

A new UK prudential regime for MiFID investment firms

Consultation Paper

CP21/26***

August 2021

How to respond

We are asking for comments on this Consultation Paper (CP) by **17 September**.

You can send them to us using the form on our website at:
www.fca.org.uk/cp21-26-response-form

Or in writing to:

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1 Summary

Why we are consulting

- 1.1** We are seeking views on the third tranche of our proposed rules to introduce the Investment Firms Prudential Regime (IFPR), a new prudential regime for UK firms authorised under the Markets in Financial Instruments Directive (MiFID). This is the third in a programme of Consultation Papers (CPs) and Policy Statements (PSs) that we have issued to introduce the regime.
- 1.2** As we have stated in our previous publications, the aim of the new regime is to streamline and simplify the prudential requirements for solo-regulated investment firms in the UK (FCA investment firms). In line with the FCA objectives and our Mission, it will refocus prudential requirements and expectations away from the risks the firm faces, to also consider and try to reduce the potential for harm the firm can pose to consumers and markets.
- 1.3** We encourage investment firms and other interested stakeholders to engage with the proposals in this CP. Your feedback will allow us to draft final rules that achieve both our and Parliament's objectives for the regime, and that are also workable for FCA investment firms.

Who this applies to

- 1.4** The proposed rules will apply to:
- Any MiFID investment authorised and regulated by the FCA that is currently subject to any part of the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) including:
 - investment firms that are currently subject to BIPRU and GENPRU
 - 'full scope,' 'limited activity' and 'limited licence' investment firms currently subject to IFPRU and CRR
 - 'local' investment firms
 - matched principal dealers
 - specialist commodities derivatives investment firms that benefit from the current exemption on capital requirements and large exposures including:
 - oil market participants (OMPS)
 - energy market participants (EMPS)
 - exempt CAD-firms
 - investment firms that would be exempt from MiFID under Article 3 but have 'opted-in' to MiFID
 - Collective Portfolio Management Investment Firms (CPMIs)
 - regulated and unregulated holding companies of groups that contain an investment firm authorised and regulated by the FCA and that is currently authorised under MiFID and/or a CPMI.

- depositaries

- 1.5** Our proposals on capital requirements for MiFID investment firms acting as depositaries might also be of broader interest to fund managers who appoint them.
- 1.6** Prudential Regulation Authority (PRA) designated investment firms may also be affected and so we also welcome comments on our proposals from these firms.

What we want to change

- 1.7** The FCA is the competent authority for the prudential regulation of approximately 3,700 investment firms authorised under the Markets in Financial Instruments Directive (MiFID).
- 1.8** The current prudential regime for FCA investment firms is based on requirements designed for globally active systemically important banks. The main aim of this regime is to protect depositors by ensuring that it is difficult for a bank to fail.
- 1.9** By contrast, the IFPR is specifically designed for investment firms. The new requirements seek to cover the potential harm posed by these firms to their clients and the markets in which they operate. It also considers the amount of capital and liquid assets the FCA investment firm should hold so that if it does have to wind down, it can do so in an orderly manner.
- 1.10** The IFPR represents a significant change to how MiFID investment firms will be prudentially regulated. It should simplify the existing approach and introduces greater proportionality by aligning requirements with the potential harm posed by FCA investment firms.
- 1.11** Introducing the IFPR means that there will be a single prudential regime for all FCA investment firms, simplifying the current approach. It should reduce barriers to entry and allow for better competition between investment firms. Some of these firms will have meaningful capital and liquidity requirements for the first time, in proportion with the potential harm they can cause.

Specific changes to the existing prudential regime for FCA investment firms

- 1.12** This is the third CP setting out our proposals for changing prudential regulation for FCA investment firms. It should be read in conjunction with [PS21/6](#) and [PS21/9](#) (in response to [CP20/24](#) and [CP21/7](#) respectively). Our draft legal rules in this CP also include certain non-material additions and amendments to the text from the previous CPs, such as updating cross-references and terminology.
- 1.13** This rest of this section only highlights proposals that are included in this CP.

Disclosure

- 1.14** We propose that FCA investment firms that are not small and non-interconnected (ie non-SNIs) should disclose information about their risk management and governance arrangements, and about their own funds, own funds requirements and investment policy.
- 1.15** We also propose that any small and non-interconnected (SNI) firm that has issued additional tier 1 (AT1) instruments should also disclose information about their risk management arrangements.
- 1.16** We propose that all FCA investment firms must make some disclosure on their remuneration policies and practices. This will be qualitative and quantitative and proportionate to the size and type of firm.
- 1.17** In this CP, we are not proposing FCA investment firms should make disclosures on environmental, social and governance (ESG) issues, apart from the governance arrangements already mentioned. We will consult specifically on ESG disclosures in a subsequent CP. Firms should note that they may be in scope of other FCA consultations on climate-related disclosure.
- 1.18** See Chapter 3 for more details, including how to disclose the required information.

Own funds – excess drawings by partners and members

- 1.19** We propose a rule to address the situation where excess drawings can be made by partners in a partnership or members in a limited liability partnership (LLP) without being recorded as a loss and is, instead, treated as a loan to partners or members.
- 1.20** See Chapter 4 for more details.

Technical standards

- 1.21** We have looked at the Binding Technical Standards (BTS) adopted under the UK versions of CRR and the Financial Conglomerates Directive (FICOD) and considered those relevant to IFPR. For CRR this is mainly those for own funds and market risk.
- 1.22** In most cases, we are proposing that firms should apply the onshored technical standards with specific modifications that are set out in MIFIDPRU. These modifications are included in MIFIDPRU so that the BTSs work in the way they should with the IFPR. However, for 2 of the BTSs we believe it would make our rules difficult to follow if there were too many amendments and cross-references back to the corresponding BTS, so we are proposing to incorporate these into a MIFIDPRU annex.
- 1.23** See Chapter 5 for more details.

Depositaries

- 1.24** We propose to amend the requirements that depositaries must meet so that they no longer have to have permission to deal on own account. We also propose to allow other FCA investment firms to act as a depositary where they also provide the MiFID ancillary service of safe-keeping and administration of financial instruments.

1.25 We also propose a change to the minimum own funds requirement and to move the relevant requirement from FUND and COLL into MIFIDPRU.

1.26 See Chapter 6 for details.

UK resolution regime

1.27 Earlier in 2021, the Treasury consulted on its proposal to remove FCA investment firms from the scope of the UK's resolution regime. In June 2021, the Treasury's feedback confirmed that these firms would no longer be subject to this regime.

1.28 Chapter 7 outlines the changes that we propose making to our Handbook to reflect this change.

Consequential changes

1.29 In CP21/7 we set out how MIFIDPRU is intended to interact with other prudential sourcebooks in our Handbook. Chapter 8 covers the remaining consequential changes we propose to make to the Handbook and to the Handbook Glossary. We are only proposing to make the consequential amendments needed to:

- delete provisions that are no longer required
- ensure that the interactions between them and MIFIDPRU work in practice

1.30 Our proposals include amendments to Chapter 3 in GENPRU covering cross-sector groups.

Enforcement

1.31 The Financial Services Act 2021 (FS Act) has introduced Part 9C of FSMA. This gives us new powers to impose obligations directly on non-authorised parent undertakings of FCA investment firms. It also gives us the scope to take disciplinary action against undertakings that breach these requirements.

1.32 Chapter 9 sets out how we propose to make use of these new powers.

Applications and notifications

1.33 We propose to have a specific notification form for changes to investment firm groups.

1.34 We also propose to have a generic application form and a generic notification form. This will cater for any specific requirements that arise from the various technical standards that we propose to incorporate into MIFIDPRU.

1.35 See Chapter 10 for more details of these forms and an update on when forms previously consulted on will be available to use.

Outcomes we are seeking

- 1.36** Our staged approach to consulting has addressed different aspects of the regime and the changes we are making or now propose to make. Throughout this process, we are seeking the following outcomes:
- The prudential regime for FCA investment firms is more aligned to the way that investment firms run their business. The regime will take account of these firms' different business models, and better protect consumers and markets from the harm these may pose.
 - All FCA investment firms must meet meaningful and consistent prudential requirements, not just those subject to the current CRR regime. This will help reduce the potential harm to consumers and markets, and ensure a more level playing field between FCA investment firms.
 - FCA investment firms spend less time on complex capital requirement calculations that do little to help them to manage risk. This will free up management time to focus on running the business and managing and reducing any harm and risk. We will also be able to focus on how a firm is managing itself.
 - The relevant prudential rules for FCA investment firms are understandable and accessible, with most rules brought into a new single prudential sourcebook (MIFIDPRU)

Next steps

- 1.37** We want your feedback on our proposed rules and other issues discussed in this CP. Please send your answers to the questions in this CP by Friday 17 September 2021 using one of the methods in the 'How to respond' section on page 2.
- 1.38** Following this consultation, we will consider your feedback, and publish a PS and final rules for the whole regime in the autumn.

2 The wider context of this consultation

- 2.1** This is the third of 3 CPs, setting out our proposals to introduce the IFPR. We published CP20/24 in December 2020 and CP21/7 in April 2021. We have also published 2 Policy Statements. PS21/6 provided feedback on CP20/24 and the related near-final rules. PS21/9 provided feedback on CP21/7 and the related near-final rules.
- 2.2** When the UK was a member of the EU, we were heavily involved in policy discussions on creating the regime that took place through the EU and European Banking Authority (EBA) papers and consultations. We support the aims of the EU's Investment Firm Directive and Investment Firm Regulation and are proposing that the IFPR will achieve the same overall outcomes.
- 2.3** However, as we are introducing the regime after the UK has exited the EU, we believe it is right that we also consider appropriate changes to account for the specifics of the UK market and our duties to have regard to certain factors, including those set out in the FS Act.
- 2.4** As set out in our previous CPs and in line with our consultation map below (Table 1), we have consulted on the different aspects of the IFPR in stages. This was to allow firms to absorb and respond to our proposals in a more manageable way. We consulted earlier on those topics that we think FCA investment firms will need the most time to prepare for.

Table 1: Our consultation map

CP20/24 – December 2020	CP21/7 – April 2021	CP3 – This publication
MIFIDPRU1: Application (aspects of)	MIFIDPRU1: Application (remainder)	MIFIDPRU8 – Disclosure & ESG
MIFIDPRU2: Prudential consolidation and the group capital test	MIFIDPRU4 – Own funds requirements (remainder)	Own funds – excess drawings by partners and members
MIFIDPRU3 – Own funds resources	MIFIDPRU6 – Liquidity	Other – consequential amendments to CRR technical standards
MIFIDPRU4 – Own funds requirements (aspects of)	MIFIDPRU7 – Risk Mngt & Governance, ICARA and SREP	MiFID investment firms that are Depositories
MIFIDPRU5 – Concentration risk	MIFIDPRU9 – Regulatory reporting (remainder)	Approach to the UK resolution regime
MIFIDPRU9 – Regulatory reporting (aspects of)	OTHER – Remuneration requirements	Other – Consequential amendments to Handbook, including approach to financial conglomerates
	MIFIDPRU10 – Clearing members and Indirect clearing Firms – own firm requirements	OTHER – Application and notifications
	OTHER – Interaction between MIFIDPRU and other prudential sourcebooks	
	OTHER – Permissions and application forms	

- 2.5** Stakeholders have now seen the near-final rules which set out the key points of the regime, which accompanied PS21/9. We intend for this third CP and the subsequent PS to address final points of the regime needed for initial implementation, consequential amendments to the Handbook, and any gaps or issues we identified through our consultation process. However, as noted in Chapter 1, we intend to consult specifically on ESG disclosures in a subsequent CP next year. And we will keep our implementation under review in case any further refinements are necessary or desirable, for example bringing the relevant own funds material of the cross-referred to UK CRR into MIFIDPRU.
- 2.6** This means that the cost-benefit analysis (CBA) in this consultation paper and our approach to our new accountability measures in the FS Act will set out our view on the impact of our rules and the basis on which we have drafted them over all 3 consultations.

How it links to our objectives

Market integrity

- 2.7** Our proposals are based on requiring FCA investment firms to consider the potential harm they can cause to others, including their clients, counterparties and the markets in which they operate, taking account of the type and scale of their activities. This is a change from the previous regime which was based more on FCA investment firms mainly considering the risks to their own balance sheet.

Competition

- 2.8** Our proposals mean that there will be one overarching regime for all FCA investment firms. It will be proportionate, based on the type of activities they undertake and their size. This will be a significant improvement on the many regimes that are currently in place for these firms. FCA investment firms with similar business models will now have similar prudential requirements, rather than markedly different ones due to historical quirks. This will help to improve competition between existing FCA investment firms as well as simplifying prudential requirements for new entrants.

Protecting consumers

- 2.9** Our proposals mean that FCA investment firms will have to consider the potential harm they can cause to their retail customers, as well as their wholesale and financial services clients.

Equality and diversity considerations

- 2.10** We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.
- 2.11** Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.
- 2.12** In the meantime, we welcome your input to this consultation on this.

3 Disclosure

- 3.1** In this chapter we set out our proposals for disclosures by FCA investment firms. This includes both how and what firms would disclose.
- 3.2** In CP20/24, we said that we would consult on environmental, social and governance (ESG) disclosures in this CP. However, we consider that ESG issues, particularly environmental issues, are global in nature and internationally consistent standards are particularly important. So, in light of this we believe it is more appropriate to wait and consult on ESG disclosures in a later consultation. For example, in June, we published two consultation papers, CP21/17 and CP21/18 on climate-related disclosures for certain types of firm. Some FCA investment firms may be in scope of these in addition to MIFIDPRU disclosures.
- 3.3** The topics for disclosure that we are consulting on in this CP are:
- risk management
 - governance arrangements
 - own funds
 - own funds requirements
 - Remuneration
 - Investment policy
- 3.4** Our proposed rules for this chapter are set out in MIFIDPRU 8.
- 3.5** Public disclosures are a core part of market discipline, providing important information and transparency to enable markets to work well. So, we welcome feedback to the proposals in this chapter from firms and wider stakeholders such as investors who may use the information disclosed, to ensure our rules achieve this outcome. Our proposals represent what we believe to be minimum standards of disclosure and firms are free to disclose more should they choose to do so.

Scope and application

Summary of scope of application

- 3.6** Table 2 provides a summary of the proposed scope of application of our proposals for disclosure requirements.

Table 2

	SNI that has not issued AT1^{1,2}	SNI that has issued AT1^{1,2}	Non-SNI1	Commodity and emission allowance dealer¹
Risk management	No	Yes	Yes	Exempt for 5 years
Own funds	No	Yes	Yes	Exempt for 5 years
Own funds requirements	No	Yes	Yes	Exempt for 5 years
Investment Policy	No	No	Yes - if larger non-SNI ³	Yes – if larger non-SNI ³
Governance arrangements	No	No	Yes	Exempt for 5 years
Remuneration ⁴	Some	Some	Yes	Exempt for 5 years

¹ Where relevant, also applies to UK parent entities of FCA investment firm groups on the basis of their consolidated situation.

² An SNI will be exempt from all disclosure requirements where it satisfies the conditions of MIFIDPRU 2.3.1R, eg it is included in the supervision on a consolidated basis of an insurance undertaking or reinsurance undertaking.

³ Where the non-SNI exceeds the relevant thresholds for risk, remuneration and nomination committees set out in MIFIDPRU 7.

⁴ See Table 3 and Table 4 in this chapter for the specific requirements for each type of firm.

Non-SNI firms and UK parent entities

3.7 The disclosure proposals in this chapter would apply to all non-SNI firms. There is an exception for the disclosures required on investment policy, which we propose to apply only to the larger non-SNI firms as determined by the thresholds for applying the MIFIDPRU 7 committee requirements.

3.8 In line with our approach to consolidation in MIFIDPRU 2.5, we propose that the requirements also apply to the UK parent entity of an FCA investment firm group where it is:

- subject to prudential consolidation (see MIFIDPRU 2.5.7R), and
- treated as a non-SNI firm (see MIFIDPRU 2.5.21R).

SNI firms

3.9 We are proposing to apply the disclosure requirements on risk management, own funds, and own funds requirements to SNI firms that issue additional tier 1 (AT1) instruments. We would also apply them to UK parent entities that are subject to prudential consolidation, treated as SNI firms and rely on AT1 instruments to meet their consolidated own funds requirement.

3.10 We propose to apply a small number of our requirements on remuneration disclosures to all SNI firms. We set out in the section on remuneration which disclosures should be made by which categories of FCA investment firm.

3.11 We confirmed in PS21/6 that SNI firms are exempted from applying at individual entity level all disclosure requirements in MIFIDPRU 8 if they meet the conditions set out in MIFIDPRU 2.3.1. The conditions include being a subsidiary of an insurance or reinsurance undertaking where the group is subject to consolidation.

Commodity and emission allowance dealers

3.12 We propose that, for five years from the introduction of the IFPR, commodity and emission allowance dealers be exempt from the following disclosure requirements:

- risk management objectives and policies
- governance
- own funds
- own funds requirements
- remuneration policies and practices

3.13 However, we propose that the disclosure requirements for investment policies will apply to commodity and emission allowance dealers, where they are non-SNI firms that do not fall within MIFIDPRU 7.1.4R(1)

Proportionality

3.14 Given the diversity of FCA investment firms, we propose that each firm complies with the qualitative disclosure requirements in a manner appropriate to its size, internal organisation, and the nature, scope and complexity of its activities. This means that firms must disclose all the information required but have a degree of discretion over the level of detail. We would expect all firms to consider what information is likely to be relevant to investors and other stakeholders.

3.15 Using the example of remuneration disclosures, we would expect a non-SNI firm with a detailed remuneration policy to disclose more detailed information than an SNI firm when complying with the same qualitative disclosure requirement. We have included a draft guidance provision to clarify these expectations.

When and how to disclose

3.16 Poorly run firms pose a greater potential risk of harm to markets and consumers. By disclosing appropriate and relevant information about its risk management policies and other control systems, an investment firm helps stakeholders (especially investors, potential investors and counterparties) to make informed decisions about their relationship with the firm on the basis of the harm that it may pose to customers and/or markets.

3.17 In this way, public disclosures support effective market discipline and facilitate constructive engagement by all stakeholders.

3.18 For disclosures to fulfil this role effectively, they need to be easily accessible and understandable by stakeholders. So, we are proposing that firms will need to publish their disclosures in an easily found and accessible part of their website. (For example, it appears when the website is searched, via a search engine or is clearly sign-posted). Firms that do not have websites would still need to make their disclosures freely available. This might be in other material that they publish or provide to investors, such as an annual report or investor brochure.

3.19 We are proposing that the information disclosed will need to be easily understood (to facilitate informed stakeholder decisions) and that firms will have to consider how this is presented to ensure this, for example by using clear language and diagrams where relevant. We are also proposing that the information disclosed will need to be easy to understand in the context of other information about the firm, such as by including relevant cross-references and by disclosing in a consistent way from year to year. Where this isn't possible, for example if the firm changes from disclosing on an individual to consolidated basis, the firm would need to clearly note this.

- 3.20** We are proposing that firms will publish their disclosures annually, alongside their annual financial statements (or annual solvency statement, for some types of firm). They should also consider updating their disclosures more frequently than this if their business undergoes a significant change that could affect the content of their disclosures, for example due to a material change to the business model, a merger or acquisition.

Risk management

- 3.21** We propose that non-SNI firms, and SNI firms which issue AT1 instruments, disclose their risk management objectives and policies for the categories of risk addressed by:

- MIFIDPRU 4 (Own funds requirements)
- MIFIDPRU 5 (Concentration risk)
- MIFIDPRU 6 (Liquidity)

- 3.22** For each of these areas, we propose that the disclosures include a summary of the relevant potential for harm posed by the firm's business strategy, and a summary of the strategies and processes used to manage these categories of risk and how this helps reduce the potential for harm.

- 3.23** We are not proposing to provide templates for this disclosure of risk management or to introduce more detailed requirements. This is to provide flexibility in recognition that risk management objectives and policies will be unique to each firm. However, examples of information that firms may consider relevant to disclose include:

- a summary of the firm's approach to risk management by reference to their risk management policies
- details of the firm's risk management structure and operations, including relevant committees and their responsibilities and the senior management responsible for each area of risk
- a description of the relevant principal risks and potential harm and how those risks are measured and managed
- how the firm sets its risk appetite
- a summary of how the firm assesses the effectiveness of its risk management processes

- 3.24** As the ICARA process is the tool firms use to identify and monitor potential harm, we consider firms may wish to draw on their ICARA process when preparing their risk management disclosures. However, we are not proposing to require firms to disclose their ICARA document.

Own funds & own funds requirements

- 3.25** By disclosing the amount and composition of their own funds, firms provide stakeholders with important information about their financial resilience.

Own funds

3.26 We are proposing that firms should disclose a breakdown of the composition of their own funds, and a reconciliation of this with the capital recorded in the firm's audited balance sheet. We also propose that there should be a description of the main features of the own funds instruments issued by the firm. Features of the instruments that firms may consider relevant to disclose will depend on the instrument, but examples include:

- type of instrument
- amount recognised in regulatory capital
- perpetuity
- maturity date
- details of any coupons/dividends
- convertibility

3.27 We propose to introduce a template for disclosing own funds. This is to provide consistency and comparability in disclosure. We have designed the template to balance this with proportionality. The template includes a table for the composition of own funds, a table for reconciliation with capital in the balance sheet, and a free text section to describe the main features of the own funds instruments issued by the firm. The reconciliation table is flexible and firms should add or remove lines as relevant. Figures should be given in thousands of pounds (GBP k) unless the working currency of the firm is different, in which case this should be noted in the disclosure.

Own funds requirements

3.28 We are proposing that firms disclose their fixed overheads requirement (FOR), their K-factor requirement (for non-SNIs), and a summary of their approach to assessing the adequacy of their own funds needed to support their ongoing operations. For this section we are not proposing to require the use of a template.

3.29 We are proposing that firms should disclose the amount represented by their FOR. We are not proposing to require firms to disclose a calculation or breakdown of their FOR.

3.30 For the K-factor requirement, we are proposing that firms disclose their total K-factor split into the sum of each of the following groupings, which essentially reflect (1) assets for which the firm is responsible; (2) execution activity undertaken by the firm; and (3) its exposure-based risks:

- K-AUM, K-CMH & K-ASA
- K-DTF & K-COH
- K-NPR, K-CMG, K-TCD & K-CON

3.31 We are not proposing to require firms to disclose the amount attributed to each individual K-factor.

3.32 As set out in CP21/7 and PS21/9, firms will assess the own funds required for their ongoing operations and during wind down when assessing their compliance with the overall financial adequacy rule (OFAR) as part of the ICARA process. We are proposing to require firms to disclose a summary of their approach to ensuring they meet this requirement, but we are not proposing that they disclose what the relevant amounts are. Our expectations for the summary firms provide for this disclosure are proportionate, in line with the firm's ICARA process.

Investment policy

- 3.33** We are proposing disclosures relating to firms' investment policy for investments meeting certain criteria. Namely, investments where the shares are traded on a regulated market and the firm holds more than 5% of the voting rights, unless the shareholders represented by the firm at the shareholders' meeting do not authorise the firm to vote on their behalf.
- 3.34** The proposed items to be disclosed are:
- the proportion of voting rights attached to the shares held directly or indirectly by the firm, broken down by country or territory
 - a description of voting behaviour in the general meetings of companies the shares of which are held in accordance with MIFIDPRU 8.7.4R, including:
 - an explanation of the votes
 - the ratio of proposals put forward by the company that the firm has approved
 - an explanation of the use of proxy advisor firms
 - a summary of the voting guidelines regarding the companies in which the shares are held, with links to supporting non-confidential documents where available
- 3.35** We are proposing firms use a standard template for this disclosure. We consider this will provide a balance between consistency and flexibility. The template is structured with tables for the proportion of voting rights and the description of voting behaviour, and free text boxes for the explanation of the use of proxy advisor firms and the summary of voting guidelines. The description of voting behaviour is primarily quantitative rather than qualitative, describing the number of votes by characteristics such as theme, voting method, and number of meetings.

Governance arrangements

- 3.36** Effective governance arrangements help a firm to achieve its strategic objectives while also ensuring that risks to the firm, its stakeholders and the wider market are identified, managed and mitigated.
- 3.37** **Oversight of governance arrangements by the management body**
Under SYSC 4.3A.1R, all common platform firms (as defined in our Handbook Glossary), which includes FCA investment firms, must ensure that the management body defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the firm. This includes the segregation of duties in the organisation and the prevention of conflicts of interest. The management body must do this in a manner that promotes the integrity of the market and the interests of clients.
- 3.38** We propose that all non-SNI firms publish a summary of how they comply with this rule. In line with the proportionality approach outlined above, non-SNI firms must disclose information which is appropriate to their size, internal organisation, and the nature, scope and complexity of their activities.
- 3.39** Because it is a broad, high-level requirement, we are proposing to include a guidance provision which directs non-SNI firms to the provisions in SYSC about the

responsibilities of the management body and the necessary skills and attributes of the members. Firms may find it helpful to consider these when deciding what information on their governance arrangements to disclose.

- 3.40** We consider that general information about a firm's governance arrangements provides stakeholders with an overview of the way the firm is run and how decisions are made. It also provides the context for the more specific governance disclosures we are proposing.

Risk committee

- 3.41** We confirmed in PS21/9 that the largest non-SNI investment firms, as determined by the thresholds in MIFIDPRU 7.1.4R, will be required to establish risk committees at individual entity level. These firms will be able to apply to us for a modification of the rule if they have a group level risk committee which they consider meets the relevant requirements.

- 3.42** In line with this, we propose that a non-SNI investment firm must disclose:

- whether it has a risk committee
- whether it is required to establish a risk committee under MIFIDPRU 7.3
- where relevant, whether it has any waiver or modification of the rule requiring a risk committee

- 3.43** We consider that risk committees are an effective way of identifying, managing and mitigating the various types of risks which can arise from the activities of an investment firm. It is relevant to stakeholders' understanding of the overall governance of a firm to have information about how its risk appetite is set and its risk strategy monitored.

Directorships

- 3.44** All FCA investment firms are currently required by SYSC 4.3A.5R to ensure that members of the management body do not hold more directorships than is appropriate. Members of the management body of 'significant IFPRU firms' are also currently subject to specific limits on the number of directorships they may hold at any one time (SYSC 4.3A.6R). We are proposing to change the name 'significant IFPRU firm' to 'significant SYSC firm', but this does not change the substantive thresholds that underpin that term (see Chapter 8).

- 3.45** We propose that all non-SNI firms must disclose the number of separate directorships held by each member of the management body, broken down into executive and non-executive directorships. For this purpose, it is not relevant whether the directorship is held in an entity that pursues a predominantly commercial objective.

- 3.46** We propose that non-SNI firms that are also significant SYSC firms must disclose whether we have approved any additional directorships beyond the limits which would usually apply. Such approvals relate to a named individual and are usually given in the form of a modification of SYSC 4.3A.6R.

- 3.47** The disclosure of directorships aims to provide stakeholders with an indication of the time commitment to the firm by individual members of the management body, and whether there may be potential conflicts of interest.

- 3.48** IFPRU investment firms are currently in scope of the UK CRR, so are already required to disclose this information. This means our proposal would affect only the remaining types of firms that will also be non-SNI firms under the IFPR. IFPRU investment firms that will be SNI firms would no longer be subject to directorship disclosure requirements.

Diversity policy

- 3.49** In DP21/2: Diversity and inclusion in the financial sector – working together to drive change (July 2021), we set out our view that for governance arrangements to be most effective, firms' management bodies need diversity of thought, supported by demographic characteristics and an inclusive culture. This helps to minimise risks to safety and soundness from groupthink and enables a better understanding of diverse customer groups.
- 3.50** As common platform firms, all FCA investment firms are required to put in place a policy promoting diversity on the management body. This supports the requirement to engage a broad set of qualities and competences when recruiting members to the management body (SYSC 4.3A.9R(1) and SYSC 4.3A.10R).
- 3.51** Given increasing awareness of the importance of diversity, we believe it is important that firms disclose their approach to diversity on the management body. We propose that non-SNI firms must publish a summary of this policy. It would need to include:
- the objectives of the diversity policy
 - any target set out in the policy
 - the extent to which the objectives and any targets have been met
 - where the objectives or targets have not been met, the reasons and the proposed actions and timeline to address the shortfall
- 3.52** We did consider looking at this issue as part of our broader work on diversity and inclusion across the financial sector. But as IFPRU investment firms will no longer be classified as such from the beginning of the new prudential regime, we would have to remove the existing disclosure requirement applicable to IFPRU investment firms in the interim. We think it is important that disclosures continue to be made uninterrupted.

Remuneration

- 3.53** Public disclosures on remuneration allow stakeholders to assess the extent to which the remuneration policies and practices of a firm support its strategy, risk profile, financial stability, culture and desired staff behaviours.
- 3.54** Our proposals aim to strike an appropriate balance between ensuring stakeholders have sufficient qualitative and quantitative information without requiring investment firms to disclose commercially or personally sensitive or confidential information. In formulating the proposals, we have taken into account the Financial Stability Board's Principles and Standards for Sound Compensation Practices.
- 3.55** We are aware that the diversity of investment firms means direct comparisons between their remuneration disclosures may not always be possible or helpful to

stakeholders. Nevertheless, our proposals should contribute to promoting a certain degree of consistency of disclosures.

Qualitative information disclosures

Approach to remuneration and incentives

3.56 We propose that each MIFIDPRU investment firm, including SNI firms, must disclose a summary of:

- its approach to remuneration for all staff
- the objectives of its financial incentives
- the decision-making procedures and governance around the development of its remuneration policies and practices, including:
 - the composition and mandate of the remuneration committee (where one exists)
 - details of any external consultants used

3.57 We are also proposing to include a guidance provision to help firms understand the types of information that could be included in the summary of their approach to remuneration.

Key characteristics

3.58 We propose that all FCA investment firms disclose the key characteristics of their remuneration policies and practices. They should do so with the objective of providing sufficient detail to enable external stakeholders to understand the risk profile of the firm, or assets it manages, and gain an overview of the incentives created by the remuneration policies and practices.

3.59 In line with our approach to proportionality in the MIFIDPRU Remuneration Code, we propose to require larger investment firms, which pose greater potential risks to their clients and financial markets, to publicly disclose more design characteristics than smaller investment firms.

3.60 We set out in Table 3 below the minimum disclosures we propose for each of the 3 categories of FCA investment firms.

Table 3: Disclosure of key characteristics of remuneration policies and practices

FCA investment firms in scope	Key characteristic to be disclosed
All FCA investment firms	The components of remuneration and the categorisation of each as fixed or variable
	A summary of financial and non-financial performance criteria used to assess the performance of the firm, business units and individuals
Non-SNI firms (in addition to disclosures required by all FCA investment firms)	The framework and criteria used for ex-ante and ex-post risk adjustment of remuneration, including descriptions of: <ul style="list-style-type: none"> • current and future risks identified • how these risks are taken into account when adjusting remuneration • how malus (where relevant) and clawback are applied
	The policies and criteria applied for awards of guaranteed variable remuneration
	The policies and criteria applied for awards of severance pay

FCA investment firms in scope	Key characteristic to be disclosed
<p>Largest non-SNI firms (in addition to disclosures required by all FCA investment firms and all non-SNI firms)</p>	<p>The deferral and vesting policy (and, where different depending on category of material risk taker (MRT), broken down accordingly), including at least:</p> <ul style="list-style-type: none"> • proportion of variable remuneration deferred • deferral period • retention period • vesting schedule • explanation of the rationale for these approaches <hr/> <p>Description of the different forms in which fixed and variable remuneration are paid (eg cash, share-linked instruments, short or long-term incentive plans)</p>

Material risk takers

- 3.61** We propose that all non-SNI firms must also disclose the types of staff they have identified as MRTs. This should include not just the minimum categories set out in SYSC 19G.5 but also any additional criteria used by the firm to identify further individuals.
- 3.62** Disclosing this information would help stakeholders to understand which roles within the investment firm involve activities that have a material impact on the risk profile of the firm or of the assets it manages.
- Ratio between variable and fixed remuneration**
- 3.63** In PS21/9, we confirmed that all non-SNI firms must set an appropriate ratio between the variable and fixed components of total remuneration. In doing so, firms should consider all potential scenarios and all relevant factors.
- 3.64** We have listened to stakeholders' concerns about any requirement to publicly disclose the ratio (or ratios) they set. We are not proposing that these must be disclosed.
- 3.65** We consider it is likely that both external stakeholders, such as investors, and investment firms' own staff would compare the ratios disclosed by firms. Given the diverse nature of investment firms and the many factors each will need to consider in setting its ratio or ratios, we do not think that such comparison is meaningful or helpful.
- 3.66** Without full information about these factors and how they have led a firm to set its ratio or ratios, we believe that disclosure of ratios would raise more questions than it would answer.

Quantitative information disclosures

- 3.67** We propose that FCA investment firms make certain quantitative disclosures about the remuneration outcomes of their staff. These aim to complement the qualitative information disclosures by enabling stakeholders to assess whether the remuneration policies and practices operate as designed.
- 3.68** Taking a proportionate approach, we propose that the 3 types of FCA investment firms disclose information in line with their obligations under the MIFIDPRU Remuneration Code.
- 3.69** We summarise our proposals in Table 4 below.

Table 4: Disclosure of quantitative information on remuneration

FCA investment firms in scope	Quantitative information to be disclosed
All FCA investment firms	<p>Total amount of remuneration awarded to all staff, split into:</p> <ul style="list-style-type: none"> • fixed remuneration • variable remuneration
Non-SNI firms (in addition to disclosures required by all FCA investment firms)	<p>The above amounts to be split into remuneration awarded to:</p> <ul style="list-style-type: none"> • senior management • other MRTs • other staff <p>*Total amount of guaranteed variable remuneration awards made to MRTs, and the number of individuals receiving them</p> <p>*Total amount of severance payments awarded to MRTs, and the number of individuals receiving them</p> <p>*The amount of the highest severance payment awarded to an individual MRT</p>
Largest non-SNI firms (in addition to disclosures required by all FCA investment firms and all non-SNI firms)	<p>*Total number of MRTs identified</p> <p>*Information on whether the firm uses the exemption for individuals in SYSC 19G.5.9R, including:</p> <ul style="list-style-type: none"> • to which of the provisions in SYSC 19G.5.9R the exemption is applied • total number of MRTs who benefit from an exemption from each of the provisions • the total remuneration of the MRTs who benefit from an exemption, split into: <ul style="list-style-type: none"> • fixed remuneration • variable remuneration <p>*The amounts and forms of variable remuneration awarded to MRTs, split into:</p> <ul style="list-style-type: none"> • cash • shares • share-linked instruments • other forms of remuneration <p>with each form of remuneration also split into:</p> <ul style="list-style-type: none"> • deferred • non-deferred <p>*The amount of deferred remuneration awarded to MRTs for previous performance periods, split into:</p> <ul style="list-style-type: none"> • the amount due to vest in the financial year in which the disclosure is made • the amount due to vest in subsequent years <p>*The amount of deferred remuneration awarded to MRTs that is due to vest in the financial year, split into:</p> <ul style="list-style-type: none"> • the amount that is or will be paid out • the amount that was due to vest but has been withheld as a result of performance adjustment

Under our proposals, each of the data items marked * must be split into senior management and other MRTs.

Questions

- Q1:** Do you agree with the proposed scope and process of disclosure set out in this chapter?
- Q2:** Do you agree with our proposed disclosures on risk management, own funds, own funds requirements and investment policy, including the use of templates? If not, please provide details of what should be disclosed or how the templates should be amended.
- Q3:** Do you have any specific suggestions on our proposed disclosures on governance arrangements and on remuneration?

4 Own funds – excess drawings by partners and members

- 4.1** This chapter is relevant to FCA investment firms and UK parent entities that are partnerships or limited liability partnerships (LLPs). It covers where partners or members take drawings from the business that exceed the profits made.
- 4.2** Current GENPRU 2.2.100R requires a BIPRU firm which is a partnership or limited liability partnership to deduct from its tier 1 capital the amount by which withdrawals by its partners or members exceed the profits of that firm. There are some exceptions to this, where the amount is repaid (eg transfer to another partner or member – see GENPRU 2.2.93R and 2.2.94R).
- 4.3** There is currently no equivalent provision for IFPRU firms because the UK CRR own funds provisions are directly binding for them. But, as we noted in Chapter 4 of CP 20/24, those detailed requirements are easier to understand from the perspective of a joint-stock company issuing share capital. For example, any interim distribution that exceeds profits may be expected to lead to a reduction in own funds due to the requirement to deduct a current year loss from CET1 capital.
- 4.4** However, since the publication of PS21/6, it has been suggested that there can be situations in which excess drawings in a partnership or LLP can be made without being recorded as a loss. A partnership or LLP may seek to remunerate partners or members by, in effect, lending them their share of profits in advance of formal allocation. This would result in loans that will need to be repaid. Once profits are audited/approved, where the profit allocated to the partner or member is more than the sum of drawings then the partnership or LLP will deem the loan to have been repaid. But if the sum of drawings exceeds the profit allocation then only part of their loan is deemed repaid. So, it is possible that excess drawings never show as a loss or a distribution that would require to be deducted from own funds, (as, for example, it would where a dividend paid/declared is greater than a joint-stock firm's profits). Instead, there may be a reduction in the firm's cash that is effectively offset by an asset in the form of the partner's or member's outstanding loan.
- 4.5** So we propose to address this issue by adding a new point (11) to MIFIDPRU 3.3.6R, to require an FCA investment firm that is a partnership or LLP to deduct excess drawings by its partners or members which exceed the profits of the firm. This does not apply to the extent that the amount is already:
- deducted from the firm's own funds as a loss for the current financial year
 - offset by new capital contributions from other partners or members where permitted under our rules, or
 - reflected in a reduction of the firm's own funds that was permitted under articles 77 and 78 of the UK CRR, as applied by MIFIDPRU 3.6.1R.

Q4: Do you agree with our proposal to require excess drawings by partners or members (of partnerships and LLPs) to be deducted from CET1 capital, except where the amount is already required to be deducted or deemed repaid under other MIFIDPRU rules. If not, please explain your reasons for disagreeing.

5 Technical standards

- 5.1** In this chapter we explain how we propose to apply the onshored UK equivalents of EU-derived Binding Technical Standards (BTS) for which the FCA is listed as a responsible regulator and that we have identified as relevant under the IFPR. As part of this process, we have examined the technical standards adopted under the UK versions of CRR and FICOD. Some of these BTS continue to be relevant under IFPR because MIFIDPRU applies (with appropriate modifications) certain parts of the UK CRR that are supplemented by the BTS.
- 5.2** We propose that in most cases firms should apply the onshored BTS, that are relevant under the IFPR, with specific modifications. These modifications are reflected in the amendments to MIFIDPRU that cross-refer back to the BTS. It is necessary to include these modifications so that the technical standards provisions are operative in the way intended after the implementation of the IFPR.
- 5.3** In 2 cases, we depart from this approach as we believe it would make our rules difficult to follow if there were too many amendments and cross-references back to the corresponding BTS. So, we propose to use a different approach that copies out the technical standard provisions (with some modifications) directly into our MIFIDPRU rules.
- 5.4** We also propose to make certain substantive amendments to MIFIDPRU 2.5 to clarify how the UK CRR minority interest provisions should work in the context of integrating Article 34a of the CRR Own funds BTS.
- 5.5** And we propose to introduce a generic MIFIDPRU application form and notification form – for further information refer to Chapter 10 of this CP. This is as a result of incorporating technical standards provisions into MIFIDPRU that specify application and notification requirements. In the future, we may introduce additional bespoke forms for some or all of these applications or notifications.
- 5.6** Our proposals should be read alongside the changes we have made to MIFIDPRU. We will consider the approach that we propose to take to apply the technical standards as we operationalise the IFPR.

Legal status of the BTS

- 5.7** The Treasury laid a Statutory Instrument (SI) under the European Withdrawal Act (EUWA) giving us responsibility for amending and maintaining EU-derived provisions in our Handbook and existing EU BTSs which were incorporated into UK law by the EUWA.
- 5.8** Following the expiry of the implementation period in the UK-EU withdrawal agreement, we and the PRA have been able to make our own changes to the onshored UK equivalents of the BTS in line with our respective statutory objectives and in respect of the entities we regulate. These powers were used to delete certain CRD and CRR BTS and to “split” others into separate FCA and PRA versions under the UK CRR regime.

- 5.9** As the BTS operate for the purposes of the UK CRR, they will cease to apply under the IFPR unless they are specifically applied through our new rules. We therefore propose to use our rule-making powers under FSMA to preserve the effect of relevant BTSs for the purposes of the IFPR with deemed modifications where appropriate. This is similar to the approach that we have taken to applying certain parts of the UK CRR, with appropriate modifications, under our MIFIDPRU rules.

Our approach to the proposed changes

- 5.10** We consider that the list of BTS in Table 5 are the relevant onshored BTS for the purposes of IFPR implementation. (This excludes those BTS that were deleted by the PRA's (EU Exit) CRR (No. 1) Instrument on behalf of both the FCA and the PRA).

Table 5: Onshored BTS that are identified as relevant under the IFPR

EU-derived BTS	Link to UK equivalent BTS	Summary title
CRR		
<u>241/2014</u>	<u>Onshored 241/2014</u>	RTS on own funds requirements for institutions
<u>523/2014</u>	<u>Onshored 523/2014</u>	RTS on determining close correspondence between value of institution's covered bonds and value of institution's assets
<u>525/2014</u>	<u>Onshored 525/2014</u>	RTS on definition of market
<u>528/2014</u>	<u>Onshored 528/2014</u>	RTS on non-delta risk of options in standardised market risk approach
<u>529/2014</u>	<u>Onshored 529/2014</u>	RTS for assessing materiality of extensions and changes of IRB Approach and AMA approach
<u>945/2014</u>	<u>Onshored 945/2014</u>	ITS on relevant appropriately diversified indices
<u>2015/2197</u>	<u>Onshored 2015/2197</u>	ITS on closely correlated currencies
<u>2016/101</u>	<u>Onshored 2016/101</u>	RTS on prudent valuation under article 105(14)
FICOD		
<u>342/2014</u>	<u>Onshored 342/2014</u>	RTS on application of calculation methods of capital adequacy requirements for financial conglomerates
<u>2015/2303</u>	<u>Onshored 2015/2303</u>	RTS specifying definitions and coordinating supplementary supervision of risk concentration and intra-group transactions

- 5.11** For most of the technical standards that we have identified in this list we propose to use a general approach that leaves the BTS intact, but to make any changes necessary to remove provisions that are not relevant under the IFPR. We also propose to correct provisions so that they function as they should under the IFPR.
- 5.12** There are 2 exceptions where we propose to use a different approach, of incorporating the technical standards into MIFIDPRU. These are discussed below and relate to the UK versions of:

- Commission Delegated Regulation (EU) No 241/2014 regarding own fund requirements for institutions – CRR Own Funds BTS
- Commission Delegated Regulation (EU) No 2016/101 regarding prudent valuation under Article 105(14) – CRR BTS on prudent valuation

5.13 For these 2 BTS, we propose to copy the technical provision out in full (with some modifications) into 2 annexes in MIFIDPRU. These will form Annex 7R and Annex 8R in MIFIDPRU 3.

5.14 Only a CRD IV or CRR BTS that applies to FCA investment firms under MIFIDPRU or the IFPR remuneration rules will be relevant from 1 January 2022. We expect to consider as part of our future work whether the FCA version of each of these BTS should be repealed entirely or should be retained because it is potentially relevant to requirements under other legislation.

Own funds associated BTS

5.15 The UK version of Commission Delegated Regulation (EU) No 241/2014 regarding own fund requirements for institutions (CRR Own funds BTS) refers to elements of own funds requirements of institutions and to deductions from those same elements of own funds for the application of the UK CRR. This provides additional rules and guidance that supplement the requirements found in UK CRR relating to the calculation of own funds.

5.16 We propose to copy out the CRR Own funds BTS into MIFIDPRU 3 Annex 7R in full with some modifications. We also propose to add guidance provisions to MIFIDPRU 3 to tell firms this annex may be relevant when applying the IFPR rules on own funds.

5.17 We propose supplementary provisions in Annex 7R that are relevant for some rules in MIFIDPRU 3 or UK CRR provisions that are currently cross applied in MIFIDPRU 3.

5.18 We propose to delete some technical standards provisions from the CRR Own Funds BTS where they are no longer applicable or relevant under the IFPR. For example, we propose to remove all references that consider the maximum distributable amounts and buffers under the CRD as there is no equivalent under the IFPR.

5.19 We also propose to remove provisions where the IFPR already addresses the same issue in a different way. For example, we propose to remove the provisions in the BTS that set out the methodology for calculating the fixed overheads requirement. We have equivalent rules for this purpose in MIFIDPRU 4.5 that are specifically designed for the IFPR.

5.20 We also propose substantive changes to MIFIDPRU 2.5 to clarify how the UK CRR minority provisions should work in the context of the CRR Own Funds BTS.

5.21 We propose to make minor clarifications to the UK version of Commission Delegated Regulation (EU) No 523/2014 for determining what constitutes the close correspondence between the value of an institution's covered bonds and the value of the institution's assets.

Prudent valuation associated BTS

5.22 The CRR BTS on prudent valuation describes how institutions subject to the UK CRR should calculate additional valuation adjustments (AVAs). AVAs need to be deducted from own funds under Article 34 of the UK CRR. It applies the requirements of Article 105 of UK CRR to all assets measured at fair value, including those not in a trading book. Article 34 of the UK CRR is applied to FCA investment firms by MIFIDPRU 3.3.1R. However, we propose to add a new provision, MIFIDPRU 3.3.1AR, that will only require the application of AVAs to trading book items.

5.23 The corresponding regulatory technical standard on prudent valuation describes 2 methods for calculation of AVAs – the simplified approach and the core approach. Only firms that fall below a certain threshold for gross trading assets plus liabilities can take advantage of the simplified approach under the BTS. In the case of the simplified approach firms would take 0.1% of the gross trading assets plus liabilities as the corresponding deduction from own funds. Those firms that are not eligible to use the simplified approach are required to use the core approach. The core approach is far more complex to calculate but it does have the advantage of being more risk sensitive.

5.24 We propose to copy out the simplified approach from the CRR BTS on prudent valuation into MIFIDPRU 3 Annex 8R. This is consistent with our general objective to simplify calculations under IFPR. So, we do not propose to carry across the core approach into MIFIDPRU 3 Annex 8R.

Market risk associated BTS

5.25 We propose to make minor changes to the CRR technical standards that relate to market risk. This is consistent with our general approach of applying the market risk provisions in the UK CRR to determine the K-NPR requirement. These are the FCA versions of the following onshored BTS:

- Commission Delegated Regulation (EU) No 525/2014 regarding the definition of market in Article 341(3) of UK CRR
- Commission Delegated Regulation (EU) No 528/2014 regarding the determination of the non-delta risk of options in the standardised market risk approach
- Commission Delegated Regulation (EU) No 529/2014 for assessing the materiality of extensions and changes to the Internal Ratings Based (IRB) Approach and the Advanced Measurement Approach (AMA)
- Commission Delegated Regulation (EU) No 945/2014 regarding relevant appropriately diversified indices
- Commission Delegated Regulation (EU) No 2015/2197 regarding closely correlated currencies

5.26 Our proposed changes are not intended to affect the substantive requirements under these BTS. The existing approach to calculating market risk under the UK CRR will continue to apply when calculating the K-NPR requirement under IFPR. This reflects our approach of “freezing” the current market risk rules as at 31 December 2021 for these purposes, pending our longer term work on reviewing our approach to market risk.

Other related BTS

5.27 We propose to make some minor changes to the technical standards that supplement the supervision of financial conglomerates in UK FICOD. As explained in Chapter 8 of this CP on consequential changes to the Handbook, this is consistent with our amendments to GENPRU 3. The proposed changes are to the UK versions of the following BTS:

- Commission Delegated Regulation (EU) No 342/2014 regarding the application of calculation methods of capital adequacy requirements for financial conglomerates
- Commission Delegated Regulation (EU) No 2015/2303 specifying definitions and coordinating supplementary supervision of risk concentration and intra-group transactions

- 5.28** We do not think it is necessary to make any amendments to the UK version of Commission Delegated Regulation (EU) No 604/2014. This sets out the regulatory technical standards for how firms in scope of CRD must identify their material risk takers (MRTs). Our new remuneration code in SYSC 19G includes provisions on how FCA investment firms must identify their MRTs under the IFPR and will replace this BTS. However, the regulatory technical standards remain relevant for 'run-off' performance periods during the initial implementation of the IFPR where certain firms may still need to apply legacy requirements under the IFPRU Remuneration Code (SYSC 19A).
- 5.29** The UK version of Commission Delegated Regulation (EU) No 2016/2070 sets out the implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting in accordance with Article 78(2) of CRD IV. It is largely used for the purposes of reporting on the internal market risk approach. This would only be relevant if we granted an internal model permission under MIFIDPRU. We propose to impose separate and specific reporting obligations at that time such a permission is granted. We consider that this is proportionate and also consistent with our general approach under IFPR to collecting more targeted and relevant data. So, we do not propose to apply this onshored BTS under the IFPR.
- 5.30** We do not propose to apply UK version of Commission Delegated Regulation (EU) No 183/2014 with regard to specifying the calculation of specific and general credit risk adjustments under the IFPR. This BTS sets out the calculation of general and specific credit risk adjustments for the purposes of expected loss amounts according to Article 159 of UK CRR, but IFPR no longer has specific rules for credit risk.

- Q5:** Do you agree that we have correctly identified all the onshored BTS and technical standard provisions that are relevant under the IFPR? If not, please explain which other BTS or individual technical standards provisions should be incorporated into MIFIDPRU.
- Q6:** Do you agree with our proposed changes to MIFIDPRU and the additional supplementary provisions in MIFIDPRU 3 Annex 7R that relate to the UK versions of CRR BTS related to own funds? If not, please explain what changes you would propose we make to ensure that the relevant technical standards provisions are operative under the IFPR.
- Q7:** Do you agree with our proposal to remove the core approach to determine the AVAs under the BTS for prudent valuation? If not, please explain any operational reasons why you would wish to retain the core approach as a method to determine the AVAs.
- Q8:** Do you agree with our proposed changes to MIFIDPRU that relate to the UK versions of the CRR BTS related to market risk and other related BTS? If not, please explain what changes you would propose we make to ensure that the relevant technical standards provisions are operative under the IFPR.
- Q9:** Do you have any other comments on the content of this chapter?

6 Depositories

- 6.1** This chapter covers our proposed capital requirements for FCA investment firms that have a Part 4A permission to act as a depository for various types of investment fund.
- 6.2** Our current capital rules for depositories that are MiFID investment firms are set out in the Investment Funds sourcebook (FUND) and Collective Investment Schemes (COLL) modules of our Handbook and vary according to the type of fund. Some are addressed to the depository firm, while others are addressed to a collective portfolio management firm seeking to appoint a depository for the funds that it manages. So management firms should also take note of these changes. The current rules make use of various requirements from the UK CRR and our associated IFPRU rules that will no longer apply to FCA investment firms. So the current capital rules for depositories need amending and bringing under MIFIDPRU, to reflect the fact that under the IFPR FCA investment firms will be subject to MIFIDPRU (and not UK CRR).
- 6.3** As we explained in paragraph 14.6 of CP21/7, FUND 3.11.10R currently requires an investment firm to be a 'full-scope' IFPRU investment firm before it can meet the eligibility criteria to be a depository for certain types of alternative investment fund (AIF). This generally restricts eligibility to firms that deal on own account. We do not believe that this is needed under MIFIDPRU and as 'full-scope' IFPRU investment firms will no longer exist under the new prudential regime we propose to remove this requirement. We propose to allow other types of FCA investment firms to apply for Part 4A permission to act as a depository, so long as they also provide the MiFID ancillary service of safe-keeping and administration of financial instruments.
- 6.4** Where an FCA investment firm is appointed to act as the depository of a UCITS scheme or an authorised AIF, we propose to continue to apply a current minimum own funds requirement of £4 million. We are simply proposing to move this obligation from FUND and COLL into MIFIDPRU 4.4.5R, where it will be expressed as an alternative permanent minimum capital requirement (PMR) under the IFPR.
- 6.5** Where an FCA investment firm is appointed to act as a depository of an unauthorised AIF and is currently subject to a minimum own funds requirement of EUR 730,000, we propose to increase this to £750,000 for consistency with relevant IFPR changes. Again, we propose to express this as its PMR under the IFPR in MIFIDPRU 4.4.1R.
- 6.6** To reflect the above we propose to update our reporting guidance for the MIF001 form to cater for the option of a PMR of £4 million where an FCA investment firm acts as a depository and MIFIDPRU 4.4.5R applies.
- 6.7** As depositories that are MIFIDPRU investment firms will no longer be subject to the UK CRR, we do not consider that it is appropriate to expect them to comply with the operational risk requirement calculated in accordance with articles 315 or 317 of the UK CRR. We therefore propose to delete COLL 6.6A.8R (3)(a)(i).
- 6.8** Instead, reflecting the overall approach of the IFPR, we will expect them to consider the potential for harm arising from their depository activities as part of their ICARA process (under MIFIDPRU 7). We propose to add a new example in MIFIDPRU 7.6.8G (4) to address the scenario where an FCA investment firm is appointed a depository. The K-CMH and K-ASA requirements in MIFIDPRU 4 apply only to MiFID business, and

therefore do not apply to a firm's activities as a depositary. However, we propose that a firm may have regard to the general methodology for calculating the K-CMH and K-ASA requirements when carrying out the assessment in MIFIDPRU 7.6.3R for its activities as a depositary.

6.9 We consider that FCA investment firms that act as depositaries are, by the very nature of their activities, interconnected to other financial institutions. As a result, we propose (by adding to MIFIDPRU 1.2.9R) that an FCA investment firm that is appointed to act as a depositary cannot be an SNI firm. Unless it only acts as a depositary under the 'private equity' depositary derogation (see below) in recognition of the different degree of risk implied by the characteristics of the relevant closed end funds.

6.10 We do not propose to make any substantive changes to the 'private equity' depositary derogation in FUND 3.11.12R to 3.11.15G. Both MiFID and non-MiFID firms will continue to be able to act as depositaries under this derogation. We are only proposing to clarify that if a depositary that falls within these provisions is also a MIFIDPRU investment firm, it will also be subject to the prudential requirements in MIFIDPRU, as will any other FCA investment firm.

Q10: Do you agree with our proposals for FCA investment firms that act as depositaries for funds? If not, how could we change them?

7 Our approach to the UK resolution regime

Overview

- 7.1** Currently investment firms with an initial capital requirement of €730,000 are subject to the UK resolution regime, along with banks and building societies. This reflects the amendment of the UK resolution regime in 2014 to transpose EU Directive 2014/59/ EU establishing a framework for recovery and resolution (commonly referred to as the Bank Recovery and Resolution Directive (BRRD)). However, the introduction of the IFPR and the changes to capital requirements for FCA investment firms provided an opportunity for the scope of the UK resolution regime to be reviewed.
- 7.2** In June, the Treasury announced in consultation with the FCA, the Prudential Regulation Authority (PRA) and the Bank of England that it will remove FCA investment firms from the scope of the UK resolution regime. The Treasury originally consulted on the application of the UK resolution regime to FCA investment firms in February.
- 7.3** We are proposing to amend our Handbook to reflect this change.

Background

- 7.4** FCA investment firms currently within scope of the UK resolution regime are subject to the requirements of the Resolvability Assessment Framework, as well as their own funds requirements.
- 7.5** Each year the Bank of England reviews its preferred resolution strategy for firms in scope of this regime. It's preferred resolution strategy for FCA investment firms within scope has always been and remains insolvency.
- 7.6** Following its announcement, we expect the Treasury to amend the Banking Act 2009 to carve out FCA investment firms from the scope of the UK resolution regime at the same time as the required amendments to the statute book to account for statutory changes from the introduction of the IFPR. If investment firms become systemic they can be designated by the PRA and brought back into scope.
- 7.7** As set out in PS21/9, our rules in MIFIDPRU 7 introduce a requirement for FCA investment firms to consider recovery planning as an integrated feature of their risk management as part of their ICARA process. We are also introducing a wind-down regime for all FCA investment firms.
- 7.8** If the Treasury hadn't decided to remove FCA investment firms from the scope of the UK resolution regime, the number of these firms within its scope will have increased. This is due to the greater number of firms that would have to hold the higher level of initial capital requirement under IFPR, which currently triggers the application of the UK resolution regime. Any FCA investment firms in scope would then have been required to comply with overlapping requirements of both the IFPR and the UK resolution regime for recovery and wind-down planning.

- 7.9** To avoid this, we supported the Treasury's decision to remove FCA investment firms from the scope of the UK resolution regime. We consider that such an ongoing overlap would place an unnecessary resource burden on investment firms, the FCA and the Bank of England. This would particularly be the case for those firms that would have come under it for the first time due to the wider scope of the relevant IFPR requirement.

Updating our rules

- 7.10** We need to amend our rules to facilitate the Treasury's removal of FCA 730k investment firms from the UK resolution regime. To do so we propose to delete IFPRU 11, which implemented certain BRRD requirements for FCA investment firms. And to make consequential amendments to ensure that our rules elsewhere in the Handbook (eg SUP 16) are consistent with the updated regulatory landscape.
- 7.11** FCA-regulated 730k investment firms will still be subject to our existing rules, legislation and processes to facilitate their orderly wind-down, the Investment Bank Special Administration Regime (IBSAR), and the new IFPR rules following its introduction.

Q11: Do you agree with the proposed amendments to our rules that reflect the removal of FCA investment firms from the scope of the UK resolution regime?

8 Consequential changes to the Handbook

8.1 In CP 20/7 we set out how MIFIDPRU is intended to interact with other prudential sourcebooks in our Handbook. In this chapter, we cover the remaining IFPR consequential changes we are proposing to make to Handbook modules (eg sourcebooks and Handbook Guides) and the remaining consequential changes to our Handbook Glossary. It will be relevant to all FCA investment firms.

8.2 We propose consequential changes to the Handbook Glossary and the following non-prudential modules:

- SYSC – Senior Management Arrangements, Systems and Controls
- COCON – Code of Conduct
- GEN – General Provisions
- FEES – Fees Manual
- MAR – Market Conduct
- SUP – Supervision
- CONC – Consumer Credit sourcebook
- RCB – Regulated Covered Bonds
- EMPS – Energy Market Participants
- OMPS – Oil Market Participants
- PERG – Perimeter Guidance Manual
- WDPG – The Wind-down Planning Guide

8.3 We also explain our proposed consequential changes to GENPRU 3 (Cross sector groups) in this chapter.

Our overall approach

8.4 Our overall approach in this CP to other modules of our Handbook affected by the introduction of MIFIDPRU is to propose only the consequential amendments that are needed to:

- delete provisions that are no longer required
- ensure that the interactions between them and MIFIDPRU work in practice

8.5 For example, there will no longer be a need for provisions that refer to various categories of MiFID investment firm (eg 'BIPRU firm'), as the IFPR will apply to all MiFID investment firms prudentially regulated by us.

8.6 We have not generally proposed material changes in underlying policy to the contents of other modules. However, we have made small policy changes where necessary to reflect the overarching policy objectives of streamlining and simplifying the regulatory requirements that currently differentiate between the various existing prudential categories of FCA investment firm.

General approach to cross-references

- 8.7** Where appropriate, we have updated cross-references so that they refer to MIFIDPRU or SYSC 19G, instead of sourcebooks or chapters that are being deleted. For example, various references to the IFPRU Remuneration Code in SYSC 19A and the BIPRU Remuneration Code in SYSC 19C have been deleted or replaced with references to the MIFIDPRU Remuneration Code in SYSC 19G.
- 8.8** For some provisions however, there is no direct corresponding provision we can refer to in MIFIDPRU. So, to avoid making material changes to the underlying policy, we have either copied out the underlying material being cross-referred to, or we have fixed the cross-reference in time to the day before the IFPR is implemented. For example, our Regulated Covered Bonds sourcebook (RCB) currently cross-refers to BIPRU 12.7 to help define what counts as a liquid asset under the regulated covered bonds regulations. As the new concepts of core liquid assets and non-core liquid assets that we are introducing in MIFIDPRU do not map directly onto BIPRU 12.7, we have amended the cross-reference in RCB so that it refers to BIPRU as it applied on the day before MIFIDPRU comes into force. This is intended to maintain the existing effect of the provision.
- 8.9** In the rest of this chapter, we explain the key consequential amendments for different modules including any key accompanying changes to the Glossary. We have made considerable changes to the Glossary, although largely just to remove 80 pages of glossary definitions which will no longer be necessary once we delete IFPRU and BIPRU. The new regime will be much less reliant on significant amounts of glossary material, and therefore easier for firms to navigate.

Senior Management Arrangements, Systems and Controls (SYSC)

- 8.10** We propose to make a number of changes to SYSC that are consistent with the general approach we described at the beginning of this chapter. These include consequential amendments to SYSC 12 on group risk systems and controls.

Significant IFPRU firms

- 8.11** The Glossary term 'significant IFPRU firm' refers to the definition in IFPRU 1.2.3R. Because we are deleting the entire IFPRU sourcebook, we propose to:
- move the provisions on the definition and purpose of 'significant IFPRU firm' in IFPRU 1.2 to SYSC 1.5
 - rename the term 'significant SYSC firm'
 - amend the Glossary accordingly
- 8.12** We are not proposing to make any substantive changes to the definition itself. This would go beyond what is necessary to ensure the operability of the new MIFIDPRU sourcebook. The same substantive definitions and thresholds will continue to be used. This means a firm that is currently a significant IFPRU firm would also be a significant SYSC firm.
- 8.13** We confirmed in PS21/9 that the largest non-SNI firms will be required to establish risk, remuneration and nomination committees (MIFIDPRU 7.3). This means that the term

'significant SYSC firm' will not be relevant in determining which MIFIDPRU investment firms must establish these committees.

8.14 However, the term will continue to be relevant for FCA investment firms in determining whether a firm:

- is an 'enhanced scope SMCR firm' for the purposes of the senior managers and certification regime (SM&CR)
- is subject to the limits on the number of directorships the members of its management body may hold (SYSC 4.3A.6R)

8.15 We propose to provide clarity on this in new guidance provisions in SYSC 1.5.

8.16 The term will also continue to be relevant for firms that are not MIFIDPRU investment firms, for example MiFID optional exemption firms (to whom SYSC 1 Annex 1 3.2DR applies) or other types of common platform firm subject to SYSC 4.3A.

Management body and collective portfolio management investment (CPMI) firms

8.17 SYSC 4.3A contains provisions on the roles and composition of the management body and nomination committee. Most of these provisions currently apply to all common platform firms, except that they do not apply to collective portfolio management investment (CPMI) firms which are subject to BIPRU (see SYSC 1 Annex 1, Table A).

8.18 We confirmed in PS21/9 that we will update the definition of common platform firm to refer to all MIFIDPRU investment firms, instead of referring to the various existing categories of FCA investment firm. In line with this, we propose to delete the exemptions from SYSC 4.3A for BIPRU CPMI firms. This approach also meets our overarching policy objectives of streamlining and simplifying the regulatory requirements applicable to different types of FCA investment firms.

8.19 This would mean that BIPRU CPMI firms would need to comply with some high-level requirements aimed at ensuring good governance. In summary, these:

- set out the role of the management body
- require that the chair of the management body is not also the chief executive of the firm
- require the members of the management body to have appropriate knowledge, skills, experience, time and independence of mind
- require adequate resources to be devoted to training of members of the management body
- require that members of the management body do not hold more directorships than is appropriate
- set out the role of the nomination committee (if the firm has one)
- requires the firm to put in place a policy promoting diversity on the management body

Governance rules applicable to CRR firms

8.20 We are proposing to amend the Glossary term 'CRR firm' to reflect the fact that IFPRU investment firms will no longer be subject to the UK CRR. Only banks, building societies

and PRA-designated investment firms will be subject to the revised UK CRR once the amendments in the FS Act take effect on 1 January 2022.

8.21 A small number of provisions in SYSC currently apply to some or all CRR firms. These cover the governance of risk management (SYSC 7.1.17 to 7.1.23) and the publication of information on a firm's website about how it complies with certain management body obligations (SYSC 4.3A.11).

8.22 The narrower definition of CRR firm would mean that IFPRU investment firms would no longer be in scope of these provisions. We have considered whether and how to apply these provisions to FCA investment firms. Our proposals can be put into 3 broad categories. These are provisions:

- to be replicated in MIFIDPRU 7 and applied to some or all FCA investment firms
- which are already covered by our other rules or draft rules in the MIFIDPRU sourcebook
- we do not propose to apply to FCA investment firms

8.23 We set out in Table 6 below the provisions we propose to apply to the new categories of FCA investment firms.

Table 6: Governance provisions applicable to CRR firms

Requirement	Current application	Current location	Proposed application	Proposed location
Responsibility and involvement of management body in risk management	CRR firms	SYSC 7.1.17	All MIFIDPRU investment firms	MIFIDPRU 7.2.3
Risk committees	CRR firms that are significant IFPRU firms	SYSC 7.1.18	Largest non-SNI firms must establish risk committees, see MIFIDPRU 7.3 and PS21/9	
Provision of information on risk to management body and risk committee	CRR firms	SYSC 7.1.19	All MIFIDPRU investment firms	MIFIDPRU 7.2.4
Role of risk committee in remuneration and incentives	CRR firms with risk committees	SYSC 7.1.20	Largest non-SNI firms	MIFIDPRU 7.3.1(5A)
Role of the risk management function and its head	CRR firms with a risk management function under Art. 23 of UK version of the MiFID Org Reg	SYSC 7.1.21 and 7.1.22	Non-SNI firms with a risk management function under Art. 23 of UK version of the MiFID Org Reg	MIFIDPRU 7.2A
Publication on website of how firm complies with management body obligations in SYSC 4.3A	CRR firms	SYSC 4.3A.11	Some aspects are included in our proposals on public disclosure of information on governance arrangements, see Chapter 3.	

8.24 All the current provisions that apply to CRR firms would also remain in SYSC and continue to apply to banks, building societies and PRA-designated investment firms.

Risk management and control

- 8.25** We propose to amend or remove those aspects of risk management and control which are relevant for investment firms set out in SYSC. This is because this material has already been consulted on in MIFIDPRU 7. This includes the deletion of SYSC 20 on reverse stress testing.

Certification functions and the MIFIDPRU Remuneration Code

- 8.26** SYSC 27.8.15 shows which types of employees are considered to hold an FCA certification function for different types of SM&CR firm. These include MRTs of all firms subject to the IFPRU and BIPRU Remuneration Codes.
- 8.27** In line with our general approach set out at the beginning of this chapter, we propose to replace these with a reference to MRTs of non-SNI firms subject to the MIFIDPRU Remuneration Code. However, this would not include MRTs of overseas investment firms because the MIFIDPRU Remuneration Code will not apply to overseas firms.
- 8.28** To ensure that the scope of employees considered to hold an FCA certification function remains unchanged, we propose to include not only MRTs of non-SNI firms subject to the MIFIDPRU Remuneration Code but also those employees of overseas SM&CR firms who would be MRTs if the firm was a UK SM&CR firm.

Dual-regulated firms Remuneration Code

- 8.29** We propose 4 minor amendments to the Dual-regulated firms Remuneration Code (SYSC 19D). These are needed to reflect changes to and deletions of certain terms from the Glossary, and to reflect proposed changes to the UK CRR as it applies to firms in scope of the Dual-regulated firms Remuneration Code.

Code of Conduct (COCON)

- 8.30** We propose making 1 amendment to COCON 4.12.16G to update the references to the remuneration codes in SYSC.

General Provisions (GEN)

- 8.31** We propose to amend GEN 2.2.30R to remove references to BIPRU and IFPRU, and 2.2.31G to remove references to IPRU(INV).

Fees Manual (FEES)

- 8.32** In line with the overall approach to consequential changes, we propose to delete FEES 3 Annex 6 and FEES 3 Annex 6A. These annexes set out the fees payable by BIPRU and IFPRU firms for a permission or guidance in connection with the BCD, CAD and/or UK CRR. These permissions and types of investment firm will not exist under the IFPR.

Market Conduct (MAR)

- 8.33** We propose to amend MAR 5A.3.8G to remove references to the IFPRU prudential categories in PERG as these categories will no longer exist.

The Supervision Manual (SUP)

- 8.34** We propose to amend the Supervision Manual (SUP) for cross-references to GENPRU, BIPRU, IFPRU, IPRU(INV) Chapter 9 and the CRD and UK CRR in line with the general approach to cross-references outlined at the start of this chapter. We have replaced these with references to MIFIDPRU where relevant and without changing any policy intent.
- 8.35** We propose to remove the Prudent Valuation regulatory reporting template in SUP 16.16 and associated guidance. Only FCA investment firms with a trading book will now apply the prudent valuation adjustment to own funds, and we do not believe it is necessary to require them to regularly report this data.
- 8.36** We also propose to remove reporting requirements associated with other substantive changes to regulatory requirements (eg the removal of FCA investment firms from the UK resolution regime, as outlined in Chapter 7).
- 8.37** We are proposing to update the references in SUP 10C.5A.10 that deal with the chair of the remuneration committee function. This will remove references to remuneration codes that will no longer exist and will add a reference to MIFIDPRU.
- 8.38** Our near-final rules in our first 2 policy statements introduced new reporting requirements for FCA investment firms. These replaced a number of existing prudential reports under SUP 16.12 and that section of the Handbook will therefore be substantially amended from 1 January 2022. To avoid any uncertainty about how reporting obligations apply during the transition to IFPR, we are proposing to introduce a short transitional provision in MIFIDPRU TP 11. This clarifies that where an existing prudential report under SUP 16.12 has a reporting reference date falling before 1 January 2022, but a submission date falling on or after 1 January 2022, the firm must still submit that report in accordance with the requirements of the pre-1 January 2022 rules in SUP 16.12.

Consumer Credit sourcebook (CONC)

- 8.39** We propose to amend CONC 2.11.2R to update the references to the remuneration codes.

Regulated Covered Bonds (RCB)

- 8.40** We propose to delete RCB 1.1.6G as it refers to reduced risk weights as set out in Article 129 of the UK CRR. These are no longer relevant for FCA investment firms. We also propose to amend RCB 2.3.20G to freeze the eligibility requirement for liquid assets in the RCB Regulations.

Energy Market Participants and Oil Market Participants

- 8.41** We propose to update both Handbook Guides for energy market participants (EMPs) and oil market participants (OMPs). This is to reflect the fact that BIPRU and IFPRU are being deleted, that the categories of 'exempt IFPRU commodities firm' and 'exempt BIPRU commodities firm' will no longer exist, and to clarify that a MiFID investment firm can no longer be an energy market participant (EMP) or an oil market participant (OMP).
- 8.42** As proposed in CP20/24, the IFPR will apply to any MiFID investment firm we authorise and regulate, including those that currently meet the definitions of an EMP or an OMP. Any FCA investment firms conducting MiFID business that currently meet the definitions of an EMP or an OMP should consider the range of prudential requirements that will now apply to them under the IFPR. In addition, as a result of these changes:
- the guidance on exemptions from SUP 3 (Auditors) in SUP 3.1.1AG will no longer cover such firms, and
 - these firms, when dealing as principal, will no longer be in the A.13 activity group for periodic fees. Instead, their periodic fees will be determined in common with other MiFID investment firms that deal as principal under activity group A.10.

The Perimeter Guidance Manual (PERG)

- 8.43** We propose to make consequential amendments to PERG, largely to delete the sections that explain how the CRR and the UK implementation of the CRD applied to FCA investment firms. FCA investment firms will no longer be in scope of the CRR/CRD. We are not otherwise proposing amendments to the perimeter guidance in PERG.

The Wind-down Planning Guide (WDPG)

- 8.44** We propose some minor amendments to the WDPG to take account of the removal of FCA investment firms from scope of the Recovery and Resolution Directive. See Chapter 8 of this CP for more details.

General Prudential Sourcebook – Cross Sector Groups (GENPRU Chapter 3)

- 8.45** Consistent with our overall approach described above, we propose consequential amendments (including cross-references) to Chapter 3 of our General Prudential Sourcebook (GENPRU) as a result of IFPR. Chapter 3 of GENPRU deals with cross sector groups or financial conglomerates.
- 8.46** We have proposed amendments to the definitions (eg the introduction of 'MIFIDPRU investment services sector') to reflect the fact that FCA investment firms will now be subject to the prudential requirements of MIFIDPRU (and not UK CRR). This also affects how to apply Method 1 (accounting consolidation) and Method 2 (deduction and aggregation) for calculating capital adequacy at the level of a financial conglomerate.

8.47 Table 7 shows the different financial sectors that we propose can now make up a financial conglomerate under our amendments to GENPRU 3.

Table 7: Sectors comprising a financial conglomerate

	Financial Conglomerate		
comprising:	Insurance Sector	Banking and Investment Services Sector	
comprising:		Banking Sector	Investment Services Sector
comprising:		MIFIDPRU Investment Services Sector	CRR Investment Services Sector

8.48 Our proposals clarify the provision in paragraph 6.2 of the table in the Annex to GENPRU 3 for determining the solo capital resources requirement of an undertaking in the banking sector or the investment services sector to be used when Method 2 is applied. This will be the relevant UK prudential requirements that apply to that undertaking on a solo basis.

8.49 We also propose to amend GENPRU 3.1.36R to clarify which are the applicable sectoral rules to address both risk concentration and intra-group transactions, for the banking sector and for the investment services sector.

