FINANCIAL CONDUCT AUTHORITY

Implementation of Investment Firms Prudential Regime

Policy Statement
PS21/17

November 2021

This relates to

Consultation Paper 21/26
which is available on our website at
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1 Summary

Introduction

1.1 This policy statement (PS) is our third about the UK Investment Firms Prudential Regime (IFPR). The IFPR is a single prudential regime for all solo-regulated investment firms in the UK (FCA investment firms) authorised under the UK Markets in Financial Instruments Directive (MiFID).

1.2 In August 2021 we consulted, in consultation paper CP21/26, on the third set of our proposals to introduce the IFPR. This PS summarises the feedback we received to CP21/26 and sets out our responses and final rules.

1.3 The IFPR represents a major change for FCA investment firms and it is critical that they adequately prepare for it. The IFPR will take effect on 1 January 2022.

Who this affects

1.4 The rules will apply to:

- any MiFID investment firm 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 use 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

The wider context of this policy statement

Our consultation

1.5 This is the third in a series of PSs that set out our rules to introduce the IFPR. It summarises the feedback we received to CP21/26.

1.6 We published the first CP (CP20/24) in December 2020 and the accompanying PS (PS 21/6) in June 2021. We published the second CP (CP21/7) in April 2021 and the accompanying PS (PS21/9) in August 2021. This third PS covers a miscellaneous set of topics necessary to complete our rules for introducing the IFPR.

1.7 When the UK was a member of the EU, we were heavily involved in the policy discussion to create the Investment Firm Directive (IFD) and Investment Firm Regulation (IFR). We support the aims of the EU's IFD and IFR. The IFPR will achieve the same overall outcomes.

1.8 However, we are introducing our regime after the UK has exited the EU. We believe it is right that we consider any 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 Financial Services Act 2021 (FS Act).

1.9 Given this context, our baseline approach is for consistency with the EU regime, unless we have specific reasons for diverging to reflect the nature of the UK market or otherwise comply with our duties under Part 9C of FSMA (as inserted by the FS Act).

How it links to our objectives

Market integrity

1.10 Our rules accompanying this PS, in particular those on disclosure, excess drawings from own funds by partners and members, technical standards and depositaries, form part of how FCA investment firms should consider the potential harm they can cause to clients, markets and others. For example, disclosure rules help provide important market discipline through greater transparency.

Competition

1.11 Our rules for introducing IFPR, including those accompanying this PS, ensure that there is 1 overarching regime for all FCA investment firms. They are proportionate according to the firm's size and the type and scale of their activities. For example, our removal of the need for a fund depositary to hold permission to deal on own account should help to simplify matters for new entrants.

Protecting consumers

1.12 Together with the rules already made for IFPR, our requirements in this PS on excess drawings of own funds, and on relevant technical standards that supplement those rules, help ensure FCA investment firms consider the potential harm they can cause to their retail customers, as well as to their wholesale and financial services clients. Although the Treasury is removing from the UK resolution regime those FCA

investment firms currently within its scope, this should not weaken protection because under the IFPR the focus is upon recovery and wind-down planning under MIFIDPRU 7 (as set out in CP21/7 and PS21/9), which will now apply to all FCA investment firms.

What we are changing

1.13 The current prudential regime for FCA investment firms is based on requirements designed for globally active systemically important banks. The main aim of that regime is to protect depositors by ensuring that it is difficult for a bank to fail. Investment firms do not have depositors that need to be protected. This means that the current requirements are not designed to address the potential harm posed by investment firms to their clients and the markets in which they operate.

1.14 By contrast, the IFPR considers the harm these firms can cause to others based on the activities that they carry out. It also considers the amount of own funds and liquid assets a firm should hold so that if it does have to wind down, it can do so in an orderly manner.

1.15 Introducing the IFPR means that there will be a single prudential regime for all FCA investment firms. It should reduce barriers to entry and allow for better competition between investment firms. Some FCA investment firms will have meaningful capital and liquidity requirements for the first time, commensurate with the potential harm they can cause. The rules in this third PS, covering a miscellaneous set of topics, complete this change to the new regime.

Outcomes we are seeking

1.16 Across the final rules for IFPR as a whole, we are seeking these 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 the different business models of these firms, and better protect consumers and markets from the harm these firms may pose.
- All FCA investment firms are subject to meaningful and consistent prudential requirements, not just those firms subject to the current UK CRR regime. This will help reduce their potential to cause harm to consumers and markets, and ensure a more level playing field between these firms.
- 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. The FCA 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).

1.17 The rules accompanying this third PS support these overall outcomes. They complete the introduction of the IFPR. And provide greater transparency and market discipline through disclosure.

Measuring success

1.18 From January 2022, there will be a single prudential regime for all FCA investment firms. This will simplify the current approach and should reduce barriers to entry and allow for better competition between firms. In line with our objectives and our Mission, the regime will move the focus of prudential requirements away from the risks firms face, to also consider and look to mitigate the potential for harm that the firm can pose to consumers and markets. Our aim is to improve trust in the resilience of these firms, while ensuring that their requirements are proportionate to their size and complexity.

1.19 Prudential requirements that better align with an FCA investment firm's business model should be a positive step for consumer protection. A more orderly market exit (including wind-down) of an investment firm may reduce the costs and distress to clients associated with discontinuity of service and economic losses in drawn-out insolvency proceedings. It should also reduce any disruption to markets.

1.20 The rules accompanying this PS form the final part of the introduction of this new single regime, the IFPR. Success should be measured across the regime as a whole.

Summary of feedback and our response

1.21 We received 20 responses to CP21/27. Most respondents supported most of our proposals.

1.22 Below we provide a high-level summary of the contents of this PS. We cover the specific feedback we received to our proposals, and our responses, in more detail in the corresponding chapters.

1.23 Under section 143H FSMA, we are required to publish an explanation of how we have had regard to various matters and how we have addressed certain risks when we make our final IFPR rules. Our CPs explain how we have had regard to the relevant matters and risks when formulating our original proposals. This PS includes a summary of the purpose of the complete set of final rules and explains how we have complied with the requirements under this section.

1.24 Although we have made some amendments to our original proposed rules in CP21/26 as a result of the feedback we have received, the final rules, taken as a whole, do not differ significantly from the versions upon which we consulted.

Disclosure

1.25 Chapter 2 summarises the feedback we received on our proposals for disclosure by FCA investment firms, including both how and what firms should disclose. Our proposals covered disclosure on:

- risk management
- governance arrangements
- own funds
- own funds requirements
- remuneration
- investment policy

1.26 We have made some changes to the disclosure requirements, in particular to the level of application, in response to feedback received. We have clarified when FCA investment firms must publish their first set of disclosures under the new regime. We have also introduced some exemptions from the requirement to disclose quantitative remuneration data, when certain criteria are met.

Own funds – excess drawings by partners and members

1.27 Chapter 3 summarises the feedback we received on our proposals for the treatment of drawings by partners or members of partnerships or limited liability partnerships (LLPs) that exceed the profits made.

1.28 Our proposal was that such excess drawings should be deducted from the firm's common equity tier 1 (CET1). This would 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 as allowed for 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

Technical standards

1.29 Chapter 4 summarises the feedback we received on how we proposed 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.

1.30 We proposed that in most cases firms should apply the onshored BTS, that are relevant under the IFPR, with specific modifications. These modifications will mean the BTS work in the way intended once the IFPR is implemented.

1.31 In 2 cases we proposed to copy out the BTS provisions, with some modifications, directly into our MIFIDPRU rules. In response to the feedback we received regarding the BTS on closely correlated currencies, we have also copied out the technical standard provisions from the 2015 BTS (with some modifications) directly into a new Annex 13R in MIFIDPRU 4. We also proposed making 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.

1.32 We proposed to introduce a generic MIFIDPRU application form and notification form to allow for the application and notification requirements arising from these BTS.

Depositaries

1.33 Chapter 5 summarises the feedback we received on our proposed capital requirements for FCA investment firms that also have a Part 4A permission to act as a depositary for various types of investment funds.

1.34 We explained that depositaries that are also FCA investment firms should consider the potential for harm arising from their depositary activities as part of their internal capital adequacy and risk assessment process under MIFIDPRU 7. We also proposed that FCA investment firms that act as depositaries generally cannot be considered small and non-interconnected (SNI) firms.

UK resolution regime

1.35 Chapter 6 summarises the feedback we received on our proposals to put into effect the removal of FCA investment firms from the scope of the UK resolution regime. We proposed to delete IFPRU 11 and amend other parts of our Handbook so that the rules are consistent with that change.

Consequential changes

1.36 Chapter 7 summarises the feedback we received on our proposals to amend the non-prudential Handbook modules as needed due to the implementation of the IFPR. Our overall approach was to make only the consequential amendments needed to:

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

1.37 We also proposed small policy changes where necessary to streamline and simplify the regulatory requirements that currently differentiate between the various existing prudential categories of FCA investment firm.

Enforcement

1.38 Chapter 8 summarises the feedback we received on our proposals for our approach to the enforcement of the IFPR. This was both the requirements set out in the new Part 9C of FSMA and the rules we are making to implement the IFPR.

1.39 We proposed to use our existing approach to investigations and imposition of sanctions for any breaches of the IFPR. We also proposed making 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 by the 2021 Financial Services Act (FS Act) over non-authorised parent undertakings.

Applications and notifications

1.40 Chapter 9 summarises the feedback we received on our proposals for an investment firm group notification form, including financial conglomerates. We also provided more details of the proposed generic MIFIDPRU application form and notification form that will cater for any specific application and notification requirements from incorporating BTSs into MIFIDPRU.

Explanation of how we meet our obligations under section 143H (2) of the Financial Services and Markets Act when making Part 9C prudential rules

1.41 Chapter 10 sets out how we meet our obligations under Section 143H (2) of FSMA. This requires that we provide a summary of the purpose of our new rules that implement the IFPR, an explanation of how we have considered specified risks, and an explanation of how having regard to specified matters has affected the rules we have made.

Equality and diversity considerations

1.42 We have considered the equality and diversity issues that may arise from the proposals in this Policy Statement.

1.43 Overall, we do not consider that the rules materially impact any of the groups with protected characteristics under the Equality Act 2010.

Next steps

1.44 Accompanying this PS are the final rules that relate to CP21/26. The relevant FS Act statutory instruments have been made and these rules will take effect from 1 January 2022.

What you need to do next

1.45 Firms should ensure that they make the necessary preparations to be able to comply with the requirements. FCA investment firms should also ensure that they return the answers to the questionnaire that was sent out on 12 November 2021. This will allow us to schedule the appropriate regulatory returns to each firm and, where appropriate, UK parent entity. We also remind firms that under MIFIDPRU TP5, they must begin collecting data on K-factor metrics that are relevant to the activities they undertake by no later than 1 December 2021.

2 Disclosure

2.1 In this chapter, we summarise the feedback to our proposals for the disclosure requirements that would apply to FCA investment firms, and our responses.

2.2 Poorly run firms pose a greater potential risk of harm to markets and consumers. The public disclosures we proposed give stakeholders and market participants an insight into how the firm is run. Disclosing the own funds and own funds requirements of a firm allows potential investors to assess its strength. Investment policy disclosures provide information on the firm's behaviour, while risk management, governance and remuneration provide key information on the firm's culture. Disclosing this information helps stakeholders to make more informed decisions about their relationship with the firm.

Key proposals

2.3 In CP21/26 we explained that public disclosure is an important part of the IFPR. It is core to market discipline, and provides the information and transparency necessary to ensure markets work well.

2.4 We proposed that firms should publicly disclose certain information on the following areas:

- risk management
- own funds
- own funds requirements
- investment policy
- governance arrangements
- remuneration

2.5 We also asked for feedback on templates for the own funds and investment policy disclosures.

2.6 We asked 3 questions in this chapter:

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?***

Feedback and responses

2.7 We had 20 responses to this chapter, of which 14 responded to Q1, 13 responded to Q2, and 15 responded to Q3.

Basis of disclosures

2.8 We received several responses asking us to clarify whether disclosures should be made on a consolidated or individual basis. Feedback favoured disclosures being made on a consolidated basis or allowing firms the choice.

Our response

We have taken on board feedback that requiring disclosures to be made both on an individual and consolidated basis could be burdensome. As a result, we have decided to require disclosures only on an individual entity basis. However, there is nothing to prevent a firm from additionally choosing to disclose voluntarily on a consolidated basis. We consider that this approach is the most consistent with our general approach to consolidation under the IFPR, and strikes the best balance between transparency and regulatory burden. This is because individual disclosures provide more granular information than consolidated, and this information is more relevant to the specific entity that conducts the investment services and activities. We also consider that this approach is fairer, as it ensures there is no difference between groups which are subject to prudential consolidation, those with permission to use the group capital test, and investment firms that are not part of a group.

If certain data items are the same for multiple entities, for example a diversity policy which is set at the group level, firms could either replicate this on their own websites or link to it at the group website. In these cases, firms will need to make it clear to which entities' disclosures the data belongs. This is because the individual entities must fulfil the requirement to disclose the information.

We confirm that an FCA investment firm will be exempt from the disclosure requirements in MIFIDPRU 8 if it satisfies the conditions set out under MIFIDPRU 2.3.1R (which include being an SNI firm within an insurance group).

When and how to disclose

Timing of the disclosures

2.9 We received several responses asking us to clarify our expectations for the date of the first disclosures under MIFIDPRU 8. We also received one suggestion that the required date of publication should be a date other than when firms publish their annual statements.

Our response

We have added transitional provisions to be found at TP12. These transitional provisions clarify the timing of the first set of disclosures under the new regime.

Disclosures on own funds, own funds requirements, governance, risk management and investment policy

Under TP 12, a firm with a financial year end in 2022 that falls on or before 30 December 2022 will make its first required disclosures set out in MIFIDPRU 8 from that date, but only for own funds, own funds requirements and governance. The firm will only be required to make its first disclosures for risk management and investment policy starting from its year-end falling in 2023.

We have distinguished between own funds, own funds requirements and governance disclosures, and the other disclosures in the first year. This is because these 3 specific areas require disclosure as at a particular date. For example, a firm whose financial year ends on 31 March would already be collecting the relevant data for disclosing information on own funds and own funds requirements as of that date, and would already have governance arrangements in place by 31 March 2022. In contrast, its investment policy disclosure will need to cover a period of a year, and for risk management it may first need time for senior management to review its ICARA before making any disclosure.

However, a firm whose financial year ends on 31 December 2022 will be required to publish its first set of disclosures, covering everything except remuneration (ie own funds, own funds requirements, governance, risk management and investment policy), based on that date. We consider a full year under the new regime to be sufficient time for firms to be able to collect the relevant information to comply with all relevant obligations.

We consider the publication date of a firm's financial statements, or for firms which do not publish financial statements, the date on which it is required to submit its solvency statement to the FCA, to be the most appropriate date for its disclosures to be published. This way, management will be able to sign off the disclosures at the same time as the financial statements, where applicable. For firms that do not publish financial statements, tying the date of disclosures to when they submit their solvency statement to us will also minimise further regulatory burden where disclosure can be dealt with at the same time as the management body finalises or approves the solvency statement. This is particularly so for those disclosures, such as own funds and own funds requirements, where the same or similar information to that published in the financial statement or submitted in the solvency statement is used.

Disclosures on remuneration

We have set out in MIFIDPRU TP12 that an FCA investment firm must make its first remuneration disclosures under MIFIDPRU 8.6 on the same date that it publishes its first annual financial statement after the end of the first performance period to which the MIFIDPRU Remuneration Code applies.

We have further clarified in MIFIDPRU TP12 that, until that point, an FCA investment firm must continue to make its remuneration disclosures in line with any disclosure rules to which the firm is currently subject, ie BIPRU 11 or UK CRR.

For most firms with performance periods of 12 months, this will mean their first MIFIDPRU remuneration disclosures will be made in 2023. The disclosures in 2022 will be made according to the same requirements as applied to the firm in 2021 (if any).

For example, if an IFPRU investment firm has a performance year running from 1 January to 31 December, it will need to apply the MIFIDPRU Remuneration Code from its performance year beginning on 1 January 2022 (SYSC 19G.1.30R). This performance period ends on 31 December 2022, meaning that the first remuneration disclosures under MIFIDPRU 8.6 would have to be made on the same date as the firm's annual financial statement that is published in 2023. In 2022, the firm must continue to comply with the remuneration disclosure requirements of the UK CRR in respect of its disclosures from the 2021 performance year.

It would be possible for FCA investment firms to start disclosing the qualitative remuneration information required under MIFIDPRU 8.6 during 2022. However, the quantitative data from the first complete performance year under the MIFIDPRU Remuneration Code will not be available until 2023. We consider it would be complex, confusing and not aid transparency if we were to require firms to publish qualitative remuneration information under MIFIDPRU 8.6 alongside quantitative disclosures made under the previous regimes. Therefore, we are requiring firms to make their first remuneration disclosures under MIFIDPRU 8.6. when both qualitative and quantitative information is available.

Use of a firm's website for disclosure

2.10 One respondent thought that allowing firms without a website to disclose via other means created an uneven playing field. They suggested that firms that do have a website be allowed to disclose elsewhere too.

Our response

We consider that where a firm maintains a website this is likely to be the best way for firms to demonstrate compliance with the requirements in MIFIDPRU 8.1.13R for disclosures to be (in summary) easily accessible, clearly and transparently presented. We have added an evidential provision at MIFIDPRU 8.1.16E to that effect. However, we have amended the rule at MIFIDPRU 8.1.13R, by removing the requirement to publish on a website. Where a firm does not have a website, it would be disproportionate to require them to set one up purely for the purpose of disclosure requirements. The rules are drafted in such a way that for those firms who do not have a website, it will be possible to disclose the required information in an alternative format, if it can be done in a way that complies with the rule at MIFIDPRU 8.1.13R. The amended rules, evidential provision and

guidance on how a firm must disclose reflects the broad range of FCA investment firms, where some firms have no need for a website to conduct their specific investment activities. In practice, we think this is unlikely to affect many firms.

2.11 Some respondents were concerned that reproducing information on their website which had already been published elsewhere would be burdensome and asked whether it would be permitted to cross-refer to information in other locations or media.

