance below and delete the guidance for data item FIN068. The deleted guidance is not shown.

**FIN067 – Additional reporting for Collective Portfolio Management Investment firms (CPMIs)**

**This form only applies to Collective Portfolio Management Investment firms**

**Capital held as own funds**

Collective Portfolio Management Investment firms (CPMIs) should note that the definition of capital given in IPRU-INV uses the definitions in UK CRR as onshored, and not as amended by MiFIDPRU.

**1A – Common Equity Tier 1 capital**

CPMIs should enter the amount of CET1 capital they hold for their own funds. CET1 capital should be calculated in accordance with Article 50 of the UK CRR. This cell must always be completed with a positive number.

**2A – Additional Tier 1 capital**

CPMIs should enter the amount of AT1 capital they hold for their own funds. AT1 capital should be calculated in accordance with Article 61 of the UK CRR. CPMIs are not required to hold/issue AT1 capital. If no AT1 has been issued, or is held, a zero should be entered in this cell.

**3A – Tier 2 capital**

CPMIs should enter the amount of T2 capital they hold for their own funds. T2 capital should be calculated in accordance with Article 71 of the UK CRR. CPMIs are not required to hold/issue T2 capital. If no T2 has been issued/is held, a zero should be entered in this cell.

**Capital requirements**

**IPRU-INV Funds under management requirement**

**4A – Total funds under management**

This should be reported by all firms with permission to manage investments. It should be the total non-MiFID funds under management of the firm even if this exceeds the amount that affects the funds under management capital requirement.

**5A – Funds under management requirement**

This is the base capital resources requirement plus 0.02% of the amount by which the firm’s funds under management exceeds €250,000,000.

The appropriate definition of funds under management to be used in this calculation is that set out in the FCA Handbook Glossary of definitions.

**6A – Total annual relevant expenditure**
The fixed overheads requirement is one quarter of the CPMIs previous financial year’s relevant expenditure. The annual relevant expenditure should be calculated in accordance with MIFIDPRU 4.5.3R. The number entered should be the total annual relevant expenditure, not the fixed overheads requirement. If we have varied a CPMI’s annual relevant expenditure due to a material change in its business model, that is the figure that should be included here. This should be the same number that has been entered in 6A in MIF001.

7A – variation in fixed overheads

A firm should select ‘Yes’ if we have amended its FOR due to a material change in its business model. An example of a material change is adding or removing permissions during the reporting year. If this is the case, the number entered into Cell A4 should be the equivalent annual relevant expenditure for their amended FOR.

Professional negligence

8A – Capital requirement or PII

The firm should report either “Own funds” or “PII”. Where a firm has PII but also holds own funds to cover any excesses and/or exclusions on the policy, the firm should report “PII”. CPMIs should then only complete A9 or A10.

9A – Additional funds under management (IPRU-INV 11.3.14UK)

The amount of additional own funds used to cover potential liability risks arising from professional negligence for AIFM activities instead of professional indemnity insurance. When calculating this amount, firms should include the amount of any assets under management that are delegated to the firm by mandate. Note that this treatment is different from that prescribed for the funds under management requirement.

10A – PII capital requirement (IPRU-INV 11.3.15UK AND 11.13.16R)

The amount of any additional own funds required to cover any defined excess and exclusions in the insurance policy.

Liquid asset requirement

11A – Liquid asset requirement

The amount of own funds required by IPRU-INV 11.2.1R3.

12A – Amount of liquid assets held

The amount of liquid assets held at the reporting date. Assets are regarded as liquid if they are readily convertible to cash within one month. This figure must not include speculative positions.
Insert the following new annexes SUP 16 Annex 51R and SUP 16 Annex 52G after SUP 16 Annex 50G (Funeral Plan). The text is not underlined.

### MIF008 remuneration report

**16 Annex 51R**

This annex consists of forms which can be found through the following link:

[Editor’s note: insert link to document containing data item MIF008]

### MIF008 – Remuneration

<table>
<thead>
<tr>
<th>Basis of completion</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is this report on behalf of a consolidation group?</td>
<td>Yes/No</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If yes, please list the firm reference numbers of all FCA regulated entities in the consolidated situation.</td>
<td>number</td>
<td>number</td>
</tr>
</tbody>
</table>

#### Part A: Remuneration

<table>
<thead>
<tr>
<th></th>
<th>Non-MRTs</th>
<th>MRTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Number of staff</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>4 Total fixed remuneration</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>5 Total variable remuneration</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>6 - of which, awarded in cash</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>7 - of which, awarded in non-cash</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>8 Proportion of total variable remuneration deferred</td>
<td>number</td>
<td>number</td>
</tr>
</tbody>
</table>