8.50 In GENPRU 3.1.39R (3) and (4) we propose changes to the rules on apportioning collective portfolio management (CPM) firms to a financial sector. Where no choice has been notified to us, a CPM firm must be allocated to the MIFIDPRU investment services sector. In point (5) of that rule we also propose to clarify that a CPMI firm must be allocated to the MIFIDPRU investment services sector.

8.51 Consistent with our amendments to GENPRU 3, we also propose some minor clarifications to the 2 sets of technical standards that supplement the supervision of financial conglomerates – the UK versions of Commission Delegated Regulations (EU) No 342/2014 and No 2015/2303.

Q12: Do you agree with our proposals for consequential changes to the non-prudential modules covered in this consultation? If not, please state which specific provisions and provide reasons why you disagree.

Q13: Have you identified any other cross-references where a further consequential amendment could be needed to ensure the relevant provision still operates once IFPR is implemented? If so, please provide details.

9 Our approach to Enforcement

Introduction

- 9.1** This chapter deals with our approach to the enforcement of the IFPR (both the requirements set out in the new Part 9C FSMA and the rules that we make to implement the IFPR).
- 9.2** Most firms that the IFPR will apply to are already authorised firms and will be familiar with our regulatory framework. In summary, FSMA sets out our enforcement powers, and our enforcement approach is set out in three key documents, our [Approach to Enforcement](#), our [Enforcement Guide \(EG\)](#) and our [Decision Procedure and Penalties Manual \(DEPP\)](#).
- 9.3** Our Approach to Enforcement explains how we identify harm and how we diagnose harm through opening an investigation where we suspect serious misconduct may have occurred, and the sanctions and remedies available to us.
- 9.4** EG sets out in more detail our powers to appoint investigators and how we use our powers of investigation, gather information and conduct an investigation. It also sets out our approach to imposing financial penalties and other disciplinary sanctions, varying or cancelling permissions, and imposing requirements on firms. EG explains our approach to using our power to impose a prohibition order on an individual – a prohibition order may prevent an individual from performing any function in relation to regulated activities or restrict the functions which they may perform.
- 9.5** DEPP sets out our policy and decision-making procedure for giving statutory notices. These are warning notices, decision notices and supervisory notices, and they set out our reasons for proposing and deciding to take action. DEPP sets out the framework we use to decide whether to impose a financial penalty, and how we calculate the appropriate amount of the penalty. DEPP also sets out our policy on imposing suspensions, restrictions and prohibition orders. In imposing disciplinary sanctions, DEPP sets that we will use our Regulatory Decisions Committee (RDC) and gives further details as to how that process works.
- 9.6** We intend to apply our existing approach to investigations and imposition of sanctions to any breaches of the IFPR. We need to make minor amendments to the Handbook's Decision Procedure and Penalties manual (DEPP) and the Enforcement Guide (EG) to reflect the additional powers given to us, and these are set out below.

Summary of proposals

- 9.7** Key changes made by the FS Act gave us new supervisory, investigative and disciplinary powers over non-authorised parent undertakings. These disciplinary powers will enable us to investigate and impose disciplinary sanctions on non-authorised parent undertakings and persons knowingly concerned in a breach by the parent undertaking. The FS Act further extended our power to impose requirements on non-authorised

parent undertakings, and to impose a prohibition order on an individual. It also provided that breach of such a prohibition order is a criminal offence.

9.8 In particular, we have investigative and disciplinary powers for breaches of:

- a provision of Part 9C rules
- a requirement imposed under section 143K on non-authorised parent undertakings
- Section 143R, which imposes requirements on a non-authorised parent undertaking of an FCA investment firm to take reasonable care to ensure that members of its management body are of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties effectively.
- Section 143S(6), which requires a non-authorised parent undertaking of an FCA investment firm to take reasonable care to ensure that its functions are not performed by a person prohibited from doing so by a Part 9C prohibition order

9.9 Our disciplinary powers under section 143W FSMA enable us to impose a financial penalty and/or a public censure on a non-authorised parent undertaking of an FCA investment firm or on a person that has been knowingly concerned in a contravention by the non-authorised parent undertaking.

9.10 In addition, we have the power to impose a restriction on the exercise by a person of functions of an FCA investment firm or a parent undertaking of an FCA investment firm. Such restrictions can be applied to a member of the management body of the non-authorised parent undertaking or a person who is an employee of the non-authorised parent undertaking who was, at any time, knowingly concerned in such contravention.

9.11 We also have the power to impose a requirement on a non-authorised parent undertaking of an FCA investment firm (section 143K FSMA) and a Part 9C prohibition order (section 143S FSMA) prohibiting an individual from performing a function in relation to an activity carried on by a non-authorised parent undertaking of an FCA investment firm. Section 143V also makes it a criminal offence to breach a Part 9C prohibition order.

Proposed changes to DEPP and EG

Changes to DEPP

9.12 Section 143M FSMA describes the procedure for imposing or varying a requirement on a non-authorised parent undertaking, on the application of the parent undertaking. Section 143O describes the procedure for imposing or varying a requirement on a non-authorised parent undertaking on the FCA's own initiative.

9.13 We propose to amend DEPP 2 Annexes 1 and 2 to set out the decision-making procedure for:

- Determining when to impose or vary a requirement under section 143K(2) on the application of the non-authorised parent undertaking. We will take the decision to grant the application to impose or vary a requirement using Executive procedures.

- Proposing or deciding to impose or vary a requirement under section 143K(2) at the FCA's own initiative. We will take the decision to impose or vary a requirement at the FCA's own initiative using Executive procedures.
- Deciding not to rescind or vary an existing requirement at the FCA's own initiative. We will take the decision not to rescind or vary a requirement at the FCA's own initiative using Executive procedures

9.14 Section 143T FSMA sets out the procedure for making Part 9C prohibition orders. We propose to amend DEPP 2 Annexes 1 and 2 to set out the decision-making procedure for:

- Determining when to make a Part 9C prohibition order. We will take the decision to impose a prohibition order under the RDC procedure in contested cases.
- Determining whether to vary or cancel a Part 9C prohibition order. We will take the decision to grant the application for a variation or revocation of a prohibition order using Executive procedures. Where we propose or decide to refuse the application to vary or revoke the prohibition order, we will use our RDC procedure.

9.15 Section 143X FSMA sets out the procedure that the FCA must follow for disciplinary measures under Part 9C. We propose to amend DEPP 2 Annexes 1 and 2 to set out the decision-making procedure for:

- Determining when to impose a financial penalty.
- Determining when to publish a statement of misconduct on a non-authorised parent undertaking or a person knowingly concerned in a breach by the non-authorised parent undertaking.
- Determining when to impose a restriction on the exercise by a person of functions of an FCA investment firm or a parent undertaking of an FCA investment firm.
- Determining whether to vary or cancel a restriction.

9.16 We propose to amend DEPP to apply our RDC procedure in relation to the above decision.

Applying the penalty policy

9.17 Section 143W FSMA gives us the power to impose a financial penalty for breaches of a provision of Part 9C rules, a requirement imposed under section 143K, a contravention of section 143R or section 143S(6) on non-authorised parent undertakings or persons knowingly concerned in breaches by the non-authorised parent undertaking. Section 143Y requires us to issue a statement of policy with respect to the imposition of penalties under section 143W and the amount of penalties. It also requires us to consider several factors when deciding the amount of a penalty.

9.18 We consider that the factors set out in section 143Y(2) are compatible with our existing penalty policy. We do not consider that there are particular circumstances or any special features that will require us to apply any different policy from that already set out in DEPP 6.

9.19 So, we propose that the relevant decision-makers will apply the existing penalty policy in DEPP 6 as currently applicable. This involves considering all the relevant circumstances of the case including those factors set out in section 143Y(2) FSMA. We propose to make a minor amendment to DEPP 6 to reflect our proposal.

Changes to EG

9.20

Our current approach to the conduct of investigations and sanctions under FSMA is set out in the chapter 4 and chapter 7 of the Enforcement Guide. We propose to apply the same approach to non-authorised parent undertakings of FCA investment firms. We propose to amend EG 7.1.2 to reflect our proposed powers to impose sanctions on non-authorised parent undertakings of FCA investment firms and persons knowingly concerned in such contraventions.

Q14: Do you have any comments on our proposed approach to sanctions set out in paragraphs 9.16 to 9.18?

Q15: Do you agree with our proposal to apply the same approach to investigations and sanctions to non-authorised parent undertakings and persons knowingly concerned in such contraventions? See paragraph 9.19

10 Applications and notifications

- 10.1** In this chapter we set out our proposal for an investment firms group notification requirement and the associated financial conglomerate form. These will complement the suite of MIFIDPRU forms we consulted on as part of CP21/7.
- 10.2** We also propose to introduce a generic MIFIDPRU application form and notification form. This is to cater for any specific application and notification requirements that arise from the decision to incorporate various technical standards provisions into MIFIDPRU.
- 10.3** We provide an update on the roll-out of MIFIDPRU applications and notifications following the opening of the gateway in July 2021. And we explain how we intend to collect basic information from firms before the new regime start date so we can set them up on our systems.

Investment firm group and financial conglomerate notification form

- 10.4** We propose to introduce a formal requirement for FCA investment firms to notify us, as soon as they become aware, that an investment firm group has been formed or that there has been a change in the composition of an existing investment firm group. FCA investment firms must also notify us if they become part of, or cease to be part of, a financial conglomerate. We need this information for supervisory and systems purposes, for example to set up the reporting requirements when an investment firm group is formed.
- 10.5** We have created a bespoke form for FCA investment firms and UK parent entities to make investment firm group notifications to us. We will place it in an Annex at the end of MIFIDPRU 2 handbook text. As with other MIFIDPRU notifications and applications, firms will need to submit their investment firm group notifications via Connect.
- 10.6** We propose that FCA investment firms and UK parent entities also use this form to notify us when they become, or cease to be, a member of a financial conglomerate in accordance with the existing requirement under SUP 15.9. We also propose that firms complete and submit the Classification of groups form (GENPRU 3.1.3G), if appropriate, with their financial conglomerate notifications.
- 10.7** Firms applying to be authorised under MiFID will be required to confirm if they are part of an investment firm group, and provide details of the group composition, as part of the standard MiFID authorisation process. This includes a firm applying to be authorised under MiFID for the first time, using the variation of permission (VOP) process. These firms will not have to make a separate investment firm group notification because their MiFID authorisation application will be treated as such. Only changes to the composition of the group after authorisation will need to be notified separately.
- 10.8** In the same way, an FCA investment firm that is part of an investment firm group that applies to cancel its Part 4a permission will not need to make a separate notification of

a resulting change to the investment firm group. Their cancellation application will be treated as such.

- 10.9** Firms will not have to notify us using the Connect notification form about investment firm groups that already exist when the regime goes live. However, so that our data is up to date, we will be collecting investment firm group data about all existing FCA investment firms as part of the IFPR set-up questionnaire which we discuss later in this chapter.
- 10.10** In all other scenarios that result in an investment firm group being formed or changed, we propose to require FCA investment firms to make a formal notification to us. This includes where an investment firm group is formed or changed following a recent change in control within the group. In this case, we expect that firms will have to submit a change in control notification form in the ordinary way to seek our prior approval. Then, once the transaction has completed, they will submit a group notification. We are also reviewing the information our change in control forms ask about prudential consolidation. A firm will not be required to notify us about information that has already been notified to us by another firm in its group using the investment firm group notification form.

Generic MIFIDPRU application and notification forms

- 10.11** We have created a generic MIFIDPRU application form and a notification form. This is so that firms can apply for permissions and notify us of the events in line with the additional application and notification requirements arising from the decision to incorporate some provisions in the binding technical standards (BTs) into MIFIDPRU. Please see Chapter 5 of this CP for more details.
- 10.12** These generic forms must only be used for MIFIDPRU permissions and notifications where no other application or notification form exists. They are intended to be a temporary measure until bespoke forms are developed.

Roll-out of MIFIDPRU application and notification forms

- 10.13** The gateway for MIFIDPRU applications opened on 26 July 2021 and some MIFIDPRU permission forms are now available on Connect. These are the types of MIFIDPRU permissions that firms will need to apply for in advance of MIFIDPRU coming into force. We will make the remaining application forms and all notification forms available in the autumn.
- 10.14** We have also created a page on our website about the IFPR. This contains practical information for firms and further guidance on what we expect of them ahead of the new regime taking effect. It will contain details of all the MIFIDPRU application and notification forms and will clearly indicate which ones are already available on Connect. We will keep this updated so it remains useful and relevant as the implementation of the new regime progresses.

IFPR set-up questionnaire

10.15 So that we can set up existing FCA investment firms and their groups on our systems under the new regime, we will be sending out a questionnaire to all affected firms in the autumn. This will ask for key information, such as:

- expected SNI/non-SNI status,
- investment firm group membership/composition and
- expected ICARA reporting date

10.16 We will provide updates on this questionnaire on our [IFPR webpage](#) and as part of the monthly Regulation Round-up.

Q16: Do you agree with our proposal to require FCA investment firms and UK parent entities to submit a formal investment firm group notification to the FCA? Do you have any feedback on the notification form we have created for that purpose?

Q17: Do you agree with our proposal to introduce a generic MIFIDPRU application and notification form? Do you have any feedback on the forms?

Q18: Do you have any other comments on the content of this chapter?

11 Our approach to the Financial Services Act and compatibility with our duties and principles

- 11.1** When we consult on new rules, the Financial Services and Markets Act 2000 (FSMA) requires that we must advance at least 1 of our operational objectives. We are also required to have regard to the regulatory principles in section 3B of FSMA.
- 11.2** The FS Act received Royal Assent in April 2021. The Act amended FSMA to impose additional duties, new 'have regards to' considerations, and public accountability requirements we must comply with in our rulemaking for the IFPR. These are set out in Part 9C of FSMA. The Bill to create the FS Act was passing through Parliament during our previous two consultations on IFPR. As we set out in those consultations, we still intended to meet the new obligations ahead of the Act so that firms would have enough time to prepare for the introduction of the IFPR. The Act as passed included an additional have regards to duty in relation to climate change, though it does not apply to our current rule making.
- 11.3** The new Part 9C of FSMA place a duty on us to make rules for investment firms, using our existing rulemaking powers, to impose the following prudential requirements:
- the types and amounts of capital and liquid assets they must hold
 - the management of risks arising from the strength of firms' relationship with, or exposure to, clients
 - regulatory reporting
 - governance arrangements
 - remuneration policies and practices
 - public disclosure
- 11.4** In doing so, we are required to address the risks to:
- consumers arising from FCA investment firms
 - the integrity of the UK financial system arising from FCA investment firms
 - which FCA investment firms are exposed
- 11.5** The new Part 9C of FSMA also impose similar obligations to make prudential rules for authorised parent undertakings of FCA investment firms, and (if we think such rules are necessary or expedient to advance one of our operational objectives) for unauthorised parent undertakings of FCA investment firms.
- 11.6** The rules that we make to meet these new duties under FSMA for the IFPR are referred to in the Act as 'Part 9C Rules'.
- 11.7** FSMA sets out that, when making or amending these Part 9C Rules, we must have regard to:
- any relevant standards set by an international body
 - the likely effect on the relative standing of the UK as a place for internationally active investment firms to be based or to carry on activities

- the target in section 1 of the Climate Change Act 2008 (carbon target for 2050). However, this does not apply until 2022
- any other matter specified by the Treasury.

11.8 These considerations are in addition to our existing statutory objectives, our duty to have regard to the regulatory principles in FSMA, and to the importance of taking action to minimise the extent to which it is possible for a business to be used for a purpose connected with financial crime. All of which are considered in the context of the Financial Conduct Authority's new remit letter of 23 March 2021. Unlike these existing obligations, the new considerations in FSMA only apply to Part 9C rules.

11.9 Under the Treasury's remit letter, we should, where relevant and practical, have regard to the following aspects of the government's economic policy:

- competition
- growth
- competitiveness
- innovation
- trade
- better outcomes for consumers

11.10 The IFPR creates a single set of prudential rules for all MiFID investment firms, consistent with supporting both new entrants and competition among firms. Together with our proposals on the disclosure of prudential information, this should help promote confidence in the financial soundness of investment firms among investors, which in turn supports growth. The examples in paragraphs 57 to 66 of this chapter (for the relative standing of the UK) are equally relevant when considering competitiveness and trade. Whereas the IFPR's risk-based treatment of different business models (eg our proposals for MiFID investment firms that act as depositaries) should provide more flexibility to accommodate innovation. And better consumer outcomes are supported by the IFPR's overall focus on firms identifying and mitigating harm to others.

11.11 The Treasury's remit letter also references the government's commitment to achieving a net-zero economy by 2050. It requires the FCA to have regard to this consideration- but only where relevant and practical to do so. The scope of this have regards duty mirrors one in the FS Act that Parliament decided should only apply to rules made after the 1 January 2022. So, we discussed with the Treasury whether it was practical for us to have regards to this consideration when making our IFPR rules. Their view, with which we agree, is that it is not. We would though do so when making any future rules on ESG disclosures.

11.12 The provisions in Part 9C of FSMA require us to consider, and consult the Treasury on, the likely effect of the rules on relevant equivalence decisions. The Treasury is responsible for determining what is considered a relevant equivalence decision and must notify us of these in writing.

11.13 The FS Act also sets out new accountability requirements. When we consult on our draft IFPR rules, we have to explain:

- the provisions included to address the risks set out above
- the ways in which having regard to the above new considerations has affected the rules

This is in addition to our existing requirements under section 138I of FSMA.

- 11.14** We must publish a summary of the purpose of the rules and explanations and a statement on the points above when we make our proposed rules. We are also required to publish a list of the rules we consider Part 9C rules.

How we intend to fulfil our duties

- 11.15** In this chapter we explain how we have considered our new duties. We also provide examples of how we have applied them and the 'have regards' to the proposals in this CP.
- 11.16** The nature of the topics covered in this CP mean that there is less material relevant for this chapter than that covered in CP20/24 and CP21/7, but we have still had regard to our duties and principles in making our proposals. For example, our proposals related to BTS are a result of making relevant CRR/CRD BTS appropriate for IFPR rather than introducing new material.
- 11.17** We will publish a summary of the purpose of the complete set of final rules as part of or shortly following publication of the Policy Statement responding to this CP. We will also publish explanations of how we have complied with the requirements under this section. We believe this is appropriate to address any further changes to our proposals following feedback to the draft rules in this consultation.
- 11.18** We have set out in this CP our draft rules and provisions for FCA investment firms covering:
- disclosure
 - excess drawings from own funds of partnerships and LLPs
 - existing BTSs considered relevant to IFPR
 - acting as a depositary for certain types of investment funds
 - deletion of rules for the Bank recovery and resolution (BRRD) that was implemented as part of the UK resolution regime
 - imposing penalties on non-authorised parent undertakings of FCA investment firms
 - applications and notifications
 - other consequential or non-material amendments.
- 11.19** Below we have set out how we believe our proposed rules in this CP comply with our duties and address the risks.

Disclosure

- 11.20** Disclosures by investment firms must be readily available and understandable to create transparent markets. So, we propose that firms will have to publicly disclose certain information annually.
- 11.21** We propose that firms disclose information about their risk management, governance arrangements, own funds, own funds requirements, remuneration policies and practices, and investment policy. This is to ensure that stakeholders are able to make informed decisions.
- 11.22** In most of these areas, the requirements would apply to all non-SNI firms and to SNIs that issue AT1 instruments. We also propose that a small number of the remuneration

disclosures must be made by all SNI firms. The rules for disclosures about investment policy only apply to larger non-SNI firms. This is determined by the thresholds for applying the MIFIDPRU 7 committee requirements. We also propose a five-year exemption for commodity and emission allowance dealers from most of the disclosure requirements.

- 11.23** These proposals help to address risks to consumers by providing further market-based transparency on the financial resilience and performance of investment firms with which they may choose to do business. They also help to address risks to the integrity of the financial system by helping to drive market discipline to shape the performance and resilience of investment firms. Our proposals are minimum standards and firms may choose voluntarily to disclose more.

Excess drawings by partners and members

- 11.24** The own funds provisions of the UK CRR, on which most of our requirements for the quality of capital in MIFIDPRU are based, are generally easier to understand from the perspective of a joint-stock company issuing share capital. For example, any interim distribution that exceeds profits may be expected to lead to a reduction in own funds due to the requirement to deduct a current year loss from CET1 capital. However, there may be situations in which excess drawings in a partnership or LLP can be made without being recorded as a loss. A partnership or LLP may seek to remunerate partners or members by, in effect, lending them their share of profits in advance of formal allocation.

- 11.25** So, we propose to require an FCA investment firm that is a partnership or LLP to deduct excess drawings by its partners or members which exceed the profits of the firm (where not already reflected in the amount of own funds of the firm).

- 11.26** This proposal should help ensure that FCA investment firms that are established as partnerships and LLPs are not treated any differently from firms that are established as joint stock companies. It will help ensure that they have sufficient own funds both to wind down in an orderly manner and to make any required redress to consumers for conduct-related issues.

Technical standards

- 11.27** We have examined the onshored UK equivalents of EU-derived Binding Technical Standards (BTS) for which the FCA is listed as a responsible regulator and that we have identified as relevant under the IFPR. Some of these BTS continue to be relevant under IFPR because MIFIDPRU applies (with appropriate modifications) certain parts of the UK CRR that are supplemented by the BTS. These are mainly the requirements on own funds and market risk.

- 11.28** We propose that in most cases firms should apply the onshored BTS that are relevant under the IFPR, with specific modifications. These modifications are reflected in our proposed amendments to MIFIDPRU that cross-refer back to the BTS.

- 11.29** In 2 cases, we depart from this approach as we believe it would make our rules difficult to follow if there were too many amendments and cross-references back to the corresponding BTS. Here we propose to copy out the technical standard provisions (with some modifications) directly into our MIFIDPRU rules.

- 11.30** The CRR BTS on prudent valuation describes how institutions subject to the UK CRR should calculate AVAs. AVAs need to be deducted from own funds and is currently applied to all assets measured at fair value. However, we propose to only require the application of AVAs to trading book items, and not to have any threshold that restricts the use of the simplified approach to calculating AVAs.
- 11.31** We propose to make certain substantive amendments to our consolidation rules to clarify how the UK CRR minority interest provisions should work in the context of integrating Article 34a of the CRR Own funds BTS.
- 11.32** Our proposals also include some minor changes to two technical standards that supplement the supervision of financial conglomerates in UK FICOD. This is consistent with the amendments we propose to GENPRU3 for cross sector groups.
- 11.33** We believe our proposals for the BTSs we have identified as being relevant are necessary so that the technical standards provisions are operative in the way intended after the implementation of the IFPR. This will help ensure that the relevant underlying requirements achieve their intended outcome of addressing the risks posed by FCA investment firms.

Depositories

- 11.34** Our current capital rules for depositories that are MiFID investment firms are set out in the FUND and COLL modules of our Handbook and vary according to the type of fund. The current rules make use of various requirements from the UK CRR and our associated IFPRU rules that will no longer apply to FCA investment firms. So, the current capital rules for depositories need amending and bringing under MIFIDPRU, to reflect the fact that under the IFPR FCA investment firms will be subject to MIFIDPRU (and not UK CRR).
- 11.35** Our current rules require an investment firm to be a 'full-scope' IFPRU investment firm before it can meet the eligibility criteria to be a depository for certain types of AIFs. This generally restricts eligibility to firms that deal on own account. We do not believe that this is needed under MIFIDPRU. As 'full-scope' IFPRU investment firms will no longer exist under the new prudential regime, we propose to remove this requirement. We propose to allow other types of FCA investment firms to apply for Part 4A permission to act as a depository.
- 11.36** Where an FCA investment firm is appointed to act as the depository of a UCITS scheme or an authorised AIF, we propose to continue to apply a current minimum own funds requirement of £4 million. We are simply proposing to move this obligation from FUND and COLL into MIFIDPRU, where it will be expressed as an alternative permanent minimum capital requirement (PMR) under the IFPR.
- 11.37** Where an FCA investment firm is appointed to act as a depository of an unauthorised AIF and is currently subject to a minimum own funds requirement of EUR 730,000, we propose to increase this to £750,000 for consistency with relevant IFPR changes. Again, we propose to express this as its PMR under the IFPR in MIFIDPRU.
- 11.38** Depositories that are MIFIDPRU investment firms will no longer be subject to the UK CRR. So, we do not consider it appropriate to expect them to comply with the operational risk requirement calculated in accordance with articles 315 or 317 of the UK CRR and we propose to delete this requirement. Instead, reflecting the overall

approach of the IFPR, we will expect them to consider the potential for harm arising from their depositary activities as part of their ICARA process.

- 11.39** We consider that FCA investment firms that act as depositaries are, by the very nature of their activities, interconnected to other financial institutions. So, we propose that an FCA investment firm that is appointed to act as a depositary cannot be an SNI firm. Unless it only acts as a depositary under the 'private equity' depositary derogation.
- 11.40** These proposals bring existing capital requirements for depositaries into the new prudential sourcebook where they are MiFID investment firms and update them for IFPR. They also remove requirements linked to the UK CRR that are unnecessary and so help reduce potential barriers for new entrants. We expect the overall effect of the various changes to own funds requirements we are proposing to be that FCA investment firms which act as depositaries will continue to hold an adequate minimum level of financial resources. This helps ensure that they have sufficient own funds both to wind down in an orderly manner and to make any required redress to consumers for conduct-related issues.

UK resolution regime

- 11.41** The Treasury is removing FCA 730k investment firms from the scope of the UK resolution regime (which also transposed the EU Bank Recovery and Resolution Directive (BRRD) in 2014). We propose to amend our rules as a result of this change. These amendments include deleting IFPRU 11, which implemented BRRD for certain FCA investment firms.
- 11.42** As stated in CP21/7, we are taking the parts of IFPRU 11 on recovery planning and making them an integral part of firm's risk management framework in the ICARA. The rest of IFPRU 11 will be deleted.
- 11.43** We believe that this is appropriate and reflects our desire for all investment firms to undertake recovery planning as part of ICARA. Our proposal will remove aspects of resolution planning that are duplicated and a burden to firms, ourselves and the Bank of England. These resolution planning aspects will be better addressed through our IFPR wind-down planning requirements.
- 11.44** Overall, our proposals in relation to recovery and wind-down planning will help firms to reduce the risks that they expose themselves to, and consequently reduce the risk to consumers and financial system from their disorderly failure.

Applications and notifications

- 11.45** We propose to have an investment firm group notification form and a related financial conglomerate form. We also propose to introduce a generic MIFIDPRU application form and notification form. This is for any requirements that arise from incorporating various technical standards provisions into MIFIDPRU.

Consequential changes to the Handbook

- 11.46** We propose to make changes to other modules of the Handbook that are affected by the introduction of MIFIDPRU. These changes will delete provisions that are no longer required and amend others so they continue to operate effectively. This is to ensure these Handbook modules continue to address the risks for which they were designed.

- 11.47** We also propose to make small policy changes where necessary to reflect the overarching policy objectives of streamlining and simplifying the regulatory requirements that currently differentiate between the existing prudential categories of FCA investment firm.

Enforcement

- 11.48** The FS Act extended our powers to allow us to impose requirements on non-authorised parent undertakings. And to impose a prohibition order on an individual, a breach of which is a criminal offence. We propose to amend the relevant sections of our Handbook accordingly.

Summary

- 11.49** We believe that our proposals will reduce the risks which FCA investment firms are exposed (including because of their relationship with their parent undertaking). They will also reduce the potential harm they can pose to clients and counterparties and will support the integrity of the financial system.
- 11.50** So, these proposals are part of the way we fulfil our duties under the FS Act to impose the following requirements on FCA investment firms and their parent undertakings:
- the types and amounts of capital they must hold
 - regulatory reporting
 - governance arrangements
 - remuneration policies and practices
 - public disclosure

Advancing our objectives

- 11.51** The proposals in this CP, and the wider IFPR, are intended to advance our objectives enhance the integrity of the UK financial system, to protect consumers and to promote effective competition in the interests of consumers. This is covered under the section on 'How it links to our objectives' in Chapter 2 of this CP.

How we have taken account of our 'have regard to' considerations in developing the draft rules

Relevant standards set by an international body

- 11.52** We have identified 3 relevant standards set by international bodies. We have had regard to these when formulating the proposals in this consultation.
- 11.53** The first is the forthcoming work of the Financial Stability Board's (FSB) Taskforce for Climate-related Disclosure. We have decided not to propose rules at this stage on ESG disclosures alongside our wider proposals on disclosure as set out in this CP. This is a change to our original plan set out in our consultation map in previous CPs. We believe

this is appropriate in light of this ongoing international work. ESG issues are global in nature and internationally consistent standards are particularly important.

- 11.54** We will be consulting on our prudential rules for ESG disclosures for FCA investment firms when we have more clarity with regards to how international standards are being developed. This will allow for consistency.
- 11.55** The FSB's Principles and Standards for Sound Compensation Practices are high-level standards which seek to align firms' remuneration policies and practices with prudent risk management and the long-term interests of the firm. They include standards for the types of information large firms should publicly disclose. We have had regard to these principles and standards in our proposed remuneration disclosures.
- 11.56** The G20/OECD Principles of Corporate Governance from 2015 are relevant to our proposed governance and remuneration disclosures. We have taken these principles into account to the extent they are relevant to non-listed investment firms. We consider our disclosure proposals to be consistent with them.

The relative standing of the UK

- 11.57** There are 2 examples of how we have had regard to the UK's relative standing on our proposed rules in this CP. These are the amendments made following the removal of our rules that implemented the BRRD for FCA investment firms, and our proposed disclosure requirements.

Removing our rules that implemented the BRRD for FCA investment firms

- 11.58** We have had consultations with the Treasury and the Bank of England on the Treasury's proposal to remove FCA investment firms from the scope of the UK resolution regime - and our previous implementation of the BRRD - as set out in the Banking Act.
- 11.59** We supported the decision to remove FCA investment firms from the scope of the UK resolution regime. For the relative standing of the UK, we believe that continuing to apply rules for the BRRD would result in unnecessary costs for UK investment firms. In our view all the relevant aspects of recovery planning are now captured via the ICARA in a more integrated fashion. We also consider our wind-down regime to be more appropriate for the risks to consumers and the integrity of the market posed by investment firms than the resolution regime.
- 11.60** Integrating recovery planning into a single risk management framework will
- avoid burdening firms with resolution planning requirements in addition to our wind-down planning requirements
 - will reduce administrative costs for investment firms operating in the UK
- 11.61** This will make the UK a more attractive place for international firms to operate in.

Disclosure requirements

- 11.62** Our proposals for disclosure aim to create a regime that is appropriate for the UK market and that meets the needs of investors, potential investors, counterparties and other stakeholders. In some places this will require UK firms to disclose more than under EU rules, in others considerably less. For the UK's relative standing, our

view is that, on balance, these proposals will have a positive impact as they reflect the specifics of the UK market and, where relevant, streamline requirements for firms.

- 11.63** For example, we are proposing that SNI firms disclose a small amount of information on their remuneration policies and outcomes. This approach differs from the EU regime, which does not apply any remuneration requirements to EU SNI firms.
- 11.64** Many SNI firms are in scope of the IFPRU or BIPRU Remuneration Codes. Some are currently subject to more detailed disclosure requirements than we propose to apply. Given the total number of SNI firms in the UK, exempting them from all remuneration disclosure rules could negatively impact the standards of the UK investment firm sector as a whole. This could have implications for the market. Our proposed approach aims to ensure transparency of all SNI firms' high-level approaches to remuneration. This transparency may broaden the appeal of UK investment firms for investors.
- 11.65** We also propose to streamline the disclosure templates compared to those implemented by the EU. This means that we do not expect FCA investment firms to collect and provide as much information.
- 11.66** This is in line with our wider approach towards regulatory reporting requirements as we set out in CP1: with regard to the UK's relative standing we are adopting a proportionate approach to reporting and disclosure, bespoke to the UK market, that will, we believe, have a positive impact on the UK's relative standing.

Likely effect on equivalence decisions

- 11.67** We have discussed with the Treasury the likely effect on equivalence decisions as part of the process of drafting the rules in this CP.

The need to use our resources in the most efficient and economical way

- 11.68** As we set out in previous publications, we have designed our proposals to be proportionate and ensure FCA investment firms are clear about our expectations.
- 11.69** For example, our proposal to make consequential amendments to our Handbook to facilitate the Treasury removing 730k FCA investment firms from the UK resolution regime will ensure that our requirements are not duplicated. Any duplication of requirements in our Handbook can create inefficiencies for industry and the FCA.

The principle that a burden or restriction should be proportionate to the benefits

- 11.70** One of the underlying objectives of the IFPR is to ensure that prudential requirements are well aligned with FCA investment firms' business and operating models. It deals with the potential harm they may pose to consumers and markets in carrying specific activities.
- 11.71** This principle has influenced the design of our proposed disclosure rules in this CP. For example, we propose that non-SNI firms must disclose certain information about their governance arrangements on an individual basis. In line with our approach to consolidation, these disclosures must also be made by the UK parent entity of an investment firm group that is subject to prudential consolidation.

11.72 We are aware that this may result in disclosures at individual and consolidation group level which overlap in part. But we consider it is proportionate to require governance disclosures at individual entity level given that the risks to the firm, its clients and to the wider market exist at entity level and so also need to be appropriately managed at that level. This is particularly important where the individual firm can be the counterparty to transactions.

11.73 Given the diversity of FCA investment firms, we propose that each firm complies with the disclosure requirements in a manner appropriate to its size, internal organisation, and the nature, scope and complexity of its activities. In relation to qualitative information, this means that firms must disclose all the information required but have some discretion over the level of detail. This ensures a proportionate approach while also ensuring transparency and so delivering benefits to FCA investment firms' clients and the wider market.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

11.74 Overall, as a set of prudential rules the IFPR will help ensure the financial soundness of FCA investment firms or support their orderly wind-down where they need to exit from the market. This should help promote confidence in the sector, and so be consistent with its growth in the medium to long term. Due to the nature of the proposals in this CP however, we believe there are no specific decisions where this was directly relevant, although our proposals for the disclosure of prudential information should generally help investor confidence.

The general principle that consumers should take responsibility for their decisions

11.75 The proposals in this CP in relation to disclosure are designed to help investors in, and clients and counterparties of FCA investment firms make more informed decisions. This should allow them to take responsibility for their decisions and help protect them from harm.

The responsibilities of senior management

11.76 Senior managers should understand our proposals and the impact that they may have on their firm. We expect senior management to ensure that firms follow relevant proposed disclosure, depositary, resolution, own funds and consequential amendments. Our proposals for imposing penalties on non-authorised parent undertakings of FCA investment firms include the ability to impose restrictions on members of the management body or employee of those undertakings.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

11.77 The IFPR is designed to be more appropriate for FCA investment firms. It proposes prudential and other obligations that are proportionate to the size and complexity of each firm.

11.78 This principle is relevant for our proposals on disclosure. Given the diversity of FCA investment firms, we propose that each firm complies with the qualitative disclosure

requirements in a manner appropriate to its size, internal organisation, and the nature, scope and complexity of its activities.

- 11.79** This proportionality principle recognises the differences in the nature and objectives of FCA investment firms, while delivering results that enhance transparency and help advance our objectives.
- 11.80** This principle is also relevant when proposing the deduction from own funds of excess drawings by partners and members. This recognises a specific feature of partnerships and LLPs and will ensure an equal outcome as for investment firms that are established as joint stock companies.

The principle that we should exercise our functions as transparently as possible

- 11.81** Our consultation process is intended to set out the thinking behind our proposals and clearly explain what we expect to achieve. We will continue to engage with industry and other stakeholders to get feedback during the consultation process to ensure transparency and clarity in our approach.

Annex 1

Questions in this paper

- Q1:** Do you agree with the proposed scope and process of disclosure set out in this chapter?
- Q2:** Do you agree with our proposed disclosures on risk management, own funds, own funds requirements and investment policy, including the use of templates? If not, please provide details of what should be disclosed or how the templates should be amended.
- Q3:** Do you have any specific suggestions on our proposed disclosures on governance arrangements and on remuneration?
- Q4:** Do you agree with our proposal to require excess drawings by partners or members (of partnerships and LLPs) to be deducted from CET1 capital, except where the amount is already required to be deducted or deemed repaid under other MIFIDPRU rules. If not, please explain your reasons for disagreeing.
- Q5:** Do you agree that we have correctly identified all the onshored BTS and technical standard provisions that are relevant under the IFPR? If not, please explain which other BTS or individual technical standards provisions should be incorporated into MIFIDPRU.
- Q6:** Do you agree with our proposed changes to MIFIDPRU and the additional supplementary provisions in MIFIDPRU 3 Annex 7R that relate to the UK versions of CRR BTS related to own funds? If not, please explain what changes you would propose we make to ensure that the relevant technical standards provisions are operative under the IFPR.
- Q7:** Do you agree with our proposal to remove the core approach to determine the AVAs under the BTS for prudent valuation? If not, please explain any operational reasons why you would wish to retain the core approach as a method to determine the AVA.
- Q8:** Do you agree with our proposed changes to MIFIDPRU that relate to the UK versions of the CRR BTS related to market risk and other related BTS? If not, please explain what changes you would propose we make to ensure that the relevant technical standards provisions are operative under the IFPR.

- Q9:** Do you have any other comments on the content of this chapter?
- Q10:** Do you agree with our proposals for FCA investment firms that act as depositaries for funds? If not, how could we change them?
- Q11:** Do you agree with the proposed amendments to our rules that reflect the removal of FCA investment firms from the scope of the UK resolution regime?
- Q12:** Do you agree with our proposals for consequential changes to the non-prudential modules covered in this consultation? If not, please state which specific provisions and provide reasons why you disagree.
- Q13:** Have you identified any other cross-references where a further consequential amendment could be needed to ensure the relevant provision still operates once IFPR is implemented? If so, please provide details.
- Q14:** Do you have any comments on our proposed approach to sanctions set out in paragraphs 9.16 to 9.18?
- Q15:** Do you agree with our proposal to apply the same approach to investigations and sanctions to non-authorised parent undertakings and persons knowingly concerned in such contraventions? See paragraph 9.19
- Q16:** Do you agree with our proposal to require FCA investment firms and UK parent entities to submit a formal investment firm group notification to the FCA? Do you have any feedback on the notification form we have created for that purpose?
- Q17:** Do you agree with our proposal to introduce a generic MIFIDPRU application and notification form? Do you have any feedback on the forms?
- Q18:** Do you have any other comments on the content of this chapter?

Annex 2

Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made and an estimate of those costs and those benefits.
2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary estimates for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other ways.
3. The scope of this CP and corresponding CBA covers the rules that are consulted on in this CP. These rules cover:
 - public disclosure requirements
 - the treatment of excess drawing by partnerships and limited liability partnerships (LLPs)
 - own funds requirements for depositaries that are also FCA investment firms
 - consequential amendments to the Handbook as a result of introducing a new prudential sourcebook, MIFIDPRU
 - how we are reflecting relevant EU Binding Technical Standards in the Handbook
4. This CBA also assesses the impact of the whole IFPR regime. This allows us to consider the total costs and benefits given the interlinked nature of the requirements that have been considered separately in CP20/24, CP21/7 and this CP. The quantitative CBA covers the Pillar 1 requirements common to all firms. As we explained in the CBAs to CP20/24 and CP21/7 additional own funds and liquid assets requirements due to firm-specific risks are identified by firms themselves through the ICARA process and/or supervisory review process. It is not reasonably practicable to estimate the costs and benefits of any such firm-specific prudential requirements arising from the ICARA.
5. This CBA has the following structure:
 - a. Section 1 outlines the problem and rationale for our proposed intervention.
 - b. Section 2 presents our baseline and key assumptions.
 - c. Section 3 lays out our estimates and analysis of the costs and benefits.

Problem and rationale for proposed intervention

6. FCA investment firms are an important element of a well-functioning economy. They help ensure capital is allocated efficiently and appropriately to help individuals make the most of their savings and investments. If FCA investment firms are not financially

resilient, their failure, if it occurs in a disorderly manner, could bring disruption to clients or the markets in which they operate. This means it is necessary for such firms to be held to appropriate prudential standards.

7. Furthermore, decisions and choices of individual market participants can lead to negative externalities. These are side effects on third parties, such as consumers, other firms, the taxpayer, or the wider economy, that are not necessarily considered by individual market participants. This can lead to a suboptimal (low) level of capital held. Where FCA investment firms fail, this can have knock-on effects on the markets or the economy, for example higher Financial Services Compensation Scheme (FSCS) levies.
8. Our proposed intervention aims to achieve a better balance between avoiding the excessive social cost from firm failure and ensuring that excess costs are not ultimately paid by end-consumers.
9. The proposed regime is expected to generate benefits to FCA investment firms and the market. We expect that firms subject to the proposed regime would find the new prudential framework more appropriate and proportionate to their business model and less burdensome than the current requirements.
10. Prudential requirements that better align with an FCA investment firm's business model should also help improve the financial stability in the sector overall. This should have positive implications for consumer protection and particularly for clients of these firms, either because it reduces the potential for firm failure itself, or because it reduces the potential for disorderly failure if a firm does fail, increasing the likelihood of restoring consumers back into the position they should have been in. The proposed changes should help reduce costs and distress associated with discontinuity of service and economic losses in drawn-out insolvency proceedings; as well as placing less reliance on investor compensation schemes, avoiding consequent impacts on other firms to top-up these schemes to handle pay-outs. Overall confidence, investor sentiment and market stability should also benefit.¹
11. The proposed regime will be closely aligned with the new EU regime – the IFD/IFR, while taking into consideration the specifics of the UK market. The details of the EU's new prudential regime for investment firms can be found in our June 2020 Discussion Paper – [DP20/2](#).

Our interventions

12. The FCA is the competent authority for the prudential regulation of approximately 3,700 investment firms authorised under MiFID.
13. The current prudential regime for FCA investment firms is based on requirements designed for globally active systemically important banks. Its main aim is to protect depositors by ensuring that it is difficult for a bank to fail.
14. By contrast, the IFPR is specifically designed for FCA investment firms and represents a significant change to how they will be prudentially regulated. The new requirements seek to capture the potential harm posed by these firms to their clients and the markets in which they operate. It also considers the amount of capital and liquid assets

1 [EU impact assessment of the IFD/IFR](#)

the FCA investment firm should hold so that if it does have to wind-down or exit the market, it can do so in an orderly way.

Categorisation of investment firms

15. We proposed and have confirmed our approach that all the current prudential definitions of FCA investment firms, such as BIPRU, IFPRU and exempt CAD will cease to exist. There will instead be two broad categories of FCA investment firm. Firms will either be a 'small and non-interconnected' (SNI) investment firm, or they will not (non-SNI). The prudential requirements in the IFPR are designed to scale with the size and complexity of the firm.

Prudential consolidation

16. We proposed and have confirmed that prudential consolidation will apply to investment firm groups, unless we have granted permission to a group to use the alternative of the group capital test. How requirements should be calculated on a consolidated basis will differ from the current regime.

17. We proposed and have confirmed that we will introduce a group capital test for FCA investment firm groups that do not wish to be subject to prudential consolidation and meet certain specified conditions. This is to ensure that parent entities hold appropriate amounts of capital to support their investments in subsidiaries.

Own funds – composition

18. We proposed and have confirmed that the own funds of FCA investment firms should be made up solely of common equity tier 1 capital, additional tier 1 capital and tier 2 capital. We believe that using this higher quality of capital for all FCA investment firms will lead to them being more resilient and having an increased capacity to absorb losses.

Own funds requirements

19. We proposed and have confirmed to introduce a new PMR as one of the floors below which a firm's own funds must not fall. This will be based on the activities that an FCA investment firm undertakes. We also proposed and have confirmed to increase the initial capital required for a firm to become authorised as an FCA investment firm. This will be to the same level and quality of capital as for its ongoing PMR once authorised.
20. We proposed and have confirmed to introduce a fixed overheads requirement (FOR) that will apply to all FCA investment firms. This will be another of the 'floors' below which the own funds of an FCA investment firm must not fall.
21. We proposed and have confirmed to introduce a new approach to calculating capital requirements – 'K-factors'. This K-factor requirement (KFR) is based on the activities that an FCA investment firm undertakes.
22. SNI firms' own funds requirements will be the higher of the FOR or PMR whereas non-SNIs' own funds requirements will be the higher of the KFR, FOR and PMR.
23. We set out specific proposals, and have confirmed that we will introduce them, on own funds requirements and firm categorisation for FCA investment firms when they provide clearing services as clearing members and indirect clearing firms.
24. We are proposing to amend the requirements that certain depositaries must meet so that they no longer have to have permission to deal on own account. We propose to

allow other FCA investment firms to act as a depositary, as long as they also provide the MiFID ancillary service of safe-keeping and administration of financial instruments.

Concentration risk monitoring and related own funds requirements

25. We have confirmed that we will have new monitoring requirements for general concentration risk that will apply to all FCA investment firms. This includes the entities with which FCA investment firms place their client assets and their own cash. Non-SNI firms will also be required to report on this general concentration risk.
26. For FCA investment firms that trade in their own name we are introducing K-CON. This is an additional K-factor for assessing concentration risk that could lead to an increased own funds requirement.
27. We also have rules on maximum levels of concentration risk permitted for trading book exposures.

Basic liquid asset requirement

28. We proposed and have confirmed that all FCA investment firms will have a basic liquid asset requirement. This will be based on holding an amount of core liquid assets equivalent to at least one third of the amount of their FOR. We explain the concept of core liquid assets and how this provides an appropriate set of assets that can be used to meet the basic liquid asset requirement.

Risk management & governance (ICARA and SREP)

29. We confirmed that we will introduce an internal capital and risk assessment (ICARA) process for all FCA investment firms. Through this, firms will be expected to meet an Overall Financial Adequacy Rule (OFAR). This establishes the standard we will apply to determine if an FCA investment firm has adequate financial resources.
30. We have confirmed how we expect FCA investment firms to determine through the ICARA process any necessary appropriate own funds and liquid assets requirements, in addition to the own funds and basic liquid asset requirements above. This includes that they consider harm to consumers and markets, including risks to their ability to engage in an orderly wind-down, as well as those from their ongoing activities.
31. We also set out new guidance on intervention points, actions we expect of firms in certain situations and what they can expect from us. As part of this, we intend to re-orientate our prudential supervisory approach for FCA investment firms towards being harm-led and in support of sector supervision. We will introduce an ICARA Questionnaire reporting template to support this.

Remuneration requirements

32. We proposed and have confirmed that all FCA investment firms must have a clearly documented remuneration policy and comply with at least a small number of basic remuneration rules in respect of all their staff. Non-SNI firms must comply with further requirements, which include identifying material risk takers and setting an appropriate ratio between variable and fixed remuneration. Under our rules, only the largest non-SNI firms would need to meet the full requirements by also applying rules on deferral and pay-out of variable remuneration in instruments.

Reporting requirements

33. Through the IFPR, FCA investment firms will be required to assess and hold financial resources against the potential for harm that they present to markets and consumers. We will need different information from FCA investment firms to support this, and we are introducing an appropriate and proportionate data collection to capture this information. We are also intending to remove reporting requirements that are no longer necessary or appropriate.
34. We confirmed that we will significantly reduce the amount of information that FCA investment firms need to report to us about their remuneration arrangements. We also confirmed that we will simplify the additional reporting form for CPMI firms.

Disclosure

35. We are proposing that non-SNI firms should disclose information about their risk management and governance arrangements and their own funds and own funds requirements. We are also proposing that any SNI firm that has issued AT1 instruments should also disclose information about their risk management arrangements, own funds and own funds requirements. We are not yet asking firms to make specific ESG related disclosures.
36. We are proposing that all FCA investment firms must make some disclosures about their remuneration policies and outcomes. This will be both qualitative and quantitative, and proportionate to the size and type of firm.

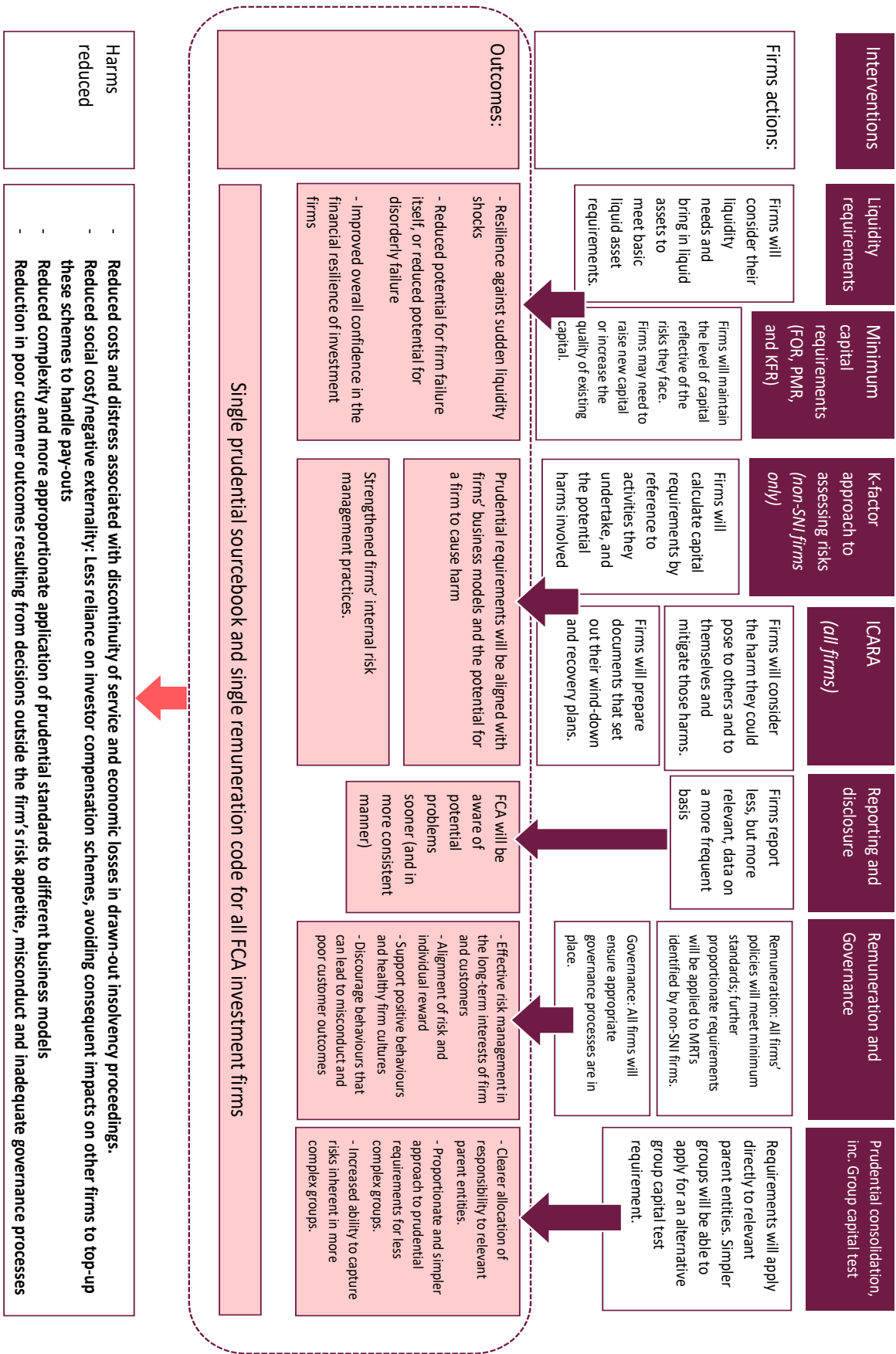
Recovery and resolution

37. Earlier in 2021, the Treasury consulted on its proposal to remove FCA investment firms from the scope of the UK's resolution regime. In June 2021, the Treasury's feedback confirmed that these firms would no longer be subject to this regime. We propose in this consultation making changes to our Handbook to reflect this change.

How will the intervention achieve the purpose?

38. We are seeking the following outcomes with the IFPR:
- The prudential regime for FCA investment firms is more aligned to the way that investment firms run their business. The regime will take account of the different business models of FCA investment firms, and better protect consumers and markets from the harm these may pose.
 - All FCA investment firms are subject to consistent prudential standards, not just those subject to the current CRR regime. This will help reduce the potential harm to consumers and markets and ensure a more level playing field between FCA investment firms.
 - FCA investment firms spend less time on complex capital requirement calculations that do little to help them to manage risk. This will free up management time to focus on running the business and managing and mitigating any harm and risk. We will also be able to focus on how a firm is managing itself.
 - The relevant prudential standards for FCA investment firms are understandable and accessible, with most rules brought into a new single prudential sourcebook – MIFIDPRU.
39. The causal chain diagram presented below shows how the harm will be reduced. The top level shows the areas of intervention, eg, Minimum capital requirements, ICARA process. This is followed by description of changes that firms are expected to make in response to each intervention. The diagram then shows corresponding changes in outcomes and harm.

Figure 1: IFPR Causal chain diagram



Baseline and key assumptions

Baseline – current regulatory regime

40. It is necessary to establish a baseline against which to assess the costs and benefits of an intervention to ensure that only those attributable to the intervention are considered.
41. The EU's framework legislation for its new prudential regime for investment firms was published at the end of 2019. This has been supplemented by additional technical standards published by the European Banking Authority, in consultation with the European Securities and Markets Authority.
42. As the UK is no longer a member of the EU, we are not obliged to implement the EU's rules. We are instead subject to an obligation to implement a domestic regime under the FS Act. We believe that for our 'have regard' to the relative standing of the UK, the EU's IFD/IFR is the baseline for the IFPR. Nevertheless, recognising that parts of the overall regime are still based upon the UK CRR, we consider that it is sensible to go beyond and consider the existing levels of regulatory requirements and the current market conditions as an appropriate baseline for the purposes of our CBA.
43. We compare our proposals and rules against the current prudential framework that either specifies direct requirements for UK investment firms or defines the scope of the FCA's discretion to apply other prudential requirements, i.e. the on-shored CRD IV and the CRR² regime. Where an IFPR requirement impacts a firm in a materially different way to these regimes we set this out in this analysis. Where our proposals or rules will be aligned with the EU, we will also consider any case made by the EU in making its proposals where we consider it relevant to do so.

Scope and affected firms

44. This CBA assesses the costs and direct benefits of the whole IFPR, including the proposals in this CP. The IFPR will apply to around 3,700 investment firms regulated by the FCA. This is based on the number of firms with relevant permissions on the Financial Services Register. This number of firms is different from the ones used in CP20/24 and CP21/7 as this is the latest estimate of firms with relevant permissions. However, we recognise that some exempt-CAD firms may decide to stop opting-in to MiFID and so will not become subject to the IFPR. For the purposes of the CBA, we have still used the upper bound of 3,700 investment firms.
45. As in our previous CBAs we have defined categories of investment firms to calculate the costs and benefits. This CP is covering the costs of the whole IFPR and is therefore covering a wide range of IFPR elements. The existing baseline for each of these elements can vary considerably because the firms in scope of the relevant existing rules (and how the rules may apply to them) differs for each element. For example, the ICARA process is akin to the ICAAP that currently applies to IFPRU and BIPRU firms only, whereas only a few firms are currently subject to any quantitative liquid asset requirement (under BIPRU 12). Equally, IFPRU and BIPRU firms are subject to different Remuneration Codes.

2 References to the "CRR" in this CBA are to the on-shored version of the CRR as it applies in UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended) and any subordinate legislation.

- 46.** To provide as accurate an analysis of the costs and benefits as possible of each IFPR element we have applied different categorisations to different IFPR elements. We outline below how we have done this.
- 47.** In the CBA to CP21/7 we were able to make the distinction between the number of SNI and non-SNI firms for the purposes of analysing the costs of: i) own funds requirements; ii) the basic liquid assets requirement; and iii) the reporting proposals. In this CP we are extending that SNI and non-SNI distinction when analysing the implementation costs for the proposed MIFIDPRU 8 disclosure requirements and the impact of the EU binding technical standards.
- 48.** In the CBA to CP20/24 we did not have sufficiently granular data to apply different categorisations to different IFPR proposals and so we could not provide as accurate an analysis of the implementation costs as we can now. As we explained in CP20/24 and CP21/7, the CBA in this CP is designed to bring together the total costs and benefits of our proposals across the three consultations, taking into account their interlinked nature. This holistic approach has allowed us to refine our estimates of some of the implementation costs for the proposals in CP20/24, which were originally assessed in isolation in the context of that CP. We are using the SNI/non-SNI distinction for the proposals covering the definition and composition of own funds, and the reporting requirements. We are applying firm activity data to estimate the implementation costs of own funds requirements for firms that deal on own account. For the implementation costs of prudential consolidation and the group capital test we have estimated for how many firms this will apply.
- 49.** We estimate that 52% of the total FCA investment firm population will be SNIs and 48% will be non-SNIs. This is based on all current MiFID investment firms remaining authorised under MiFID.
- 50.** To assess the impact of the ICARA process on FCA investment firms, we have followed the approach explained in the CBA to CP21/7 and further split the SNI and non-SNI groups into those that are subject to the current Pillar 2 approach and those that are not.³

Table 1: allocation of firms for implementation cost estimates of ICARA process

	SNI	Non-SNI
Firm subject to existing Pillar 2 approach	20%	45%
Firm not subject to existing Pillar 2 approach	32%	3%
Total	52%	48%

- 51.** To assess the impact of the remuneration requirements on FCA investment firms, we have followed the approach explained in the CBA to CP21/7 and split them into 6 groups. First, we have categorised firms based on whether they are subject to an existing remuneration code, or not. These 2 groups are then further split into three cohorts based on the proportionality provisions in our proposed remuneration rules.⁴

³ Further details are in paragraphs 23 to 27 of the CBA in CP21/7.

⁴ See paragraphs 28 to 33 of the CBA in CP21/7 for further details.

Table 2: allocation of firms for implementation cost estimates of remuneration rules

	SNI	Non-SNIs not subject to deferral and pay-out rules	Non-SNIs subject to deferral and pay-out rules
Firm subject to an existing Remuneration Code	20%	42%	2%
Firm not subject to an existing Remuneration Code	32%	3%	1%
Total	52%	45%	3%

52. The following table brings together all the different categorisations shown above to illustrate the percentage of the IFPR firm population that is in each category.

Table 3: Allocation of firms for implementation cost estimate

Firm	SNI	Non-SNI			
		Binding own funds requirement is FOR or PMR		Binding own funds requirement is KFR	
		Assets <£300m	Assets >£300m	Assets <£300m	Assets >£300m
Firm subject to an existing ICARA or remuneration code	20%	32%	1%	10%	1%
Firm not subject to an existing ICARA or remuneration code	32%	2%	<1%	<1%	<1%

Data and key assumptions

53. We conducted this analysis of the costs and benefits of the consultation proposals and rules using two sources of data:

- We used data reported to the FCA via regulatory returns, such as firms' balance sheet data and liquid asset data.
- The IFPR includes requirements that rely on non-financial data (eg, staff numbers and business volumes) and some financial data (eg, assets under management) that is not routinely reported to us by all firms or in the format required, and which we need to receive to inform our policy making and cost our proposals. Therefore, we separately issued a data request to collect such data from firms to support this, and our later, consultation. We surveyed 2,476 firms, a subset of the population as the data request was not relevant to all investment firms and we received a very high response rate (57%). For this CBA we used the Remuneration data to inform the impact of Remuneration policies, and some of the business model metrics to determine which own funds requirement methodology was binding for each firm. Where necessary data was extrapolated to cover the entire population.

Limitations, risks and uncertainties

54. Our CBA estimates are subject to several uncertainties and assumptions.
55. Costs are assumed as additive rather than incremental. We have added up the costs of the individual elements of the IFPR regime, however the costs that firms incur in practice to implement one element of the IFPR may, in some instances, reduce the cost of implementing other elements. This could lead to implementation cost synergies. However, as we have no evidence for this effect, we haven't attempted to account for this in the estimates. We have assumed that all costs are additive.

56. Equally, for some IFPR elements, such as reporting and own funds requirements, where we consulted on rules in more than one consultation, we are likely to be duplicating some implementation costs in our overall cost estimates in this CBA. As a result, our approach to estimate implementation costs is likely to overstate the true implementation cost and be an upper bound.

Revised estimates

57. The implementation cost estimates published in our previous consultations were reasonable estimates based on the available data and the specific proposals we were putting forward. As we explained in CP20/24 and CP21/7, we always intended to publish an overall CBA in this CP, which would take into account the overall interaction of the various elements of the IFPR based on the latest available data. As a result, we have been able to refine some of our estimates of costs and benefits, which we present in the section below. We consider that the increase in the number of firms affected will proportionately increase some costs and benefits and continue to support our finalised measures and our further proposals in this CP.

Costs and benefits

Summary of costs and benefits

58. In the sections below, we have assessed the implementation costs arising from the proposed and confirmed prudential standards and the expected benefits. The following table sets out a summary of the estimated implementation costs for the whole regime, which are one-off costs. We do not include ongoing implementation costs, which are wrapped up within firms' day-to-day activities.

Table 4: One-off Implementation Costs for all CPs

Type of cost	CP1 (revised)	CP2 (revised)	CP3	Total
Familiarisation costs	£2.3m	£3.6m	£1.5m	£7.4m
Gap analysis	£11.9m	£22.8m	£6.7m	£41.4m
Change projects, including review by Exco and the Board	£6.2m	£46.9m	£13.9m	£67.0m
Costs of making changes to the IT systems	£5.0m	£30.6m	£8.3m	£43.9m
Costs of providing staff training/ disseminating information about the new rules	£1.5m	£28.1m	£7.4m	£37.0m
Total	£26.9m	£132.0m	£37.8m	£196.7m

59. The one-off implementation costs have been revised for the proposals and finalised measures in CP1 and CP2. The increase in implementation costs for the finalised measures in CP1 (from £19.6m to £26.9m) reflects that since CP1 we have been able to produce more granular categories of investment firm and therefore have updated our original reasonable estimates of the costs of each proposal. This is in part due to the firm survey exercise that we conducted in late 2020. The increase in implementation costs for CP1 and slight increase in implementation costs for CP2 (from £131.6m to £132.0m) also reflects the fact that the latest estimate of firms with relevant permissions has increased since both consultations. These cost revisions do not change our previous judgements about implementing the rules in CP20/24 and CP21/7.

60. The estimated total one-off implementation costs imply average cost of around £74,000 and £34,000 per non-SNI and SNI respectively. The per-firm average estimated values do not represent the costs we expect each firm of a given size or type to incur as a result of all the IFPR rules and proposals. Rather, these are averages published for the purposes of transparency for our calculations of the costs of these interventions. As we articulated before, the categories we have used to try and allocate firms are broad and each encompasses a range of firm sizes and types, which in turn would have a range of compliance costs above or below the averages we have included.
61. We also summarise below what we believe to be the total one-off implementation costs, presented by each area consulted on in this CP.

Table 5: One-off implementation costs by IFPR element consulted on in CP3

IFPR element	One-off implementation costs
Disclosure	£10.0m
Own funds – excess drawings by partners and members	Negligible
Depositories	Negligible
UK resolution regime	None
Impact of relevant EU Binding Technical Standards	£26.3m
Familiarisation costs (which are not rule area specific)	£1.5m
Total	£37.8m

62. In the table below we assess how SNI and non-SNI FCA investment firms will be impacted by the proposed changes to the prudential regime that are covered in this consultation. We undertook a similar exercise for the proposals in the previous two consultation papers. We have not repeated that material here.⁵

Table 6: Summary of rule-specific costs for proposals consulted on in this CP

Item	Impact on firms	SNI	Non-SNI
Rule area	Description of impact	Yes/No	Yes/No
Disclosure	The cost change for non-SNI firms will be broadly neutral because the information will already be collected for their own risk management purposes [see paragraphs 68-71 for details].	Yes	Yes
Rules, draft MIFIDPRU 8			
Own funds – excess drawings by partners and members	Negligible impact [see paragraphs 72-73 for details].	Yes	Yes
Rules, draft MIFIDPRU 3			
Depositories	Negligible impact [see paragraphs 76-77 for details].	No	Yes
Rules, Draft MIFIDPRU various			

⁵ The reader is directed to paragraph 19 on page 92 of CP 20/24, and paragraph 41 on page 139 of CP 21/7 for that material.

Item	Impact on firms	SNI	Non-SNI
UK resolution regime	Beneficial impact as we are removing these rules in their entirety [see paragraph 78 for details].	No	Yes
Rules, draft IFPRU 11			
EU binding technical standards	There should be little or no change in the impact on firms as we are making changes to these technical standards so that they work as intended once the IFPR is introduced. [see paragraphs 74-75 for details].	Yes	Yes
Rules, draft MIFIDPRU 3			
Consequential amendments to the Handbook	Neutral to beneficial impact as we have not generally proposed material changes in underlying policy to the contents of other modules and we have significantly reduced the amount of glossary material [see paragraphs 79-80 for details].	Yes	Yes
Rules, draft Various Handbook modules			

63. In Tables 7 and 8 below we summarise how well firms are positioned to meet the capital and liquidity requirements of the IFPR, and what the cost of potential capital and liquidity shortfalls may be. The analysis examines the end of year 5 (ie, end-state) and the beginning of year one (ie, allowing for transitional provision) positions. More detail on this analysis is in paragraphs 98-111 below.

Table 7: Analysis of firms that would have capital deficits – beginning of year 1 and end of year 5

Beginning of Year 1			End of Year 5		
Percentage of firms with a capital shortfall	Total capital shortfall	Average annual cost per firm to fund capital shortfall (assuming 5.5% cost of capital)	Percentage of firms with a capital shortfall	Total capital shortfall	Average annual cost to fund capital shortfall (assuming 5.5% cost of capital)
8%	£79m	£14k	21%	£1.5bn	£105k

Table 8: Analysis of firms that would have liquidity deficits – beginning of year 1 and end of year 5

Beginning of Year 1			End of Year 5	
	Percentage of firms impacted	Total liquid asset shortfall	Percentage of firms impacted	Total liquid asset shortfall
Liquid asset shortfall up to £50k	4%	£2m	4%	£2m
Liquid asset shortfall over £50k	3%	£111m	3%	£111m

64. The benefits of the proposed and confirmed rules are:

- Improved competitive conditions by cause of single prudential sourcebook compared to the existing mix of standards. Under the IFPR, all investment firms carrying out the same investment activity will be treated in a simpler and more consistent manner.

- Lower compliance costs due to more proportionate regulatory reporting requirements. In paragraphs 132-136 below we have attempted to quantify the benefits of moving to the proposed IFPR reporting regime for larger non-SNI firms. We estimate that this could lead to savings of approximately £48,000 per firm.
- Reduced potential for a firm to cause harm to their clients and the markets they operate in. First, minimum capital and liquidity requirements should reduce the potential for firm failure itself or reducing the potential for disorderly failure if a firm does fail or exit the market. Second, under ICARA and SREP, firms will be required to assess harms that are specific to their business models and mitigate those harms. This should strengthen firm's internal risk management practices and make it easier for firms to plan for how to respond to certain situations.
- Reduced social cost of firm failure. Minimum capital and liquidity requirements should reduce the reliance on investor compensation schemes and avoid consequent impacts on other firms to top-up these schemes to handle pay-outs.
- Improved overall confidence in the financial resilience of investment firms, for the reasons outlined above.

65. Apart from the lower compliance costs due to more proportionate regulatory reporting, we do not consider it reasonably practicable to quantify these benefits.

66. We believe that our proposals and confirmed rules will have a net cost in the short to medium term. Most of the costs are one-off implementation costs; while the benefits (such as reducing the potential for disorderly failure) are ongoing and will likely build over time.

Costs to firms: CP3-specific costs **CP3-specific costs**

67. This section covers costs and benefits that firms would incur from each of the rules proposed in this consultation. Implementation costs, such as familiarisation and gap analysis, that are specific to the proposals set out in this consultation are covered in the section on total costs below.

Disclosure

68. The disclosure requirements in MIFIDPRU 8 will only apply in full to non-SNI firms. We are proposing that they disclose information, such as the value of different types of capital that they hold, that they are providing to us in regulatory returns or that they will have collated for their own risk management requirements.

69. For IFPRU firms, we are asking for less detail than they are currently expected to provide so the cost to these firms should decrease. Other categories of firm that do not currently have any disclosure requirements, and will be non-SNIs, will have an increase in costs due to having to collate the information and provide some of it in a specific format. We think that the cost change for non-SNI firms will be broadly neutral.

70. Disclosure of risk management processes will apply to SNI firms that have issued AT1 instruments. We think it is likely that only a very few, if any, SNI firms will have issued AT1 instruments and that there will be little or no increased cost for these firms.

71. We are proposing that all SNI firms must disclose a small amount of qualitative and quantitative information about their remuneration policies and outcomes. This is high-level information which all firms will already have to comply with the MIFIDPRU Remuneration Code. We consider that the additional costs associated with disclosing the information would be negligible.

Own funds – excess drawings by partners and members

- 72.** We are proposing that where drawings are made in excess of profits in a partnership or LLP this will reduce the own funds of the firm by the amount of the excess. This is no change for BIPRU firms but means that former IFPRU firms, and all FCA investment firms, will be treated the same.
- 73.** Firms can avoid having to deduct drawings in excess of profits from own funds, by not making such excess drawings. This is unlikely to have a material impact on firms' business models.

EU binding technical standards

- 74.** We are proposing that firms should apply most of the relevant technical standards by referring to the on-shored version as modified by MIFIDPRU. These modifications are needed so that the technical standards work as intended. There are 2 technical standards, own funds requirements for institutions and prudent valuation, that we are going to copy, with modifications, into MIFIDPRU annexes.
- 75.** As we are making changes to these technical standards so that they work as intended once the IFPR is introduced, there should be little or no change in the impact on firms that are already subject to these. Firms that have not previously been in scope of CRR/CRD may have to take account of these for the first time. This would include those firms subject to K-NPR and CRR market risk requirements.

Depositories

- 76.** We are not changing the £4 million base capital requirement for depositories of a UCITS scheme or an authorised AIF. This requirement will just be moved from FUND and COLL and into MIFIDPRU. We are proposing a small increase in the minimum own funds requirement for firms that act as the depository of an unauthorised AIF from EUR 730,000 to £750,000.
- 77.** We are proposing that FCA investment firms can act as a depository as long as they also provide the MiFID ancillary service of safe-keeping and administration of financial instruments. Firms that are depositories cannot be SNI firms.

Recovery and resolution directive (RRD)

- 78.** FCA investment firms will no longer be subject to the UK's resolution regime. This will result in a saving for those firms that are currently in scope of the RRD.

Consequential amendments to the Handbook

- 79.** We have not generally proposed material changes in underlying policy to the contents of other modules. However, we have made small policy changes where necessary to reflect the overarching policy objectives of streamlining and simplifying the regulatory requirements that currently differentiate between the various existing prudential categories of FCA investment firm.
- 80.** We have made considerable changes to the Glossary, although largely just to remove 80 pages of glossary definitions which will no longer be necessary once we delete IFPRU and BIPRU. The new regime will be much less reliant on significant amounts of glossary material, and therefore easier for firms to navigate.

Costs to firms: total costs for the IFPR regime (including proposals consulted on in this CP)

Implementation cost

81. We expect that firms will be required to incur costs to implement the proposed and confirmed policy framework. Implementation costs include the time and resources spent by firms familiarising themselves with the proposals and performing a gap analysis to identify necessary changes as a result. Firms may also incur staff training and IT costs. These costs will be one-off in nature to prepare for the introduction of the IFPR.
82. We use standard assumptions to estimate firm compliance costs based on the standardised costs model, of which further details can be found in the FCA publication ["How we analyse the costs and benefits of our policies"](#).
83. As noted in the section on limitations, we assumed costs calculated in each CP to be additive rather than incremental. The costs that firms incur to implement one element of the regime may, in some instances, reduce the cost of implementing other elements. For example, firms may only perform a single IT change, or conduct a single staff training program, rather than doing it for each element of the regime. This can lead to cost synergies.
84. In addition, some of the IFPR elements, such as Reporting and Own Funds Requirements, were consulted upon in both of our previous consultations. Given this overlap, some implementations costs will be duplicated. As a result, our approach to estimate implementation costs is likely to overstate the true implementation cost and be an upper bound.
85. **Familiarisation:** To familiarise themselves with our proposals and rules, we expect that all firms will read the three consultations, which contains 358 pages some of which will not be relevant to all firms. We assume that the number of compliance staff who would need to read the consultation will on average be 5 people at a medium firm and 2 at a small firm. We use an average salary of a compliance function and apply these estimates to the different categories of firms we have created for the different sets of policies we are proposing in this CBA.
86. We estimate the cost of familiarisation to be around £1.5m for the rules consulted on in this CP.
87. Our revised familiarisation cost estimates for CP1 and CP2 are £2.3m and £3.6m, respectively, leading to a total familiarisation cost of the whole regime of £7.4m.
88. **Gap analysis:** To meet the requirements, firms are expected to conduct a gap analysis of the amount of own funds and liquid assets required, among other things, and compare it against the current regime. The standardised cost model assumes it will take 2 and 1 legal and compliance professionals at a medium and a small firm respectively to review 804 pages of legal text, plus 358 pages of different rule-specific consultation text, to assess our proposals.
89. We estimate the cost of the gap analysis for the rules consulted on in this CP to be around £6.7m.
90. Our revised cost estimates for gap analysis for the rules consulted on in CP1 and CP2 are £11.9m and £22.8m, respectively, leading to a total cost of gap analysis of £41.4m.