Our response

Where a firm chooses to comply with MIFIDRPU 8.1.13R by publishing disclosures on their website, that information must be clearly presented and easy to understand. We would not generally expect that to involve cross-references to external material hosted by third parties, for example, information available at Companies House. However, it would be acceptable to link to the relevant information on another page of the firm's website, or on the website of the parent or another member of the group where applicable. It is also acceptable for the parent's or group's website to publish the disclosures on behalf of an entity which does not maintain its own individual website. As the disclosures must be made on an entity-level basis, firms using a group or parent website to disclose should make clear on the group/parent website to which entity each disclosure belongs.

2.12 Two respondents were concerned that the requirement to publish disclosures on a firm's freely and universally accessible website could conflict with legal requirements from other jurisdictions.

Our response

We do not expect firms to breach a requirement of another jurisdiction in complying with MIFIDPRU 8 and have inserted a new rule at MIFIDPRU 8.1.15R to make this clear, together with an evidential provision and guidance provision at MIFIDPRU 8.1.16E and MIFIDPRU 8.1.17G relevant to this topic. As stated above, we expect that the majority of firms will find the use of their website (where a website is maintained) to be the most convenient way of complying with MIFIDPRU 8.1.13R. Those firms for whom this is not possible (for example because they do not maintain a website or because to do so would cause them to breach the law of another jurisdiction) may publish in other media, as long as they meet the criteria set out in MIFIDPRU 8.1.13R. There is no exemption from disclosure requirements for firms in these circumstances.

Risk management

2.13 Respondents supported our proposals for risk management disclosure and agreed that it would not be appropriate to use a template. We confirm that we are proceeding as consulted on.

Own funds & own funds requirements

2.14 One respondent asked for clarification on the use of template OF2 for firms which are not required to publish audited financial statements, such as some partnerships.

Our response

Firms which are not required to publish audited financial statements will not be required to publish these purely for the purposes of disclosure. We have therefore clarified that these firms will not be required to complete template OF2, as there will be nothing with which they can reconcile the data.

2.15 We proposed that firms disclose their K-factor requirement (KFR) broken down into three groupings of K-factors. One respondent proposed an alternative grouping of K-factors to be used in the disclosures. Several respondents suggested not requiring firms to disclose data that they considered less relevant, for example a firm's KFR if it is not their operative requirement. Two respondents requested a template for own funds requirements disclosures.

Our response

As we set out in CP21/26, the three groupings of K-factors we proposed for disclosures were chosen as they best reflect the following categories: (1) assets for which the firm is responsible; (2) execution activity undertaken by the firm; and (3) its exposure-based risks. We are not using the same categorisation set out in the EU IFR as we do not believe this puts some of the K-factors in their most logical place. As we explained in PS21/9, we consider it more appropriate to group K-COH and K-DTF together as these both cover the execution of orders – in the name of the client and in the name of the firm (but may be on behalf of a client) respectively.

We consider it important for firms to disclose each element of their own funds requirements regardless of which element determines their binding requirement under MIFIDPRU 4. This is because each aspect provides important information about the business.

We do not consider it necessary to introduce a template for own funds requirements, as this is a simple quantitative disclosure consisting of 5 data items, which should be simple to understand and compare regardless of formatting.

Investment policy

2.16 We received several requests to clarify the scope of the investment policy disclosures, in terms of the definition of regulated market, what we meant by a direct or indirect holding, what we meant by exceeding 5%, and voting rights.

Our response

We have added additional guidance provisions to clarify the scope of this disclosure. We will carry across the existing Glossary definition of regulated market, which means that this disclosure applies to holdings traded on a UK recognised investment exchange (RIE). We have deleted the first column in template IP1.01 ('Country or territory') as a result.

By direct or indirect holding, we mean shares held on the balance sheet of a firm or another group member, or where the firm may exercise voting rights in a fiduciary capacity.

We have clarified that exceeding 5% means holding voting rights of at least 5% plus one share. This applies to any holding where at any point during the reference period, the firm's holding exceeds the 5%, even if the firm reduces or disposes of its holding within the reference period. The voting behaviour disclosures set out in MIFIDPRU 8.7.1R (2) are in scope during the period where the firm's holding exceeded 5% of voting rights. For example, if a firm held shares exceeding 5% of voting rights for only a short period and disposed of them without any general meetings taking place during that period, then no meetings will have been in scope.

The disclosures apply only for shares where the firm has voting rights, whether this is via the shares being held in the firm's name or in a client's name where the firm has been given control of the voting rights. Shares for which the firm does not have control of the voting rights are not in scope. If firms have the voting rights but choose not to exercise them, they should indicate this in their disclosures rather than not disclosing, as this is relevant information to potential clients.

2.17 We received one response expressing concern that there could be circumstances in which the information required as part of this disclosure could be proprietary or confidential.

Our response

While we do not expect this to be a common issue, we have added an exemption for these exceptional circumstances at MIFIDPRU 8.7.4R. If a firm considers a data item in this disclosure to be proprietary or confidential information, it may omit this item, as long as it discloses which item has been omitted and the reason for the omission. This preserves a similar exemption available in BIPRU 11. We may ask a firm that uses this exemption to justify to us its rationale for doing so.

2.18 We received further feedback on specific elements of the investment policy templates IP1 and IP2.

Our response

We have made a number of changes to the templates as a result of feedback. As mentioned above, we have deleted the column 'country or territory' from IP1. We received one piece of feedback expressing a preference for the use of an International Securities Identification Number (ISIN) as an identifier rather than a Legal Entity Identifier (LEI) in IP1. We acknowledge the reasoning for this, but consider LEI simpler in this instance. If we had used ISIN, there could be the need to list multiple ISINs for the same entity if a firm held more than 5% of voting rights in several issuances from the entity, or if a company were dual listed. By using LEI, the investee company only needs to be listed once, with the proportion of shares given as a proportion of total shares issued by that company, not the proportion of shares under a certain ISIN.

From template IP2.01, we have clarified the permitted answers to row 4. We have also deleted rows 5 and 6, and clarified that row 7 should be answered with yes or no.

In IP2.03 we have added an additional row for 'other governance'. This is because ESG is a generally recognised term, but we acknowledge that including all other governance-related resolutions under it could be misleading.

We have clarified that firms should complete IP2.03 with the relevant numbers, except where specified in row 9, which is a percentage. We have also clarified in row 7 that 'external resolutions' includes shareholder proposals. The other rows in IP2.02 and IP2.03 refer to management proposals, and this has been clarified in rows 2 & 3 of IP2.02. If a firm splits its votes by voting both for and against a proposal, it should be recorded under both columns. We have also clarified in IP2.02 and IP2.03 that percentages refer to all resolutions, including ones in which the firm did not vote.

2.19 Some respondents felt that our proposals duplicated other requirements, such as the Shareholder Rights Directive (SRD) or the Disclosure Guidance and Transparency Rules Sourcebook (DTR), or that they were unnecessarily stringent compared to the CRR.

Our response

There may be some overlap, but the scope of requirements under MIFIDPRU 8 is different to the SRD and DTR, as is the specific information required to be disclosed. We have taken the requirements set out in the EU IFR/IFD and the EBA's templates as our baseline when designing the requirements of MIFIDPRU 8 and our templates OF and IP. Some elements of the IFPR, including our disclosure requirements, may put greater requirements on some types of firms than other

regimes and less on others. On the whole, we consider the level of disclosure set out in MIFIDPRU 8 to be appropriate to provide markets with the requisite information for them to work well, and our templates are as simple as possible to reduce compliance burden.

Governance arrangements

2.20 Effective governance arrangements help a firm achieve its strategic objectives while also ensuring that risks to the firm, its stakeholders and the wider market are identified, managed and mitigated. We proposed that all non-SNI firms must disclose certain information about their internal governance arrangements (see MIFIDPRU 8.3).

Oversight of governance arrangements by the management body

2.21 We proposed that all non-SNI firms publish a summary 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.

2.22 We received no feedback on this proposed rule or the associated guidance. We confirm we are proceeding as consulted on.

Risk committee

2.23 We proposed 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 7.3.1
- where relevant, whether it has any waiver or modification of the rule requiring a risk committee

2.24 One respondent asked whether a non-SNI firm which has obtained a modification of MIFIDPRU 7.3.1 to permit the firm to establish a risk committee at group level, may instead disclose the information on its risk committee at the level of the consolidation group. This was said to be helpful because it would save each non-SNI firm in the group from having to replicate the same information.

Our response

We explain above that all disclosures required by MIFIDPRU 8 must be made on an individual entity basis. Firms in consolidation groups may choose to additionally disclose any or all information on a consolidated basis, if they wish. Nevertheless, as set out above, firms may comply with any of the disclosure requirements by providing an electronic link to the relevant information on another page on the firm's website or, where applicable, the website of another entity in the consolidation group or of the UK parent entity.

While the use of links can reduce the need to duplicate large amounts of information, firms should note that the information to be disclosed on risk committees must in all cases relate to the individual non-SNI firm concerned. This is because the requirement to have a risk committee applies at individual entity level only and not at the level of the investment firm group (see (MIFIDPRU 7.1.3R). The information to be disclosed may differ between non-SNI firms in the group, for example if some, but not all, are required to establish risk committees.

Directorships

2.25 We proposed that all non-SNI firms must disclose how many directorships each member of the management body holds, broken down into executive and non-executive directorships. We suggested in a guidance provision that this should include:

- all directorships, regardless of whether the organisation has a mainly commercial or non-commercial objective
- separate disclosure of each directorship, even if they are treated as single directorships under SYSC 4.3A.7R(2), for example because the person holds multiple directorships in entities within the same group

2.26 Two large trade bodies responded to these proposals. They suggested that firms should be expected to disclose:

- only directorships in organisations with mainly commercial objectives because:
  - there is no potential conflict of interest where the directorship is in an organisation with a mainly non-commercial objective
  - information on all directorships, including those held in organisations with mainly non-commercial objective, is already publicly available through Companies House
- directorships in multiple entities within one group as a single directorship because:
  - it could be misleading in terms of time commitment to list all the separate directorships, especially given meetings of multiple entities are often combined
  - it could be confusing or misleading to disclose a greater number of directorships than are permitted under SYSC 4.3A due to the different way of counting them

2.27 In addition, we proposed that non-SNI firms which are also significant SYSC firms must disclose whether we have approved any additional directorships beyond the limits which would usually apply. We did not receive any feedback on this proposal.

Our response

We have made changes to the directorship disclosure requirements in response to the feedback.

We note that firms are already required by law to submit information to Companies House about all the executive and non-executive directorships held by their directors. This is then published online. It includes directorships in entities with a mainly commercial or non-commercial objective, and is at the level of the individual entity.

We agree with stakeholders that it would be duplicative to require non-SNI firms to disclose the same information about their directors. We have replaced the proposed guidance with a rule at MIFIDPRU 8.3.2R clarifying that FCA investment firms do not need to disclose:

- directorships held in organisations which do not pursue predominantly commercial objectives
- separate directorships held within the same group or within undertakings (including non-financial sector entities) in which the firm holds a qualifying holding

This is consistent with the wording used in SYSC 4.3A.7 on what is an appropriate or maximum number of permitted directorships.

The change does not prevent any firm from disclosing more than the minimum information. For example, IFPRU investment firms are currently in scope of the UK CRR and required to disclose more detailed information on directorships. They may continue to disclose the same level of information if they wish.

Diversity policy

2.28 We proposed that non-SNI firms must disclose a summary of their approach to diversity on the management body. This reflects the importance of diversity within firms.

2.29 Three respondents commented on this proposal. One expressed support for our proposal but noted there are already voluntary schemes which go further, for example the Government's Women in Finance Charter and Business in the Community's Race at Work Charter.

2.30 Two respondents asked us to clarify whether non-SNI firms that form part of groups may rely on the diversity policy of their parent company.

Our response

Voluntary schemes play an important part in improving diversity and inclusion. The FCA is itself a signatory of the Women in Finance and Race at Work Charters. Such schemes contain commitments to gather diversity data and/or to set certain targets, and to publish the organisation's progress.

The disclosure requirements we proposed are based on the current rules in SYSC 4.3A which require every common platform firm to put in place a policy promoting diversity of the management body. We cannot require all firms to disclose, for example, their diversity targets without an underlying legal or regulatory requirement to set such targets. We are considering the various policy options as part of our broader work on diversity and inclusion, which we started in July 2021 with the publication of DP21/2: Diversity and inclusion in the financial sector – working together to drive change.

The request for clarification relates to the underlying requirement to have a policy promoting diversity on the management body. A non-SNI firm should disclose a summary of the diversity policy which applies to its own management body. This could be specific to the entity or a policy set at group, consolidation group or any other level.

Templates

2.31 We did not propose to introduce a template for governance disclosures. We wanted to provide non-SNI firms with flexibility to disclose the required information in the most appropriate way for their business.

2.32 One stakeholder suggested that we should develop a template which would automatically make the information public when it had been entered by firms (synthetic disclosure). They argued that this would facilitate stakeholders' understanding and enhance transparency.

Our response

We do not intend to develop templates for governance disclosures. Although we proposed them for some other types of disclosures, for example own funds, we do not think they are appropriate for governance because of the qualitative nature of the information and the benefits of providing flexibility for firms to disclose this in the most accessible and meaningful way that reflects their arrangements.

Remuneration

2.33 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.

2.34 We proposed that all MIFIDPRU investment firms should disclose qualitative and quantitative information about their remuneration policies, practices and outcomes (see MIFIDPRU 8.6). These were tailored to the substantive remuneration requirements of SYSC 19G, with SNI investment firms being required to disclose less information than non-SNI firms.

Scope and application to material risk takers

2.35 One stakeholder asked us to clarify that the disclosure requirements do not apply to a material risk taker (MRT) who is employed by the parent entity in a third country and located outside of the UK investment firm group.

2.36 The respondent noted that it is common for a UK investment firm, which is a subsidiary of a third country parent firm, to appoint to its board a senior employee of its parent firm. They argued that the MRT derives no remuneration from the UK investment firm to which SYSC 19G applies, so the disclosure requirements should also not apply in respect of that MRT.

Our response

The respondent has recognised that the MIFIDPRU Remuneration Code requires such an individual to be identified as an MRT. This is because the person is a staff member due to the broad interpretation at SYSC 19G.1.24G, and is deemed to have a material impact on the firm's risk profile or assets it manages because they are a member of the management body of an FCA investment firm (SYSC 19G.5.3R).

The MIFIDPRU Remuneration Code applies to any form of remuneration awarded to FCA investment firm MRTs. The extent to which any or all of an individual MRT's remuneration is derived specifically from tasks related to or from an employment contract with the FCA investment firm is not a relevant consideration. The behaviour and decision-making of the MRT can be influenced by their variable remuneration, so it is appropriate to ensure alignment of risk and individual reward by applying the MIFIDPRU Remuneration Code to the remuneration of the MRT. This includes where it is paid by an entity other than the FCA investment firm.

For this reason, it is also appropriate that all MRTs of UK investment firms are included in the qualitative and quantitative remuneration disclosures. We have not made any changes to the disclosure rules in this regard.

Qualitative information disclosures

2.37 We proposed that each MIFIDPRU investment firm must disclose:

- a summary of its approach to remuneration, the objectives of its incentives and the associated governance procedures
- the key characteristics of its remuneration policies and practices, with the minimum disclosures dependent on the size of the firm

2.38 We also proposed that non-SNI firms must disclose the types of staff they have identified as MRTs.

2.39 We explained in CP21/26 that we did not intend to require non-SNI firms to disclose their ratios between variable and fixed remuneration. Several respondents strongly welcomed this and agreed with our analysis that it would encourage comparison of ratios, which would not be meaningful or helpful.

2.40 We did not receive any feedback from respondents about our proposals on disclosing a summary of firms' approaches to remuneration or the types of MRTs identified. We are proceeding with these as consulted on.

2.41 We received some requests to clarify certain aspects of the key characteristics of remuneration policies and practices. We summarise these and set out our responses below.

Proportionality of qualitative information

2.42 We proposed that each firm should comply with the qualitative remuneration requirements 'in a manner appropriate to its size, internal organisation, and the nature, scope and complexity of its activities'. This gives firms a degree of discretion over the level of detail they disclose.

2.43 One respondent said that it would be helpful to have some guidance on the practical application of this to remove the subjective element. Their feedback suggested we could produce something similar to the current general guidance documents on the application of proportionality in the IFPRU and BIPRU Remuneration Codes.

Our response

The IFPRU and BIPRU Remuneration Codes, and the associated disclosure rules, start from the point that all firms in scope must comply with all rules. We published guidance on which rules it may be appropriate for firms in certain proportionality levels to disapply.

In contrast, the MIFIDPRU Remuneration Code sets out the categories of FCA investment firms to which each of the remuneration requirements applies. We take the same approach to disclosure by setting out in MIFIDPRU 8.6 which remuneration information must be disclosed by which category of firm. We do not consider any additional guidance is necessary.

Regarding how much information must be disclosed to comply with the rules, our proposed rules for FCA investment firms take the same approach as the IFPRU and BIPRU remuneration regimes.

We acknowledge that this requires some element of subjective judgement by firms, but this provides flexibility to ensure the disclosures are accessible, meaningful and reflect the firm's arrangements.

We would remind firms that the overarching requirement is to disclose the key characteristics of its remuneration policies and practices in sufficient detail to provide the reader with an understanding of the risk profile of the firm, or assets it manages, and gain an overview of the incentives created by the remuneration policies and practices (MIFIDPRU 8.6.5R). We did not receive any feedback on this specific aspect of our proposals, so are proceeding as consulted on.

For these reasons, we have not provided any further guidance on the application of the proportionality rule for to remuneration disclosures.

Carried interest

2.44 As part of the key characteristics of its remuneration policies and practices, we proposed that all MIFIDPRU firms must disclose the different components of remuneration, together with the categorisation of those remuneration components as fixed or variable.

2.45 One respondent asked us to clarify whether we would expect firms to categorise carried interest as fixed or variable remuneration. They pointed out that SYSC 19G.1.27R(1) states only that carried interest is remuneration.