#### Part B: Adjustments

<table>
<thead>
<tr>
<th></th>
<th>Non-MRTs</th>
<th>MRTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Number of individual awards of variable remuneration that have been downwardly adjusted in-year</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>10 Total of all in-year adjustments to variable remuneration</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>11 Number of individual awards of variable remuneration from previous years that have been downwardly adjusted (malus)</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>12 Total of adjustments to previous years' awards of variable remuneration</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>13 Number of individual awards of variable remuneration to which clawback has been applied</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>14 Total amount of clawback applied</td>
<td>number</td>
<td>number</td>
</tr>
</tbody>
</table>

### Part C: Highest earning individuals

<table>
<thead>
<tr>
<th>Highest earner 1</th>
<th>Highest earner 2</th>
<th>Highest earner 3</th>
</tr>
</thead>
</table>

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<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Is the individual a material risk taker?</td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>16</td>
<td>Does the individual work in the front, middle or back office?</td>
<td>front/ middle/back</td>
<td>front/ middle/back</td>
<td>front/ middle/back</td>
</tr>
<tr>
<td>17</td>
<td>Fixed remuneration</td>
<td>number</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>18</td>
<td>Variable remuneration</td>
<td>number</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>19</td>
<td>- of which, awarded in cash</td>
<td>number</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>20</td>
<td>- of which, awarded in non-cash</td>
<td>number</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>21</td>
<td>Proportion of variable remuneration deferred</td>
<td>number</td>
<td>number</td>
<td>number</td>
</tr>
</tbody>
</table>
Guidance notes for the MIF008 remuneration report in SUP 16 Annex 51R

This annex consists of forms which can be found through the following link: [Editor’s note: insert link to document containing guidance notes to data item MIF008]

MIF008 – Remuneration

Introduction

The purpose of the MIFIDPRU Remuneration Report is to ensure that the FCA receives regular information in a standard format to assist it in assessing the effectiveness of MIFIDPRU investment firms’ remuneration and incentive arrangements.

Consolidated reports

This form should be completed by all FCA investment firms in scope of the MIFIDPRU Remuneration Code.

Where a firm is not part of an FCA investment firm group or is part of an FCA investment firm group to which the group capital test applies, the firm should complete the form on a solo basis.

Where a firm forms part of an FCA investment firm group to which consolidation applies, it should complete the report on a consolidated basis. References to FCA investment firms should be taken to refer to the consolidation group. Accordingly, the consolidation group should be treated as a single entity. A consolidation group may choose to submit a single report to satisfy the reporting requirements of all FCA investment firms in the group.

Currency

All monetary values should be provided in Sterling.

Data elements

These are referred to by row first and then by column, so data element 2B will be in row 2 and column B. All data should be entered in full figures, not in 000s.

Basis of completion

1A asks FCA investment firms to specify whether they are submitting the report on behalf of a prudential consolidation group.

2A should only be completed by firms responding ‘Yes’ to 1A. It asks for the FRNs of all the FCA investment firms that form part of the consolidation group on behalf of which the report is being submitted.

Part A: Remuneration

This part of the form must be completed by all FCA investment firms.

Columns A and B
FCA investment firms that are small and non-interconnected firms (SNI firms) should complete only column A of Part A. They should enter the data in relation to all their staff. Column B should be left blank.

FCA investment firms that are not small and non-interconnected firms (non-SNI firms) should complete columns A and B of Part A. They should split the data according to which staff were and were not identified as material risk takers in the performance year concerned (see the rules and guidance in Chapter 5 of SYSC 19G for the definition of a material risk taker). Data relating to individuals who were identified as material risk takers for only part of the performance year should be included in column B.

**3A - Number of staff (non-material risk takers)**

The number of staff should be reported as a headcount figure (not as full-time equivalent), so based on the number of natural persons and independent of the individual’s working hours. The headcount figure on the accounting reference date should be used.

**3B – Number of staff (material risk takers)**

The number of staff should be reported as a headcount figure (not as full-time equivalent), so based on the number of natural persons and independent of the individual’s working hours. The figure should include all individuals who were identified as material risk takers for any part of the performance year.

**4A and 4B - Total fixed remuneration**

This is the total of all fixed remuneration paid by the firm for work and services in the performance year in question. Fixed remuneration includes salary payments; regular and non-discretionary pension contributions, for example under the terms of an employee pension scheme; and any other benefits that are not linked to performance criteria. See also our guidance in sections 4.2G to 4.4G of SYSC on categorising fixed and variable remuneration.

**5A and 5A - Total variable remuneration**

This is the total of all variable remuneration awarded by the firm (but not necessarily paid out) in respect of the performance year in question.

Amounts reported should include bonus awards (whether in cash, shares or other non-cash instruments), executive reward schemes (e.g. long term incentive schemes), carried interest plans, and discretionary pension benefits. The latter are enhanced pension benefits granted on a discretionary basis as part of an employee's variable remuneration package. See also our guidance in sections 4.2G to 4.4G of SYSC 19G on categorising fixed and variable remuneration.

Variable remuneration awarded based on a multi-year accrual period that does not revolve on an annual basis (where the firm does not start a new multi-year period every year), should be fully allocated to the performance year in which it was awarded, regardless when it is paid out.