- 91. Methodology changes:** Firms are likely to have to make changes to CP3-related changes. These will require firms to have a small project management team and the main costs relate to the opportunity cost of staff time. Our model assume that a medium firm will spend 14 person days to implement a change, while a small firm will spend 3 person days. We also assume that this change will need to be reviewed by Senior Managers at each firm.
- 92.** We estimate the cost of this change to be around £13.9m for the rules consulted on in this CP.
- 93.** Our revised cost estimates for methodology changes discussed in CP1 and CP2 are £6.2m and £46.9m, respectively, leading to a total cost of methodology changes of £67.0m.
- 94. IT changes:** In addition to the costs set out above, firms will need to make some changes to their IT systems to reflect new disclosure requirements. Our estimates assume that medium firms have an in-house IT capability and will spend 8 person days to implement this change, while small firms are likely to rely on external consultants and spend the equivalent of 4 person days to implement the IT change. We expect the total cost of this change to be around £8.3m for the rules consulted in in this CP.
- 95.** Our revised estimates for IT changes described in CP1 and CP2 are £5.0m and £30.6m, respectively, leading to a IT cost of £43.9m.
- 96. Training:** Finally, we expect firms to incur some staff training costs. For the purpose of this CP, we assume that a medium firm will brief 10 employees and a small firm will brief 2 employees, comprising of compliance staff and investment advisors. We assume that reading the briefing and acting on the information will take a full day for each affected employee. This would result in a total training cost of £7.4m for the rules consulted on in this CP.
- Our revised estimates for training costs described in CP1 and CP2 are £1.5m and £28.1m, respectively, leading to a total staff training cost of £37.0m.

Capital and liquidity - Impact of the IFPR Regime

- 97.** We explained in the CBAs to CP20/24 and CP21/7 that we will present our view on the overall impact of our proposals and confirmed rules. Below we provide an analysis from the perspective of the capital and liquidity impacts of the IFPR regime and how well firms are positioned to meet the requirements. The analysis examines the end of year 5 (ie, end-state) and the day-one (ie, allowing for transitional provision) positions.

Capital

- 98.** What constitutes own funds varies across the different legacy prudential regimes that are moving to MIFIDPRU. This includes what is eligible to be included as own funds, in what tier of capital does it sit and what items must be deducted when calculating own funds. This unnecessary complexity is one reason we are moving to a single approach for all FCA investment firms.
- 99.** To conduct our analysis we map existing capital instruments, reserves and deductions to the new IFPR definition of own funds.
- 100.** Table 9 below illustrates, by existing firm type, which own funds requirement calculation is the binding requirement (assuming a firm's KFR, PMR or FOR value at the end of any transitional provision). The table shows that around 90% of firms that we

think will be subject to the IFPR will have a binding requirement that is either the PMR or the FOR at the end of the transitional period.

Table 9: Percentage of firms allocated by whether the binding requirement is the FOR, PMR or KFR.

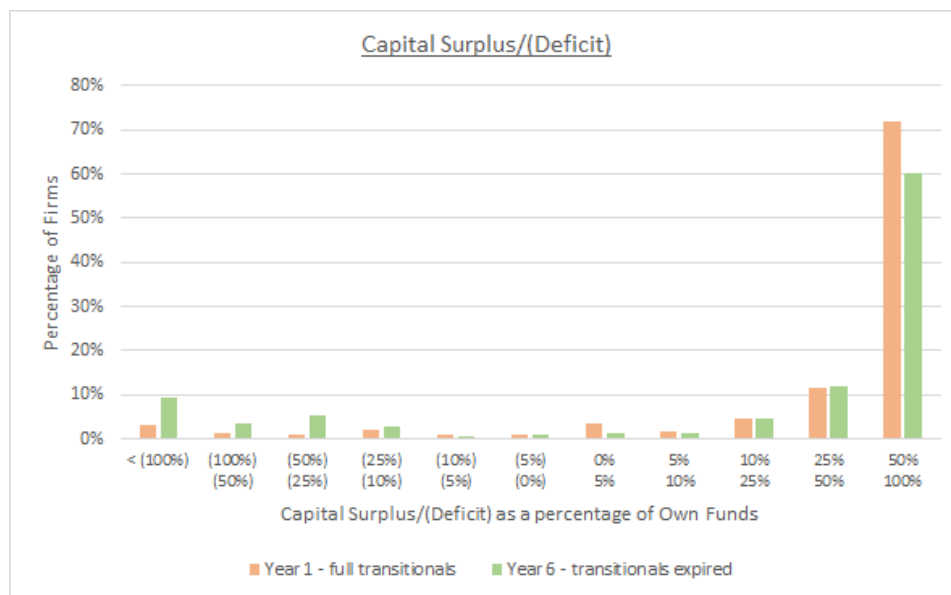
Existing firm type	Non-SNI KFR	Non-SNI FOR	Non-SNI PMR	SNI FOR	SNI PMR	Total
IFPRU	4.7%	7.4%	4.7%	0.8%	1.4%	18.9%
BIPRU	6.7%	17.8%	3.4%	9.5%	8.7%	46.1%
IPRU(INV)	0.5%	0.3%	2.1%	0.1%	31.8%	34.9%
Total percentage	11.9%	25.5%	10.2%	10.4%	41.9%	100%

- 101.** Table 10 and Figure 2 below illustrate the percentage of firms that will have a surplus or deficit of own funds compared to their own funds requirements at the beginning of year 1 of the new regime and at the beginning of Year 6 (ie, at the end of the transitional period.) We show the capital impact in relative and absolute terms.
- 102.** The relative measure is captured by banding firms into buckets based on the capital surplus or deficit **as a percentage of their own funds**. For example, if a firm's own funds are £100, and their own funds requirement is £60, the surplus percentage will be 40%. As the surplus increases the percentage tends towards 100%. The deficit percentage can however exceed 100%, for example if a firm's own funds are £100 and their own funds requirement is £250 then the deficit percentage is (150%). This explains the asymmetric banding pattern in the table and diagram.
- 103.** Table 10 shows that 8% of firms will have insufficient own funds to meet their own funds requirement on day-one. The total shortfall is in the region of £79m. Based on a cost of capital of 5.5% this shortfall would equate to an average cost per firm of £14,000 per annum. Over the 5-year transitional period, all things being equal, and firms decided to take no action to improve their capital position (eg, by retaining a higher proportion of profits in the firm), the percentage of firms with a deficit would be 21% and the size of the overall deficit would be around £1.5bn. For those firms making up the shortfall would represent an average cost per firm of £105,000 per annum.
- 104.** This quantification does help to indicate how the transitional provisions have been sized to allow firms time to accumulate capital to migrate to the new regime. Equally, the analysis illustrates that most firms are already more than adequately capitalised and so the outcome should be seen as being consistent with one of the IFPR's stated outcomes which is a risk-based rebalancing of capital requirements that addresses the current undercapitalisation of some firms.

Table 10: Estimated Capital Surplus/(Deficit) at the beginning of year 1 and the beginning of year 6 of the IFPR

Capital Surplus/(Deficit) as a percentage of Own Funds	Year 1		Year 6	
	Percentage of firms	Amount (£m)	Percentage of firms	Amount (£m)
< (100%)	3%	(16)	9%	(1,345)
(100%) - (50%)	1%	(44)	3%	(30)
(50%) - (25%)	< 1%	(9)	5%	(22)
(25%) - (10%)	2%	(6)	3%	(41)
(10%) - (5%)	< 1%	(1)	< 1%	(14)
(5%) - (0%)	< 1%	(3)	1%	(3)
0% - 5%	3%	1	1%	3
5% - 10%	1%	2	1%	4
10% - 25%	5%	110	5%	213
25% - 50%	11%	681	12%	770
50% - 100%	72%	79,631	60%	78,234
Total	100%	80,347	100%	77,768

Figure 2: Estimated Capital Surplus/(Deficit) at the beginning of year 1 and the beginning of year 6 of the IFPR



- 105.** Tables 11 and 12 focus on the cohort of firms that would have shortfalls in own funds compared to the requirements they would have at the beginning of year one and the end of the five-year transitional period respectively, but in these tables they are broken down by existing firm classification and whether the firm will be an SNI or non-SNI.
- 106.** The tables show the number of firms that we estimate may have capital shortfalls and the cumulative amount of deficit. We have also calculated the cumulative annual profit after tax (PAT) for each group of firms. Comparing the capital deficits to the profitability for each group shows that through capital retentions most of the firms should be able to make up their shortfalls. Please note that in Table 12 there will be the opportunity to accumulate 5 years of cumulative after-tax profits, however the table only shows 1 year's PAT for those firms.

Table 11: Analysis of firms that would have capital deficits – beginning of year 1

Firm category	SNI			Non-SNI		
	Number of firms	Capital (Deficit) £m	Annual PAT (£m)	Number of firms	Capital (Deficit) £m	Annual PAT (£m)
IFPRU	7	(0.3)	(21)	22	(14)	6
BIPRU	50	(4)	7	73	(54)	690
IPRU(INV)	144	(6)	9	8	(1)	185
Total	201	(10)	(5)	103	(69)	881

Table 12: Analysis of firms that would have capital deficits – beginning of year 6

Firm category	SNI			Non-SNI		
	Number of firms	Capital (Deficit) £m	Annual PAT (£m)	Number of firms	Capital (Deficit) £m	Annual PAT (£m)
IFPRU	13	(9)	(16)	82	(879)	442
BIPRU	117	(8)	8	157	(428)	1,019
IPRU(INV)	396	(71)	259	23	(61)	435
Total	526	(88)	251	262	(1,368)	1,896

Liquidity

- 107.** The basic liquid asset requirement is the sum of one third of the FOR plus 1.6% of the total amount of guarantees provided to clients.
- 108.** Table 13 below illustrates the percentage of firms that will have a deficit of liquid assets compared to their basic liquid asset requirement at the beginning of year one of the IFPR regime and at the end of the five-year transitional period.

Table 13: Analysis of firms that would have liquidity deficits – beginning of year 1 and beginning of year 6

	Beginning of Year 1		Beginning of Year 6	
	Percentage of firms	Total liquid asset shortfall	Percentage of firms	Total liquid asset shortfall
Liquid asset shortfall up to £50k	4%	£2m	4%	£2m
Liquid asset shortfall over £50k	3%	£111m	3%	£111m

- 109.** 93% of firms have adequate liquid assets to meet their basic liquidity requirement at the beginning of year one of the IFPR regime. 4% of firms currently have a shortfall of up to £50,000 each compared to their Day One liquidity requirement, that in aggregate would be a shortfall of £2m. The remaining 3% of firms have individual shortfalls in excess of £50,000, which in aggregate is a shortfall of £111m. A small number of firms make up most of that shortfall.
- 110.** We estimate that the values for the beginning of year 1 and the beginning of year 6 are the same. This suggests that any transitional provision is not making much difference to these firms meeting any liquidity shortfalls.

111. Table 14 compares the liquidity shortfalls for those 7% of firms to their annual profitability. We find that about half of these firms generate sufficient after-tax profits which should help to fill their liquidity shortfalls.

Table 14: Analysis of firms that would have liquidity deficits by existing firm type

Firm category	SNI			Non-SNI		
	Number of firms	Capital (Deficit) £m	Annual PAT (£m)	Number of firms	Capital (Deficit) £m	Annual PAT (£m)
IFPRU	3	(1)	3	25	(53)	233
BIPRU	61	(3)	(2)	59	(38)	655
IPRU(INV)	83	(10)	3	10	(8)	397
Total	147	(14)	4	94	(99)	1,285

Costs to the FCA

112. We do not consider that our proposed regime will result in any significant permanent increase in costs for the FCA. There will be one off system changes to take account of the reduced categories of investment firms, to amend Connect to include the new MIFIDPRU application and notification forms and to create the reporting forms in RegData. There will also be staff training costs. The changes will build on existing regulatory frameworks. We will include supervision of the new prudential requirements into our existing supervisory and authorisation activities and allocate resources internally based on the prioritisation of arising risks. In the long run, the simplification of the regime for investment firms will be a benefit to the FCA.

Indirect impacts

113. Increased compliance costs, as set out above, will increase firms' costs. All firms will face one-off implementation costs. Ongoing costs will be higher for some firms and lower (or unchanged) for other firms.
114. There may be additional costs for consumers as they may be subject to price increases if firms seek to pass on the cost of implementing and operating the proposed policy framework.
115. Some firms might decide to exit the market if implementation or compliance costs are too high.
116. However, based on the analysis of the FCA data and firms' responses to our survey, we consider that these additional costs are likely to be manageable for firms. Most firms are already meeting the requirements, either fully or partially. The overall increase in costs per firm is modest and is proportional to a firm's size. We do not expect the overall impact on innovation or prices across all sectors to be material or these proposals to act as a significant barrier to entry, and therefore we have not estimated them.

Benefits to consumers, firms and the wider economy

117. We believe that our proposed intervention will deliver benefits and reduce harm in several areas.

Reduced firm failure and reduced costs in case of failure

118. A package of our proposed interventions will reduce potential for firm failure itself or reduce potential for disorderly failure. This means that, in an event of firm failure, fewer

consumers will be affected. And those consumers who will be affected by firm failure will experience lower financial and psychological harm, including distress associated with discontinuity of service.

- 119. These benefits will be achieved by ensuring that firms maintain levels of capital reflective of the scale of harm they may cause to consumers and markets. Firms will also be more resilient due to holding a basic amount of liquid assets.
- 120. As part of this process, our proposed ICARA approach will establish an objective link between the financial resources an investment firm holds and its threshold conditions. Firms will identify how to mitigate harms to consumers and markets and apply additional own funds and liquid assets requirements where those harm mitigation mechanisms are not adequately captured through our basic requirements.
- 121. In addition, our reporting proposals mean that the FCA will be aware of potential problems sooner and in a more consistent manner, which will help to address any concerns in a timelier manner. This is supported by specific guidance and clear intervention points detailing what we expect of firms when they run into difficulties, and what they can expect from us.
- 122. The above benefit will also reduce social costs through lessening reliance on investor compensation schemes, and thus avoiding consequent impacts on other firms to top-up these schemes to handle pay-outs.

Reduced complexity and more proportionate application of prudential standards to different business models; improved processes

- 123. When the proposed rules are introduced, FCA investment firms will benefit from prudential requirements that are aligned with their business models and the potential for them to cause harm.
- 124. Firms will also benefit from a more proportionate, simpler, risk-based reporting that is available in a single suite of forms. This is expected to considerably reduce their administrative and compliance burdens for IFPRU firms that are currently subject to COREP and report using xbrl. Also, BIPRU and IPRU-INV firms will not have to spend time and money in introducing xbrl as the reporting will be done using xml files. This is the same format that is used for other FCA regulatory reporting using RegData. Finally, these reporting forms will not significantly change if there is a change in MIFID permissions reducing complexity further. We provide an estimate of the cost savings resulting from simplified reporting requirements in the section below.
- 125. FCA supervisors will also have a more appropriate (and simpler) framework of rules to carry out their oversight.

Improved competition

- 126. We believe that the proportionate and simplified prudential sourcebook described above will result in improved competitive conditions.
- 127. This will be achieved by removing any differences within markets and hence competitive distortions created by the existing mix of standards. Instead, investment firms carrying out the same investment activity will be treated in a simpler and more consistent manner.

Better alignment between risk and individual reward

- 128.** Our MIFIDPRU Remuneration Code has both prudential and conduct-related objectives. In addition to supporting prudential soundness and risk management, it will also ensure better alignment of risk and individual reward in all investment firms. This supports positive behaviours and healthy firm cultures, while also discouraging behaviours that can lead to misconduct and poor customer outcomes.
- 129.** Our remuneration rules will therefore contribute to ensuring appropriate outcomes for customers and markets and reduce the likelihood of harm.

Improved overall confidence in the financial resilience of investment firms

- 130.** We believe that each of our proposed or confirmed interventions will lead to improvements in firms' operational resilience to disruption, whether by changes to firms' systems and processes or by providing better information to the decision-makers in firms. Importantly, however, the package of interventions works together, with each element facilitating or enhancing the effects of the others.
- 131.** All the benefits described above will improve overall confidence and consumer participation – due to better protection for consumers.

Estimating benefits

- 132.** We have attempted to quantify the benefit to firms from the changes to regulatory reporting that will happen due to the implementation of the IFPR. Given the wide variety in size and business model of the investment firms affected, this can only be a very broad generalisation.
- 133.** Table 15 compares the estimated annual ongoing reporting costs for a large full-scope IFPRU 730k firm under the current and the proposed regimes. We have based our estimates of the time taken to produce existing and IFPR returns, through discussions with Supervision, on our understanding of firms' internal processes when completing regulatory reporting. We then used our standardised cost model to estimate the cost of each part of the process. We have not considered the cost of any Executive or Board review of data or of on-going IT maintenance costs.
- 134.** The assumptions that we have used include:
- many pieces of information are already being produced for internal management information (MI) purposes
 - there is daily monitoring of capital and concentration risk
 - there is daily monitoring of liquidity
 - the ICARA questionnaire uses the result of the ICARA process annual review and uses information already available for monitoring harms and risks

Table 15: Estimated annual reporting costs for a large full-scope IFPRU 730k firm¹

	Current regime		IFPR	
	Hours	Cost (£)	Hours	Cost (£)
Internal monitoring and reporting	2,678	52,500	929	18,206
Extraction/data insertion	90	1,765	39	765
Analysis & manual adjustments	64	1,255	25	490
Review & internal reporting	38	745	8	157
Reconciliation to accounts	140	2,745	48	941
Cross-reconciliation	58	1,137	12	235
RegData submission	102	1,990	6	118
Internal reporting review and challenge	297	11,647	148	5,784
Reconciliation review and challenge	40	1,569	16	627
Total	3,507	75,353	1,231	27,323

¹ this assessment was completed before the MIF007 ICARA questionnaire or MIF008 remuneration returns were finalised. They are both annual returns and ask for information that will have been generated for other purposes. We think that any additional cost will be negligible.

- 135.** We have estimated that the proposed IFPR reporting regime will result in a total annual saving of £48,000 for such a firm. We estimate that approximately 100 large firms will be affected by the proposed change, resulting in a total saving of £4.8 million for them.
- 136.** We have not attempted to estimate reporting cost savings for smaller firms as there are multiple different starting points. However, we consider that the assumptions we have listed in paragraph 134 still hold for these firms and that, at the least, the changes will be cost neutral.

Annex 3

Other legal duties

Expected effect on mutual societies

1. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Equality and diversity
2. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.
3. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 2.10 – 2.12 of this CP.

Legislative and Regulatory Reform Act 2006 (LRRRA)

We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that they will help firms understand and meet the regulatory requirements associated with our new capital requirements framework, leading to better prudential outcomes for firms and their clients. We also think our proposals are proportionate and take into consideration the variety of firms in scope.

We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals do not create an unnecessary burden on firms, or adversely affect competition.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
AIF	Alternative Investment Fund
ASA	Assets safeguarded and administered
AT1	Additional Tier 1 capital
AUM	Assets under management
BIPRU	Prudential sourcebook for banks, building societies and investment firms
BRRD	Bank Recovery and Resolution Directive
CBA	Cost benefit analysis
CET1	Common Equity Tier 1 capital
COCON	Code of Conduct
COH	Client orders handled
CONC	Consumer Credit sourcebook
COREP	Common reporting
CP	Consultation paper
CPMI	Collective Portfolio Management Investment firm
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EMPS	Energy Market Participants
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FEES	Fees Manual
FICOD	Financial Conglomerates Directive
FOR	Fixed overheads requirement
FS Act	Financial Services Act 2021

Abbreviation	Description
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act
GEN	General Provisions sourcebook
GENPRU	General Prudential sourcebook
ICAAP	Internal capital adequacy assessment process
ICARA	Internal Capital Adequacy and Risk Assessment
IFD	Investment Firm Directive
IFPR	Investment firm prudential regime
IFPRU	Prudential sourcebook for investment firms
IFR	Investment Firm Regulation
IPRU-INV	Interim prudential sourcebook for investment business
K-ASA	K-factor requirement related to the activity of administering and safeguarding assets
K-AUM	K-factor requirement related to the activity of managing assets
K-CON	K-factor requirement based on concentration risk
K-COH	K-factor requirement related to the activity of handling client orders
K-DTF	K-factor requirement related to the daily trading flow
K-NPR	K-factor requirement related to market risk
K-TCD	K-factor requirement related to the risk from the default of a trading counterparty
KFR	K-factor requirement
MAR	Market Conduct
MiFID	Markets in Financial Instruments Directive
MIFIDPRU	New Prudential sourcebook for solo regulated MiFID investment firms
MIPRU	Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries
MRT	Material Risk Taker
OFAR	Overall financial adequacy rule
OMPS	Oil Market Participants
PERG	Perimeter Guidance Manual
PMR	Permanent minimum requirement

Abbreviation	Description
PRA	Prudential Regulation Authority
PS	Policy Statement
RCB	Regulated Covered Bonds
SM&CR	Senior Managers & Certification Regime
SNI	Small and non-interconnected investment firm
SREP	Supervisory review and evaluation process
SUP	Supervision sourcebook
SYSC	Systems and controls sourcebook
T2	Tier 2 capital
TCD	Trading counterparty default
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
WDPG	The Wind-down Planning Guide

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Appendix 1

Draft Handbook Rules

INVESTMENT FIRMS PRUDENTIAL REGIME (No.2) INSTRUMENT 2021¹**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 138D (Actions for damages);
 - (4) section 139A (Power of the FCA to give guidance);
 - (5) section 143D (Duty to make rules applying to parent undertakings);
 - (6) section 143E (Powers to make rules applying to parent undertakings);
 - (7) section 143Y (Statement of policy for penalties under section 143W); and
 - (8) section 395 (The FCA’s and PRA’s procedures).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 January 2022.

Amendments to the Handbook

- D. The modules of the FCA Handbook listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary	Annex A
Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)	Annex B
Decision Procedure and Penalties manual (DEPP)	Annex C
The Enforcement Guide (EG)	Annex D

- E. The FCA confirms and remakes in the Glossary of definitions any defined expressions used in the rules and guidance in the modules of the Handbook referred to in paragraph D where the defined expressions relate to UK legislation that has been amended since those defined expressions were last made.

¹ *Editor’s note:* In this consultation paper, the additional provisions being added to MIFIDPRU have been published in this separate draft instrument and are shown as amendments or additions to the text published in (PS21/9) which was made on a near-final basis on 22 July 2021.

Notes

- F. 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

- G. This instrument may be cited as the Investment Firms Prudential Regime (No.2) Instrument 2021.

By order of the Board
[*date*]

[Editor’s note:

Certain notes marked “**Note:**” in this instrument contain references to provisions of the EU IFR or EU Investment Firms Directive (Directive (EU) 2019/2034) (“IFD”). As the IFR and IFD will not apply in the UK, these references will not appear in the final Handbook text. They are provided in this draft instrument solely to assist firms in identifying EU provisions which have a broadly similar effect to the Handbook provision to which they relate. These references may assist firms and groups that operate on an international basis in understanding how the UK prudential regime for investment firms will achieve similar outcomes to the EU IFR and IFD and therefore may be useful for implementation purposes.]

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.

<i>Appropriately Diversified Indices RTS</i>	Part 1 (FCA) of the <i>UK</i> version of Regulation (EU) 945/2014 of 4 September 2014 laying down implementing technical standards with regard to relevant appropriately diversified indices according to Regulation (EU) No 575/2013 of the European Parliament and of the Council, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>AVA</i>	an additional valuation adjustment calculated under <i>MIFIDPRU</i> 3 Annex 8R.
<i>Closely Correlated Currencies RTS</i>	Part 1 (FCA) of the <i>UK</i> version of Regulation (EU) 2015/2197 of 27 November 2015 laying down implementing technical standards with regard to closely correlated currencies in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>cooperative society</i>	a cooperative society as defined in <i>MIFIDPRU</i> 3 Annex 7.4R.
<i>Covered Bonds RTS</i>	Part 1 (FCA) of the <i>UK</i> version of Regulation (EU) 523/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for determining what constitutes the close correspondence between the value of an institution's covered bonds and the value of the institution's assets, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>Directive 2002/87/EC UK law</i>	the law of the <i>United Kingdom</i> (or any part of it) which, immediately before <i>IP completion day</i> , implemented Directive 2002/87/EC, as that law has effect on <i>IP completion day</i> .
<i>intermediate entity</i>	an intermediate entity as defined in <i>MIFIDPRU</i> 3 Annex 7.32R.
<i>Market Definition RTS</i>	Part 1 (FCA) of the <i>UK</i> version of Regulation (EU) 525/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the definition of market, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .

<i>non-authorised parent undertaking</i>	has the meaning in section 143B(1) of the <i>Act</i> , which is a <i>parent undertaking</i> that: <ul style="list-style-type: none"> (a) is incorporated in the <i>United Kingdom</i> or has its principal place of business in the <i>United Kingdom</i>, and (b) is not an <i>authorised person</i>.
<i>relevant body</i>	(in <i>MIFIDPRU</i>) a general meeting of the shareholders of a <i>firm</i> or an equivalent meeting of the owners of a <i>firm</i> .
<i>similar institution</i>	a similar institution as defined in <i>MIFIDPRU</i> 3 Annex 7.5R.
<i>Solvency 2 Regulations 2015</i>	the Solvency 2 Regulations 2015 (SI 2015/575).
<i>third country insurance undertaking</i>	a third country insurance undertaking as defined in regulation 2 of the <i>Solvency 2 Regulations 2015</i> .
<i>third country reinsurance undertaking</i>	a third country reinsurance undertaking as defined in regulation 2 of the <i>Solvency 2 Regulations 2015</i> .
<i>tier 1 capital</i>	(in <i>MIFIDPRU</i>) the sum of a <i>firm's</i> common equity tier 1 capital and additional tier 1 capital.
<i>valuation exposure</i>	means the amount of a <i>valuation position</i> that is sensitive to the movement in a <i>valuation input</i> .
<i>valuation input</i>	means a market observable or non-observable parameter or matrix of parameters that influences the fair value of a <i>valuation position</i> .
<i>valuation position</i>	means a <i>financial instrument</i> or commodity or portfolio of <i>financial instruments</i> or commodities, which are measured at fair value.

Amend the following definitions as shown.

<i>financial sector entity</i>	has the meaning in article 4(1)(27) of the UK CRR. <u>any of the following:</u> <ul style="list-style-type: none"> (a) <u>a financial sector entity as defined in article (4)(1)(27) of the UK CRR;</u> (b) <u>a MIFIDPRU investment firm; or</u> (c) <u>an ancillary services undertaking included in the consolidated financial situation of a MIFIDPRU investment firm.</u>
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management body

(1) ...

...

(3) (in relation to an *operator of an electronic system in relation to lending*) the *governing body* with ultimate decision-making authority comprising the supervisory and the managerial function or, if the two functions are separated, only the managerial function.

[Note: article 2(1)(s) of the *UCITS Directive*]

(4) (in relation to a *non-authorised parent undertaking of an FCA investment firm*) the board of *directors*, committee of management or other governing body of the *undertaking* and senior personnel who are empowered to set the *undertaking's* strategy, objectives and overall direction, and which oversee and monitor management decision-making in the *undertaking*.

Annex B

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

The following text is to be inserted as an amendment to the text published in PS21/9, which was made on a near-final basis on 22 July 2021.

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

1 Application

1.1 Application and purpose

...

- 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 meets 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.

Notifications and applications under MIFIDPRU for which there is no dedicated form

- 1.1.10 R (1) This rule applies where:
- (a) a notification or an application for permission is required under a provision in (2); and
 - (b) the provisions in *MIFIDPRU* do not specify that a particular notification or application form must be used for that purpose.
- (2) The relevant provisions in (1) are:
- (a) a rule in *MIFIDPRU*;
 - (b) a provision of the *UK CRR* that is applied by *MIFIDPRU*;
or
 - (c) a provision in binding technical standards made for the purposes of the *UK CRR* where those binding technical standards are applied by *MIFIDPRU*.
- (3) Where this rule applies, a firm, UK parent entity or GCT parent undertaking that is subject to the relevant provision in (2) must:
- (a) where the provision requires a notification, complete the notification form in *MIFIDPRU* 1 Annex 5R and submit it to the *FCA* using the *online notification and application system*; or
 - (b) where the provision requires an application for permission, complete the application form in *MIFIDPRU* 1 Annex 6R and submit it to the *FCA* using the *online notification and application system*.

...

Insert the following new annexes, MIFIDPRU 1 Annex 5R and MIFIDPRU 1 Annex 6R, after MIFIDPRU 1 Annex 4R (Notification under MIFIDPRU 1.2.16R that a firm no longer qualifies to be classified as an SNI investment firm). The text is not underlined.

Application for a permission under MIFIDPRU for which there is no dedicated application form

1 Annex 5R [Editor's note: the form can be found at this address:
[https://www.fca.org.uk/publication/forms/\[xxx\]](https://www.fca.org.uk/publication/forms/[xxx])]

Application for a permission under MIFIDPRU for which there is no dedicated application form

NOTE: This application form must not be used to apply for or vary a permission where MIFIDPRU contains a dedicated application form for that permission. In that case, the dedicated form must be used instead. This form is relevant only to MIFIDPRU permissions for which no other application form is provided.

Name of Senior Manager responsible for this application:

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1. Please confirm which of the following the applicant 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. If this application is being made on behalf of other entities within the same group, please identify those other entities below:

Entity name	FRN (if applicable)

3. Please identify below the rule in MIFIDPRU that relates to the permission you are requesting. Where the permission relates to a provision of the UK CRR (or a binding technical standard originally made under the UK CRR) that is applied by a rule in

MIFIDPRU, please identify the UK CRR provision or provision of the binding technical standard **and** the MIFIDPRU rule that applies it.

MIFIDPRU rule	
UK CRR provision (if applicable)	
Binding technical standard provision (if applicable)	

4. Are you applying for the variation of an existing permission that has previously been granted under MIFIDPRU?

☐ Yes

☐ No

5. If you have answered yes to question 4, please provide the reference number of the previous permission:

Permission reference number	
-----------------------------	--

6. Is your application based on a precedent published written permission notice?

☐ Yes

☐ No

7. If you have answered yes to question 6, please provide the reference number of the precedent permission and an explanation of why you consider the precedent to be relevant to your application.

Permission reference number	
Relevance of the precedent permission to this application	

8. Please explain why you are applying for the MIFIDPRU permission (or a variation of the existing MIFIDPRU permission). Please provide details of how the permission will affect your business, including the activities to which it relates and the types of clients or counterparties who may be affected.

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9. Please explain how any requirements in the MIFIDPRU rule and, if applicable, the UK CRR provision or binding technical standard provision you identified in question 3 above are met.

Where the relevant provisions contain multiple requirements, you must explain how each separate requirement is met. This includes any requirements that may be applied by cross-references to other MIFIDPRU rules or provisions of the UK CRR. If you attach supporting documents to support your application, please tick the box below.

--

☐ Supporting document(s) attached

Notification under MIFIDPRU for which there is no dedicated notification form

1 Annex *[Editor's note: the form can be found at this address:*
6R *https://www.fca.org.uk/publication/forms/[xxx]]*

Notification under MIFIDPRU for which there is no dedicated notification form

NOTE: This form must **not** be used to:

- submit a notification where MIFIDPRU contains a separate dedicated form for that notification. In that case, the dedicated form must be used instead; or
- make a notification for purposes that are not connected with MIFIDPRU. A firm that needs to make a notification for other purposes should refer to the provisions in SUP 15.

This form is relevant only to notifications under MIFIDPRU for which no other notification form is provided.

Name of Senior Manager responsible for this notification:

--

1. Please confirm which of the following is making this notification:

- | | |
|--|--------------------------|
| a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking | <input type="checkbox"/> |
| b. MIFIDPRU investment firm that is a consolidating UK parent entity | <input type="checkbox"/> |
| c. MIFIDPRU investment firm that is a GCT parent undertaking | <input type="checkbox"/> |
| d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) | <input type="checkbox"/> |
| e. GCT parent undertaking (other than a MIFIDPRU investment firm) | <input type="checkbox"/> |

2. If this application is being made on behalf of other entities within the same group, please identify those other entities below:

Entity name	FRN (if applicable)

3. Please identify below the rule in MIFIDPRU that relates to the notification you are making. Where the notification relates to a provision of the UK CRR (or a binding technical standard originally made under the UK CRR) that is applied by a rule in MIFIDPRU, please identify the UK CRR provision or provision of the binding technical standard **and** the MIFIDPRU rule that applies it.

MIFIDPRU rule	
UK CRR provision (if applicable)	
Binding technical standard provision (if applicable)	

4. Please provide details of the matter to which this notification relates.

Where a MIFIDPRU rule, UK CRR provision or binding technical standard provision that you have identified in question 3 requires particular information to be provided in the notification, you must include that information.

If you attach supporting documents relating to this notification, please tick the box below.

--

☐ Supporting document(s) attached

Amend the following as shown.

2.4 Investment firm groups: general

...

- 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.

Notifications relating to membership of a consolidation group or financial conglomerate

- 2.4.20 R (1) A *MIFIDPRU* investment firm must notify the *FCA* immediately if the firm becomes aware that:
- (a) it has become a member of an *investment firm group*;
 - (b) it has ceased to be a member of an *investment firm group*;
 - (c) there has been a change in the composition of an *investment firm group* of which that firm forms a part;
 - (d) it has become a member of a *financial conglomerate*; or
 - (e) it has ceased to be a member of a *financial conglomerate*.
- (2) A firm must:
- (a) notify the *FCA* under (1) using the form in *MIFIDPRU* 2 Annex 8R and submit it using the *online notification and application system*; and
 - (b) as part of the notification in (a):
 - (i) identify any entity that is becoming a member of the *investment firm group* or *financial conglomerate*;
 - (ii) identify any existing members of the *investment firm group* or *financial conglomerate* that continue to be members of that *investment firm group* or *financial conglomerate*;

(iii) identify any entity that is ceasing to be a member of the *investment firm group* or *financial conglomerate*; and

(iii) where applicable, confirm that the *investment firm group* or *financial conglomerate* has ceased to exist.

(3) A firm (“X”) is not required to notify the FCA under (1) if:

(a) another member of the relevant *investment firm group* or *financial conglomerate* (“Y”) has notified the FCA under (1); and

(b) the notification submitted by Y includes information that accurately reflects X’s relationship to the *investment firm group* or *financial conglomerate* and any other information required under (2)(b).

...

2.5 Prudential consolidation

...

- 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 with the modifications in this rule.
- (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) A reference in Title II of Part Two of the *UK CRR* to an entity or person included within the “consolidation pursuant to Chapter 2 of Title II of Part One” is a reference to an entity or person included in the *consolidated situation* of the *investment firm group* under *MIFIDPRU* 2.5.
- (3) The relevant *subsidiaries* for the purposes of articles 81(1)(a) and 82(a) of the *UK CRR* are:
- (a) a *MIFIDPRU investment firm*;

- (b) a designated investment firm; and
 - (c) a UK credit institution that is included in the consolidated situation under MIFIDPRU 2.5 because it is a connected undertaking.
- (4) The modifications in (5) apply where the following provisions of the UK CRR apply to a subsidiary that is a MIFIDPRU investment firm:
- (a) article 84(1)(a)(i);
 - (b) article 85(1)(a)(i); and
 - (c) article 87(1)(a)(i).
- (5) The modifications referred to in (4) are as follows:
- (a) the relevant amount of common equity tier 1 capital in article 84(1)(a)(i) is the sum of:
 - (i) the amount of common equity tier 1 capital required to meet the firm's own funds threshold requirement; and
 - (ii) any other requirements that apply to the firm under additional local supervisory regulations in third countries to the extent that those requirements must be met by common equity tier 1 capital;
 - (b) the relevant amount of tier 1 capital in article 85(1)(a)(i) is the sum of:
 - (i) the amount of tier 1 capital required to meet the firm's own funds threshold requirement; and
 - (ii) any other requirements that apply to the firm under additional local supervisory regulations in third countries to the extent that those requirements must be met by tier 1 capital; and
 - (c) the relevant amount of own funds in article 87(1)(a)(i) is the sum of:
 - (i) the amount of own funds required to meet the firm's own funds threshold requirement; and
 - (ii) any other requirements that apply to the firm under additional local supervisory regulations in third countries to the extent that those

requirements must be met by *own funds*.

- (6) The following provisions of the *UK CRR* are modified as follows:
- (a) article 84(1)(a)(ii) applies as if it refers to the sum of:
 - (i) the amount of consolidated *common equity tier 1 capital* that relates to the *subsidiary* that is required on a *consolidated basis* to meet the requirement in *MIFIDPRU 2.5*; and
 - (ii) any other requirements that apply to the *subsidiary* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *common equity tier 1 capital*;
 - (b) article 85(1)(a)(ii) applies as if it refers to the sum of:
 - (i) the amount of consolidated *tier 1 capital* that relates to the *subsidiary* that is required on a *consolidated basis* to meet the requirement in *MIFIDPRU 2.5*; and
 - (ii) any other requirements that apply to the *subsidiary* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *tier 1 capital*; and
 - (c) article 87(1)(a)(ii) applies as if it refers to the sum of:
 - (i) the amount of consolidated *own funds* that relates to the *subsidiary* that is required on a *consolidated basis* to meet the requirement in *MIFIDPRU 2.5*; and
 - (ii) any other requirements that apply to the *subsidiary* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *own funds*.

2.5.10A G *MIFIDPRU 3 Annex 7.57G* and *MIFIDPRU 3 Annex 7.58R* contain supplementary provisions that may be relevant when a *firm* is applying *MIFIDPRU 2.5.10R*.

...

Prudential consolidation in practice: disclosure ~~by investment firms~~

2.5.49 G Under *MIFIDPRU 2.5.7R*, a *UK parent entity* is required to comply with the disclosure obligations in *MIFIDPRU 8* on a *consolidated basis*. In

practice, this involves disclosing the same categories of information that would be disclosed by a *MIFIDPRU investment firm* on an individual basis, but using the figures and other information that result from applying the relevant requirements on a *consolidated basis* in accordance with this section.

...

Insert the following annex after MIFIDPRU 2 Annex 7R (Application under MIFIDPRU 2.5.41R for permission to include portfolio of a third country entity in consolidated K-CMG). The text is not underlined.

Notification under MIFIDPRU 2.4.20R relating to membership of an investment firm group and/or a financial conglomerate

2 Annex [Editor's note: the form can be found at this address:
8R [https://www.fca.org.uk/publication/forms/\[xxx\]](https://www.fca.org.uk/publication/forms/[xxx])]

Notification under MIFIDPRU 2.4.20R of membership of an investment firm group and/or a financial conglomerate

Under MIFIDPRU 2.4.20R(3), a firm (X) is not required to submit this form if another member of the investment firm group or financial conglomerate (Y) has notified the FCA of any relevant changes and the information provided by Y includes information about X and all other information required under MIFIDPRU 2.4.20R.

1. Please confirm which of the following apply:

a. The firm has become part of an investment firm group	<input type="checkbox"/>
b. The firm has ceased to be part of an investment firm group	<input type="checkbox"/>
c. There has been a change in the composition of the investment firm group of which the firm is a part (other than a change under (a) or (b))	<input type="checkbox"/>
d. The firm has become part of a financial conglomerate	<input type="checkbox"/>
e. The firm has ceased to be part of a financial conglomerate	<input type="checkbox"/>

If you selected:

- option (a), please complete questions 2 and 3 and questions 6 and 7
- option (b), please complete questions 4 to 6
- option (c), please complete questions 6 and 7
- option (d), please complete questions 8 to 13
- option (e), please complete questions 14 to 16

Firms becoming part of an investment firm group

2. Please confirm if the firm is becoming part of an existing investment firm group or if a new investment firm group is being created.
- ☐ Existing investment firm group
- ☐ New investment firm group
3. If you selected "Existing investment firm group" in response to question 2, please provide the information below. The group reference number will have

been notified to you after you originally notified of us the creation of the investment firm group.

Name of existing investment firm group	
Group reference number (GRN)	

If you selected "New investment firm group" in response to question 2, please provide the following information:

Specify a name for the investment firm group (We suggest the name of the UK parent entity, plus the word "group")	
Date on which the investment firm group was/will be created	

Firms ceasing to be part of an investment firm group

4. Please provide the following information in relation to the investment firm group of which the firm is ceasing to be a part.

Name of existing investment firm group	
Group reference number (GRN)	

5. Please confirm whether the investment firm group you have identified in question 4 will continue to exist after the firm ceases to be part of the investment firm group.

- ☐ Investment firm group will continue to exist
- ☐ Investment firm group will cease to exist

Information on membership of the investment firm group

6. Please provide the information in the following tables in relation to the investment firm group.

New entities joining the investment firm group				
<i>Note: For a new investment firm group, this should include all entities in that investment firm group</i>				
FRN (if applicable)	Entity name	Select one of the following: - UK parent entity - subsidiary - connected undertaking	Select one of the following: - MIFIDPRU investment firm - PRA designated investment firm - credit institution - other financial institution - ancillary services undertaking - tied agent	Location (principal place of business and, separately, place of incorporation, if different)

Entities that were already part of the investment firm group and will continue to form part of the investment firm group following this notification				
FRN (if applicable)	Entity name	Select one of the following: - UK parent entity - subsidiary - connected undertaking	Select one of the following: - MIFIDPRU investment firm - PRA designated investment firm - credit institution - other financial institution - ancillary services undertaking - tied agent	Location (principal place of business and, separately, place of incorporation, if different)

Entities ceasing to be part of the investment firm group				
<i>Note: If an investment firm group is ceasing to exist, this should include all entities in that investment firm group</i>				
FRN (if applicable)	Entity name	Select one of the following: - Former UK parent entity - Former subsidiary - Former connected undertaking	Select one of the following: - MIFIDPRU investment firm - PRA designated investment firm - credit institution - other financial institution - ancillary services undertaking - tied agent	Location (principal place of business and, separately, place of incorporation, if different)

7. Where the investment firm group will continue to exist following this notification, please attach a group structure chart showing the position of each entity in that investment firm group.

☐ Attached

Firms becoming part of a financial conglomerate

8. Please confirm if the firm is becoming part of an existing financial conglomerate or if a new financial conglomerate is being created.

☐ Existing financial conglomerate

☐ New financial conglomerate

9. If you selected "Existing financial conglomerate" in response to question 8, please provide the group reference number for that financial conglomerate.

Group reference number (GRN)	
------------------------------	--

10. If you selected "Existing financial conglomerate" in response to question 8, please confirm whether the form in GENPRU 3 Annex 3G has previously been provided to the FCA in relation to that financial conglomerate:

☐ Yes

☐ No

11. If you selected "No" in response to question 10, please complete the form in GENPRU 3 Annex 3G in relation to the financial conglomerate and attach it to this notification.

☐ Attached

12. If you selected "New financial conglomerate" in response to question 8, please complete the form in GENPRU 3 Annex 3G in relation to the financial conglomerate and attach it to this notification.

☐ Attached

13. Please provide a structure chart showing each entity that will be part of the financial conglomerate following this notification.

☐ Attached

Firms ceasing to part of a financial conglomerate

14. Please provide the group reference number of the financial conglomerate of which the firm is ceasing to be a part.

Group reference number (GRN)	
------------------------------	--

15. Please confirm whether the financial conglomerate you have identified in question 14 will continue to exist after the firm ceases to be part of the financial conglomerate.

☐ Financial conglomerate will continue to exist

☐ Financial conglomerate will cease to exist

16. If you selected "Financial conglomerate will continue to exist", please provide a structure chart showing each entity that will be part of the financial conglomerate following this notification.

☐ Attached

Amend the following as shown.

3 Own funds

...

- 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.

Supplementary provisions

- 3.1.5 G *MIFIDPRU 3 Annex 7R (Additional provisions relating to own funds) and MIFIDPRU 3 Annex 8R (Prudent valuation and additional valuation adjustments) contain supplementary provisions that are relevant to certain rules in this chapter or certain requirements in the UK CRR that are cross-applied by rules in this chapter. A firm, UK parent entity or GCT parent undertaking that is applying a relevant rule in this chapter should therefore also refer to those annexes.*

...

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.

- 3.3.1A R Article 34 of the *UK CRR* (Additional valuation adjustments) applies only in relation to positions held in a *firm's trading book*.

- 3.3.1B G (1) *MIFIDPRU 3 Annex 7R contains supplementary provisions that may be relevant when a firm is calculating its common equity tier 1 capital under MIFIDPRU 3.3.1R.*
- (2) *MIFIDPRU 3 Annex 8R contains supplementary provisions that apply when a firm is calculating any additional valuation adjustments under article 34 of the UK CRR (as applied by MIFIDPRU 3.3.1AR).*

...

- 3.3.4 G (1) ...

...

- (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*.

Close correspondence between the value of a firm's covered bonds and the value of its assets

3.3.4A R When determining whether there is a close correspondence between the value of a firm's covered bonds and the value of the firm's assets for the purposes of article 33(3)(c) of the UK CRR, the Covered Bonds RTS applies with the following modifications:

- (1) any reference to an "institution" is a reference to the firm; and
- (2) any reference to "Regulation (EU) No 575/2013" is a reference to the UK CRR as applied and modified by the rules in MIFIDPRU.

[Note: article 33(4) of the UK CRR and BTS 523/2014.]

...

3.3.6 R A MIFIDPRU investment firm must deduct the following from its common equity tier 1 items:

- (1) ...
- ...
- (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; and
- (11) where a firm is a partnership or a limited liability partnership, the amount by which the aggregate of any amounts withdrawn by its partners or members exceeds the profits of the firm, except to the extent that the amount:
 - (a) has already been deducted from the firm's own funds as a loss under (1);
 - (b) was repaid in accordance with MIFIDPRU 3.3.16R(2) or MIFIDPRU 3.3.17R(2); or

- (b) is already reflected in a reduction of the *firm's own funds* that was permitted under articles 77 and 78 of the *UK CRR*, as applied in accordance with *MIFIDPRU 3.6* (General requirements for own funds instruments).

...

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.
- 3.4.1A G *MIFIDPRU 3 Annex 7R* contains supplementary provisions relating to the calculation of a *firm's additional tier 1 capital* and to write-down and conversion requirements for *additional tier 1 instruments*.

...

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.
- 3.5.1A G *MIFIDPRU 3 Annex 7R* contains additional provisions relating to the calculation of a *firm's tier 2 capital*.

...

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.
- 3.6.1A G *MIFIDPRU 3 Annex 7R* contains additional provisions relating to the eligibility of instruments to be classified as *own funds* and to the reduction of *own funds*.

Insert the following new annexes, MIFIDPRU 3 Annex 7R and MIFIDPRU 3 Annex 8R, after MIFIDPRU 3 Annex 6R (Notification under MIFIDPRU 3.6.5R of the intended issuance of AT1 or T2 instruments). The text is not underlined.

3 Additional provisions relating to own funds

Annex

7

Application and purpose

- 7.1 R This annex applies to any of the following entities when that entity is determining its *own funds* under *MIFIDPRU 3*:
- (1) a *MIFIDPRU investment firm*;
 - (2) a *UK parent entity*; and
 - (3) a *GCT parent undertaking*.
- 7.2 G This annex contains additional *rules* and *guidance* that supplement the requirements in *MIFIDPRU 3* and *UK CRR* (as applied by *MIFIDPRU 3*) relating to the calculation of *own funds*.
- 7.3 R Any reference in this annex to the *UK CRR* is to the *UK CRR* as applied and modified by *MIFIDPRU 3*.

Definition of cooperative societies and similar undertakings

- 7.4 R For the purposes of article 27(1)(a)(ii) of the *UK CRR*, a *firm* is a *cooperative society* where the following conditions are met:
- (1) the *firm* is a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014, or a society registered or treated as registered under the Cooperative and Community Benefit Societies Act (Northern Ireland) 1969;
 - (2) with respect to *common equity tier 1 capital*, the *firm* is able to issue, under the applicable law of the *United Kingdom* (or any part of it) or the *firm's* statutes, at the level of the legal entity, only capital instruments referred to in article 29 of the *UK CRR*;
 - (3) where, under the applicable law of the *United Kingdom* (or any part of it), the holders of the *firm's common equity tier 1 instruments* (whether they are members or non-members of the *firm*) have the ability to resign and return the capital instrument to the *firm*, this must be subject to any applicable restrictions under the following:
 - (a) the law of the *United Kingdom* (or any part of it);
 - (b) the statutes of the *firm*;

- (c) any provision of the *UK CRR* that is applied by *MIFIDPRU*; and
- (d) any provision of the *Handbook*.

[**Note:** article 4 of BTS 241/2014]

7.5 R For the purposes of article 27(1)(a)(iv) of the *UK CRR*, a *firm* is a *similar institution* where the following conditions are met:

- (1) with respect to *common equity tier 1 capital*, the *firm* is able to issue, under the applicable law of the *United Kingdom* (or any part of it) or the *firm's* statutes, at the level of the legal entity, only capital instruments referred to in article 29 of the *UK CRR*; and
- (2) at least one of the following applies:
 - (a) where the holders of the *firm's common equity tier 1 instruments* (whether they are members or non-members of the *firm*) have the ability to resign under the applicable law of the *United Kingdom* (or any part of it) and have the right to put the capital instrument back to the *firm*, this must be subject to any applicable restrictions under the following:
 - (i) the law of the *United Kingdom* (or any part of it);
 - (ii) the statutes of the *firm*;
 - (iii) any provision of the *UK CRR* that is applied by *MIFIDPRU*; and
 - (iv) any provision of the *Handbook*;
 - (b) the sum of capital, reserves and interim or year-end profits is not allowed, under the applicable law of the *United Kingdom* (or any part of it), to be distributed to holders of the *common equity tier 1 instruments* of the *firm*, except where:
 - (i) the *common equity tier 1 instruments* grant the holders, on a going concern basis, a right to a part of the profits and reserves that is proportionate to their contribution to the capital and reserves of the *firm* or is otherwise determined in accordance with an alternative arrangement, and in either case, this is permitted under applicable law;
 - (ii) the *common equity tier 1 instruments* grant the holders, in the case of the insolvency or

liquidation of the *firm*, the right to reserves that need not be proportionate to the contribution to capital and reserves, provided that the conditions in article 29(4) and 29(5) of the *UK CRR* are met; or

- (iii) the total amount or a partial amount of the sum of capital and reserves is owned by members of the *firm* who do not, in the ordinary course of business, benefit from direct distribution of the reserves, in particular through the payment of dividends.

[**Note:** article 7 of BTS 241/2014.]

- 7.6 R *MIFIDPRU 3* Annex 7.4R(3) and *MIFIDPRU 3* Annex 7.5(2)(a) do not prevent the *firm* from issuing, whether under the law of the *United Kingdom* (or any part of it) or of a *third country*, *common equity tier 1 instruments* to members or non-members that comply with article 29 of the *UK CRR* and do not grant a right to return the capital instrument to the *firm*.

[**Note:** article 4(4) and article 7(4)(a) of BTS 241/2014.]

Distributions constituting disproportionate drags on capital or preferential distributions

- 7.7 R
- (1) This *rule* applies for the purpose of determining whether a distribution on an instrument intended to qualify as a *common equity tier 1 capital instrument* constitutes a disproportionate drag on capital under article 28(1)(h)(iii) and 28(3) of the *UK CRR*.
 - (2) References in this *rule* to the “dividend multiple” are to the dividend multiple referred to in article 28(3) of the *UK CRR*.
 - (3) Distributions on an instrument will not constitute a disproportionate drag on capital for the purposes of (1) where:
 - (a) the dividend multiple is a multiple of the distribution paid on the voting instruments and is not a predetermined fixed amount;
 - (b) the dividend multiple is set contractually or under the statutes of the *firm*;
 - (c) the dividend multiple is not revisable;
 - (d) the same dividend multiple applies to all instruments with a dividend multiple;

- (e) the amount of distribution on one instrument with a dividend multiple does not represent more than 125% of the amount of the distribution on one voting *common equity tier 1 instrument*, as determined in accordance with the formula in (6);
 - (f) the total amount of the distributions paid on all *common equity tier 1 instruments* during a one-year period does not exceed 105% of the amount that would have been paid if instruments with fewer or no voting rights received the same distributions as voting instruments, as determined in accordance with the formula in (7).
- (4) Where the conditions in (3)(a) to (3)(e) are not met, all outstanding instruments with a dividend multiple shall be deemed to cause a disproportionate drag on capital for the purposes of (1).
 - (5) Where the condition in (3)(f) is not met, only the amount of the instruments with a dividend multiple that exceeds the threshold in that provision shall be deemed to cause a disproportionate drag on capital for the purposes of (1).
 - (6) The formula referred to in (3)(e) is:

$$l \leq 1.25 \times k$$

where:

k = the amount of the distribution on one instrument without a dividend multiple; and

l = the amount of the distribution on one instrument with a dividend multiple.

- (7) The formula referred to in (3)(f) applies on a one-year basis and is as follows:

$$kX + lY \leq (1.05) \times k \times (X + Y)$$

k = the amount of the distribution on one instrument without a dividend multiple;

l = the amount of the distribution on one instrument with a dividend multiple;

X = the number of voting instruments; and

Y = the number of non-voting instruments.

[**Note:** article 7a of BTS 241/2014.]

- 7.8 R A distribution on a *common equity tier 1 instrument* referred to in article 28 of the *UK CRR* shall be deemed to be a preferential distribution under article 28(1)(h)(i) of the *UK CRR* relative to other *common equity tier 1 instruments* where there are differentiated levels of distributions, unless the conditions in *MIFIDPRU* 3 Annex 7.7R are met.

[**Note:** article 7b(1) of BTS 241/2014.]

- 7.9 R (1) This *rule* applies where:
- (a) a *common equity tier 1 instrument* has been issued by a *firm* that is a *cooperative society* or a *similar institution*;
 - (b) the instrument in (a) has fewer or no voting rights when compared to a *common equity tier 1 instrument* of the *firm* with full voting rights;
 - (c) the distribution on the instrument in (a) is a multiple of the distribution on the voting instruments; and
 - (d) the distribution in (c) is set contractually or under statute.
- (2) Where this *rule* applies, a distribution on the instrument in (1)(a) is deemed not to be preferential relative to the *common equity tier 1 instrument* in (1)(b) for the purposes of article 28(1)(h)(i) of the *UK CRR* where:
- (a) the dividend multiple is a multiple of the distribution paid on the voting instruments and not a predetermined fixed amount;
 - (b) the dividend multiple is set contractually or under the statutes of the *firm*;
 - (c) the dividend multiple is not revisable;
 - (d) the same dividend multiple applies to all instruments with a dividend multiple;
 - (e) the amount of the distribution on one instrument with a dividend multiple does not represent more than 125% of the amount of the distribution on one voting *common equity tier 1 instrument*, as determined in accordance with the formula in (5); and
 - (f) the total amount of distributions paid on all *common equity tier 1 instruments* during a one-year period does not exceed 105% of the amount that would have been paid if instruments with fewer or no voting rights received the same distributions as the voting instruments, as determined in accordance with the formula in (6).

- (3) Where any of the conditions in (2)(a) to (2)(e) are not met, all outstanding instruments with a dividend multiple shall be disqualified from the *common equity tier 1 capital* of the *firm*.
- (4) Where the condition in (2)(f) is not met, only the amount of the instruments with a dividend multiple that exceeds the threshold defined in that provision shall be disqualified from the *common equity tier 1 capital* of the *firm*.
- (5) Subject to (7), the formula referred to in (2)(e) is:

$$l \leq 1.25 \times k$$

where:

k = the amount of the distribution on one instrument without a dividend multiple; and

l = the amount of the distribution on one instrument with a dividend multiple.

- (6) Subject to (7), the formula referred to in (2)(f) applies on a one-year basis and is as follows:

$$kX + lY \leq (1.05) \times k \times (X + Y)$$

where:

k = the amount of the distribution on one instrument without a dividend multiple;

l = the amount of the distribution on one instrument with a dividend multiple;

X = the number of voting instruments; and

Y = the number of non-voting instruments.

- (7) Where the distributions on *common equity tier 1 instruments* are expressed, for the voting or non-voting instruments, with reference to the purchase price of the instrument at issuance, the formulae in (5) and (6) shall be adapted as follows for those instruments:

(a) l shall represent the amount of the distribution on one instrument without a dividend multiple divided by the purchase price at issuance of that instrument; and

(b) k shall represent the amount of the distribution on one instrument with a dividend multiple divided by the purchase price at issuance of that instrument.

- (8) The one-year period referred to in (6) shall be deemed to end on the date of the last financial statements of the *firm*.

[**Note:** article 7b(2) to 7b(5) of BTS 241/2014.]

- 7.10 R (1) This *rule* applies where:
- (a) a *common equity tier 1 instrument* has been issued by a *firm* that is a *cooperative society* or a *similar institution*;
 - (b) the instrument in (a) has fewer or no voting rights when compared to a *common equity tier 1 instrument* of the *firm* with full voting rights; and
 - (c) the distribution on the instrument in (a) is not a multiple of the distribution on the voting instruments.
- (2) Where this *rule* applies, a distribution on the instrument in (1)(a) shall be deemed not to be preferential relative to the *common equity tier 1 instrument* in (1)(b) for the purposes of article 28(1)(h)(i) of the *UK CRR* where:
- (a) either of the conditions in (3) is met; and
 - (b) both of the conditions in (5) are met.
- (3) The relevant conditions in (2)(a) are that either:
- (a) both of the following points are satisfied:
 - (i) the instrument with fewer or no voting rights can only be subscribed and held by the holders of voting instruments; and
 - (ii) the number of the voting rights of any single holder is limited, as specified in (4); or
 - (b) the distributions on the voting instruments issued by the *firm* are subject to a cap set out under the applicable law of the *United Kingdom* (or any part of it), or of a *third country*.
- (4) For the purposes of (3)(a)(ii), the voting rights of any single holder shall be deemed to be limited in the following cases:
- (a) where each holder only receives one voting right irrespective of the number of voting instruments for any holder;
 - (b) where the number of voting rights is capped irrespective of the number of voting instruments held by any holder;

or

- (c) where the number of voting instruments any holder may hold is limited under the statutes of the *firm* or under the applicable law of the *United Kingdom* (or any part of it), or of a *third country*.
- (5) The relevant conditions in (2)(b) are that:
- (a) the average of the distributions on voting instruments of the *firm* during the preceding 5 years is low in relation to other comparable instruments; and
 - (b) the payout ratio as calculated under *MIFIDPRU* 3 Annex 7.12R is under 30%.
- (6) A *firm* must assess compliance with the conditions in (3) and (5) and notify the *FCA* of the results of that assessment in the following situations:
- (a) every time the *firm* takes a decision on the amount of distributions on *common equity tier 1 instruments*; and
 - (b) every time the *firm* issues a new class of *common equity tier 1 instruments* with fewer or no voting rights when compared with *common equity tier 1 instruments* of the *firm* with full voting rights.
- (7) A *firm* must make the notification in (6) by completing the form in *MIFIDPRU* 1 Annex 6R and submitting it to the *FCA* using the *online notification and application system*.
- (8) Where neither of the conditions in (3) are met, the distributions on all outstanding non-voting instruments are deemed to be preferential unless they meet the conditions in *MIFIDPRU* 3 Annex 7.9R(2).
- (9) Where the condition in (5)(a) is not met, the distributions on all outstanding non-voting instruments shall be deemed to be preferential unless they meet the conditions in *MIFIDPRU* 3 Annex 7.9R(2).
- (10) Where the condition in (5)(b) is not met, only the amount of the non-voting instruments for which distributions exceed the threshold specified in that provision shall be deemed to entail preferential distributions.

[**Note:** article 7b(6) to 7b(14) of BTS 241/2014.]

- 7.11 G A *firm* may apply under section 138A of the *Act* for a waiver of the requirements in *MIFIDPRU* 3 Annex 7.10R(3)(a)(i) or *MIFIDPRU* 3

Annex 7.10R(5)(b) where:

- (1) the *firm* is in breach of, or due to a rapidly deteriorating financial condition, is likely in the near future to be in breach of, the requirements in *MIFIDPRU* (other than those in *MIFIDPRU* 3 Annex 7.10R(3)(a)(i) or *MIFIDPRU* 3 Annex 7.10R(5)(b));
- (2) the *FCA* has required the *firm* to increase its *common equity tier 1 capital* within a specified period; and
- (3) the *firm* considers that it will not be able to rectify or avoid the breach of *MIFIDPRU* within that specified period unless the relevant requirement in *MIFIDPRU* 3 Annex 7.10R(3)(a)(i) or *MIFIDPRU* 3 Annex 7.10R(5)(b) is waived.

[**Note:** article 7b(15) of BTS 241/2014.]

- 7.12 R (1) A *firm* must calculate the payout ratio under *MIFIDPRU* 3 Annex 7.10R(5)(b) using the following formula:

$$R = \frac{D}{P}$$

where:

R = the payout ratio;

D = the sum of the distributions related to total *common equity tier 1 instruments* over the previous 5 yearly periods; and

P = the sum of profits related to the previous 5 yearly periods.

- (2) For the purposes of paragraph (1), profits shall be:
 - (a) in the case of a period for which the *firm* submitted *data item* FSA030 (Income Statement), the amount of profit after taxation reported in cell 25A of that *data item*;
 - (b) in the case of a period for which the *firm* submitted *data item* FSA002 (Income Statement), the amount of net profit reported in cell 46B of that *data item*; and
 - (c) in the case of a period for which the *firm* submitted FINREP return F02.00 (Statement of profit or loss), whether under IFRS or GAAP, the amount of profit after tax reported in row 670.

[**Note:** article 7c of BTS 241/2014.]

- 7.13 R For the purposes of article 28 of the *UK CRR*, a distribution on a *common equity tier 1 instrument* shall be deemed to be preferential relative to

other *common equity tier 1 instruments* regarding the order of distribution payments where at least one of the following conditions is met:

- (1) distributions are decided at different times;
- (2) distributions are paid at different times;
- (3) there is an obligation on the *firm* to pay the distributions on one type of *common equity tier 1 instruments* before paying the distributions on another type of *common equity tier 1 instruments*; or
- (4) a distribution is paid on some *common equity tier 1 instruments* but not on others, unless the condition in *MIFIDPRU 3 Annex 7.10R3(a)* is satisfied.

[**Note:** article 7d of BTS 241/2014.]

Deduction of foreseeable dividends from interim or year-end profits to be recognised as CET1 items

- 7.14 R
- (1) This *rule* applies for the purpose of determining the amount of any foreseeable dividend that must be deducted by a *MIFIDPRU investment firm* from its interim or year-end profits under article 26(2)(b) of the *UK CRR*.
 - (2) Where the *firm's management body* has formally taken a decision or proposed a decision to the *firm's relevant body* regarding the amount of dividends to be distributed, that amount must be deducted from the corresponding interim or year-end profits.
 - (3) Before the *firm's management body* has formally taken a decision or proposed a decision to the *firm's relevant body* on the distribution of dividends, the amount of foreseeable dividends to be deducted by the *firm* from the interim or year-end profits must equal the amount of interim or year-end profits multiplied by the dividend payout ratio (as calculated in accordance with *MIFIDPRU 3 Annex 7.16R*).
 - (4) Where the *firm* pays an interim dividend, the residual amount of interim profit which is to be added to the *firm's* common equity tier 1 items must be reduced (taking into account the requirement in (3)), by the amount of any foreseeable dividend which can be expected to be paid out from that residual interim profit with the final dividends for the full business year.
 - (5) This *rule* is subject to *MIFIDPRU 3 Annex 7.15R*.

[**Note:** article 2 of BTS 241/2014.]

- 7.15 R (1) Where a foreseeable dividend is to be paid in a form that does not reduce the common equity tier 1 items of the *firm* (such as through a scrip dividend), the amount of that dividend does not need to be deducted from a *firm's* interim or year-end profits for the purposes of article 26(2) of the *UK CRR*.
- (2) Where a *firm* is subject to a regulatory restriction on the amount of any dividend it can pay, the amount of any foreseeable dividend to be deducted must be determined taking into account that restriction.

[**Note:** article 2(9) and 2(10) of BTS 241/2014.]

- 7.16 R (1) This *rule* applies for the purposes of determining the dividend payout ratio referred to in *MIFIDPRU* 3 Annex 7.14R(3).
- (2) Subject to (3), the dividend payout ratio must be determined on the basis of the dividend policy approved for the relevant period by the *firm's management body or relevant body*.
- (3) Where the *firm's* dividend policy in (2) contains a pay-out range instead of a fixed value, the upper end of the range must be used when determining the dividend payout ratio.
- (4) Where the *firm* does not have an approved dividend policy, the dividend payout ratio is the higher of the following:
- (a) the average dividend payout ratio over the 3 years prior to the year under consideration; or
 - (b) the dividend payout ratio of the year preceding the year under consideration.
- (5) The dividend payout ratio in (4)(a) and (4)(b) must be calculated using the following formula:

$$R = \frac{D}{N}$$

where:

R = the dividend payout ratio for the relevant period

D = the sum of distributions made by the *firm* during the relevant period

N = the net income of the *firm* during the relevant period

[**Note:** article 2(4) to 2(6) of BTS 241/2014.]

- 7.17 G (1) The *FCA* may require a *firm* to use the alternative calculation of the dividend payout ratio in *MIFIDPRU* 3 Annex 7.16R(4) where, even though the *firm* has an approved dividend policy, the *FCA* considers that:
- (a) the *firm* would not apply the dividend policy in practice; or
 - (b) the policy is not a prudent basis on which to determine the amount to be deducted from interim or year-end profits for the purposes of *MIFIDPRU* 3 Annex 7.14R.
- (2) In the circumstances in (1), the *FCA* will normally invite the *firm* to apply for the imposition of a *requirement* on the *firm* under section 55L(5) of the *Act* to apply the alternative calculation. Alternatively, the *FCA* may seek to impose such a *requirement* on its own initiative under section 55L(3) of the *Act*.

[**Note:** article 2(7) of BTS 241/2014.]

- 7.18 G A *firm* may apply to the *FCA* under section 138A of the *Act* for a modification of *MIFIDPRU* 3 Annex 7.16R(4) to exclude exceptional dividends where the *firm* has paid those dividends during the period for which the dividend payout ratio is being determined. The *FCA* will consider whether including those dividends in the calculation would be unduly onerous or would otherwise fail to achieve the purpose of that *rule*. This is likely to depend on whether the *firm* can demonstrate that the dividends are genuinely exceptional in nature.

[**Note:** article 2(8) of BTS 241/2014.]

Deduction of foreseeable charges from interim or year-end profits to be recognised as CET1 items

- 7.19 R (1) This *rule* applies for the purpose of determining the amount and timing of any foreseeable charge that must be deducted by a *MIFIDPRU investment firm* from its interim or year-end profits under article 26(2)(b) of the *UK CRR*.
- (2) The amount of foreseeable charges to be deducted must include the following:
- (a) any taxes;
 - (b) any amounts resulting from obligations or circumstances that may arise during the related reporting period where:
 - (a) those amounts are likely to reduce the profits of the *firm*; and
 - (b) the *firm* has not made all necessary value

adjustments or provisions, including *AVAs* under article 34 of the *UK CRR*, to cover such amounts.

- (3) Where the *firm* has not already taken a foreseeable charge into account in the profit and loss account, the charge must be assigned to the interim period during which it was incurred.
- (4) For the purposes of (3), where a charge was incurred during more than one interim period, the *firm* must allocate the amount so that each interim period bears a reasonable amount of the relevant charge.
- (5) A charge that occurs from a material or non-recurrent event must be allocated in full without delay to the interim period during which the event arises.

[**Note:** article 3 of BTS 241/2014]

Prohibition on direct or indirect funding of own funds instruments

- 7.20 R (1) This *rule* applies for the purpose of determining when an instrument has been funded indirectly by a *firm* for the purposes of any of the following provisions of the *UK CRR*:
- (a) article 28(1)(b);
 - (b) article 52(1)(c); or
 - (c) article 63(c).
- (2) Funding will be indirect funding for the purposes of (1) when it is not direct funding as defined in (3).
- (3) Direct funding is either of the following:
- (a) a situation where a *firm* has granted a loan or other funding in any form to an investor that is used to purchase the *firm's* capital instruments; or
 - (b) funding granted by the *firm* for purposes other than those in (a) to any natural or legal person in the following situations, where the conditions in (4) are not met:
 - (i) the person has a qualifying holding (as defined in article 4(1)(36) of the *UK CRR*) in the *firm*; or
 - (ii) the person is deemed to be a related party within the meaning of the definitions in paragraph 9 of International Accounting Standard 24 on Related Party Disclosures, as applied by *UK-adopted international accounting standards* on 1 January

2022.

- (4) The conditions in (3)(b) are:
- (a) the transaction is realised at similar conditions to other transactions with third parties; and
 - (b) the natural or legal *person* does not have to rely on the distributions or on the sale of the capital instruments held to support the payment of interest or the repayment of the funding granted by the *firm*.

[**Note:** article 8 of BTS 241/2014.]

- 7.21 R (1) The following are non-exhaustive examples of indirect funding for the purposes of the provisions of the *UK CRR* listed in *MIFIDPRU 3 Annex 7.20R(1)* where the condition in (2) is also satisfied:
- (a) funding of an investor's purchase, at issuance or thereafter, of a *firm's* capital instruments by entities over which the *firm* has direct or indirect control, or by entities included in any of the following:
 - (i) the scope of accounting or prudential consolidation of the *firm*; or
 - (ii) the scope of supplementary supervision of the *firm* under *Directive 2002/87/EC UK law*;
 - (b) funding of an investor's purchase, at issuance or thereafter, of a *firm's* capital instruments by external entities that are protected by a guarantee or by the use of a credit derivative or are secured in some other way so that the credit risk is transferred to the *firm* or to any entities on which the *firm* has a direct or indirect control or any entities included in any of the following:
 - (i) the scope of accounting or prudential consolidation of the *firm*; or
 - (ii) the scope of supplementary supervision of the *firm* under *Directive 2002/87/EC UK law*;
 - (c) funding of a borrower that passes the funding on to the ultimate investor for the purchase, at issuance or thereafter, of a *firm's* capital instruments.
- (2) The relevant condition is that the investor or, where applicable, the external entity is not included in any of the following:

- (a) the scope of accounting or prudential consolidation of the *firm*; or
- (b) the scope of supplementary supervision of the *firm* under *Directive 2002/87/EC UK law*.

[**Note:** article 9(1) and 9(2) of BTS 241/2014.]

- 7.22 R When establishing whether the purchase of a capital instrument involves direct or indirect funding for the purposes of *MIFIDPRU 3 Annex 7.20R*, the amount to be considered must be net of any individually assessed impairment allowance made.

[**Note:** article 9(3) of BTS 241/2014.]

- 7.23 R To prevent a loan or other form of funding or guarantee being classified as direct or indirect funding for the purposes of *MIFIDPRU 3 Annex 7.20R*, the *firm* must:

- (1) where the loan, funding or guarantee is granted to any natural or legal person referred to in *MIFIDPRU 3 Annex 7.20R(3)(b)(i)* or (ii), ensure on an ongoing basis that the loan, funding or guarantee has not been provided for the purpose of subscribing directly or indirectly for the *firm*'s capital instruments; and
- (2) where the loan, funding or guarantee has been granted to other types of parties, use the *firm*'s best efforts to avoid providing the loan, funding or guarantee for the purpose of subscribing directly or indirectly for the *firm*'s capital instruments.

[**Note:** article 9(4) of BTS 241/2014.]

- 7.24 R (1) This *rule* applies to a *firm* that is:
- (a) a *cooperative society*; or
 - (b) a *similar institution*.
- (2) Where a *firm* in (1) has an obligation under the law of the *United Kingdom* (or any part of it) or the statutes of the *firm* for a customer to subscribe for capital instruments in the *firm* in order to receive a loan, that loan shall not be considered as direct or indirect funding for the purposes of *MIFIDPRU 3 Annex 7.20R* where the following conditions are met:
- (a) the value of the subscription amount is not material;
 - (b) the purpose of the loan is not the purchase of capital instruments in the *firm*; and
 - (c) subscription for one or more capital instruments of the

firm is necessary for the customer to become a member of the *firm*.

[**Note:** article 9(5) of BTS 241/2014.]

Requirements relating to the reduction of own funds instruments

- 7.25 R For the purposes of *MIFIDPRU* 3.6.4R(1), terms will be sustainable for the income capacity of the *firm* where:
- (1) the profitability of the *firm* will continue to be sound and will not see any negative change in the foreseeable future after the replacement of the original *own funds instruments* with *own funds instruments* of equal or higher quality; and
 - (2) the assessment of profitability in the foreseeable future in (1) takes into account the *firm's* profitability in stressed situations.

[**Note:** article 27 of BTS 241/2014.]

- 7.26 R Where the prior permission of the *FCA* is required for the redemption, repurchase or reduction of *own funds instruments* under article 77 of the *UK CRR*, a *firm* must not announce the redemption, repurchase or reduction to holders of the relevant *own funds instruments* until it has obtained that permission.

[**Note:** article 28(1) of BTS 241/2014.]

- 7.27 R (1) A *firm* must deduct from the corresponding elements of its *own funds* any amounts of its *own funds instruments* to be reduced, redeemed or repurchased as soon as the following conditions are met:
- (a) where required, the *firm* has obtained permission from the *FCA* under article 78 of the *UK CRR*; and
 - (b) the reduction, redemption or repurchase is expected to take place with sufficient certainty.
- (2) For the purposes of (1)(b), a situation in which sufficient certainty will exist includes, but is not limited to, where the *firm* has publicly announced its intention to redeem, reduce or repurchase an *own funds instrument*.

[**Note:** article 28(2) of BTS 241/2014.]