Our response

We would expect carried interest to be categorised as variable remuneration because it is not a pre-determined sum but rather is calculated based on the performance of a fund. This is consistent with the approach taken in the ESMA Guidelines on sound remuneration policies under the AIFMD and under the UCITS Directive, which we expect firms to continue to apply following the UK's withdrawal from the EU, to the extent they remain relevant.

We state in the instructions for completing the MIFIDPRU Remuneration Report, which we consulted on in CP21/7, that the amounts reported to us under 'total variable remuneration' should include carried interest plans.

Nevertheless, we agree that it could be clearer in the MIFIDPRU Remuneration Code. We have:

- added to SYSC 19G.4.2G that we consider carried interest to be variable remuneration
- added a guidance provision as MIFIDPRU 8.6.7G containing a cross-reference to the provisions in SYSC 19G.4 on categorising fixed and variable remuneration

Financial and non-financial criteria

2.46 We proposed a list of minimum information which each category of FCA investment firm should include in its disclosures of key characteristics of their remuneration policies and practices. For all SNI and non-SNI firms, this includes a summary of the financial and non-financial criteria used to assess the performance of the firm, business units and individuals.

2.47 One respondent noted that the performance criteria used are likely to vary within a firm depending on the role of the individual. They suggested it should be sufficient to disclose high-level information at the level of the firm as a whole rather than breaking it down into the different criteria used at the level of the business unit or individual.

Our response

We acknowledge that the performance criteria used will differ across a firm depending on the business unit and role of the individual. There is no requirement to disclose all the criteria used by each business unit or used in relation to each different category of staff. A summary of the types of criteria generally used across the firm is sufficient.

However, the summary should include 3 separate parts summarising the types of financial and non-financial criteria used to assess the performance of:

- the firm as a whole
- business units
- individuals

We have made minor changes to MIFIDPRU 8.6.6R(2) to make this clearer.

Quantitative information disclosures

2.48 We proposed that all FCA investment firms make certain quantitative disclosures about the remuneration outcomes of their staff. This information aims to complement the qualitative disclosures by enabling stakeholders to assess whether the firm's remuneration policies and practices operate as designed.

Total quantitative data

2.49 Three respondents queried whether it is appropriate to require non-SNI firms to disclose such detailed quantitative information. They argued that the data required from the largest non-SNI firms is as detailed as that required from the largest banks under the UK CRR.

2.50 A further respondent compared our proposals to the disclosure rules which apply to AIFMs and thought our proposals would impose a disproportionately greater burden in comparison.

Our response

IFPRU investment firms are currently subject to the disclosure provisions of the UK CRR. As they are proportionality level 2 or level 3 firms under the current regime, we do not require them to disclose all the information. While the IFPRU investment firms subject to the extended remuneration requirements will need to disclose more information than at present, others will see their remuneration disclosure requirements decrease.

Overall, we consider that our disclosure proposals are appropriate and proportionate to the risks an FCA investment firm poses to consumers and the market. The requirements reflect the substantive obligations of the 3 categories of firms under the MIFIDPRU Remuneration Code, so we think it is appropriate to require all non-SNI firms (rather than just the largest) to disclose quantitative information about guaranteed remuneration and severance payments. This will ensure a level playing field among non-SNI firms.

We acknowledge that the disclosure rules in MIFIDPRU 8.6 are more detailed than the current rules applicable to AIFMs. We think this is justified given the greater risks generally associated with MiFID business.

Data protection, confidentiality and commercial sensitivity

2.51 Ten respondents expressed concerns that our proposals could lead to non-SNI firms being required to disclose information of a confidential or commercially sensitive nature. They questioned the compatibility with data protection law given that certain disclosures could potentially enable individuals to be personally identified when combined with other publicly available information.

2.52 Respondents' feedback highlighted particular concerns related to disclosing:

- total amount of fixed and variable remuneration (broken down into senior management, other MRTs and other staff)
- data on severance payments (broken down into senior management and other MRTs)
- data on guaranteed remuneration awarded to MRTs (broken down into senior management and other MRTs)

2.53 Respondents underlined that the requirement to disclose information at solo entity level, when combined with the need to break down the data into 2 or 3 subsets of staff, means that some information may relate to only 1 or 2 individuals in total. This was said to be especially likely in smaller non-SNI firms which may identify only a handful of MRTs in total.

2.54 Several suggestions were made for how we could amend our proposals. These included:

- introducing an exemption for proprietary and confidential information or for disclosures that would enable the identification of an individual
- removing the requirement to break down the data into senior management and other MRTs
- requiring remuneration disclosures at consolidated level only

Our response

We have listened carefully to respondents' feedback on this matter. We agree that there are situations in which it might be possible to identify an individual MRT based on the disclosures we have proposed, when combined with other information in the public domain. This was not our intention.

The feedback suggests that the key issue is the potential for subsets of data which relate to very small numbers of MRTs. With this in mind, we have amended our proposals to allow non-SNI firms to disclose most items of quantitative remuneration data as an aggregated total of the categories 'senior management' and 'other MRTs', where either or both of the categories would contain information on 1 or 2 MRTs for that particular information item.

Where the aggregated total of the categories would still contain information on only 1 or 2 MRTs, we have included an exemption from that particular disclosure requirement.

These exemptions do not apply to the requirements to disclose:

- the total amount of remuneration, fixed remuneration and variable remuneration awarded to all staff and to the non-MRTs category (MIFIDPRU 8.6.8R(4))
- the total number of MRTs the non-SNI firm has identified (MIFIDPRU 8.6.8R(3))
- the highest severance payment awarded to an MRT (MIFIDPRU 8.6.8(5)(c))

We have included in MIFIDPRU 8.6.11G some examples of how the exemptions are intended to operate.

Where a non-SNI firm relies on either exemption, it must explain in the main body of its remuneration disclosure which data has not been disclosed and the reason.

We believe that these changes will address in a proportionate way the possibility that individuals can be identified. Allowing firms to combine the categories 'senior management' and 'other MRTs' ensures that as much as possible of the data is still disclosed, so provides investors and other stakeholders with information about the remuneration outcomes of the firm. A further reaching exemption is foreseen only in instances where this approach would be insufficient to prevent individuals being identifiable.

While we understand firms' concerns about the potential commercial sensitivity of data on guaranteed remuneration and severance payments, no firm would be at a disadvantage given all non-SNI firms are required to disclose the same information. Greater transparency may improve competition.

We would remind non-SNI firms of their obligations under SYSC 19.5. to identify all staff who have a material impact on the risk profile of the firm or of the assets it manages.

3 Own funds – excess drawings by partners and members

3.1 In this chapter, we summarise the feedback to our proposals for the treatment of drawings from the business made by partners or members of partnerships or limited liability partnerships (LLPs) that exceed the profits made by the business.

Key proposal

3.2 In CP21/26, we proposed that an FCA investment firm that is a partnership or LLP will be required to deduct from own funds drawings from the business made by its partners or members that exceed the profits of the firm. We also proposed that this would not apply to the extent 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 permitted under articles 77 and 78 of the UK CRR, as applied by MIFIDPRU 3.6.1R

3.3 In CP21/26 we asked 1 question.

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.***

Feedback and responses

3.4 We received 6 responses to question 4. Three respondents agreed with our proposal with no further comment. Three respondents agreed with our proposal if our intention was to replicate for all FCA investment firms, the current requirements in GENPRU as applied to BIPRU firms. They also asked us to confirm that that was the intention.

Our response

We confirm that our intention is to achieve the same result for all FCA investment firms under the IFPR as required under the existing provision for BIPRU firms in GENPRU 2.2.100R. However, that wording cannot simply be copied across into MIFIDPRU as it needs to reflect the structure of MIFIDPRU 3 on own funds. We will implement our proposal as consulted on.

4 Technical Standards

4.1 In this chapter, we summarise the feedback we received about our proposals on how we intend to apply the onshored UK equivalents of EU-derived Binding Technical Standards (BTS) under the IFPR.

4.2 In our proposals, we explained our approach to apply the technical standards for which the FCA is listed as a responsible regulator and that we have identified as relevant under the IFPR. We set out the list of relevant onshored BTS in Table 5 of CP21/26.

Key proposals

4.3 For the list of onshored BTS that we identified as relevant under the IFPR, we proposed that our general approach would be to keep the BTS intact. But we would make certain changes through our MIFIDPRU rules that were necessary to disapply provisions that are not relevant under the IFPR. We also proposed to use this deeming approach to correct provisions so that the BTS operate in the way intended after the implementation of the IFPR.

4.4 We therefore proposed that in most cases FCA investment firms should apply the onshored BTS that are relevant under the IFPR with specific modifications. We explained that these modifications are reflected in the amendments to MIFIDPRU that cross-refer back to the BTS.

4.5 We explained that in 2 cases we would depart from our general approach. These exceptions 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

4.6 For these 2 technical standards, we said that we would copy out the technical standards in full (with certain modifications) into Annex 7R and Annex 8R respectively in MIFIDPRU 3. This is because the number of modifications required would make these BTS difficult to read if we had used our general approach.

4.7 As a direct result of incorporating technical standards provisions that include application and notification requirements into MIFIDPRU, we proposed to introduce a generic MIFIDPRU application form and notification form. We discuss the feedback we received on this proposal in Chapter 9 of this PS.

4.8 We also proposed that we would make certain substantive amendments to MIFIDPRU 2.5 to clarify how the UK CRR minority interest provisions would work in the context of integrating Article 34a of the CRR Own Funds BTS.

4.9 In CP21/26 we asked 5 questions.

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 additional valuation adjustments (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?***

Feedback and responses

4.10 We received 1 response to question 5, 4 responses to question 6, 1 response to question 7, 2 responses to question 8 and 1 response to question 9. All respondents expressed broad support for our proposals.

Our approach to the proposed changes

4.11 We received 1 response to the question where we asked if we had correctly identified all the onshored BTS and technical standards provisions for which the FCA is listed as a responsible regulator and that we have identified as relevant under the IFPR. The respondent agreed with our proposals.

4.12 Respondents did not point to any additional onshored BTS, outside of those listed in Table 5 of CP21/26, that we should have considered for the purposes of IFPR implementation.

4.13 Across our 5 questions on the application of the onshored UK equivalents of EU-derived technical standards under the IFPR, the responses we received all expressed broad agreement with our approach.

Our response

We welcome the support that we received regarding our overall approach to the application of the onshored UK equivalents of EU-derived technical standards under the IFPR.

Since 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 rules. We confirm that, subject to the specific exceptions below, we intend to apply the onshored BTS provisions that are relevant under the IFPR according to our general approach. This means that for the most part, FCA investment firms should apply the onshored BTS with certain modifications. These modifications are reflected in the amendments to MIFIDPRU that cross-refer back to the corresponding BTS.

There were 2 cases where we proposed to depart from our general approach, and these were with respect to the CRR Own Funds BTS and CRR BTS on prudent valuation. In these cases, we have copied out the technical standard provisions, with modifications, directly into MIFIDPRU.

Because of the feedback we received in response to Question 8 of CP21/26, we will also apply this different approach to the FCA version of Commission Delegated Regulation (EU) No 2015/2197 regarding closely correlated currencies – 2015 CRR BTS on closely correlated currencies. In this case, we have copied out the technical standard provisions (with some modifications) directly into a new Annex 13R in MIFIDPRU 4.

We further explained that 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. As part of our future work, we will continue to consider whether the FCA version of any BTS that we have not applied by cross-reference in MIFIDPRU should be repealed entirely or should be retained because it is potentially relevant to requirements under other legislation.

Own funds associated BTS

4.14 In CP21/26, we asked for feedback on our proposed changes to MIFIDPRU and the additional supplementary provisions in MIFIDPRU 3 Annex 7R for the UK versions of CRR BTS related to own funds. We received 4 responses to this question.

4.15 All 4 respondents support our proposals. Respondents agreed with our proposals to copy out the CRR Own Funds BTS in MIFIDPRU 3 Annex 7R. Two respondents welcomed the additional guidance on the relevant technical standards that apply under the IFPR and the inclusion of specific BTS requirements in MIFIDPRU.

Our response

We confirm that we have copied out in full (with some modifications) the CRR Own funds BTS into MIFIDPRU 3 Annex 7R. We have included guidance provisions in MIFIDPRU 3 to tell firms this annex may be relevant when applying the IFPR rules on own funds. We have also included supplementary provisions in MIFIDPRU 3 Annex 7R that are relevant for some rules in MIFIDPRU 3 or UK CRR provisions that are currently cross applied in MIFIDPRU 3.

As we explained in CP21/26, we have deleted some technical standards provisions from the CRR Own Funds BTS where they are no longer applicable or relevant under the IFPR. For example, we have removed all references that consider the maximum distributable amounts and buffers under the CRD as there is no equivalent under the IFPR.

We confirm that we have removed provisions where the IFPR already addresses the same issue in a different way. For example, we have removed the provisions in the CRR Own Funds BTS that set out the methodology for calculating the fixed overheads requirement (FOR). We have equivalent rules for this purpose in MIFIDPRU 4.5.

We confirm that we will make the 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. In addition, we will include the 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

4.16 The CRR BTS on prudent valuation describes how institutions subject to the UK CRR should calculate additional valuation adjustments (AVAs). These need to be deducted from own funds under Article 34 of the UK CRR. In CP21/26, we asked for feedback about our proposal to remove the core approach to determine the AVAs under the CRR BTS for prudent valuation.

4.17 We received only 1 response to our question about the CRR BTS on prudent valuation and the respondent agreed with our proposals. We did not receive any objections to removing the core approach to determine the AVAs under this BTS.

Our response

We confirm that we will copy out the simplified approach for the calculation of AVAs from the CRR BTS on prudent valuation into MIFIDPRU 3 Annex 8R. This will help simplify calculations under IFPR. Accordingly, we will not carry across the core approach into MIFIDPRU 3 Annex 8R.

Market risk associated BTS

4.18 In CP21/26, we explained our proposals to make minor changes to the CRR technical standards that relate to market risk. These changes relate to 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

4.19 We received 2 responses to our question about the proposed changes to MIFIDPRU that relate to the UK versions of the CRR BTS on market risk. One respondent agreed with our proposals. The other respondent proposed that we make further changes in connection with the Commission Delegated Regulation (EU) No 2015/2197 regarding closely correlated currencies.

4.20 It is suggested that the UK version of the 2015 CRR BTS should be amended to update the list of closely correlated currencies to be in line with the EU amendments made by Commission Delegated Regulation (EU) No 2021/249 (2021 CRR BTS on closely correlated currencies), published on 17 February 2021. The respondent further proposed that this list could be updated by the FCA thereafter to account for changes in the foreign exchange (FX) market.

4.21 The reasons to make this change centre around the fact that the list of closely correlated currencies in the 2015 CRR BTS is outdated and so does not reflect the current state of the FX market. The respondent explained that the 2015 CRR BTS fails to consider recent events. For example, the UK's departure from the EU. The respondent suggested these events have led to structural changes to the relationships between some of the closely correlated currency pairs.

4.22 The respondent explained that relying on outdated correlations would place FCA investment firms at a disadvantage compared to their EU-regulated counterparts by compelling the former to hold capital against historically unlikely moves in the FX market. Moreover, the respondent explained that outdated correlations could harm markets by masking the true risk of less-correlated currency pairs. Another consideration is that the 2015 CRR BTS on closely correlated currencies does not allow delta offsetting or smaller scenario approach stresses for currencies that have demonstrated strong correlations.

4.23 On a separate point, one respondent noted that one of the links in Table 5 of CP21/26, specifically the link for the onshored version of Commission Delegated Regulation (EU) No 527/2014 pointed to another onshored BTS in error. The link should point to the UK onshored version of Commission Delegated Regulation (EU) No 527/2014 regarding the non-delta risk of options under the standardised approach for market risk.

Our response

We accept that the list of closely correlated currencies in Commission Delegated Regulation (EU) No 2015/2197 may not necessarily reflect the current state of the FX market. We acknowledge the feedback that points to the EU amendments that were made in Commission Delegated Regulation (EU) No 2021/249 to update the list of closely correlated currencies. However, we would also point to the previous update to the list of closely correlated currencies – via the UK onshored version of Commission Delegated Regulation (EU) No 2019/2091 – 2019 CRR BTS on closely correlated currencies.

We accept that there is a sound justification to review and, where necessary, update the list to more accurately reflect the current relationships that exist between currency pairs. We do however have concerns around the timing of the previous assessments and note that the updated lists exclude Sterling currency pairs altogether. We appreciate that based on the EBA quantitative criteria and the time window used, Sterling may not have been closely correlated with other currencies. However, an assessment should be undertaken to determine whether Sterling has recently become closely correlated with other currencies. We also need to be consistent with the treatment adopted by the PRA under the UK CRR for the list of closely correlated currencies.

We believe that until an assessment can be carried out and pending any future work that may be carried out by the PRA, it is more appropriate to retain the list of correlated currencies as set out in the FCA version of Commission Delegated Regulation (EU) No 2015/2197.

Because of the feedback we received and to enable future updates to the list of closely correlated currencies, we will depart from the general approach regarding the CRR BTS on closely correlated currencies. We have copied out the technical standard provisions in the 2015 CRR BTS on closely correlated currencies (with some modifications) directly into Annex 13R in MIFIDPRU 4. But we have not updated the list of closely correlated currencies to be in line with either the UK onshored version of Commission Delegated Regulation (EU) No 2019/2091 or the non-onshored version of Commission Delegated Regulation (EU) No 2021/249.

As part of our future work, we will consider how we update the list of closely correlated currencies to ensure that our treatment is consistent with the treatment adopted by the PRA under the UK CRR. We may also consider whether the FCA version of this BTS on closely correlated currencies should be repealed entirely or should be retained.

We confirm that the existing approach to calculating market risk under the UK CRR will continue to apply when calculating the K-NPR requirement under IFPR. This coincides with our approach of 'freezing' the current market risk rules as at 31 December 2021 – this is subject to our longer-term work on reviewing our approach to market risk.