Guaranteed variable remuneration (such as ‘sign-on bonuses’), retention bonuses, buy-out awards, and severance pay should also be included. They should be reported for the year in which they are awarded, which may not always be the year in which they are also paid out.
Both upfront and, where applicable, deferred awards of variable remuneration in respect of the performance year in question should be included.

**6A and 6B - Variable remuneration awarded in cash**

Both upfront and, where applicable, deferred awards of variable remuneration in respect of the performance year in question, in cash should be included.

**7A and 7B - Variable remuneration awarded in non-cash**

Non-cash refers here to variable remuneration that is awarded in any of the eligible instruments listed in section 6.19R of SYSC 19G (shares, share-linked instruments, other instruments that comply with the requirements in Annex 1R of SYSC 19G or non-cash instruments which reflect the instruments of the portfolios managed by the firm), or by means of alternative arrangements approved for use by the FCA (see section 6.21G of SYSC 19G).

Both upfront and, where applicable, deferred awards of variable remuneration in respect of the performance year in question should be included.

**8A and 8B - Proportion of total variable remuneration deferred**

Firms should enter the percentage of the total variable remuneration in row 6 which has been deferred. Only the relevant proportion of variable remuneration awarded in respect of the performance year in question should be reported (not deferred variable remuneration from previous performance years).

**Part B: Adjustments**

This part of the form must be completed by all non-SNI firms. Columns A (non-material risk takers) and B (material risk takers) must be completed.

**9A and 9B - Number of individual awards of variable remuneration that have been downwardly adjusted in-year**

The number of instances in which the value of an award of variable remuneration has been reduced in-year, so during the performance year in question and before it was awarded.

**10A and 10B - Total of all in-year adjustments to variable remuneration**

The total value of the in-year downward adjustments reported in 9A and 9B.

**11A and 11B - Number of individual awards of variable remuneration from previous years that have been downwardly adjusted (malus)**

The number of instances in which the value of variable remuneration awarded in a previous performance year has been reduced (or cancelled) after it has been awarded but before it has vested. Only the new instances in which malus has been applied should be reported (earlier applications of malus will have been reported previously).

**12A and 12B - Total of adjustments to previous years’ awards of variable remuneration**

The total value of the malus adjustments reported in 11A and 11B.
13A and 13B - Number of individual awards of variable remuneration to which clawback has been applied

The number of instances in which the value of variable remuneration awarded in a previous performance year has been reduced (or cancelled) after it has vested. Only the new instances in which clawback has been applied should be reported (earlier applications of clawback will have been reported previously).

14A and 14B - Total amount of clawback applied

The total value of the instances of clawback reported in 13A and 13B.

Part C: Highest earning individuals

This part of the form must be completed by non-SNI firms which do not meet the conditions in SYSC 19G.1.1R(2), so are subject to the rules on deferral, retention and pay-out in instruments.

Columns A, B and C must be completed in relation to the three individuals who were awarded the highest total remuneration (fixed plus variable remuneration) in respect of the performance year in question. The data on the highest earner should be put in column A, on the second highest earner in column B, and on the third highest earner in column C.

15A, 15B and 15C - Is the individual a material risk taker?

Firms should enter ‘Yes’ or ‘No’ to indicate whether the individual was identified as a material risk taker for any part of the performance year concerned.

16A, 16B and 16C - Does the individual work in the front, middle or back office?

Firms should enter ‘front’, ‘middle’ or ‘back’ to indicate in which kind of role the individual spent most of the performance year concerned. The following should serve as a guide:

Front office: Usually client-facing staff that generate revenue for the firm. They may work in sales, trading, broking, wealth/asset management, private equity or capital markets. Research analysts, for example on the buy-side, sell-side or in corporate finance, are usually also considered front office staff.

Middle office: Staff that work in risk management, financial control, compliance and legal. It may also include strategic management and some IT functions, such as creating and maintaining software for use by traders and brokers.

Back office: Staff providing administrative and operational support, including payment services. Areas will usually include human resources, accounting, settlement, clearing, records maintenance and IT services.

17A, 17B and 17C - Fixed remuneration

This is the fixed remuneration paid to the individual for work and services in the performance year in question. See notes on 4A and 4B for information on what should be included in fixed remuneration.

18A, 18B and 18C - Variable remuneration
This is the variable remuneration awarded (but not necessarily paid out) to the individual in respect of the performance year in question. See notes on 5A and 5B for information on what should be included in variable remuneration.

**19A, 19B and 19C - Variable remuneration awarded in cash**

See notes on 6A and 6B for information on what should be reported.

**20A, 20B and 20C - Variable remuneration awarded in non-cash**

See notes on 7A and 7B for information on what should be reported.

**21A, 21B and 21C - Proportion of variable remuneration deferred**

Firms should enter the percentage of the individual’s variable remuneration in row 18 which has been deferred. Only the relevant proportion of variable remuneration awarded in respect of the performance year in question should be reported (not deferred variable remuneration from previous performance years).