- 7.28 R (1) This *rule* applies for the purposes of limitations on redemption applied by any of the following under article 29(2)(b) of the *UK CRR* or article 78(3) of the *UK CRR*:
- (a) a *cooperative society*; or

- (b) a *similar institution*.
- (2) A *firm* may issue *common equity tier 1 instruments* with a possibility to redeem only where permitted by the applicable law of the *United Kingdom* (or any part of it) or of a *third country*.
- (3) The ability of a *firm* to limit the redemption of a capital instrument under article 29(2)(b) or article 78(3) of the *UK CRR* includes:
 - (a) the right to defer the redemption; and
 - (b) the right to limit the amount to be redeemed.
- (4) There is no specific limit on the period of time for which a *firm* may defer the redemption of a capital instrument or may limit the amount to be redeemed under (3), but the *firm* must comply with the requirement in (5).
- (5) The extent of the limitations on redemption included in the provisions governing the instruments must be determined by the *firm* on the basis of its prudential situation at any time, having regard in particular to the following non-exhaustive factors:
 - (a) the overall financial, liquidity and solvency situation of the *firm*;
 - (b) the amount of the *firm's common equity tier 1 capital, tier 1 capital* and total *own funds* compared to the *firm's own funds requirement*.
- (6) A *firm* must:
 - (a) document any decision to limit the redemption of a capital instrument under this *rule*; and
 - (b) notify the *FCA* of the decision by completing the form in *MIFIDPRU 1 Annex 6R* and submitting it via the *online notification and application system*, explaining the reasons for the limitation and how the factors in (5) apply.

[**Note:** article 10 and article 11(3) and 11(4) of BTS 241/2014.]

Gains on a sale

- 7.29 R
- (1) This *rule* applies for the purpose of defining the concept of a gain on sale under article 32(1)(a) of the *UK CRR*.
 - (2) A gain on sale is any recognised gain on sale for the *firm* that:
 - (a) is recorded as an increase in any element of *own funds*;

and

- (b) is associated with future margin income arising from a sale of securitised assets when they are removed from the *firm*'s balance sheet in the context of a securitised transaction.
- (3) The recognised gain on sale must be determined as the difference between the following, as determined by applying the relevant accounting framework:
 - (a) the net value of the assets received (including any new asset obtained) less any other asset given or any new liability assumed; and
 - (b) the carrying amount of the securitised assets or of the part derecognised.
- (4) The recognised gain on sale which is associated with the future margin income is the expected future express spread, which is determined as the finance charge collections and other fee income received in respect of the securitised exposures net of costs and expenses.

[**Note:** article 12 of BTS 241/2014.]

Deductions from own funds

- 7.30 R
- (1) Subject to (3), for the purpose of calculating its *common equity tier 1 capital* during the year, and irrespective of whether the *firm* closes its financial accounts at the end of each interim period, the *firm* must determine its profit and loss accounts and deduct any resulting losses from common equity tier 1 items under *MIFIDPRU* 3.3.6R(1) as they arise.
 - (2) For the purpose of determining a *firm*'s profit or loss accounts under (1), a *firm* must:
 - (a) determine its income and expenses under the same process and on the basis of the same accounting standards as those used for the year-end financial report;
 - (b) prudently estimate income and expenses and assign them to the interim period in which they are incurred so that each interim period bears a reasonable amount of the anticipated annual income and expenses; and
 - (c) consider material or non-recurrent events in full and without delay in the interim period during which they arise.

- (3) Where losses for the current financial year have already reduced the *firm's* common equity tier 1 items as a result of an interim or a year-end financial report, a deduction is not required.
- (4) For the purposes of this *rule*, a “financial report” means that the profit and losses have been determined after a closing of the interim or the annual accounts in accordance with the applicable accounting framework.
- (5) This *rule* applies in the same manner to gains and losses included in accumulated other comprehensive income.

[**Note:** article 13 of BTS 241/2014.]

- 7.31 R
- (1) This *rule* applies for the purposes of determining the deduction of deferred tax assets that rely on future profitability under *MIFIDPRU* 3.3.6R(3).
 - (2) The offsetting between deferred tax assets and associated deferred tax liabilities must be done separately for each taxable entity.
 - (3) Associated deferred tax liabilities must be limited to those that arise from the tax law of the same jurisdiction as the deferred tax assets.
 - (4) For the calculation of deferred tax assets and liabilities at consolidated level, a taxable entity includes any number of entities which are members of the same tax group, fiscal consolidation, fiscal unity or consolidated tax return under any applicable law of the *United Kingdom* or of a *third country*.
 - (5) The amount of associated deferred tax liabilities which are eligible for offsetting deferred tax assets that rely on future profitability is equal to the difference between the following:
 - (a) the amount of deferred tax liabilities as recognised under the applicable accounting framework;
 - (b) the amount of associated deferred tax liabilities arising from intangible assets and from defined benefit pension fund assets.

[**Note:** article 14 of BTS 241/2014.]

- 7.32 R
- (1) This *rule* defines an *intermediate entity* for the purposes of *MIFIDPRU* 3 Annex 7.33R to *MIFIDPRU* 3 Annex 7.40R.
 - (2) An *intermediate entity* is any of the following entities, where that entity holds capital instruments of a *financial sector entity*;

- (a) a collective investment undertaking;
 - (b) a pension fund other than a defined benefit pension fund;
 - (c) a defined benefit pension fund, where the *firm* is supporting the investment risk and where the defined benefit pension fund is not independent from its sponsoring institution in accordance with (4);
 - (d) an entity that is directly or indirectly under the control or under significant influence of one of the following:
 - (i) the *firm* or its *subsidiaries*;
 - (ii) the *parent undertaking* of the *firm* or the *subsidiaries* of that *parent undertaking*;
 - (iii) the parent *financial holding company* of the *firm* or the *subsidiaries* of that parent *financial holding company*;
 - (iv) the parent *investment holding company* of the *firm* or the *subsidiaries* of that parent *investment holding company*;
 - (v) the parent *mixed-activity holding company* of the *firm* or the *subsidiaries* of the parent *mixed activity holding company*; or
 - (vi) the parent *mixed financial holding company* of the *firm* or the *subsidiaries* of the parent *mixed financial holding company*;
 - (e) a special purpose entity;
 - (f) an entity whose activity is to hold *financial instruments* of *financial sector entities*; and
 - (g) an entity that is used for the purpose of circumventing the rules relating to the deduction of indirect and synthetic holdings.
- (3) Except where (2)(g) applies, the following are not *intermediate entities*:
- (a) *mixed-activity holding companies*;
 - (b) *institutions*;
 - (c) *MIFIDPRU investment firms*;

- (d) *insurance undertakings*;
 - (e) *reinsurance undertakings*;
 - (f) *financial sector entities* (other than those in (a) to (e)) that are supervised and required to deduct the following from their regulatory capital:
 - (i) direct and indirect holdings of their own capital instruments; and
 - (ii) holdings of capital instruments of *financial sector entities*.
- (4) For the purposes of (2)(c), a defined benefit pension fund will be deemed to be independent from its sponsoring institution where the following conditions are met:
- (a) the defined benefit pension fund is legally separate from the sponsoring institution and its governance is independent;
 - (b) either:
 - (i) the statutes, the instruments of incorporation and the internal rules of the specific pension fund, as applicable, have been approved by an independent regulator; or
 - (ii) the rules governing the incorporation and functioning of the defined benefit pension fund, as applicable, are established in the applicable law of the relevant country;
 - (c) the trustees or administrators of the defined pension fund have an obligation under applicable national law to:
 - (i) act impartially in the best interests of the scheme beneficiaries instead of those of the sponsor;
 - (ii) manage assets of the defined pension fund prudently; and
 - (iii) to conform to the restrictions set out in the statutes, the instruments of incorporation and the internal rules of the specific pension fund, as applicable, or statutory or regulatory framework described in point (b); and
 - (d) the statutes or the instruments of incorporation or the rules governing the incorporation and functioning of the

defined benefit pension fund referred to in point (b) include restrictions on investments that the defined pension scheme can make in own funds instruments issued by the sponsoring institution.

- (5) Where a defined benefit pension fund referred to in (2)(c) holds own funds instruments of the sponsoring institution, the sponsoring institution must:
- (a) treat that holding as an indirect holding of its own *common equity tier 1 instruments*, own *additional tier 1 instruments* or own *tier 2 instruments*, as applicable; and
 - (b) determine the amount to be deducted from its common equity tier 1 items, additional tier 1 items or tier 2 items (as applicable) in accordance with *MIFIDPRU 3 Annex 7.34R* and *MIFIDPRU 3 Annex 7.39R*.

[**Note:** article 15a of BTS 241/2014.]

- 7.33 R (1) The following financial products are synthetic holdings of capital instruments for the purposes of *MIFIDPRU 3.3.6R*(5), (7) and (8):
- (a) derivative instruments that have capital instruments of a *financial sector entity* as their underlying or have the *financial sector entity* as their reference entity;
 - (b) guarantees or credit protection provided to a third party in respect of the third party's investments in a capital instrument of a *financial sector entity*.
- (2) The financial products in (1) include the following:
- (a) investments in total return swaps on a capital instrument of a *financial sector entity*;
 - (b) call options purchased by the *firm* on a capital instrument of a *financial sector entity*;
 - (c) put options sold by the *firm* on a capital instrument of a *financial sector entity* or any other actual or contingent contractual obligation of the *firm* to purchase its *own funds instruments*; and
 - (d) investments in forward purchase agreements on a capital instrument of a *financial sector entity*.

[**Note:** article 15b of BTS 241/2014.]

- 7.34 R (1) The amount of indirect holdings that a *firm* must deduct from its common equity tier 1 items under *MIFIDPRU 3.3.6R*(5), (7) or

(8) must be calculated in one of the following ways:

- (a) according to the default approach set out in *MIFIDPRU 3 Annex 7.35R*; or
- (b) subject to (3), with the prior permission of the *FCA*, the structure-based approach in *MIFIDPRU 3 Annex 7.36R*.

(2) To obtain the permission in (1)(b), a *firm* must:

- (a) complete the application form in *MIFIDPRU 1 Annex 5R* and submit to the *FCA* using the *online notification and application system*; and
- (b) demonstrate to the satisfaction of the *FCA* that it would be impractical or excessively complex to apply the default approach in *MIFIDPRU 3 Annex 7.35R*.

(3) A *firm* must not use the structure-based approach to calculate deductions in relation to investments in the *intermediate entities* in *MIFIDPRU 3 Annex 7.32R*(2)(d) and (e).

[**Note:** article 15c of BTS 241/2014.]

- 7.35 R (1) This *rule* contains the default approach for the deduction of indirect holdings under *MIFIDPRU 3 Annex 7.34R*(1)(a).
- (2) A *firm* must calculate the amount of indirect holdings of *common equity tier 1 instruments* to be deducted as follows:
- (a) where the exposures of all investors to the *intermediate entity* rank *pari passu*, the amount shall be equal to the percentage of funding multiplied by the amount of *common equity tier 1 instruments* of the *financial sector entity* held by the *intermediate entity*;
 - (b) where the exposures of all investors to the *intermediate entity* do not rank *pari passu*, the amount shall be equal to the percentage of funding multiplied by the lower of the following amounts:
 - (i) the amount of *common equity tier 1 instruments* of the *financial sector entity* held by the *intermediate entity*;
 - (ii) the *firm's* exposure to the *intermediate entity* together with all other funding provided to the *intermediate entity* that rank *pari passu* with the *firm's* exposure.
- (3) A *firm* must use the calculation method in (2)(b) for each tranche of funding that ranks *pari passu* with the funding provided by the

firm.

- (4) The percentage of funding in (2) is calculated as the *firm's* exposure to the *intermediate entity* divided by the sum of the *firm's* exposure to the *intermediate entity* and all other exposures to the *intermediate entity* that rank *pari passu* with the *firm's* exposure.
- (5) A *firm* must carry out the calculation in (2) separately for each holding in a *financial sector entity* held by each *intermediate entity*.
- (6) Where a *firm* holds investments in *common equity tier 1 instruments* of a *financial sector entity* indirectly through several *intermediate entities*, the *firm* must determine the percentage of funding in (2) by dividing the amount in (a) below by the amount in (b):
 - (a) the result of the multiplication of amounts of funding provided by the *firm* to *intermediate entities*, by the amounts of funding provided by *these intermediate entities* to subsequent *intermediate entities*, and by amounts of funding provided by these subsequent *intermediate entities* to the *financial sector entity*;
 - (b) the result of the multiplication of amounts of capital instruments or other instruments as relevant, issued by each *intermediate entity*.
- (7) The percentage of funding referred to in (6) must be calculated separately for each holding in a *financial sector entity* held by *intermediate entities* and for each tranche of funding that ranks *pari passu* with the funding provided by the *firm* and the subsequent *intermediate entities*.

[**Note:** article 15d of BTS 241/2014.]

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| 7.36 | R | <ol style="list-style-type: none"> (1) This <i>rule</i> contains the structure-based approach for the deduction of indirect holdings under <i>MIFIDPRU</i> 3 Annex 7.34R(1)(b). (2) The amount to be deducted from common equity tier 1 items referred to in <i>MIFIDPRU</i> 3.3.6R(5) shall be equal to the percentage of funding, as defined in <i>MIFIDPRU</i> 3 Annex 7.35R(4), multiplied by the amount of <i>common equity tier 1 instruments</i> of the <i>firm</i> held by the <i>intermediate entity</i>. (3) The amount to be deducted from common equity tier 1 items referred to in <i>MIFIDPRU</i> 3.3.6R(7) and (8) shall be equal to the percentage of funding, as defined in <i>MIFIDPRU</i> 3 Annex 7.35R(4), multiplied by the aggregate amount of <i>common equity tier 1 instruments</i> of <i>financial sector entities</i> held by the |
|------|---|---|

intermediate entity.

- (4) For the purposes of (2) and (3), a *firm* must calculate separately for each *intermediate entity* the aggregate amount of *common equity tier 1 instruments* of the *firm* that the *intermediate entity* holds and the aggregate amount of *common equity tier 1 instruments* of other *financial sector entities* that the *intermediate entity* holds.
- (5) The *firm* must treat the amount of holdings in *common equity tier 1 instruments* of *financial sector entities* calculated in accordance with (3) as a significant investment referred to in article 43 of the *UK CRR* and must deduct the amount in accordance with *MIFIDPRU* 3.3.6R(8).
- (6) Where investments in *common equity tier 1 instruments* are held indirectly through subsequent or several *intermediate entities*, *MIFIDPRU* 3 Annex 7.35R(6) and (7) apply.
- (7) Where a *firm* is not able to identify the aggregate amounts that the *intermediate entity* holds in *common equity tier 1 instruments* of the *firm* or in *common equity tier 1 instruments* of *financial sector entities*, the *firm* must estimate the amounts it cannot identify by using the maximum amounts that the *intermediate entity* is able to hold on the basis of its investment mandates.
- (8) Subject to (9), where the *firm* is not able to determine, on the basis of the investment mandate, the maximum amount that the *intermediate entity* holds in *common equity tier 1 instruments* of the institution or in *common equity tier 1 instruments* of *financial sector entities*, the *firm* must treat the amount of funding that it holds in the *intermediate entity* as an investment in its own *common equity tier 1 instruments* and must deduct them in accordance with *MIFIDPRU* 3.3.6R(5).
- (9) By way of derogation from (8), the *firm* must treat the amount of funding that it holds in the *intermediate entity* as a non-significant investment and must deduct that investment in accordance with *MIFIDPRU* 3.3.6R(7), where all of the following conditions are met:
 - (a) the amounts of funding are less than 0.25% of the *firm's common equity tier 1 capital*;
 - (b) the amounts of funding are less than £10 million;
 - (c) the *firm* cannot reasonably determine the amounts of its own *common equity tier 1 instruments* that the *intermediate entity* holds.
- (10) Where funding to the *intermediate entity* is in the form of units

or shares of a *CIU*, the *firm* may rely on the third parties referred to in article 132(5) of the *UK CRR*, and under the conditions set by that article, to calculate and report the aggregate amounts referred to in (7).

[**Note:** article 15e of BTS 241/2014.]

- 7.37 R (1) The amount of synthetic holdings to be deducted from common equity tier 1 items under *MIFIDPRU* 3.3.6R(5), (7) and (8) is determined as follows:
- (a) for holdings in the *trading book*:
 - (i) for options, the delta equivalent amount of the relevant instruments calculated in accordance with Title IV of Part III of the *UK CRR*; and
 - (ii) for any other synthetic holdings, the nominal or notional amount, as applicable; and
 - (b) for holdings that are not in the *trading book*:
 - (i) for call options, the current market value; and
 - (ii) for any other synthetic holdings, the nominal or notional amount, as applicable.
- (2) A *firm* must deduct the synthetic holdings in (1) from the date of signature of the contract between the *firm* and the counterparty.

[**Note:** article 15f of BTS 241/2014.]

- 7.38 R (1) For the purposes of *MIFIDPRU* 3.3.6R(8), in order to assess whether a *firm* owns more than 10% of the *common equity tier 1 instruments* issued by a *financial sector entity* in accordance with article 43(a) of the *UK CRR*, a *firm* must add together:
- (a) its gross long positions in direct holdings in the *financial sector entity*; and
 - (b) its indirect holdings in the *financial sector entity*, as calculated in accordance with *MIFIDPRU* 3 Annex 7.32R(2)(d) to (g).
- (2) A *firm* must take into account any indirect or synthetic holdings when assessing whether the conditions in article 43(b) or (c) of the *UK CRR* are met.

[**Note:** article 15g of BTS 241/2014.]

- 7.39 R (1) The methodology in *MIFIDPRU* 3 Annex 7.32R to *MIFIDPRU* 3 Annex 7.38R also applies with the modifications in (2) for the

purposes of the requirements relating to:

- (a) the deductions of holdings in *additional tier 1 instruments* in article 56(a), (c) and (d) of the *UK CRR*; and
 - (b) the deductions of holdings in *tier 2 instruments* in article 66(a), (c) and (d) of the *UK CRR*.
- (2) When applying *MIFIDPRU 3 Annex 7.32R* to *MIFIDPRU 3 Annex 7.38R*:
- (a) for the purpose in (1)(a), references to “common equity tier 1” are references to “additional tier 1”; and
 - (b) for the purpose in (1)(b), references to “common equity tier 1” are references to “tier 2”.

[**Note:** article 15h of BTS 241/2014.]

- 7.40 R (1) Subject to (2) and (3), where an *intermediate entity* holds *common equity tier 1 instruments*, *additional tier 1 instruments* or *tier 2 instruments* of *financial sector entities*:
- (a) the *common equity tier 1 instruments* must be deducted first;
 - (b) the *additional tier 1 instruments* must be deducted second; and
 - (c) the *tier 2 instruments* must be deducted last.
- (2) Where the intermediate entity holds *own funds instruments* of the *firm*, when applying (1), the *firm* must deduct the holdings of the *firm’s own funds instruments* first.
- (3) Where a *firm* holds capital instruments of *financial sector entities* indirectly, the amount to deducted from the *firm’s own funds* is limited to the lower of the following amounts:
- (a) the total funding provided by the *firm* to the *intermediate entity*; or
 - (b) the amount of *own funds instruments* held by the *intermediate entity* in the *financial sector entity*.

[**Note:** article 15i of BTS 241/2014.]

- 7.41 R (1) This *rule* applies for the purposes of the deduction of foreseeable tax charges under *MIFIDPRU 3.3.6R(10)* and article 56(f) of the *UK CRR*.
- (2) A *firm* may proceed on the basis that foreseeable tax charges

have already been taken into account, and therefore no further deduction is required, where:

- (a) the *firm* applies an accounting framework and accounting policies that provide for the full recognition of current and deferred tax liabilities related to transactions and other events recognised in the balance sheet or the profit and loss account; and
 - (b) all other necessary deductions have been made under applicable accounting standards or other adjustments.
- (3) Where the *firm* is calculating its *common equity tier 1 capital* on the basis of financial statements made in accordance with *UK-adopted international accounting standards*, the conditions in (2) are deemed to be met.
- (4) Where the *firm* does not meet, and has not been deemed to meet, the conditions in (2), it must decrease its common equity tier 1 items by the estimated amount of current and deferred tax charges not yet recognised in:
- (a) the balance sheet profit and loss account related to transactions; and
 - (b) other events in the balance sheet profit and loss account.
- (5) The estimated amount of current and deferred tax charges in (4) must be determined using an approach equivalent to the one provided by *UK-adopted international accounting standards*.
- (6) The estimated amount of deferred tax charges in (4) may not be netted against deferred tax assets that are not recognised in the financial statements.

[**Note:** article 16 of BTS 241/2014.]

Deduction of holdings of capital instruments issued by financial institutions

7.42 R Subject to *MIFIDPRU 3 Annex 7.43R*, for the purposes of article 36(3) of the *UK CRR*, a *firm* must deduct its holdings of capital instruments of *financial institutions* as follows:

- (1) the *firm* must deduct from its common equity tier 1 items any instruments of the *financial institution* that meet the following conditions:
 - (a) the instruments qualify as capital under the company law applicable to the *financial institution*; and
 - (b) where the *financial institution* is subject to solvency requirements, the instruments are included in the highest

quality tier of regulatory own funds without any limits; or

(c) where the *financial institution* is not subject to solvency requirements, the instruments:

- (i) are perpetual;
- (ii) absorb the first and proportionately greatest share of losses as they occur;
- (iii) rank below all other claims in the event of insolvency and liquidation; and
- (iv) have no preferential or predetermined distributions;

(2) the *firm* must deduct its holdings of subordinated capital instruments of the *financial institution* on the following basis:

(a) where the subordinated instruments absorb losses on a going-concern basis (including where the issuer has the discretion to cancel coupon payments), the *firm* must:

- (i) deduct them from the *firm's* additional tier 1 items; and
- (ii) if the value of the subordinated instruments exceeds the value of the *firm's* additional tier 1 capital, deduct the excess amount from the *firm's* common equity tier 1 items;

(b) the *firm* must deduct all other subordinated instruments not included in (a) on the following basis:

- (i) the *firm* must first deduct them from the *firm's* tier 2 items; and
- (ii) if the value of the subordinated instruments exceeds the value of the *firm's tier 2 capital*, the *firm* must deduct the excess amount from the *firm's* additional tier 1 items; and
- (iii) if the additional tier 1 items are not sufficient, the *firm* must deduct the remaining excess amount from the *firm's* common equity tier 1 items;

(3) the *firm* must deduct its holdings of any other instruments of the *financial institution* from the *firm's* common equity tier 1 items where:

(a) the instruments are included in the *financial institution's* own funds under the prudential framework applicable to

the *financial institution*; and

- (b) the instruments do not meet the conditions to be deducted under (a) or (b).

[**Note:** article 36(3) of the *UK CRR* and article 17(1) of BTS 241/2014.]

- 7.43 R (1) In the cases set out in (2):
- (a) the deductions in *MIFIDPRU 3* Annex 7.42R do not apply; and
 - (b) a *firm* must instead apply the deductions in *MIFIDPRU 3* and the *UK CRR* (as applied by *MIFIDPRU 3*) for holdings of capital instruments based on the approach that would apply to the same component of capital for which those instruments would qualify if they were issued by the *firm* itself.
- (2) The relevant cases are where the *financial institution* is:
- (a) a *UK AIFM*;
 - (b) a *management company*;
 - (c) an *authorised payment institution*;
 - (d) an *authorised electronic money institution*; or
 - (e) an entity that is authorised and supervised by an *overseas regulator*, provided that the *firm* applying the deduction is able to apply the approach in (1)(b) in relation to that entity.

[**Note:** article 17(2) and 17(3) of BTS 241/2014.]

- 7.44 R (1) This *rule* applies to a *firm*'s holdings of capital instruments in a *third country insurance undertaking* or a *third country reinsurance undertaking* where either of the following conditions are met:
- (a) the *third country insurance undertaking* or *third country reinsurance undertaking* is subject to a solvency regime that:
 - (i) before *IP completion day*, had been assessed as non-equivalent to that laid down in Title I, Chapter VI of the *Solvency II Directive* according to the procedure set out in article 227 of that directive; and
 - (ii) has not subsequently been subject to a

determination of equivalence by HM Treasury under article 379A of the Solvency II Delegated Regulation (EU) 2015/35 or by the *PRA* under regulation 19 of the *Solvency 2 Regulations 2015*; or

- (b) the *third country insurance undertaking* or *third country reinsurance undertaking* is subject to a solvency regime that has not been assessed for equivalence
 - (i) before *IP completion day*, in accordance with the procedure in (a)(i); and
 - (ii) on or after *IP completion day*, in accordance with either of the procedures in (a)(ii).
- (2) Where this *rule* applies, a *firm* must deduct holdings in the capital instruments of the *third country insurance undertaking* or *third country reinsurance undertaking* in (1) as follows:
 - (a) all instruments qualifying as capital under the company law applicable to the *third country insurance undertaking* or *third country reinsurance undertaking* that issued them, and which are included in the highest quality tier of regulatory own funds without any limits under the *third country* regime, must be deducted from the *firm's* common equity tier 1 items;
 - (b) for subordinated instruments absorbing losses on a going-concern basis (including where the issuer has discretion to cancel coupon payments):
 - (i) the amount must first be deducted from the *firm's* additional tier 1 items; and
 - (ii) where the amount of the subordinated instruments exceeds the amount of the *firm's additional tier 1 capital*, the excess amount must be deducted from the *firm's* common equity tier 1 items;
 - (c) for any subordinated instruments other than those in (b):
 - (i) the amount must first be deducted from the *firm's* tier 2 items;
 - (ii) where the amount of those subordinated instruments exceeds the amount of the *firm's tier 2 capital*, the excess amount must be deducted from the *firm's* additional tier 1 items; and
 - (iii) where the excess amount exceeds the amount of

the *firm's additional tier 1 capital*, the remaining excess amount must be deducted from the *firm's common equity tier 1 items*;

- (d) any holdings of other instruments of the *third country insurance undertaking* or *third country reinsurance undertaking* must be deducted from the *firm's common equity tier 1 items* where:
 - (i) the *third country insurance undertaking* or *third country reinsurance undertaking* is subject to prudential solvency requirements;
 - (ii) the instruments are included in the *third country insurance undertaking* or *third country reinsurance undertaking's* own funds under the applicable solvency regime; and
 - (iii) the instruments do not meet the conditions to be deducted under (a) to (c).

[**Note:** article 18(1) of BTS 241/2014.]

- 7.45 R (1) This *rule* applies to a *firm's* holdings of capital instruments in a *third country insurance undertaking* or a *third country reinsurance undertaking* where the *third country* solvency regime, including requirements on own funds, applicable to the *third country insurance undertaking* or *third country reinsurance undertaking* meets either of the following conditions:
- (a) before *IP completion day*, it has been assessed as equivalent to that laid down in Title I, Chapter VI of the *Solvency II Directive* according to the procedure set out in article 227 of that directive and that assessment has not been revoked by HM Treasury on or after *IP completion day*; or
 - (b) on or after *IP completion day*, it has been assessed as equivalent to that laid down in the law of the *United Kingdom* that implemented Title I, Chapter VI of the *Solvency II Directive*, according to the procedure set out in article 379A of the *Solvency II Delegated Regulation (EU) 2015/35*, or has been assessed as equivalent by the *PRA* according to the procedure in regulation 19 of the *Solvency 2 Regulations 2015*.
- (2) Where this *rule* applies, a *firm* must:
- (a) treat the relevant holdings of capital instruments as holdings of the capital instruments of insurance undertakings or reinsurance undertakings (as each is

defined in section 417(1) of the *Act*); and

- (b) apply the deductions in article 44(b), article 58(b) and article 68(b) of the *UK CRR*, as applicable, to the holdings in (a).

[**Note:** article 18(2) and (3) of BTS 241/2014.]

- 7.46 R A *firm* must deduct holdings of capital instruments of *undertakings* falling within article 4(1)(27)(k) of the *UK CRR* as follows:
- (1) a *firm* must deduct instruments meeting the following conditions from the *firm's common equity tier 1 capital*:
 - (a) the instruments qualify as capital under the company law applicable to the *undertaking* that issued them; and
 - (b) the instruments are included in the highest quality tier of regulatory own funds of the *undertaking* that issued them without any limits;
 - (2) a *firm* must deduct any subordinated instruments that absorb losses on a going-concern basis (including where the issuer has discretion to cancel coupon payments) on the following basis:
 - (a) first, the instruments must be deducted from the *firm's additional tier 1 items*; and
 - (b) if the amount of the subordinated instruments exceeds the amount of the *firm's additional tier 1 capital*, the excess amount must be deducted from the *firm's common equity tier 1 items*;
 - (3) a *firm* must deduct any subordinated instruments other than those in (2) on the following basis:
 - (a) first, the instruments must be deducted from the *firm's tier 2 items*;
 - (b) if the amount of the subordinated instruments exceeds the amount of the *firm's tier 2 capital*, the excess amount must be deducted from the *firm's additional tier 1 items*; and
 - (c) if the excess amount exceeds the *firm's additional tier 1 capital*, the remaining excess amount must be deducted from the *firm's common equity tier 1 items*; and
 - (4) a *firm* must deduct any other holdings of instruments issued by the *undertaking* from the *firm's common equity tier 1 capital* where the instruments:

- (a) are included in the *undertaking's* own funds under the solvency regime applicable to that *undertaking*; and
- (b) do not fall within (1) to (3) above.

[**Note:** article 19 of BTS 241/2014.]

Conversion and write-down of additional tier 1 instruments

- 7.47 R (1) This *rule* applies for the purposes of:
- (a) any write-down of the principal amount of an *additional tier 1 instrument* under article 52(1)(n) of the *UK CRR*; and
 - (b) any subsequent write-up of the principal amount of an *additional tier 1 instrument* for the purposes of article 52(2)(c) of the *UK CRR*.
- (2) The write-down of the principal amount of an *additional tier 1 instrument* of a *firm* must apply on a pro rata basis to all holders of *additional tier 1 instruments* that include a similar write-down mechanism and an identical trigger level.
- (3) For a write-down to be considered temporary, all of the following conditions must be met:
- (a) any distributions payable after a write-down must be based on the reduced amount of the principal;
 - (b) any write-up must be based on profits after the *firm* has taken a formal decision confirming the final profits;
 - (c) any write-up of the instrument or payment of coupons on the reduced amount of the principal must be operated at the full discretion of the *firm* subject to the constraints arising from (d) to (f) below, and there must be no obligation for the *firm* to operate or accelerate a write-up under specific circumstances;
 - (d) a write-up must be operated on a pro rata basis among similar *additional tier 1 instruments* of the *firm* that have been subject to a write-down;
 - (e) the maximum amount to be attributed to the sum of the write-up of the *additional tier 1 instruments*, together with the payment of coupons on the reduced amount of the principal of *additional tier 1 instruments*, must be calculated according to the following formula, which must be applied at the time that the write-up operates:

$$M = P \times \frac{A}{T}$$

where:

M = the maximum amount to be attributed to the write-up, together with the payment of coupons on the reduced amount of principal;

P = the profit of the *firm*;

A = the sum of the nominal value (before write-down) of all *additional tier instruments* of the *firm* that have been subject to a write-down; and

T = the *tier 1 capital* of the *firm*;

- (f) the sum of any write-up amounts and payments of coupons on the reduced amount of the principal of the *additional tier 1 instruments* must be treated as a payment that reduces the *common equity tier 1 capital* of the *firm*.

[**Note:** article 21 of BTS 241/2014.]

- 7.48 R (1) This *rule* applies for the purposes of specifying the procedures and timing for determining that a trigger event has occurred in relation to an *additional tier 1 instrument* under article 52(1)(n) of the *UK CRR*.
- (2) Where a *firm* establishes that its *common equity tier 1 capital* has fallen below the level of the trigger event of an *additional tier 1 instrument*:
- (a) the *management body* or any other *relevant body* of the *firm* must, without delay, determine that a trigger event has occurred; and
- (b) the *firm* is under an irrevocable obligation to write-down or convert the *additional tier 1 instrument*.
- (3) The amount to be written down or converted must be determined as soon as possible and in any case, within a maximum period of one *month* from the time that the *firm* has determined that a trigger event had occurred under (2).
- (4) If the terms of the *additional tier 1 instrument* require an independent review of the amount to be written down or converted, the *management body* or other *relevant body* of a *firm* must ensure that the review:
- (a) is commenced immediately;

- (b) is completed as soon as possible; and
- (c) does not create impediments to the *firm* writing-down or converting the *additional tier 1 instrument* or to meeting the requirement in (3).

[**Note:** article 22(1), (2) and (4) of BTS 241/2014.]

7.49 G In appropriate cases, the *FCA* may exercise its powers under:

- (1) section 55L of the *Act* to impose a *requirement* on a *firm* to determine the required write-down or conversion amount more quickly than the one-month period in *MIFIDPRU* 3 Annex 7.48R(3); or
- (2) section 166 of the *Act* to require the *firm* to commission an independent review of the amount to be written down or converted for the purposes of *MIFIDPRU* 3 Annex 7.48R.

[**Note:** article 22(3) and (4) of BTS 241/2014.]

7.50 R For the purposes of article 52(1)(o) of the *UK CRR*, features that could hinder the recapitalisation of a *firm* include provisions that require the *firm* to compensate existing holders of capital instruments where a new capital instrument is issued.

[**Note:** article 23 of BTS 241/2014.]

Incentives to redeem

- 7.51 R
- (1) For the purposes of article 52(1)(g) and article 63(h) of the *UK CRR*, an incentive to redeem means any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed.
 - (2) An incentive to redeem under (1) includes:
 - (a) a call option combined with an increase in the credit spread of the instrument if the call is not exercised;
 - (b) a call option combined with a requirement or an investor option to convert the instrument into a *common equity tier 1 instrument* where the call is not exercised;
 - (c) a call option combined with a change in reference rate where the credit spread over the second reference rate is greater than the initial payment rate minus the swap rate;
 - (d) a call option combined with an increase of the redemption amount in the future;

- (e) a remarketing option combined with an increase in the credit spread of the instrument or a change in reference rate where the credit spread over the second reference rate is greater than the initial payment rate minus the swap rate where the instrument is not remarketed; and
- (f) a marketing of the instrument in a way which suggests to investors that the instrument will be called.

[**Note:** article 20 of BTS 241/2014.]

Use of special purpose vehicles for indirect issuance of own funds

- 7.52 R (1) This *rule* applies for the purposes of article 52(1)(p) and article 63(n) of the *UK CRR*.
- (2) Where the *firm* issues a capital instrument that is subscribed for by a special purpose entity, the capital instrument must not be recognised by the *firm* as capital of a higher quality than the lowest quality of:
- (a) the capital issued to the special purpose entity; and
 - (b) the capital issued to third parties by the special purpose entity.
- (3) Where another entity (“A”) within the same *consolidated situation* as the *firm* issues a capital instrument that is subscribed for by a special purpose entity, the capital instrument must not be recognised by A as capital of a higher quality than the lowest quality of:
- (a) the capital issued to the special purpose entity; and
 - (b) the capital issued to third parties by the special purpose entity.
- (4) The requirement in (2) also applies on an equivalent basis to a *UK parent entity* for the purposes of determining its consolidated *own funds*, with the reference to the “*firm*” being read as a reference to the *UK parent entity*.
- (5) The rights of the holders of instruments issued by a special purpose entity in (2), (3) or (4) must be no more favourable than if the instrument was issued directly by the *firm*, A or the *UK parent entity*, as applicable.

[**Note:** article 24 of BTS 241/2014.]

Distributions on own funds instruments

- 7.53 R (1) This *rule* contains the definition of a broad market index for the purpose of article 73(5) of the *UK CRR*.
- (2) An interest rate index is a broad market index if it fulfils all of the following conditions:
- (a) it is used to set interbank lending rates in one or more currencies;
 - (b) it is used as a reference rate for floating rate debt issued by the *firm* in the same currency, where applicable;
 - (c) it is calculated as an average rate by a body independent of the *institutions* or *MIFIDPRU investment firms* that are contributing to the index (a “panel”);
 - (d) each of the rates set under the index is based on quotes submitted by a panel of *institutions* or *MIFIDPRU investment firms* active in that interbank market; and
 - (e) the composition of the panel referred to in point (c) ensures a sufficient level of representativeness of *institutions* or *MIFIDPRU investment firms* present in the *United Kingdom*.
- (3) For the purposes of (2)(e), a sufficient level of representativeness will be deemed to exist in either of the following cases:
- (a) where the panel in (2)(c) includes at least 6 different contributors before any discount of quotes is applied for the purposes of setting the rate; or
 - (b) where both of the following conditions are met:
 - (i) the panel in (2)(c) includes at least 4 different contributors before any discount of quotes is applied for the purposes of setting the rate; and
 - (ii) the contributors to the panel in (2)(c) represent at least 60% of the related market.
- (4) The related market referred to in (3)(b)(ii) is calculated by dividing the amount in (a) by the amount in (b):
- (a) the sum of the assets and liabilities of the effective contributors to the panel in the domestic currency;
 - (b) the sum of assets and liabilities in the domestic currency of *credit institutions* in the *United Kingdom*, including branches established in the *United Kingdom*, and money market funds in the *United Kingdom*.

- (5) A stock index is deemed to be a broad market index where it is appropriately diversified in accordance with article 344 of the *UK CRR*.

[**Note:** article 24a of BTS 241/2014.]

Indirect holdings arising from index holdings

- 7.54 R (1) This rule applies for the purpose of determining whether an estimate is sufficiently conservative for the purposes of article 76(2) of the *UK CRR*.
- (2) An estimate is sufficiently conservative where either of the following conditions are met:
- (a) the investment mandate of the index specifies that a capital instrument of a *financial sector entity* that is part of the index cannot exceed a maximum percentage of that index and the *firm* uses that percentage as an estimate of the value of the holdings that must be deducted from:
- (i) its *common equity tier 1 capital, additional tier 1 capital or tier 2 capital* (as applicable) in accordance with *MIFIDPRU 3 Annex 7.43R(1)(b)*; or
- (ii) its *common equity tier 1 capital* where the *firm* cannot determine the precise nature of the holding; or
- (b) if the *firm* is unable to determine the maximum percentage referred to in (a) and the index includes capital instruments of *financial sector entities* (as evidenced by its investment mandate or other relevant information), the *firm* deducts the full amount of the index holdings from:
- (i) its *common equity tier 1 capital, additional tier 1 capital or tier 2 capital* (as applicable) in accordance with *MIFIDPRU 3 Annex 7.43R(1)(b)*; or
- (ii) its *common equity tier 1 capital* where the *firm* cannot determine the precise nature of the holding.
- (3) For the purposes of (2):
- (a) an indirect holding arising from an index holding consists of the proportion of the index invested in the *common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments* of *financial sector entities* included in the index; and

- (b) an index includes, but is not limited to, index funds, equity or bond indices or any other scheme where the underlying instrument is a capital instrument issued by a *financial sector entity*.

[**Note:** article 25 of BTS 241/2014.]

- 7.55 G (1) Under article 76(3) of the *UK CRR*, a *firm* may apply for permission to use the conservative estimate approach in article 76(2) of the *UK CRR* (as supplemented by *MIFIDPRU* 3 Annex 7.54R) where the *firm* has demonstrated that it would be operationally burdensome to monitor its underlying exposure to the items referred to in articles 76(2)(a) and (b) of the *UK CRR*.
- (2) For these purposes, “operationally burdensome” means situations in which the look-through approach to capital holdings in financial sector entities on an ongoing basis would be unjustified. When considering whether a situation is operationally burdensome, the *FCA* will take into account whether the *firm’s* index holding:
- (a) is immaterial when compared with the *firm’s own funds*; and
 - (b) has a short holding period or is highly liquid in nature.

[**Note:** article 26 of BTS 241/2014.]

Temporary waiver of deduction from own funds

- 7.56 G (1) In accordance with article 79 of the *UK CRR* (as applied by *MIFIDPRU* 3.6.1R), the *FCA* may waive the requirement for a *firm* to deduct holdings of capital instruments or subordinated loans that the *firm* has granted that qualify as *common equity tier 1 instruments*, *additional tier 1 instruments* or *tier 1 instruments* of a *financial sector entity* where:
- (a) the *firm* will hold the capital instruments or subordinated loans only temporarily; and
 - (b) the *FCA* considers that the holdings are for the purposes of a financial assistance operational designed to reorganise and save the *financial sector entity*.
- (2) A *firm* that wishes to apply for a waiver for the purposes of article 79 of the *UK CRR* should apply for a waiver of *MIFIDPRU* 3.6.1R (insofar as it applies that article) under section 138A of the *Act*.
- (3) When considering an application for a waiver under (2), the *FCA* considers that the conditions for a waiver will be unlikely to be

met where:

- (a) the duration of the waiver exceeds the timeframe envisaged under the financial assistance operation plan or exceeds 5 years;
- (b) the waiver is not limited to new holdings of instruments in the *financial sector entity*;
- (c) the financial assistance operation has not been discussed with and, where necessary, approved by the *FCA*; or
- (d) the financial assistance operation does not clearly state phases, timing and objectives and does not specify the interaction between the *firm's* temporary holdings and the broader financial assistance operation.

[**Note:** article 79 of the *UK CRR* and article 33 of BTS 241/2014.]

Own funds instruments issued by special purpose entities

- 7.57 G (1) Under article 83(1) of the *UK CRR* (as applied by *MIFIDPRU* 2.5.10R(1)), a *UK parent entity* may include *additional tier 1 instruments, tier 2 instruments* issued by a special purpose entity, and their related share premium accounts, in qualifying *own funds* under Title II of Part Two only where the conditions in article 83(1) are met.
- (2) Under article 83(1)(d) of the *UK CRR*, one of the conditions is that the only asset of the special purpose entity is its investment in the *own funds* of the *parent undertaking* or a *subsidiary* of that *parent undertaking* that is included within the same prudential consolidation group.
- (3) Article 83 of the *UK CRR* permits the *FCA* to waive the condition in article 83(1)(d) where the assets of the relevant special purpose entity (other than its investment in the *own funds* of the *parent undertaking* or *subsidiary*) are minimal and insignificant for that entity.
- (4) The *FCA* expects that a *firm* that wishes to obtain the waiver in (3) will make an application under section 138A of the *Act* to waive the application of *MIFIDPRU* 2.5.10R(1), insofar as it applies the condition in article 83(1)(d) of the *UK CRR*. When considering any such application, the *FCA* will normally consider, among other factors, whether the assets of the special purpose entity (other than the investments in the *own funds* of the *parent undertaking* or *subsidiary* within the same prudential consolidation group):
- (a) are limited to cash assets dedicated to the payment of

coupons and redemption of the *own funds instruments* that are due; and

- (b) are no higher than 0.5% of the average total assets of the special purpose entity over the last 3 years.
- (5) The *FCA* considers that it may be appropriate to grant a *firm* a waiver when a special purpose entity has a higher percentage of assets than that specified in (4)(b) provided that:
 - (a) the higher percentage is necessary exclusively to cover the running costs of the special purpose entity; and
 - (b) the corresponding nominal amount of those assets does not exceed £500,000.

[**Note:** article 83(1) of the *UK CRR* and article 34 of BTS 241/2014.]

- 7.58 R (1) For the purpose of the sub-consolidation calculation required under articles 84(2), 85(2) and 87(2) of the *UK CRR*, the qualifying minority interests of a *subsidiary* referred to in article 81 of the *UK CRR* (“X”) that is itself a *parent undertaking* of an entity referred to in article 81(1) of the *UK CRR* must be calculated in accordance with the remainder of this *rule*.
- (2) Where X complies with either of the following on the basis of its *consolidated situation*, the treatment in (3) applies:
- (a) *MIFIDPRU* 4 and 5; or
 - (b) Part Three of the *UK CRR*.
- (3) The relevant treatment in (2) is as follows:
- (a) the *common equity tier 1 capital* of X on a *consolidated basis* (as referred to in article 84(1)(a) of the *UK CRR*) shall be taken to include the eligible minority interests that arise from X’s own *subsidiaries* calculated under article 84 of the *UK CRR* and *MIFIDPRU* 3 Annex 7R;
 - (b) for the purpose of the sub-consolidation calculation, the amount of *common equity tier 1 capital* required under article 84(1)(a)(i) of the *UK CRR* is the amount required to meet X’s *common equity tier 1 capital* requirements at the level of its *consolidated situation* calculated in accordance with article 84(1)(a) of the *UK CRR*;
 - (c) for the purpose of the sub-consolidation calculation, the specific own funds requirements in article 84(1)(a)(i) of the *UK CRR* are:

- (i) any amount in excess of X's *own funds requirement* that X is required to hold to meet its *own funds threshold requirement*; or
 - (ii) any amount specified by the *PRA* under regulation 34 of the Capital Requirements Regulations 2013 in relation to X;
- (d) the amount of consolidated *common equity tier 1 capital* required under article 84(1)(a)(ii) of the *UK CRR* is the contribution of X on the basis of its *consolidated situation* to the common equity tier 1 own funds requirements of the *firm* for which the eligible minority interests are calculated on a consolidated basis ("Y");
- (e) for the purpose of calculating the contribution of X under (d):
 - (i) all intra-group transactions between *undertakings* included in the scope of prudential consolidation of Y must be eliminated;
 - (ii) X must not include capital requirements arising from its *subsidiaries* that are not included in the scope of prudential consolidation of Y;
- (4) Where a *UK parent entity* has an intermediate *subsidiary* that meets the following conditions, the treatment in (5) applies:
 - (a) the intermediate *subsidiary* is not referred to in article 81(1) of the *UK CRR*; and
 - (b) the intermediate *subsidiary* has *subsidiaries* that are referred to in article 81(1) of the *UK CRR*.
- (5) Where (4) applies, the *UK parent entity*:
 - (a) may include in its *common equity tier 1 capital* the amount of minority interests arising from those *subsidiaries* calculated in accordance with article 84(1) of the *UK CRR*; but
 - (b) must not include in its *common equity tier 1 capital* any minority interests arising from a *subsidiary* that is not referred to in article 81(1) of the *UK CRR*.
- (6) This *rule* applies on an equivalent basis to the calculation of:
 - (a) qualifying tier 1 instruments under article 85 of the *UK CRR*, in which case references to "common equity tier 1" in this *rule* are references to "tier 1"; and

- (b) qualifying own funds under article 87 of the *UK CRR*, in which case references to “common equity tier 1” in this *rule* are references to “own funds”.

[**Note:** article 34a of BTS 241/2014.]

3 Prudent valuation and additional valuation adjustments

Annex 8R

Application and purpose

- 8.1 R (1) This annex applies for the purposes of calculating additional valuation adjustments under article 34 of the *UK CRR* (as applied by *MIFIDPRU* 3.3.1AR).
- (2) Any reference to the *UK CRR* in this annex is to the *UK CRR* as applied and modified by *MIFIDPRU* 3.3.1R.
- 8.2 G (1) Under article 34 of the *UK CRR*, a *firm* must apply the requirements of article 105 of the *UK CRR* to the *firm*’s assets measured at fair value when calculating the amount of its *own funds*.
- (2) Under *MIFIDPRU* 3.3.1AR, a *firm* is only required to apply article 34 of the *UK CRR* to positions held within its *trading book*.

Sources of market data

- 8.3 R (1) Where a *firm* calculates an *AVA* based on market data, it must consider the same range of market data as the data used in the independent price verification process referred to in article 105(8) of the *UK CRR*, subject to the adjustments in this *rule*.
- (2) A *firm* must consider the full range of available and reliable market data sources to determine a prudent value, including each of the following to the extent relevant:
- (a) exchange prices in a liquid market;
 - (b) trades in the *financial instrument* or a very similar instrument, either from the *firm*’s own records or, where available, trades from across the market;
 - (c) tradable quotes from brokers and other market participants;
 - (d) consensus service data;

- (e) indicative broker quotes; and
- (f) counterparty collateral valuations.

[**Note:** article 3 of BTS 2016/101.]

Determination of AVAs

- 8.4 R (1) A *firm* must calculate the value of assets for which the *firm* must determine AVAs in accordance with this *rule*.
- (2) The value in (1) is the sum of the absolute value of fair-valued assets and liabilities, as stated in the *firm's* financial statements in accordance with the applicable accounting framework, modified as follows:
- (a) exactly matching offsetting fair-valued and liabilities must be excluded; and
 - (b) where a change in the accounting valuation of fair-valued assets and liabilities would:
 - (i) only be partially reflected in *common equity tier 1 capital*, the value of those assets or liabilities must only be included in proportion to the impact of the relevant valuation change on *common equity tier 1 capital*; or
 - (ii) have no impact on *common equity tier 1 capital*, the value of those assets or liabilities must be excluded.

[**Note:** article 4 of BTS 2016/101.]

- 8.5 R A *firm's* total AVAs are 0.1% of the sum of the assets calculated under MIFIDPRU 3 Annex 8.4R(1).

[**Note:** articles 5 and 6 of BTS 2016/101.]

Documentation, systems and controls

- 8.6 R A *firm* must appropriately document its prudent valuation methodology and its policies on the following:
- (1) the range of methodologies for quantifying AVAs for each *valuation position*;
 - (2) the hierarchy of methodologies for each asset class, product, or *valuation position*;
 - (3) the hierarchy of market data sources used in the AVA

methodology;

- (4) the required characteristics of market data to justify a zero AVA for each asset class, product, or *valuation position*; and
- (5) the fair-valued assets and liabilities for which a change in accounting valuation has a partial or no impact on *common equity tier 1 capital* according to *MIFIDPRU* 3 Annex 8.4R(2)(b).

[**Note:** article 18(1) of BTS 2016/101.]

8.7 R The *firm* must ensure that the documentation and policies in *MIFIDPRU* 3 Annex 8.6R are:

- (1) reviewed at least annually; and
- (2) approved by the *firm's* senior management following each review.

[**Note:** article 18(3) of BTS 2016/101.]

8.8 R A *firm* must:

- (1) maintain records to allow the calculation of AVAs at *valuation exposure* level to be analysed; and
- (2) ensure that the senior management of the *firm* are provided with information from the AVA calculation process to permit them to understand the level of valuation uncertainty on the *firm's* portfolio of fair-valued positions.

[**Note:** article 18(3) of BTS 2016/101.]

Systems and controls requirements

8.9 R A *firm* must ensure that AVAs are authorised and subsequently monitored by an independent control function.

[**Note:** article 19(1) of BTS 2016/101.]

8.10 R (1) A *firm* must have:

- (a) effective controls related to the governance of all fair-valued positions; and
- (b) adequate resources to implement the controls in (a) and ensure robust valuation processes even during a stressed period.

(2) The controls and processes in (1) must include the following:

- (a) a review of the performance of the *firm's* valuation model at least annually;
- (b) approval by senior management of all significant changes to valuation policies;
- (c) a clear statement of the *firm's* risk appetite for exposure to positions subject to valuation uncertainty, which must be monitored at an aggregate *firm*-wide level;
- (d) independence in the valuation process between risk-taking and internal control functions;
- (e) a comprehensive internal audit process relating to valuation processes and controls.

[**Note:** article 19(2) of BTS 2016/101.]

- 8.11 R (1) A *firm* must:
- (a) have effective and consistently applied controls relating to the valuation process for all fair-valued positions; and
 - (b) ensure that the controls in (a) are subject to regular internal audit review.
- (2) The controls in (1) must include the following:
- (a) a precisely defined *firm*-wide product inventory, ensuring that every *valuation position* is uniquely mapped to a product definition;
 - (b) valuation methodologies for each product in the inventory covering:
 - (i) the choice and calibration of model;
 - (ii) fair value adjustments;
 - (iii) independent price verification;
 - (iv) AVAs;
 - (v) the methodologies applicable to the product; and
 - (vi) the measurement of valuation uncertainty.
 - (c) a validation process ensuring that, for each product, both the risk-taking and relevant control functions approve the product-level methodologies described in point (b) and certify that they reflect the actual practice for every

valuation position mapped to the product;

- (d) defined thresholds based on observed market data for determining when valuation models are no longer sufficiently robust;
- (e) a formal independent price verification process based on prices independent from the relevant trading desk;
- (f) a new product approval processes referencing the product inventory and involving all internal stakeholders relevant to risk measurement, risk control, financial reporting and the assignment and verification of valuations of *financial instruments*; and
- (g) a new deal review process to ensure that pricing data from new trades are used to assess whether valuations of similar valuation exposures remain appropriately prudent.

[**Note:** article 19(3) of BTS 2016/101.]

Amend the following as shown.

4 Own funds requirements

...

4.12 K-NPR requirement

...

4.12.2 R ...

- (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.

- 4.12.2 R (1) When applying the *UK CRR* for the purposes of this section, a A *firm* must apply the following, as modified by (2):
- (a) the *Appropriately Diversified Indices RTS*;
 - (b) the *Closely Correlated Currencies ITS*;
 - (c) the *Market Definition RTS*; and
 - (d) the *Non-Delta Risk of Options RTS*.
- (2) The relevant modifications are as follows:
- (a) a reference to an “institution” is a reference to the *firm*;
 - (b) a reference to “Regulation (EU) No 575/2013” is a reference to the *UK CRR* as modified by the *rules* in *MIFIDPRU*;
 - (c) a reference to an “own funds requirement” is a reference to the contribution of a position to the *firm’s K-NPR requirement*; and
 - (d) a reference to the calculation of requirements “on a consolidated basis” is a reference to the calculation of those requirements on a *consolidated basis* under *MIFIDPRU* 2.5.

[Note: BTS 525/2014, BTS 528/2014, BTS 945/2014 and BTS 2015/2197]

...

- 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 article 3 (to the extent that it relates to the Internal Models Approach (IMA)), articles 7a and 7b and Annex III 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).

...

5 Concentration risk

...

5.8 Procedures to prevent investment firms from avoiding the K-CON own funds requirement

...

- 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)~~ *MIFIDPRU* 1.1.10R.

...

7 Governance and risk management

7.1 Application

...

- 7.1.2 G The following table summarises the content of *MIFIDPRU* 7:

Section	Summary of content
<i>MIFIDPRU</i> 7.2	General requirements relating to a <i>firm</i> 's governance arrangements
<u><i>MIFIDPRU</i> 7.2A</u>	<u>Requirements relating to the risk management function</u>
...	

- 7.1.3 R *MIFIDPRU* 7 applies as follows:

Section of <i>MIFIDPRU</i> 7	Application to <i>SNI MIFIDPRU investment firms</i>	Application to <i>non-SNI MIFIDPRU investment firms</i>	Application at the level of an <i>investment firm group</i>

<i>MIFIDPRU 7.2</i> (Senior management and systems and controls)	<u>Applies</u>	Applies	Applies to the <i>UK parent entity</i> of an <i>investment firm</i> group to which consolidation applies under <i>MIFIDPRU 2.5</i>
<u><i>MIFIDPRU 7.2A</i></u> (Risk management function)	<u>Does not apply</u>	<u>Applies to a non-SNI <i>MIFIDPRU investment firm</i> that has a risk management function in accordance with article 23 of the <i>MIFID Org Regulation</i></u>	<u>Does not apply</u>
...			

...

7.2 Senior management and systems and controls

...

Governance for risk management

- 7.2.3 R (1) The management body of a *MIFIDPRU investment firm* has overall responsibility for risk management. It must devote sufficient time to the consideration of risk.
- (2) The management body of a *MIFIDPRU investment firm* must be actively involved in, and ensure that adequate resources are allocated to, the management of all material risks, including the valuation of assets, the use of external ratings and internal models relating to those risks.
- (3) A *MIFIDPRU investment firm* must establish reporting lines to the management body that cover all material risks and risk management policies and changes thereof.
- 7.2.4 R (1) A *MIFIDPRU investment firm* must ensure that the management body in its supervisory function and any risk committee that has been established have adequate access to information on the risk profile of the firm and, if necessary and appropriate, to the risk management function and to external expert advice.

- (2) The *management body* in its supervisory function and any risk committee that has been established must determine the nature, the amount, the format, and the frequency of the information on risk which they are to receive.

7.2A Risk management function

- 7.2A.1 R *MIFIDPRU* 7.2A.2R and 7.2A.3R apply to a *non-SNI MIFIDPRU investment firm* that has a risk management function in accordance with article 23 of the *MIFID Org Regulation*.
- 7.2A.2 R (1) A *firm* must ensure that its risk management function is independent from its operational functions and has sufficient authority, stature, resources and access to the *management body*.
- (2) The risk management function in (1) must ensure that all material risks are identified, measured and properly reported. It must be actively involved in elaborating the *firm's* risk strategy and in all material risk management decisions, and it must be able to deliver a complete view of the whole range of risks of the *firm*.
- (3) A *firm* in (1) must ensure that its risk management function is able to report directly to the *management body* in its supervisory function, independent from *senior management*, and that it can raise concerns and warn the *management body*, where appropriate, where specific risk developments affect or may affect the *firm*, without prejudice to the responsibilities of the *management body* in its supervisory and/or managerial functions.
- 7.2A.3 R The head of the risk management function must be an independent *senior manager* with distinct responsibility for the risk management function. Where the nature, scale and complexity of the activities of the *MIFIDPRU investment firm* do not justify a specially appointed person, another senior person within the *firm* may fulfil that function, provided there is no conflict of interest. The head of the risk management function must not be removed without prior approval of the *management body* and must be able to have direct access to the *management body* where necessary.

7.3 Risk, remuneration and nomination committees

Risk committee

- 7.3.1 R (1) Subject to (2), a *non-SNI MIFIDPRU investment firm* to which this *rule* applies must establish a risk committee.
- ...
- (5A) In order to assist in the establishment of sound remuneration policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee, examine whether

incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

...

...

The following text replaces the text of MIFIDPRU 8 (Disclosure) published in PS21/9, which was made on a near-final basis on 22 July 2021. The text is not underlined.

8 Disclosure

8.1 Application

8.1.1 R (1) Except as specified in (2) and (3), the requirements in this chapter apply to:

- (a) a *non-SNI MIFIDPRU investment firm*; and
[Note: Article 46(1) of the *IFR*]
- (b) a *UK parent entity* that is:
 - (i) required by *MIFIDPRU 2.5.7R* to comply with *MIFIDPRU 8* on the basis of its *consolidated situation*; and
 - (ii) treated as a *non-SNI MIFIDPRU investment firm* in accordance with *MIFIDPRU 2.5.21R*.

[Note: Article 7(1) of the *IFR*]

(2) *MIFIDPRU 8.6* (Remuneration policy and practices) applies to every *MIFIDPRU investment firm*.

(3) *MIFIDPRU 8.7* (Investment policy) applies only to:

- (a) a *non-SNI MIFIDPRU investment firm* that does not fall within *MIFIDPRU 7.1.4R(1)*; or
- (b) a *UK parent entity* in (1)(b) that would not fall within *MIFIDPRU 7.1.4R(1)* on the basis of its *consolidated situation* if that *rule* applied to the *UK parent entity*.

8.1.2 R (1) The requirements in (2) also apply to:

- (a) an *SNI MIFIDPRU investment firm* that has *additional tier 1 instruments* in issue; and
- (b) a *UK parent entity* that:

- (i) is required by *MIFIDPRU 2.5.7R* to comply with *MIFIDPRU 8* on the basis of its *consolidated situation*;
 - (ii) is treated as an *SNI MIFIDPRU investment firm* in accordance with *MIFIDPRU 2.5.21R*; and
 - (iii) relies on *additional tier 1 instruments* to meet its consolidated *own funds requirement*.
- (2) The requirements referred to in (1) are:
- (a) *MIFIDPRU 8.2* (Risk management objectives and policies);
 - (b) *MIFIDPRU 8.4* (Own funds); and
 - (c) *MIFIDPRU 8.5* (Own funds requirements).

[**Note:** Article 46(2) of the *IFR*]

- 8.1.3 G The requirements in *MIFIDPRU 8.6* (Remuneration policies and practices) apply to all *MIFIDPRU investment firms*, with certain exceptions that are explained in that section.
- 8.1.4 G The basic conditions to be classified as an *SNI MIFIDPRU investment firm* are set out in *MIFIDPRU 1.2.1R*. *MIFIDPRU 1.2.13R* explains the circumstances in which a *non-SNI MIFIDPRU investment firm* will be reclassified as an *SNI MIFIDPRU investment firm*.
- 8.1.5 R Where a *non-SNI MIFIDPRU investment firm* is reclassified as an *SNI MIFIDPRU investment firm*, it must comply with the disclosure obligations that apply to a *non-SNI MIFIDPRU investment firm* in relation to the financial year in which it is reclassified.
- 8.1.6 R Where an *SNI MIFIDPRU investment firm* is reclassified as a *non-SNI MIFIDPRU investment firm*, it must comply with the disclosure obligations that apply to an *SNI MIFIDPRU investment firm* in relation to the financial year in which it ceased to be an *SNI MIFIDPRU investment firm*.

[**Note:** Article 46(3) of the *IFR*]

Application: Level of application

- 8.1.7 R A *MIFIDPRU investment firm* must comply with the *rules* in this chapter on an individual basis, unless the *firm* is exempt in accordance with *MIFIDPRU 2.3.1R*.
- 8.1.8 G Under *MIFIDPRU 2.5.7R*, a *UK parent entity* is required to comply with the disclosure obligations in *MIFIDPRU 8* on a *consolidated basis*. In practice, this involves disclosing the same categories of information that

would be disclosed by a *MIFIDPRU investment firm* on an individual basis, but using the figures and other information that result from applying the relevant requirements on a *consolidated basis* in accordance with this section.

- 8.1.9 R Where any part of this chapter applies on the basis of the *consolidated situation* of the *UK parent entity*, any references to a “*firm*” or “*MIFIDPRU investment firm*” in this chapter are to be interpreted as references to the hypothetical single *MIFIDPRU investment firm* created under the *consolidated situation*.

Application: proportionality

- 8.1.10 R In complying with the *rules* in this chapter, a *MIFIDPRU investment firm* should provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organisation and to the nature, scope, and complexity of its activities.
- 8.1.11 G By way of example, applying a proportionate approach to the qualitative disclosure requirements in *MIFIDPRU* 8.6 (Remuneration policies and practices) means that the *FCA* would expect a *non-SNI MIFIDPRU investment firm* with a detailed remuneration policy to disclose more information than an *SNI MIFIDPRU investment firm*.

Application: when?

- 8.1.12 R As a minimum, a *firm* must publicly disclose the information specified in this chapter on the same date as it publishes its annual financial statements, or, where applicable, its annual solvency statement.
- 8.1.13 G The *FCA* considers it would be appropriate for a *firm* to consider making more frequent public disclosure where particular circumstances demand it, for example, in the event of a major change to its business model or where a merger has taken place.

Application: how?

- 8.1.14 R A *firm* must publish the information required by this chapter on its website, in a manner that:
- (1) is easily found and accessible and navigable from the *firm*’s home page or sitemap without a password barrier;
 - (2) is clearly presented and easy to understand;
 - (3) contains relevant cross-references, where applicable, to other information that will assist the reader to obtain a complete and accurate view of the information disclosed;

- (4) is consistent with the presentation used for previous disclosure periods or otherwise allows a reader of the information to make comparisons easily; and
 - (5) highlights in a summary any significant changes to the information disclosed, when compared with previous disclosure periods.
- 8.1.15 R Where a *firm* cannot comply with *MIFIDPRU* 8.1.14R because it does not maintain a website, the information required in this chapter should be available on request, free of charge.
- 8.1.16 G Where a *firm* does not maintain a website, disclosure in an investor brochure or annual report may be appropriate.
- 8.1.17 R Where an *undertaking* is a *MIFIDPRU investment firm* exempted from disclosing the information required by this chapter in accordance with *MIFIDPRU* 2.3.1R, the *firm* should replicate or provide a link to the *consolidated situation* level disclosure information from its website (or other relevant method of disclosure used).
- 8.1.18 G A *firm* should consider the best way to make the disclosed information easy to understand, for example, through the use of tables, charts or diagrams.

Exemptions

- 8.1.19 R
- (1) The *rule* applies until 31 December 2026.
 - (2) A *commodity and emission allowance dealer* is exempt from the following requirements in this chapter:
 - (a) *MIFIDPRU* 8.2 (Risk management objectives and policies);
 - (b) *MIFIDPRU* 8.3 (Governance);
 - (c) *MIFIDPRU* 8.4 (Own funds);
 - (d) *MIFIDPRU* 8.5 (Own funds requirements); and
 - (e) *MIFIDPRU* 8.6 (Remuneration policies and practices).

8.2 Risk management objectives and policies

- 8.2.1 R A *firm* must disclose its risk management objectives and policies for the categories of risk addressed by:
- (1) *MIFIDPRU* 4 (Own funds requirements);
 - (2) *MIFIDPRU* 5 (Concentration risk); and

(3) *MIFIDPRU* 6 (Liquidity).

[**Note:** Article 47 of the *IFR*]

8.2.2 R The risk management objectives and policies for each of the items listed in *MIFIDPRU* 8.2.1 must include:

- (1) a concise statement approved by the *firm's governing body* describing the potential for harm associated with the business strategy; and
- (2) a summary of the strategies and processes used to manage each of the categories of risk listed in *MIFIDPRU* 8.2.1R and how this helps to reduce the potential for harm.

8.2.3 G In complying with *MIFIDPRU* 8.2.2R, a *firm* may consider that information drawn from the *ICARA process* is a relevant and useful way of disclosing:

- (1) the *firm's* approach to risk management by reference to its risk management policies;
- (2) details of the *firm's* risk management structure and operations, for example, the *senior management* responsible for each area of risk (where applicable), and any relevant committees and their responsibilities;
- (3) how the *firm* sets its risk appetite; and
- (4) a summary of how the *firm* assesses the effectiveness of its risk management processes.

8.3 Governance

8.3.1 R A *non-SNI MIFIDPRU investment firm* must disclose the following information regarding internal governance arrangements:

- (1) an overview of how the *firm* complies with the requirement in *SYSC* 4.3A.1R to ensure the *management body* defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the *firm*, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of *clients*;
- (2) the number of directorships (executive and non-executive) held by each member of the *management body*;

[**Note:** Article 48(a) of the *IFR*]

- (3) where relevant, whether the *FCA* has granted a modification or *waiver* of SYSC 4.3A.6R(1)(a) or (b) in order to allow a member of the *management body* to hold additional directorships;
- (4) a summary of the policy promoting diversity on the *management body*, including explanations of:
 - (a) the objectives of the policy and any target(s) set out in the policy; and
 - (b) the extent to which the objectives and any target(s) have been achieved; and
 - (c) where the objectives or target(s) have not been achieved:
 - (i) the reasons for the shortfall; and
 - (ii) the *firm's* proposed actions to address the shortfall; and
 - (iii) the proposed timeline for taking those actions;

[**Note:** Article 48(b) of the *IFR*]

- (5) whether the *firm* has a risk committee; and
- (6) whether the *firm*:
 - (a) is required by *MIFIDPRU* 7.3.1R to establish a risk committee; or
 - (b) would have been required by *MIFIDPRU* 7.3.1R to establish a risk committee, but that obligation has been removed as a result of a *waiver* or modification granted by the *FCA*.

8.3.2 G When deciding what information to disclose to satisfy the obligations in *MIFIDPRU* 8.3.1R(1), a *firm* may find it helpful to consider:

- (1) the requirements in SYSC 4.3A.1R (1) to (7) regarding the responsibilities of the *management body*; and
- (2) the requirements in SYSC 4.3A.3R regarding the necessary skills and attributes of members of the *management body*.

8.3.3 G In identifying the directorships for the purpose of the disclosure requirement in *MIFIDPRU* 8.3.1R(2), it is not relevant whether the directorship is held in an entity that pursues a predominantly commercial objective.

8.3.4 G For the avoidance of doubt, in complying with the disclosure requirement in *MIFIDPRU* 8.3.1R(2), a *firm* must separately disclose every

directorship held by each member of its *management body*, even if they are treated as single directorships for certain purposes under SYSC 4.3A.7R(2).

8.4 Own funds

8.4.1 R A *firm* must disclose the following information regarding its *own funds*:

- (1) a reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the *own funds* of the *firm*;
- (2) a reconciliation of (1) with the capital in the balance sheet in the audited financial statements of the *firm*; and
- (3) a description of the main features of the *common equity tier 1 instruments*, *additional tier 1 instruments* and *tier 2 instruments* issued by the *firm*.

[Note: Article 49 of the *IFR*]

8.4.2 R A *firm* must use the template available at [*Editor's note*: link to be inserted]² in order to disclose the information requested at MIFIDPRU 8.4.1R.

8.5 Own funds requirements

8.5.1 R A *firm* must disclose the following information regarding its compliance with the requirements set out in MIFIDPRU 4.3 (Own funds requirement):

- (1) the *K-factor requirement*, broken down as follows:

[Note: Article 50(c) of the *IFR*]

- (a) the sum of the *K-AUM requirement*, the *K-CMH requirement* and the *K-ASA requirement*;
- (b) the sum of the *K-COH requirement* and the *K-DTF requirement*; and
- (c) the sum of the *K-NPR requirement*, the *K-CMG requirement*, the *K-TCD requirement* and the *K-CON requirement*; and

- (2) the *fixed overheads requirement*.

[Note: Article 50(d) of the *IFR*]

8.5.2 R A *firm* must disclose its approach to assessing the adequacy of its *own funds* in accordance with the *overall financial adequacy rule* in MIFIDPRU 7.4.7R.

² *Editor's note*: A draft version of this template is available on the FCA website.

[**Note:** Article 50(a) of the *IFR*]

8.6 Remuneration policy and practices

Application: general

- 8.6.1 R The *rules* in this section apply to all *MIFIDPRU investment firms*, unless otherwise specified.

Qualitative disclosures

- 8.6.2 R A *MIFIDPRU investment firm* must disclose a summary of:
- (1) its approach to *remuneration* for all staff (“staff” interpreted according to *SYSC 19G.1.24G*);
 - (2) the objectives of its financial incentives;
 - (3) the decision-making procedures and governance surrounding the development of the *remuneration* policies and practices the *firm* is required to adopt in accordance with the *MIFIDPRU Remuneration Code*, to include, where applicable:
 - (a) the composition of and mandate given to the *remuneration* committee; and
 - (b) details of any external consultants used in the development of the *remuneration* policies and practices.
- 8.6.3 G In complying with *MIFIDPRU 8.6.2R(1)*, a *firm* may consider it appropriate to disclose:
- (1) the principles or philosophy guiding the *firm’s remuneration* policies and practices;
 - (2) how the *firm* links variable *remuneration* and performance;
 - (3) the *firm’s* main performance objectives; and
 - (4) the categories of staff eligible to receive variable *remuneration*.
- 8.6.4 R A *non-SNI MIFIDPRU investment firm* must disclose the types of staff it has identified as *material risk takers* under *SYSC 19G.5*, including any criteria in addition to those in *SYSC 19G.5.3R* that the *firm* has used to identify *material risk takers*
- 8.6.5 R A *MIFIDPRU investment firm* must disclose the key characteristics of its *remuneration* policies and practices in sufficient detail to provide the reader with:
- (1) an understanding of the risk profile of the *firm* and/or the assets it manages; and

- (2) an overview of the incentives created by the *remuneration* policies and practices.

8.6.6 R For the purpose of *MIFIDPRU* 8.6.5R, a *firm* must disclose at least the following information:

- (1) the different components of *remuneration*, together with the categorisation of those *remuneration* components as fixed or variable;
- (2) a summary of the financial and non-financial performance criteria used for the assessment of the performance of the *firm*, business units and individuals;
- (3) for a *non-SNI MIFIDRU investment firm*:
 - (a) the framework and criteria used for ex-ante and ex-post risk adjustment of *remuneration*, including a summary of:
 - (i) current and future risks identified by the *firm*;
 - (ii) how the *firm* takes into account current and future risks when adjusting *remuneration*; and
 - (iii) how malus (where relevant) and clawback are applied;
 - (b) the policies and criteria applied for the award of guaranteed variable *remuneration*;
 - (c) the policies and criteria applied for the award of severance pay;
- (4) for a *non-SNI MIFIDPRU investment firm* not falling within *SYSC* 19G.1.1R(2):
 - (a) details of the *firm's* deferral and vesting policy, including as a minimum:
 - (i) the proportion of variable *remuneration* that is deferred;
 - (ii) the deferral period;
 - (iii) the retention period;
 - (iv) the vesting schedule; and
 - (v) an explanation of the rationale behind each of the policies referred to in (i) to (iv).

Where the *firm's* deferral and vesting policy differs for different categories of *material risk takers*, the information should be presented and sub-divided accordingly.

- (b) a description of the different forms in which fixed and variable *remuneration* are paid, for example, whether paid in:
 - (i) *cash*;
 - (ii) share-linked instruments;
 - (iii) equivalent non-*cash* instruments;
 - (iv) *options*; or
 - (v) short or long-term incentive plans.

Quantitative disclosures

- 8.6.7 R A *firm* must disclose the following quantitative information regarding the financial year to which the disclosure relates:
- (1) the total amount of *remuneration* awarded to all staff, split as follows:
 - (a) For every *MIFIDPRU investment firm*, the split between:
 - (i) fixed *remuneration*; and
 - (ii) variable *remuneration*.
 - (b) for a *non-SNI MIFIDPRU investment firm*, additional information sub-dividing the categories in (a) between *senior management*, other *material risk takers* and other staff.
 - (2) for a *non-SNI MIFIDPRU investment firm*:
 - (a) the total amount of guaranteed variable *remuneration* awards made during the financial year and the number of *material risk takers* receiving those awards;
 - (b) the total amount of the severance payments awarded during the financial year and the number of *material risk takers* receiving those payments; and
 - (c) the amount of the highest severance payment awarded to an individual *material risk taker*.