Since we published CP21/26, we have identified that the UK onshored version of Commission Delegated Regulation (EU) No 2016/1799 regarding External Credit Assessment Institutions (ECAI) mappings for credit risk under Article 136(1) and 136(3) of UK CRR may also be relevant when determining the market risk of some positions. An example would be where a firm is calculating the specific risk of a non-securitisation debt instrument under article 336 of the UK CRR. In that case, the firm may need to refer to the credit risk weighting that would have applied under the UK CRR Standardised Approach to credit risk. As MIFIDPRU does not carry forward the UK CRR approach to credit risk, the FCA version of this technical standard will become redundant from 1 January 2022 and we do not consider that it would be proportionate to cross-apply and maintain it for these limited purposes. This would also be the case for the FCA version of Commission Delegated Regulation (EU) No 2016/1801 on ECAI mappings for securitisation. For the purposes of our market risk rules under the IFPR, we would therefore expect FCA investment firms to refer to the PRA version of the onshored CRR BTS 2016/1799, as updated from time to time to reflect any change in the associated mappings. We have added a new provision in MIFIDPRU 4.12.2BR, and associated guidance in MIFIDPRU 4.12.2CG, to explain this.

Other related BTS

4.24 In CP21/26, we explained our proposals to make some minor changes to the technical standards that supplement the supervision of financial conglomerates in UK FICOD. As part of Question 8 of CP21/26, we asked for feedback on these proposed changes.

4.25 In response to Question 8 of CP21/26, one respondent indicated their agreement with our proposals.

Our response

We confirm that we will proceed to make the minor changes to the technical standards that supplement the supervision of financial conglomerates in UK FICOD. This is in line with our explanation in Chapter 8 of CP21/26 on the consequential changes to the Handbook, which is consistent with our amendments to GENPRU 3.

4.26 In Question 9 of CP21/26, we asked for any other comments on the contents of the Technical Standards chapter in CP21/26. We received one response to this question, which indicated that they had no other comments.

Our response

We are grateful for the broad support that we have received in connection with our approach to apply the relevant technical standards.

5 Depositaries

5.1 In this chapter, we summarise the feedback to our proposed capital requirements for FCA investment firms that have a Part 4A permission to act as a depositary for various types of investment fund.

Key proposals

5.2 In CP21/26, we proposed to remove the requirement for an FCA investment firm that is a depositary to have a dealing on own account permission. This will allow more FCA investment firms to apply for Part 4A permission to act as a depositary as long as they also provide the MiFID ancillary service of safe-keeping and administration of financial instruments.

5.3 We proposed to maintain the minimum own funds requirement for an FCA investment firm that has been appointed to act as a depositary of a UCITS scheme or an authorised AIF at £4 million. We then proposed to move this requirement from the Investment Funds sourcebook (FUND) and Collective Investment Schemes sourcebook (COLL) into MIFIDPRU. There it would become an alternative permanent minimum requirement (PMR) under the IFPR in MIFIDPRU 4.4.6R.

5.4 We proposed to increase the minimum own funds requirement for an FCA investment firm that has been appointed to act as a depositary of an unauthorised AIF from EUR 730,000 to £750,000. This would then become its PMR under the IFPR in MIFIDPRU 4.4.1R.

5.5 We proposed to no longer require depositaries that are MIFIDPRU investment firms to comply with the operational risk requirements calculated in accordance with articles 315 or 317 of the UK CRR and to delete COLL 6.6A.8R(3)(a)(i). Instead we proposed they should consider the potential for harm arising from their depositary activities as part of their ICARA process under MIFIDPRU 7 and to add a new example to MIFIDPRU 7.6.8G to reflect that.

5.6 We proposed that a firm may have regard to the general methodology for calculating K-CMH and K-ASA requirements when carrying out the assessment in MIFIDPRU 7.6.3R for its activities as a depositary.

5.7 We proposed that an FCA investment firm that has been appointed to act as a depositary cannot be an SNI firm. The exception would be where it only acted as a depositary under the 'private equity' depositary derogation in FUND 3.11.12R to 3.11.15G.

5.8 Both MiFID and non-MiFID firms will continue to be able to act as depositaries under the 'private equity' depositary derogation in FUND 3.11.12R to 3.11.15G. But we proposed to clarify that where a depositary falls within the 'private equity' depositary derogation and it is also a MIFIDPRU investment firm, then it will also be subject to the prudential requirements of MIFIDPRU.

5.9 In CP21/26 we asked 1 question.

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

Feedback and responses

5.10 We received 4 responses to question 10. One respondent agreed with our proposals. Another did not agree that an FCA investment firm that was also a depositary should not be allowed to be eligible as an SNI.

5.11 Two respondents welcomed removing the requirement to have the MiFID permission of dealing on own account as this would lower barriers to entry, increase competition and ultimately benefit investors. They did not agree that a firm should have to have permission to do one of the MiFID services and activities to which the service of safe-keeping and administration of financial instruments would be a MiFID ancillary service. One suggested that an alternative approach should be used where acting as a depositary was not dependent on MiFID eligibility requirements. The other suggested the eligibility criteria should be driven by prudential standards and not by the activities carried out. They thought we should use this opportunity to create an effective prudential regime for depositaries that did not require them to undertake MiFID activities but still met the policy intention of the Alternative Investment Fund Managers Directive (AIFMD).

5.12 Two respondents asked for additional guidance on how depositary firms should carry out the assessment required for their ICARA process. One of these preferred that the proposal to have regard to the general methodology for calculating the K-CMH and K-ASA requirements could be removed.

5.13 One respondent asked if custody balances should be included in K-ASA when the firm is only acting as a depositary and if delegation would have any impact. They also asked us to clarify if both MiFID Annex I sections A (investment services and activities) and B (ancillary services) are included under MiFID business. And specifically, if collective investment scheme custody assets should be included in the K-ASA requirement. They also asked if that made the rules ambiguous.

5.14 One respondent suggested that the requirements for depositaries should be moved into IPRU(INV) and be cross-referenced from MIFIDPRU for MiFID investment firms that are also depositaries.

5.15 One respondent asked us to clarify if IFPRU was being deleted in its entirety as there had been amendments to IFPRU that would affect UCITS depositaries in CP21/7.

Our response

We believe that when an FCA investment firm operates as a depositary the very nature of that activity makes it interconnected, with fund management firms and their underlying clients. Further, the safeguarding of client assets is an important function that also requires treatment as

a non-SNI firm under MIFIDPRU. So we will implement our proposal that acting as a depositary makes a MiFID investment firm a non-SNI firm under MIFIDPRU.

The IFPR is concerned with the prudential-related requirements for FCA investment firms. We have tried to keep the changes to other policy areas to a minimum, only making the changes necessary to ensure that other parts of the Handbook work properly once the IFPR is implemented. We are therefore not proposing to fundamentally rework the regulatory regime for depositaries, which will continue to reflect the position under the UK implementation of AIFMD and the UCITS Directive. Further, we believe that the requirement for a depositary of a UK alternative investment fund (UK AIF) to be a MiFID investment firm (where it is not a credit institution) provides an important set of prudential protections under MIFIDPRU, where it applies. For example, it ensures that senior management of firms should consider the potential for harm arising from the operation of their depositary activities and adopt mitigating actions through the ICARA process (as set out in MIFIDPRU 7).

Requiring a MiFID investment firm that is a depositary of a UK AIF to undertake the MiFID ancillary service of safekeeping and administration reflects the position under the UK implementation of AIFMD. As noted above, IFPR is concerned with prudential-related requirements for FCA investment firms. It is not our intention to use it to address other, potentially more fundamental, changes to other policy areas, or to design a bespoke prudential regime just for depositaries. This is something that we may consider revisiting in the future.

As explained in paragraph 6.8 of CP21/26, and above, we will expect an FCA investment firm to consider the potential for harm arising from depositary activity as part of its ICARA process. And in MIFIDPRU 7.6.8G (6) we set out that a firm may have regard to the general methodology for calculating the K-CMH (client money held) requirement and the K-ASA (assets safeguarded and administered) requirement when assessing its activities as a depositary. The K-CMH and K-ASA requirements set out under MIFIDPRU 4 only apply to MiFID investment business. However, we believe that a similar approach to quantifying the potential for harm– and possibly the need for additional own funds as a mitigant – could be helpful to firms when assessing harm from non-MiFID activity that also involves holding client money or safeguarding assets. As this provision is only guidance, a depositary firm may wish to vary the approach. For example, to change the calculation of the average CMH or ASA or to use different percentages (from those in MIFIDPRU 4), to take account of any factors specific to depositary business. Or it may wish to develop its own approach to carrying out the assessment in MIFIDPRU 7.6.3R for its activities as a depositary. It is ultimately for senior management of the firm to be able to evidence and justify how they have conducted their assessment. We may then consider whether a firm's assessment is reasonable as part of our ongoing supervisory work.

We confirm that MiFID business involves the carrying on of investment services and activities in relation to financial instruments, as well as the carrying on of ancillary services where connected to the above investment services and activities. Please refer to PERG 13 for further details on how to interpret MiFID services and activities. Refer also to Q43 on the exemption that covers depositaries when providing services in their capacity as a depositary.

Under MIFIDPRU 4 the requirement to calculate K-ASA only applies to MiFID investment business. When a depositary carries on activity in its capacity as a depositary of funds, this is exempt from MiFID (see Q43 in PERG 13). So the requirement to calculate K-ASA does not extend to assets safeguarded in respect of fund depositary business, as this is not MiFID business. However, a MiFID investment firm that is also a depositary will be required to apply K-ASA to assets safeguarded in respect of its (non-depositary) MiFID business. The definition of assets safeguarded and administered in our Glossary already makes clear that this is *'the value of assets, as calculated in accordance with the rules in MIFIDPRU 4.9 (K-ASA requirement), belonging to a client that a firm holds in the course of MiFID business'*. As noted above, any non-MiFID business (including depositary business) must still be considered as part of the firm's ICARA process.

If a set of requirements spans 2 or more of our sourcebooks some cross-referencing is likely to be necessary. However, we have sought to simplify the existing patchwork of rules without fundamentally overhauling existing parts of the Handbook. As a result, we have generally chosen to put the prudential requirements for MiFID investment firms that are also depositaries in one place – MIFIDPRU. Whereas IPRU(INV) 5 will continue to contain the prudential requirements for depositaries that are not FCA investment firms, where this is permitted. This has the benefit of allowing FCA investment firms to submit a single set of prudential reporting forms under MIFIDPRU, which include where its permanent minimum requirement may be £4 million. This is also aligned with our longer-term objective of developing a single prudential sourcebook, to the maximum extent possible.

We confirm that IFPRU is being deleted in its entirety. However, the change that we included in CP21/7 relevant to non-MiFID UCITS depositaries was to the reference to IFPRU in 5.4.8R in Chapter 5 of IPRU(INV). This requires that a firm which is the depositary of a UCITS scheme must continue to comply with the rules in IFPRU 2 as they applied on the day before IFPR is implemented. That is we freeze in time the cross-reference to IFPRU to the version which will exist on 31 December 2021 (but not thereafter). Therefore, deleting IFPRU on 1 January 2022 will not affect the application of the relevant IFPRU material by UCITS depositaries.

6 Our approach to the UK resolution regime

6.1 In this chapter we summarise the feedback to our proposals for amendments to our rules following the Treasury's decision, in June 2021, to remove FCA solo regulated investment firms with an initial capital requirement of €730,000 from the scope of the UK resolution regime. The UK resolution regime, contained within the Banking Act 2009 (Banking Act), was used to implement the Bank Recovery and Resolution Directive (BRRD).

Our proposals

6.2 We proposed deleting IFPRU 11, which implemented certain Banking Act requirements (such as recovery and resolution plans, intragroup financial support and contractual recognition of bail-in obligations) for FCA 730k investment firms. We also proposed to make consequential amendments to ensure that our rules elsewhere in the Handbook (e.g. SUP 16) are consistent with the updated regulatory landscape.

6.3 FCA 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.

6.4 We asked 1 question in CP21/26:

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?***

Feedback and our response

6.5 We received 5 responses, all of which expressed support for our proposals.

6.6 One respondent asked us to confirm the timeline for the amendments. Another respondent asked us to confirm that obligations from the Banking Act would no longer apply to their firm.

Our response

We expect all these changes to take effect on 1 January 2022 at the same time as the IFPR commences. The government intends to deliver the legislation that descopes FCA investment firms from the UK resolution regime from 1 January 2022.

We can confirm that FCA 730k investment firms will no longer be subject to the UK resolution regime (which implemented the Banking Act,

including obligations such as contractual recognition of bail-in) once these changes have taken effect.

However, as part of the IFPR, our rules in MIFIDPRU 7 include a requirement for all FCA investment firms to consider recovery planning as an integrated feature of their risk management, as part of their ICARA process. Our rules for the ICARA process also require all FCA investment firms to undertake wind-down planning, set out at entity-level, including timelines for when and how to execute these plans. (Please see Chapter 7 of CP21/7 and MIFIDPRU 7.5 for details). Our expectations for wind-down planning for FCA investment firms reflect our existing 'Wind-Down Planning Guide and Finalised Guidance (March 2021) and our position on the link between wind-down planning and adequate financial resources in our Finalised Guidance 20/1 'Our framework: assessing adequate financial resources' (June 2020).

7 Consequential changes to the Handbook

7.1 In this chapter, we summarise the feedback to the consequential changes we proposed to make to various Handbook modules and our Handbook Glossary as a result of implementing the IFPR.

7.2 The affected modules were:

- 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

7.3 We also proposed some consequential amendments to GENPRU 3 – Cross-sector groups.

Key proposals

7.4 In CP21/26, we explained the overall approach we were taking to amending other modules of the Handbook. We proposed to only make consequential amendments that would be needed to:

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

7.5 We proposed updating cross-references so that they refer to MIFIDPRU or SYSC 19G, rather than to deleted modules. Where this was not possible, we proposed to either copy out the underlying material being cross-referred to or to fix the cross-reference in time to the version of the provision that is in force the day before the IFPR is implemented.

7.6 We asked 2 questions in CP21/6.

> **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 the IFPR is implemented? If so, please provide details.***

7.7 We received 4 responses to question 12. Two respondents agreed with the proposals. One of these asked for a mapping from the existing rules to the new rules. One respondent thought that we should review the thresholds for defining which firms are what will become 'significant SYSC firms', given these thresholds have remained the same since 2014 when the term 'significant IFPRU firm' was introduced. One respondent welcomed the clarification that being a 'significant SYSC firm' would not be relevant for determining whether an FCA investment firm would need to establish risk, remuneration and nomination committees.

7.8 We had 2 responses to question 13. Both said that they had not identified any further cross-references that needed amending.

Our response

We will proceed with making the consequential amendments as proposed, subject to the changes stated in this section.

We do not propose to map the existing rules to the new rules. For the most part the relevant provisions are not moving, and we are simply updating the cross-references so that the rules still work as intended once MIFIDPRU is introduced. The extent to which an FCA investment firm will need to refer to the relevant parts of other modules in our Handbook that have had consequential amendments will vary depending on what business they do.

Reviewing the thresholds for becoming a significant SYSC firm would go beyond what is necessary to introduce the IFPR. So it was beyond the scope of our consultation on consequential changes in CP21/26.

In addition to the changes to GENPRU outlined in CP21/26 we are deleting GENPRU 3.1.8R (1A). The definition of investment firm in Article 4(2) of the UK CRR and the definition of investment services sector in the FCA Handbook are now the same. This will simplify the rules for using the financial conglomerate definition decision tree.

We have made a minor correction to our proposal for an amended definition of 'ancillary services undertaking' in our Handbook Glossary. The definition now ends with '... which is ancillary to the principal activity of one or more investment firms', and not '... one or more 'institutions'' as was proposed in CP21/26. This simply reflects the fact that IFPR concerns investment firms (and no longer needs to refer to institutions as defined under the UK CRR).

We would also like to clarify that, contrary to our original proposed approach in CP21/26, MiFID investment firms who deal as principal, and currently meet the definitions of an energy market participant (EMP), or an oil market participant (OMP), will remain in the A.13 activity group

for periodic fees. This will continue until we have determined a suitable metric to replace the number of traders currently used by firms in the A.10 activity group. We have amended FEES 4 Annex 1A to this effect.

We will publish, for discussion, some changes we are considering in our approach to periodic fees for firms affected by the IFPR in this year's Fees CP. Detailed proposals will follow in a future Fees consultation.

8 Our approach to Enforcement

8.1 In this chapter, we summarise the feedback we received to our approach to the enforcement of the IFPR. This covered the requirements set out in the new Part 9C of FSMA as well as the rules made to implement the IFPR.

8.2 In CP21/26 we said that our enforcement approach is set out in 3 key documents, our Approach to Enforcement, our Enforcement Guide (EG) and our Decision Procedure and Penalties Manual (DEPP).

Key proposals

8.3 We proposed to apply our existing approach to investigations and imposition of sanctions to any breaches of the IFPR.

8.4 We also proposed making minor amendments to DEPP and EG to reflect the additional powers the 2021 FS Act has given us. These enable us to investigate and impose disciplinary sanctions on non-authorised parent undertakings and persons knowingly concerned in a breach by the parent undertaking. Sanctions include requirements, prohibitions and financial penalties.

8.5 We asked 2 questions in CP21/26.

Q14: ***Do you have any comments on our proposed approach to sanctions?***

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?***

8.6 One respondent answered both questions 14 and 15. We did not receive any other responses to these 2 questions. The respondent asked us to clarify the scope of DEPP and EG to non-authorised parent undertakings. They thought that the amendment to DEPP 6A.1.4G widened the scope more than was set out in MIFIDPRU 2.7.4G and that it would allow us to sanction non-authorised parent undertakings for contravening 'FCA Rules'.

8.7 The respondent otherwise agreed with our proposals.

Our response

For the avoidance of doubt, it was not intended to extend a more general application of FCA Rules, but to capture the application of the IFPR as implemented through the FCA's Handbook.

9 Applications and notifications

9.1 In this chapter we summarise the feedback to our proposals to:

- introduce a formal investment firm group notification requirement and the associated form
- introduce generic MIFIDPRU application and notification forms.

Key proposals

9.2 We proposed that FCA investment firms should notify us, as soon as they become aware, that an investment firm group has been formed or that the composition of an existing investment firm group has changed. We proposed that FCA investment firms use the same form to notify us if they become part of, or cease to be part of, a financial conglomerate.

9.3 We also proposed to introduce generic MIFIDPRU application and notification forms to enable firms to submit applications and notifications that do not have bespoke forms. This is to accommodate any requirements that arise from incorporating various technical standards provisions into MIFIDPRU.

9.4 In CP21/26 we asked 3 questions.

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

Feedback and responses

9.5 We received 4 responses to question 16 and 17 from the same respondents, and no responses to question 18.

9.6 All 4 respondents were generally supportive of our proposals to require FCA investment firms to submit a formal investment firm group notification if an investment firm group has been formed or changed. While none of the respondents offered any feedback on the form itself, 1 respondent requested that we clarify

whether this requirement would apply to investment firm groups that are already in existence when the regime goes live.

9.7 The 4 respondents were also supportive of our proposal to introduce generic MIFIDPRU application and notification forms. They welcomed the introduction of these forms as a temporary measure to enable firms to apply for permission or submit notifications under MIFIDPRU where bespoke forms have not yet been developed.

Our response

In CP21/26 we proposed that an FCA investment firm who becomes part of an investment firm group, or whose existing investment group changes, must notify us of that fact using the bespoke Connect form that has been created for that purpose.

We explained that firms do not need to submit this notification form if they have notified us of their group membership, or a change in such membership, as part of the MiFID authorisation process, or where they apply to cancel their Part 4a permission.

We also explained that existing FCA investment firms are not required to submit an investment firm group notification form if they have provided the necessary group information as part of the IFPR set-up questionnaire which all firms subject to MiFID should have now received. The questionnaire asks for various key information, including group information. This will enable us to set up existing FCA investment firms and their groups on our systems under the new regime.

From 1 January 2022, FCA investment firms will need to submit the group notification form on Connect in all other instances if an investment firm group is created, changed or ended. This includes if this happens as a result of a change in control within the group for which the firm has sought, or has already obtained, our approval as part of a Section 178 notice. The exception is if another FCA investment firm in the same investment firm group has submitted a notification following a change and has provided the necessary information covering the whole investment firm group. In that case, other FCA investment firms in the same investment firm group are not required to provide duplicative notifications.

We confirm that we will proceed with our original proposals for the investment firm groups' notification and the use of the generic application and notification forms.

We are also taking this opportunity to make some further administrative updates to certain application and notification forms as part of finalising the overall IFPR framework, including the forms contained in CP21/26. These changes are to clarify the information we require from firms and to ensure that the forms work efficiently within our internal systems.

Our IFPR webpage contains practical information for firms and further guidance on what we expect of them ahead of the new regime

taking effect. It contains details of all the MIFIDPRU application and notification forms. We will continue to update this webpage so it remains useful and relevant as the implementation of the new regime progresses.

10 Explanation of how we meet our obligations under section 143H (2) of the Financial Services and Markets Act when making Part 9C prudential rules

10.1 The purpose of this chapter is to explain how we meet our obligations under Section 143H (2) of the Financial Services and Markets Act FSMA. This requires that we provide a summary of the purpose of our new rules that implement the IFPR, an explanation of how we have considered specified risks, and an explanation of how having regard to specified matters has affected the rules we have made.

10.2 The Financial Services Act 2021, which received Royal Assent in April 2021, amended FSMA to impose additional duties, new 'have regards to' considerations and public accountability requirements. We must comply with these obligations in our rulemaking for IFPR from April 2021. These requirements are set out in Part 9C of FSMA.

10.3 Part 9C of FSMA placed a duty on us to make rules to impose prudential requirements on FCA investment firms. Under section 143C (2) of FSMA we were 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.

10.4 Part 9C of FSMA also placed a duty on us to make rules to impose prudential requirements on authorised parent undertakings of FCA investment firms. Section 143D (2) of FSMA placed a duty on us to address the risks to:

- consumers arising from FCA investment firms, from parent undertakings of FCA investment firms and from FCA investment firms belonging to groups
- the integrity of the UK financial system arising from FCA investment firms, from parent undertakings of FCA investment firms and from FCA investment firms belonging to groups
- the risks to which FCA investment firms are exposed by virtue of their relationship with their parent undertaking.

10.5 Section 143G (1) of FSMA requires us, when making or amending these Part 9C rules, to 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), although this does not apply to rules made on or before 1 January 2022.

10.6 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. These existing obligations were addressed in our three consultation papers, CP20/24, CP21/7 and CP21/26. Where we explained how our consultation proposals were consistent with our duties under FSMA. And how we believed they were consistent with the duties we expected to have once the FS Act received Royal Assent, which took place by the time our third CP had been published. We also explained how we had regards to the FCA principles of good regulation when drafting our proposed rules.

Summary of the purpose of our new rules

10.7 This section summarises, by topic, the purpose of the new rules that were included in our policy publications for IFPR. We have only covered rules that we believe to be made under Part 9C of FSMA, but not those that have been made under our general FSMA rule-making powers outside the Part 9C framework (for example, consequential changes to sourcebooks other than MIFIDPRU). We have not relied on our new Part 9C powers to delete the relevant Handbook rules associated with the UK resolution regime, or in making the small updates to the requirements for depositaries. This chapter therefore does not cover those areas.

10.8 Further details and explanations of the areas covered below can be found in Chapter 9 of CP20/24, Chapter 16 of CP21/7 and Chapter 11 of CP21/26.

Categorisation of investment firms (MIFIDPRU 1)

10.9 We have introduced two broad categories of FCA investment firms (i.e. small and non-interconnected (SNI) firms and non-SNI firms). These will replace the large range of complex prudential categories that can apply to these firms today. The purpose of this change is to simplify the categories of investment firms for the purpose of the prudential rules. Clearly delineating firms that pose a wider risk of harm to markets and clients because of their size and connected nature, will allow us to focus our supervision accordingly. In general, a firm is eligible to be an SNI if it does not exceed any of a series of thresholds. We have tailored some requirements under our new rules according to whether a firm is SNI or non-SNI, ensuring that our rules are proportionate.

Prudential consolidation and the group capital test (MIFIDPRU 2)

10.10 We are applying prudential consolidation to investment firm groups. This is to identify and help mitigate the potential for harm that can impact an FCA investment firm where it is a member of such a group. Prudential consolidation treats the UK parent, along with all of the relevant entities within the investment firm group, as if it were a single FCA investment firm. And applies some of the same provisions (eg own funds requirements), suitably adjusted, as would apply to an FCA investment firm on an individual basis under IFPR.

10.11 Where certain specified conditions are met, we may instead grant permission to a group to use the alternative of a group capital test. The group capital test will ensure that UK parent entities hold appropriate amounts of capital to support their investments in subsidiaries, preventing harm from excessive leverage and gearing within group structures, while also being operationally simpler for many groups.

Own funds – definition and composition of capital (MIFIDPRU 3)

10.12 We have required that to be eligible for regulatory purposes, the capital or 'own funds' held by FCA investment firms should be made up solely of common equity tier 1 capital (CET1), additional tier 1 capital and tier 2 capital items, with a majority to be in CET1. This will ensure consistency of the quality of loss absorbent capital across the investment firm population. This will improve the financial resilience of the investment firm industry.

Own funds requirements (MIFIDPRU 4)

10.13 Our capital requirements set a permanent minimum requirement as one of the floors below which a firm's own funds must not fall. This will ensure that all FCA investment firms must maintain at least a minimum level of financial resources to be authorised to provide MiFID investment services and activities.

10.14 All FCA investment firms must also hold sufficient capital to meet a fixed overheads requirement (FOR). The FOR improves firm stability as firms' capital requirements will take into account the typical expenditure required to operate their businesses. This also means that we can ensure investment firms have the minimum levels of capital that would be required to facilitate an orderly wind-down of their business or to exit the market if this becomes necessary. This reduces the harm of disruption to consumers that might otherwise result from disorderly firm failures or market exits.

10.15 We have also introduced a new approach to calculating capital requirements for non-SNI firms, by using a 'K-factor' methodology that covers their key investment services and activities. Some of these K-factors produce scalable capital requirements that are calibrated according to the type of activity to which they relate and the extent to which a firm undertakes that activity. They cover:

- assets under management, under both discretionary portfolio management and non-discretionary advisory arrangements of an ongoing nature (K-AUM)
- client money held (K-CMH)
- assets safeguarded and administered (K-ASA)
- client orders handled (K-COH)
- daily trading flow (K-DTF)

10.16 By linking the capital requirements of firms to the types and volumes of business undertaken, we are helping to ensure that firms have adequate financial resources to address potential harm to consumers and to markets which might be adversely affected by the firm's activities.

10.17 While some other K-factors address specific exposure risks for firms that deal on own account (eg market risk) and so support enhanced stability and market integrity. They cover:

- trading counterparty default (K-TCD)
- net position risk (K-NPR)
- clearing margin given (K-CMG)

10.18 Together, the combination of these own funds requirements are designed to cater for all different types of investment firm business model and protect consumers and provide stability to UK markets.

Concentration risk monitoring (MIFIDPRU 5)

10.19 We have introduced monitoring requirements for general concentration risk that will apply to all FCA investment firms. We also set out rules on the maximum levels of concentration risk permitted for trading book exposures, and include a further K-factor (K-CON) to provide for more capital to be held against concentrated trading book exposures before they reach the maximum level allowed. These requirements are designed to ensure that firms adequately diversify the risks to which they are exposed and do not contribute to the build-up of systemic contagion risks, improving the stability of the UK financial market.

Basic liquidity asset requirement (MIFIDPRU 6)

10.20 We have required that all investment firms have a basic liquid asset requirement. These requirements are designed to ensure that all FCA investment firms have a minimum stock of core liquid assets that are available if required to fund the initial process of a wind-down. This should help us to address the potential harm to consumers and the UK financial system more widely by reducing the risk of and harm from disorderly firm failures.

Risk management (MIFIDPRU 7)

10.21 We have introduced an individual capital and risk assessment (ICARA) process for all FCA investment firms. The requirements ensure firms consider the potential for harm they could cause to consumers and markets, including risks to firms' ability to engage in an orderly wind-down, as well as those from their ongoing activities. This is not restricted to MiFID activity but should cover the entirety of a firm's business. Our ICARA rules then require firms to mitigate the potential for harm identified, for example through governance and risk management actions. And, where appropriate, to hold additional capital and liquid assets to protect against any residual risk. The ICARA process will establish what is an adequate level of overall financial resources for an individual FCA investment firm, which should help us to fulfil our duty to mitigate the risk of harm to consumers, markets and investment firms.

Governance (MIFIDPRU 7)

10.22 Effective internal 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 effectively identified, managed and mitigated. So the IFPR sets out high-level requirements for all FCA investment firms to have robust internal governance arrangements. This will allow each firm to develop and maintain internal governance and controls appropriate to its legal and ownership structure, business model, the activities it carries out, and the risks the firm is exposed to or might pose to others. In addition, we will require the largest non-SNI firms (ie those above certain thresholds) to establish risk, remuneration and nomination committees.

MIFIDPRU Remuneration Code (SYSC 19G)

10.23 We have created a single remuneration code for all FCA investment firms. And require them all to have clearly documented remuneration policies and practices that meet minimum standards, for example to make a clear distinction between the criteria applied to determine fixed and variable remuneration. We also apply additional remuneration rules to non-SNI firms according to their size and complexity, reflecting the principle of proportionality. Our remuneration requirements are designed to

promote healthy cultures in the long-term interests of firms and their customers, and to help us prevent behaviour that could lead to harm to customers and markets.

Disclosure (MIFIDPRU 8 rules)

10.24 We have introduced disclosure requirements around firm governance, risk management, own funds and investment policies. This enables customers and market counterparties to make informed decisions, helping to facilitate better outcomes for consumers and markets, and increased competition. Disclosures by investment firms must be readily available and understandable to create transparent markets. Public disclosures are a core part of market discipline, providing important information and transparency to participants to enable markets to work well.

Reporting requirements (MIFIDPRU 9)

10.25 We have updated our reporting requirements and removed some current obligations that will no longer be applicable. Our new reporting requirements are designed to reduce the burden of reporting and to ensure that we have the information we require to effectively supervise FCA investment firms. This should ensure that firms provide more relevant and accurate data using targeted and proportionate reports. In turn, this will allow us to make quicker and more effective supervisory interventions to address potential harm.

Clearing firms (MIFIDPRU 10)

10.26 We have introduced specific rules for FCA investment firms that are clearing members and indirect clearing firms. Clearing firms are, by their very nature, interconnected to other financial institutions and so cannot be SNI firms. The daily trading flow (K-DTF) K-factor will apply to clearing transactions (where the clearing firm is not also executing the transaction). And an FCA investment firm acting as a clearer must include its pre-funded exposure to the default fund of a central counterparty (CCP) when calculating its trading counterparty default (K-TCD) K-factor requirement. These rules will all help to fulfil our requirement to address risks to the integrity of the financial system.

Technical standards (own funds and market risk)

10.27 We have decided that firms should apply certain onshored binding technical standards (BTS) that were originally made for the purposes of the UK CRR regime and that we have identified as relevant under the IFPR. This is because MIFIDPRU applies (with appropriate modifications) certain parts of the UK CRR that are supplemented by the BTS, ie in the areas of own funds and market risk. In most cases firms should apply the onshored BTS, with modifications in MIFIDPRU that cross-refer back to the BTS. But in 3 cases we have copied out the technical standard provisions (with some modifications) directly into our MIFIDPRU rules where this makes them easier to follow. Our approach to applying the relevant BTS ensures that our underlying rules to which the BTS refer will be applied in a clear and consistent manner, and so achieve their intended outcome of addressing the risks posed by FCA investment firms.

Our approach to Enforcement

10.28 We set out how we will use our new enforcement powers under Part 9C of FSMA. The powers will be used to ensure that we can diagnose harm and apply relevant remedies

and sanctions. Our updated guidance in relation to these powers also discharges our duty under section 143Y of FSMA to publish a statement of policy in relation to our use of penalties against non-authorised parent undertakings of FCA investment firms.

Applications and notifications

10.29 Our MIFIDPRU rules include various requirements for FCA investment firms to seek our permission (eg to use certain treatments) or to notify us of certain events. So we have introduced specific forms for each such circumstance that we will require firms to use. We have also introduced a generic application form and a generic notification form for events that are required under any binding technical standards. These forms are designed to ensure that we have access to the information we need to be aware of (eg changes in the share capital of a firm), and in a consistent manner, so that we can consider whether there is any potential harm to customers or markets that may require action to mitigate.

Transitional provisions (TPs)

10.30 We also made a number of transitional rules, mainly for the own funds requirements, to help firms move from existing prudential regimes to the IFPR, where we considered it appropriate to do so.

Explanation of how we have considered the risks specified in sections 143C (2) and 143D (2) of FSMA

10.31 This section addresses the risks set out above in paragraphs 10.3 and 10.4 of this Chapter. For more detailed descriptions please refer to our 3 consultation papers, CP20/24, CP21/7 and CP21/26.

Risk to consumers arising from FCA investment firms

10.32 The IFPR rules are designed protect consumers from various sources of potential harm. Many investment firms operate on an agency basis and so harm may arise through operational errors or poor practice when carrying out investment services and activities on behalf of others. Hence the greater focus upon firms' business models, in particular through the K-factor capital requirements in MIFIDPRU 4. The K-factors aim to ensure that firms hold at least a minimum amount of capital to afford the cost of putting right any problems that could arise from errors when providing the relevant investment services and activities. Of particular relevance to risks to consumers are:

- the K-AUM covering the management of assets, under both discretionary portfolio management and non-discretionary advisory arrangements of an ongoing nature
- the K-CMH covering the holding of client money
- the K-ASA covering the safeguarding and administering of client assets
- the K-COH covering the receiving and transmitting or executing of client orders

10.33 Our rules for the ICARA process in MIFIDPRU 7 require firms to consider further the potential harm that may arise from their activities, and how they should mitigate them, including though improved systems and controls and, where appropriate, by holding additional amounts of capital or liquid assets. The requirement to consider the potential for harm under the ICARA process is not restricted to MiFID investment services as

it applies to all the activities and operations of the FCA investment firm. It would, as examples, include the firm holding client money for general insurance business, and the potential for system outages which may impact the continuity of services.

10.34 Our requirements for the FOR in MIFIDPRU 4, the basic liquid asset requirement in MIDFIDPRU 6 and the ICARA process in MIFIDPRU 7 should help reduce the risk of a disorderly wind down of a firm. An orderly market exit should enable FCA investment firms to discharge any outstanding commitments to consumers and provide time for consumers to make alternative future arrangements to ensure continuity of service.

Risks to the integrity of the UK financial system

10.35 The IFPR ensures a better alignment of our requirements to business models and strengthens our ability to supervise investment firms. Having prudential rules which are more intuitive to how management run their business should lead to greater understanding and identification of harm, including through the ICARA process in MIFIDPRU 7. As noted above, firms must consider operational matters such as the potential for system outages, as any impact on the continuity of services could threaten the integrity of the UK financial system.

10.36 The K-factor K-DTF in MIFIDPRU 4 sets a capital requirement to cover the value of an FCA investment firm's daily trading flow, for both cash trades and for derivatives. Focusing on the level of a dealing firm's activity in traded markets, particularly where large amounts may be traded intra-day, should help increase the financial resilience of market participants. This should have a beneficial impact of the integrity of the UK financial system.

10.37 Our MIFIDPRU 10 rules for FCA investment firms that are clearing members or indirect clearing firms are directly designed to address the risk of potential harm to the integrity of the UK financial system. The provision of clearing is an important, interconnected market function, especially where an FCA investment firm is clearing on behalf of other firms. So we have required this to be supported by appropriate capital requirements, including in respect of pre-funded default fund contributions made to central counterparties (CCPs).

10.38 The application of the FOR in MIFIDPRU 4, the basic liquid asset requirement in MIDFIDPRU 6 and the ICARA process in MIFIDPRU 7 should help reduce the risk of a disorderly wind down of a firm. Disorderly market exits can reduce confidence in the integrity of the UK financial system.

Risks to which FCA investment firms are exposed

10.39 Risks to FCA firms themselves will generally arise through the exposures they incur and any claims they receive as a result of a problem with their operations.