- (3) for a *non-SNI MIFIDPRU investment firm* not falling within SYSC 19G.1.1R(2):
- (a) the amount and form of awarded variable *remuneration*, split into *cash*, shares, share-linked instruments and other forms of *remuneration*, with each form of *remuneration* also split into deferred and non-deferred;
 - (b) the amounts of deferred *remuneration* awarded for previous performance periods, split into the amount due to vest in the financial year in which the disclosure is made, and the amount due to vest in subsequent years;
 - (c) the amount of deferred *remuneration* due to vest in the financial year in respect of which the disclosure is made, split into that which is or will be paid out, and any amounts that were due to vest but have been withheld as a result of performance adjustment;
 - (d) the total number of *material risk takers* identified by the *firm*;
 - (e) information on whether the *firm* uses the exemption for individual *material risk takers* set out in SYSC 19G.5.9R, together with details of:
 - (i) the provisions in SYSC 19G.5.9R(2) in respect of which the *firm* relies on the exemption;
 - (ii) the total number of *material risk takers* who benefit from an exemption from each provision referred to in (i); and
 - (iii) the total *remuneration* of those *material risk takers* who benefit from an exemption, split into fixed and variable *remuneration*.

8.6.8 R The information required by *MIFIDPRU* 8.6.7R(2) and (3) must be presented in a way that separates the information for:

- (1) *senior management*; and
- (2) all other *material risk takers*.

8.7 Investment policy

8.7.1 R A *non-SNI MIFIDPRU investment firm* not falling within *MIFIDPRU* 7.1.4R(1) must disclose:

- (1) the proportion of voting rights attached to the shares held directly or indirectly by the *firm*, broken down by country or territory; and

[**Note:** Article 52 paragraph 1(a) of the *IFR*]

- (2) a complete description of voting behaviour in the general meetings of *companies* the shares of which are held in accordance with *MIFIDPRU* 8.7.4R, including:

[**Note:** Article 52 paragraph 1(b) of the *IFR*]

- (a) an explanation of the votes; and
 - (b) the ratio of proposals put forward by the administrative or *governing body* of the *company* that the *firm* has approved; and
- (3) an explanation of the use of proxy adviser firms; and

[**Note:** Article 52 paragraph 1(c) of the *IFR*]

- (4) a summary of the voting guidelines regarding the *companies* in which the shares referred to in (1) are held with links to supporting non-confidential documents where available.

[**Note:** Article 52 paragraph 1(d) of the *IFR*]

8.7.2 R A *firm* must use the template available at [*Editor's note*: link to be inserted]³ in order to disclose the information requested at *MIFIDPRU* 8.7.1R.

8.7.3 R The disclosure requirements in *MIFIDPRU* 8.7.1R(2) do not apply if the contractual arrangements of all shareholders represented by the *firm* at the shareholders' meeting only authorise the *firm* to vote on their behalf when express voting orders are given by the shareholders after receiving the meeting's agenda.

[**Note:** Article 52 paragraph 2 of the *IFR*]

8.7.4 R A *firm* referred to in *MIFIDPRU* 8.7.1R must comply with that *rule*:

- (1) only in respect of a *company* whose shares are admitted to trading on a *regulated market*;
- (2) only where the proportion of voting rights that the *MIFIDPRU investment firm* directly or indirectly holds in that *company* is greater than 5% of all voting rights attached to the shares issued by the *company*; and
- (3) only in respect of shares in that *company* to which voting rights are attached.

[**Note:** Article 52 paragraph 2 of the *IFR*]

³ *Editor's note*: A draft version of this template is available on the FCA website.

- 8.7.5 R The voting rights referred to in *MIFIDPRU* 8.7.4R(2) must be calculated on the basis of all shares to which voting rights are attached, even if the exercise of any of those voting rights is suspended.

Insert the following Annex after *MIFIDPRU* 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). The text is not underlined.

TP 11 Prudential reporting with a reference date before 1 January 2022

- 11.1 R Except where the context otherwise requires, a reference in *MIFIDPRU* TP 11 to any provision of *SUP* is to that provision as it applied on 31 December 2021.
- 11.2 R *MIFIDPRU* TP 11 applies where the following conditions are met:
- (1) the reference date for a *data item* under *SUP* 16.12 was before 1 January 2022;
 - (2) the submission date under *SUP* 16.12 for the *data item* in (1) fell on or after 1 January 2022; and
 - (3) a *firm* is no longer required to submit the *data item* in (1) due to amendments to *SUP* 16.12 that took effect on 1 January 2022.
- 11.3 R Where *MIFIDPRU* TP 11 applies to a *firm* in relation to a *data item*, the *firm* must submit the *data item* to the *FCA* in accordance with the provisions of *SUP* 16.12 (as applied under *MIFIDPRU* TP 11.1R).
- 11.4 G
- (1) As a result of the introduction of the *MIFIDPRU* regime for *MIFIDPRU investment firms*, *SUP* 16.12 was amended with effect from 1 January 2022 to introduce updated prudential reporting requirements.
 - (2) The effect of *MIFIDPRU* TP 11 is that where the reference date for a report falls on or before 31 December 2021, but the submission date for that report falls on after 1 January 2022, the *firm* must still submit the report in accordance with the reporting and submission requirements that applied on 31 December 2021.
 - (3) The purpose of *MIFIDPRU* TP 11 is to ensure that the *FCA* receives appropriate information on the prudential position of *firms* during the transition from previous prudential regimes to the *MIFIDPRU* regime.
 - (4) *MIFIDPRU* TP 11 does not apply to remuneration reporting. This is because *SYSC* TP 11.4R(1) requires a *firm* that was subject to any of the remuneration codes listed in *SYSC* TP 11.4R(2) on 31 December 2021 to comply with any reporting

requirements relating to *remuneration* awarded for performance periods before the performance period to which the *MIFIDPRU Remuneration Code* first applies.

- 11.5 G (1) The following is an example of how *MIFIDPRU* TP 11 applies in practice.
- (2) A *BIPRU firm* is required to report *data item* FSA003 (Capital adequacy) under *SUP* 16.12.11R. The reporting reference date for FSA003 is determined by reference to the *firm's accounting reference date*. Under *SUP* 16.12.13R, the *firm* has 30 *business days* after the reporting reference date to submit the relevant *data item* to the *FCA*. The *firm's accounting reference date* is 1 December 2021.
- (3) The reporting reference date for the *firm's* FSA003 return (i.e. 1 December 2021) falls before 1 January 2022. The submission date for the return (which is 30 *business days* later on 17 January 2022) falls after 1 January 2022. *SUP* 16.12 was amended on 1 January 2022 to delete the requirement for *firms* to submit *data item* FSA003.
- (4) Under *MIFIDPRU* TP 11, the *firm* must still submit *data item* FSA003 to the *FCA*, reflecting the *firm's* position as at 1 December 2021. The *data item* must be submitted in accordance with the relevant *rules* in *SUP* 16.12 that applied on 31 December 2021.

Insert the following schedule after *MIFIDPRU* Schedule 5 (Rules that can be waived or modified). The text is not underlined.

Sch 6 List of Part 9C rules

- Sch 6.1 G This schedule contains a list of Part 9C rules (as defined in section 143F(1) of the *Act*) for the purposes of section 143F(2) of the *Act*.
- Sch 6.2 G (1) Except as specified in (2), each of the following is a Part 9C rule:
- (a) every *rule* in *MIFIDPRU*; and
- (b) every *rule* in *SYSC* 19G (*MIFIDPRU Remuneration Code*).
- (2) The following provisions are not Part 9C rules:
- (a) *MIFIDPRU* 4.4.1R(3);
- (b) *MIFIDPRU* 4.4.3R(2)(c);

- (c) *MIFIDPRU* 4.4.4R(2)(c); and
- (d) *MIFIDPRU* 4.4.5R.

Annex C

Amendments to the Decision Procedure and Penalties manual (DEPP)

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

2 Statutory notices and the allocation of decision making

...

2 Annex 1G Warning notices and decision notices under the Act and certain other enactments

...

Section of the Act	Description	Handbook reference	Decision maker
...			
S142T(1)/(4)	When the <i>FCA</i> is proposing or deciding to take action against a <i>person</i> under section 142S*		RDC
<u>S143T(1)</u> <u>S143T(3)</u>	<u>When the <i>FCA</i> is proposing or deciding to make a <i>Part 9C prohibition order</i> under S143S(2) of the <i>Act</i>.</u>		<u>RDC or executive procedures</u>
<u>S143U(2)(b)</u> <u>S143U(2)(c)</u>	<u>When the <i>FCA</i> is proposing or deciding to refuse an application for the variation or revocation of a <i>prohibition order</i> under S143U.</u>		<u>RDC or executive procedures</u>
<u>S143W(1)</u> <u>S143W(5)</u>	<u>When the <i>FCA</i> is proposing or deciding to impose a penalty on a <i>person</i> under section 143V (2) of the <i>Act</i>.</u>		<u>RDC or executive procedures</u>
<u>S143X(1)</u> <u>S143X(5)</u>	<u>When the <i>FCA</i> is proposing or deciding to publish a statement on a</u>		<u>RDC or executive procedures</u>

	<u>person under section 143P 143W((3) of the Act.</u>		
...

...

2 Annex 2G Supervisory notices

...

Section of the Act	Description	Handbook reference	Decision maker
...			
137S(5) 137S(8)(a)	when the <i>FCA</i> gives a direction under section 137S		<i>Executive procedures</i>
<u>S143U(2)(a)</u>	<u>When the <i>FCA</i> decides to grant an application for the variation or revocation of a <i>prohibition order</i> under S143N(1) of the <i>Act</i>.</u>		<u><i>Executive procedures</i></u>
<u>S143X</u>	<u>When the <i>FCA</i> decides to vary or cancel a restriction under S143W(6) of the <i>Act</i>.</u>		<u><i>RDC or executive procedures</i></u>
...

...

6A The power to impose a suspension, restriction, condition limitation or disciplinary prohibition

...

6A.1 Introduction

6A.1.1 G *DEPP* 6A sets out the *FCA*’s statement of policy with respect to:

- (1) The imposition of suspensions or restrictions under sections 88A, 89Q, 143W and 206A of the *Act*, and the period for which

those suspensions or restrictions are to have effect, as required by sections 88C(1), 89S(1) and 210(1) of the *Act*;

...

6A.1.2 G

...

(2) “restriction” refers to limitations or other restrictions in relation to:

...

(c) the performance of services to which a *sponsor’s* approval relates (under section 88A(2)(c) of the *Act*), ~~and~~

(d) the dissemination of *regulated information* by a primary information provider (under section 89Q(2)(c) of the *Act*); and

(e) the exercising of functions by a *person* of an *FCA investment firm* or a *parent undertaking* of an *FCA investment firm* (under section 143W(5) of the *Act*)).

...

6A.1.3 G

...

(1) ...

...

(3) we may impose a restriction on the exercise of the functions by a *person* of an *FCA investment firm* or a *parent undertaking* of an *FCA investment firm*.

6A.1.4 G

The powers to impose a suspension, restriction, condition or limitation in relation to *authorised persons* and *approved persons*, to impose a restriction on *non-authorised parent undertakings* of *FCA investment firms*, members of the *management body* and *employees* of *non-authorised parent undertakings* who are knowingly concerned in contravention of *FCA rules* and to impose a disciplinary prohibition in relation to individuals, are disciplinary measures; where the *FCA* considers it necessary to take action, for example, to protect *consumers* from an *authorised person*, the *FCA* will seek to cancel or vary the *authorised person’s permissions*. ...

...

...

6A.3 Determining the appropriate length of the period of suspension, restriction, condition or disciplinary prohibition

...

6A.3.2 G ...

(1) ...

...

(4) The impact of suspension, restriction, condition or disciplinary prohibition on the person in breach

The following considerations may be relevant to the assessment of the impact of suspension or restriction on an *authorised person, sponsor, ~~or~~ primary information provider or non-authorised parent undertaking*:

(a) the *authorised person's, sponsor's, ~~or~~ primary information provider's, or non-authorised parent undertaking's* expected lost revenue and profits from not being able to carry out the suspended or restricted activity;

(b) the cost of any measures the *authorised person, sponsor, ~~or~~ primary information provider or non-authorised parent undertaking* must undertake to comply with the suspension or restriction;

...

(d) the effect on other areas of the *authorised person's, sponsor's, ~~or~~ primary information provider's or non-authorised parent undertaking's* business; and

(e) whether the suspension or restriction would cause the *authorised person, sponsor, ~~or~~ primary information provider or non-authorised parent undertaking* serious financial hardship.

The following considerations may be relevant to the assessment of the impact of suspension or condition on an *approved person* or the impact of a disciplinary prohibition or restriction on an individual:

...

...

6A.3.3 G The *FCA* may delay the commencement of the period of suspension, restriction or disciplinary prohibition. In deciding whether this is appropriate, the *FCA* will take into account all the circumstances of a case. Considerations that may be relevant in respect of an *authorised*

person, sponsor, ~~or~~ primary information provider or non-authorised parent undertaking include:

...

- (2) any practical measures the *authorised person, sponsor, ~~or~~ primary information provider or non-authorised parent undertaking* needs to take before the period of suspension or restriction begins, for example, changes to its systems and controls to enable it to stop or limit the activity in question;
- (3) the impact of the suspension or restriction on other costs incurred by the *authorised person, sponsor, ~~or~~ primary information provider or non-authorised parent undertaking*, for example, cancelling suppliers or suspending employees.

...

Sch 3 Fees and other required payments

...

3.2

G

The *FCA* 's power to impose financial penalties is contained in:

...

section 131G (Power to impose penalty or issue censure) of the *Act*

Section 143W (Disciplinary powers for non-authorised parent undertakings) of the *Act*.

...

...

Sch 4 Powers Exercised

4.1

G

The following powers and related provisions in or under the *Act* have been exercised by the *FCA* to make the statements of policy in *DEPP*:

...

Section 139A (Power of the *FCA* to give guidance)

Section 143Y (Statement of policy for penalties under section 143W)

...

...

Annex D

Amendments to the Enforcement Guide (EG)

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

7 Financial penalties and other disciplinary sanctions

...

7.1 The FCA's use of sanctions

...

7.1.2 The *FCA* has the following powers to impose sanctions.

(1) ...

...

(3) It may impose a suspension, *limitation* or other restriction:

...

(c) on a primary information provider under section 89Q of the *Act*;
~~and~~

(d) on an *authorised person* under sections 123B or 206A of the *Act*;
and

(e) on a non-authorised parent undertaking under section 143W of the *Act*.

...

...

**INVESTMENT FIRMS PRUDENTIAL REGIME (CONSEQUENTIAL
AMENDMENTS) INSTRUMENT 2021**

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 73A (Part 6 Rules);
 - (b) section 89A (Transparency rules);
 - (c) section 89B (Provision of voteholder information)
 - (d) section 137A (The FCA’s general rules);
 - (e) section 137D (Product intervention rules);
 - (f) section 137H (General rules about remuneration);
 - (g) section 137R (Financial promotion rules);
 - (h) section 137T (General supplementary powers);
 - (i) section 138D (Actions for damages);
 - (j) section 139A (Power of the FCA to give guidance);
 - (k) section 247 (Trust scheme rules);
 - (l) section 261I (Contractual scheme rules);
 - (m) paragraph 23 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZA (the Financial Conduct Authority);
 - (2) regulation 6(1) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
 - (3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*.

Revocation of the Prudential sourcebook for Investment Firms (IFPRU)

- D. The Prudential sourcebook for Investment Firms (IFPRU) is revoked.

Amendments to the Handbook

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

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Code of Conduct sourcebook (COCON)	Annex C
General Provisions (GEN)	Annex D
Fees manual (FEES)	Annex E
General Prudential sourcebook (GENPRU)	Annex F
Prudential sourcebook for MiFID investment firms (MIFIDPRU)	Annex G
Market Conduct sourcebook (MAR)	Annex H
Supervision manual (SUP)	Annex I
Collective Investment Schemes sourcebook (COLL)	Annex J
Consumer Credit sourcebook (CONC)	Annex K
Investment Funds sourcebook (FUND)	Annex L
Regulated Covered Bonds sourcebook (RCB)	Annex M

- 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 where such defined expressions relate to any UK legislation that has been amended since those defined expressions were last made.

Amendments to material outside the Handbook

- G. The material outside the Handbook listed in column (1) below is amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Energy Market Participants guide (EMPS)	Annex N
Oil Market Participants guide (OMPS)	Annex O
Perimeter Guidance manual (PERG)	Annex P
The Wind-down Planning Guide (WDPG)	Annex Q

Notes

- H. 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

- I. This instrument may be cited as the Investment Firms Prudential Regime (Consequential Amendments) Instrument 2021.

By order of the Board
[date]

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.

<i>CRR investment services sector</i>	<p>a sector composed of one or more of the following entities:</p> <ul style="list-style-type: none"> (a) a <i>designated investment firm</i>; and (b) a <i>financial institution</i>.
<i>MIFIDPRU investment services sector</i>	<p>a sector composed of one or more of the following entities:</p> <ul style="list-style-type: none"> (a) an <i>investment firm</i> (other than a <i>designated investment firm</i>); (b) a <i>financial institution</i>; and (c) (in the circumstances described in <i>GENPRU</i> 3.1.39R (The financial sectors: Asset management companies and alternative investment fund managers)) an <i>asset management company</i> or an <i>alternative investment fund manager</i>.
<i>significant SYSC firm</i>	has the meaning in <i>SYSC</i> 1.5 (Significant SYSC firm).

Amend the following definitions as shown.

<i>ancillary services undertaking</i>	<p>(1) (for the purpose of <i>GENPRU</i> (except in <i>GENPRU</i> 3) and <i>BIPRU</i> (except in <i>BIPRU</i> 12) and subject to (2)) and in relation to an <i>undertaking</i> in a <i>consolidation group</i>, <i>sub-group</i> or another group of persons) an <i>undertaking</i> complying with the following conditions:</p> <ul style="list-style-type: none"> (a) its principal activity consists of: <ul style="list-style-type: none"> (i) owning or managing property; or (ii) managing data processing services; or (iii) any other similar activity; (b) the activity in (a) is ancillary to the principal activity of one or more <i>credit institutions</i> or <i>investment firms</i>; and
---------------------------------------	--

- (e) ~~those credit institutions or investment firms are also members of that consolidation group, sub-group or group.~~
[deleted]

[Note: article 4(21) of the ~~Banking Consolidation Directive~~ (Definitions)]

- (2) ~~(for the purpose of GENPRU 1.3 (Valuation) and INSPRU 6.1 (Group Risk: Insurance Groups) an undertaking in (1) and an~~
~~÷ [deleted]~~
- (3) ~~(except in (1)) has the meaning in article 4(1)(18) of the UK CRR.~~ means an undertaking the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity of one or more institutions.

asset backed commercial paper programme

~~(for the purposes of BIPRU 9 (Securitisation))~~ a programme of securitisations (within the meaning of paragraph (2) of the definition of securitisation) the securities issued by which predominantly take the form of commercial paper with an original maturity of one year or less.

[Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]

banking and investment group

...

- (a) form a group in respect of which the consolidated capital adequacy requirements for the *banking sector* or the *investment services sector* under the appropriate regulator's sectoral rules apply.÷

- (i) ~~the appropriate regulator's sectoral rules;~~ or [deleted]

...

...

base currency

...

- (2) ~~(in GENPRU and BIPRU) (in relation to a firm) the currency in which that firm's books of account are drawn up.~~ [deleted]

base own funds requirement

- (1) ~~(for the purpose of IFPRU) an amount of own funds that an IFPRU investment firm must hold as set out in IFPRU 3.1.6R (Own funds: main requirement).~~ [deleted]

...

capital instrument

(in COBS, ~~GENPRU and BIPRU~~ and in relation to an undertaking) any security issued by or loan made to that undertaking or any other investment in, or external contribution to the capital of, that undertaking.

<i>central bank</i>	(1)	(for the purposes of GENPRU (except GENPRU 3) and BIPRU (except BIPRU 12)) includes the European Central Bank unless otherwise indicated, the Bank of England and the central banks of other countries. [Note: article 4(23) of the Banking Consolidation Directive (Definitions)] <u>[deleted]</u>
	...	
<i>charity</i>		(in BCOBS, BIPRU and in the definition of <i>relevant credit union client</i>) includes:
	...	
<i>CIU</i>	(1)	(except in IFPRU) collective investment undertaking.
	(2)	(in IFPRU) has the meaning in article 4(1)(7) of the UK CRR. <u>[deleted]</u>
<i>class</i>	(1)	(in GENPRU , INSPRU and SUP) (in relation to a <i>contract of insurance</i>) any class of <i>contract of insurance</i> listed in Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of insurance) and references to:
	...	
<i>clean-up call option</i>	(1)	(for the purposes of BIPRU 9 (Securitisation), in relation to a securitisation (within the meaning of paragraph (2) of the definition of securitisation) a contractual option for the originator to repurchase or extinguish the securitisation positions before all of the underlying exposures have been repaid, when the amount of outstanding exposures falls below a specified level. [Note: Part 1 of Annex IX of the Banking Consolidation Directive (Securitisation definitions)] <u>[deleted]</u>
	...	
<i>client money</i>	...	
	(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 <i>client money rules</i> , money of any currency:
	...	
	(5)	<u>(in SYSC 1.5) has the meaning in (1) to (4).</u>

- commodity* ...
- (2) ~~(for the purpose of calculating *position risk requirements* and for the purposes of *COBS 22.5*)~~ any of the following (but excluding gold):
- ...
- ...
- competent authority* ...
- (3) (in relation to a group, and for the purposes of SYSC 12 (Group risk systems and controls requirement), *GENPRU* and ~~*BIPRU*~~, any national authority of the *UK* which is empowered by law or regulation to supervise *regulated entities*, whether on an individual or group-wide basis.
- ...
- (10) ~~(for the purposes of *IFPRU*) has the meaning in article 4(1)(40) of the *UK CRR*. [deleted]~~
- ...
- consolidation group* (1) the following
- (a) a *conventional group*; or
- (b) *undertakings* linked by a *consolidation Article 12(1) relationship* ~~or either of (for the purposes of *BIPRU*) an *Article 134 relationship* or an *article 18(6) relationship*~~.
- If a *parent undertaking* or *subsidiary undertaking* in a *conventional group* (the first person) has a *consolidation Article 12(1) relationship* ~~or either of (for the purposes of *BIPRU*) an *Article 134 relationship* or an *article 18(6) relationship*~~ with another *person* (the second person), the second person (and any *subsidiary undertaking* of the second person) is also a member of the same *consolidation group*.
- (2) ~~(for the purposes of *SUP 16*) the *undertakings* included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the *UK CRR* and *IFPRU 8.1.3R* to *IFPRU 8.1.4R* (Prudential consolidation) for which the *FCA* is the *consolidating supervisor* under article 4B of the *UK CRR*. [deleted]~~

contingent convertible instrument

a *financial instrument* which meets the requirements for either:

- (a) Additional Tier 1 instruments under article 52; or
- (b) Tier 2 instruments under article 63, provided:
 - (i) the provisions governing the instrument require that, upon the occurrence of a trigger event, the principal amount of the instrument be written down on a permanent or temporary basis or the instrument be converted to one or more common equity Tier 1 instruments; and
 - (ii) the trigger mechanism in (i) is different from, or additional to, any discretionary mechanism for converting or writing down the principal amount of the instrument which is activated following a determination by the relevant authority that the issuer of the *financial instrument* (or its *group*, or any member of its *group*) is no longer viable, or will no longer be viable unless the relevant instrument is converted or written down;

in each case of the *UK CRR*, or (where applicable) its provisions as applied and amended by *MIFIDPRU 3*.

counterparty

...

- (3) ~~(for the purposes of the rules relating to *BIPRU* firms in *GENPRU* and *BIPRU* and in relation to an exposure of a person ('A')) the counterparty with respect to that exposure or, if the context requires, another person in respect of whom, under that exposure, A is exposed to credit risk or the risk of loss if that person fails to meet its obligations, such as the issuer of the underlying security in relation to a derivative held by A.~~
[deleted]

covered bond

- (1) ~~(except for the purposes of the *IRB approach* or the *standardised approach to credit risk*)~~ a bond that is issued by a *credit institution* which has its registered office in the *UK* or an *EEA State* and is subject by law to special public supervision designed to protect bondholders and in particular protection under which sums deriving from the issue of the bond must be invested in conformity with the law in assets which, during the whole period of validity of the bond, are capable of covering claims attaching to the bond and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

[Note: article 52(4) of the *UCITS Directive*]

	(2)	(for the purposes of the IRB approach or the <i>standardised approach</i> to credit risk in <i>BIPRU</i>) a covered bond as defined in (1) that meets the following conditions:
	(a)	it is issued by a <i>credit institution</i> which has its registered office in the <i>United Kingdom</i>; and
	(b)	it is collateralised in accordance with <i>BIPRU</i> 3.4.107R (Exposures in the form of covered bonds).
		[Note: point 68 of Part 1 of Annex VI of the <i>Banking Consolidation Directive</i> (Exposures in the form of covered bonds)] <u>[deleted]</u>
	...	
credit enhancement	(1)	(for the purposes of <i>BIPRU</i>) a contractual arrangement whereby the credit quality of a <i>position</i> in a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of <i>securitisation</i>) is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior <i>tranches</i> in the <i>securitisation</i> and other types of credit protection.
		[Note: article 4(43) of the <i>Banking Consolidation Directive</i> (Definitions)] <u>[deleted]</u>
	...	
credit quality step	(1)	(except in <i>MIPRU</i>) a credit quality step in a <i>credit quality assessment scale</i> as set out in <i>BIPRU</i> 3.4 (Risk weights under the <i>standardised approach</i> to credit risk) and <i>BIPRU</i> 9 (<i>Securitisation</i>). <u>[deleted]</u>
	...	
credit risk capital requirement	(1)	(for a <i>BIPRU firm</i>) the part of the <i>capital resources requirement</i> of a <i>BIPRU firm</i> in respect of credit risk, calculated in accordance with <i>GENPRU</i> 2.1.51R (Calculation of the credit risk capital requirement). <u>[deleted]</u>
	...	
CRM eligibility conditions	(1)	(in relation to the <i>standardised approach</i> to credit risk), <i>BIPRU</i> 5.3.1R <i>BIPRU</i> 5.3.2R, <i>BIPRU</i> 5.4.1R <i>BIPRU</i> 5.4.8R, <i>BIPRU</i> 5.5.1R, <i>BIPRU</i> 5.5.4R, <i>BIPRU</i> 5.5.8R, <i>BIPRU</i> 5.1.6R and <i>BIPRU</i> 5.7.1R <i>BIPRU</i> 5.7.4R; or <u>[deleted]</u>
	(2)	(in relation to the <i>IRB approach</i>), the provisions in (1) and <i>BIPRU</i> 4.4.83R, <i>BIPRU</i> 4.10 <i>BIPRU</i> 4.10.7R, <i>BIPRU</i> 4.10.9R, <i>BIPRU</i> 4.10.10R <i>BIPRU</i> 4.10.12R, <i>BIPRU</i>

~~4.10.14R, BIPRU 4.10.16R, BIPRU 4.10.19R, and BIPRU 4.10.38R BIPRU 4.10.39R; or [deleted]~~

...

CRR firm (for the purposes of SYSC) a *UK bank, building society and an investment firm* that is subject to the *UK CRR* a *UK designated investment firm*.

default (1) ~~(in relation to the IRB approach and for the purposes of BIPRU)~~ has the meaning in *BIPRU 4.3* (The IRB approach: Provisions common to different exposure classes). ~~[deleted]~~

...

ECAI (1) ~~(except in MIPRU) an external credit assessment institution, as defined in article 4(1)(98) of the UK CRR. [deleted]~~

(2) (in *MIPRU*) an external credit assessment institution.

eligible ECAI ~~an ECAI:~~

- (a) ~~(for exposure risk weighting purposes other than those in (b) or (d)) recognised by the appropriate regulator under regulation 22 of the Capital Requirements Regulations 2006 (Recognition for exposure risk weighting purposes); or [deleted]~~
- (b) ~~(for securitisation risk weighting purposes except under MIPRU 4.2BA) recognised by the appropriate regulator under regulation 23 of the Capital Requirements Regulations 2006 (Recognition for securitisation risk weighting purposes). [deleted]~~
- (c) ~~(in BIPRU 12) that is listed in the first row in the table set out in BIPRU 12 Annex 1R; or [deleted]~~
- (d) (in *MIPRU*) an *ECAI* listed in the table in *MIPRU 4.2E.14R*.

eligible LLP members' capital members' capital of a *limited liability partnership* that meets the conditions in *IPRU(INV) Annex A* or, for a *BIPRU firm*, the requirements of ~~*GENPRU 2.2.94R*~~ (Core tier one capital: Eligible LLP members' capital).

energy market participant a firm:

...

- (b) which is not an *authorised professional firm, bank, BIPRU firm* (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society, credit union, friendly society, ICVC, insurer, MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU*

~~commodities firm~~), media firm, oil market participant, service company, insurance intermediary, home finance administrator, home finance provider or regulated benchmark administrator.

exposure

...

- (2) ~~(for the purposes of the calculation of the credit risk capital component and the counterparty risk capital component (including BIPRU 3 (Standardised credit risk), BIPRU 4 (The IRB approach), BIPRU 5 (Credit risk mitigation), BIPRU 9 (Securitisation) an asset or off balance sheet item.~~

~~[Note: article 77 of the Banking Consolidation Directive]
[deleted]~~

...

- (4) ~~(in IFPRU and to calculate own funds requirements under Part Three Title II (credit risk and counterparty credit risk)) has the meaning in article 5(1) of the UK CRR. [deleted]~~

- (5) ~~(in IFPRU 8.2 (Large exposures) for the purpose of Part Four ((Large exposures) of the UK CRR) has the meaning in article 389 of the UK CRR (Large exposures: definitions). [deleted]~~

...

financial
instrument

...

- (3) ~~(in IFPRU) has the meaning in article 4(50) of the UK CRR. [deleted]~~

...

financial
sector

- (1) (subject to (2)) one of the banking sector, the insurance sector ~~or the investment services sector~~, the MIFIDPRU investment services sector or the CRR investment services sector.

- (2) (for the purposes of the definition of financial conglomerate and for any other provision of GENPRU 3 that treats the banking sector and the investment services sector as one) one of the banking and investment services sector or the insurance sector.

financial year

...

- (3) (in ~~GENPRU~~ and INSPRU) the period at the end of which the balance of the accounts of the insurer is struck, or, if no balance is struck, the calendar year.

<i>foreign currency</i>	(in GENPRU and BIPRU) (in relation to a <i>firm</i>) any currency other than the <i>base currency</i> .
<i>group</i>	<p>...</p> <p>(3) (for the purposes of SYSC 12 (Group risk systems and controls requirement), SYSC 20 (Reverse stress testing) and GENPRU 1.2 (Adequacy of financial resources) as applicable to a BIPRU firm <u>MIFIDPRU investment firm</u> and in relation to a <i>person</i> “A”) A and any <i>person</i>:</p> <ul style="list-style-type: none"> (a) who falls into (1); (b) who is a member of the same <i>financial conglomerate</i> as A; (c) who has a <i>consolidation Article 12(1) relationship</i> with A; (d) who has a <i>consolidation Article 12(1) relationship</i> with any <i>person</i> in (3)(a); (e) who is a <i>subsidiary undertaking</i> of a <i>person</i> in (3)(c) or (3)(d); or (f) whose omission from an assessment of the risks to A of A’s connection to any <i>person</i> coming within (3)(a)-(3)(e) or an assessment of the financial resources available to such <i>persons</i> would be misleading. <p>(3A) (for the purposes of SYSC 12 (Group risk systems and controls requirement) and SYSC 20 (Reverse stress testing), as applicable to an IFPRU investment firm and IFPRU) and in relation to a person “A”), A and any person:</p> <ul style="list-style-type: none"> (a) who falls into (1); (b) who is a member of the same financial conglomerate as A; (c) who has a consolidation Article 12(1) relationship with A; (d) who has a consolidation Article 12(1) relationship with any person in (a); (e) who is a subsidiary undertaking of a person in (c) or (d); or (f) whose omission from an assessment of the risks to A of A’s connection to any person coming within (a)-(e) or an assessment of the financial resources available to such persons would be misleading. [deleted] <p>...</p>

<i>immediate group</i>	...	(2) (in <i>BIPRU</i> and in relation to any person) has the same meaning as in paragraph (1), with the omission of (1)(e). [deleted]
<i>implicit items</i>	(in relation to <i>long-term insurance business</i>) economic reserves arising in respect of future profits , <u>assets which relate to future surpluses</u> , zillmerising or hidden reserves as more fully described in <i>GENPRU 2 Annex 8</i> .	
<i>in the money</i>	...	(2) (for the purposes of <i>BIPRU 7</i> (Market risk) and in relation to an option or warrant) the strike price of that option or warrant being less than the current market value of the underlying instrument (in the case of a call option or warrant) or vice versa (for a put option). [deleted]
<i>investment firm</i>	...	(3) (in the definition of <i>IDD ancillary insurance intermediary</i>, and in <i>IFPRU</i> and <i>BIPRU 12</i>) has the meaning in article 4(1)(2) of the <i>UK CRR</i>. [Note: article 2(1)(4) of the <i>IDD</i>] [deleted]
		(4) (in <i>GENPRU</i> (except <i>GENPRU 3</i>) and <i>BIPRU</i> (except <i>BIPRU 12</i>) any of the following:
		(a) a firm in (3); and
		(b) a <i>BIPRU firm</i>. [deleted]
		(5) (in <i>SYSC 19A</i> (<i>IFPRU Remuneration Code</i>)) a firm in (3). [deleted]
	...	
<i>investment services sector</i>	(1)	a sector composed of one or more of the following entities:
	(a)	an investment firm;
	(b)	a financial institution; and
	(c)	(in the circumstances described in <i>GENPRU 3.1.39R</i> (The financial sectors: Asset management companies and alternative investment fund managers)) an asset management company or an alternative investment fund manager. [deleted]
	(2)	(in <i>BIPRU</i> (except in <i>BIPRU 12</i>) a sector comprised of one or more of the following entities:

- (a) the entities in (1); and
- (b) a ~~CAD investment firm~~. [deleted]

The MIFIDPRU investment services sector and the CRR investment services sector taken together.

lead regulated firm a firm which is the subject of the financial supervision requirements of an overseas regulator in accordance with an agreement between the appropriate regulator and that regulator relating to the financial supervision of firms whose head office is within the country of that regulator.

~~This definition is not related to the defined terms UK lead regulated firm or non UK lead regulated firm.~~

long-term insurance capital requirement ~~(in relation to a firm carrying on long term insurance business) an amount of capital resources that the firm must hold calculated in accordance with GENPRU 2.1.36R. means:~~

- (a) (for a non-directive friendly society) the required margin of solvency with respect to long-term insurance business, as calculated under rule 3.1 of the Friendly Society – Overall Resources and Guarantee Fund part of the PRA Rulebook;
- (b) (for a non-directive insurer other than a non-directive friendly society) the requirement in rule 14.1 of the Insurance Company – Capital Resources Requirement part of the PRA Rulebook; and
- (c) (for a Solvency II firm) the equivalent PRA rules transposing the Solvency II directive.

management body (1) (other than in (2) or (3)) ~~(in accordance with article 4(1)(9) of the UK CRR)~~ the governing body and senior personnel who are empowered to set the person's strategy, objectives and overall direction, and which oversee and monitor management decision-making in the following:

- (a) a common platform firm (in relation to the requirements imposed by or under the UK provisions which implemented MiFID or MiFIR); or

- (ai) a MIFIDPRU investment firm (in relation to the requirements in MIFIDPRU); or

...

...

*matched
principal
exemption
conditions*

(for the purposes of any limitation that is placed on a firm's permission to deal as principal):

- (1) (for the purposes of *BIPRU*) for a firm that would have been subject to *BIPRU* on 31 December 2021) the conditions set out in *BIPRU* 1.1.23R(2) (Meaning of dealing on own account), as they applied on 31 December 2021.
- (2) (other than in *BIPRU* for a firm that would have been subject to *IFPRU* on 31 December 2021) the conditions set out in *IFPRU* 1.1.12R (Meaning of dealing on own account), as they applied on 31 December 2021.

*most important
financial
sector*

~~(in relation to a financial sector in a consolidation group or a financial conglomerate and in accordance with *GENPRU* 3.1 (Cross sector groups)) the financial sector, being either the insurance sector or the banking and investment services sector, which has with the largest average referred to in the box titled Threshold Test 2 in the financial conglomerate definition decision tree (10% ratio of balance sheet size and solvency requirements); and so that the investment services sector and the banking sector are treated as one for the purpose of the definition of financial conglomerate and for any other purpose that *GENPRU* 3.1 (Cross sector groups) says they are.~~

*nominated
ECAI*

- (a) ~~(in the case of an eligible ECAI within paragraph (a) of the definition of that term (Recognition for exposure risk weighting purposes)) an eligible ECAI nominated by a firm in accordance with *BIPRU* 3.6 (Use of rating agencies' credit assessments for the determination of risk weights under the standardised approach to credit risk) for the purpose of calculating its risk weighted exposure amounts under the standardised approach to credit risk except under (b); [deleted]~~
- (b) ~~(in the case of an eligible ECAI within paragraph (b) of the definition of that term (Recognition securitisation risk-weighting purposes)) an eligible ECAI nominated by a firm in accordance with *BIPRU* 9.8 (Use of ECAI credit assessments for the determination of applicable risk weights) for the purpose of calculating its securitisation risk weighted exposure amounts. [deleted]~~
- (c) (for paragraph (d) of the definition of an eligible ECAI (in *MIPRU*)) an eligible ECAI nominated by a firm in accordance with *MIPRU* 4.2E for calculating its risk weighted exposure amounts.

*oil market
participant*

a firm:

...

- (b) which is not an authorised professional firm, bank, *BIPRU* firm (unless it is an exempt *BIPRU* commodities firm), *IFPRU*

investment firm (unless it is an exempt IFPRU commodities firm), building society, credit union, friendly society, ICVC, insurer, MiFID investment firm (unless it is an exempt BIPRU commodities firm or exempt IFPRU commodities firm), media firm, service company, insurance intermediary, home finance administrator, mortgage intermediary, home finance provider or regulated benchmark administrator.

operational risk

- (1) ...
- (2) ~~(in GENPRU (except GENPRU 3 (Cross sector groups) and BIPRU (except BIPRU 12 (Liquidity Standards))) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.~~
 [Note: article 4(22) of the *Banking Consolidation Directive*]
 [deleted]
- (3) ~~(except in (1) and (2)) has the meaning in article 4(1)(52) of the UK CRR. [deleted]~~

originator

- (1) ~~(in GENPRU (except GENPRU 3), MIPRU and BIPRU (except BIPRU 12)) in relation to a securitisation within the meaning of paragraph (2) of the definition of securitisation) either of the following:~~
 ...
- (2) ~~(except in (1)) has the meaning in article 4(1)(13) of the UK CRR. means an entity which:~~
- (a) itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or
- (b) purchases a third party's exposures for its own account and then securitises them;

[Note: article 4(1)(13) of the *UK CRR*]

overall financial sector

- a sector composed of one or more of the following types of entities:
- (a) members of ~~each of~~ the *financial sectors*; and
- (b) (except where *GENPRU* 3.1 (Cross sector groups) or *GENPRU* 3 Ann 1R (Capital adequacy calculations for financial

		conglomerates) provide otherwise) a <i>mixed financial holding company</i> .
<i>PD</i>	(1)	(except in <i>GENPRU</i> and <i>BIPRU</i>) Prospectus Directive.
	(2)	(in <i>GENPRU</i>, <i>BIPRU</i> and <i>BSOCS</i>) probability of default. [deleted]
<i>PRR</i>	(1)	(in <i>BIPRU</i>) position risk requirement. [deleted]
	(2)	(except in <i>BIPRU</i>) the Prospectus Regulation Rules sourcebook.
<i>qualifying holding</i>	(1)	(in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>GENPRU</i> 2.2.203R (Qualifying holdings), which is in summary a direct or indirect holding of a <i>bank</i> or <i>building society</i> in a non-financial <i>undertaking</i> which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that <i>undertaking</i>. [deleted]
	(2)	...
<i>rated position</i>		(for the purposes of <i>MIPRU</i> and <i>BIPRU</i> 9 (Securitisation) , and in relation to a <i>securitisation position</i>) describes a <i>securitisation position</i> which has an eligible credit assessment by an <i>eligible ECAI</i> . [Note: Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)]
<i>recognised third country investment firm</i>	(1)	(in <i>BIPRU</i> and <i>GENPRU</i> 3.2 (Third country groups) as applies to a <i>BIPRU</i> firm in relation to a <i>third country banking and investment group</i> and a <i>banking and investment group</i>) a <i>CAD investment firm</i> that satisfies the following conditions: <div style="margin-left: 20px;"> (a) its head office is outside the <i>UK</i>; (b) it is authorised by a <i>third country competent authority</i> in the state or territory in which the <i>CAD investment firm</i>'s head office is located; (c) that <i>third country competent authority</i> is named in Part 2 of <i>BIPRU</i> 8 Annex 6 (Non-<i>UK</i> investment firm regulators' requirements deemed <i>CRD</i>-equivalent for individual risks); and (d) that <i>investment firm</i> is subject to and complies with prudential rules of or administered by that <i>third country competent authority</i> that are at least as stringent as those laid down for <i>BIPRU</i> firms in <i>GENPRU</i> and <i>BIPRU</i>. [deleted] </div>
	(2)	(except for the purpose in (1)) (in <i>GENPRU</i> 3.2 3 (Third country groups) in relation to a <i>third country banking and investment group</i> and a <i>banking and investment group</i>) an <i>investment</i>

firm that falls within the meaning of “investment firm” in article 4(1)(2) of the *UK CRR* and which satisfies the following conditions:

- (a) its head office is outside the *UK*;
- (b) 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
- (c) that *investment firm* is subject to and complies with prudential rules of or administered by that *third country competent authority* that are at least as stringent as those laid down in the whichever of the *UK CRR* or *MIFIDPRU* would apply if its head office was in the *UK*.

(3) ~~(in *GENPRU* 3.1) a *firm* in either (1) or (2), or both. [deleted]~~

risk weight (1) ~~(in relation to an *exposure* for the purposes of *BIPRU*) a degree of risk expressed as a percentage assigned to that *exposure* in accordance with whichever is applicable of the *standardised approach* to credit risk and the *IRB approach*, including (in relation to a *securitisation position*) under *BIPRU* 9 (Securitisation). [deleted]~~

...

risk weighted exposure amount (1) ~~(in relation to an *exposure* for the purposes of *BIPRU*) the value of an *exposure* for the purposes of the calculation of the *credit risk capital component* after application of a *risk weight*. [deleted]~~

(2) ...

sectoral rules (in relation to a *financial sector*) rules and requirements relating to the prudential supervision of *regulated entities* applicable to *regulated entities* in that *financial sector* as follows:

- (a) (for the purposes of *GENPRU* 3.1.12R (Definition of financial conglomerate: Solvency requirement)) ~~*UK prudential sectoral regulation*~~ *UK prudential sectoral legislation* for that *financial sector* together with as appropriate the rules and requirements in (c); ~~or~~
- (b) (for the purpose of calculating *solo capital resources* and a *solo capital resources requirement*):
 - (i) (to the extent provided for in paragraphs 6.4 to 6.6 of *GENPRU* 3 Annex 1R) rules and requirements that are referred to in those paragraphs; and
 - (ii) the rules and requirements in (c); or

- (c) (for all other purposes) rules and requirements of the *appropriate regulator* and so that:
- (d) (i) (in relation to consolidated supervision for any *financial sector*) those requirements include ones relating to the form and extent of consolidation;
- (e) (ii) (in relation to any *financial sector*) those requirements include ones relating to the eligibility of different types of capital;
- (f) (iii) (in relation to any *financial sector*) those requirements include both ones applying on a solo basis and ones applying on a consolidated basis; and
- (g) ~~[deleted]~~
- (h) ~~references~~ References to the *appropriate regulator's sectoral rules* are to *sectoral rules* in the form of *rules* and, as applicable, the *UK CRR*.
- securitisation* (1) ...
- (2) (in ~~*BIPRU*~~ and *MIPRU* 4) a transaction or scheme whereby the credit risk associated with an *exposure* or pool of *exposures* is tranching having the following characteristics:
- ...
- (3) ~~(in *IFPRU*) has the meaning in article 4(1)(61) of the *UK CRR*.~~
~~[deleted]~~
- ...
- securitisation position* (1) (in ~~*GENPRU*~~, *MIPRU* and ~~*BIPRU*~~) an *exposure* to a *securitisation* within the meaning of paragraph (2) of the definition of *securitisation*; and so that:
- ...
- (2) ~~(in *IFPRU*) has the meaning in article 4(1)(62) of the *UK CRR*.~~
~~[deleted]~~
- securitisation special purpose entity* (1) ~~(for the purposes of *BIPRU*) a corporation, trust or other entity, other than a *credit institution*, organised for carrying on a *securitisation* or *securitisations* (within the meaning of paragraph (2) of the definition of *securitisation*), the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the *SSPE* from those of the *originator*, and the~~

holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.

[Note: article 4(44) of the *Banking Consolidation Directive* (Definitions)] [deleted]

...

securitised exposure

(for the purposes of *BIPRU* and *MIPRU*) an *exposure* in the pool of *exposures* that has been securitised, either via a *traditional securitisation* or a *synthetic securitisation*. The cash-flows generated by the securitised exposures are used to make payments to the *securitisation positions*.

senior management

- (1) ~~(in *BIPRU* 7.10 (Use of a value at risk model) and in relation to a firm) the firm's governing body and those of the firm's senior managers and other senior management who have responsibilities relating to the measurement and control of the risks which the firm's VaR model is designed to measure or whose responsibilities require them to take into account those risks.~~ [deleted]
- (2) (in *SYSC* (except *SYSC* 4.3A) and *IFPRU* and in accordance with article 4(1)(10) of the *UK CRR*) those *persons* who are a natural person and who exercise executive functions in an *institution* and who are responsible and accountable to the *management body* for the day-to-day management of the *institution*.

...

- (4) (in *MIFIDPRU*) those natural persons who exercise executive functions in *MIFIDPRU* investment firms and who are responsible and accountable to the *management body* for the day-to-day management of the *firm*, including for the implementation of the policies concerning the distribution of services and products to *clients* by it and its personnel.

solo capital resources requirement

- (1) (for the purpose of *GENPRU* 3) a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of *GENPRU* 3 Ann 1R.
- (2) ~~(for the purposes of *GENPRU* 1) a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of *GENPRU* 3 Ann 1R as it would apply if references to *financial conglomerate* in those paragraphs were replaced with references to *insurance group*.~~ [deleted]
- (3) ~~(for the purposes of *GENPRU* 2.2.214R (Deductions from tiers one and two: Material holdings)) a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of *GENPRU* 3 Ann 1R as those paragraphs apply to the *insurance sector*.~~ [deleted]

<i>specific risk</i>	...	<p>(2) (in GENPRU and BIPRU) the risk of a price change in an investment due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying investment.</p> <p>[Note: paragraph 12 of Annex I of the Capital Adequacy Directive] [deleted]</p>
<i>sponsor</i>	...	<p>(2) (in BIPRU), and in MIPRU 4 and in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of securitisation, an <i>undertaking</i> other than an <i>originator</i> that establishes and manages an <i>asset backed commercial paper programme</i> or other <i>securitisation</i> scheme that purchases <i>exposures</i> from third party entities.</p> <p>[Note: article 4(42) of the <i>Banking Consolidation Directive</i> (Definitions)]</p> <p>(3) (in IFPRU) has the meaning in article 4(1)(14) of the UK CRR. [deleted]</p>
<i>third-country banking and investment group</i>	a banking and investment group that meets the following conditions:	<p>...</p> <p>(b) it is not part of a wider <i>consolidation group</i> that is required by UK prudential sectoral regulation <u>UK prudential sectoral legislation</u> for the <i>banking sector</i>, <u>the CRR investment services sector</u> or the <u>MIFIDPRU investment services sector</u> to be subject to consolidated supervision.</p>
<i>trading book</i>	...	<p>(5) (in DTR) has the meaning in article 4.1(86) of UK CRR. all positions in financial instruments and commodities held by a credit institution or an investment firm that are:</p> <p>(a) <u>positions held with trading intent; or</u></p> <p>(b) <u>held in order to hedge positions held with trading intent.</u></p> <p>...</p>
<i>traditional securitisation</i>	(for the purpose of BIPRU and MIPRU) a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of securitisation) involving the economic transfer of the <i>exposures</i> being <i>securitised</i> to	

a *securitisation special purpose entity* which issues securities; and so that:

...

tranche in relation to a *securitisation* within the meaning of paragraph (2) of the definition of *securitisation* and for the purposes of ~~*BIPRU*~~ and *MIPRU*) a contractually established segment of the credit risk associated with an *exposure* or number of *exposures*, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.

[Note: article 4(39) of the *Banking Consolidation Directive* (Definitions)]

UK consolidation group (1) (for the purposes of *SYSC* as it applies to a *CRR firm*) the group of *undertakings* which are included in the *consolidated situation* of a *UK parent institution*, a *UK parent financial holding company* or a *UK parent mixed financial holding company* (including any *undertaking* which is included in that consolidation because of a *consolidation article 12(1) relationship*, *article 18(5) relationship* or *article 18(6) relationship*).

(2) ~~(for the purposes of *BIPRU* and *SYSC* as it applies to a *BIPRU firm*) has the meaning in *BIPRU* 8.2.4R (Definition of UK consolidation group), which is in summary the group that is identified as a UK consolidation group in accordance with the decision tree in *BIPRU* 8 Annex 1R (Decision tree identifying a UK consolidation group); in each case only persons included under *BIPRU* 8.5 (Basis of consolidation) are included in the UK consolidation group. [deleted]~~

UK designated investment firm (in ~~*BIPRU* 12~~ and in *SYSC* 19D and the definitions of *CRR firm* and *institution*) a *designated investment firm* which is a *body corporate* or *partnership* formed under the law of any part of the UK.

UK prudential sectoral legislation (in relation to a *financial sector*) requirements applicable to *persons* in that *financial sector* in accordance with UK legislation and rules about prudential supervision of *regulated entities* in that *financial sector* and so that:

(a) (in relation to the *banking sector* and the *CRR investment services sector*) in particular this includes the requirements laid down in the *UK CRR* and the *PRA Rulebook* ~~(in relation to a *CAD investment firm*), *GENPRU* and *BIPRU*; and~~

- (b) (in relation to the *insurance sector*) in particular this includes requirements laid down in the *UK* provisions which implemented the *Solvency II Directive* and *Solvency II Regulations*; and
- (c) (in relation to the *MIFIDPRU investment services sector*) in particular this includes the requirements laid down in *MIFIDPRU*.
- unfunded credit protection* (1) ~~(in *BIPRU*) a technique of credit risk mitigation where the reduction of the credit risk on the exposure of an undertaking derives from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified events.~~
- ~~[Note: article 4(32) of the *Banking Consolidation Directive* (Definitions)] [deleted]~~
- (2) ~~(in *IFPRU*) has the meaning in article 4(1)(59) of the *UK CRR*. [deleted]~~
- ...
- working day* ...
- (2) ~~(in relation to an underwriter and for the purpose of *BIPRU* but not for the purpose of the definition of *working day 0*) the number of *business days* after *working day 0* specified by the provision in question so that, for example, *working day one* means the *business day* following *working day 0*. [deleted]~~
- ...

Delete the following definitions. The text is not shown struck through.

- ABCP internal assessment approach* the method for calculating the *risk weighted exposure amount* for a *securitisation position* in relation to an *asset backed commercial paper programme* as set out in *BIPRU* 9.12.20R.
- ABCP programme* (for the purposes of *BIPRU* 9 (Securitisation)) an *asset backed commercial paper programme*.
- advanced IRB approach* one of the following:
- (a) (in relation to the *sovereign, institutional and corporate IRB exposure class*) the approach under the *IRB approach* under which a *firm* supplies its own estimates of *LGD* and *conversion factors*;

- (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with *BIPRU* 8 (Group risk - consolidation); or
- (c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

Advanced Measurement Approach

has the meaning in the *PRA Rulebook*.

advanced prudential calculation approach

one of the following:

- (a) the *IRB approach*; or
- (b) the *advanced measurement approach*; or
- (c) the *VaR model approach*; or
- (d) the *CAD 1 model approach*; or
- (e) the *master netting agreement internal models approach*; or
- (f) the *CCR internal model method*;

including, in each case, whatever corresponds to that approach under the rules of or administered by a *regulatory body* other than the *appropriate regulator*.

advanced prudential calculation approach permission

one of the following:

- (a) an *IRB permission*; or
- (b) an *AMA permission*; or
- (c) a *VaR model permission*; or
- (d) a *CAD 1 model waiver*; or
- (e) a *master netting agreement internal models approach permission*; or
- (f) a *CCR internal model method permission*.

all price risk measure

(in *BIPRU* 7.10 (Use of a Value at Risk Model)) has the meaning in *BIPRU* 7.10.116AR (Capital calculations for VaR models), which is, in relation to a *business day*, the *all price risk measure* required under the provisions in *BIPRU* 7.10 about *specific risk* for the *correlation trading portfolio*.

<i>allocation period</i>	a single 24-hour period or, with the agreement of each <i>professional client</i> concerned, a period spanning five consecutive <i>business days</i> , during which an aggregated <i>series of transactions</i> may be <i>executed</i> .
<i>alternative standardised approach</i>	one of the following: <ol style="list-style-type: none"> (a) a version of the <i>standardised approach</i> to <i>operational risk</i> under which a <i>firm</i> uses different indicators for certain business lines as referred to in <i>BIPRU</i> 6.4.19R (The alternative standardised approach); (b) where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with <i>BIPRU</i> 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>appropriate position risk adjustment</i>	<ol style="list-style-type: none"> (1) (in relation to a <i>position</i> treated under <i>BIPRU</i> 7.6 (Option PRR)) the percentage figure applicable to that <i>position</i> under the table in <i>BIPRU</i> 7.6.8R (Appropriate Position Risk Adjustment); (2) (for any other purpose and in relation to a <i>position</i>) the <i>position risk adjustment</i> applicable to that position under <i>BIPRU</i> 7 (Market risk).
<i>Article 134 relationship</i>	(in accordance with Article 134 of the <i>Banking Consolidation Directive</i>) a relationship of one of the following kinds: <ol style="list-style-type: none"> (a) where a <i>person</i> exercises a significant influence over one or more <i>persons</i>, but without holding a <i>participation</i> or other capital ties in these <i>persons</i> and without being a <i>parent undertaking</i> of these persons; or (b) where two or more <i>persons</i> are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.
<i>at the money</i>	(for the purposes of <i>BIPRU</i> 7 (Market risk) and in relation to an <i>option</i> or <i>warrant</i>) the strike price of that <i>option</i> or <i>warrant</i> being equal to the current market value of the underlying instrument.
<i>backtesting exception</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model)) an exception (excluding a <i>specific risk backtesting exception</i>) arising out of backtesting a <i>VaR model</i> as more fully defined in <i>BIPRU</i> 7.10.103R.
<i>Bank Accounts Directive</i>	Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions.

<i>base capital resources requirement</i>	<p>(1) an amount of <i>capital resources</i> that an <i>insurer</i> must hold as set out in <i>GENPRU</i> 2.1.30R (Table: Base capital resources requirement for an insurer) or a <i>BIPRU firm</i> must hold under <i>GENPRU</i> 2.1.41R (Base capital resources requirement for a BIPRU firm) and <i>GENPRU</i> 2.1.48R (Table: Base capital resources requirement for a BIPRU firm).</p> <p>(2) [deleted]</p>
<i>basic indicator approach</i>	the approach to calculating the <i>ORCR</i> set out in <i>BIPRU</i> 6.3 (Operational risk: Basic indicator approach).
<i>basis risk</i>	the risk that the relationship between two financial variables will change, particularly between two sorts of interest rate or between a hedge and the position it ostensibly hedges.
<i>BIPRU Remuneration Code</i>	<i>SYSC</i> 19C (BIPRU Remuneration Code).
<i>BIPRU Remuneration Code staff</i>	for a <i>BIPRU firm</i> and a <i>third country BIPRU firm</i> , has the meaning given in <i>SYSC</i> 19C.3.4R.
<i>BIPRU remuneration principles proportionality rule</i>	(in <i>SYSC</i> 19C) has the meaning given in <i>SYSC</i> 19C.3.3R.
<i>buffer securities restriction</i>	<i>BIPRU</i> 12.6.16R.
<i>CAD 1 model</i>	a risk management model of the type described in <i>BIPRU</i> 7.9 (Use of a CAD 1 model).
<i>CAD 1 model approach</i>	<p>(a) the approach to calculating part of the <i>market risk capital requirement</i> set out in <i>BIPRU</i> 7.9 (Use of a CAD 1 model);</p> <p>(b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with <i>BIPRU</i> 8 (Group risk - consolidation); or</p> <p>(c) when the reference is to the rules of or administered by a regulatory body other than the appropriate regulator, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.</p>
<i>CAD 1 model waiver</i>	a <i>waiver</i> that requires a <i>firm</i> to use the <i>CAD 1 model approach</i> on a solo basis or, if the context requires, a consolidated basis.

CAD Article 22 group a *UK consolidation group* or *non-UK sub-group* that meets the conditions in *BIPRU* 8.4.9R (Definition of a CAD Article 22 group).

CAD investment firm a *firm* that is subject to the requirements imposed by the *UK* implementation of *MiFID* (or a *firm* which would be subject to those requirements if its head office were in the *UK*) but excluding a *bank*, a *building society*, a *credit institution*, a *local firm* and an *exempt CAD firm* that meets the following conditions:

- (a) it is a *firm* as defined in article 4(1)(2)(c) of the *UK CRR*;
- (b) it is authorised to provide one or more the following *investment services*:
 - (i) (execution of orders on behalf of *clients*;
 - (ii) portfolio management; and
- (c) it may provide one or more of the following *investment services*:
 - (i) reception and transmission of orders in relation to one or more *financial instruments*;
 - (ii) investment advice.

capital conservation buffer (in accordance with regulation 2(1) (Interpretation) of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014) the amount of *common equity tier 1 capital* a *firm* must calculate in line with *IFPRU* 10.2.

capital market-driven transaction (in accordance with point 2 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (Eligible forms of credit risk mitigation)) any transaction giving rise to an *exposure* secured by collateral which includes a provision conferring upon the *person* with the *exposure* the right to receive margin frequently.

capital planning buffer (in *BIPRU* 2.2 or *IFPRU* 2) the amount and quality of capital resources that a *firm* should hold at a given time in accordance with the *general stress and scenario testing rule*, so that the *firm* is able to continue to meet the *overall financial adequacy rule* throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions.

Capital Requirements Regulations 2006 the Capital Requirements Regulations 2006 (SI 2006/3221).

(1) [deleted]

(2) [deleted]

<i>capital resources gearing rules</i>	(3)	(in relation to a <i>BIPRU firm</i>) <i>GENPRU</i> 2.2.30R, <i>GENPRU</i> 2.2.46R and <i>GENPRU</i> 2.2.49R and <i>GENPRU</i> 2.2.50R.
<i>capital resources table</i>	(1)	[deleted]
	(2)	[deleted]
	(3)	[deleted]
	(4)	(in relation to a <i>BIPRU firm</i>) whichever of the tables in <i>GENPRU</i> 2 Annex 4, <i>GENPRU</i> 2 Annex 5 or <i>GENPRU</i> 2 Annex 6 applies to the <i>firm</i> under <i>GENPRU</i> 2.2.19R.
<i>cash assimilated instrument</i>		a certificate of deposit or other similar instrument issued by a <i>lending firm</i> . [Note: article 4(35) of the <i>Banking Consolidation Directive</i> (Definitions)]
<i>CCR</i>		<i>counterparty credit risk</i>
<i>CCR internal model method</i>		one of the following: (a) the method of calculating the amount of an <i>exposure</i> set out in <i>BIPRU</i> 13.6 (CCR internal model method); (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with <i>BIPRU</i> 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i> , whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>CCR internal model method permission</i>		a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or a <i>CAD investment firm</i> to use the <i>CCR internal model method</i>
<i>CCR mark to market method</i>		the method of calculating the amount of an <i>exposure</i> set out in <i>BIPRU</i> 13.4 (CCR mark to market method).
<i>CCR standardised method</i>		the method of calculating the amount of an <i>exposure</i> set out in <i>BIPRU</i> 13.5 (CCR standardised method).
<i>CIU look through method</i>		one of the standard <i>CIU look through method</i> or the modified <i>CIU look through method</i> .
<i>CIU PRR</i>		the <i>collective investment undertaking PRR</i> . (in <i>GENPRU</i> and <i>BIPRU</i>) describes a relationship between two or more

closely related	<p><i>persons</i> under which one or more of the following applies:</p> <ul style="list-style-type: none"> (a) the insolvency or default of one of them is likely to be associated with the insolvency or default of the others; (b) it would be prudent when assessing the financial condition or creditworthiness of one to consider that of the others; or (c) there is, or there is likely to be, a close relationship between the financial performance of those <i>persons</i>.
<i>collective investment undertaking PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.7.5R</i> (Calculation of the collective investment undertaking PRR).
<i>combined buffer</i>	has the meaning in regulation 2(1) (Interpretation) of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014).
<i>commodity extended maturity ladder approach</i>	the method of calculating the <i>commodity PRR</i> in <i>BIPRU 7.4.32R</i> (Extended maturity ladder approach).
<i>commodity maturity ladder approach</i>	the method of calculating the <i>commodity PRR</i> in <i>BIPRU 7.4.25R</i> (Maturity ladder approach).
<i>commodity PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.4</i> (Commodity PRR) or, in relation to a particular <i>position</i> , the portion of the overall <i>commodity PRR</i> attributable to that <i>position</i> .
<i>commodity simplified approach</i>	the method of calculating the <i>commodity PRR</i> in <i>BIPRU 7.4.24R</i> (Simplified approach).
<i>consolidated capital resources</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-UK sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) that group's capital resources calculated in accordance with <i>BIPRU 8.6</i> (Consolidated capital resources).
<i>consolidated capital resources requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-UK sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) an amount of <i>consolidated capital resources</i> that that group must hold in accordance with <i>BIPRU 8.7</i> (Consolidated capital resources requirement).
<i>consolidated credit risk requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU 8.7</i> (Consolidated capital resources requirements) which is in summary the part of that

	group's <i>consolidated capital resources requirement</i> relating to credit risk calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated fixed overheads requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 8.7 (Consolidated capital resources requirements) which is in summary the part of that group's <i>consolidated capital resources requirement</i> relating to the <i>fixed overheads requirement</i> (as referred to Article 21 of the <i>Capital Adequacy Directive</i> and the definition of <i>fixed overheads requirement</i>) calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated indirectly issued capital</i>	has the meaning in <i>BIPRU</i> 8.6.12R (Indirectly issued capital and group capital resources), which is in summary any <i>capital instrument</i> issued by a member of a <i>UK consolidation group</i> or <i>non-UK sub-group</i> where the conditions in <i>BIPRU</i> 8.6.12R are met.
<i>consolidated market risk requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 8.7 (Consolidated capital resources requirement) which is in summary the part of that group's <i>consolidated capital resources requirement</i> relating to <i>market risk</i> calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated requirement component</i>	has the meaning in <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components), which in summary is one of the following: <ul style="list-style-type: none"> (a) the <i>consolidated credit risk requirement</i>; or (b) the <i>consolidated fixed overheads requirement</i>; or (c) the <i>consolidated market risk requirement</i> (d) [deleted]
<i>consolidating supervisor</i>	has the meaning in article 4(1)(41) of the <i>UK CRR</i> .
<i>contingency funding plan</i>	(in <i>BIPRU</i> 12 and <i>BSOCS</i>) a plan for dealing with liquidity crises as required by <i>BIPRU</i> 12.4.10R.
<i>contractual cross product netting agreement</i>	(for the purpose of <i>BIPRU</i> 13.7 (Contractual netting)) has the meaning set out in <i>BIPRU</i> 13.7.2R, which is in summary a written bilateral agreement between a <i>firm</i> and a <i>counterparty</i> which creates a single legal obligation covering all included bilateral master agreements and transactions belonging to different product categories.
<i>conversion factor</i>	(for the purposes of <i>BIPRU</i>) the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment; the extent of the

commitment is determined by the advised limit, unless the unadvised limit is higher.

[Note: article 4(28) of the *Banking Consolidation Directive* (Definitions)]

core business lines business lines and associated services which represent material sources of revenue, profit or franchise value for an *RRD institution* or an *RRD group*.

[Note: article 2(1)(36) of *RRD*]

core concentration risk group counterparty (in relation to a *firm*) a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking*, provided that (in each case) both the counterparty and the *firm* are:

- (a) included within the scope of consolidation on a full basis with respect to the same *UK consolidation group*; and
- (b) (where relevant) held by one or more intermediate *parent undertaking* or *financial holding company*, all of which are incorporated in the *United Kingdom*.

core market participant an entity of a type listed in *BIPRU* 5.4.64R (The financial collateral comprehensive method: Conditions for applying a 0% volatility adjustment).

core tier one capital an item of capital that is stated in stage A of the *capital resources table* (Core tier one capital) to be core tier one capital.

core UK group

- (1) (in relation to a *BIPRU firm*) all *undertakings* which, in relation to the *firm*, satisfy the conditions set out in *BIPRU* 3.2.25R (Zero risk-weighting for intra-group exposures: core UK group).
- (2) (in relation to an *IFPRU investment firm*) all counterparties which:
 - (a) are listed in the *firm's* core UK group permission;
 - (b) satisfy the conditions in article 113(6) of the *UK CRR* (Calculation of risk-weighted exposure amounts: intragroup); and
 - (c) (unless it is an *IFPRU limited-activity firm* or *IFPRU limited-licence firm*, or an exempt *IFPRU* commodities firm to which article 493(1) of the *UK CRR* (Transitional provision for large exposures) apply) for which *exposures* are exempted, under article 400(1)(f) of the *UK CRR* (Large exposures: exemptions), from the application of article 395(1) of the *UK CRR* (Limits to large exposures).

<i>core UK group eligible capital</i>	means the eligible capital in the <i>core UK group</i> calculated in line with <i>IFPRU 8.2.7R</i> .
<i>core UK group permission</i>	a permission given by the <i>FCA</i> under article 113(6) of the <i>UK CRR</i> (see <i>IFPRU 8.1.14G</i> to <i>IFPRU 8.1.21G</i>).
<i>core UK group waiver</i>	(in <i>BIPRU</i>) a <i>waiver</i> that has the result of requiring a <i>firm</i> to apply: <ul style="list-style-type: none"> (a) (in relation to the <i>credit risk capital requirement</i>) <i>BIPRU 3.2.25R</i> (Zero risk-weighting for intra-group exposures: core UK group), which in summary allows a <i>firm</i> to assign a <i>risk weight</i> of 0% to <i>exposures</i> to members of its <i>core UK group</i> instead of complying with <i>BIPRU 3.2.20R</i> (Calculation of risk-weighted exposure amounts under the standardised approach);
<i>corporate</i>	(in relation to the <i>IRB approach</i> or the <i>standardised approach</i> to credit risk) a <i>person</i> an <i>exposure</i> to whom is a <i>corporate exposure</i> .
<i>corporate exposure</i>	<ul style="list-style-type: none"> (1) (in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into <i>BIPRU 4.3.2R(3)</i> (IRB exposure classes). (2) (in relation to the <i>standardised approach</i> to credit risk) an <i>exposure</i> falling into <i>BIPRU 3.2.9R(7)</i> (Standardised approach to credit risk exposure classes).
<i>correlation trading portfolio</i>	(in <i>BIPRU 7</i>) a portfolio consisting of <i>securitisation positions</i> and <i>nth-to-default credit derivatives</i> that meet the criteria set out at <i>BIPRU 7.2.42AR</i> , or other <i>positions</i> which may be included in accordance with <i>BIPRU 7.2.42BR</i> .
<i>countercyclical buffer rate</i>	<p>the rate:</p> <ul style="list-style-type: none"> (a) expressed as a percentage of <i>total risk exposure amount</i> set by the <i>UK countercyclical buffer authority</i>; or (b) expressed in terms equivalent to a percentage of total risk exposure amount set by a <i>third-country countercyclical buffer authority</i>, <p>that a <i>firm</i> must apply in order to calculate its <i>countercyclical capital buffer</i>.</p> <p>[Note: article 128(7) of the <i>CRD</i> (Definitions)]</p>
<i>countercyclical capital buffer</i>	(in accordance with regulation 2(1) (Interpretation) of the Capital Requirements (Capital Buffers and Macro-prudential Measures Regulations 2014)) the amount of <i>common equity tier 1 capital</i> a <i>firm</i> must calculate in line with <i>IFPRU 10.3</i> .
<i>counterparty credit risk</i>	<ul style="list-style-type: none"> (1) (for the purposes of <i>BIPRU</i>) the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

(2) (other than in (1)) has the meaning as used in the *UK CRR*.

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

<i>counterparty risk capital component</i>	the part of the <i>credit risk capital requirement</i> calculated in accordance with <i>BIPRU</i> 14.2.1R (Calculation of the counterparty risk capital component).
<i>CRD bank</i>	a <i>bank</i> which uses the <i>UK CRR</i> to measure the capital requirement on its trading book.
<i>CRD financial instrument</i>	has the meaning set out in <i>BIPRU</i> 1.2.7R to <i>BIPRU</i> 1.2.8R (CRD financial instruments), which is in summary any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.
<i>CRD full-scope firm</i>	an investment firm as defined in article 4(1)(2) of the <i>UK CRR</i> that is subject to the requirements imposed by the <i>UK</i> provisions that implemented <i>MiFID</i> (or which would be subject to those requirements if its head office were in the <i>UK</i>) and that is not a <i>limited activity firm</i> or a <i>limited licence firm</i> .
<i>CRD implementation measure</i>	(in relation to an <i>person</i> and for the purposes of <i>GENPRU</i> and <i>BIPRU</i> (except in <i>GENPRU</i> 3 and <i>BIPRU</i> 12), a provision of the <i>Banking Consolidation Directive</i> or the <i>Capital Adequacy Directive</i> and an <i>EEA State</i> other than the <i>United Kingdom</i>) a measure implementing that provision of that Directive for that type of <i>person</i> in that <i>EEA State</i> .
<i>CRD ITS on templates, definitions and IT-solutions</i>	the <i>UK</i> version of Regulation (EU) 2016/2070 of 14 September 2016 laying down implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting in accordance with Article 78(2) of the <i>CRD</i> which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>CRD RTS on the identification of the geographical location of credit exposures for calculating institution-specific countercyclical capital buffer rates</i>	the <i>UK</i> version of Regulation (EU) No 1152/2014 of 4 June 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .

the credit quality assessment scale:

<i>credit quality assessment scale</i>	<p>(1) onto which the credit assessments of an export credit agency are mapped under the table in <i>BIPRU</i> 3.4.9R (Exposure for which a credit assessment by an export credit agency is recognised); or</p> <p>(2) published by the <i>appropriate regulator</i> in accordance with the <i>Capital Requirements Regulations 2006</i> which determine:</p> <p>(a) (in relation to an <i>eligible ECAI</i> whose recognition is for <i>risk weighting</i> purposes other than those in (2)(b)) with which of the <i>credit quality steps</i> set out in <i>BIPRU</i> 3.4 (Risk weights under the standardised approach to credit risk) the relevant credit assessments of an <i>eligible ECAI</i> are to be associated; or</p> <p>(b) (in relation to an <i>eligible ECAI</i> whose recognition is for <i>securitisation risk-weighting</i> purposes) with which of the <i>credit quality steps</i> set out in <i>BIPRU</i> 9 (Securitisation) the relevant credit assessments of the <i>eligible ECAI</i> are to be associated.</p>
<i>credit risk capital component</i>	the part of the <i>credit risk capital requirement</i> calculated in accordance with <i>BIPRU</i> 3.1.5R (Calculation of the credit risk capital component).
<i>credit risk mitigation</i>	<p>(1) (in <i>GENPRU</i> (except in <i>GENPRU</i> 3) and <i>BIPRU</i> (except in <i>BIPRU</i> 12)) a technique used by an <i>undertaking</i> to reduce the credit risk associated with an <i>exposure</i> or <i>exposures</i> which the <i>undertaking</i> continues to hold.</p> <p>[Note: article 4(30) of the <i>Banking Consolidation Directive</i> (Definitions)]</p> <p>(2) (except in (1)) has the meaning in article 4(1)(58) of the <i>UK CRR</i>.</p>
<i>credit valuation adjustment</i>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>BIPRU</i>) an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty; and so that this adjustment:</p> <p>(a) reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty; and</p> <p>(b) may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the <i>firm</i> and the counterparty.</p>
<i>critical functions</i>	activities, services or operations (wherever carried out) the discontinuance of which is likely to lead to the disruption of essential services to the real economy of the <i>UK</i> or to disrupt financial stability in the <i>UK</i> due to the:

- (a) size;
- (b) market share;
- (c) external and internal interconnectedness;
- (d) complexity; or
- (e) cross-border activities,

of an *RRD institution* or *RRD group*, particularly bearing in mind the substitutability of those activities, service or operations.