10.40 Together, the rules in MIFIDPRU 4 and 5 set the following K-factor capital requirements for FCA investment firms that deal on own account, which aim to address risks that arise through the trading exposures they incur:

- K-TCD for trading counterparty default
- K-NPR for net position risk
- K-CMG for clearing margin given
- K-CON for concentration risk

10.41 And under the ICARA process in MIFIDPRU 7, all FCA investment firms must still consider the potential for harm arising from their exposure risks, even where not covered by a specific K-factor as above. For example, most investment firms will not generally grant credit, but where they do so they must assess the materiality of this as part of their ICARA process.

10.42 As noted above, firms must also consider the risk of potential harm from operational matters as part of the ICARA process required by our MIFIDPRU 7 rules. This should lead to firms applying greater risk mitigants such as enhanced systems, controls and risk management, and, where appropriate, holding additional capital or liquid assets.

10.43 If a firm is in financial difficulty its senior management may be tempted to take on additional risk or act in a manner which they might not otherwise do, simply to generate more revenue. This in turn could pose risk of harm to consumers or market integrity, which our requirements for IFPR as a whole seek to address.

Risks arising from parent undertakings of FCA investment firms and from FCA investment firms belonging to groups

10.44 An FCA investment firm, its customers and the markets in which it operates may be adversely impacted by that firm's membership of a group. For example, a financially weak group might place unreasonable demands upon an FCA investment firm subsidiary to generate business or carry out activities that its senior management might not otherwise wish to do. Or there might be the risk of claims from consumers or exposure risks incurred by other entities within the group that threaten its stability.

10.45 To address the risks of potential harm where an FCA investment firm is part of a group our rules in MIFIDPRU 2.5 require the application of prudential consolidation. This treats the UK parent, along with all of the relevant entities within the investment firm group, as if it were a single FCA investment firm. And applies some of the same provisions (eg own funds requirements), suitably adjusted, to it as would apply to an FCA investment firm on an individual basis.

10.46 Our rules in MIFIDPRU 2.6 provide an alternative to prudential consolidation, the group capital test. The group capital test will ensure that UK parent entities hold appropriate amounts of capital to support their investments in subsidiaries. This will prevent a UK parent entity from funding its capital investments in subsidiaries with debt and creating an undue financial strain upon the FCA investment firm to help service that debt.

Explanation of the ways in which we have had regard to the matters specified in or under section 143G (1) of FSMA

10.47 This section addresses how we have had regard to the matters set out above in paragraph 10.5 of this Chapter. For more detailed descriptions please refer to our 3 consultation papers, CP20/24, CP21/7 and CP21/26.

10.48 As noted above, the target in section 1 of the Climate Change Act 2008 (carbon target for 2050) does not apply to any Part 9C rules made on or before 1 January 2022. So we do not consider it here. We would though do so when making any future Part 9C rules, including on ESG disclosures.

Likely effect on the relative standing of the UK

10.49 The UK is the world's largest or second largest financial centre by most measures. It has the highest number of domestic and international investment firms operating in Europe. We believe that the UK has a strong relative standing as a place for international investment firms to establish and conduct business. This is a view shared by various firms and industry bodies during discussions on the IFPR.

10.50 The EU's investment firm regulation and directive (IFR/IFD) is the baseline for the UK's IFPR and therefore is our closest international comparator. We designed the IFPR to deliver the same outcomes as the IFR/IFD, while taking advantage of the flexibility to reflect specific features of the UK market. Adopting this baseline reflects the level of input we had on the design of the EU's regime. We believe that this approach should positively impact the relative standing of the UK among international investment firms. The IFPR also demonstrates the UK's commitment to ensuring we have an appropriately robust prudential regime, while also ensuring that our rules are proportionate, and that the UK remains an attractive jurisdiction in which to do business.

10.51 We believe that strong market stability is an important consideration for internationally active investment firms. It helps support future sustainable growth, from which market participants can benefit. It is our view that maintaining a strong and robust regulatory and supervisory system, including through sound prudential standards for all FCA investment firms, improves the relative standing of the UK.

10.52 The following examples of how our new rules apply in practice demonstrate our consideration of the relative standing of the UK.

Regulatory reporting

10.53 Our new data-gathering requirements are more targeted and business model specific. They remove the need for FCA investment firms to report data using the detailed COREP templates required under UK CRR, and substantially reduce the number of data points they are required to provide. Given the greater focus upon business models we believe that much of the data will be information that senior management of firms will already wish to know for managing their business performance. Our provisions on reporting should allow for a more efficient and economic allocation of resources for both firms and the FCA. We believe that our reporting requirements are less onerous than the EU's reporting requirements under the IFR, which applies many more different types of data collection forms and retains elements of COREP.

10.54 In setting our approach we have had regard to the impact that a more proportionate regulatory reporting framework may have on the relative standing of the UK. Unnecessarily detailed reporting requirements can be a factor in decisions on where to locate. Whereas in CP21/26 our cost benefit analysis estimated that the introduction of the IFPR might lead to a 64% reduction in the annual reporting costs for a large FCA investment firm that deals on own account (compared to the current position under UK CRR).

Remuneration requirements

10.55 Our remuneration requirements reflect the needs of the UK market while ensuring that our regime remains internationally competitive. We apply minimum remuneration requirements to all FCA investment firms, but for many firms that are currently in scope of our IFPRU or BIPRU Remuneration Codes our rules under IFPR will be less detailed. We also applied the principle of proportionality to our remuneration reporting

requirements. We determined which data items on remuneration were necessary for us to assess the effectiveness of firms' remuneration policies but did not go further.

10.56 We have sought to establish rules which seek to mitigate the potential harm caused by remuneration arrangements but sought to do so in a proportionate way. We are aware that remuneration of key staff can be a highly competitive matter for firms. And that the extent to which a regulator is unnecessarily interventionist when it comes to remuneration can have a material impact on the decisions of senior management of internationally active investment firms on where to locate. So remuneration requirements for FCA investment firms that are both appropriate and proportionate should enhance the relative standing of the UK.

Disclosure requirements

10.57 Our rules for which information FCA investment firms should disclose 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 the comparable EU rules, but in others considerably less. For the UK's relative standing our view is that, on balance, this will have a positive impact as they reflect the specifics of the UK market and, where relevant, streamline requirements for firms.

10.58 For example, we require 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. However, many SNI firms are in scope of our existing IFPRU or BIPRU Remuneration Codes and 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. Our approach aims to ensure transparency of all SNI firms' high-level approaches to remuneration. This transparency may broaden the appeal of operating in UK investment markets.

10.59 We have introduced streamlined 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. But the information that is disclosed will be useful to external parties in making their decisions to do business with an FCA investment firm.

10.60 We are aware that many investment firms operating from the UK will wish to conduct business in other jurisdictions. And that some of those jurisdictions might impose legal constraints upon how firms hold themselves out as operating in that territory. So we have added flexibility in our disclosure rules that should help prevent FCA investment firms from breaching other legal requirements when making the public disclosures required for IFPR.

10.61 Overall, we have adopted a proportionate approach to disclosure. One which is bespoke to the UK market and that will, we believe, have a positive impact on the UK's relative standing.

Our approach to assessing basic liquidity requirements

10.62 Our rules require that firms meet the basic liquidity requirements using a narrower range of core liquid assets than the EU's more detailed requirements under the CRR. We were conscious that taking a stricter approach than the EU could impact on the

relative standing of the UK. However, our approach will be simpler to operate and lead to higher levels of market stability. The basic requirement is to hold an amount of liquid assets equivalent to only one month's worth of fixed overheads. And we expect internationally active investment firms to generally decide that they need to hold far more liquid assets (than the minimum basic liquid asset requirement) when assessing their own operational liquidity needs as part of the ICARA process required under MIFIDPRU 7. For which we have simplified the requirements for identifying what may count within a wider range of non-core liquid assets for the purposes of the ICARA.

The application of the K-CMG K-factor capital requirement

10.63 We have had regard to the relative standing of the UK within the application of the K-factor own funds requirement for clearing margin given (K-CMG) by FCA investment firms that deal on own account. The K-CMG is an alternative to calculating K-NPR (net position risk) for a firm's exposure to market risk, where trades are cleared by a central counterparty. The K-NPR makes use of the detailed market risk rules of the UK CRR, whereas the K-CMG uses a measure of risk based upon the margins that an FCA investment firm would need to give up to it clearing member. We believe use of the K-CMG will be more suited to internationally active investment firms that help provide market liquidity and that often trade on a global basis.

10.64 The EU's rules on using the K-CMG take a single view on the structure of trading desks and the clearing arrangements that investment firms operate. While this may be appropriate for some markets, we did not consider it a suitable approach for UK firms, some of which will manage risk portfolios across trading desks. Replicating the effect of the EU's rules could require firms to change their business model and approach to risk management beyond what we consider necessary. We have therefore taken a risk-based and proportionate approach to K-CMG within our rules to achieve the same prudential outcomes, where capital requirements for trading cleared portfolios may be set by reference to the amounts of margin given up to a clearing firm.

Provision for FCA investment firms that undertake clearing activity

10.65 Our rules for FCA investment firms undertaking clearing activity on behalf of others are designed to meet the specific needs of the UK market and to encourage firms to do business here. The EU's IFR/IFD assumes that only banks act as clearing members. However, specialist FCA investment firms can provide important clearing activities in specific markets/products (such as interest rate or commodity derivatives) within the UK.

10.66 Our discussions with industry led us to conclude that subjecting our non-bank clearing firms to the UK CRR/CRD as if they were systemic banks would be disproportionate. So we developed specific rules (set out in MIFIDPRU 10) to address the potential for harm that might arise from FCA investment firms acting as clearing members or indirect clearers, while keeping them within the scope of the IFPR.

10.67 Further, our rules for when the K-CMG own funds requirement may (with our permission) be used by an FCA investment firm, have wider application than the comparable rules in the EU's regime. We allow its use where another investment firm may be acting as the clearer of the transaction. This is important as the K-CMG may be viewed as an attractive alternative to the calculation of K-NPR (which uses standard market risk rules from the UK CRR) particularly when trading in the specific markets/products where specialist FCA investment firms provide clearing.

10.68 Taken together, we believe these features of our rules account for the specific nature of activities and business models of investment firms and markets in the UK. And at the same time have regard to the UK's relative standing by making it easier for internationally active trading firms to do business here in the specific markets/ products where FCA investment firms act as clearers.

Trading counterparty default (K-TCD) – netting methodologies

10.69 One of the K-factor own funds requirements for firms that deal on own account is the K-TCD, which addresses the risk of harm arising from trading counterparty default. The calculation of K-TCD involves detailed rules set out in MIFIDPRU 4.14. For derivatives transactions this includes the calculation of potential future exposure (PFE). As part of this calculation our rules provide for the use of netting sets, where we set out two alternative approaches – known as the 'hedging approach' and the 'derivative netting ratio approach'.

10.70 Our rules provide FCA investment firms with a choice of netting approaches but with similar prudent outcomes, unlike the EU's regime. This allows greater flexibility for firms to use the approach which best matches their internal risk management and netting practice. In doing so, we had regard to the relative standing of the UK, as there should be less need for derivatives trading firms to change their approach to netting when operating in the UK (simply for the purpose of calculating K-TCD).

Availability of the group capital test

10.71 Our rules provide, subject to our permission, for an investment firm group to make use of a capital test as an alternative to prudential consolidation. A number of conditions have to be met, in particular that the group structure is sufficiently simple and that there are no significant risks to clients or to the market stemming from the investment firm group as a whole that require supervision on a consolidated basis.

10.72 In general, for many FCA investment firm groups we do not see our application of these conditions as presenting a barrier to applying to use the group capital test. This includes those that deal on own account. Having regard to the relative standing of the UK, we believe the availability of the group capital test may be of importance to international trading groups that headquarter in the UK. It will avoid them having to put in place procedures and reporting arrangements to apply many of the detailed rules that apply to an individual FCA investment firm to the trading activities of overseas subsidiaries that form part of the investment firm group (that would otherwise be required if prudential consolidation is applied). This should not diminish the relative standing of the UK as a place for investment firms to locate.

Measurement of assets under management (AUM)

10.73 When measuring assets under management (AUM) for the purposes of calculating the K-AUM own funds requirement, our rules allow an FCA investment firm to use the net total value of the relevant assets. So a firm may choose to offset any negative values or liabilities (eg when holding a derivative for hedging) attributable within the relevant client portfolios. This is different to the EU's regime, where their binding technical standard requires financial instruments with a negative fair value to be included in absolute value, potentially resulting in an amount which overstates the underlying net value of client portfolios that an investment firm is managing.

10.74 We believe our approach best reflects how firms that undertake discretionary portfolio management manage the risk of, and hence value, their clients' portfolios. Managing portfolios is an international business and so our rule has regards to the

relative standing of the UK, by not requiring FCA investment firms to apply a regulatory treatment that is different from how they would generally manage their client business.

Our treatment of intangible assets deducted from own funds

10.75 We considered the impact on the UK's international standing within our treatment of intangible assets that must be deducted from own funds. The EU's rules allow for the carve-out of certain eligible software assets from deductions that reduce CET1, the highest quality of capital. We have not allowed this carve-out in our rules but have taken a different approach (as has the PRA in its implementation of the UK CRR2 package). We believe that it is prudent that all intangible assets are not given any value – and hence deducted form CET1 capital – for regulatory purposes. It cannot be assumed that the valuation of such assets in a firm's accounts would hold in times of stress and when capital may be called upon to absorb losses.

10.76 International firms could view our approach to disallowing this carve-out negatively in terms of the UK's relative standing. However, we believe that the carve-out was inappropriate due to our wider objectives to prevent customer harm maintain market integrity, and that sound prudential standards are part of making the UK an attractive place to do business. So we do not generally expect this to be a driver in decisions by internationally active investment firms on where to locate.

Relevant standards set by an international body

10.77 Our rules are consistent with IOSCO's 'Core Principle 30.' The principle states that 'there should be an initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.'

10.78 Our new rules amend the current levels of initial capital required for authorisation as an investment firm. And our ongoing capital adequacy rules under the permanent minimum requirement, the FOR and the K-factor requirement help ensure alignment with FCA investment firms' business models, their size and complexity. Our new ICARA rules also require firms to establish systems to identify, monitor and assess the risk of harm.

10.79 We have also had regard to the Financial Stability Board's (FSB) Principles and Standards for Sound Compensation Practices (P&S) within our remuneration rules. The standards seek to align firms' remuneration policies and practices with prudent risk management and the long-term interests of the firm. Our rules are consistent with the P&S. For example, we have set rules that deferral periods for variable remuneration should be not less than 3 years.

10.80 We have taken the revised 2015 G20/OECD Principles of Corporate Governance into consideration. Where the principles are applicable to non-listed firms, we have reflected them within our general governance requirements. For example, our new rules include monitoring and managing conflicts of interest, ensuring adequate systems and controls, and setting up risk, remuneration and nomination committees.

10.81 Otherwise we have not found any prudential standards set by an international body that are relevant to FCA investment firms. Although as noted above, we took the EU's IFR/IFD as the baseline for the UK's IFPR and designed our rules to deliver the same outcomes. And the Basel Committee on Banking Supervision (BCBS) global standards for banks, as reflected in UK CRR, provide a conservative baseline for certain aspects (ie own funds and market risk) of our prudential regime for FCA investment firms.

11 Summary of amendments to Handbook text

11.1 In this chapter we provide additional technical information on the main changes to the Handbook text consulted on in CP21/26. This includes those that have been described elsewhere in this PS and those that we have made so that the rules work as intended.