[Note: article 2(1)(35) of *RRD*]

<i>CRM minimum requirements</i>	<p>(1) in relation to the <i>standardised approach</i> to credit risk); <i>BIPRU</i> 5.2.9R-<i>BIPRU</i> 5.2.10R, <i>BIPRU</i> 5.3.3R, <i>BIPRU</i> 5.4.9R-<i>BIPRU</i> 5.4.13R, <i>BIPRU</i> 5.5.2R, <i>BIPRU</i> 5.5.5R-<i>BIPRU</i> 5.5.6R, <i>BIPRU</i> 5.6.2R-<i>BIPRU</i> 5.6.3R, <i>BIPRU</i> 5.7.6R-<i>BIPRU</i> 5.7.14R; or</p> <p>(2) (in relation to the <i>IRB approach</i>), the provisions in (1) and <i>BIPRU</i> 4.4.85R, <i>BIPRU</i> 4.10.13R, <i>BIPRU</i> 4.10.15R, and <i>BIPRU</i> 4.10.18R-<i>BIPRU</i> 4.10.19R.</p>
<i>cross product netting</i>	<p>(for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the inclusion of transactions of different product categories within the same <i>netting set</i> pursuant to the <i>rules</i> about cross-product netting set out in <i>BIPRU</i> 13.</p> <p>[Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]</p>
<i>CRR ITS on supervisory reporting</i>	<p>the <i>UK</i> version of Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions which is part of <i>UK</i> law by virtue of the <i>EUWA</i>.</p>
<i>current exposure</i>	<p>(for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the larger of zero, or the market value of a transaction or portfolio of transactions within a <i>netting set</i> with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy.</p> <p>[Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]</p>
<i>defined liquidity group</i>	<p>a <i>DLG by default</i> or <i>DLG by modification</i>.</p>

*designated
committee*

(in relation to a firm) a management body of the *firm* with delegated authority from the *firm's governing body* for approving either:

- (a) (in relation to a *firm* that uses the *IRB approach*) all material aspects of the *firm's rating systems* and material changes to the *firm's rating systems*; or
- (b) (in relation to a *firm* that uses the *advanced measurement approach*) all material aspects of the *advanced measurement approach* as carried out by the *firm* and material changes to the *firm's advanced measurement approach*; and
- (c) a policy statement defining the *firm's* overall approach to material aspects of rating and estimation processes for all *rating systems* including non-material *rating systems* in relation to the *IRB approach*, or its overall approach to the *advanced measurement approach*, as relevant;

at least one of whose members is a member of the *firm's governing body*.

*designated
money market
fund*

(in *BIPRU 12* and *BSOCS*) an *authorised fund* which satisfies the following conditions:

- (a) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;
- (b) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;
- (c) it must, for the purpose of condition (b), only count assets with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than 60 days;
- (d) it must, for the purpose of condition (b), ensure that if it invests in sight deposits with *credit institutions* of the kind mentioned in (b)(ii), no more than 20% of those deposits are held with any one body; and
- (e) it must provide liquidity through same day settlement in respect of any request for redemption made at or before 1200 hours GMT or, as the case may be, BST.

*designated
multilateral
development
bank*

Any of the following:

- (a) African Development Bank;
- (b) Asian Development Bank;

- (ba) Asian Infrastructure Investment Bank;
- (bb) Caribbean Development Bank;
- (d) European Bank for Reconstruction and Development;
- (e) European Investment Bank;
- (ea) European Investment Fund;
- (f) Inter-American Development Bank;
- (g) International Bank for Reconstruction and Development;
- (ga) International Development Association;
- (h) International Finance Corporation;
- (ha) International Finance Facility for Immunisation;
- (i) Islamic Development Bank;
- (ia) Multilateral Investment Guarantee Agency; and
- (j) Nordic Investment Bank.

dilution risk the risk that an amount receivable is reduced through cash or non-cash credits to the obligor.
 [Note: article 4(24) of the *Banking Consolidation Directive* (Definitions)]

distribution in connection with common equity tier 1 capital includes:

- (a) a payment of cash dividends;
- (b) a distribution of fully or partly paid bonus *shares* or other capital instruments referred to in article 26(1)(a) of the *UK CRR* (Common equity tier 1 items);
- (c) a redemption or purchase by a *firm* of its own *shares* or other capital instruments referred to in article 26(1)(a) of the *UK CRR* (Common equity tier 1 items);
- (d) a repayment of amounts paid in connection with capital instruments referred to in article 26(1)(a) of the *UK CRR* (Common equity tier 1 items); and

- (e) a distribution of items referred to in article 26(1)(b) to (e) of the *UK CRR124* (Common equity tier 1 items).

[Note: article 141(10) of *CRD*]

distribution of exposures for the purpose of *BIPRU 13* (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the forecast of the probability distribution of market values that is generated by setting forecast instances of negative net market values equal to zero.

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

distribution of market values for the purpose of *BIPRU 13* (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the forecast of the probability distribution of net market values of transactions within a *netting set* for some future date (the forecasting horizon), given the realised market value of those transactions up to the present time.

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

DLG by default (in relation to a *UK ILAS BIPRU firm* (a *group liquidity reporting firm*) and any reporting period under *SUP 16* (Reporting requirements)) the *firm* and each *person* identified in accordance with the following:

- (a) (in a case in which the *firm* is the only *UK ILAS BIPRU firm* in its *group*) that *person* meets any of the following conditions for any part of that period:
 - (i) that *person* provides material support to the *firm* against *liquidity risk*; or
 - (ii) that *person* is committed to provide such support or would be committed to do so if that *person* were able to provide it; or
 - (iii) the *firm* has reasonable grounds to believe that that *person* would supply such support if asked or would do so if it were able to provide it; or
 - (iv) the *firm* provides material support to that *person* against *liquidity risk*; or
 - (v) the *firm* is committed to provide such support to that *person* or would be committed to do so if the *firm* were able to provide it; or

- (vi) the *firm* has reasonable grounds to believe that that *person* would expect the *firm* to supply such support if asked or that the *firm* would do so if it were able to provide it; or
- (b) (in a case in which the *firm* is not the only UK ILAS BIPRU firm in its *group*):
 - (i) each of those other *UK ILAS BIPRU firms*; and
 - (ii) each *person* identified by applying the tests in (a) separately to the *firm* and to each of those other *UK ILAS BIPRU firms*, so that applying (b) to the *firm* and to each of those *UK ILAS BIPRU firms* results in their having the same *defined liquidity group*;
 - (iii) no *DLG by default* exists where the group consists only of *UK ILAS BIPRU firms*.

The following provisions also apply for the purpose of this definition.

- (c) A *person* is not a member of a firm's DLG by default unless it also satisfies one of the following conditions:
 - (i) it is a member of the *firm's group*; or
 - (ii) it is a *securitisation special purpose entity* or a *special purpose vehicle*; or
 - (iii) it is an *undertaking* whose main purpose is to raise funds for the *firm* or for a *group* to which that *firm* belongs.
- (ca) In the case of a *group liquidity reporting firm* that is within paragraph (a) of the definition of *UK lead regulated firm* (it is not part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* or any other *regulatory body*), paragraph (c)(i) of the definition of *DLG by default* is amended so that it only includes a member of the *firm's group* that falls into one of the following categories:
 - (i) it is a *credit institution*; or
 - (ii) it is an *investment firm* or *third country investment firm* authorised to *deal on own account*.

For these purposes:

- (iii) *credit institution* has the meaning used in *SUP 16* (Reporting requirements), namely either of the following:
 - (A) a credit institution authorised under the *CRD* or

- (B) an institution which would satisfy the requirements for authorisation as a credit institution under the *UK* provisions which implemented the *CRD* if it had its registered office (or if it does not have a registered office, its head office) in the *UK*; and
- (iv) a *person* is authorised to *deal on own account* if:
 - (A) it is a *firm* and its *permission* includes that activity; or
 - (B) [deleted]
 - (C) (if the carrying on of that activity is prohibited in a state or territory without an authorisation in that state or territory) that *person* has such an authorisation.
- (d) *Group* has the meaning in paragraph (1) of the definition in the *Glossary* (the definition in section 421 of the *Act*).
- (e) The conditions in (a) are satisfied even if the *firm* or *person* in question provides or is committed or expected to provide support for only part of the period. (f) In deciding for the purpose
- (f) In deciding for the purpose of (a) or (b) whether the *firm* is the only *UK ILAS BIPRU firm* in its *group* and identifying which are the other *UK ILAS BIPRU firms* in its *group*, any *group* member that is a member of the group through no more than a *participation* is ignored.
- (g) A *firm* has a *DLG by default* for a period even if it only has one during part of that period.
- (h) Liquidity support may be supplied by or to the *firm* directly or indirectly.
- (i) Support is material if it is material either by reference to the *person* giving it or by reference to the *person* receiving it.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP 16 Annex 26* (Guidance on designated liquidity groups in *SUP 16.12*).)

*DLG by
modification*

either of the following:

- (a) a *DLG by modification (firm level)*; or
- (b) a *non-UK DLG by modification (DLG level)*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP 16 Annex 26* (Guidance on designated liquidity groups in *SUP 16.12*).)

<i>DLG by modification (firm level)</i>	<p>(in relation to any reporting period under <i>SUP 16</i> (Reporting requirements) and a <i>UK ILAS BIPRU firm</i> that has an <i>intra-group liquidity modification</i> during any part of that period (a <i>group liquidity reporting firm</i>)) the <i>firm</i> and each <i>person</i> on whose liquidity support the <i>firm</i> can rely, under that <i>intra-group liquidity modification</i>, for any part of that period for the purpose of the <i>overall liquidity adequacy rule</i> (as the <i>overall liquidity adequacy rule</i> applies to the <i>firm</i> on a solo basis). A <i>firm</i> has a ‘DLG by modification (firm level)’ for a period even if it only has one during part of that period.</p> <p>(<i>Guidance</i> about this definition, and its inter-relation with other related definitions, is set out in <i>SUP 16 Annex 26</i> (<i>Guidance on designated liquidity groups in SUP 16.12</i>).)</p>
<i>early amortisation provision</i>	<p>(1) (in <i>BIPRU</i>) (in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of <i>securitisation</i>) a contractual clause which requires, on the occurrence of defined events, investors’ positions to be redeemed prior to the originally stated maturity of the securities issued.</p> <p>[Note: article 100 of the <i>Banking Consolidation Directive</i> (Securitisation of revolving exposures)]</p> <p>(2) (except in (1)) has the meaning in article 242(16) of the <i>UK CRR</i>.</p>
<i>EE</i>	<i>expected exposure.</i>
<i>effective EE</i>	<i>effective expected exposure.</i>
<i>effective EPE</i>	<i>effective expected positive exposure.</i>
<i>effective expected exposure</i>	<p>for the purpose of <i>BIPRU 13</i> (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions) and as at a specific date) the maximum <i>expected exposure</i> that occurs at that date or any prior date; alternatively, it may be defined for a specific date as the greater of the <i>expected exposure</i> at that date, or the <i>effective exposure</i> at the previous date.</p> <p>[Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]</p>
<i>effective expected positive exposure</i>	<p>for the purpose of <i>BIPRU 13</i>) the weighted average over time of <i>effective expected exposure</i> over the first year, or, if all the contracts within the <i>netting set</i> mature before one year, over the time period of the longest maturity contract in the <i>netting set</i>, where the weights are the proportion that an individual <i>expected exposure</i> represents of the entire time interval.</p> <p>[Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]</p>
<i>effective maturity</i>	for the purpose of the <i>CCR internal model method</i> and with respect to a <i>netting set</i> with maturity greater than one year) the ratio of the sum of <i>expected exposure</i> over the life of the transactions in the <i>netting set</i>

discounted at the risk-free rate of return divided by the sum of *expected exposure* over one year in a *netting set* discounted at the risk-free rate; this effective maturity may be adjusted to reflect *rollover risk* by replacing *expected exposure* with *effective expected exposure* for forecasting horizons under one year.

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

<i>EL</i>	<i>expected loss</i> .
<i>eligible capital</i>	has the meaning in article 4(1)(71) of the <i>UK CRR</i> .
<i>eligible partnership capital</i>	(in relation to a <i>BIPRU firm</i>) has the meaning in <i>GENPRU</i> 2.2.93R.
<i>EPE</i>	<i>expected positive exposure</i> .
<i>equity</i>	(for the purposes of <i>BIPRU</i> 7 and <i>IFPRU</i> 6) a <i>share</i>
<i>equity exposure</i>	(in relation to the <i>IRB approach</i>) an exposure falling into the <i>IRB exposure class</i> referred to in <i>BIPRU</i> 4.3.2R(5) (equity exposures).
<i>equity PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU</i> 7.3 (Equity PRR and basic interest rate PRR for equity derivatives) but so that: <ul style="list-style-type: none"> (a) the <i>equity PRR</i> excludes the part of the <i>market risk capital requirement</i> calculated under <i>BIPRU</i> 7.3.45R (Basic interest rate PRR for equity derivatives); and (b) in relation to a particular <i>position</i>, it means the portion of the overall <i>equity PRR</i> attributable to that <i>position</i>.
<i>excess spread</i>	(for the purposes of <i>BIPRU</i> 9 (Securitisation), in relation to a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of securitisation ¹³⁷)) finance charge collections and other fee income received in respect of the <i>securitised exposures</i> net of costs and expenses. [Note: Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)]
<i>excess trading book position</i>	has the meaning in <i>GENPRU</i> 2.2.264R (Deductions from total capital: Excess trading book position).
<i>exempt full scope IFPRU investment firm</i>	a <i>full-scope IFPRU investment firm</i> falling into <i>BIPRU</i> 12.1.4R.
<i>expected exposure</i>	for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the average of the distribution of

exposures at any particular future date before the longest maturity transaction in the *netting set* matures.

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

expected loss for the purposes of the *IRB approach* and the *standardised approach* to credit risk) the ratio of the amount expected to be lost on an *exposure* from a potential *default* of a counterparty or dilution over a one year period to the amount outstanding at default.

[Note: article 4(29) of the *Banking Consolidation Directive* (Definitions)]

expected positive exposure for the purpose of *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the weighted average over time of *expected exposures* where the weights are the proportion that an individual *expected exposures* represents of the entire time interval; when calculating the minimum capital requirement, the average is taken over the first year or, if all the contracts within the *netting set* mature before one year, over the time period of the longest-maturity contract in the *netting set*.

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

extraordinary public financial support has the meaning provided in section 3 of the Banking Act 2009.

facility grade (in relation to the *advanced IRB approach* and the *sovereign, institutional and corporate IRB exposure class* and in accordance with *BIPRU* 4.4.49R) a risk category within a *rating system*'s facility scale to which *exposures* are assigned on the basis of a specified and distinct set of rating criteria from which own estimates of *LGDs* are derived.

FCA consolidation group the *undertakings* included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the *UK CRR* and *IFPRU* 8.1.3R to *IFPRU* 8.1.4R (Prudential consolidation) for which the *FCA* is the *consolidating supervisor* under article 4B of the *UK CRR*.

FICOD 1 the European Parliament and Council Directive amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC regarding the supplementary supervision of financial entities in a financial conglomerate (No 2011/89/EU).

financial collateral comprehensive method the method for calculating the effects of credit risk mitigation described in those parts of *BIPRU* 5.4 (Financial collateral) that are expressed to apply to that method.

<i>financial collateral simple method</i>	the method for calculating the effects of credit risk mitigation described in those parts of <i>BIPRU</i> 5.4 (Financial collateral) that are expressed to apply to that method.
<i>Financial Collateral Directive</i>	the Council Directive of 6 June 2002 relating to financial collateral arrangements (No. 2002/47/EC).
<i>financial derivative instrument</i>	(for the purposes of <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 13.3.3R (Definition of a financial derivative instrument); the definition is adjusted for the purposes of the definition of <i>counterparty risk capital component</i> in accordance with <i>BIPRU</i> 14.2.3R (Credit derivatives).
<i>FINREP firm</i>	<p>(a) a <i>credit institution</i> or <i>investment firm</i> subject to the <i>UK CRR</i> that is also subject to section 403(1) of the Companies Act 2006; or</p> <p>(b) a <i>credit institution</i> other than one referred to in section 403(1) of the Companies Act 2006 that prepares its consolidated accounts in conformity with <i>UK-adopted international accounting standards</i>.</p> <p>[Note: article 99 of the <i>UK CRR</i>]</p>
<i>firm-specific liquidity stress</i>	<p>(in relation to a <i>firm</i> and any reporting obligations under <i>SUP</i> 16 (Reporting requirements)):</p> <p>(a) (in the case of reporting obligations on a solo basis (including on the basis of the <i>firm's UK branch</i>) the <i>firm</i> failing to meet, not complying with or being in breach of:</p> <ul style="list-style-type: none"> (i) the liquidity resources requirement calculated by that <i>firm</i> as adequate in its current <i>Individual Liquidity Adequacy Assessment</i> or <i>Individual Liquidity Systems Assessment</i>; or (ii) the level of its liquid assets buffer advised in any current <i>individual liquidity guidance</i> that the <i>firm</i> has accepted; or (iii) its funding profile advised in any current <i>individual liquidity guidance</i> that the <i>firm</i> has accepted; or (iv) the <i>overall liquidity adequacy rule</i>; or (v) <i>BIPRU</i> 12.2.8R (<i>ILAS BIPRU firm</i> adequate buffer of high quality, unencumbered assets) or <i>BIPRU</i> 12.2.11R (liquid assets buffer is at least equal to the <i>simplified buffer requirement</i>); or (vi) the <i>simplified buffer requirement</i> (taking into account <i>BIPRU</i> TP 29 (Liquid assets buffer scalar: simplified <i>ILAS BIPRU firms</i>) unless this has been

superseded by *individual liquidity guidance* that it has accepted; or

- (vii) any requirement imposed by or under the *regulatory system* under which the *firm* must hold a specified level of liquidity resources;

or it being likely that the *firm* will do so;

- (b) (in the case of reporting obligations with respect to the *firm* and a group of other *persons*) has the same meaning as in (a) except that references to any *rule* or other requirement, *Individual Liquidity Adequacy Assessment*, *Individual Liquidity Systems Assessment* or *individual liquidity guidance* are to any such thing so far as it applies to the *firm* and that group considered together.

foreign currency PRR the part of the *market risk capital requirement* calculated in accordance with *BIPRU 7.5* (Foreign currency PRR) or, in relation to a particular position, the portion of the overall *foreign currency PRR* attributable to that *position*.

forward rate agreement an agreement under which one party agrees to pay another an amount of interest based on an agreed interest rate for a specified period from a specified settlement date applied to an agreed principal amount but under which no commitment is made by either party to lend or borrow the principal amount.

foundation IRB approach one of the following:

- (a) (in relation to the *sovereign, institutional and corporate IRB exposure class*) the approach under the *IRB approach*, described in *BIPRU 4.4* (The IRB approach: Exposures to corporates, institutions and sovereigns) under which a *firm* uses the values for *LGD* and *conversion factors* set out in *BIPRU 4.4* rather than supplying its own estimates;
- (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with *BIPRU 8* (Group risk - consolidation); or
- (c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

FRA *forward rate agreement*.

free delivery (for the purposes of *BIPRU*) a transaction of the type set out in *BIPRU 14.4.2R* (Requirement to hold capital resources with respect to free deliveries) which, in summary, is a transaction under which a *person*:

- (a) has paid for *securities, foreign currencies or commodities* before receiving them or it has delivered *securities, foreign currencies or commodities* before receiving payment for them; and
- (b) in the case of cross-border transactions, one day or more has elapsed since it made that payment or delivery.

*full-scope
IFPRU
investment firm*

a *CRD full-scope firm* that is an *IFPRU investment firm*.

*funded credit
protection*

(for the purposes of *BIPRU*) a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an undertaking derives from the right of the *undertaking*, in the event of the default of the counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the *exposure* to, or to replace it with, the amount of the difference between the amount of the *exposure* and the amount of a claim on the *undertaking*.

[Note: article 4(31) of the *Banking Consolidation Directive* (Definitions)]

GCR

group capital resources.

GCRR

group capital resources requirement.

*general market
risk*

the risk of a price change in an *investment*:

- (a) (in relation to items that may or must be treated under *BIPRU* 7.2 (Interest Rate PRR)) owing to a change in the level of interest rates; or
- (b) (in relation to items that may or must be treated under *BIPRU* 7.3 (Equity PRR and basic interest rate PRR for equity derivatives) except insofar as *BIPRU* 7.3 relates to the calculation of the *interest rate PRR*) owing to a broad equity-market movement unrelated to any specific attributes of individual *securities*.

[Note: paragraph 12 of Annex I of the *Capital Adequacy Directive*]

*general market
risk position
risk adjustment*

a *position risk adjustment* with respect to *general market risk*

*general stress
and scenario
testing rule*

- (1) (in *GENPRU*, *BIPRU* and *INSPRU*) *GENPRU* 1.2.42R (Stress and scenario tests).

- (2) (for the purpose of *IFPRU*) *IFPRU* 2.2.37R (Stress and scenario tests).

general wrong-way risk for the purpose of *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the risk that arises when the probability of default of counterparties is positively correlated with general market risk factors.

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

gross leverage the ratio of total assets to total equity.

group liquidity low frequency reporting conditions (in relation to a *group liquidity reporting firm* and its *defined liquidity group*) the *defined liquidity group* meets the group liquidity low frequency reporting conditions if the *defined liquidity group* meets the following conditions:

- (a) the *firm* or any other member is a *low frequency liquidity reporting firm*; and
- (b) no member of that group is a *standard frequency liquidity reporting firm*.

For the purpose of deciding whether these conditions are met in relation to a *DLG by default*, any group member (other than the *group liquidity reporting firm* itself) that is a member of the group through no more than a *participation* is ignored.

group liquidity reporting firm see the definitions of *DLG by default*, *DLG by modification (firm level)*, and *non-UK DLG by modification (DLG level)*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in *SUP* 16 Annex 26 (Guidance on designated liquidity groups in *SUP* 16.12).)

group liquidity standard frequency reporting conditions (in relation to a *group liquidity reporting firm* and its *defined liquidity group*) the *defined liquidity group* meets the group liquidity standard frequency reporting conditions if the group does not meet the *group liquidity low frequency reporting conditions*.

group recovery plan a document which provides for measures to be taken in relation to an *RRD group*, or any *RRD institution* in the *group*, to achieve the stabilisation of the *group* as a whole, in cases of financial stress, to address or remove the causes of the stress and restore the financial position of the *group* or the *RRD institution*.

[Note: articles 2(1)(33) and 7(4) of *RRD*]

guarantee fund (1) (a) subject to (1)(b), in relation to a *firm* carrying on *general insurance business*, the higher of one third of the *general*

insurance capital requirement and the *base capital resources requirement* applicable to that firm;

- (b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under *INSPRU* 1.5, for the purposes of that section in (1)(a) the reference to the *general insurance capital requirement* is replaced by *UK MCR* or *EEA MCR*, as appropriate, and the reference to the *base capital resources requirement* is replaced by the amount which is one half of the *base capital resources requirement* applicable to the *firm* set out in *GENPRU* 2.1.30R.
- (2) (a) subject to (2)(b), in relation to a *firm* carrying on *long-term insurance business*, the higher of one third of the *long-term insurance capital requirement* and the *base capital resources requirement* applicable to that *firm*;
- (b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under *INSPRU* 1.5, for the purposes of that section in (2)(a) the reference to the *long-term insurance capital requirement* is replaced by *UK MCR* or *EEA MCR*, as appropriate, and the reference to the *base capital resources requirement* is replaced by the amount which is one half of the *base capital resources requirement* applicable to the *firm* set out in *GENPRU* 2.1.30R.

hedging 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 *risk positions* from the transactions within a single *netting set* for which only their balance is relevant for determining the *exposure* value under the *CCR standardised method*.

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

higher stage of capital (with respect to a particular item of capital in the capital resources table) a stage in the *capital resources table* above that in which that item of capital appears.

hybrid capital an item of capital that is stated in *GENPRU* 2.2 as eligible for inclusion at stage B1, B2 or C of the calculation in the *capital resources table*.

ICAAP the *internal capital adequacy assessment process*.

ICAAP rules (1) (in *GENPRU*) the *rules* in *GENPRU* 1.2.30R to *GENPRU* 1.2.39R (Systems, strategies, processes and reviews), *GENPRU* 1.2.42R (Main Requirements: Stress and scenario tests) and *GENPRU* 1.2.60R to *GENPRU* 1.2.61R (Documentation of risk assessments) as they apply on a solo level and on a consolidated level.

- (2) (for the purpose of *IFPRU*) the *rules* in IFPRU 2.2.2R to IFPRU 2.2.7R (Strategies, processes and systems) to IFPRU 2.2.16R, IFPRU 2.2.37G (Stress and scenario tests) in relation to a *significant IFPRU firm* and IFPRU 2.2.43R to IFPRU 2.2.44R (Documentation of risk assessments) as they apply on a individual basis and on a *consolidated basis*.

ICG *individual capital guidance.*

IFPRU limited-activity firm a *limited activity firm* that meets the following conditions:

- (a) it is a *firm*; and
- (b) its head office is in the *UK* and it is not otherwise excluded under *IFPRU* 1.1.5R.

IFPRU limited-licence firm a *limited licence firm* that meets the following conditions:

- (a) it is a *firm*; and
- (b) its head office is in the *UK* and it is not otherwise excluded under *IFPRU* 1.1.5R.

ILAA *Individual Liquidity Adequacy Assessment.*

ILAS *Individual Liquidity Adequacy Standards.*

ILAS BIPRU firm a *firm* falling into *BIPRU* 12.1.1AR, but excluding a *firm* that is:

- (a) an *exempt full scope IFPRU investment firm*; or
- (b) an *IFPRU limited-licence firm*; or
- (c) an *IFPRU limited-activity firm*; or
- (d) an *exempt BIPRU commodities firm*; or
- (e) an *exempt IFPRU commodities firm*; or
- (f) a *BIPRU firm*.

illiquid asset has the meaning in *GENPRU* 2.2.260R (Deductions from total capital: Illiquid assets).

ILSA *Individual Liquidity Systems Assessment.*

<i>in the money percentage</i>	(for the purposes of <i>BIPRU</i> 7 (Market risk) and in relation to an <i>option</i> or <i>warrant</i>) the percentage calculated under <i>BIPRU</i> 7.6.6R (The in the money percentage).
<i>incremental risk charge</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model)) has the meaning in <i>BIPRU</i> 7.10.116R (Capital calculations for VaR models), which is in summary, in relation to a <i>business day</i> , the incremental risk charge required under the provisions in <i>BIPRU</i> 7.10 about <i>specific risk</i> , in respect of the previous <i>business day</i> 's close-of-business <i>positions</i> with respect to which those provisions apply.
<i>Individual Liquidity Adequacy Assessment</i>	a <i>standard ILAS BIPRU firm</i> 's assessment of the adequacy of its liquidity resources and systems and controls as required by the <i>rules</i> in <i>BIPRU</i> 12.5.
<i>Individual Liquidity Adequacy Standards</i>	the regime of liquidity assessment set out in the <i>rules</i> and <i>guidance</i> in <i>BIPRU</i> 12.5.
<i>individual liquidity guidance</i>	<i>guidance</i> given to a <i>firm</i> about the amount, quality and funding profile of liquidity resources that the <i>appropriate regulator</i> has asked the <i>firm</i> to maintain.
<i>Individual Liquidity Systems Assessment</i>	a <i>simplified ILAS BIPRU firm</i> 's assessment of the adequacy of its systems and controls as required by the <i>rules</i> in <i>BIPRU</i> 12.6.
<i>initial commitment</i>	(for the purposes of <i>BIPRU</i> and in relation to <i>underwriting</i>) the date specified in <i>BIPRU</i> 7.8.13R (Time of initial commitment).
<i>initial coupon rate</i>	(in relation to a <i>tier one instrument</i>) the <i>coupon</i> rate of the instrument at the time it is issued.
<i>innovative tier one capital</i>	an item of capital that is stated in <i>GENPRU</i> 2.2 (Capital resources) to be innovative tier one capital.
<i>innovative tier one capital resources</i>	the amount of <i>capital resources</i> at stage C of the <i>capital resources table</i> (Innovation tier one capital).
<i>innovative tier one instrument</i>	a <i>potential tier one instrument</i> that is stated in <i>GENPRU</i> 2.2 (Capital resources) to be an innovative instrument.
<i>interest rate duration method</i>	the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in <i>BIPRU</i> 7.2.63R (General market risk calculation: Duration method).
<i>interest rate maturity method</i>	the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in <i>BIPRU</i> 7.2.59R (General market risk calculation: The maturity method).
<i>interest rate PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU</i> 7.2 (Interest rate PRR) or <i>BIPRU</i> 7.3.45R (Basic interest rate PRR for equity derivatives) or, in relation to a

	particular <i>position</i> , the portion of the overall <i>interest rate PRR</i> attributable to that <i>position</i> .
<i>interest rate simplified maturity method</i>	the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in <i>BIPRU</i> 7.2.56R (General market risk calculation: Simplified maturity method).
<i>interest-rate contract</i>	interest-rate contracts listed in paragraph 1 of Annex II to the <i>UK CRR</i> .
<i>internal approaches</i>	one or more of the following, as referred to in the <i>UK CRR</i> : <ul style="list-style-type: none"> (a) the Internal Ratings Based Approach in article 143(1); (b) the Internal Models Approach in article 221; (c) the own estimates approach in article 225; (d) the Advanced Measurement Approaches in article 312(2); (e) the Internal Model Method and internal models in articles 283 and 363; and (f) the internal assessment approach in article 259(3).
<i>internal capital adequacy assessment process</i>	a <i>firm's</i> assessment of the adequacy of its capital and financial resources, as required by the <i>ICAAP rules</i> .
<i>international organisation</i>	(for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) an organisation referred to in <i>BIPRU</i> 3.4.30R (Exposures to international organisations).
<i>intra-group liquidity modification</i>	a modification to the <i>overall liquidity adequacy rule</i> of the kind described in <i>BIPRU</i> 12.8.7G.
<i>investment firm consolidation waiver</i>	(in relation to a <i>BIPRU firm</i>) a <i>waiver</i> (described in <i>BIPRU</i> 8.4 (CAD Article 22 groups and investment firm consolidation waiver)) that disapplies certain requirements so far as they apply on a consolidated basis with respect to a <i>CAD Article 22 group</i> .
<i>IRB approach</i>	one of the following: <ul style="list-style-type: none"> (a) the adjusted method of calculating the <i>credit risk capital component</i> set out in <i>BIPRU</i> 4 (IRB approach) and <i>BIPRU</i> 9.12 (Calculation of risk weighted exposure amounts under the internal ratings based approach), including that approach as applied under <i>BIPRU</i> 14 (Capital requirements for settlement and counterparty risk);

- (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with *BIPRU* 8 (Group risk - consolidation); or
- (c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

<i>IRB exposure class</i>	(in relation to the <i>IRB approach</i>) one of the classes of <i>exposure</i> set out in <i>BIPRU</i> 4.3.2R (exposure classes).
<i>IRB permission</i>	a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or a <i>CAD investment firm</i> to use the <i>IRB approach</i> .
<i>KIRB</i>	<p>(for the purposes of <i>BIPRU</i> 9 (Securitisation), in relation to a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of <i>securitisation</i>) 8% of the <i>risk weighted exposure amounts</i> that would be calculated under the <i>IRB approach</i> in respect of the <i>securitised exposures</i>, had they not been <i>securitised</i>, plus the amount of <i>expected losses</i> associated with those <i>exposures</i> calculated under the <i>IRB approach</i>.</p> <p>[Note: Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)]</p>
<i>lending firm</i>	<p>for the purposes of <i>rules</i> in <i>BIPRU</i> about <i>credit risk mitigation</i>) a <i>firm</i> that has an <i>exposure</i>, whether or not deriving from a loan.</p> <p>[Note: article 90 of the <i>Banking Consolidation Directive</i> (Credit risk mitigation)]</p>
<i>LGD</i>	<i>loss given default</i> .
<i>limited activity firm</i>	has the meaning in article 96(1) of the <i>UK CRR</i> .
<i>limited licence firm</i>	has the meaning in article 95(1) of the <i>UK CRR</i> .
<i>liquidity facility</i>	<p>(for the purposes of <i>BIPRU</i> 9 (Securitisation), in relation to a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of <i>securitisation</i>) the <i>securitisation position</i> arising from a contractual agreement to provide funding to ensure timeliness of cash-flows to investors.</p> <p>[Note: Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)]</p>
<i>loss</i>	for the purposes of the <i>IRB approach</i> , the <i>standardised approach</i> to credit risk and <i>BIPRU</i> 5 (Credit risk mitigation)) economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

[Note: article 4(26) of the *Banking Consolidation Directive* (Definitions)]

- (1) (in *BIPRU* and for the purposes of the *IRB approach*, the *standardised approach* to credit risk and *BIPRU* 5 (Credit risk mitigation)) economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

[Note: article 4(26) of the *Banking Consolidation Directive* (Definitions)]

- (2) (except in (2)) has the meaning in article 5(1) of the *UK CRR*.

loss given default

in relation to the *IRB approach*) the ratio of the *loss* on an *exposure* due to the *default* of a counterparty to the amount outstanding at *default*.

[Note: article 4(27) of the *Banking Consolidation Directive* (Definitions)]

*low frequency
liquidity reporting
firm*

any of the following:

- (a) a *simplified ILAS BIPRU firm*; or
- (b) a *standard ILAS BIPRU firm* whose most recent *annual report and accounts* show balance sheet assets of less than £541 billion (or its equivalent in foreign currency translated into sterling at the balance sheet date); or
- (c) a *standard ILAS BIPRU firm* that meets the following conditions:
 - (i) it does not have any *annual report and accounts* and it has been too recently established to be required to have produced any;
 - (ii) it has submitted a projected balance sheet to the *FCA* or *PRA* (as the case may be) as part of an application for a *Part 4A permission* or a variation of one; and
 - (iii) the most recent such balance sheet shows that the *firm* will meet the size condition set out in (b) in all periods covered by those projections.

In respect of a *third country BIPRU firm* that is also a *standard ILAS BIPRU firm* and which reports on the basis of its branch operation in the *United Kingdom*, if the balance sheet assets attributable to the *UK branch* can be determined from the *firm's* most recent *annual report and accounts* (or, if applicable, the

	projected balance sheet) or any <i>data item</i> submitted by the <i>firm</i> , then paragraphs (b) and (c) apply at the level of the <i>branch</i> rather than of the <i>firm</i> .
<i>lower stage of capital</i>	(with respect to a particular item of capital in the <i>capital resources table</i>) a stage in the <i>capital resources table</i> below that in which that item of capital appears.
<i>lower tier three capital</i>	an item of capital that is specified in stage P of the <i>capital resources table</i> (Lower tier three).
<i>lower tier three capital resources</i>	the sum calculated at stage P of the <i>capital resources table</i> (Lower tier three).
<i>lower tier two capital</i>	(in <i>BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stage H of the capital resources table (Lower tier two capital)
<i>lower tier two capital resources</i>	the sum calculated at stage H of the calculation in the <i>capital resources table</i> (Lower tier two capital)
<i>lower tier two instrument</i>	an item of capital that meets the conditions in GENPRU 2.2.194R (Lower tier two capital) and is eligible to form part of a <i>firm's lower tier two capital resources</i> .
<i>LTICR</i>	<i>long-term insurance capital requirement</i>
<i>main BIPRU firm Pillar 1 rules</i>	GENPRU 2.1.40R (Variable capital requirement for <i>BIPRU firms</i>), GENPRU 2.1.41R (<i>Base capital resources requirement</i> for <i>BIPRU firms</i>), GENPRU 2.1.48R (Table: Base capital resources requirement for a BIPRU firm).
<i>margin agreement</i>	for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a contractual agreement or provisions to an agreement under which one counterparty must supply collateral to a second counterparty when an <i>exposure</i> of that second counterparty to the first counterparty exceeds a specified level. [Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)] ¹³²
<i>margin period of risk</i>	for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the time period from the last exchange of collateral covering a <i>netting set</i> of transactions with a defaulting counterpart until that counterpart is closed out and the resulting market risk is re-hedged. [Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]

<i>margin threshold</i>	<p>for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the largest amount of an <i>exposure</i> that remains outstanding until one party has the right to call for collateral.</p> <p>[Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]</p>
<i>market liquidity stress</i>	<p>(in relation to a <i>firm</i> and any reporting obligations under <i>SUP</i> 16 (Reporting requirements)):</p> <ul style="list-style-type: none"> (a) (in the case of reporting obligations on a solo basis) any market that is of material significance to the <i>firm</i> being materially adversely affected by crystallised <i>liquidity risk</i> or a substantial number of participants in any such market being materially adversely affected by crystallised <i>liquidity risk</i>, whether or not the <i>firm</i> itself is so affected; (b) (in the case of reporting obligations with respect to the <i>firm</i> and a group of other persons) has the same meaning as in (a) except that references to the <i>firm</i> are to the <i>firm</i> and that group considered together; (c) (in the case of reporting obligations with respect to a <i>firm's UK branch</i>) has the same meaning as in (a) except that references to the <i>firm</i> are to that <i>branch</i>.
<i>market risk capital requirement</i>	the part of the <i>capital resources requirement</i> of a <i>BIPRU</i> firm in respect of <i>market risk</i> , calculated in accordance with GENPRU 2.1.52R (Calculation of the market risk capital requirement).
<i>master netting agreement internal models approach</i>	<ul style="list-style-type: none"> (a) the method of calculating the effect of <i>credit risk mitigation</i> described in <i>BIPRU</i> 5.6.16R to <i>BIPRU</i> 5.6.28G; (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with <i>BIPRU</i> 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>master netting agreement internal models approach permission</i>	<i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU</i> firm to use the <i>master netting agreement internal models approach</i> on a solo basis or, if the context requires, a consolidated basis.

- material currency*
- (a) *Material currencies*, in respect of a *firm* at any time, are currencies determined in accordance with the following.
 - (b) First, the amount of its assets and the amount of its liabilities in each currency (ignoring the sign) are separately calculated. The figures are as shown in the most recent *data item* FSA054 submitted to the *appropriate regulator*.
 - (c) Then, each such amount is converted into the reporting currency for the *data item* referred to in (b).
 - (d) Each currency (which may include the reporting currency) that represents 20% or more of the total asset figure or 20% or more of the total liabilities figure is a *material currency*.
 - (e) A currency is also a *material currency* if it is identified by the *firm's* current:
 - (i) *Individual Liquidity Adequacy Assessment*; or
 - (ii) *Individual Liquidity Systems Assessment*; or
 - (iii) *ILG* that has been accepted by the *firm*;
as being significant in the context of cross-currency *liquidity risk* (as referred to in BIPRU 12.5 (Individual Liquidity Adequacy Standards)).
 - (f) The conversion rate for a currency into the reporting currency is the exchange rate on the date as of which the calculation is being made.
 - (g) The reporting currency means the currency in which the most recent *data item* FSA054 (as referred to in (b)) is reported.
 - (h) A currency is a *material currency* in relation to a *firm's branch* or a *defined liquidity group* of which it is a *group liquidity reporting firm* if it is identified as such in accordance with the procedures in the previous paragraphs of this definition except that the identification is carried out by reference to that *branch* or *defined liquidity group*. For these purposes, *data item* FSA054 for the *reporting level* concerned is used.
 - (i) If the *firm* has not delivered *data item* FSA054 to the *appropriate regulator* at the *reporting level* concerned or is currently not required to do so at the *reporting level* concerned, the calculation is carried out using the methods for drawing up *data item* FSA054.

<i>material holding</i>	(for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>GENPRU</i> 2.2.209R (Deductions from tiers one and two: Material holdings (BIPRU firm only)).
<i>material insurance holding</i>	has the meaning in <i>GENPRU</i> 2.2.212R (Material holdings) or, for an <i>exempt CAD firm</i> which is an <i>investment management firm</i> , in <i>IPRU(INV)</i> Table 5.8
<i>Material Risk Takers Regulation</i>	the <i>UK</i> version of Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>MCR</i>	<i>minimum capital requirement</i> .
<i>MDA</i>	the maximum distributable amount calculated in line with <i>IFPRU</i> 10.4.3R.
<i>member contribution</i>	<p>any paid up contribution by a member of a <i>mutual</i> where the members' accounts meet the following criteria:</p> <ul style="list-style-type: none"> (a) the memorandum and articles of association or other constitutional documents must stipulate that payments may be made from these accounts to members only in so far as this does not cause the <i>firm's capital resources</i> to fall below the required level, or, if after dissolution of the <i>firm</i>, all the <i>firm's</i> other debts have been settled; (b) the memorandum and articles of association or other constitutional documents must stipulate, with respect to the payments referred to in (a) made for reasons other than the individual termination of membership, that the <i>appropriate regulator</i> must be notified at least one month in advance of the intended date of such payments; and (c) the <i>appropriate regulator</i> must be notified of any amendment to the relevant provisions of the memorandum and articles of association or other constitutional documents.
<i>mezzanine securitisation positions</i>	<p>for the purposes of <i>BIPRU</i> 9.3.7R, <i>BIPRU</i> 9.4.11R and <i>BIPRU</i> 9.5.1R(6), <i>securitisation positions</i> to which a <i>risk weight</i> lower than 1250% applies and which are more junior than the most senior position in the relevant <i>securitisation</i> and more junior than any <i>securitisation</i> position in the relevant <i>securitisation</i> to which:</p> <ul style="list-style-type: none"> (a) in the case of a <i>securitisation position</i> subject to the <i>standardised approach to securitisation</i> set out in <i>BIPRU</i>

9.11.1R and *BIPRU* 9.11.2R, a *credit quality step* 1 is assigned; or

- (b) in the case of a *securitisation position* subject to the *IRB approach* to *securitisation* set out in *BIPRU* 9.12.10R and *BIPRU* 9.12.11R, a *credit quality step* 1 or 2 is assigned under *BIPRU* 9.7.2R, *BIPRU* 9.8.2R to *BIPRU* 9.8.7R and regulation 23 of the *Capital Requirements Regulations 2006*.

[Note: *BCD*, Annex IX, Part 2, Point 1, paragraph 1b]

minimum capital requirement

an amount of capital resources that a *firm* must hold as set out in *GENPRU* 2.1.24R and *GENPRU* 2.1.25R.

minimum IRB standards

(in relation to the *IRB approach*) *BIPRU* 4.3.9R, *BIPRU* 4.3.11R-*BIPRU* 4.3.29R, *BIPRU* 4.3.33R-*BIPRU* 4.3.40R, *BIPRU* 4.3.43R-*BIPRU* 4.3.44R, *BIPRU* 4.3.46R-*BIPRU* 4.3.48R, *BIPRU* 4.3.50R-*BIPRU* 4.3.51R, *BIPRU* 4.3.54R, *BIPRU* 4.3.56R-*BIPRU* 4.3.57R, *BIPRU* 4.3.63R, *BIPRU* 4.3.70R-*BIPRU* 4.3.71R, *BIPRU* 4.3.73R-*BIPRU* 4.3.74R, *BIPRU* 4.3.83R-*BIPRU* 4.3.85R, *BIPRU* 4.3.88R, *BIPRU* 4.3.90R-*BIPRU* 4.3.92R, *BIPRU* 4.3.94R, *BIPRU* 4.3.99R, *BIPRU* 4.3.103R, *BIPRU* 4.3.116R-*BIPRU* 4.3.123R, *BIPRU* 4.3.125R-*BIPRU* 4.3.131R *BIPRU* 4.4.6R-*BIPRU* 4.4.9R, *BIPRU* 4.4.11R-*BIPRU* 4.4.13R, *BIPRU* 4.4.15R-*BIPRU* 4.4.18R, *BIPRU* 4.4.21R-*BIPRU* 4.4.22R, *BIPRU* 4.4.24R-*BIPRU* 4.4.25R, *BIPRU* 4.4.27R-*BIPRU* 4.4.28R, *BIPRU* 4.4.30R-*BIPRU* 4.4.31R, *BIPRU* 4.4.48R-*BIPRU* 4.4.51R, *BIPRU* 4.4.53R, *BIPRU* 4.4.54R, *BIPRU* 4.5.5R, *BIPRU* 4.6.6R-*BIPRU* 4.6.9R, *BIPRU* 4.6.11R-*BIPRU* 4.6.12R, *BIPRU* 4.6.14R, *BIPRU* 4.6.18R, *BIPRU* 4.6.20R-*BIPRU* 4.6.21R, *BIPRU* 4.6.24R-*BIPRU* 4.6.34R, *BIPRU* 4.6.37R-*BIPRU* 4.6.39R, *BIPRU* 4.7.19R, *BIPRU* 4.7.27R-*BIPRU* 4.7.35R, *BIPRU* 4.8.5R-*BIPRU* 4.8.9R, *BIPRU* 4.8.11R-*BIPRU* 4.8.15R, *BIPRU* 4.10.40R-*BIPRU* 4.10.48R.

minimum multiplication factor

(in *BIPRU* 7.10 (Use of a value at risk model)) has the meaning in *BIPRU* 7.10.119R (Capital calculations: Multiplication factors), which is in summary the number three or any higher amount the *VaR model permission* defines it as.

model PRR

the part of the *market risk capital requirement* calculated under a *VaR model permission* as more fully defined in *BIPRU* 7.10 (Use of a Value at Risk Model).

model risk

the potential loss an *institution* may incur, as a consequence of decisions that could be principally based on the output of internal models used under any of the internal approaches, due to errors in the development, implementation or use of such models.

*multilateral
development
bank*

- (a) any of the following:
- (i) African Development Bank;
 - (ii) Asian Development Bank;
 - (iia) Asian Infrastructure Investment Bank;
 - (iii) Caribbean Development Bank;
 - (iv) Council of Europe Development Bank;
 - (v) European Bank for Reconstruction & Development;
 - (vi) European Investment Bank;
 - (vii) European Investment Fund;
 - (viii) Inter-American Development Bank;
 - (ix) International Bank for Reconstruction and Development;
 - (ixa) International Development Association;
 - (x) International Finance Corporation;
 - (xa) International Finance Facility for Immunisation;
 - (xb) Islamic Development Bank;
 - (xi) Multilateral Investment Guarantee Agency; and
 - (xii) Nordic Investment Bank;
- (b) (in *BIPRU*) for the purposes of the *standardised approach* to credit risk the following are also considered to be a multilateral development bank:
- (i) the Inter-American Investment Corporation;
 - (ii) the Black Sea Trade and Development Bank;
 - (iii) the Central American Bank for Economic Integration; and
 - (iv) the CAF-Development Bank of Latin America.

*modified
CIU look
through
method*

the method for calculating *PRR* for a *CIU* set out in *BIPRU* 7.7.4R, *BIPRU* 7.7.7R to *BIPRU* 7.7.8R and *BIPRU* 7.7.11R to *BIPRU* 7.7.12R

<i>multiplication factor</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model)) a multiplication factor applied to a <i>VaR measure</i> for the purpose of calculating the <i>model PRR</i> made up of the <i>minimum multiplication factor</i> as increased by the <i>plus factor</i> , all as more fully defined in <i>BIPRU</i> 7.10.118R (Capital calculations: Multiplication factors).
<i>net leverage</i>	the ratio of total assets, less those bought under reverse <i>repo</i> arrangements, to total equity.
<i>net underwriting exposure</i>	has the meaning in <i>BIPRU</i> 7.8.34R (Large exposure risk from underwriting securities: Calculating the net underwriting exposure) which is in summary the amount calculated by applying the reduction factors in the table in <i>BIPRU</i> 7.8.35R to the <i>net underwriting position</i> .
<i>net underwriting position</i>	the net underwriting position calculated under <i>BIPRU</i> 7.8.17R (Calculating the net underwriting position).
<i>non-core concentration risk group counterparty</i>	has the meaning in <i>BIPRU</i> 10.9A.4R (Definition of non-core concentration risk group counterparty), which is in summary (in relation to a <i>firm</i>) each counterparty which is its <i>parent undertaking</i> , its <i>subsidiary undertaking</i> or a <i>subsidiary undertaking</i> of its <i>parent undertaking</i> , provided that (in each case) both the counterparty and the <i>firm</i> satisfy the conditions in <i>BIPRU</i> 10.9A.4R (Definition of non-core concentration risk group counterparty).

[Note: article 113(4)(c) of the *Banking Consolidation Directive*]

<i>non-core large exposures group</i>	<p>(in relation to a <i>firm</i>) all counterparties which:</p> <ol style="list-style-type: none"> (1) are listed in the <i>firm's non-core large exposures group permission</i>; (2) satisfy the conditions in <i>IFPRU</i> 8.2.6R (Intra-group exposures: non-core large exposures group); and (3) for which <i>exposures</i> are exempted, under article 400(2)(c) of the <i>UK CRR</i> (Exemptions), from the application of article 395(1) of the <i>UK CRR</i> (Limits to large exposures).
<i>non credit-obligation asset</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> in the form of a non credit-obligation asset or falling under <i>BIPRU</i> 4.9.5R (Non credit-obligation assets).
<i>non-core large exposures</i>	the exemption in <i>IFPRU</i> 8.2.6R (Intra-group exposures: non-core large exposures group).

group exemption

non-core large exposures group permission a permission referred to in *IFPRU* 8.2.6R given by the *FCA* for the purpose of article 400(2)(c) of the *UK CRR* (Large exposures: exemptions).

non-ILAS BIPRU firm a *firm* falling into *BIPRU* 12.1.1R which is not an *ILAS BIPRU firm*.

non-trading book positions, exposures, assets and liabilities that are not in the *trading book*.

non-UK DLG by modification either of the following:

- (a) a *non-UK DLG by modification (firm level)*; or
- (b) a *non-UK DLG by modification (DLG level)*.

non-UK DLG by modification (DLG level) (in relation to any reporting period under *SUP* 16 (Reporting requirements) and in relation to a *firm* that meets the following conditions (a group liquidity reporting firm):

- (a) it is a *UK ILAS BIPRU firm* with an *intra-group liquidity modification*;
- (b) it is a *group liquidity reporting firm* in a *UK DLG by modification* created by that *intra-group liquidity modification*;
- (c) the *overall liquidity adequacy rule* applies under that *intra-group liquidity modification* to that *UK DLG by modification*; and
- (d) that *UK DLG by modification* can rely, under that *intra-group liquidity modification*, for any part of that period, on a group of other *persons* for the purpose of the *overall liquidity adequacy rule* as applied to that *UK DLG by modification*);

means the group made up of the following:

- (e) that *ILAS BIPRU firm*;
- (f) the other members of that *UK DLG by modification*; and

(g) the group of other *persons* mentioned in (d).

A *firm* has a ‘non-UK DLG by modification (DLG level)’ for a period even if it only has one during part of that period.

(*Guidance* about this definition, and its inter-relation with other new definitions, is set out in SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12).)

non-UK DLG by modification (firm level)

(in relation to a *group liquidity reporting firm*) a *DLG by modification (firm level)* that is not a *UK DLG by modification (firm level)*. A *firm* with a *non-UK DLG by modification (firm level)* cannot also have a *UK DLG by modification (firm level)*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12).)

non UK lead regulated firm

a *firm* that is not a *UK lead regulated firm*. This definition is not related to the defined term *lead regulated firm*.

non-UK sub group

- (1) (in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) a group of *undertakings* identified as a *non-UK sub-group* in *BIPRU* 8.3.1R (Main consolidation rule for non-UK sub-groups).
- (2) (except in (1)) a group of *undertakings* identified in article 22 of the *EU CRR* (Sub-consolidation in cases of entities in third countries).

obligor grade

(in relation to the *IRB approach* and the *sovereign, institutional and corporate IRB exposure class* and in accordance with *BIPRU* 4.4.8R) a risk category within a *rating system*’s obligor rating scale, to which obligors are assigned on the basis of a specified and distinct set of rating criteria, from which estimates of *PD* are derived.

one-day VaR measure

(in *BIPRU* 7.10 (Use of a value at risk model)) has the meaning in *BIPRU* 7.10.98R (Backtesting: One day VaR measure), which is in summary and in relation to a particular *business day*, the *VaR number* for that *business day* calibrated to a one *business day* holding period and a 99% one-tailed confidence level.

one-sided credit valuation adjustment

(for the purposes of *BIPRU*) a *credit valuation adjustment* that reflects the market value of the credit risk of the counterparty to a *firm*, but does not reflect the market value of the credit risk of the *firm* to the counterparty.

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

ongoing basis

in *BIPRU* 9.15, maintaining on an *ongoing basis* means that the retained positions, interest or exposures are not hedged or sold.

[Note: *BCD*, Article 122a, paragraph 1]

<i>open currency position</i>	the amount calculated under <i>BIPRU</i> 7.5.19R (Open currency position) as part of the calculation of the <i>foreign currency PRR</i> .
<i>option hedging method</i>	the method of calculating the <i>option PRR</i> in <i>BIPRU</i> 7.6.24R (The hedging method).
<i>option PRR</i>	the part of the market risk capital requirement calculated in accordance with <i>BIPRU</i> 7.6 (Option PRR) or, in relation to a particular position, the portion of the overall option PRR attributable to that position.
<i>option standard method</i>	the method of calculating the option PRR in <i>BIPRU</i> 7.6.20R to <i>BIPRU</i> 7.6.22R (The standard method).
<i>original financing costing amount</i>	(in relation to a <i>share</i> , <i>debenture</i> or other investment in, or external contribution to the capital of, a <i>firm</i> that is subject to a <i>step-up</i>) the <i>financing cost amount</i> for the instrument for a period beginning on or near the date of issue of the instrument and ending on or near the date of the first <i>step-up</i> .
<i>OTC derivative transaction</i>	a derivative financial instrument of a type listed on Annex II to the <i>UK CRR</i> that is traded over the counter.
<i>out of the money</i>	(for the purposes of <i>BIPRU</i> 7 (Market risk) and in relation to an <i>option</i> or <i>warrant</i>) that <i>option</i> or <i>warrant</i> being neither <i>at the money</i> nor <i>in the money</i> .
<i>overall liquidity adequacy rule</i>	<i>BIPRU</i> 12.2.1R.
<i>overall Pillar 2 rule</i>	<p>(1) (in <i>GENPRU</i>, <i>BIPRU</i> and <i>INSPRU</i>) <i>GENPRU</i> 1.2.30R (Systems, strategies, processes and reviews for certain <i>firms</i>).</p> <p>(2) (in <i>IFPRU</i>) <i>IFPRU</i> 2.2.7R (Strategy processes and systems).</p>
<i>own estimates of volatility adjustments approach</i>	the approach to calculating volatility adjustments under the <i>financial collateral comprehensive method</i> under which the <i>firm</i> uses its own estimates of such adjustments, as more fully described in <i>BIPRU</i> 5.4 (Financial collateral) and including that approach as applied to master netting agreements as described in <i>BIPRU</i> 5.6 (Master netting agreements)
<i>parent financial holding</i>	(in <i>GENPRU</i> (except <i>GENPRU</i> 3 and <i>BIPRU</i> (except <i>BIPRU</i> 12)) a <i>financial holding company</i> which is not itself a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in the <i>UK</i> , or of a <i>financial holding company</i> or <i>mixed financial holding company</i> established in the <i>UK</i> .

company in the UK

parent institution in the UK (in *GENPRU* (except *GENPRU* 3 and *BIPRU* (except *BIPRU* 12)) an *institution* which has an *institution* or a *financial institution* as a *subsidiary undertaking* or which holds a *participation* in such an *institution*, and which is not itself a *subsidiary undertaking* of another *institution* authorised in the *UK*, or of a *financial holding company* or *mixed financial holding company* established in the *UK*.

parent mixed financial holding company in the UK (in *GENPRU* (except *GENPRU* 3 and *BIPRU* (except *BIPRU* 12)) a *mixed financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the *UK*, or of a *financial holding company* or *mixed financial holding company* established in the *UK*.

payment leg (for the purposes of the *CCR standardised method* and as more fully defined in *BIPRU* 13.5.2R (Derivation of risk position: payment legs) the contractually agreed gross payments under a *financial derivative instrument*, including the notional amount of the transaction.

PD/LGD approach the method for treating *equity exposures* under the *IRB approach* set out in *BIPRU* 4.7.14R-*BIPRU* 4.7.22R.

peak exposure for the purpose of *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a high percentile of the distribution of exposures at any particular future date before the maturity date of the longest transaction in the *netting set*.

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

permanent interest bearing shares any shares of a class defined as deferred shares for the purposes of section 119 of the Building Societies Act 1986 which are issued as permanent interest-bearing shares and on terms which qualify them as own funds for the purposes of the *UK CRR*.

permanent share capital an item of capital that is stated in *GENPRU* 2.2.83R (Core tier one capital: permanent share capital) to be permanent share capital.

physical commodity a physical holding of a *commodity*, or documents evidencing title to a *commodity*.

PIBS *permanent interest bearing shares*.

<i>plus factor</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model)) an increase to the <i>minimum multiplication factor</i> based on <i>backtesting exceptions</i> as more fully defined in <i>BIPRU</i> 7.10.124R (Capital calculations: Multiplication factors).
<i>position</i>	<p>(1) (in accordance <i>BIPRU</i> 1.2.4R (Definition of the trading book: Positions)) includes proprietary positions and positions arising from client servicing and market making.</p> <p>(2) (in <i>IFPRU</i>) has the meaning which it has, or is used, in the <i>UK CRR</i>.</p>
<i>position risk adjustment</i>	a percentage applied to a <i>position</i> as part of the process of calculating the <i>PRR</i> in relation to that <i>position</i> as set out in the tables in <i>BIPRU</i> 7.2.44R (Specific risk position risk adjustments), <i>BIPRU</i> 7.2.57R (General market risk position risk adjustments), <i>BIPRU</i> 7.3.30R (Simplified equity method position risk adjustments), <i>BIPRU</i> 7.3.34R (Position risk adjustments for specific risk under the standard equity method) and <i>BIPRU</i> 7.6.8R (The appropriate position risk adjustment) and also as set out in <i>BIPRU</i> 7.2.48AR to <i>BIPRU</i> 7.2.48LR.
<i>position risk requirement</i>	a capital requirement applied to a position treated under <i>BIPRU</i> 7 (Market risk) as part of the calculation of the <i>market risk capital requirement</i> or, if the relevant provision of the <i>Handbook</i> distinguishes between <i>general market risk</i> and <i>specific risk</i> , the portion of that capital requirement with respect to whichever of <i>general market risk</i> or <i>specific risk</i> is specified by that provision.
<i>potential tier one instrument</i>	an item of capital that falls into GENPRU 2.2.62R (Tier one capital: General)
<i>probability of default</i>	<p>(for the purpose of <i>BIPRU</i>) the probability of default of a counterparty over a one year period; for the purposes of the <i>IRB approach</i>, default has the meaning in the definition of <i>default</i>.</p> <p>[Note: article 4(25) of the <i>Banking Consolidation Directive</i> (Definitions)]</p>
<i>profit and loss figure</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model) and in relation to a <i>business day</i>) a <i>firm's</i> actual profit or loss for that day in respect of the trading activities within the scope of the <i>firm's VaR model permission</i> , adjusted by stripping out specified items, as more fully defined in <i>BIPRU</i> 7.10.100R (Backtesting: Calculating the profit and loss).
<i>protection buyer</i>	<p>(in <i>BIPRU</i>) (in relation to a credit derivative) the <i>person</i> who transfers credit risk.</p> <p>[Note: paragraph 8 of Annex I of the <i>Capital Adequacy Directive</i> (Calculating capital requirements for position risk)]</p>
<i>protection seller</i>	(in <i>BIPRU</i>) (in relation to a credit derivative) the <i>person</i> who assumes the credit risk.

[Note: paragraph 8 of Annex I of the *Capital Adequacy Directive* (Calculating capital requirements for position risk)]

proxy capital resources requirement the *minimum capital requirement* to which an *undertaking* would have been subject if it had *permission* for each activity it carries on anywhere in the world, so far as that activity is a *regulated activity*.

PRR charge one of the following:

- (a) the *interest rate PRR*;
- (b) the *equity PRR*;
- (c) the *commodity PRR*;
- (d) the *foreign currency PRR*;
- (e) the *option PRR*;
- (f) the *collective investment undertaking PRR*; and
- (g) (if the context requires) the *model PRR*.

PRR identical product netting rules the following:

- (a) *BIPRU 7.2.37R* (Deriving the net position in each debt security: Netting positions in the same debt security);
- (b) *BIPRU 7.2.40R* (Deriving the net position in each debt security: Netting zero-specific-risk securities with different maturities);
- (c) *BIPRU 7.3.23R* (Deriving the net position in each equity);
- (d) (d) *BIPRU 7.4.20R* and *BIPRU 7.4.22R* (Calculating the PRR for each commodity: General);
- (e) *BIPRU 7.5.19R(1)* (Open currency position); and
- (f) the obligation under *BIPRU 7.5.20R* (Net gold position) to calculate a separate *foreign exchange PRR* charge for gold).

PSE a *public sector entity*.

public sector entity (for the purposes of *BIPRU*) any of the following:

- (a) non-commercial administrative bodies responsible to central governments, regional governments or local authorities; or
- (b) authorities that exercise the same responsibilities as regional and local authorities; or

- (c) non commercial *undertakings* owned by central governments that have explicit guarantee arrangements; or
- (d) self administered bodies governed by law that are under public supervision.

[Note: article 4(18) of the *Banking Consolidation Directive* (Definitions)]

qualifying debt security (for the purposes of *BIPRU*) a debt *security* that satisfies the conditions in *BIPRU* 7.2.49R (Definition of a qualifying debt security).

qualifying equity index (in *BIPRU*) an *equity* index falling within *BIPRU* 7.3.38R (Definition of a qualifying equity index).

qualifying parent undertaking has the meaning in section 192B (meaning of “qualifying parent undertaking”) of the *Act* which, in summary, is a *parent undertaking* of:

- (a) an *authorised person* that is a *body corporate* incorporated in the *UK* that is:
 - (i) a *PRA-authorised person*; or
 - (ii) an *investment firm*; or
- (b) a *recognised investment exchange* that is not an *overseas investment exchange*;

where the *parent undertaking* is:

- (c) a *body corporate* which:
 - (i) is incorporated in the *UK*; or
 - (ii) has a place of business in the *UK*;
- (c) a *body corporate* which:
- (d) not an *authorised person*, a *recognised investment exchange* or a *recognised clearing house*; and
- (e) any of the following:
 - (i) an *insurance holding company*;
 - (ii) a *financial holding company*;
 - (iii) a *mixed financial holding company*;
 - (iv) for certain purposes, a *mixed-activity holding company*.

<i>qualifying revolving retail exposure</i>	(in relation to the <i>IRB approach</i>) <i>retail exposures</i> falling into <i>BIPRU</i> 4.6.44R(2) (Qualifying revolving retail exposures).
<i>rating system</i>	(in relation to the <i>IRB approach</i> and in accordance with <i>BIPRU</i> 4.3.25R) comprises all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of <i>exposures</i> to grades or pools (rating), and the quantification of <i>default</i> and <i>loss</i> estimates for a certain type of <i>exposure</i> .
<i>ratings based method</i>	(for the purposes of <i>BIPRU</i> 9 (Securitisation)) the method of calculating <i>risk weighted exposure</i> amounts for <i>securitisation positions</i> set out in <i>BIPRU</i> 9.12.10R- <i>BIPRU</i> 9.12.19R and <i>BIPRU</i> 9.14.2R. [Note: Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)]
<i>reciprocal cross-holding</i>	has the meaning in <i>GENPRU</i> 2.2.219R (Deductions from tiers one and two: Reciprocal cross holdings) which is in summary a holding of a <i>firm</i> of <i>shares</i> , any other interest in the capital, and subordinated debt, whether in the <i>trading book</i> or <i>non-trading book</i> , in: (a) a <i>credit institution</i> ; or (b) a <i>financial institution</i> ; that satisfies the conditions in <i>GENPRU</i> 2.2.219R.
<i>recovery capacity</i>	the capability of an <i>RRD institution</i> to restore its financial position following a significant deterioration. [Note: article 2(1)(103) of <i>RRD</i>]
<i>recovery plan</i>	a document which provides for measures to be taken by an <i>RRD institution</i> which is not subject to supervision on a <i>consolidated basis</i> to restore its financial position following a significant deterioration of its financial situation. [Note: articles 2(1)(32) and 5 of <i>RRD</i>]
<i>reduced net underwriting position</i>	the <i>net underwriting position</i> as adjusted under <i>BIPRU</i> 7.8.27R (Calculating the reduced net underwriting position).
<i>regulatory high risk category</i>	(for the purposes of the <i>standardised approach</i> to credit risk) an item that falls into <i>BIPRU</i> 3.4.104R (Items belonging to regulatory high risk categories under the standardised approach to credit risk).

<i>regulatory surplus value</i>	has the meaning set out in <i>GENPRU</i> 1.3.48R.
<i>Regulatory technical standards 1152/2014</i>	the UK version of Regulation (EU) No 1152/2014 of 4 June 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates which is part of <i>UK</i> law as a result of section 3 of the <i>EUWA</i> .
<i>relevant credit exposures</i>	<p>exposures, other than those referred to in article 112(a) to (f) of the <i>UK CRR</i> (Exposure classes), that are subject to:</p> <ul style="list-style-type: none"> (a) the <i>own funds requirements</i> for credit risk under Part Three, Title II of the <i>UK CRR</i> (b) where the <i>exposure</i> is held in the <i>trading book</i>, <i>own funds requirements</i> for specific risk under Part Three, Title IV, Chapter 2 of the <i>UK CRR</i> or incremental default and migration risk under Part Three, Title IV, Chapter 5 of the <i>UK CRR</i>; or (c) where the <i>exposure</i> is a <i>securitisation</i>, the <i>own funds requirements</i> under Part Three, Title II, Chapter 5 of the <i>UK CRR</i>. <p>[Note: article 140(4) of <i>CRD</i>]</p>
<i>Remuneration Code</i>	<i>SYSC</i> 19A (<i>IFPRU</i> Remuneration Code) for <i>IFPRU investment firms</i> and <i>overseas firms</i> in <i>SYSC</i> 19A.1.1R(1)(d) that would have been an <i>IFPRU investment firm</i> if it had been a <i>UK domestic firm</i> .
<i>Remuneration Code staff</i>	(for an <i>IFPRU investment firm</i> and an <i>overseas firm</i> in <i>SYSC</i> 19A.1.1R(1)(d) that would have been an <i>IFPRU investment firm</i> if it had been a <i>UK domestic firm</i>) has the meaning given in <i>SYSC</i> 19A.3.4R which is, in summary, an <i>employee</i> whose professional activities have a material impact on the <i>firm's</i> risk profile, including any <i>employee</i> who is deemed to have a material impact on the <i>firm's</i> risk profile in accordance with the <i>Material Risk Takers Regulation</i> .
<i>remuneration principles proportionality rule</i>	(in <i>SYSC</i> 19A) has the meaning given in <i>SYSC</i> 19A.3.3R.
<i>reporting level</i>	(in <i>SUP</i> 16 (Reporting requirements) and in relation to a <i>data item</i>) refers to whether that <i>data item</i> is prepared on a solo basis or on the basis of a group such as a <i>UK DLG by modification</i> and, if it is prepared on the basis of a

group, refers to the type of group (such as a *UK DLG by modification* or a *non-UK DLG by modification (firm level)*).

repurchase agreement see *repurchase transaction*.

resecuritisation in *BIPRU* 7 and 9, a *securitisation* where the risk associated with an underlying pool of *exposures* is *tranching* and at least one of the underlying *exposures* is a *securitisation position*.
[Note: *BCD*, Article 4(40a)]

resecuritisation position in *BIPRU* 7 and 9, an *exposure* to a *resecuritisation*.
[Note: *BCD*, Article 4(40b)]

retail exposure (1) (in relation to the *IRB approach* and with respect to an *exposure*) an *exposure* falling into the *IRB exposure class* listed in *BIPRU* 4.3.2R(4) (Retail exposures).
(2) (in relation to the *standardised approach* to credit risk and with respect to an *exposure*) an *exposure* falling into the *standardised credit risk exposure class* listed in *BIPRU* 3.2.9R(8) (Retail exposures).

retail SME (1) (in relation to the *IRB approach*) a small or medium sized entity, an *exposure* to which may be treated as a *retail exposure* under *BIPRU* 4.6.2R (Definition of retail exposures).
(2) (in relation to the *standardised approach* to credit risk) a small or medium sized entity, an *exposure* to which may be treated as a retail exposure under *BIPRU* 3.2.10R (Definition of retail exposures).

retail SME exposure (in relation to the *IRB approach* or the *standardised approach* to credit risk) an *exposure* to a *retail SME*.

reverse repurchase agreement see *repurchase transaction*.

revolving exposure (for the purpose of *BIPRU* 9.13 (Securitisations of revolving exposures with early amortisation provisions)) an *exposure* whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.
[Note: article 100 of the Banking Consolidation Directive (Securitisations of revolving exposures)]

risk capital requirement (1) (in relation to the *FCA's rules*) one of the following:
(a) the *credit risk capital requirement*;
(b) the *fixed overheads requirement*;

- (c) the *market risk capital requirement*; or
- (2) (in relation to the rules of another *regulatory body*) whatever corresponds to the items in (1) under the rules of that *regulatory body*.

risk control rules IFPRU 2.2.58R to IFPRU 2.2.60R.

risk of excessive leverage has the meaning in article 4(1)(94) of the *UK CRR*.

risk position (for the purpose of *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a risk number that is assigned to a transaction under the *CCR standardised method* following a predetermined algorithm.
[Note: Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions)]

rollover risk (for the purpose of *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the amount by which *expected positive exposure* is understated when future transactions with a counterpart are expected to be conducted on an ongoing basis; the additional *exposure* generated by those future transactions is not included in calculation of *expected positive exposure*.
[Note: Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions)]

RRD early intervention condition the requirements of:

- (a) the *UK CRR*; or
- (b) the laws, regulations and administrative provisions necessary to comply with the *UK* provisions which implemented the *CRD*; or
- (c) the laws, regulations and administrative provisions necessary to comply with the *UK* provisions which implemented title II of *MiFID*; or
- (d) articles 3 to 7, 14 to 17, 24, 25 and 26 of *MiFIR*.

RRD group a *group* that:

- (a) includes an *RRD institution*; and

	(b) is headed by a <i>UK parent undertaking</i> .
<i>RRD group financial support agreement</i>	an agreement to give financial support to an <i>RRD institution</i> which, at any time after the agreement has been concluded, has infringed an <i>RRD early intervention condition</i> or is likely to infringe one of those conditions in the near future.
<i>RRD group member</i>	a member of an <i>RRD group</i> that is: <ul style="list-style-type: none"> (a) an <i>RRD institution</i>; or (b) a <i>financial institution</i>; or (c) a <i>financial holding company</i>; or (d) a <i>mixed financial holding company</i>.
<i>RRD institution</i>	<ul style="list-style-type: none"> (a) a <i>credit institution</i>; or (b) an <i>IFPRU 730K firm</i>. <p>[Note: article 2(1)(23) of <i>RRD</i>]</p>
<i>RRD Regulation</i>	the <i>UK</i> version of Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>same stage of capital</i>	(with respect to a particular item of capital in the capital resources table) the stage in the capital resources table in which that item of capital appears.
<i>secured lending transaction</i>	<p>(for the purposes of <i>BIPRU</i>) any transaction giving rise to an <i>exposure</i> secured by collateral which does not include a provision conferring upon the <i>person</i> with the <i>exposure</i> the right to receive margin frequently.</p> <p>[Note: point 2 of Part 1 of Annex VIII of the <i>Banking Consolidation Directive</i> (Eligibility of credit risk mitigation)]</p>
<i>securities or commodities borrowing</i>	see <i>securities or commodities lending or borrowing transaction</i> .

<i>securities or commodities lending</i>	see <i>securities or commodities lending or borrowing transaction</i> .
<i>securities PRR</i>	<p>the <i>interest rate PRR</i>, the <i>equity PRR</i>, the <i>option PRR</i> (but only in relation to <i>positions</i> which under <i>BIPRU</i> 7.6.5R (Table: Appropriate calculation for an option or warrant) may be subject to one of the other <i>PRR</i> charges listed in this definition or which would be subject to such a <i>PRR</i> charge if <i>BIPRU</i> 7.6.5R did not require an <i>option PRR</i> to be calculated), the <i>CIU PRR</i> and the <i>PRR</i> calculated under <i>BIPRU</i> 7.11 (Credit derivatives in the trading book) and so that:</p> <ul style="list-style-type: none"> (a) the <i>securities PRR</i> includes any <i>PRR charge</i> calculated under a <i>CAD I permission</i>; and (b) the <i>securities PRR</i> does not include any <i>PRR charge</i> calculated under a <i>VaR model permission</i> unless the provision in question provides otherwise.
<i>significant IFPRU firm</i>	has the meaning in <i>IFPRU</i> 1.2 (Significant IFPRU firm).
<i>simple capital issuer</i>	<p>a <i>BIPRU firm</i> that meets the following conditions:</p> <ul style="list-style-type: none"> (a) it does not raise capital through a special purpose vehicle; (b) it only includes non-convertible and non-exchangeable <i>capital instruments</i> in its <i>capital resources</i>; (c) (if it includes <i>capital instruments</i> in its <i>capital resources</i> on which <i>coupons</i> are payable) such <i>coupons</i> are not subject to a <i>step-up</i>; (d) it only includes <i>capital instruments</i> in its <i>tier one capital resources</i> consisting of ordinary <i>shares</i>, perpetual non-cumulative preference <i>shares</i> or partnership or <i>limited liability partnership</i> capital accounts; (e) it only includes non-redeemable <i>capital instruments</i> in its <i>tier one capital resources</i>; and (f) (if it includes <i>capital instruments</i> in its <i>tier one capital resources</i> on which <i>coupons</i> are payable) such <i>coupons</i> are non-cumulative, non-mandatory and in cash.
<i>simplified buffer requirement</i>	<i>BIPRU</i> 12.6.9R.
<i>simplified equity method</i>	the method of calculating the <i>equity PRR</i> set out in <i>BIPRU</i> 7.3.29R (Simplified equity method).