11.2 This information is provided as a guide for FCA investment firms to help them identify what and where those changes are. The information contained in this guide should be read in the context of the rules in the Handbook and any other rules that may affect their application. This chapter is not intended to be exhaustive and firms should ensure that they read the Handbook rules in full to understand the implications for their business.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
Investment Firms Prudential Regime (No. 2) Instrument				
	MIFIDPRU 2 – Level of application of requirements			
1.	MIFIDPRU 2.5.3	MIFIDPRU 2.5.49R *[provision deleted]* MIFIDPRU 2.5.7R(4) *[provision deleted]* MIFIDPRU 8.1.1R *[sub-paragraphs deleted and combined with previous 8.1.2R]* MIFIDPRU 8.1.2R *[provisions deleted/ sub-paragraphs combined with 8.1.1R and number re-allocated]* MIFIDPRU 8.1.8G *[provision deleted and number re-allocated]* MIFIDPRU 8.1.9R *[provision deleted and number re-allocated]*	The table at *MIFIDPRU* 2.5.3R is a guide to the content of the section on prudential consolidation – a row is deleted referring to the consolidated disclosure requirements in *MIFIDPRU* 2.5.49R. The sub-paragraph (4) of *MIFIDPRU* 2.5.7R has been deleted. This referred to the requirement of a UK parent entity to comply with *MIFIDPRU* 8 (Disclosure) on the basis of its consolidated situation. *MIFIDPRU* 2.5.49R has been deleted. The wording consulted on in CP21/26 will not be made final. This provision explained requirements for disclosure at consolidated level.	In response to feedback the requirement to disclose at consolidated level has been removed. In response to feedback from CP21/26, we have taken the view that requiring disclosure at both individual and consolidated level is unduly burdensome. Firms are now only required to disclose at individual level. Firms may still disclose at consolidated level if they wish to, in addition to the requirement to disclose at individual level.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
2.	MIFIDPRU 2 Annex 8R (Notification relating to membership of an investment firm group or financial conglomerate)	N/A	Updating format of original proposed notification form to clarify the information required from firms	In CP21/26, we included a proposed notification form in MIFIDPRU 2 Annex 8R for use when a firm was notifying us of changes to its membership of an investment firm group or financial conglomerate. We have now published an updated version of this form, which is designed to clarify the information that we require from firms.
	MIFIDPRU 3 – Own funds			
3.	MIFIDPRU 3 Annex 2R (Permission to classify an issuance of capital instruments as CET1 capital)	N/A	Replacing reference to CRR own funds BTS with reference to equivalent provisions copied out into MIFIDPRU 3 Annex 7R	The version of the CET1 issuance permission form that was originally made in FCA Instrument 2021/38 required a firm to confirm that the issuance of capital complied with any requirements in the Own Funds BTS (BTS 241/2014). As we have now confirmed the approach of copying out the provisions of the Own Funds BTS into MIFIDPRU 3 Annex 7R, we have replaced the reference to the Own Funds BTS in the form with a reference to that annex of MIFIDPRU 3.
	MIFIDPRU 4 – Own funds requirements			
4.	MIFIDPRU 4.12.2BR *[Newly inserted provision]*	MIFIDPRU 4.12.2CG *[new provision]*	Cross-application of PRA ECAI mapping framework for Standardised Approach to credit risk where relevant to market risk provisions under the K-NPR requirement	We did not include the BTS on ECAI mappings for the Standardised Approach to credit risk (BTS 2016/1799) in our original list of BTSs to be cross-applied for the purposes of the K-NPR requirement. This is because the MIFIDPRU framework no longer includes a standardised approach to the assessment of credit risk. Where credit risk is relevant to the activities undertaken by a firm, the firm should take this into account as part of its ICARA process under MIFIDPRU 7.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
				However, the market risk provisions in Title IV of Part Three of the current UK CRR are being cross-applied on a 'frozen in time' basis (as at 31 December 2021) under the K-NPR requirement in MIFIDPRU 4.12. Certain market risk provisions operate by reference to the credit risk framework in the UK CRR. One example of this is article 336 UK CRR, which refers to the risk weight that debt securities would receive under the Standardised Approach to credit risk. To determine that risk weight, a firm may need to use the ECAI mappings to determine the appropriate credit quality step for the relevant instrument. We do not propose to continue to maintain an FCA version of BTS 2016/1799 for these purposes. In our view, this would be disproportionate given that we will not be operating a standardised credit risk regime. Instead, we have included new provisions which require firms to refer to the equivalent PRA ECAI mappings for these purposes (as updated on an ongoing basis). This will ensure that FCA investment firms and PRA designated investment firms and banks use the same single set of mappings. In the future, we will consider as part of our longer term work on the MIFIDPRU market risk framework whether it remains appropriate to determine the K-NPR requirement for certain instruments by reference to credit quality steps under the UK CRR Standardised Approach to credit risk or whether a different approach should be used.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
5.	MIFIDPRU 4 Annex 6R	N/A	Clarification of the requirement to use specified interest rate inputs when providing worked examples of interest rate sensitivity methodologies	In the course of reviewing the application forms for MIFIDPRU, we have identified that the existing instructions for the form in MIFIDPRU 4 Annex 6R (Application for permission to use sensitivity models to calculate interest rate risk on derive instruments in accordance with article 331(1) of the UK CRR) could be clarified. The revised form makes it clear that the separate interest rate inputs spreadsheet does not need to be completed and attached to the application. Instead, the relevant interest rate inputs in the spreadsheet should be used when providing worked examples of the interest rate sensitivity methodologies in question 5(g) on the application form.
6.	MIFIDPRU 4 Annex 13R	MIFIDPRU 4.12.2AR(1) MIFIDPRU 4.12.2DR *[new provision]*	Copy-out of Correlated Currencies BTS (BTS 2015/2197) into a new MIFIDPRU annex	In CP21/26, we originally proposed that we would apply the Correlated Currencies BTS by cross-reference, with appropriate modifications specified in MIFIDPRU 4.12.2AR. Following consultation feedback, we have decided to change our approach and to copy out the relevant currency pairings into a new annex in MIFIDPRU 4 Annex 13R, using the baseline text of the 2015 version of BTS 2015/2197. This will allow us to keep the relevant currency pairings under review in the future and to make further changes, where appropriate.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
	MIFIDPRU 8 – Disclosure			
	The numbering in MIFIDPRU 8 has changed in the final made rules in comparison with the text consulted on in CP21/26. For the avoidance of doubt, the rule reference used in this table is the numbering for the amended, final rules, unless specified otherwise.			
7.	MIFIDPRU 8.1.1R	MIFIDPRU 2.5.3R MIFIDPRU 8.1.2 *[previous 8.1.2 partially deleted and combined with new 8.1.1, 8.1.2 re-allocated number]* MIFIDPRU 8.1.8G *[provision deleted and number re-allocated]* MIFIDPRU 8.1.9R *[provision deleted and number re-allocated]*	Rationalise and simplify the application requirements to reflect the deletion of the requirement to disclose at consolidated level.	See description for changes to MIFIDPRU 2 at entry 1. in this table.
8.	MIFIDPRU 8.1.6G	N/A	New guidance provision in relation to application of disclosure requirements to a non-SNI MIFIDPRU firm, where it has been reclassified from an SNI MIFIDPRU firm mid-year.	The new provision provides clarity on our expectations where a firm is reclassified mid-year (financial year). Where an SNI MIFIDPRU firm is reclassified as a non SNI MIFIDPRU firm mid-year, the effect of MIFIDPRU 8.1.5R is that it is not required to comply with the higher disclosure requirements applicable to a non-SNI MIFIDPRU firm in respect of the financial year in which it was re-classified. The new guidance provision at MIFIDPRU 8.1.6G confirms that a firm may disclose on the basis of the higher disclosure requirements applicable to a non-SNI MIFIDPRU firm earlier than required, in relation to disclosures covering the financial year in which it was re-classified.
9.	MIFIDPRU 8.1.10R	N/A	Add clarity to requirement on when a firm must disclose.	Amendment to clarify the expectations where a firm does not publish annual financial statements. New sub-paragraph (2) refers firms to the date on which they must submit their annual solvency statements to the FCA in SUP 16.12. This will be the trigger date for disclosing the information required in MIFIDPRU 8.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
10.	MIFIDPRU 8.1.12G	MIFIDPRU TP12 *[new transitional provisions]* MIFIDPRU 8.1.19R *[deleted – rule in CP21/26]*	A new guidance provision to remind firms of the transitional provisions for disclosure at MIFIDPRU TP12. The text contained in the provision at MIFIDPRU 8.1.19R in CP21/26 has now been moved to MIFIDPRU TP12.	Firms are reminded of the new transitional provisions located at MIFIDPRU TP12. This covers when different types of firms will need to make their first disclosures under MIFIDPRU 8. The transitional provisions also provide detail on the expectations for firms in relation to disclosures covering the period between the end of the current regime for disclosure applicable under BIPRU and the CRR, and the first disclosures required under MIFIDPRU 8.
11.	MIFIDPRU 8.1.13R	MIFIDPRU 8.1.14G *[amended provision, re-numbered]* MIFIDPRU 8.1.15R *[new provision]* MIFIDPRU 8.1.16E *[new provision]* MIFIDPRU 8.1.17G *[new provision]*	To remove the requirement to publish disclosures on a website. To remove sub-section dealing with cross-referencing to a (new) guidance provision. To provide clarity on what a firm should do where disclosure according to MIFIDPRU 8.1.13R would breach the law of another jurisdiction.	In response to feedback, we acknowledge that some firms do not maintain a website and we consider it would be disproportionate for a firm to set up a website for disclosure purposes alone. Separately, we received feedback suggesting that publishing the required disclosures on a website may put a firm in breach of legal requirements in other jurisdictions. We have therefore: • removed the requirement to publish disclosures on a website; • clarified in a rule at 8.1.15R that a firm is not expected to breach the law of another jurisdiction in complying with our rules; • supplemented this section with an evidential provision at MIFIDPU 8.1.16E providing that a firm can demonstrate compliance with MIFIDPRU 8.1.13R if it does publish the disclosures on a website.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
				We have also amended MIFIDPRU 8.1.14R (previous numbering) to remove sub-section (3) (cross-referencing). We do not want to require firms to cross reference to information. Our position is that all the information should be available via the firm's method of disclosure, but a firm may wish to cross-reference to other information in some circumstances (for example to a group or parent entity website). On review, we consider that this provision sits better in the guidance provision at MIFIDPRU 8.1.14G. The amended 8.1.13R therefore has 4 sub-sections compared with the previous 5 subsections. The new and amended package of rules, guidance and evidential provisions at MIFIDPRU 8.1.13R to MIFIDPRU 8.1.17G provides firms with a framework for compliance with MIFIDPRU 8.1.13R in a manner that respects the spirit of the rule at 8.1.13R whilst giving firms autonomy to devise the most appropriate method for their circumstances.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
12.	MIFIDPRU 8.3.2R	MIFIDPRU 8.3.1R(2) MIFIDPRU 8.3.3G *[provision deleted-numbering in CP21/26]* MIFIDPRU 8.3.4G *[numbering in CP21/26, provision deleted]*	New provision to provide clarity on what directorships are in scope of MIFIDPRU 8.3.1R(2), aligning the requirement with SYSC 4.3A.7R. New provision replaces previous MIFIDPRU 8.3.3G and 8.3.4G from CP21/26.	In response to feedback, we have clarified that the disclosure requirements in respect of the number of directorships held by each member of the management body of a firm, is applicable only to those directorships held in organisations that pursue predominantly commercial objectives and does not cover directorships held within the same group or within an undertaking in which the firm holds a qualifying holding. In making the change, we have also noted that firms are required to submit information concerning all executive and non-executive directorships to Companies House, therefore requiring this for the purpose of FCA disclosure rules would be duplicative. The new provision is intended to reduce the regulatory burden on firms by focussing only on those directorships that we consider to be most relevant to the good governance of the firm. The wording of 8.3.2R(1) is aligned with the wording of SYSC 4.3A.7R. Guidance provision MIFIDPRU 8.3.3G [numbering in CP21/26] suggesting that directorships held in entities that did not pursue a predominantly commercial objective is deleted, together with guidance provision MIFIDPRU 8.3.4G, confirming our expectation that directorships should be individually itemised, even where they would otherwise be treated as a single directorship for the purpose of SYSC 4.3A.7R(2).
13.	MIFIDPRU 8.4.1R	N/A	To differentiate the disclosure requirements for those firms who do not publish annual financial statements.	Amendment to recognise that not all firms publish annual financial statements, limiting the requirements for those firms who do not publish annual financial statements.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
14.	MIFIDPRU 8.6.6R(2)	N/A	Clarification of requirement	The provision has been re-structured to make it clear that we expect firms to summarise the performance criteria used for the purpose of disclosing qualitative disclosures, broken down by the firm, business units and individuals.
15.	MIFIDPRU 8.6.7R	SYSC 19G.4	Reminding firms of where they can find guidance on the categorisation of fixed and variable remuneration.	Following feedback to CP21/26 seeking clarification on the correct treatment of carried interest under the SYSC19G remuneration rules, we have amended SYSC 19G.4.2G(3)(b) to clarify that carried interest (as referred to in SYSC 19G.1.27R) should be treated as variable remuneration for these purposes. MIFIDPRU 8.6.7G directs readers to this provision as it is relevant to their disclosure for details on fixed and variable remuneration (including carried interest).
16.	MIFIDPRU 8.6.8R	MIFIDPRU 8.6.9R *[new provision]* MIFIDPRU 8.6.10G *[new provision]* MIFIDPRU 8,6.11G *[new provision]*	Editorial re-structuring of the main rule to aid understanding, a new exemption to prevent individuals being identifiable and new guidance.	The substance of MIFIDPRU 8.6.8R has not changed (except in respect of new sub-paragraph (7) – see further below) but the structure has been altered, merging the provisions numbered MIFIDPRU 8.6.7R and 8.6.8R in CP21/26 into a single newly numbered provision MIFIDPRU 8.6.8R. The new structure is intended to aid the reader in understanding the requirements. In response to feedback from CP21/26, a new sub-paragraph (7) has been added to MIFIDPRU 8.6.8R, setting out the grounds on which a firm is exempted from separating data into subsets for senior management and other MRTs, where this would identify individuals. MIFIDPRU 8.6.9R is a new requirement for firms to explain their use of the new exemption. MIFIDPRU 8.6.10G is a new guidance provision confirming the purpose of the new exemption. MIFIDPRU 8.6.11G is a new guidance provision giving examples of how the exemption at MIFIDPRU 8.6.8R(7) is intended to operate.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
17.	MIFIDPRU 8.7.4R	MIFIDPRU 8.7.5R *[new provision]*	A new exemption permitting firms to withhold certain disclosure items for investment policy, where the information is proprietary or confidential.	In response to feedback from CP21/26, we have included two new rules that operate as exemptions from disclosing some investment policy information that is proprietary or confidential. A firm must record what information has been omitted from disclosure with a reason and make that information available to the FCA where requested. The changes echo similar provision in BIPRU11.4 and we consider this a proportionate response to feedback, balancing the needs of firms with the interests of consumers.
18.	MIFIDPRU 8.7.8G	N/A	A new provision providing guidance on aspects of the requirements in MIFIDPRU 8.7.6R	In response to feedback, a new guidance provision offers clarity on what we mean when we refer to shares held 'directly or indirectly' and what a holding of 'greater than 5% of all voting rights' means.
	SUP 16 – Regulatory reporting			
19.	SUP 16.12.16R	N/A	Correction of scheduling frequency error for Section F RMAR return for firms in Regulated Activity Group 4	The final text resulting from PS21/9 incorrectly suggested that for firms in Regulated Activity Group 4 in SUP 16.12, Section F of the RMAR return might be required to be reported on a quarterly basis if the firm had annual regulated business revenue over £5 million. This was an error and we did not intend to change the existing RMAR reporting frequency for firms in Regulated Activity Group 4. We have therefore amended the text to make it clear that such firm should still report Section F of the RMAR on a half-yearly basis.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
20.	SUP 16.12.22AR	N/A	Addition of correct note reference in data items table for Regulated Activity Group 7 for professional indemnity insurance data item (Section E RMAR)	The final text resulting from PS21/9 contained an incorrect note reference in relation to the professional indemnity insurance data item in the table of data items for Regulated Activity Group 7 in SUP 16.12. This originally referred to 'note 15', which did not exist in the accompanying notes. This has now been amended to refer to a new note 11. This note makes it clear that Section E RMAR, dealing with professional indemnity insurance, is applicable only to a firm that is required to hold such insurance and that is not a MIFIDPRU investment firm. This replicates the policy approach to the application of Section E RMAR that was reflected in the SUP 16.12 rules before the IFPR amendments took effect.
21.	SYSC 19G.1.8R(3)	N/A	Correction of incorrect cross-reference to notification form	In FCA Instrument 2021/38, the notification requirement in SYSC 19G.1.8R(3) incorrectly referred to submitting the notification from in MIFIDPRU 1 Annex 3R. This should have been a reference to the notification form in MIFIDPRU 7 Annex 3R. This cross-reference has now been corrected.
22.	SYSC 19G.4.2G(3)(b)	MIFIDPRU 8.6.7G	Addition of reference to carried interest in guidance about remuneration that constitutes variable remuneration	Following feedback to CP21/26 that sought clarification on the correct treatment of carried interest under the SYSC19G remuneration rules, we have amended SYSC 19G.4.2G(3)(b) to clarify that carried interest (as referred to in SYSC 19G.1.27R) should be treated as variable remuneration for these purposes. A new MIFIDPRU 8.6.7G links readers of the disclosure requirements to this provision for the purpose of identifying fixed and variable remuneration.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
	Glossary definitions			
23.	Glossary definition of 'ancillary services undertaking'	N/A	Correction of outdated reference to 'institutions' in definition	The final part of the updated definition of an ancillary services undertaking proposed in CP21/26 referred to a 'similar activity which is ancillary to the principal activity of one or more institutions'. In order to achieve the correct policy outcome, we have updated this to refer to a 'similar activity which is ancillary to the principal activity of one or more investment firms'. This will ensure that the definition operates correctly in the context of investment firm groups. It is also consistent with the baseline approach taken by the EU IFR.
24.	Glossary definitions of 'CRR investment services sector' and 'MIFIDPRU investment services sector'	Glossary definition of 'banking sector'	Clarification that investment firms should not be included in the composition of the relevant sector under the 'financial institutions' limb	In CP21/26, we proposed two new definitions in connection with our proposed amendments to the rules for financial conglomerates in GENPRU 3. These were the definition of the 'CRR investment services sector' and the definition of the 'MIFIDPRU investment services sector'. Together, these comprise the investment services sector, but they reflect the new split from 1 January 2022 between PRA-designated investment firms that will remain subject to the UK CRR regime, and FCA investment firms to which the IFPR will apply. To ensure that these two sub-sectors of the overall investment services sector operate as intended, we have clarified that the reference to a 'financial institution' in the definition of each of the sub-sectors does not include an investment firm, as otherwise this would inadvertently capture investment firms in the other sub-sector. In the final rules, we have also made the same amendment to the definition of 'banking sector', so as to exclude investment firms from being caught by the reference to a 'financial institution'. This is to ensure that investment firms are allocated to the appropriate sub-sector of the investment services sector.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
	FEES 4 – Periodic fees			
25.	FEES 4 Annex 1AR	N/A	Maintaining the existing approach to the application of the A.10 and A.13 fee blocks for periodic fees to FCA investment firms that would be treated as oil market participants or energy market participants if they were not MiFID investment firms	As part of the introduction of the IFPR, the definitions of an 'oil market participant' (OMP) and an 'energy market participant' (EMP) will be amended. Previously, firms that were exempt BIPRU commodities firms or exempt IFPRU commodities firms could qualify as OMPs or EMPs, but all other MiFID investment firms were excluded from the relevant definition. Under the revised definitions under IFPR, OMPs and EMPs cannot include any MiFID investment firms (including former exempt BIPRU or IFPRU commodities firms), which reflects the fact that all such firms will now either be subject to the IFPR or the UK CRR. However, as part of the immediate implementation of the IFPR, we propose to maintain our existing approach to the application of the A.10 (dealing as principal) and A.13 (advisors, arrangers, dealers or brokers) fee blocks for firms that would be treated as OMPs or EMPs if they were not MiFID investment firms. We will then consider any changes to the application of our fees rules to these firms as part of our separate consultations on fees.
	GENPRU 3 – Financial conglomerates			
26.	GENPRU 3.1.8R(1A)	N/A	Deletion of provision under existing financial conglomerates rules that excluded non-CRR MiFID investment firms from the investment services sector	Our existing rules on financial conglomerates in GENPRU 3 include GENPRU 3.1.8R(1A), which excludes MiFID investment firms that are not subject to the UK CRR from the investment services sector. This reflected the scope of the EU's Financial Conglomerates Directive. Under the IFPR, our rules no longer distinguish between MiFID investment firms that are subject to the UK CRR or not, since all FCA investment firms will become part of the MIFIDPRU investment services sector for these purposes. As a result, we have deleted this provision from GENPRU 3.1.8R.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
	MIFIDPRU			
	NOTE: The amendments made to MIFIDPRU in the Investment Firms Prudential Regime (Consequential Amendments) Instrument 2021 since the publication of the draft rules in CP21/26 relate to the interaction of MIFIDPRU with the prudential regime for UCITS and AIF depositaries. For a summary of the other amendments to MIFIDPRU made since the publication of the draft rules in CP21/26, please refer to the earlier entries in this table for the Investment Firms Prudential Regime (No. 2) Instrument 2021 above.			
	MIFIDPRU 1 – General application			
27.	MIFIDPRU 1 Annex 4R (Notification that a firm or group no longer qualifies for SNI status)	N/A	Update to form in MIFIDPRU 1 Annex 4R to reflect how this form should work following the introduction of the depositary condition for SNI classification in MIFIDPRU 1.2.1R(10)	As we proposed in CP21/26, we have introduced a new condition in MIFIDPRU 1.2.1R(10) which states that to be an SNI firm, a firm must not have been appointed to act as a depositary for a UCITS fund or an AIF. We have amended the existing form in MIFIDPRU 1 Annex 4R (as originally made in our final rules in FCA Instrument 2021/38) to include guidance clarifying that where an existing SNI MIFIDPRU investment firm applies for a variation of permission to include one of the relevant depositary activities, that application will be taken as notification that the firm has ceased to meet the SNI conditions. The firm will therefore not need to submit the MIFIDPRU 1 Annex 4R form separately in that situation.
28.	Part A of MIFIDPRU 2 Annex 1R (Permission to be exempt from disclosure requirements in MIFIDPRU 8 for SNI firms in consolidated insurance groups)	N/A	Update to Part A of form in MIFIDPRU 2 Annex 1R to reflect how this form should work following the introduction of the depositary condition for SNI classification in MIFIDPRU 1.2.1R(10)	As we proposed in CP21/26, we have introduced a new condition in MIFIDPRU 1.2.1R(10) which states that to be an SNI firm, a firm must not have been appointed to act as a depositary for a UCITS fund in accordance with COLL 6.6.AR8R or an AIF in accordance with FUND 3.11.10R. We have amended the form in Part A of MIFIDPRU 2 Annex 1R (as originally made in our final rules in FCA Instrument 2021/38) to include the new depositary condition as one of the confirmations that an SNI firm must provide when applying for an exemption from MIFIDPRU 8 due to the firm's membership of a consolidated insurance group.