<i>simplified ILAS</i>	the approach to the calculation of the liquid assets buffer of a <i>simplified ILAS BIPRU firm</i> described in <i>BIPRU</i> 12.6.
<i>simplified ILAS BIPRU firm</i>	an <i>ILAS BIPRU firm</i> that, in accordance with the procedures in <i>BIPRU</i> 12 (Liquidity), is using the <i>simplified ILAS</i> .
<i>simplified ILAS waiver</i>	a waiver permitting an <i>ILAS BIPRU firm</i> to operate <i>simplified ILAS</i> .
<i>SLRP</i>	the <i>Supervisory Liquidity Review Process</i> .
<i>solo consolidation waiver</i>	a waiver of the type described in <i>BIPRU</i> 2.1 (Solo consolidation).
<i>sovereign, institution and corporate IRB exposure class</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into the <i>IRB exposure classes</i> referred to in <i>BIPRU</i> 4.3.2R(1)-(3) (Sovereigns, institutions and corporates).
<i>specialised lending exposure</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into <i>BIPRU</i> 4.5.3R (Definition of specialised lending).
<i>specific risk backtesting exception</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model) and in relation to a <i>firm</i>) an exception arising out of backtesting a <i>VaR model</i> with respect to <i>specific risk</i> as more fully defined in that <i>firm's VaR model permission</i> .
<i>specific risk position risk adjustment</i>	(in <i>BIPRU</i>) a <i>position risk adjustment</i> for specific risk including any such <i>position risk adjustment</i> as applied under <i>BIPRU</i> 7.6.8R (Table: Appropriate position risk adjustment).
<i>specific wrong-way risk</i>	(for the purpose of <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the risk that arises when the exposure to a particular counterparty is positively correlated with the <i>probability of default</i> of the counterparty due to the nature of the transactions with the counterparty; a <i>firm</i> is exposed to <i>specific wrong-way risk</i> if the future exposure to a specific counterparty is expected to be high when the counterparty's <i>probability of default</i> is also high. [Note: Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)]

<i>spread risk</i>	the risk that a spread (that is, the difference in price or yield) between two variables will change.
<i>SPV</i>	<p>(1) (in <i>GENPRU</i> 2.2 (Capital resources)) has the meaning in <i>GENPRU</i> 2.2.126R (Other tier one capital: innovative tier one capital: indirectly issued tier one capital).</p> <p>(2) (in <i>BIPRU</i> 8 (Group risk - consolidation)) has the meaning in <i>BIPRU</i> 8.6.15R (Indirectly issued capital and group capital resources).</p>
<i>standard CIU look through method</i>	the method for calculating the <i>PRR</i> for a <i>position</i> in a <i>CIU</i> set out in <i>BIPRU</i> 7.7.4R and <i>BIPRU</i> 7.7.7R to <i>BIPRU</i> 7.7.10R.
<i>standard equity method</i>	the method of calculating the <i>equity PRR</i> set out in <i>BIPRU</i> 7.3.32R (Standard equity method).
<i>standard frequency liquidity reporting firm</i>	a <i>standard ILAS BIPRU firm</i> that is not a <i>low frequency liquidity reporting firm</i> .
<i>standard ILAS BIPRU firm</i>	an <i>ILAS BIPRU firm</i> that is not a <i>simplified ILAS BIPRU firm</i> .
<i>standard market risk PRR rules</i>	(in <i>BIPRU</i>) the rules relating to the calculation of the <i>market risk capital requirement</i> excluding the <i>VaR model approach</i> and any <i>rules</i> modified so as to provide for the <i>CAD 1 model approach</i> .
<i>standardise approach</i>	<p>(for the purposes of <i>BIPRU</i>) one of the following:</p> <p>(a) (where expressed to relate to credit risk) the method for calculating capital requirements for credit risk in <i>BIPRU</i> 3 (Credit risk) and <i>BIPRU</i> 9.2.1R(1) and <i>BIPRU</i> 9.11 (Standardised approach);</p> <p>(b) [deleted]</p> <p>(c) (where not expressed to relate to any risk and used in <i>BIPRU</i> 3, <i>BIPRU</i> 4 (IRB approach), <i>BIPRU</i> 5 (Credit risk mitigation), <i>BIPRU</i> 9 (Securitisation)) it has the meaning in (a);</p> <p>(d) [deleted]</p> <p>(e) (where the one of the approaches in (a) to (c) is being applied on a consolidated basis) that approach as applied on a consolidated basis in accordance with <i>BIPRU</i> 8 (Group risk - consolidation).</p>

	(f) [deleted]
<i>standardised credit risk exposure class</i>	(in relation to the <i>standardised approach</i> to credit risk) one of the classes of exposure set out in <i>BIPRU 3.2.9R</i> (Exposure classes).
<i>step-up</i>	<p>(in relation to any item of capital) any change in the <i>coupon</i> rate on that item that results in an increase in the amount payable at any time, including a change already provided in the original terms governing those payments. A step-up:</p> <ul style="list-style-type: none"> (a) includes (in the case of a fixed rate) an increase in that <i>coupon</i> rate; (b) includes (in the case of a floating rate calculated by adding a fixed amount to a fluctuating amount) an increase in that fixed amount; (c) includes (in the case of a floating rate) a change in the benchmark by reference to which the fluctuating element of the <i>coupon</i> is calculated that results in an increase in the absolute amount of the <i>coupon</i>; and (d) does not include (in the case of a floating rate) an increase in the absolute amount of the <i>coupon</i> caused by fluctuations in the fluctuating figure by reference to which the absolute amount of the <i>coupon</i> floats.
<i>stock financing</i>	a transaction where a <i>physical commodity</i> is sold forward and the cost of funding is locked in until the date of the forward sale.
<i>stressed VaR</i>	(in <i>BIPRU</i>) the stressed VaR measure in respect of <i>positions</i> coming within the scope of the <i>VaR model permission</i> , calculated in accordance with the <i>VaR model</i> , <i>BIPRU 7.10</i> (Use of a Value at Risk Model) and any methodology set out in the <i>VaR model permission</i> based on a stressed historical period.
<i>sub-consolidated basis</i>	has the meaning in article 4(1)(49) of the <i>UK CRR</i> .
<i>supervisory formula method</i>	<p>(for the purposes of <i>BIPRU 9</i> (Securitisation), in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of securitisation¹⁸⁰) the method of calculating <i>risk weighted exposure amounts</i> for <i>securitisation positions</i> set out in <i>BIPRU 9.12.21R-BIPRU 9.12.23R</i> and <i>BIPRU 9.14.3R</i>.</p> <p>[Note: Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)]</p>
<i>Supervisory Liquidity Review Process</i>	the <i>appropriate regulator's</i> assessment of the adequacy of certain <i>firms'</i> liquidity resources as described in <i>BIPRU 12.2</i> and <i>BIPRU 12.5</i> .

supervisory volatility adjustments approach the approach to calculating volatility adjustments under the *financial collateral comprehensive method* under which the *firm* uses the adjustments specified in *BIPRU* 5.4 (Financial collateral) rather than in its own estimates, as more fully described in *BIPRU* 5.4 and including that approach as applied to master netting agreements as described in *BIPRU* 5.6 (Master netting agreements).

synthetic future

- (a) a synthetic bought future, that is, a bought call *option* coupled with a written put *option*; or
- (b) a synthetic sold future, that is, a bought put *option* coupled with a written call *option*; provided that in either case the two *options*:
 - (i) are bought and written, whether simultaneously or not, on a single *eligible derivatives* market;
 - (ii) relate to the same underlying *security* or other asset;
 - (iii) give the purchasers of the *options* the same rights of exercise (whether at the same price or not); and
 - (iv) will expire together, if not exercised.

synthetic securitisation (for the purpose of *BIPRU*) a *securitisation* (within the meaning of paragraph (2) of the definition of *securitisation*) where the *tranching* is achieved by the use of credit derivatives or guarantees, and the pool of *exposures* is not removed from the balance sheet of the *originator*.

[Note: article 4(38) of the *Banking Consolidation Directive* (Definitions)]

systemically important institution (in *IFPRU*) has the meaning in article 4(1)(128D) of the *UK CRR*.

[Note: article 3(30) of *CRD*]

third country BIPRU firm

- (1) (in *BIPRU* (except in *BIPRU* 12) and *SYSC* 19C) an *overseas firm* that:
 - (a) [deleted]
 - (b) [deleted]
 - (c) would be a *BIPRU firm* if it had been a *UK domestic firm*, it had carried on all its business in the *United Kingdom* and had obtained whatever authorisations for doing so are required under the *Act*.
- (2) [deleted]

<i>third country IFPRU 730k firm</i>	an <i>overseas firm</i> that would be an <i>IFPRU 730k firm</i> if it had been a <i>UK domestic firm</i> , had carried on all of its business in the <i>United Kingdom</i> and had obtained whatever authorisations for doing so as are required under the <i>Act</i> .
<i>third country investment services undertaking</i>	(in <i>BIPRU</i>) a <i>CAD investment firm</i> , a <i>financial institution</i> or an <i>asset management company</i> in a country other than the <i>UK</i>
<i>third-country countercyclical buffer authority</i>	<p>(1) the authority of a <i>third country</i> empowered by law or regulation with responsibility for setting the <i>countercyclical buffer rate</i> for that <i>third country</i>; or</p> <p>(2) the European Central Bank when it carries out the task of setting a countercyclical buffer rate for an <i>EEA State</i> conferred on it by article 5(2) of Council Regulation (EU) No 1024/2013, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions</p>
<i>tier one capital</i>	<p>(1) [deleted]</p> <p>(2) (in <i>BIPRU</i> and <i>GENPRU</i>) an item of capital that is specified in stages A(Core tier one capital), B (Perpetual non-cumulative preference shares) or C (Innovative tier one capital) of the <i>capital resources table</i>.</p>
<i>tier one capital resources</i>	the sum calculated at stage F of the calculation in the <i>capital resources table</i> (Total tier one capital after deductions).
<i>tier one instrument</i>	an item of capital that falls into <i>GENPRU 2.2.62R</i> (Tier one capital: General) and is eligible to form part of a <i>firm's tier one capital resources</i> .
<i>tier three capital</i>	an item of capital that is <i>upper tier three capital</i> or <i>lower tier three capital</i> .
<i>tier three capital resources</i>	the sum calculated at stage Q of the <i>capital resources table</i> (Total tier three capital).
<i>tier three instrument</i>	an item of capital that falls into <i>GENPRU 2.2.242R</i> (Tier three capital: upper tier three capital resources) and is eligible to form part of a <i>firm's upper tier three capital resources</i> .
<i>tier two capital</i>	(1) [deleted]

	(2) (in <i>BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stages G (Upper tier two capital) or H (Lower tier two capital) of the <i>capital resources table</i> .
<i>tier two capital resources</i>	the sum calculated at stage I (Total tier two capital) of the calculation in the <i>capital resources table</i>
<i>tier two instrument</i>	a <i>capital instrument</i> that meets the conditions in <i>GENPRU</i> 2.2.159R (General conditions for eligibility as tier two capital instruments) or <i>GENPRU</i> 2.2.177R (Upper tier two capital: General) and is eligible to form part of a <i>firm's tier two capital resources</i> .
<i>total risk exposure amount</i>	the total risk exposure amount of a <i>firm</i> calculated in accordance with article 92(3) of the <i>UK CRR</i> (Own funds requirements).
<i>trading book policy statement</i>	(1) (in <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 1.2.29R (Trading book policy statements) which is in summary a single document of a <i>person</i> recording the policies and procedures referred to in <i>BIPRU</i> 1.2.26R and <i>BIPRU</i> 1.2.27R. (2) (in <i>IFPRU</i>) the statement of policies and procedures relating to the <i>trading book</i> .
<i>trading book systems and controls rules</i>	<i>GENPRU</i> 1.3.13R(2) to (3) (General requirements: Methods of valuation and systems and controls), <i>GENPRU</i> 1.3.14R to <i>GENPRU</i> 1.3.16R (Marking to market), <i>GENPRU</i> 1.3.17R to <i>GENPRU</i> 1.3.25R (Marking to model), <i>GENPRU</i> 1.3.26R to <i>GENPRU</i> 1.3.28R (Independent price verification), <i>GENPRU</i> 1.3.30R to <i>GENPRU</i> 1.3.33R (Valuation adjustments or reserves), <i>GENPRU</i> 2.2.86R (Core tier one capital: profit and loss account and other reserves: Losses arising from valuation adjustments) and <i>GENPRU</i> 2.2.248R to <i>GENPRU</i> 2.2.249R (Tier three capital: lower tier three capital resources).
<i>UK countercyclical buffer authority</i>	(for the purposes of <i>IFPRU</i> 10.3 (Countercyclical capital buffer) and in accordance with article 7 of The Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014) the Bank of England.
<i>UK DLG by modification</i>	a <i>DLG by modification (firm level)</i> in which each member is a <i>UK ILAS BIPRU firm</i> . A <i>firm</i> with a <i>UK DLG by modification</i> cannot also have a <i>non-UK DLG by modification (firm level)</i> .
<i>UK financial sector company</i>	a company that is a: (a) <i>UK bank</i> ; or (b) <i>UK insurer</i> ; or

- (c) *UK incorporated parent undertaking* of a company referred to in (a) or (b) where the main business of the *group* to which the *parent undertaking* and the company belong is financial services.

UK ILAS BIPRU firm an *ILAS BIPRU firm* which has its registered office (or, if it does not have a registered office, its head office) in the *United Kingdom*.

UK lead regulated firm a *UK firm* that:

- (a) is not part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* or any other *regulatory body*; or
- (b) is part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* and that group is not part of a wider group that is subject to consolidated supervision by a *regulatory body* other than the *FCA* or the *PRA*.

For the purposes of this definition:

- (c) Consolidated supervision of a group of persons means supervision of the adequacy of financial and other resources of that group on a *consolidated basis*.
- (d) It is not relevant whether or not any supervision by another *regulatory body* has been assessed as equivalent under the *CRD* and *UK CRR* or the *Financial Groups Directive*.
- (e) If the group is a *consolidation group* or *financial conglomerate* of which the *FCA* or the *PRA* is lead regulator that is headed by an *undertaking* that is not itself the *subsidiary undertaking* of another *undertaking* the *firm* is a 'UK lead regulated firm'.

This definition is not related to the defined term *lead regulated firm*.

UK parent financial holding company in a Member State a *parent financial holding company* in a *Member State* where the *EEA State* in question is the *United Kingdom*.

- UK parent undertaking*
- (a) a *UK parent institution*;
 - (b) a *UK parent financial holding company*; or
 - (c) a *UK parent mixed financial holding company*.

underwrite (for the purposes of *BIPRU 7* (Market risk)) to undertake a firm commitment to buy a specified quantity of new *securities* on a given date and at a given price if no other has purchased or acquired them; and so that:

- (a) new is defined in *BIPRU* 7.8.12R (New securities);
- (b) a *firm* still underwrites *securities* at a time before the exact quantity of *securities* being underwritten or their price has been determined if it is committed at that time to underwrite them when the quantity and price is fixed;
- (c) (in the case of provisions of the *Handbook* that distinguish between *underwriting* and sub- *underwriting*) *underwriting* does not include sub-*underwriting*; and
- (d) (in any other case) *underwriting* includes sub-*underwriting*.

unpaid initial fund part of the *initial fund* of a *mutual* which the *mutual* is prevented from including in its *tier one capital resources* as *permanent share capital* by reason of *GENPRU* 2.2.64R because it is not fully paid.

unrated position (for the purposes of *BIPRU* 9 (Securitisation) and in relation to a *securitisation position*) describes a *securitisation position* which does not have an eligible credit assessment by an *eligible ECAI*.

[Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]

upper tier three capital an item of capital that is specified in stage O of the *capital resources table* (Upper tier three).

upper tier three capital resources the sum calculated at stage O of the *capital resources table* (Upper tier three).

upper tier three instrument an item of capital that meets the conditions in *GENPRU* 2.2.242R (Tier three capital: upper tier three capital resources) and is eligible to form part of a *firm's upper tier three capital resources*.

upper tier two capital (1) [deleted]

(2) (in *BIPRU*, *GENPRU* and *INSRU*) an item of capital that is specified in stage G of the *capital resources table* (Upper tier two capital).

upper tier two capital resources the sum calculated at stage G of the calculation in the *capital resources table* (Upper tier two capital)

upper tier two instrument a *capital instrument* that meets the conditions in *GENPRU* 2.2.177R (Upper tier two capital: General) and is eligible to form part of a *firm's upper tier two capital resources*.

<i>value at risk</i>	(in relation to risk modelling or estimation for the purposes of <i>BIPRU</i>) the measure of risk described in <i>BIPRU</i> 7.10.146R (Requirement to use value at risk methodology).
<i>VaR</i>	<i>value at risk</i>
<i>VaR measure</i>	(in <i>BIPRU</i>) an estimate by a <i>VaR model</i> of the worst expected loss on a portfolio resulting from market movements over a period of time with a given confidence level.
<i>VaR model</i>	a value at risk model as described in <i>BIPRU</i> 7.10 (Use of a Value at Risk Model).
<i>VaR model approach</i>	one of the following: <ul style="list-style-type: none"> (a) the approach to calculating part of the <i>market risk capital requirement</i> set out in <i>BIPRU</i> 7.10 (Use of a value at risk model); (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with <i>BIPRU</i> 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>VaR model permission</i>	a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or a <i>CAD investment firm</i> to use the <i>VaR model approach</i> on a solo basis or, if the context requires, a consolidated basis.
<i>VaR number</i>	has the meaning in <i>BIPRU</i> 7.10.115R (Capital calculations: General) which in summary is (in relation to a <i>business day</i> and a <i>VaR model</i>) the <i>VaR measure</i> , in respect of the previous <i>business day</i> 's close-of-business <i>positions</i> in products coming within the scope of the <i>VaR model permission</i> , calculated by the <i>VaR model</i> and in accordance with <i>BIPRU</i> 7.10 (Use of a Value at Risk Model) and any methodology set out in the <i>VaR model permission</i> .
<i>VaR specific risk minimum requirements</i>	<i>BIPRU</i> 7.10.46R to <i>BIPRU</i> 7.10.52R (Model standards: Risk factors: Specific risk) and <i>BIPRU</i> 7.10.107R (Backtesting: Specific risk backtesting).
<i>Volatility risk</i>	the potential loss due to fluctuations in implied <i>option</i> volatilities.

<i>whole-firm liquidity modification</i>	a modification to the <i>overall liquidity adequacy rule</i> of the kind described in <i>BIPRU</i> 12.8.22G.
<i>write-down and conversion powers</i>	the powers referred to in article 59(2) and in points (e) to (i) of article 63(1) of <i>RRD</i> . [Note: articles 2(1)(66) of <i>RRD</i>]
<i>working day 0</i>	has the meaning in <i>BIPRU</i> 7.8.23R (Working day 0), which is in summary (in relation to an underwriter) the <i>business day</i> on which a <i>firm</i> that is <i>underwriting</i> or <i>sub-underwriting</i> becomes unconditionally committed to accepting a known quantity of <i>securities</i> at a specified price.
<i>zero-specific-risk security</i>	a notional debt <i>security</i> used, for the purpose of calculating <i>PRR</i> , to represent the interest rate <i>general market risk</i> arising from certain <i>derivative</i> and forward transactions as specified in <i>BIPRU</i> 7.2 (Interest rate <i>PRR</i>).

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

1 Application and purpose

1.1A Application

- 1.1A.1 G The application of this sourcebook is summarised at a high level in the following table. The detailed application is cut back in SYSC 1 Annex 1 and in the text of each chapter.

Type of firm	Applicable chapters
...	
Any other <i>SMCR firm</i>	Chapters 4 to 12, 18, 19D, 19F.2 <u>19F, 19G</u> , 21, 22, 23, 24, 25, 26, 27, 28
Every other <i>firm</i>	Chapters 4 to 12, 18, 19D, 19F.2 <u>19F, 19G</u> , 21, 22, 28

...

- 1.1A.1A G The application of this sourcebook to specific *firms* that are not *PRA-
authorised persons* is summarised at a high level in the following table. The detailed application is cut back in SYSC 1 Annex 1 and in the text of each chapter.

Type of firm	Applicable chapters
...	
<i>BIPRU firm (including a third-country BIPRU firm)</i>	Chapters 4 to 10, 12, 18, 19C, 19F.2, 20, 21, 22, 23, 24, 25, 26, 27, 28
<i>IFPRU investment firm</i> <u><i>MIFIDPRU investment firm</i></u> (including an <i>overseas firm</i> that would have been an <i>IFPRU investment firm</i> a <u><i>MIFIDPRU investment firm</i></u> if it had been a <u><i>UK domestic firm</i></u> , except that <u><i>SYSC 19G does not apply to such a firm</i></u>)	Chapters 4 to 10, 12, 18, 19A, 19F.2 <u>19F, 19G</u> , 20, 21, 22, 23, 24, 25, 26, 27, 28

...

1.4 Application of SYSC 11 to 28

...

- 1.4.1A R ~~SYSC 12, SYSC 19A, SYSC 19D, SYSC 20~~ and SYSC 21 do not apply to a *firm* in relation to its carrying on of *auction regulation bidding*.
- 1.4.1B G Apart from SYSC 12, ~~SYSC 19A, SYSC 19D, SYSC 20~~ and SYSC 21 which are disapplied by SYSC 1.4.1AR, the other chapters of SYSC 11 to SYSC 17 do not apply in relation to a *firm's* carrying on of *auction regulation bidding* because they only apply to an *insurer*. SYSC 18 provides guidance on the Public Interest Disclosure Act. Other chapters of SYSC may not apply to *auction regulation bidding*, for example because an *exempt MiFID commodities firm* will not be a *MIFIDPRU investment firm*.

Insert the following new section, SYSC 1.5, after SYSC 1.4 (Application of SYSC 11 to 28). The text is not underlined.

1.5 Significant SYSC firm

Purpose

- 1.5.1 G (1) The purpose of SYSC 1.5 is to set out the definition of a *significant SYSC firm*.
- (2) The following governance requirements in SYSC apply by reference to the term *significant SYSC firm*:
- (a) SYSC 4.3A.6R on the limitations in the number of directorships;
 - (b) SYSC 4.3A.8R on the nomination committee; and
 - (c) SYSC 7.1.18R and SYSC 7.1.18AAR on the risk committee.
- (3) *MIFIDPRU investment firms* are not subject to SYSC 4.3A.8R or SYSC 7.1.18R, and should refer instead to *MIFIDPRU 7.3*.
- (4) The definition of *significant SYSC firm* is also relevant in determining whether a *firm* is an *enhanced scope SMCR firm* for the purposes of the senior managers and certification regime.

Definition of a significant SYSC firm

- 1.5.2 R A *firm* is a *significant SYSC firm* if it meets one or more of the following conditions:

- (1) its total assets exceed £530 million;
- (2) its total liabilities exceed £380 million;
- (3) the annual fees and commission income it receives in relation to the *regulated activities* carried on by the *firm* exceeds £160 million in the 12-month period immediately preceding the date the *firm* carries out the assessment under this *rule*;
- (4) the client money that it receives or holds exceeds £425 million; and
- (5) the assets belonging to its *clients* that it holds in the course of, or in connection with, its *regulated activities* exceeds £7.8 billion.

1.5.3

R

- (1) This *rule* defines some of the terms used in SYSC 1.5.2R.
- (2) “Total assets” means the *firm*’s total assets:
 - (a) as set out in the most recent relevant report submitted to the *FCA* under SUP 16.12 (Integrated Regulatory Reporting); or
 - (b) (where the *firm* carries out the assessment under SYSC 1.5.4R at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ended on the date of the assessment.
- (3) “Total liabilities” means the *firm*’s total liabilities:
 - (a) as set out in the most recent relevant report submitted to the *FCA* under SUP 16.12 (Integrated Regulatory Reporting); or
 - (b) (where the *firm* carries out the assessment under SYSC 1.5.4R at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ended on the date of the assessment.
- (4) “client money” means *client money* that a *firm* receives or holds in the course of, or in connection with, all of the *regulated activities* that it carries on:
 - (a) as set out in the most recent client money and client asset report submitted to the *FCA* under SUP 16.12 (Integrated Regulatory Reporting); or
 - (b) (where the *firm* carries out the assessment under SYSC 1.5.4R at any time after the date of its most recent report in

- (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ended on the date of the assessment.
- (5) “Assets belonging to its *clients*” means the assets to which the *custody rules* apply:
- (a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP* 16.12 (Integrated Regulatory Reporting); or
 - (b) (if the *firm* carries out the assessment under *SYSC* 1.5.4R at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- 1.5.4 R A *firm* must assess regularly whether it becomes a *significant SYSC firm*.
- 1.5.5 R (1) If a *firm*, at any time, becomes aware that it is likely to become a *significant SYSC firm*, it must forthwith make arrangements to establish and have in place sound, effective and comprehensive strategies, processes and systems to achieve compliance with the requirements that apply to a *significant SYSC firm*.
- (2) The *firm* in (1) must comply with the requirements that apply to a *significant SYSC firm* on the expiry of a period of 3 *months* from the date it meets any one of the conditions in *SYSC* 1.5.2R.
- 1.5.6 R If a *firm* that is a *significant SYSC firm* ceases to meet any of the conditions in *SYSC* 1.5.2R, it must continue to comply with the *rules* and requirements applicable to a *significant SYSC firm* until the first anniversary of the date on which the *firm* ceased to be a *significant SYSC firm*.
- 1.5.7 G The *FCA* may, on a case-by-case basis, require a *firm* which does not meet any of the conditions in *SYSC* 1.5.2R to comply with the *rules* and requirements that apply to a *significant SYSC firm* if the *FCA* considers it appropriate to do so to meet its strategic objective or to advance one or more of its operational objectives under the *Act*.
- 1.5.8 G (1) A *firm* may apply to the *FCA* under section 138A of the *Act* to waive any one or more of the conditions in *SYSC* 1.5.2R if it believes that one or more of the governance requirements in (2) that apply to a *significant SYSC firm* may be disproportionate. In its application for a *waiver*, the *FCA* expects the *firm* to demonstrate that it should not be considered as significant, taking into account the size, nature, scope and complexity of its activities, any membership of a *group* and the internal organisation of that *group*.

- (2) The governance requirements referred to in (1) are:
- (a) SYSC 4.3A.6R on the limitations in the number of directorships;
 - (b) SYSC 4.3A.8R on the nomination committee; or
 - (c) SYSC 7.1.18 R on the risk committee.
- (3) The effect of such *waiver* is that the *firm* would not be a *significant SYSC firm* only for the purpose of the particular governance requirement in (2) that the *waiver* is expressed to apply to. For the avoidance of doubt, such a *firm* would still be a *significant SYSC firm* for the purpose of the other *rules* in the *FCA Handbook* that apply to a *significant SYSC firm*, except where expressly otherwise provided for.

Amend the following as shown.

1 Annex Detailed Application of SYSC
1

...

Part 3	Tables summarising the application of the common platform requirements to different types of firm		
...			
	Common platform firm		
3.2	G		...
<u>3.2-ZA</u>	<u>G</u>		<u>A common platform firm that is a MIFIDPRU investment firm should read SYSC 4 to SYSC 10 together with MIFIDPRU 7. While MIFIDPRU investment firms are not in scope of the requirements in SYSC 4.3A.8R and SYSC 7.1.18R regarding nomination and risk committees, certain MIFIDPRU investment firms are required by MIFIDPRU 7.3.1R and MIFIDPRU 7.3.5R to establish nomination and risk committees.</u>
...			
	MiFID optional exemption firm and a third country firm		
...			
3.2D	R	...	

		(2)	In (1), ‘significant’ means a <i>MiFID optional exemption firm</i> that meets one of more of the conditions in paragraphs (1) to (5) of IFPRU 1.2.3R and related rules and guidance <u>is a significant SYSC firm</u> .
...			

Table A: Application of the common platform requirements in SYSC 4 to SYSC 10

Provision SYSC 4	COLUMN A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF	COLUMN B Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms
...				
SYSC 4.1.1CR	Rule for a <i>BIPRU firm</i> [deleted]	Rule for a <i>BIPRU firm</i> that is a <i>UCITS investment firm</i> [deleted]	Not applicable [deleted]	<i>Third country BIPRU firms:</i> Rule <i>Other firms:</i> Not applicable [deleted]
...				
SYSC 4.1.2AAR	Rule for a <i>BIPRU firm</i> [deleted]	Rule for a <i>BIPRU firm</i> that is a <i>UCITS investment firm</i> [deleted]	Not applicable [deleted]	Not applicable [deleted]
...				
SYSC 4.3A.-1R	Rule (except for an <i>AIFM investment firm</i> that is not a <i>CRR firm</i>) [deleted]	Rule for a <i>CRR firm</i> that is a <i>UCITS investment firm</i> [deleted]	Not applicable [deleted]	Not applicable [deleted]

SYSC 4.3A.1R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.1AR	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.2R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.2AG	Guidance (except for an AIFM investment firm that is not a CRR firm)	Guidance for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.3R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.3AG	Guidance	Guidance for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.4R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.5R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable

SYSC 4.3A.6R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.7R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
<u>SYSC 4.3A.7AR</u>	Rule (except for a <u>MIFIDPRU investment firm</u>)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<u>SYSC 4.3A.7BG</u>	<u>Guidance for a MIFIDPRU investment firm</u>	<u>Guidance for a UCITS investment firm</u>	<u>Not applicable</u>	<u>Not applicable</u>
SYSC 4.3A.8R	Rule (except for an AIFM investment firm that is not a CRR firm) (except for a <u>MIFIDPRU investment firm</u>)	Rule for a CRR firm that is a UCITS investment firm <u>Not applicable</u>	Not applicable	Not applicable
SYSC 4.3A.9R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.10R	Rule (except for an AIFM investment firm that is not a CRR firm)	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
SYSC 4.3A.11R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm <u>Not applicable</u>	Not applicable	Not applicable

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

Provision SYSC 7	COLUMN A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF	COLUMN B Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms
...				
SYSC 7.1.4AG	Guidance <u>for a MIFIDPRU investment firm</u>	Rule for a UCITS investment firm; otherwise guidance Guidance for a <u>UCITS investment firm</u>	Not applicable	Guidance
...				
SYSC 7.1.7BG	Guidance applies only to a BIPRU firm Guidance <u>applicable to a CRR firm</u>	Rule for a UCITS investment firm; otherwise guidance <u>Not applicable</u>	<u>Guidance Not applicable</u>	<u>Guidance Not applicable</u>
...				
SYSC 7.1.7BBG	Guidance applies only to a BIPRU firm [deleted]	Guidance applies only to a BIPRU firm that is a UCITS investment firm [deleted]	Not applicable [deleted]	Not applicable [deleted]
SYSC 7.1.7BDG	<u>Guidance applies only to</u>	<u>Guidance applies only to a UCITS investment firm</u>	<u>Not applicable</u>	<u>Not applicable</u>

	<i>a MIFIDPRU investment firm</i>			
...				
SYSC 7.1.9R	Rule applies to a <i>BIPRU firm</i> [deleted]	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable [deleted]	Not applicable [deleted]	Not applicable [deleted]
SYSC 7.1.10R	Rule applies to a <i>BIPRU firm</i> [deleted]	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable [deleted]	Not applicable [deleted]	Not applicable [deleted]
SYSC 7.1.11R	Rule applies to a <i>BIPRU firm</i> [deleted]	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable [deleted]	Not applicable [deleted]	Not applicable [deleted]
SYSC 7.1.12G	Guidance applies to a <i>BIPRU firm</i> [deleted]	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable [deleted]	Not applicable [deleted]	Not applicable [deleted]
SYSC 7.1.13R - 7.1.16R	Rule applies to a <i>BIPRU firm</i> [deleted]	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable [deleted]	Not applicable [deleted]	Not applicable [deleted]
...				
SYSC 7.1.16CR	Rule applies to a <i>CRR firm</i> [deleted]	Not applicable [deleted]	Not applicable [deleted]	Not applicable [deleted]
SYSC 7.1.17R	Rule applies to a <i>CRR firm</i>	Rule for a <i>UCITS investment firm</i> that is a <i>CRR firm</i> ; otherwise not applicable Not applicable	Not applicable	Not applicable
SYSC 7.1.18R	Rule applies to a <i>CRR firm</i>	Rule for a <i>UCITS investment firm</i> that is a <i>CRR</i>	Not applicable	Not applicable

		firm, otherwise not applicable <u>Not applicable</u>		
SYSC 7.1.18AAG	Guidance applies to a <i>CRR firm</i>	Guidance for a UCITS investment firm that is a CRR firm, otherwise not applicable <u>Not applicable</u>	Not applicable	Not applicable
SYSC 7.1.18BR	Rule applies to a <i>CRR firm</i>	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable <u>Not applicable</u>	Not applicable	Not applicable
SYSC 7.1.19R	Rule applies to a <i>CRR firm</i>	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable <u>Not applicable</u>	Not applicable	Not applicable
SYSC 7.1.19R	Rule applies to a <i>CRR firm</i>	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable <u>Not applicable</u>	Not applicable	Not applicable
SYSC 7.1.20R	Rule applies to a <i>CRR firm</i>	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable <u>Not applicable</u>	Not applicable	Not applicable
SYSC 7.1.21R	Rule applies to a <i>CRR firm</i>	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable <u>Not applicable</u>	Not applicable	Not applicable
SYSC 7.1.22R	Rule applies to a <i>CRR firm</i>	Rule for a UCITS investment firm that is a CRR firm, otherwise	Not applicable	Not applicable

		not applicable <u>Not applicable</u>		
...				

Table B: Application of the common platform requirements in SYSC 4 to SYSC 10 to MiFID optional exemption firms and third country firms

Provision	COLUMN A MiFID optional exemption firms	COLUMN B Third country firms
SYSC 4		
...		
SYSC 4.1.1CR	Not applicable	Rule
...		
SYSC 4.1.2AAR	Not applicable	Not applicable
...		
SYSC 4.3A.1R	Rule	Not applicable
...		

...

SYSC 7		
...		
SYSC 7.1.7BBG	Not applicable	Not applicable
...		
SYSC 7.1.9R	Not applicable	Not applicable
SYSC 7.1.10R	Not applicable	Not applicable

SYSC 7.1.11R	Not applicable	Not applicable
SYSC 7.1.12G	Not applicable	Not applicable
SYSC 7.1.13R— 7.1.16R	Not applicable	Not applicable
...		
SYSC 7.1.16CR	Not applicable	Not applicable
...		

...

4 General organisational requirements

4.1 General requirements

...

4.1.1C R ~~A BIPRU firm and a third country BIPRU firm must comply with the BIPRU Remuneration Code. [deleted]~~

...

4.1.2 R For a *common platform firm*, the arrangements, processes and mechanisms referred to in SYSC 4.1.1R must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm*'s activities and must take into account the specific technical criteria described in article 21(3) of the *MiFID Org Regulation*, SYSC 5.1.7R, SYSC 7 and whichever of the following ~~as is~~ is applicable:

- (1) ~~(for a firm to which SYSC 19A applies) SYSC 19A (BIPRU Remuneration Code) [deleted];~~
- (2) (for a *full-scope UK AIFM*) SYSC 19B (AIFM Remuneration Code);
- (3) ~~(for a firm to which SYSC 19C applies) SYSC 19C (BIPRU Remuneration Code) [deleted];~~
- (4) (for a *firm* to which SYSC 19D applies) SYSC 19D (Dual-regulated firms Remuneration Code); ~~or~~

(5) (for a *firm* to which the remuneration part of the *PRA Rulebook* applies) the remuneration part of the *PRA Rulebook*; or

(6) (for a *firm* to which SYSC 19G applies) SYSC 19G (MIFIDPRU Remuneration Code).

~~[Note: article 74 (2) of CRD]~~

...

4.1.2AA R ~~Where SYSC 4.1.2R applies to a *BIPRU firm*, it must take into account the specific technical criteria described in SYSC 19C. [deleted]~~

...

4.3A Management body and nomination committee

4.3A.-1 R ~~In SYSC 4.3A.6R and SYSC 4.3A.8R a *common platform firm* that is significant means a *significant IFPRU firm*. [deleted]~~

...

4.3A.6 R (1) ~~A *common platform firm* that is significant~~ a *significant SYSC firm* must ensure that the members of the *management body* of the *firm* do not hold more than one of the following combinations of directorship in any organisation at the same time:

(a) one executive directorship with two non-executive directorships; and

(b) four non-executive directorships.

(2) Paragraph (1) does not apply to members of the *management body* that represent the *United Kingdom*.

[Note: article 91(3) of CRD and article 9(1) of MiFID]

...

Nomination Committee

4.3A.7A R SYSC 4.3A.8R does not apply to a *common platform firm* that is a *MIFIDPRU investment firm*.

4.3A.7B G The regulatory requirement for certain *MIFIDPRU investment firms* to establish nomination committees is contained in *MIFIDPRU 7.3.5R*. However, all *MIFIDPRU investment firms* are still subject to SYSC 4.3A.9R and 4.3A.10R.

4.3A.8 R ~~A *common platform firm* that is significant~~ a *significant SYSC firm* must:

- (1) establish a nomination committee composed of members of the *management body* who do not perform any executive function in the *firm*;
- (2) ensure that the nomination committee is able to use any forms of resources the nomination committee deems appropriate, including external advice; and
- (3) ensure that the nomination committee receives appropriate funding.

[**Note:** article 88(2) of *CRD* and article 9(1) of *MiFID*]

...

5 Employees, agents and other relevant persons

5.1 Skills, knowledge and expertise

...

Application to a common platform firm

5.1.-2 G For a *common platform firm*:

...

- (2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
...	
Certification regime	SYSC 5.2 [deleted]

...

6 Compliance, internal audit and financial crime

6.1 Compliance

...

Compliance function

...

6.1.4-A R In setting the method of determining the *remuneration of relevant persons* involved in the compliance function:

- (1) ~~firms that SYSC 19A applies to will also need to comply with the Remuneration Code; [deleted]~~
- (2) ~~firms that SYSC 19C applies to will also need to comply with the BIPRU Remuneration Code; [deleted]~~
- (3) ~~firms that SYSC 19D applies to will also need to comply with the dual-regulated firms Remuneration Code; and~~
- (4) ~~firms that the remuneration part of the PRA Rulebook applies to will also need to comply with it; and~~
- (5) ~~firms that SYSC 19G applies to will also need to comply with the MIFIDPRU Remuneration Code.~~

...

7 Risk control

7.1 Risk control

...

Risk management

...

- 7.1.4A G ~~For a common platform firm included within the scope of SYSC 20 (Reverse stress testing), the strategies, policies and procedures for identifying, taking up, managing, monitoring and mitigating the risks to which the firm is or might be exposed include conducting reverse stress testing in accordance with SYSC 20. A common platform firm which falls outside the scope of SYSC 20 should consider conducting reverse stress tests on its business plan as well. This would further senior personnel's understanding of the firm's vulnerabilities and would help them design measures to prevent or mitigate the risk of business failure. MIFIDPRU investment firms should refer to MIFIDPRU 7 for more specific details on risk management expectations.~~

...

- 7.1.7BB G ~~In setting the method of determining the remuneration of employees involved in the risk management function, BIPRU firms will also need to comply with the BIPRU Remuneration Code. [deleted]~~
- 7.1.7BC G ~~In setting the method of determining the remuneration of employees involved in the risk management function, firms that SYSC 19A applies to will also need to comply with the Remuneration Code. [deleted]~~

- 7.1.7BD G In setting the method of determining the *remuneration of employees* involved in the risk management function, *firms* that SYSC 19G applies to will also need to comply with the *MIFIDPRU Remuneration Code*.

...

Risk control additional provisions

...

- 7.1.9 R ~~A *firm* must base credit granting on sound and well-defined criteria and clearly establish the process for approving, amending, renewing, and re-financing credits. [deleted]~~
- 7.1.10 R ~~A *BIPRU firm* must operate through effective systems the ongoing administration and monitoring of its various credit risk bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions. [deleted]~~
- 7.1.11 R ~~A *BIPRU firm* must adequately diversify credit portfolios given its target market and overall credit strategy. [deleted]~~
- 7.1.12 R ~~The documentation maintained by a *BIPRU firm* under SYSC 4.1.3R should include its policy for credit risk, including its risk appetite and provisioning policy and should describe how it measures, monitors and controls that risk. This should include descriptions of the systems used to ensure that the policy is correctly implemented. [deleted]~~

Residual risk

- 7.1.13 R ~~A *BIPRU firm* must address and control by means of written policies and procedures the risk that recognised credit risk mitigation techniques used by it prove less effective than expected. [deleted]~~

Market risk

- 7.1.14 R ~~A *BIPRU firm* must implement policies and processes for the measurement and management of all material sources and effects of market risks. [deleted]~~

Interest rate risk

- 7.1.15 R ~~A *BIPRU firm* must implement systems to evaluate and manage the risk arising from potential changes in interest rates as they affect a *BIPRU firm's* non-trading activities. [deleted]~~

Operational risk

- 7.1.16 R ~~A *BIPRU firm* must implement policies and processes to evaluate and manage the exposure to operational risk, including to low-frequency high severity events. Without prejudice to the definition of *operational*~~

~~risk, BIPRU firms must articulate what constitutes operational risk for the purposes of those policies and procedures. [deleted]~~

...

Additional rules for CRR firms

7.1.16C R ~~In SYSC 7.1.18R a ‘CRR firm’ that is significant’ means a significant IFPRU firm. [deleted]~~

...

7.1.18AA G A CRR firm which is not a ~~significant IFPRU firm~~ significant SYSC firm may combine the risk committee with the audit committee.

[Note: article 76(3) of CRD]

...

12 Group risk systems and controls requirements

12.1 Application

12.1.1 R Subject to SYSC 12.1.2R to SYSC 12.1.4R, this section applies to each of the following which is a member of a group:

(1) A firm that falls into any one or more of the following categories:

(a) ~~a regulated entity that is:~~ an investment firm that is not a designated investment firm;

(i) ~~an investment firm, except a designated investment firm unless (ii) applies; or~~

(ii) ~~a credit institution or designated investment firm that is a subsidiary undertaking of a UK parent institution that is an IFPRU investment firm;~~

(b) [deleted]

(c) an insurer;

(ca) a UK ISPV;

(d) ~~a BIPRU firm~~ [deleted];

(e) ~~a parent financial holding company in the UK or a UK parent financial holding company that is a member of one of the following:~~ a UK parent entity of an investment firm group that is subject to prudential consolidation under MIFIDPRU 2.5 or to the group capital test under MIFIDPRU 2.6; and

- (i) ~~a UK consolidation group; or~~
- (ii) ~~an FCA consolidation group; and~~
- (f) a *firm* subject to the *rules* in *IPRU(INV)* Chapter 14.

...

...

General rules

...

- 12.1.9 G For the purposes of SYSC 12.1.8R, the question of whether the risk management processes and internal control mechanisms are adequate, sound and appropriate should be judged in the light of the nature, scale and complexity of the *group's* business and of the risks that the *group* bears. ~~Risk management processes must include the stress testing and scenario analysis required by the PRA Rulebook.~~

...

CRR firms and non-CRR firms that are parent financial holding companies in the United Kingdom or UK parent financial holding companies

- 12.1.13 R If this *rule* applies under SYSC 12.1.14R to a *firm*, the *firm* must:
- (1) comply with SYSC 12.1.8R(2) in relation to any *UK consolidation group* ~~or, if applicable, non-UK sub-group~~ of which it is a member, as well as in relation to its *group*; and
 - (2) ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* ~~or, if applicable, non-UK sub-group~~ of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:
 - (a) SYSC 4.1.1R and SYSC 4.1.2R;
 - (b) SYSC 4.1.7R;
 - (bA) SYSC 4.3A;
 - (c) SYSC 5.1.7R;
 - (d) SYSC 7;
 - (dA) ~~the Remuneration Code; or the dual-regulated firms Remuneration Code, whichever is~~ if applicable;

- (e) ~~BIPRU 12.3.4R, BIPRU 12.3.5R, BIPRU 12.3.7AR, BIPRU 12.3.8R, BIPRU 12.3.22AR, BIPRU 12.3.22BR, BIPRU 12.3.27R, BIPRU 12.4. 2R, BIPRU 12.4. 1R, BIPRU 12.4.5AR, BIPRU 12.4.10R, BIPRU 12.4.11R and BIPRU 12.4.11AR; [deleted]~~

...

[Note: article 109(2) of *CRD*]

- (3) ensure that compliance with the obligations in (2) enables the consolidation group ~~or, if applicable, the non-UK sub-group~~ to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: article 109(2) of *CRD*]

...

- 12.1.15A R ~~SYSC 12.1.13R applies to a BIPRU firm as if it were a CRR firm but the reference to Remuneration Code is to the BIPRU Remuneration Code. [deleted]~~

...

18 Whistleblowing

...

18.6 Whistleblowing obligations under the MiFID regime and other sectoral legislation

...

Whistleblowing obligations under other sectoral legislation

- 18.6.4 G In addition to obligations under the *MiFID* regime, similar whistleblowing obligations apply to miscellaneous *persons* subject to regulation by the *FCA* under the following non-exhaustive list of legislation:

...

- (2) ~~the UK provisions which implemented article 71(3) of the CRD (see IFPRU 2.4.1R in respect of IFPRU investment firms); [deleted]~~

...

...

19D Dual-regulated firms Remuneration Code

...

19D.2 General requirement

Remuneration policies must promote effective risk management

...

19D.2.2 G ...

- (3) The *FCA* may also ask *remuneration committees* to provide it with evidence of how well the *firm's* remuneration policies meet the *dual-regulated firms Remuneration Code's* principles, together with plans for improvement where there is a shortfall. ~~The *FCA* also expects relevant firms to use the principles in assessing their exposure to risks arising from their remuneration policies as part of the internal capital adequacy assessment process (ICAAP).~~

...

...

19D.3 Remuneration principles

Application: groups

- 19D.3.1 R (1) A *firm* must apply the requirements of this section at *group, parent undertaking and subsidiary undertaking* levels, including those *subsidiaries* established in a country or territory which is outside the *United Kingdom*.
- (2) Paragraph (1) does not limit SYSC 12.1.13R(2)(dA) (which relates to the application of the *dual-regulated firms Remuneration Code* within *UK consolidation groups and non-UK sub-groups*).

...

Remuneration Principle 11: Non-compliance with the dual-regulated firms Remuneration Code

- 19D.3.34 R A *firm* must ensure that variable *remuneration* is not paid through vehicles or methods that facilitate non-compliance with obligations arising from the ~~*Remuneration Code*~~ *Dual-regulated Remuneration Code*, the *UK CRR* or the *UK* legislation that implemented the *CRD*.

[**Note:** article 94(1)(q) of the *CRD*]

...

Remuneration Principle 12(d): Remuneration structures - ratios between fixed and variable components of total remuneration

...

19D.3.50 R A *firm* must ensure that any approval by its shareholders or owners or members, for the purposes of SYSC 19D.3.49R, is carried out in accordance with the following procedure:

...

(3) the *firm* must:

- (a) without delay, inform the *FCA* of the recommendation to its shareholders or owners or members, including the proposed higher ratio and the reasons therefor; and
- (b) demonstrate to the *FCA* that the proposed higher ratio does not conflict with its obligations under the UK legislation that implemented the *CRD* and the *UK CRR*, having particular regard to the *firm's own funds own funds* obligations;

...

...

SYSC 20 (Reverse stress testing) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

20 Reverse stress testing [deleted]

Amend the following as shown.

21 Risk control: additional guidance

21.1 Risk control: guidance on governance arrangements

...

Chief Risk Officer

21.1.2 G (1) A Chief Risk Officer should:

...

- (j) provide risk-focused advice and information into the setting and individual application of the *firm's remuneration policy* (~~Where the *Remuneration Code* applies, see in particular SYSC 19A.3.15E. Where the *BIPRU Remuneration Code* applies, see in particular SYSC 19C.3.15E. Where the *MIFIDPRU Remuneration Code* applies, see in particular SYSC 19G.3.2G (2).~~ Where the *dual-regulated firms Remuneration Code* applies, see in particular SYSC 19D.3.16E. Where the remuneration part of the *PRA Rulebook* applies, see the *PRA's Supervisory Statement on Remuneration*).

...

...

...

23 Senior managers and certification regime: Introduction and classification

...

23 Annex 1 Definition of SMCR firm and different types of SMCR firms

...

Part Nine: Other qualification conditions for being an enhanced scope SMCR firm

- 9.1 R A *firm* meets a qualification condition for the purposes of identifying an *enhanced scope SMCR firm* under the flow diagram in Part One of this Annex if it meets one of the following criteria:

- (1) the *firm* is a ~~significant IFPRU firm~~ significant SYSC firm;

...

...

Part Ten: When a firm becomes an enhanced scope SMCR firm

...

- 10.4 G SYSC 23 Annex 1 10.1R and SYSC 23 Annex 1 10.3R mean that a firm becomes an *enhanced scope SMCR firm* under Part 9 of this Annex on the date in column (2) of the table in SYSC 23 Annex 1 10.5G.

- 10.5 G Table: Date firm becomes an enhanced scope firm
-

Qualification condition	Date firm becomes an enhanced scope SMCR firm
The <i>firm</i> is a significant IFPRU firm <i>significant SYSC firm</i>	It becomes an <i>enhanced scope SMCR firm</i> one year and three <i>months</i> after the date in IFPRU 1.2.3R <u>SYSC 1.5.2R</u> (the three-month period in IFPRU 1.2.6R(2) <u>SYSC 1.5.5R(2)</u> plus the one year in this Part).
...	

...

27 Senior managers and certification regime: Certification regime

...

27.8 Definitions of the FCA certification functions

...

Material risk takers

...

27.8.15 R Table: Definition of material risk taker

Type of SMCR firm	Employees included
(1) An <i>SMCR banking firm</i> , including an <i>EEA SMCR banking firm</i>	Each member of the <i>dual-regulated firms Remuneration Code staff</i> of the <i>firm</i> in column (1) of this row (1). This includes any <i>person</i> who meets any of the criteria set out in articles 3 to 5 of the <i>Material Risk Takers Regulation</i> <u>articles 6 to 8 of the <i>Material Risk Takers Regulation 2020</i></u> (criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).
...	
(4) A <i>firm falling within SYSC 19A.1</i> (application provisions for	Each member of the <i>Remuneration Code staff</i> of the

the remuneration code for IFPRU investment firms), including an EEA SMCR firm subject to SYSC 19G.5 (application of remuneration requirements to material risk takers) including an <u>overseas SMCR firm</u>	firm in column (1). Each staff member identified as a material risk taker of the firm in column (1).
...	
(8) A firm falling within SYSC 19C.1 (application provisions for remuneration code for BIPRU firms)) including an EEA SMCR firm [deleted]	Each member of the BIPRU Remuneration Code staff of the firm in column (1).
...	
<p>Note: The definition of the <i>persons</i> included in column (2) applies in relation to an <i>EEA SMCR firm</i> in one of the rows of column (1) in the same way as it does to other <i>overseas SMCR firms</i> in that row. The definitions of <i>dual-regulated firms Remuneration Code staff</i>, <i>Remuneration Code staff</i>, and <i>AIFM Remuneration Code staff</i> and <i>BIPRU Remuneration Code staff</i> apply accordingly.</p> <p><u>Where an overseas SMCR firm would be subject to SYSC 19G.5 if it were a UK SMCR firm, row (4) applies in the same way as it applies to UK SMCR firms, and the definition of material risk taker in column (2) applies accordingly.</u></p>	

...

TP 3 Remuneration codes

Part A	IFPRU Remuneration Code [deleted]	
<u>1</u>	R	[deleted]
<u>2</u>	R	[deleted]
<u>3</u>	R	[deleted]
<u>4</u>	G	[deleted]
<u>5</u>	G	[deleted]
<u>6[FCA][PRA]</u>	R	[expired]

6A[FCA] [PRA]	R	(1)	Paragraph (2) applies in relation to a <i>firm</i> that was not subject to the version of the <i>Remuneration Code</i> that applied before 1 January 2011 but satisfies at least one of the conditions set out in SYSC 19A.3.54R(1B) to SYSC 19A.3.54R(1D).
		(2)	Where this paragraph applies, a contravening provision that is contained in an agreement made before 3 November 2011 is not rendered void by SYSC 19A Annex 1.1R unless it is subsequently amended so as to contravene a rule to which SYSC 19A Annex 1.1R applies.
6B[FCA] [PRA]	G		The effect of 6R is to limit the provisions on voiding and recovery to firms which were subject to the version of the <i>Remuneration Code</i> which applied before 1 January 2011. That transitional provision comes to an end on 1 January 2012. A new limit providing for voiding to apply only in relation to certain types of firm is provided in SYSC 19A.3.54R(1B) to SYSC 19A.3.54R(1D). Paragraph 6AR applies to <i>firms</i> which become subject to the provisions on voiding after the transitional provision in 6R comes to an end. It prevents certain contravening provisions which predate the making of the new <i>rules</i> limiting the application of voiding from becoming void.
7	G	[expired]	

...

Sch 2 Notification requirements

2.1 G ...

(3) Table

Handbook reference	Matter to be notified	Content of the notification	Trigger event
SYSC 19A.3.4R(3) [deleted]	Where an <i>overseas firm</i> deems an <i>employee</i> not to be <i>Remuneration Code staff</i>	Matter described in SYSC 19A.3.4R(3)	Matter described in SYSC 19A.3.4R(3)
SYSC 19A.3.44CR [deleted]	The decision by the shareholders, members or owners of the <i>firm</i> to approve a higher maximum ratio between the fixed and variable components of total <i>remuneration</i>	Matter as described in SYSC 19A.3.44CR	Matter as described in SYSC 19A.3.44CR
...			

...

Sch 5 Rights of action for damages

...

5.4 G

Chapter/ Appendix	Section/ Annex	Paragraph	Right of action under section 138D		
			For private person?	Removed?	For other person?
...					
<i>SYSC 11 to SYSC 19A, and SYSC 19D <u>SYSC 21</u></i>			No	Yes <i>SYSC 1.4.2R</i>	No
...					

Annex C

Amendments to the Code of Conduct sourcebook (COCON)

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

4 **Specific guidance on individual conduct rules**

...

4.2 **Specific guidance on senior manager conduct rules**

...

SC2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the *regulatory system*.

...

4.2.16 G The following is a non-exhaustive list of examples of conduct that would be in breach of *rule SC2*.

...

(8)

...

- (e) the method of determining the remuneration complies, where applicable, with the ~~*Remuneration Code*~~ remuneration codes set out in SYSC 19B, SYSC 19D, SYSC 19E and SYSC 19G or, for a *Solvency II firm* or a *small non-directive insurer*, other relevant requirements in relation to remuneration, ~~as well as those remuneration codes applicable to firms as set out in SYSC 19B—19E.~~

...

Annex D

Amendments to the General Provisions (GEN)

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

2 Interpreting the Handbook

...

2.2 Interpreting the Handbook

...

Rules and guidance applying while a firm has temporary permission – capital adequacy requirements

2.2.30 R (1) Nothing in *GENPRU*, ~~*BIPRU*~~, ~~*IFPRU*~~, *MIFIDPRU*, *INSPRU*, *MIPRU*, *IPRU(FSOC)*, *IPRU(INS)* or *IPRU(INV)* applies to a *TP firm*, except for the provisions in (2).

(2) To the extent a *TP firm* carries on the relevant *regulated activity*, the following apply by virtue of *GEN* 2.2.26R:

(a) *INSPRU* 1.5.33R;

(b) *MIPRU*

(c) *IPRU(FSOC)*;

(d) *IPRU(INV)* 5, 6, ~~9~~, 12 and 13, except that *rules* relating to capital adequacy in these chapters, which would apply to a *TP firm* through the operation of *GEN* 2.2.26R(2), do not apply to that *TP firm*. Specifically, the financial resources requirements for *depositaries* of *UCITS schemes* and *depositaries* of certain *AIFs* in *IPRU(INV)* 5, and requirements involving the holding of professional indemnity insurance which relate to capital adequacy in *IPRU(INV)* ~~9 and~~ 13.

2.2.31 G ...

(6) For the purpose of this *guidance*, *rules* relating to capital adequacy comprise *rules* relating to the adequacy of a *firm's* financial resources, including both capital resources and liquidity resources. However, *rules* relating to capital adequacy do not include *rules* involving the holding of professional indemnity insurance, except where such *rules* are tied to capital adequacy requirements by a form of optionality (~~for examples of such *rules*, see *IPRU(INV)* 9.2.4R and~~

~~IPRU(INV) 13.1A.3R~~). Therefore, *rules* involving the holding of professional indemnity insurance may apply to a *TP firm* by virtue of *GEN* 2.2.26R, but if such *rules* are tied to capital adequacy requirements, they cannot apply by virtue of *GEN* 2.2.26R(2).

...

Annex E

Amendments to the Fees manual (FEES)

[*Editor's note:* The text in this Annex takes into account the changes suggested by CP20/22: *Regulatory fees and levies: policy proposals for 2021/22* as if they were made.]

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

1 Fees Manual

1.1 Application and purpose

- 1.1.1 G (1) *FEES* applies to all *persons* required to pay a fee or levy under a provision of the *Handbook*. The purpose of this chapter is to set out to whom the *rules* and *guidance* in *FEES* apply.

...

- (3) *FEES* 3 (Application, Notification and Vetting Fees) covers one-off fees payable on a particular event for example:

- (a) various application fees (including those in relation to authorisation, variation of ~~PART 4A permission~~ Part 4A permission, registration as a *CBTL firm*, authorisation of a *data reporting services provider*, and listing ~~and the Basel Capital Accord~~); and

...

...

...

3 Application, Notification and Vetting Fees

...

3.2 Obligation to pay fees

...

- 3.2.7 R Table of application, notification, vetting and other fees payable to the FCA

Part 1A: Application, notification and vetting fees

(1) Fee payer	(2) Fee payable (£) by reference to the pricing category in <i>FEES</i> 3 Annex 1A	Due date
...
...		
(o) In relation to a <i>BIPRU firm</i> , a <i>firm</i> applying to the <i>FCA</i> for permission to use one of the <i>advanced prudential calculation</i> approaches listed in <i>FEES</i> 3 Annex 6R (or <i>guidance</i> on its availability), including any future proposed amendments to those approaches. <u>[deleted]</u>	(1) Unless (2) applies, <i>FEES</i> 3 Annex 6. (2) (a) Unless (b) applies a <i>firm</i> submitting a second application for the permission or <i>guidance</i> described in column (1) within 12 months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under <i>FEES</i> 3 Annex 6, but only in respect of that second application (b) No fee is payable by a <i>firm</i> in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for <i>guidance</i> in accordance with prescribed submission requirements. <u>[deleted]</u>	Where the <i>firm</i> has made an application directly to the <i>FCA</i> , on or before the date the application is made, otherwise within 30 days after the <i>FCA</i> notifies the <i>firm</i> that its <i>EEA</i> parent's <i>Home State regulator</i> has requested assistance. <u>[deleted]</u>
(oa) Either: (i) a <i>firm</i> applying to the <i>FCA</i> for permission to use one of the internal approaches listed in <i>FEES</i> 3 Annex 6A (or <i>guidance</i> on its	(1) Unless (2) applies, <i>FEES</i> 3 Annex 6A. (2) (a) Unless (b) applies a <i>firm</i> submitting a second application for the permission or <i>guidance</i> described in column (1) within 12	Where the <i>firm</i> has made an application directly to the <i>FCA</i> , on or before the date the application is made, otherwise within 30 days after the <i>FCA</i> notifies the <i>firm</i> that its <i>EEA</i> parent's consolidating supervisor

availability), including any future proposed amendments to those approaches or (in the case of any application being made for such permission to the <i>FCA</i> as consolidating supervisor under the <i>UK CRR</i>) any <i>firm</i> making such an application; or (ii) in the case of an application to the consolidating supervisor other than the <i>FCA</i> for the use of the IRB approach and the consolidating supervisor requesting the <i>FCA</i> 's assistance in accordance with the <i>UK CRR</i> , any <i>firm</i> to which the <i>FCA</i> would have to apply any decision to permit the use of that approach. <u>[deleted]</u>	months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under <i>FEES 3 Annex 6A</i> , but only in respect of that second application. (b) No fee is payable by a <i>firm</i> in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for <i>guidance</i> in accordance with prescribed submission requirements. (c) No fee is payable where the consolidating supervisor has requested the assistance described in paragraph (oa)(ii) of column 1. <u>[deleted]</u>	has requested assistance. <u>[deleted]</u>
...		

...

FEES 3 Annex 6 (Fees payable by a BIPRU firm for a permission or guidance on its availability in connection with the BCD and/or CAD) and FEES 3 Annex 6A (Fees payable for a permission or guidance on its availability in connection with the UK CRR) are deleted in their entirety. The deleted text is not shown but the chapters are marked [deleted] as shown below.

- 3 Annex 6** **Fees payable by a BIPRU firm for a permission or guidance on its availability in connection with the BCD and/or CAD [deleted]**
- 3 Annex 6A** **Fees payable for a permission or guidance on its availability in connection with the UK CRR [deleted]**

Annex F

Amendments to the General Prudential sourcebook (GENPRU)

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

GENPRU 1 (Application) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

1 **Application [deleted]**

Amend the following as shown.

3 **Cross sector groups**

3.1 **Application**

...

Purpose

3.1.2 G ~~GENPRU 3.1 implements~~ implemented requirements ~~that correspond to~~ in the *Financial Groups Directive*. However, material on the following topics is to be found elsewhere in the *Handbook* as follows:

- (1) further material on *third-country financial conglomerates* can be found in *GENPRU 3.2*;
- (2) *SUP 15.9* contains notification *rules* for members of *financial conglomerates*;
- (3) material on reporting obligations can be found in *SUP 16.12.32R* and *SUP 16.12.33R*; and
- (4) material on systems and controls in *financial conglomerates* can be found in *SYSC 12*.

3.1.2A G GENPRU 3.1 has been amended to reflect the introduction of a new prudential regime for MiFID investment firms (MIFIDPRU). This new regime streamlines and simplifies the prudential requirements for MIFIDPRU investment firms. It refocuses prudential requirements and expectations away from the risks a firm faces to also consider, and look to mitigate, the potential for harm these firms can pose to consumers and markets. If a financial conglomerate for which the FCA is the coordinator considers the amendments to GENPRU 3.1 do not appropriately reflect the risks and potential harms to which its activities give rise, it should contact the FCA to discuss how the rules could be modified to do so.

...

Introduction: identifying a financial conglomerate

...

- 3.1.3A G If a *mixed financial holding company* is subject to equivalent provisions under this Chapter and under *UK prudential sectoral legislation* in relation to the *insurance sector* ~~as~~ and the *FCA* is the *coordinator*, the *FCA* may, on application by the *firm*, disapply such provisions of the *UK prudential sectoral legislation* with regard to that undertaking which are considered by the *FCA* as equivalent to those applying to the *firm* under *GENPRU* 3.1.

...

Capital adequacy requirements: introduction

- 3.1.14 G The capital adequacy provisions of *GENPRU* 3.1 are designed to be applied to ~~EEA-based~~ *financial conglomerates*.

...

- 3.1.17 G Annex I of the *Financial Groups Directive* laid down three methods for calculating capital adequacy at the level of a *financial conglomerate*. Those three methods are ~~implemented~~ as follows:
- (1) Method 1 calculates capital adequacy using accounting consolidation. It is ~~implemented by~~ set out in *GENPRU* 3.1.29R to *GENPRU* 3.1.31R and Part 1 of *GENPRU* 3 Annex 1.
 - (2) Method 2 calculates capital adequacy using a deduction and aggregation approach. It is ~~implemented by~~ set out in *GENPRU* 3.1.29R to *GENPRU* 3.1.31R and Part 2 of *GENPRU* 3 Annex 1.
 - (3) [deleted]
 - (4) Method 3 consists of a combination of Methods 1 and 2 and would be implemented by means of a *requirement*.

...

Risk concentration and intra group transactions: the main rule

- 3.1.35 R Subject to *GENPRU* 3.1.35AR, a *Firm* must ensure that the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate* referred to in *GENPRU* 3.1.34R are complied with with respect to that *financial sector* as a whole, including the *mixed financial holding company*. The *sectoral rules* for these purposes are those identified in the table in *GENPRU* 3.1.36R.
- 3.1.35A R A *mixed financial holding company* must comply with the *sectoral rules* in the table in *GENPRU* 3.1.36R for the *investment services sector* where:

- (1) the FCA is the coordinator of the financial conglomerate; and
- (2) the banking and investment services sector is the most important financial sector.

Risk concentration and intra-group transactions: Table of applicable sectoral rules

3.1.36 R Table: application of sectoral rules

This table belongs to *GENPRU* 3.1.35R

The most important financial sector		Applicable sectoral rules	
		Risk concentration	Intra-group transactions
<i>Banking and investment services sector</i>	<u>For the Banking sector</u>	the UK CRR <u>Part Four of the UK CRR</u>	Part Four of the UK CRR <u>The UK CRR and the PRA Rulebook</u>
	<u>For the investment services sector</u>	<u>MIFIDPRU 5</u>	<u>SYSC 12.1.12R</u>
<i>Insurance sector</i>		<i>PRA Rulebook: Solvency II Firms Group Supervision 16.1</i>	<i>PRA Rulebook: Solvency II Firms: Groups: 16.2</i>
Note		Any <i>waiver</i> , approval or permission granted to a member of the <i>financial conglomerate</i> , on a sole (or individual <u>for the purposes of the UK CRR an individual</u> or consolidated basis, shall not apply in respect of the <i>financial conglomerate</i> for the purposes of <i>GENPRU</i> 3.1.36R. For this purpose, “permission” refers to a consent, approval or agreement conferred on the <i>appropriate regulator as competent authority</i> under the UK CRR.	

...

The financial sectors: asset management companies and alternative investment fund managers

3.1.39 R (1) This *rule* deals with the inclusion of an *asset management company* or an *alternative investment fund manager* that is a member of a

financial conglomerate in the scope of regulation of *financial conglomerates*.

[**Note:** Articles 30 and 30a of the *Financial Groups Directive*]

- (2) An *asset management company* or an *alternative investment fund manager* is in the *overall financial sector* and is a *regulated entity* for the purpose of:
 - (a) *GENPRU* 3.1.29R to *GENPRU* 3.1.36R;
 - (b) *GENPRU* 3 Annex 1 (Capital adequacy calculations for financial conglomerates) and *GENPRU* 3 Annex 2 (Prudential rules for third country groups); and
 - (c) any other provision of the *Handbook* relating to the supervision of *financial conglomerates*.
- (3) Save in the circumstances in (5), in the case of a *financial conglomerate* for which the *FCA* is the *coordinator*, all *asset management companies* and all *alternative investment fund managers* must, for the purposes in (2), be allocated to one *financial sector* to which they belong for the purposes in (2), being either the *MIFIDPRU investment services sector* or the *insurance sector*. But if that choice has not been made in accordance with (4) and notified to the *FCA* in accordance with (4)(d), an *asset management company* or an *alternative investment fund manager* must be allocated to the ~~smallest financial sector~~ *MIFIDPRU investment services sector*.
- (4) The choice in (3):
 - (a) must be made by the *undertaking* in the *financial conglomerate* that is:
 - (i) the *parent undertaking* at the head of the group or,
 - (ii) in the absence of a *parent undertaking*, the ~~regulated entity with the largest balance sheet total in the most important financial sector~~ *undertaking that is deemed to be the parent undertaking in accordance with the rules in MIFIDPRU 2.4;*
 - (b) applies to all *asset management companies* and all *alternative investment fund managers* that are members of the *financial conglomerate* from time to time;
 - (c) cannot be changed; and
 - (d) must be notified to the *FCA* as soon as reasonably practicable ~~after the notification in (4)(a).~~

[**Note:** Article 4(2) of the *Financial Groups Directive*]

- (5) ~~This rule applies even if:~~ Where a UCITS management company or an asset management company is an investment firm it must be allocated to the MIFIDPRU investment services sector.
- (a) ~~a UCITS management company is an IFPRU investment firm;~~
~~or [deleted]~~
- (b) ~~an asset management company or alternative investment fund manager is an investment firm.~~ [deleted]

3.2 Third-country groups

Application

...

- 3.2.1A R *GENPRU* 3.2.9R (Supervision by analogy: rules for third-country banking and investment groups) applies in relation to ~~the following:~~ an investment firm that falls within the definition of “investment firm” in article 4(1)(2) of the UK CRR.

- (1) ~~CAD investment firm; and [deleted]~~
- (2) ~~an investment firm that falls within the definition of “investment firm” in article 4(1)(2) of the UK CRR.~~ [deleted]

Purpose

- 3.2.2 G *GENPRU* 3.2 ~~implements~~ implemented requirements that ~~correspond~~ corresponded in part to article 18 of the *Financial Groups Directive*, article 127 of the *CRD* and (in relation to *BIPRU* firms) article 143 of the *BCD*.

Equivalence

- 3.2.3 G The first question that must be asked about a *third-country group* is whether the *UK regulated entities* in that *third-country group* are subject to supervision by a *third-country competent authority*, which is equivalent to that provided for in *GENPRU* 3 (in the case of a *financial conglomerate*) or the *UK prudential sectoral legislation* for the *banking sector*, the CRR investment services sector or the MIFIDPRU investment services sector (in the case of a *banking and investment group*).

Other methods: General

- 3.2.4 G If the supervision of a *third-country group* by a *third-country competent authority* does not meet the equivalence test referred to in *GENPRU* 3.2.3G, the methods set out in MIFIDPRU or the *UK* provisions which implemented the *CRD* and *UK CRR* will apply. Alternatively, ~~or~~ the *FCA* may apply other methods that ensure appropriate supervision of the *UK regulated entities* in that *third-country group* in accordance with the aims of supplementary

supervision in *GENPRU 3* or consolidated supervision under the applicable *UK prudential sectoral legislation*.

Supervision by analogy: introduction

- 3.2.5 G If the supervision of a *third-country group* by a *third-country competent authority* does not meet the equivalence test referred to in *GENPRU 3.2.3G*, the *FCA* may, rather than take the measures described in *GENPRU 3.2.4G*, apply, by analogy, the provisions concerning supplementary supervision in *GENPRU 3* or, as applicable, consolidated supervision under the applicable *UK prudential sectoral legislation*, to the *UK regulated entities* in the *banking sector*, *CRR investment services sector*, *MIFIDPRU investment services sector* and (in the case of a *financial conglomerate*) *insurance sector*.

...

- 3.2.7 G *GENPRU 3.2.8R* and *GENPRU 3.2.9R* and *GENPRU 3 Annex 2* set out *rules* to deal with the situation covered in *GENPRU 3.2.5G*. Those *rules* do not apply automatically. Instead, they can only be applied with respect to a particular *third-country group* through the *Part 4A permission* of a *firm* in that *third-country group*.

...

Insert the following new section after *GENPRU 3.2* (Third country groups). The text is not underlined.

3.3 Actions for damages

- 3.3.1 R A contravention of the *rules* in *GENPRU* 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).

Amend the following as shown.

3 Annex 1 Capital adequacy calculations for financial conglomerates (GENPRU 3.1.29R)

...

7 Table

A mixed financial holding company	4.4	A <i>mixed financial holding company</i> must be treated in the same way as: (1) a <i>financial holding company</i> (if Part One, Title II, Chapter 2 of the <i>UK CRR</i> and the <i>PRA Rulebook: Groups Part</i>) are applied; or
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		<p>(2) an <i>insurance holding company</i> (if the <i>rules</i> in PRA Rulebook: Solvency II Firms: Group Supervision are applied); <u>or</u></p> <p>(3) an <i>investment holding company</i> (if the <i>rules</i> in <i>MIFIDPRU</i> are applied).</p>
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8 Table: PART 5: Principles applicable to all methods

...		
Cross sectoral capital	5.3	<p>(1) The solvency requirements for each different <i>financial sector</i> represented in a <i>financial conglomerate</i> required by <i>GENPRU</i> 3.1.29R must be covered by own funds elements in accordance with the corresponding <i>applicable sectoral rules</i>.</p> <p>(2) If there is a deficit of own funds at the <i>financial conglomerate</i> level, only cross sectoral capital (as referred to in that sub-paragraph) shall qualify for verification of compliance with the additional solvency requirement required by <i>GENPRU</i> 3.1.29R.</p> <p>[Note: second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the <i>Financial Groups Directive</i>]</p>
...		
Application of sectoral rules: Banking sector and investment services sector	5.6	<p>In relation to a <i>BIPRU</i> firm that is a member of a <i>financial conglomerate</i> where there are no credit institutions or investment firms, the following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the <i>rules</i> in this annex.</p> <p>(1) References in those <i>rules</i> to <i>non-UK sub-groups</i> if applicable—do not apply.</p> <p>[deleted]</p> <p>(3) Any <i>investment firm consolidation</i> waivers granted to members of the <i>financial conglomerate</i> do not apply.</p> <p>(4) (For the purposes of Parts 1 and 2), without prejudice to the application of requirements in <i>BIPRU</i> 8 preventing the use of an <i>advanced prudential calculation approach</i> on a consolidated basis, any <i>advanced prudential calculation approach permission</i> that applies for the purpose of <i>BIPRU</i> 8 does not apply.</p> <p>(5) (For the purposes of Parts 1 and 2), <i>BIPRU</i> 8.5.9R and <i>BIPRU</i> 8.5.10R do not apply.</p>

		<p>(6) (For the purposes of Part 3), where the <i>financial conglomerate</i> does not include a <i>credit institution</i>, the method in <i>GENPRU 2 Annex 4</i> must be used for calculating the capital resources and <i>BIPRU 8.6.8R</i> does not apply.</p> <p>(Other than as above) the <i>UK CRR</i> and the provisions which implemented the <i>CRD</i> apply for the <i>banking sector</i> and the <i>investment services sector</i>. [deleted]</p>
...		

9 Table: PART 6: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts 1 and 2 of this annex:</p> <p>(1) an <i>asset management company</i> is allocated in accordance with <i>GENPRU 3.1.39R</i>;</p> <p><u>(2) an <i>alternative investment fund manager</i> is allocated in accordance with <i>GENPRU 3.1.39R</i>; and</u></p> <p>(3) a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.</p>
Solo capital resources requirement: Banking sector and investment service sector	6.2	<p>(1) <u>Save in the circumstances in paragraphs 6.6 to 6.7A. The <i>solo capital resources requirement</i> of an undertaking in the <i>banking sector</i> or the <i>investment services sector</i> must be calculated in accordance with this rule, subject to paragraph 6.6 the <i>UK prudential requirements</i> that apply to that undertaking on a solo basis.</u></p> <p>(2) The <i>solo capital resources requirement</i> of a <i>building society</i> is its <i>own funds requirements</i>. [deleted]</p> <p>(3) The <i>solo capital resources requirement</i> of an <i>electronic money institution</i> is the capital resources requirement that applies to it under the <i>Electronic Money Regulations</i>. [deleted]</p> <p>(4) If there is a <i>credit institution</i> in the <i>financial conglomerate</i>, the <i>solo capital resources requirement</i> for any undertaking in the <i>banking sector</i> or the <i>investment services sector</i> is, subject to (2) and (3), calculated in accordance with the <i>UK CRR</i> for calculating the <i>own funds requirements</i> of a bank. [deleted]</p> <p>(5) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>;</p> <p>(b) there is at least one <i>investment firm</i> in the <i>financial conglomerate</i>; and</p>

		<p>(c) all the investment firms in the financial conglomerate are limited licence firms or limited activity firms;</p> <p>the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is calculated in accordance with the UK CRR for calculating the own funds requirements of:</p> <p>(i) (if there is a limited activity firm in the financial conglomerate), an IFPRU limited activity firm; or</p> <p>(ii) (in any other case), an IFPRU limited licence firm.</p> <p>[deleted]</p> <p>(6) If:</p> <p>(a) the financial conglomerate does not include a credit institution; and</p> <p>(b) (5) does not apply;</p> <p>the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is calculated in accordance with the UK CRR for calculating the own funds requirements of a full scope IFPRU investment firm. [deleted]</p> <p>(7) In relation to a BIPRU firm that is a member of a financial conglomerate where there are no credit institutions or investment firms, any capital resources requirements calculated under a BIPRU TP may be used for the purposes of the solo capital resources requirement in this rule in the same way that the capital resources requirements can be used under BIPRU 8. [deleted]</p>
...		
Solo capital resources requirement: non-UK firms subject to equivalent regimes in the banking sector or investment services sectors	6.6	<p>The <i>solo capital resources requirement</i> for a recognised third country credit institution or a recognised third country investment firm is the amount of capital resources that it is obliged to hold under the <i>sectoral rules</i> for its financial sector that apply to it in the state or territory in which it has its head office provided that:</p> <p>(1) there is no reason for the firm applying the rules in this annex to believe that the use of those <i>sectoral rules</i> would produce a lower figure than would be produced under paragraph 6.2; and</p> <p>(2) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.</p>

Solo capital resources requirement: mixed financial holding company	6.7	<p><u>(1)</u> The <i>solo capital resources requirement</i> of a <i>mixed financial holding company</i> is a notional capital requirement. <u>Subject to (2), it is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 6.10.</u></p> <p><u>(2) Where the <i>banking and investment services sector</i> is the <i>most important financial sector</i>, the capital adequacy requirement will be:</u></p> <p><u>(a) where there is a <i>UK credit institution in the financial conglomerate</i>, the requirements in the table in paragraph 6.10 for the <i>banking sector</i>; or</u></p> <p><u>(b) in all other cases, the requirements in the table in paragraph 6.10 for the <i>investment services sector</i>.</u></p>
Solo capital resources requirement: other non-regulated financial sector entities	6.7 A	<u>The <i>solo capital resources requirement</i> of a non-regulated financial sector entity other than a <i>mixed financial holding company</i> is a notional capital requirement calculated in accordance with Article 12 of Part 1 (FCA) of Regulation (EU) 342/2014.</u>
Reference to “rules”	6.7 A 6.7 B	A reference to “rules” in this annex includes any <i>onshored regulations</i> that are relevant to the purpose of for <u>for which</u> “rules” as used refers to.

...

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

Financial sector	Sectoral rules
<i>Banking sector</i>	Part One, Title II, Chapter 2 of the <i>UK CRR</i> and IFPRU 8.1 <u>the <i>PRA Rulebook</i>.</u>
<i>Insurance sector</i>	PRA Rulebook: Solvency II Firms: Group Supervision.

<i>Investment services sector</i>	<p>(in relation to an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>PRA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>UK CRR</i> and the <i>PRA Rulebook</i>; <i>MIFIDPRU</i> 2.4 and 2.5.</p> <p>(in relation to a <i>designated investment firm</i> or an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>FCA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>UK CRR</i> and <i>IFPRU</i> 8.1;</p> <p>(in relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i> for which the <i>FCA</i> is the <i>coordinator</i>) <i>BIPRU</i> 8 and <i>BIPRU</i> TP.</p>
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...

3 Annex 2 Prudential rules for third country groups (GENPRU 3.2.8R to GENPRU 3.2.9R)

...

2 Table: PART 2: Third-country banking and investment groups

...	
2.5	The <i>sectoral rules</i> applied by Part 2 of this annex cover all prudential <i>rules</i> applying on a consolidated basis including those relating to large exposures <u>and concentration risk (as applicable)</u> .
...	

...

4 Table: PART 4: Definition used in this Annex

4.1	This Part sets out the definition which a <i>firm</i> must apply for the purposes of this annex as it applies in relation to <i>GENPRU</i> 3.2.
4.2	A reference to “ <i>rules</i> ” in this annex includes any <i>onshored regulations</i> that are relevant to the purpose of <u>for</u> which “ <i>rules</i> ” as used refers to.

3 Annex 3 Guidance Notes for Classification of Groups

Classification of Groups (GENPRU 3.1.3G) - This annex consists only of one or more forms. Forms are to be found through the following address.

~~genpru_ch3_annex3G.pdf~~ [Editor's note: The form can be found at this address: [https://fca.org.uk/publication/forms/\[xxx\]](https://fca.org.uk/publication/forms/[xxx])]

Purpose and scope

The form is designed to identify groups and sub-groups that are likely to be financial conglomerates under ~~the Financial Groups Directive~~ GENPRU 3. A group may be a financial conglomerate if it contains both insurance and banking/investment businesses and meets certain threshold tests. The *FCA* needs to identify conglomerates with their head offices in the ~~EEA~~ UK and those with their head offices outside the ~~EEA~~ UK, although this does not necessarily mean that the latter will be subject to ~~EEA~~ UK conglomerate supervision.

This form's purpose is to enable the *FCA* to obtain sufficient information so as to be able to determine how likely a group/sub-group is to be a financial conglomerate. In certain cases this can only be determined after consultation with the ~~other EU relevant competent authorities~~ PRA. A second purpose of the form is therefore to identify any groups and sub-groups that may need such consultation so that this can be made as soon as possible. This should allow firms time to prepare to comply.

The third purpose of the form is to gain information from firms on the most efficient way to implement the threshold calculations in detail (~~consistently with the directive~~). We have, therefore, asked for some additional information in part 4 of the form.

A copy of this form can be found on the *FCA*'s Financial Groups Website with current contact details.

Please include workings showing the method employed to determine the percentages in part 2 (for the threshold conditions) and giving details of all important assumptions / approximations made in doing the calculations.

The definition of financial conglomerate includes not only conventional groups made up of parent-subsidiary relationships but groups linked by control and "consolidation Article 12(1) relationships". If this is the case for your group, please submit along with this form a statement that this is the case. Please include in that statement an explanation of how you have included group members not linked by capital ties in the questionnaire calculations.

A consolidation Article 12(1) relationship arises between undertakings in the circumstances set out in Article 12(1) of the Seventh Company Law Directive. These are set out in the Handbook Glossary (in the definition of consolidation Article 12(1) relationship). Broadly speaking, undertakings come within this definition if they do not form a conventional group but:

- are managed on a unified basis; or
- have common management.

General guidance

We would like this to be completed based on the most senior parent in the group, and, if applicable, for the company heading the most senior conglomerate group in the ~~EEA~~ UK. If appropriate, please also attach a list of all other likely conglomerate sub-groups.

Please use the most recent accounts for the top level company in the group together with the corresponding accounts for all subsidiaries and participations that are included in the consolidated accounts. Please indicate the names of any significant subsidiaries with a different year-end from the group's year-end.

Please note the following:

Branches should be included as part of the parent entity.

Include in the calculations overseas entities owned by the relevant group or sub-group.

There are only two sectors for this purpose: banking/investment and insurance.

You will need to assign non-regulated financial entities to one of these sectors:

- **banking/investment** activities are listed in – Annex 1 to the Capital Requirements Directive 2013/36/EU
- **insurance** activities are listed in - schedule 1 to, and *contracts of insurance* defined in article 3(1) of, the *Regulated Activities Order* .
- Any **operator of a UCITS scheme, insurance intermediary, mortgage broker and mixed financial holding company** does not fall into the directive definitions of either financial sector or insurance sector and should be treated for these purposes as being outside the financial sector. They should therefore be ignored for the purposes of these calculations.

Threshold tests

For the purpose of completing section 2 of the form relating to the threshold tests, the following guidance should be used. However, if you consider that for your group there is a more appropriate calculation then you may use this calculation so long as the method of computation is submitted with the form.

Calculating balance sheet totals

Generally, use total (gross) assets for the balance sheet total of a group/entity. However, investments in other entities that are part of the group will need to be deducted from the sector that has made the investment and the balance sheet total of the entity is added to the sector in which it operates.

Our expectation of how this may be achieved efficiently is as follows:

- Off-balance-sheet items should be excluded.
- Where off-balance sheet treatment of **funds under management** and on-balance sheet treatment of **policy holders' funds** may distort the threshold calculation, groups should consult the *FCA* on the appropriateness of using other measures under article 3.5 of the Financial Groups Directive regulation 19 of the Financial Conglomerates and Other Financial Groups Regulations 2004.
- If consolidated accounts exist for a sub-group consisting of financial entities from only one of the two sectors, these consolidated accounts should be used to measure the balance-sheet total of the sub-group (i.e. total assets less investments in entities in the other sector). If consolidated accounts do not exist, intra-group balances should be netted out when calculating the balance sheet total of a single sector (but cross-sector intra-group balances should not be netted out).
- Where consolidated accounts are used, minority interests should be excluded and goodwill should be included.
- Where accounting standards differ between entities, groups should consult the *FCA* if they believe this is likely materially to affect the threshold calculation.
- Where there is a subsidiary or participation in the opposite sector from its parent (i.e. insurance sector for a banking/investment firm parent and vice versa), the balance sheet amount of the subsidiary or participation should be allocated to its sector using its individual accounts.
- The balance-sheet total of the parent entity/sub-group is measured as total assets of the parent/sub-group less the book value of its subsidiaries or participations in the other sector (i.e. the value of the subsidiary or participation in the parent's consolidated accounts is deducted from the parent's consolidated assets).
- The cross-sector subsidiaries or participations referred to above, valued according to their own accounts, are allocated pro-rata, according to the aggregated share owned by the parent/sub-group, to their own sector.
- If the cross-sector entities above themselves own group entities in the first sector (i.e. that of the top parent/sub-group) these should (in accordance with the methods above) be excluded from the second sector and added to the first sector using individual accounts.

Solvency (capital adequacy) requirements

Generally, the solvency requirements should be according to sectoral rules ~~of the FCA~~ that would apply to the type of entity. However, you can use ~~EEA rules or~~ local rules in the circumstances set out in Part 6 of *GENPRU* 3 Annex 1. But if this choice makes a significant difference, either with respect to whether the group is a financial conglomerate or with respect to which sector is the biggest, you should consult with the *FCA*. Non-regulated financial entities should have proxy requirements calculated on the basis of the most appropriate sector. If sub-groups submit single sector consolidated returns then the solvency requirement may be taken from those returns.

Our expectation of how this may be achieved efficiently is as follows:

- If you complete a solvency return for a sub-group consisting of financial entities from only one of the ~~two~~ financial sectors, the total solvency requirement for the sub-group should be used.
- Solvency requirements taken must include any deductions from available capital so as to allow the appropriate aggregation of requirements.
- Where there is a regulated subsidiary or participation in ~~the opposite~~ another sector from its parent/sub-group, the solvency requirement of the subsidiary or participation should be from its individual regulatory return. If there is an identifiable contribution to the parent's solvency requirement in respect of the cross-sector subsidiary or participation, the parent's solvency requirement may be adjusted to exclude this.
- Where there is an unregulated financial undertaking in ~~the opposite~~ another sector from its parent/sub-group, the solvency requirement of the subsidiary or participation should be one of the following:
 - as if the entity were regulated ~~by the FCA~~ under the appropriate sectoral rules; or
 - ~~using EU minimum requirements for the appropriate sector; or~~
 - using ~~non-EU~~ local requirements* for the appropriate sector (where permissible).
- Please note on the form which of these options you have used, according to the country and sector, and whether this is the same treatment as in your latest overall group solvency calculation.
- For banking/investment requirements, use the total amount of capital required.
- For insurance requirements, use the total amount of capital required.

Market share measures

~~These are not defined by the directive.~~ The aim is to identify any standard industry approaches to measuring market share ~~in individual EU countries~~ by sector, or any data sources which are commonly used as a proxy.

Article I.

Article II. Threshold tests

Test F2

B/S of banking/investment + insurance sector = result %

B/S total

Test F3/F4/F5

B/S of insurance sector

B/S of banking/investment sector + insurance sector = A %

B/S of banking/investment sector

B/S of banking/investment sector + insurance sector = B%

Solvency requirement of insurance sector

Solvency requirement of banking/investment sector + insurance sector = C%

Solvency requirement of banking/investment sector

Solvency requirement of banking/investment sector + insurance sector = D%

The relevant percentage for the insurance sector is:

$$(A\% + C\%)/2 = I\%$$

The relevant percentage for the banking/investment sector is:

$$(B\% + D\%)/2 = BI\%$$

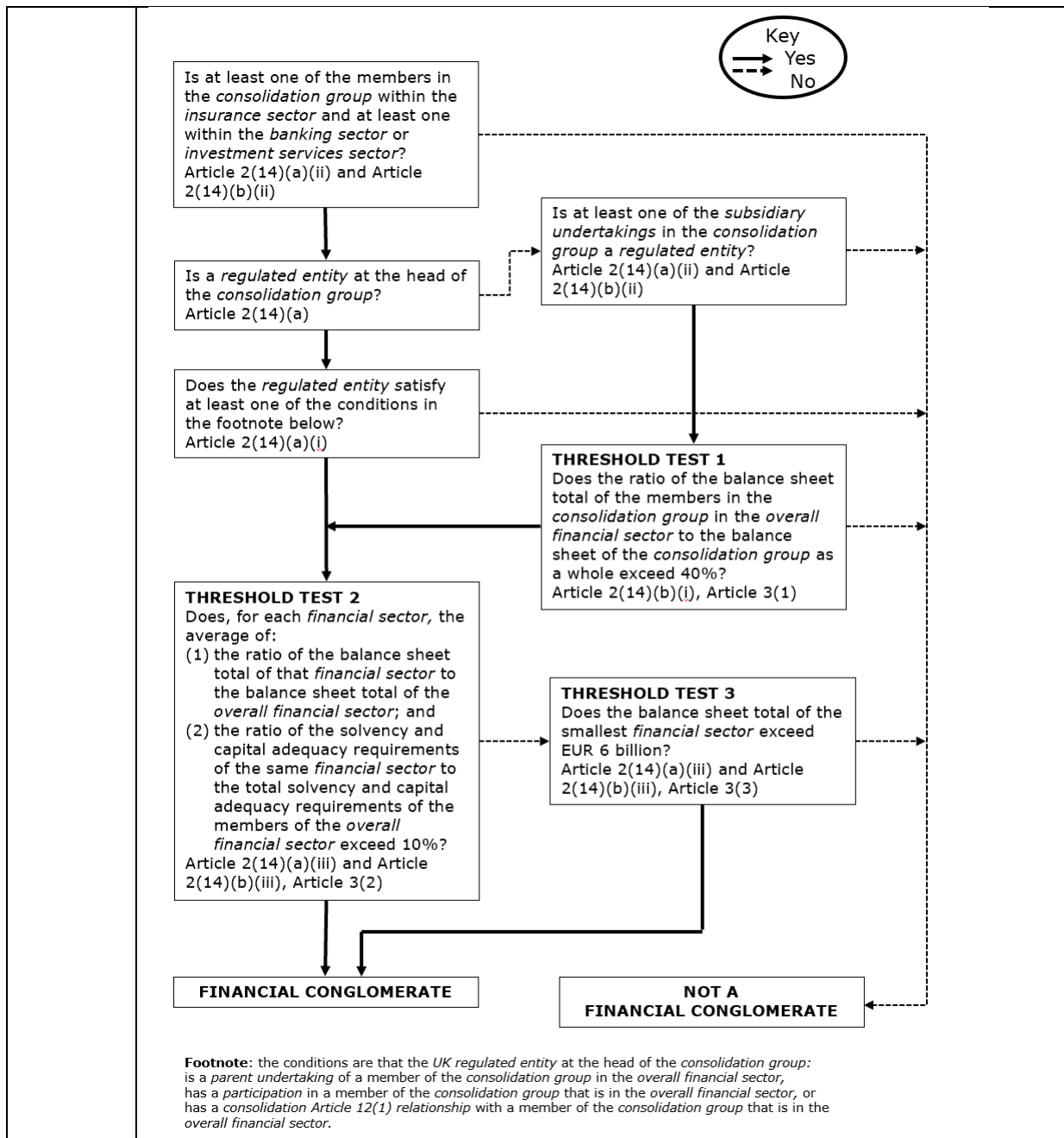
The smallest sector is the sector with the smallest relevant percentage.

Article III. If $I\% < BI\%$ then F3 is insurance, F4 = A%, and F5 = C%

Article IV. If $BI\% < I\%$ then F3 is banking/investment, F4 = B% and F5 = D%

The existing diagram in GENPRU 3 Annex 4 is deleted in its entirety. The deleted text is not shown. The following diagram is inserted to replace the deleted text.

Annex 4	(see GENPRU 3.1.5R)
----------------	----------------------------



Annex G

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

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

1 Application

...

1.2 SNI MIFIDPRU investment firms

Basic conditions for classification as an SNI MIFIDPRU investment firm

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

...

- (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; and
- (10) it is not appointed to act as a *depository* in accordance with *FUND 3.11.10R(2)* or *COLL 6.6A.8R(3)(b)(i)*.

...

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*; ~~and~~
- (6) whether the *firm* is appointed to act as a *depository* in accordance with *FUND 3.11.10R(2)* or *COLL 6.6A.8R(3)(b)(i)*.

...

1.2.12 G The following table summarises the effect of *MIFIDPRU* 1.2.1R to 1.2.10R.

Measure	Measurement of relevant values	Threshold to be classified as an SNI MIFIDPRU investment firm	Application of threshold on an individual basis or combined basis of investment firms within a group (see MIFIDPRU 1.2.9R and 1.2.10R)	
...				
Whether <i>firm</i> is a <i>clearing member</i> or <i>indirect clearing firm</i> under MIFIDPRU 10.2	<i>Firm</i> must not be a <i>clearing member</i> or <i>indirect clearing firm</i>		Individual	
Whether the <i>firm</i> has been appointed to act as a <i>depository</i> in accordance with <i>FUND</i> 3.11.10R(2) or <i>COLL</i> 6.6A.8R(3)(b)(i).	<i>Firm</i> must not be appointed as a <i>depository</i> under the relevant <i>FUND</i> and <i>COLL</i> provisions.		Individual	
...				

...

4 Own funds requirements

...

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, unless MIFIDPRU 4.4.5R applies.

- (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.
- (3) Where a MIFIDPRU investment firm is appointed to act as a depositary of an unauthorised AIF in accordance with FUND 3.11.10R(2), its permanent minimum capital requirement is £750,000, unless MIFIDPRU 4.4.5R applies.

...

- 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:

...

 - (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:

...

 - (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-; and
 - (c) the *firm* is not appointed to act as a depositary in accordance with FUND 3.11.10R(2) or COLL 6.6A.8R(3)(b)(i)
- 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:

...

(b) the *firm* is not permitted to hold *client money* or client assets in the course of *MiFID business*; and

(c) the *firm* is not appointed to act as a *depository* in accordance with *FUND* 3.11.10R(2) or *COLL* 6.6A.8R(3)(b)(i).

...

4.4.6 R Where a *MIFIDPRU investment firm* is appointed to act as the *depository* of a *UK UCITS* or an *authorised AIF*, its *permanent minimum capital requirement* is £4 million.

...

7 Governance and risk management

...

7.6 ICARA process: assessing and monitoring the adequacy of own funds

...

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 those 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 the potential material harms resulting from any *regulated activities* that do not constitute *MiFID business* and from any *unregulated activities*.

...

(6) Example 4: A *non-SNI MIFIDPRU investment firm* is appointed as a *depository*. The *K-CMH requirement* and the *K-ASA requirement* apply only in relation to *MiFID business*, and therefore do not apply to its activities as a *depository*. If the *firm* identifies a potential material harm that results from its activities as a *depository*, it will need to assess the potential financial impact of that harm and hold additional *own funds* to cover that impact. A *firm* may have regard to the general methodology for calculating the *K-CMH requirement* and the *K-ASA requirement* when carrying out

the assessment in MIFIDPRU 7.6.3R for its activities as a depositary.

...

9 Reporting

...

9 Annex 2G This annex consists of guidance which can be found through the following link:

...

Guidance notes for MIFIDPRU 9 Annex 2G

MIF001 – Adequate financial resources (Own funds)

...

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
- 4000 if the firm has a PMR of £4,000,000

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.

...

TP 6 Application of criteria to be classified as an SNI MIFIDPRU investment firm: transitional

...

Missing historical data for application of SNI classification criteria:
transitional for individual MIFIDPRU investment firms

...

- 6.9 G (1) It is unnecessary to provide transitional arrangements for the following conditions:

...

- (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);
and
- (f) the condition relating to acting as a depositary in
MIFIDPRU 1.2.1R(10).

...

- (3) The conditions in (1)(c), ~~and~~ (1)(d) and (1)(f) 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.

...

...

Annex H

Amendments to the Market Conduct sourcebook (MAR)

In this Annex, striking through indicates deleted text.

5A Organised trading facilities (OTFs)

...

5A.3 Specific requirements for OTFs

...

Proprietary trading

...

- 5A.3.8 G *Matched principal trading* does not exclude the possibility of settlement risk, and, accordingly, *firms* should take appropriate steps to minimise this risk. ~~For guidance relating to the treatment of *matched principal trading* for the purposes of *IFPRU* prudential categorisation, see *PERG 13* Q61 and Q64.~~

...

Annex I

Amendments to the Supervision manual (SUP)

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

3 Auditors

3.1 Application

...

3.1.2 R Applicable sections (see SUP 3.1.1R)

This table and the provisions in SUP 3 should be read in conjunction with GEN 2.2.23R to GEN 2.2.25G. In particular, the PRA does not apply any of the provisions in SUP 3 in respect of FCA-*authorised persons*. SUP 3.10 and SUP 3.11 are applied by the FCA only.

(1) Category of firm		(2) Sections applicable to the firm	(3) Sections applicable to its auditor
...
(7)	<i>Investment management firm, (other than an exempt CAD firm), personal investment firm (other than a small personal investment firm or exempt CAD firm), securities and futures firm (other than an exempt CAD firm or an exempt BIPRU commodities firm) or collective portfolio management firm that is an external AIFM which, in each case, has an auditor appointed under or as a result of a statutory provision other than in the Act (Notes 3 and 6)</i>	<i>SUP 3.1 - SUP 3.7, SUP 3.11</i>	<i>SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10</i>
(7A)	<i>Investment management firm (other than an exempt CAD firm), personal investment firm (other than a small personal investment firm or exempt CAD firm), securities and futures firm (other</i>	<i>SUP 3.1 - SUP 3.7, SUP 3.11</i>	<i>SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10</i>

	than an exempt CAD firm or an exempt BIPRU commodities firm) or collective portfolio management firm that is an external AIFM not within (7) to which the custody chapter or client money chapter applies		
...
(7C)	MiFID investment firm, which has an auditor appointed under or as a result of a statutory provision other than in the Act (Notes 3B and 6)	SUP 3.1 - 3.7, SUP 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
(7D)	Sole trader or partnership that is a MiFID investment firm (other than an exempt CAD firm) (Notes 3C and 6)	SUP 3.1 - SUP 3.7, SUP 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
...
Note 3A [deleted]			
<p>Note 3B = MiFID investment firms include exempt CAD firms. An exempt CAD firm that has opted into MiFID can benefit from the audit exemption for small companies in the Companies Act legislation if it meets is an exempt investment firm as defined by article 8 of the MiFI Regulations. If a firm does so benefit then SUP 3 will not apply to it. For further details about exempt CAD firms, see PERG 13, Q58. firms that are eligible to be MiFID optional exemption firms but have chosen not to exercise the article 3 exemption. However, such firms may still benefit from the audit exemption for small companies in the Companies Act legislation.</p>			
...			

...

3.1.10 G Other relevant sections of the Handbook (see SUP 3.1.9G)

Friendly society	IPRU(FSOC)
Insurer (other than a Solvency II firm or a friendly society)	IPRU(INS)
Investment management firm, personal investment firm, securities and futures firm and collective portfolio management firm (other than IFPRU investment firms and BIPRU firms <u>MIFIDPRU investment firms</u>)	IPRU(INV)

<i>Society of Lloyd's and Lloyd's managing agents</i>	<i>IPRU(INS)</i>
---	------------------

...

3.10 Duties of auditors: notification and report on client assets

...

3.10.5 R Client assets report

Whether in the auditor's opinion		
...	...	
(3)	in the case of an <i>investment management firm, personal investment firm, a UCITS firm, securities and futures firm, firm acting as trustee or depositary of an AIF, firm acting as trustee or depositary of a UK UCITS or IFPRU investment firm or BIPRU firm a MIFIDPRU investment firm</i> , when a <i>subsidiary of the firm</i> is during the period a <i>nominee company</i> in whose name <i>custody assets</i> of the <i>firm</i> are registered during the period, that <i>nominee company</i> has maintained throughout the period systems for the custody, identification and control of <i>custody assets</i> which:	
	(a)	were adequate; and
	(b)	included reconciliations at appropriate intervals between the records maintained (whether by the <i>firm</i> or the <i>nominee company</i>) and statements or confirmations from <i>custodians</i> or from the <i>person</i> who maintained the record of legal entitlement; and
...		

...

9 Individual guidance

...

9.3 Giving individual guidance to a firm on the FCA's own initiative

...

- 9.3.2 G The *FCA* may give *individual guidance* to a *firm* on its own initiative if it considers it appropriate to do so. For example:

...

- (5) in relation to the maintenance of adequate financial resources, the *FCA* may give a *firm* individual *guidance* on the amount or type of financial resources the *FCA* considers appropriate, ~~for example individual capital guidance for IFPRU investment firms or BIPRU firms; further~~ Further guidance on how and when the *FCA* may give ~~individual capital guidance~~ individual guidance on financial resources is contained in the Prudential Standards part of the *Handbook*:

- (a) for a ~~BIPRU firm: GENPRU 1.2 and BIPRU 2.2;~~ MIFIDPRU investment firm, MIFIDPRU 7.10; and

...

- (c) for a *securities and futures firm* (or other *firm* required to comply with *IPRU(INV)* 3): *IPRU(INV)* 3-79R; ~~and,~~

- (e) ~~for an IFPRU investment firm: IFPRU 2.2. and 2.3.~~ [deleted]

...

10C FCA senior managers regime for approved persons in SMCR firms

...

10C.5A FCA governing functions: Oversight

...

Chair of the remuneration committee function (SMF12)

- 10C.5A.10 R The *chair of the remuneration committee function* is the function of having responsibility for chairing, and overseeing the performance of, any committee responsible for the oversight of the design and the implementation of the *remuneration* policies of a *firm*, including, where applicable to the *firm*, a committee established in accordance with:

- (1) ~~SYSC 19A.3.12R (Remuneration Principle 4: Governance);~~ [deleted]
- (2) SYSC 19B.1.9R (AIFM Remuneration Principle 3: Governance);
- (3) ~~SYSC 19C.3.12R (Remuneration Principle 4: Governance);~~ [deleted]

- (4) SYSC 19D.3.12R (Remuneration Principle 4: Governance);
and
- (5) SYSC 19E.2.9R (UCITS Remuneration Principle 3: Governance); and
- (6) MIFIDPRU 7.3.3R (Remuneration committee).

...

15 Notifications to the FCA

...

15.3 General notification requirements

...

Breaches of rules and other requirements in or under the Act or the CCA

15.3.11 R (1) A *firm* must notify the *FCA* of:

...

- (f) ~~it exceeding (or becoming aware that it will exceed) the limit in *BIPRU* 10.5.6R; or~~ [deleted]

...

...

...

15.8 Notification in respect of particular products and services

...

CTF providers

...

15.8.9 R ~~A *BIPRU* firm must report to the *FCA* immediately any case in which its counterparty in a repurchase agreement or reverse repurchase agreement or securities or commodities lending or borrowing transaction defaults on its obligations.~~ [deleted]

...

16 Reporting requirements

16.1 Application

- 16.1.1 R This chapter applies to every *firm* and ~~*qualifying parent undertaking*~~ within a category listed in column (2) of the table in SUP 16.1.3R and in accordance with column (3) of that table.

...

- 16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, ~~SUP 16.16~~, ~~SUP 16.17~~, SUP 16.22 and SUP 16.26)

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
...		
SUP 16.18	A <i>full-scope UK AIFM</i> and a <i>small authorised UK AIFM</i>	SUP 16.8.3R
SUP 16.20 [deleted]	A firm to which MIFIDPRU 4.4.1R applies and a <i>qualifying parent undertaking</i> that is required to send a <i>recovery plan</i>, a <i>group recovery plan</i> or information for a resolution plan to the FCA	Entire section
...		

...

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.

(1)	(2)
RAG	Firm type
1	<i>UK bank</i>
	<i>Dormant account operator</i>

	<i>A non-UK bank</i>	
2.2	<i>The Society</i>	
3	<i>MIFIDPRU investment firms</i>	
	All other <i>firms</i> subject to the following chapters in <i>IPRU(INV)</i> :	
	(1)	Chapter 3
	(2)	Chapter 5
	(3)	Chapter 9 [deleted]
4	<i>MIFIDPRU investment firms</i>	
	<i>Collective portfolio management firm</i>	
	All other <i>firms</i> subject to the following chapters in <i>IPRU(INV)</i> :	
	(1)	Chapter 3
	(2)	Chapter 5
	(3)	Chapter 9 [deleted]
	(4)	Chapter 12
...		

...

16.12 Integrated Regulatory Reporting

...

Regulated Activity Group 3

...

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

Description of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>	
	<i>MIFIDPRU investment firms</i>	Firms other than <i>MIFIDPRU investment firms</i>

		<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 13
Solvency statement	No standard format (note 4)	No standard format (note 6)	No standard format (note 4)		
Balance sheet	FSA029 (note 2)	FSA029 (note 5)	FSA029	FSA029	Section A RMAR
Income statement	FSA030 (note 2)	FSA030 (note 5)	FSA030	FSA030	Section B RMAR
Capital adequacy	MIF001 (notes 2 and 3)	FSA033 (note 5)	FSA034 or FSA035 or FIN071 (note 7)	FSA034	Section D1 RMAR
...					
Threshold conditions					Section F RMAR
Client money and client assets	FSA039	FSA039	FSA039	FSA039	Section C RMAR
CFTC	FSA040 (note 8)	FSA040 (note 8)	FSA040 (note 8)	FSA040 (note 8)	FSA040 (note 8)
Liquidity	MIF002 (notes 2, 3 and 10)				
Metrics reporting	MIF003 (notes 2 and 3)				

Concentration risk (non- <i>K-CON</i>)	MIF004 (notes 2, 3 and 11)				
Concentration risk (<i>K-CON</i>)	MIF005 (notes 2, 3 and 11)				
Group capital test	MIF006 (notes 3 and 12)				
Liquidity Questionnaire	MLA-M (note 9)	MLA-M (note 9)	MLA-M (note 9)	MLA-M (note 9)	MLA-M (note 9)
...				

...

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:

Description of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>						
	<i>MIFID PRU investment firms</i>	<i>Firms other than MIFIDPRU investment firms</i>					
		<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 11	<i>IPRU(INV)</i> Chapter 12	<i>IPRU(INV)</i> Chapter 13

					<i>(collective portfolio management firms only)</i>		
Solvency statement (note 2)	No standard format		No standard format		No standard format		
Balance sheet	FSA029 (note 3)	FSA029	FSA029	FSA029	FSA029	FSA029	Section A RMAR
Income statement	FSA030 (note 3)	FSA030	FSA030	FSA030	FSA030	FSA030	Section B RMAR
Capital adequacy	MIF001 (note 3 and 4)	FSA033	FSA034 or FSA035 or FIN071 (note 5)	FSA034	FIN066	FIN069	Section D1 RMAR
...							
Threshold conditions							Section F RMAR
Volumes and types of business		FSA038	FSA038	FSA038	FSA038		FSA038

Client money and client assets	FSA039	FSA039	FSA039	FSA039	FSA039	FSA039	Section C RMAR
Liquidity	MIF002 (notes 3, 4 and 6)						
Metrics monitoring	MIF003 (notes 3 and 4)						
Concentration risk (non- <i>K-CON</i>)	MIF004 (notes 3, 4 and 7)						
Concentration risk (<i>K-CON</i>)	MIF005 (notes 3, 4 and 7)						
Group capital test	MIF006 (notes 4 and 8)						
Information on <i>P2P agreements</i>						FIN070	
...	...						

...

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:

Description of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>			
	<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 13
Solvency statement (note 6)		No standard format		
Balance sheet	FSA029	FSA029	FSA029	Section A RMAR
Income statement	FSA030	FSA030	FSA030	Section B RMAR
Capital adequacy	FSA033	FSA034 or FSA035 or FIN071 or FIN072 (note 4)	FSA031	Section D1 RMAR
Threshold conditions				Section F RMAR
Client money and assets	FSA039	FSA039	FSA039	Section C RMAR
Pillar 2 questionnaire		FSA019 (note 8)		
...	...			

...

Regulated Activity Group 8

...

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

Description of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>				
	<i>MIFIDPRU investment firms</i>	<i>Firms other than MIFIDPRU investment firms</i>			
		<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 13
Solvency statement (note 2)	No standard format				
Balance sheet	FSA029 (note 3)	FSA029	FSA029	FSA029	Section A RMAR
Income statement	FSA030 (note 3)	FSA030	FSA030	FSA030	Section B RMAR
Capital adequacy	MIF001 (notes 3 and 5)	FSA033	FSA034 or FSA035 or FIN071 (note 4)	FSA034	Section D1 RMAR
Liquidity	MIF002 (notes 3 and 5)				
Metrics monitoring	MIF003 (notes 3 and 5)				
Concentration risk (non-K-CON)	MIF004 (notes 3, 5 and 7)				

Concentration risk (<i>K-CON</i>)	MIF005 (notes 3, 5 and 7)				
Group capital test	MIF006 (notes 5 and 6)				
Threshold conditions					Section F RMAR (note 17)
Client money and client assets	FSA039	FSA039	FSA039	FSA039	Section C RMAR (note 13) or FSA039
...	...				

SUP 16.16 (Prudent valuation reporting) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

16.16 Prudent valuation reporting [deleted]

Amend the following as shown.

16 Annex G Notes for completion of the Retail Mediation Activities Return 18B ('RMAR')

Introduction: General notes on the RMAR

...

- The following table summarises the key abbreviations that are used in these notes:

APF	<i>Authorised professional firm</i>
AR	<i>Appointed representative</i>
CAD	The Capital Adequacy Directive
...	...

...

Section D Regulatory Capital

...

‘Higher of’ requirements

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

...

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

...

Guidance for completion of individual fields

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

Other <i>FCA</i> capital resources requirements (if applicable)	<p>The <i>FCA</i> may from time to time impose additional requirements on individual <i>firms</i>. If this is the case for your <i>firm</i>, you should enter the relevant amount here. This excludes capital resources requirements in relation to PII, which are recorded below.</p> <p>If the <i>firm</i> carries on <i>designated investment business</i> as well as <i>home finance mediation activity</i>, <i>insurance distribution activity</i> or both, requirements under <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>GENPRU</i> or <i>BIPRU</i> <u><i>MIFIDPRU</i></u> and <i>MIPRU</i> must be considered to determine the appropriate requirement (see general notes (i) to (iii) above). If the resulting requirement for a firm is higher than the base <i>MIPRU</i> requirement then you should include the difference here.</p>
...	...
Capital resources	<p>This should be the capital resources calculated in accordance with <i>MIPRU</i> 4 for incorporated or unincorporated <i>firms</i> as applicable.</p> <p>For <i>firms</i> that are additionally subject to <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>GENPRU</i> or <i>CREDS</i> <u><i>MIFIDPRU</i></u>, this should be the higher of the capital resources per <i>MIPRU</i> 4 and the financial resources determined by <i>IPRU(INV)</i>, <i>IFPRU</i>, <i>GENPRU</i> or <i>CREDS</i> <u><i>MIFIDPRU</i></u>. See <i>MIPRU</i> 4.4.1R.</p>
...	...

SUP 16.20 (Submission of recovery plans and information for resolution plans) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

16.20 Submission of recovery plans and information for resolution plans [deleted]

SUP 16 Annex 33A (Remuneration Benchmarking Information Report), SUP 16 Annex 33B (Guidance notes for data items in SUP 16 Annex 33AR), SUP 16 Annex 34A (High Earners Report) and SUP 16 Annex 34B (Guidance notes for data items in SUP 16 Annex 34AR) are deleted in their entirety. The deleted text is not shown but the chapters are marked [deleted] as shown below.

16 Annex Remuneration Benchmarking Information Report [deleted] 33A

16 Annex 33B Guidance notes for data items in SUP 16 Annex 33AR [deleted]

16 Annex 34A High Earners Report [deleted]

16 Annex 34B Guidance notes for data items in SUP 16 Annex 34AR [deleted]

SUP 16 Annex 40 (Data items related to recovery and information for resolution plans) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

16 Annex 40 Data items related to recovery and information for resolution plans [deleted]

Amend the following as shown.

App 2 Insurers: Regulatory intervention points and run-off plans

App 2.2 Interpretation

App 2.2.1 R For the purpose of SUP App 2.1 to 2.14:

- (1) “capital resources”:
 - (a) in relation to a *non-directive friendly society*, has the meaning given to “margin of solvency” in ~~rule 4.1(4) of IPRU(FSOC)~~ rule 2.1 of the Friendly Society – Overall Resources and Guarantee Fund part of the PRA Rulebook;
 - (c) in relation to any other *firm*~~;~~, which is not a *Solvency II firm*, means the *firm’s* ~~capital resources~~ capital resources as calculated in accordance with ~~GENPRU 2.2.17R~~; and:
 - (i) in the case of a dormant account fund operator, the version of GENPRU 2.2.17R that applied as at 31 December 2015 (the effect of which has been preserved for the purposes of INSPRU 7); and
 - (ii) in the case of a non-directive insurer (other than a non-directive friendly society), the PRA Rulebook: Non-Solvency II Firms: Insurance Company – Capital Resources; and

- (d) in relation to a *Solvency II firm* means the *firm's* “eligible own funds” as defined in the PRA Rulebook: Glossary;

(2) ~~“guarantee fund”~~: [deleted]

- (a) ~~in relation to a *non-directive friendly society*, has the meaning given to that term in *IPRU(FSOC)*;~~
- (c) ~~in relation to a *firm* other than a *Solvency II firm* which is not covered by (a), carrying on *general insurance business*, means the amount of capital resources which that firm must hold to comply with *GENPRU 2.2.34R*; and~~
- (d) ~~in relation to a *firm* other than a *Solvency II firm* which is not covered by (a), carrying on *long term insurance business*, means the amount of capital resources which that *firm* must hold to comply with *GENPRU 2.2.33R*;~~

...

...

TP1 Transitional provisions

...

TP 1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...
12W [PRA]	SUP 16.12.5R to SUP 16.12.7R [Deleted]	R	If BIPRU TP 30.4R (Liquidity floor for certain banks) applies to a <i>firm</i> the regulatory intervention point mentioned in that <i>rule</i> is added to the list in paragraph (a) of the definition of <i>firm-specific liquidity stress</i> in the case of that <i>firm</i> for as long as BIPRU TP 30.4R applies to it.	For as long as BIPRU TP 30.4R applies to the <i>firm</i>	At the end of period set out in column (5)

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

Annex J

Amendments to the Collective Investment Schemes sourcebook (COLL)

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

6 Operating duties and responsibilities

...

6.6A Duties of AFMs in relation to UCITS schemes and EEA UCITS schemes

...

Eligible depositaries for UCITS schemes

6.6A.8 R An authorised fund manager must ensure that the *depositary* it appoints under COLL 6.6A.7R is a *firm established* in the *United Kingdom* that has the *Part 4A permission of acting as trustee or depositary of a UK UCITS* and is one of the following:

- (1) a national central bank; or
- (2) a *credit institution*; or
- (3) a *firm* which:
 - (a) ~~has own funds of not less than the higher of:~~ [deleted]
 - (i) ~~the requirement calculated in accordance with articles 315 or 317 of the UK CRR;~~ or
 - (ii) ~~£4million;~~ and
 - (b) either:
 - (i) is a ~~full-scope IFPRU investment firm~~ MiFID investment firm; or
 - (ii) is an *investment management firm* to which *IPRU(INV) 5* applies; and
 - (c) satisfies the non-bank depositary organisational requirements in COLL 6.6B.11R.

[**Note:** article 23(2)(a), (b) and (c) (first sentence) of the *UCITS Directive*]

...

6.6B UCITS depositaries

...

Depositories appointed under COLL 6.6A.8R(3) (non-bank depositories):
Capital requirements

- 6.6B.7 G A *depository* appointed in accordance with COLL 6.6A.8R(3) needs to satisfy the capital requirements in either:
- (1) *IPRU(INV)* 5; or
 - (2) ~~*IFPRU*~~ and the *UK CRR* *MIFIDPRU*.
- 6.6B.8 R ~~A full-scope *IFPRU* investment firm which is appointed as a *depository* of a *UCITS* scheme must maintain own funds of at least £4million.~~
[deleted]
[Editor's note: this requirement has been moved to *MIFIDPRU* 4.4.5R.]
- 6.6B.9 G (1) ~~If the *depository* is a full-scope *IFPRU* investment firm, it is subject to the capital requirements of *IFPRU* and the *UK CRR*.~~
[deleted]
- (2) ~~However, these requirements are not in addition to COLL 6.6B.8R and therefore that firm may use the own funds required under *IFPRU* and the *UK CRR* to meet the £4 million requirement.~~
[deleted]

Annex K

Amendments to the Consumer Credit sourcebook (CONC)

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

2 **Conduct of business standards: general**

...

2.11 **Remuneration and performance management policies, procedures and practices**

...

2.11.2 R This section does not apply to a *firm* subject to:

- (1) any of the remuneration provisions in ~~SYSC 19A (IFPRU Remuneration Code)~~ to ~~SYSC 19F (Remuneration and performance management of sales staff)~~ SYSC 19B (AIFM Remuneration Code) to SYSC 19G (MIFIDPRU Remuneration Code); or
- (2) ...

Annex L

Amendments to the Investment Funds sourcebook (FUND)

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

3 Requirements for alternative investment fund managers

...

3.11 Depositories

...

Eligible depositaries for UK AIFs

3.11.10 R Subject to *FUND* 3.11.12R, an *AIFM* must, for each *UK AIF* it manages, ensure the appointment of a *depositary* which is a *firm established in the UK that has the Part 4A permission of acting as trustee or depositary of an AIF* and which is one of the following:

- (1) a *credit institution*; or
- (2) a *MiFID investment firm* or an *EEA MiFID investment firm* which:
 - (a) ~~has own funds of not less than €730,000; and~~
 - (b) provides the *ancillary service* of safe-keeping and administration of *financial instruments* for the account of clients; or
- (3) another category of institution that is subject to prudential regulation and ongoing supervision and which, on 21 July 2011, fell within the categories of institution eligible to be a *trustee* of an *AUT* or a *depositary* of an *ICVC*.

[**Note:** article 21(3)(a) to (c) and (5)(a) of *AIFMD*]

3.11.10A G (1) The capital requirements for a *MiFID investment firm* appointed as a *depositary* in accordance with *FUND* 3.11.10R(2) are contained in *MIFIDPRU*.

- (2) An *EEA MiFID investment firm* appointed as a *depositary* in accordance with *FUND* 3.11.10R(2) should refer to *MIFIDPRU* 1.1.3G and 1.1.4G, which explain the *FCA*'s general approach to its prudential regulation.

3.11.11 G (1) For a *depositary* of a *fund* to be *established* in the *UK*, it must have:

- (a) its registered office in the *UK*, where the *fund* is an *authorised fund*; or
 - (b) its registered office or *branch* in the *UK*, where the fund is an *unauthorised fund*.
- (2) ~~A MiFID investment firm that has its registered office in the UK must be a full scope IFPRU investment firm to meet the requirements of FUND 3.11.10R(2). An EEA MiFID investment firm that has a branch in the UK must meet the capital requirements under the EU CRR for a CRD full-scope firm as implemented in its Home State to meet the requirements of FUND 3.11.10R(2). [deleted]~~

...

- 3.11.15 G For certain types of closed-ended AIFs (such as private equity, venture capital and real estate funds) a wider range of entities than those specified in *FUND 3.11.10R* may perform the relevant *depository* functions. The *FCA* requires such entities to obtain authorisation as a *depository* to demonstrate that they can meet the commitments inherent in those functions, but imposes a lower level of capital requirements in recognition of the different degree of risk implied by the characteristics of the AIF. The capital requirements of such *firms* are contained in *IPRU-INV 5* (particularly *IPRU-INV 5.4.3R* (Own funds requirement)) but if the *firm* also undertakes *MiFID business*, its capital requirements will be contained in *IFPRU*, the *UK CRR*, and the *EU CRR*, or in *GENPRU* and *BIPRU* depending on the scope of that *MiFID business* *MIFIDPRU*.

[Note: recital 34 of AIFMD]

Additional requirements for depositaries of authorised AIFs

- 3.11.16 R ~~A MiFID investment firm (other than a PRA authorised person) which is appointed as a depository for an authorised AIF in accordance with FUND 3.11.10R(2) must maintain own funds of at least £4 million. [deleted]~~
- [Editor's note: this requirement has been moved to MIFIDPRU 4.4.5R.]
- 3.11.17 G ~~Where the firm referred to in FUND 3.11.16R is a full scope IFPRU investment firm which is a depository for an authorised AIF appointed in line with FUND 3.11.10R(2), it is subject to the capital requirements of IFPRU and the UK CRR or EU CRR. However, these requirements are not in addition to FUND 3.11.16R and, therefore, a firm subject to this rule may use the own funds required under IFPRU and the UK CRR or EU CRR to meet the £4 million requirement. [deleted]~~

Annex M

Amendments to the Regulated Covered Bonds sourcebook (RCB)

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

1 Introduction

1.1 Introduction to sourcebook

...

Other relevant provisions

...

- 1.1.6 G ~~*IFPRU investment firms which have exposures to covered bonds which meet the requirements set out in the provisions of article 129 of the UK CRR may benefit from reduced risk weights as set out in article 129 of the UK CRR.*~~ [deleted]

...

2 Applications for registration

...

2.3 Determination of registration

...

Liquid assets

- 2.3.20 G *Assets which would be eligible for inclusion in a liquidity buffer under BIPRU 12.7 as it applied on 31 December 2021 can be liquid assets for the purposes of limb (a) of the definition of liquid assets in Regulation 1(2) of the RCB Regulations. The FCA will also expect that liquid assets which consist of deposits should be held in the same currency or currencies as the *regulated covered bonds* issued by the *issuer*.*

...

Annex N

Amendments to the Energy Market Participants guide (EMPS)

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

1 Special guide for energy market participants

1.1 Application and purpose

...

- 1.1.3 G The reader should note that an *energy market participant* is defined to exclude a number of different categories of *firm*, including any *MiFID investment firm*.

1.2 Parts of the Handbook applicable to oil market participants

- 1.2.1 R The parts of the *Handbook* and their applicability to *energy market participants* are listed in *EMPS* 1.2.3G. *Energy market participants* should read applicable parts of the *Handbook* to find out what the detailed regulatory requirements for *energy market participants* are.

...

Applicability of parts of Handbook to energy market participants

- 1.2.3 G This table belong to *EMPS* 1.2.1G

	Part of Handbook	Applicability to energy market participants
...		
Prudential standards	Interim Prudential sourcebooks (<i>IPRU</i>)	<p>Chapter 1 (Application and General) of (Interim Prudential sourcebook: Investment Businesses) applies.</p> <p>Chapter 3 (Financial resources for Securities and Futures Firms which are not MiFID investment firms or which are exempt BIPRU commodities firms or exempt IPRU commodities firms) of <i>IPRU(INV)</i> applies, with the following qualifications:</p> <p>(a) <i>energy market participants</i> whose main business consists of</p>

		<p>the generation, production, storage, distribution and/or transmission of <i>energy</i> may be granted a <i>waiver</i> of Chapter 3 in the <i>FCA</i>'s discretion: see <i>SUP</i> 21.; and</p> <p>(b) the concentrated risk requirements do not apply to an energy market participant if it is an exempt IPRU commodities firm that applies the large exposure requirements in Part Four (articles 387 to 403) of the UK CRR see IPRU(INV) 3-1BR, IPRU(INV) 3-1CG and IPRU(INV) 3-1DG; and [deleted]</p> <p>(c) the concentrated risk requirements apply to an energy market participant if it is an exempt BIPRU commodities firm that satisfies the conditions in BIPRU TP 16 in the version as at 31 December 2013. [deleted]</p> <p>The other parts of <i>IPRU(INV)</i> do not apply.</p> <p>The other sourcebooks do not apply.</p>
	General Prudential sourcebook (<i>GENPRU</i>) [deleted]	<p>Except for provisions on capital requirements and the <i>ICAAP rules</i>, this applies to an <i>energy market participant</i> if it is an <i>exempt BIPRU commodities firm</i>: see <i>BIPRU</i> TP 15.9G-<i>BIPRU</i> TP 15.10G. [deleted]</p>
	Prudential sourcebook for Banks, Building Societies and Investment Firms (<i>BIPRU</i>) [deleted]	<p>Except for provisions on capital requirements and the <i>ICAAP rules</i>, this applies to an <i>energy market participant</i> if it is an <i>exempt BIPRU commodities firm</i>: see <i>BIPRU</i> TP 15.9G-<i>BIPRU</i> TP 15.10G. [deleted]</p>
	Prudential sourcebook for Investment	<p>Except for provisions on combined buffer, <i>own funds</i>, <i>own funds requirements</i> and the <i>ICAAP rules</i>, this applies to an</p>

	Firms (IFPRU) [deleted]	energy market participant if it is an exempt IFPRU commodities firm : see IFPRU 1.1.1G : [deleted]
Regulatory processes	...	
	Supervision manual (<i>SUP</i>)	<p>This applies, with the following qualifications:</p> <p>(a) in <i>SUP</i> 3 (Auditors), only some provisions apply if <i>IPRU(INV)</i> 3 (Financial Resources for Securities and Futures Firms which are not MiFID investment firms or which are exempt BIPRU commodities firms or exempt IFPRU commodities firms) does not apply to an <i>energy market participant</i> (because it has been granted a <i>waiver</i> of that chapter): see <i>SUP</i> 3.1.2R;</p> <p>(c) <i>SUP</i> 16.12 (Integrated Regulatory Reporting): <i>energy market participants</i> whose main business consists of the generation, production, storage, distribution and/or transmission of <i>energy</i> may be granted a <i>waiver</i> of this section in the <i>FCA</i>'s discretion: see <i>SUP</i> 21;</p> <p>(d) <i>SUP</i> 17A</p> <p>(Transaction reporting): does not apply to <i>energy market participants</i> which are not MiFID investment firms or <i>third country investment firms</i>; and</p> <p>(e) <i>SUP</i> App 2 (Insurers: Scheme of operations) does not apply.</p>
...		

Annex O

Amendments to the Oil Market Participants guide (OMPS)

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

1 Special guide for oil market participants

1.1 Application and purpose

...

- 1.1.3 G The reader should note that an *oil market participant* is defined to exclude a number of different categories of *firm*, including any *MiFID investment firm*.

1.2 Parts of the Handbook applicable to oil market participants

- 1.2.1 R The parts of the *Handbook* and their applicability to *oil market participants* are listed in OMPS 1.2.2G. *Oil market participants* should read applicable parts of the *Handbook* to find out what the detailed regulatory requirements for *oil market participants* are.

Parts of the Handbook applicable to oil market participants

- 1.2.2 G This table belong to OMPS 1.2.1G

	Part of Handbook	Applicability to oil market participants
...		
Prudential standards	Interim Prudential sourcebooks (<i>IPRU</i>)	<p>Chapter 1 (Application and General) of <i>IPRU(INV)</i> (Interim Prudential sourcebook: Investment Businesses) applies.</p> <p>Chapter 3 (Financial resources for Securities and Futures Firms which are not MiFID investment firms or which are exempt BIPRU commodities firms or exempt IPRU commodities firms) of <i>IPRU(INV)</i> applies, with the following qualifications:</p> <p>(a) to an <i>oil market participant</i> only if it is a member of a <i>recognised</i></p>

		<p><i>investment exchange</i> or a <i>designated investment exchange</i> which is, under the rules of that exchange, entitled to trade with other members: see <i>IPRU(INV)</i> 3-1A.;</p> <p>(b) the concentrated risk requirements do not apply to an oil market participant if it is an exempt IFPRU commodities firm that applies the large exposure requirements in Part Four (articles 387 to 403) of the UK CRR see IPRU(INV) 3-1BR, IPRU(INV) 3-1CG and IPRU(INV) 3-1DG; and [deleted]</p> <p>(c) the concentrated risk requirements apply to an oil market participant if it is an exempt BIPRU commodities firm that satisfies the conditions in BIPRU TP 16 in the version as at 31 December 2013. [deleted]</p> <p>The other parts of IPRU(INV) do not apply. [deleted]</p> <p>The other <i>IPRU</i> sourcebooks do not apply.</p>
	General Prudential sourcebook (<i>GENPRU</i>) [deleted]	<p>Except for provisions on capital requirements and the <i>ICAAP rules</i>, this applies to an <i>oil market participant</i> if it is an <i>exempt BIPRU commodities firm</i>: see <i>BIPRU</i> TP 15.9G-<i>BIPRU</i> TP 15.10G. [deleted]</p>
	Prudential sourcebook for Banks, Building Societies and Investment Firms (<i>BIPRU</i>) [deleted]	<p>Except for provisions on capital requirements and the <i>ICAAP rules</i>, this applies to an <i>oil market participant</i> if it is an <i>exempt BIPRU commodities firm</i>: see <i>BIPRU</i> TP 15.9G-<i>BIPRU</i> TP 15.10G. [deleted]</p>
	Prudential sourcebook for Investment Firms (<i>IFPRU</i>) [deleted]	<p>Except for provisions on combined buffer, <i>own funds</i>, <i>own funds requirements</i> and the <i>ICAAP rules</i>, this applies to an <i>oil market participant</i> if it is an <i>exempt</i></p>

		<i>IFPRU commodities firm: see IFPRU 1.1.1G. [deleted]</i>
...		
Regulatory processes	...	
	Supervision manual (<i>SUP</i>) ...	<p>This applies, with the following qualifications:</p> <p>(a) in <i>SUP</i> 3 (Auditors), only some provisions apply if <i>IPRU(INV)</i> 3 (Financial Resources for Securities and Futures Firms which are not MiFID investment firms or which are exempt BIPRU commodities firms or exempt IFPRU commodities firms) does not apply to an <i>oil market participant</i>: see <i>SUP</i> 3.1.2R;</p> <p>(c) <i>SUP</i> 16.7 (Financial reports) does not apply to the <i>firm</i> if <i>IPRU(INV)</i> 3 does not apply: see <i>SUP</i> 16.1.3R and <i>SUP</i> 16.7.5G;</p> <p>(d) <i>SUP</i> 17A (Transaction reporting) does not apply to an <i>oil market participant</i> which is not a MiFID investment firm or a third country investment firm:</p> <p>(e) <i>SUP</i> App 2 (Insurers: Scheme of operations) does not apply.</p>
...		

Annex P

Amendments to the Perimeter Guidance manual (PERG)

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

1 Introduction to the Perimeter Guidance manual

...

1.4 General guidance to be found in PERG

...

1.4.2 G Table: list of general guidance to be found in *PERG*.

Chapter:	Applicable to:	About:
...		
<i>PERG</i> 13:		
Guidance on the scope of the <i>UK</i> provisions which implemented MiFID and CRD IV	Any <i>UK person</i> who needs to know whether <i>MiFID</i> or the CRD and UK CRR (which allow provisions which correspond to the recast <i>CAD</i> to continue to apply to certain firms) apply to him <u>applies to them</u>	the scope of the UK provisions which implemented <i>MiFID</i> and the CRD and UK CRR .

...

10 Guidance on activities related to pension schemes

...

10.4A The application of requirements which implemented EU directives

Q.41A Are pension scheme trustees and administration service providers likely to be subject to authorisation under the UK provisions which implemented the Markets in Financial Instruments Directive ~~or subject to the UK provisions which implemented the Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms?~~

This is possible, but in many instances it is likely that pension scheme trustees and service providers will either not be providing an investment service for the purposes, or otherwise be exempt under the exemptions which were set out in article 2.1 of the *Markets in Financial Instruments Directive* but have been onshored in Part 1 of Schedule 3 to the *Regulated Activities Order*. The following table expands on this in broad terms.

~~As for the UK provisions which implemented the CRD, these will only apply to persons who are MiFID investment firms or CRD credit institutions.~~

Detailed guidance on the scope of the UK provisions which implemented the *MiFID* and the *CRD* and *UK CRR* is in *PERG* 13.

In the table below, references to relevant paragraphs of Article 2.1 of *MIFID* should be read as the equivalent exemptions which have been onshored in Part 1 of Schedule 3 to the *Regulated Activities Order*, or, in respect of Article 3 of *MIFID*, which can now be found in regulation 8 of the *MiFI Regulations*.

...

...

13 Guidance on the scope of the UK provisions which implemented MiFID and ~~CRD IV~~

13.1 Introduction

13.1 The purpose of this chapter is to help UK firms consider:

- whether they fall within the scope of the *UK* provisions which implemented Markets in Financial Instruments Directive 2014/65/EU ('MiFID') and therefore are subject to the requirements derived from it; and
- how their existing *permissions* correspond to related MiFID derived concepts; and
- ~~whether the UK provisions which implemented CRD and the UK CRR apply to them, and for certain firms, whether the provisions which correspond to the recast CAD continue to apply to them; and~~
- ~~if so, which category of investment firm they are for the purposes of the the provisions which correspond to the recast CAD or the UK provisions which implemented CRD and the UK CRR.~~

...

CRD IV [deleted]

Investment firms subject to the *UK* provisions which implemented MiFID, including those who fall within the article 3 MiFID exemption, onshored in regulation 8 of the MiFI Regulations, but ~~opt not to take advantage of it, are subject to the requirements of the UK provisions which implemented CRD and the UK CRR.~~ There are special provisions for certain commodities firms as well as firms whose MiFID investment services and activities are limited to only one or more of the following investment services and activities:

- ~~execution of orders on behalf of clients;~~

- portfolio management;
- giving investment advice; or
- receiving and transmitting client orders, and

who are not permitted to hold client money or securities nor are authorised to provide ancillary service (1) referred to in Section B of Annex 1 to MiFID, onshored in Part 3A of Schedule 2 to the *Regulated Activities Order* (which is safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management).

Collective portfolio management investment firms (a term that is used to refer to both *AIFM investment firms* and *UCITS investment firms*) are subject to the requirements of the *UK* provisions which implemented *CRD* and the *UK CRR*, unless they are firms whose MiFID investment services and activities are limited to those in the preceding paragraph.

Under the *UK* implementation of the *CRD* and the *UK CRR*, the level of capital an investment firm subject to MiFID requires is determined by the type of investment services and activities it provides or performs, its scope of permission and any limitations or requirements attaching to that permission (see *PERG 13.6*). A firm relying on an article 2 or 3 MiFID exemption, onshored in Part 1 of Schedule 3 to the *Regulated Activities Order* and Regulation 8 of the *MiFI Regulations*, is not subject to *CRD* and the *UK CRR*.

How does this document work?

This document is made up of Q and As divided into the following sections:

- ...
- Exemptions from MiFID derived provisions (*PERG 13.5*); and
- The *CRD IV* (*PERG 13.6*); and
- Flow charts, tables and lists (*PERG 13 Annex 1*; and *PERG 13 Annex 2*; *PERG 13 Annex 3*, *PERG 13 Annex 4*.)

We have also included guidance in the form of flow charts to help firms decide whether the *UK* provisions which implemented MiFID ~~and the *CRD* and the *UK CRR*~~ (which allow provisions which correspond to the recast *CAD* to apply to certain firms) apply to them as well as permission maps indicating which regulated activities and *specified investments* correspond to MiFID investment services, activities and MiFID financial instruments (see *PERG 13 Annex 1* and *PERG 13 Annex 2* ~~and *PERG 13 Annex 3*~~.)

...

13.2 General

Q.1 Why does it matter whether or not we fall within the scope of MiFID?

Depending on whether or not you fall within the scope of MiFID, you may be subject to:

- domestic legislation implementing MiFID (for example, FCA rules);
- “direct EU legislation”, which became part of *UK* law as at IP completion day in accordance with section 3 of the European Union (Withdrawal) Act 2018, and is known as “retained EU law” in accordance with section 6 of

the same legislation. (such as *MiFIR*, ~~*UK CRR*~~ and all directly applicable regulations made under ~~them~~ it or under MiFID); and

- ~~domestic legislation implementing the *CRD* (see *PERG* 13.6).~~ other FCA rules or legislation whose scope is drawn by reference to MiFID (for example, the Prudential sourcebook for MiFID investment firms (*MIFIDPRU*)).

Q.2 Is there anything else we should be reading?

The Q and As complement, and should be read in conjunction with, the relevant legislation and the general guidance on regulated activities, which is in chapter 2 of our Perimeter Guidance manual ('PERG'). ~~The Q and As relating to the *CRD* and the *UK CRR* (which allow the recast *CAD* to apply to certain firms) should be read in conjunction with the relevant parts of our Prudential sourcebook for Investment Firms (*IFPRU*), the Interim Prudential sourcebook for Investment Businesses (*IPRU(INV)*), the General Prudential sourcebook ('*GENPRU*') and the Prudential sourcebook for banks, building societies and investment firms ('*BIPRU*').~~

Q.3 How much can we rely on these Q and As?

The answers given in these Q and As represent the FCA's views but the interpretation of financial services legislation is ultimately a matter for the courts. How the scope of MiFID ~~and the *CRD* and the *UK CRR*~~ affect the regulatory position of any particular person will depend on his individual circumstances. If you have doubts about your position after reading these Q and As, you may wish to seek legal advice. The Q and As are not a substitute for reading the relevant UK provisions which implemented MiFID, ~~the *CRD* and the *UK CRR* (and the provisions which correspond to the recast *CAD* for certain firms).~~

Moreover, MiFID, ~~the *CRD* and the *UK CRR*~~ has been subject to guidance and communications by the European Commission, the European Securities and Markets Authority ('ESMA') and the European Banking Authority ('EBA'), we have now issued guidance on how this will be treated after IP completion day.

...

13.3 Investment Services Activities

...

Dealing on own account

Q.16 What is dealing on own account (A3, article 4.1(6)) and recital 24)?

...

If a firm executes client orders by standing between clients on a matched principal basis (back-to-back trading), it is both dealing on own account and executing orders on behalf of clients. ~~A firm is still dealing on own account under MiFID if it meets all of the conditions of article 29(2) of *CRD* (see Q61) or article 5.2 of the recast *CAD*, as applicable under the *CRD* and the *UK CRR* to certain firms (see Q58A).~~ However, a firm which meets all the conditions of these articles of *CRD* or the

~~recast CAD will not be considered as dealing on own account when determining which category of firm it is for the purposes of the FCA's base own funds requirements (see PERG 13.6).~~

...

...

13.5 Exemptions from MiFID

...

The article 3 exemption

...

Q.53 What is the practical effect of exercising the optional exemption for those firms falling within its scope?

You are not a firm to which MiFID applies and so are not a *MiFID investment firm* for the purposes of the Handbook. ~~As such you are not subject to the requirements of the CRD as transposed in the Handbook and the UK CRR. Nor are you a~~ MIFIDPRU investment firm subject to the prudential requirements in *MIFIDPRU*.

Article 3.2 of MiFID applies certain MiFID requirements to firms making use of the article 3 exemption. These are implemented in the *Handbook* and the *Act*.

PERG 13.6 (CRD IV) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

13.6 CRD IV [deleted]

Amend the following as shown.

13 Do the UK provisions which implemented MiFID apply to us?

Annex

1

[*Editor's note:* Delete the words "See Annex 3 flow charts 1 and 2 to see how the UK provisions which implemented CRD IV apply to you" from the diagram.]

PERG 13 Annex 3 (Are you subject to the CRD and UK CRR (or allowed to be subject to the recast CAD?)) is deleted in its entirety. The deleted text is not shown but the Annex is marked [deleted] as shown below.

13 Are you subject to the CRD and UK CRR (or allowed to be subject to the recast CAD)? [deleted]

Annex

3

Annex Q

Amendments to the Wind-down Planning Guide (WDPG)

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

3 The concept and process of wind-down planning

3.1 What is wind-down planning

...

- 3.1.6 G We know that some *firms* may have carried out similar planning exercises under different but related regulatory processes (e.g. *ICAAP*, ~~*RRD*~~ the *ICARA process*). This guide does not replace or re-interpret those processes. However, *firms* may want to take this guide into account to further strengthen their wind-down planning as well as to consider how consistent these processes are with one another.

~~[Note: Internal Capital Adequacy Assessment Process (*ICAAP*) is for *firms* which are subject to the *UK* provisions which implemented *CRD IV/ BIPRU*. Some of these *firms* are also subject to the *UK* provisions which implemented the Recovery and Resolution Directive (*RRD*) the *ICARA process* is the process that *MIFIDPRU investment firms* are required to comply with under *MIFIDPRU 7*.]~~

...

3.3 Wind-down scenarios: what would make a firm no longer viable?

...

- 3.3.3 G To do this, *firms* may way to consider what events would be likely to make it no longer viable, which is often referred to as reverse stress-testing. A *firm* is not viable if it no longer has adequate financial or non-financial resources to carry on its *regulated activities*. This could happen for a variety of reasons, including:

- (1) Significant financial ~~losses~~ losses with no sign of recovery

...

...

3.4 Effective risk management

...

- 3.4.6 G *Firms* may consider potential options for recovery in the face of adverse business conditions, such as selling part of the business or seeking a capital injection. ~~This is known as *recovery planning*.~~ Even if a *firm*

has ~~carried out recovery planning~~ taken these or similar steps aiming for recovery, wind-down planning can still be relevant as there is no guarantee that recovery options would save the *firm*'s business.

~~[Note: Some *firms* are required to prepare *recovery plans*, i.e. those subject to the *UK* provisions which implemented the Recovery and Resolution Directive (RRD).]~~

...

App 5 QRG: wind down scenarios and relevant management information

App 5.1 Generating wind-down scenarios and identifying relevant management information to monitor

App 5.1.1 G To generate wind-down scenarios, a *firm* may consider the following:

...

- (2) which are the business areas subject to the greatest risks, e.g. if a sudden large volatility in the currency market will lead to great ~~losses~~ losses;

...

...

App 5.1.4 G After outlining the wind-down scenario(s), a *firm* identifies the key management information that is most directly related to those scenario(s) and the relevant indicators it will want to monitor for danger signs.

Effective	Less effective
<p>Sample wind-down scenarios (covering those that are fast and slow-moving, <i>firm</i> specific and macro-economic) might include:</p> <ul style="list-style-type: none"> Severe economic downturn leading to continual losses <u>losses</u> with no sign of recovery; and <p>...</p>	...

Appendix 2

Technical standards instrument

**TECHNICAL STANDARDS (FINANCIAL CONGLOMERATES DIRECTIVE)
(AMENDMENT) INSTRUMENT 2021**

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the powers and related provisions in or under:
- (1) regulations 7(1), (4) and (6) of the Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019; and
 - (2) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138P (Technical Standards);
 - (b) section 138Q (Standards instruments);
 - (c) section 138S (Application of Chapters 1 and 2);
 - (d) section 137T (General supplementary powers);
 - (e) section 138F (Notification of rules); and
 - (f) section 138I (Consultation by the FCA).
- B. The rule-making powers listed above are specified for the purposes of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

- C. The FCA has consulted the Prudential Regulation Authority and the Bank of England as appropriate in accordance with section 138P of the Act.
- D. [A draft of this instrument has been approved by the Treasury, in accordance with section 138R of the Act.]

Interpretation

- E. In this instrument, any reference to any provision of direct EU legislation is a reference to it as it forms part of retained EU law.

Amendments

- F. The following technical standards are amended in accordance with Annexes A and B of this instrument.

(1)	(2)
Part 1 (FCA) of Regulation (EU) 342/2014 of 21 January 2014 supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates	Annex A

Part 1 (FCA) of Regulation (EU) 2015/2303 of 28 July 2015 supplementing Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions	Annex B

Commencement

G. This instrument comes into force on *[date]*.

Citation

H. This instrument may be cited as the Technical Standards (Financial Conglomerates Directive) (Amendment) Instrument 2021.

By order of the Board
[date]

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

Annex A

Amendments to Part 1 (FCA) of Regulation (EU) 342/2014 of 21 January 2014 supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates

...

Article 2

Definitions

In this Regulation:

...

- (1A) “competent authority” means the PRA or the FCA;
- (1B) “institution” means a credit institution or an investment firm;
- (1C) “investment firm” means a person as defined in paragraph 1A of Article 2 of Regulation 600/2014/EU, as that Article has effect subject to the requirements imposed by the United Kingdom legislation that implemented Directive 2014/65/EU, other than a credit institution;
- (1D) “MIFIDPRU” means the Prudential sourcebook for MiFID Investment Firms module of the FCA Handbook;
- (1E) references to “Regulation (EU) No 575/2013” mean:
 - (a) (except in the circumstances in (b)) 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, read together with CRR rules as defined in section 144A of the Financial Services and Markets Act 2000;
 - (b) (insofar as provisions are relevant to the assessment of own funds in accordance with MIFIDPRU) the Regulation in (a) as applied and modified by MIFIDPRU 3.

...

...

*Article 6***Deficit of own funds at the financial conglomerate level**

- (1) Where there is a deficit of own funds at the financial conglomerate level, only own fund items that are eligible under the sectoral rules for both the banking and investment sector (taken together), and the insurance sector shall be used to meet that deficit.
- (2) The own funds referred to in paragraph 1 are the following:
 - (a) ...
 - (b) basic own-fund items where those items may be included in Tier 1 own funds in accordance with Rule 3.1 of the Own Funds Part of the PRA Rulebook or MIFIDPRU 3 (as applicable), and the inclusion of those items is not limited by Article 82 of Regulation (EU) 2015/35;
 - ...
 - (d) basic own-fund items where those items may be included in Tier 1 own funds in accordance Rule 3.1 of the Own Funds Part of the PRA Rulebook or MIFIDPRU 3 (as applicable), and the inclusion of those items is limited by Article 82 of Regulation (EU) 2015/35;
 - ...
 - (f) basic own-fund items where those items may be included in Tier 2 in accordance with Rule 3.2 of the Own Funds Part of the PRA Rulebook or MIFIDPRU 3 (as applicable).
 - ...

...

*Article 9***Solvency requirement**

- (1) ...
- (2) Where the rules for the banking or investment services sector are to be applied,
 - (a) own funds requirements as laid down in Chapter 1 of Title I of Part Three of Regulation (EU) No 575/2013 or MIFIDPRU 4 (as applicable), and
 - (b) requirements pursuant to that Regulation or to Directive 2013/36/EU UK law, or to MIFIDPRU (as applicable) to hold own funds in excess of those requirements, including
 - (i) a requirement arising from the internal capital adequacy assessment process in the Internal Capital Adequacy Assessment Part of the PRA Rulebook and section 2.2 of the FCA Prudential sourcebook for Investment Firms, or from compliance with the requirements of MIFIDPRU 7 (as applicable),

...

...

...

Article 14

Specification of technical calculation under method 1 pursuant to Annex 2 (Table 1) of the Financial Conglomerates Part of the PRA Rulebook and Annex 1R (Table 1) of Chapter 3 of the FCA General Prudential sourcebook

(1) ...

...

(8) For the purposes of calculating thresholds or limits, regulated entities in a financial conglomerate which fall within the scope of an institution's consolidated situation pursuant to Section 1 of Chapter 2 of Title II of Part One of Regulation (EU) No 575/2013, or to MIFIDPRU 2 (as applicable) shall be considered together.

...

...

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

Annex B

Amendments to Part 1 (FCA) of Regulation (EU) 2015/2303 of 28 July 2015 supplementing Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions

...

Article 3

Significant risk concentration

- (1) ...
- (2) Counterparty risk or credit risk (which are not relevant where the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) module of the FCA Handbook applies) shall be deemed to include, in particular, risks related to interconnected counterparties in groups, which do not form part of the financial conglomerate, including an accumulation of exposures towards those counterparties.

...

...