	Main Rule Reference	Connected Rules also being Amended	Purpose of Amendment	Explanation
	MIFIDPRU 4 – Own funds			
29.	MIFIDPRU 4.4.1R	COLL 6.6B.8R (editor's note) FUND 3.11.16R (editor's note)	Correction of incorrect cross-reference in original text	In CP21/26, MIFIDPRU 4.4.1R(1) and (3) both incorrectly referred to a minimum capital requirement of £750,000 'unless MIFIDPRU 4.4.5R applies'. This cross-reference was incorrect and our intention was to refer to MIFIDPRU 4.4.6R, which contains the £4 million minimum capital requirement for a MIFIDPRU investment firm that has been appointed to act as a depositary for a UCITS fund in accordance with COLL 6.6.AR8R or an AIF in accordance with FUND 3.11.10R. This has been corrected in the final instrument.

Annex 1
List of non-confidential respondents

Alternative Credit Council (ACC)

Alternative Investment Management Association (AIMA)

The Association of Professional Compliance Consultants (APCC)

Ashmore Group plc

The Bank of New York Mellon

BlackRock Inc

British Private Equity and Venture Capital Association (BVCA)

Daiwa Capital Markets Europe Ltd

The Depositary and Trustee Association (DATA)

FIA European Principal Traders Association (FIA EPTA)

Fidelity Investments International

Futures Industry Association (FIA)

Goodwin Procter (UK) LLP

Invesco Ltd

The Investment Association

Personal Investment Management & Financial Advice Association (PIMFA)

SMBC Nikko Capital Markets Limited

Société Générale International Limited

Annex 2
Amendments to the Investment Firms Prudential Regime Instrument 2021 since publication of the Near Final Version in PS21/9

The table below sets out the amendments that have been made to the original text of the near-final Investment Firms Prudential Regime Instrument (originally published in PS21/9) as part of finalising the Investment Firms Prudential Regime Instrument 2021 (FCA 2021/38).

The table is intended only as a summary of the relevant changes and is not a substitute for firms reading all the detailed rules in the final instrument.

There have been no changes to the substantive content of the Investment Firms Prudential Regime (Consequential Amendments to Other Prudential Sourcebooks) Instrument 2021 (FCA 2021/39) since the near-final version was published.

Relevant Provision	Description of Amendment(s)
Glossary definition of "UK parent investment firm"	Amendment of limb (2) of the definition to: • add in a reference to the MIFIDPRU investment firm being the deemed parent undertaking of a relevant financial undertaking for the purposes of MIFIDPRU 2.5, which therefore captures the connected undertaking relationships that result in deemed parent status; • add in references to ancillary services undertakings, tied agents and credit institutions as entities that may be subsidiaries, in which the MIFIDPRU investment firm may hold a participation, or of which the MIFIDPRU investment firm might be a deemed parent. Note, however, that if the group contains a subsidiary that is a UK credit institution, then the group will not be an investment firm group. This will ensure that the connected undertaking deeming relationships operate as intended in the drafting in MIFIDPRU 2.4 and 2.5.
MIFIDPRU 4.14.1R(2)(b) and 4.14.2G	The rules relating to the K-TCD requirement make clear that they are intended to apply to various types of securities financing transactions (SFTs). However, the drafting of the original overall application rule for the K-TCD section could have resulted in the requirement not applying to SFTs by inadvertently limiting the scope of the requirement to transactions in a firm's trading book. This was not intended. We have therefore updated the drafting of the rule to clarify that the K-TCD requirement applies not only to derivative transactions in a firm's trading book, but also to any SFTs and long settlement transactions entered into by a firm with permission to deal on own account (even if those SFTs or long settlement transactions are not recorded in the trading book).
MIFIDPRU 7.9.5R(5)	This provision erroneously referred to a notification requirement in MIFIDPRU 7.7.13R. That reference has been updated to refer to MIFIDPRU 7.7.14R, which contains the relevant notification requirement.

Relevant Provision	Description of Amendment(s)
MIFIDPRU 9 Annex 2G (Guidance notes on data items in MIFIDPRU 9 Annex 1R): MIF002 guidance notes	The guidance notes for items 7A to 9A have been updated. These previously erroneously referred to these items as items 8A to 10A, which reflected the numbering on an earlier version of the reporting form.
MIFIDPRU 9 Annex 2G (Guidance notes on data items in MIFIDPRU 9 Annex 1R): MIF007 guidance notes	The guidance note for item 69A in the MIF007 guidance notes has been updated to refer to item 69A being completed only where item 68A has been answered yes. The original text erroneously referred to item 64A instead. The guidance note for item 70A in the MIF007 guidance notes has been updated to refer to item 71A being completed only where item 70A has been answered yes. The original text erroneously referred to items 67A and 66A respectively.
MIFIDPRU TP10.2R(4)(a) and MIFIDPRU TP 10.9G	This rule and its corresponding guidance provision have been updated to confirm that for the purposes of the transitional in MIFIDPRU TP10 relating to individual capital guidance, any amounts relating to capital planning buffers or other CRD IV buffers required under IFPRU 10 should be included in the transitional requirement.
SUP 16.12.17R	Deletion of MLA-M row for reporting frequency rules. No MLA-M report is scheduled under the corresponding substantive rule in MIFIDPRU 16.12.16R. The reference to MLA-M in the frequency table in SUP 16.12.17R was therefore an error that has now been corrected.
Application and notification forms	These are contained in various annexes to the chapters containing the main rules and have been updated to make the information that we require clearer to firms. Certain updates also reflect operational and administrative requirements for capturing data within the FCA's systems. These updates include: • clarifying when a form can be used to make a notification in relation to a consolidation group and providing additional fields to identify this; • adding an additional field to identify the relevant UK parent entity, where applicable; and • adding additional fields to confirm specific information required by particular underlying rules. These updates are administrative in nature and are designed to capture more accurate data relating to the requirements of the substantive underlying rules.

Annex 3
Abbreviations used in this paper

Abbreviation	Description
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Manager Directive
ASA	Assets safeguarded and administered
AUM	Assets under management
AVA	Additional value adjustment
BCBS	Basel Committee on Banking Supervision
BIPRU	Prudential sourcebook for banks, building societies and investment firms
BRRD	Bank Recovery and Resolution Directive
BTS	Binding Technical Standards
CCP	Central counterparty
CET1	Common Equity Tier 1 capital
COCON	Code of Conduct
COH	Client orders handled
COLL	Collective Investment Scheme sourcebook
CONC	Consumer Credit sourcebook
COREP	Common reporting
CP	Consultation paper
CPMI	Collective Portfolio Management Investment firm
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation

Abbreviation	Description
DEPP	Decision Procedure and Penalties manual
DTR	Disclosure Guidance and Transparency Rules sourcebook
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EG	Enforcement Guide
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
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act
FUND	Investment Fund sourcebook
GEN	General Provisions sourcebook
GENPRU	General Prudential sourcebook
IBSAR	Investment Bank Special Administrative Regime
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

Abbreviation	Description
IOSCO	International Organization of Securities Commissions
IPRU-INV	Interim prudential sourcebook for investment business
ISIN	International Securities Identification Number
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-CMG	K- factor requirement related to clearing margin
K-CMH	K factor requirement related to the activity of holding client money
K-COH	K-factor requirement related to the activity of handling client orders
K-CON	K-factor requirement based on concentration risk
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
LEI	Legal Entity Identifier
LLP	Limited Liability Partnership
MiFID	Markets in Financial Instruments Directive
MIFIDPRU	New Prudential sourcebook for solo regulated MiFID investment firms
MRT	Material Risk Taker
OMPS	Oil Market Participants
PERG	Perimeter Guidance Manual
PFE	Potential future exposure
PMR	Permanent minimum requirement
PRA	Prudential Regulation Authority

Abbreviation	Description
P&S	Principles and Standards for Sound Compensation Practices
PS	Policy Statement
RCB	Regulated Covered Bonds
RIE	Recognised investment exchange
SFTs	Securities financing transactions
SNI	Small and non-interconnected investment firm
SRD	Shareholder Rights Directive
SUP	Supervision sourcebook
SYSC	Systems and Controls sourcebook
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
WDPG	The Wind-down Planning Guide

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Appendix 1
Made rules (legal instrument)

INVESTMENT FIRMS PRUDENTIAL REGIME (No. 2) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 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 of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)	Annex C
Supervision manual (SUP)	Annex D
Decision Procedure and Penalties Manual (DEPP)	Annex E
The Enforcement Guide (EG)	Annex F

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.

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
25 November 2021

Annex A

Amendments to the Glossary of definitions

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

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

Appropriately Diversified Indices RTS	Part 1 (FCA) of the *UK* 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 *UK* law by virtue of the *EUWA*.
AVA	an additional valuation adjustment calculated under *MIFIDPRU* 3 Annex 8R.
cooperative society	a cooperative society as defined in *MIFIDPRU* 3 Annex 7.4R.
Covered Bonds RTS	Part 1 (FCA) of the *UK* 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 *UK* law by virtue of the *EUWA*.
Directive 2002/87/EC UK law	the law of the *United Kingdom* (or any part of it) which, immediately before *IP completion day*, implemented Directive 2002/87/EC, as that law has effect on *IP completion day*.
intermediate entity	an intermediate entity as defined in *MIFIDPRU* 3 Annex 7.32R.
Market Definition RTS	Part 1 (FCA) of the *UK* 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 *UK* law by virtue of the *EUWA*.
non-authorised parent undertaking	has the meaning in section 143B(1) of the *Act*, which is a *parent undertaking* that: (a) is incorporated in the *United Kingdom* or has its principal place of business in the *United Kingdom*, and (b) is not an *authorised person*.

relevant body	(in *MIFIDPRU*) a general meeting of the shareholders of a *firm* or an equivalent meeting of the owners of a *firm*.
similar institution	a similar institution as defined in *MIFIDPRU* 3 Annex 7.5R.
Solvency 2 Regulations 2015	the Solvency 2 Regulations 2015 (SI 2015/575).
third country insurance undertaking	a third country insurance undertaking as defined in regulation 2 of the *Solvency 2 Regulations 2015*.
third country reinsurance undertaking	a third country reinsurance undertaking as defined in regulation 2 of the *Solvency 2 Regulations 2015*.
tier 1 capital	(in *MIFIDPRU*) the sum of a *firm's common equity tier 1 capital* and *additional tier 1 capital*.
valuation exposure	means the amount of a *valuation position* that is sensitive to the movement in a *valuation input*.
valuation input	means a market observable or non-observable parameter or matrix of parameters that influences the fair value of a *valuation position*.
valuation position	means a *financial instrument* or commodity or portfolio of *financial instruments* or commodities, which are measured at fair value.

Amend the following definitions as shown.

financial sector entity	~~has the meaning in article 4(1)(27) of the *UK CRR*.~~ any of the following:	
	(a)	a financial sector entity as defined in article (4)(1)(27) of the *UK CRR*;
	(b)	a *MIFIDPRU investment firm*; or
	(c)	an *ancillary services undertaking* included in the consolidated financial situation of a *MIFIDPRU investment firm*.
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 Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

19G MIFIDPRU Remuneration Code

19G.1 General application

…

Application: where the application of SYSC 19G.1.1R changes in relation to a firm

19G.1.8 R …

(3) The notification in (2)(b) must be submitted through the *online notification and application system* using the form in *MIFIDPRU* ~~1 Annex 3R~~ 7 Annex 3R.

…

19G.4 Fixed and variable components of remuneration

Categorising fixed and variable remuneration

…

19G.4.2 G …

(3) The *FCA* considers that:

(a) fixed *remuneration*:

(i) should primarily reflect a staff member's professional experience and organisational responsibility as set out in the staff member's job description and terms of employment; and

(ii) should be permanent, pre-determined, non-discretionary, non-revocable and not dependent on performance; and

(b) variable *remuneration*:

(i) should be based on performance or, in exceptional cases, other conditions;

(ii) where based on performance, should reflect the long-term performance of the staff member as well as performance in excess of the staff member's job description and terms of employment; ~~and~~

(iii) includes *discretionary pension benefits*~~.~~; and

(iv) includes carried interest, as referred to in *SYSC* 19G.1.27R.

…

Annex C

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

1.1 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 new 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]]

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:

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

Title	
First names	
Surname	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which of the following the applicant is:

   ☐ MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking

   ☐ MIFIDPRU investment firm that is a consolidating UK parent entity

   ☐ MIFIDPRU investment firm that is a GCT parent undertaking

   ☐ Consolidating UK parent entity (other than a MIFIDPRU investment firm)

   ☐ 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 ▸ Please provide the reference number below of the previous permission

   ☐ No

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

   ☐ Yes ▸ 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	

   ☐ No

6. Please explain why you are applying for the MIFIDPRU permission (or a variation of the existing MIFIDPRU permission). Please give 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.

7. 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 0 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 6R [*Editor's note*: the form can be found at this address: 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:

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

Name of individual	
Job title / position	
Individual reference number (if applicable)	

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 ☐

    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:

FRN	Entity name

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 Level of application of requirements

…

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

(iv) 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

…

2.5.3 G The table below is a guide to the content of this section

Provision of *MIFIDPRU* 2.5	**Summary of content**
…	…
~~*MIFIDPRU* 2.5.49~~ [deleted]	~~Consolidated disclosure requirements~~ [deleted]
…	…

…

Prudential consolidation – main requirements

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

(1) *MIFIDPRU* 3 (Own funds);

(2) *MIFIDPRU* 4 (Own funds requirements);

(3) *MIFIDPRU* 5 (Concentration risk); and

(4) ~~*MIFIDPRU* 8 (Disclosure); and~~ [deleted]

(5) *MIFIDPRU* 9 (Reporting).

…

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 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.

~~(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*.~~

(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 ~~[This provision has been intentionally left blank]~~ [deleted]

…

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 8R

[*Editor's note*: the form can be found at this address: 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 to which of the following this notification relates:

a. Investment firm group only	☐
b. Financial conglomerate only	☐
c. Investment firm group and financial conglomerate	☐

2. Please confirm which of the following apply or applies:

a. The firm has become part of an investment firm group	☐
b. The firm has ceased to be part of an investment firm group	☐
c. There has been one or more relevant entities being added to the investment firm group of which the firm is a part	☐
d. There has been one or more relevant entities being removed from the investment firm group of which the firm is a part	☐
e. The firm has become part of a financial conglomerate	☐
f. The firm has ceased to be part of a financial conglomerate	☐

If you selected:

- option (a), please complete questions 3 and 4 (A or B) and questions 7A and 8
- option (b), please complete questions 5, 6, 7B and 8
- option (c), please complete questions 4A, 7B and 8
- option (d), please complete questions 4A, 7B and 8

- option (e), please complete questions 9 to 13
- option (f), please complete questions 14 to 16

Where you have selected multiple options, you must complete all questions that apply to each of those options.

Information on the investment firm group

3. 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

4. A. *[For notifications relating to existing investment firm groups]* 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)	

B. *[For notifications relating to new investment firm groups]* 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

5. 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)	

6. 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

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

A. New entities joining the investment firm group

Note: For a new investment firm group, this should include all entities in that investment firm group

FRN (if applicable)	Entity name	Type of group undertaking (select one): *- UK parent entity* *- intermediate parent* *- subsidiary (non-parent undertaking)* *- connected undertaking*	Sub-type of group undertaking (select one): *- MIFIDPRU investment firm* *- PRA designated investment firm* *- credit institution* *- other financial institution* *- ancillary services undertaking* *- tied agent*	Location (type country name) *Principal place of business and, separately, place of incorporation (if different)*

B. Entities ceasing to be part of the investment firm group

Note: If an investment firm group is ceasing to exist, this should include all entities in that investment firm group

FRN (if applicable)	Entity name	Type of group undertaking (select one): *- UK parent entity* *- intermediate parent undertaking* *- subsidiary (non-parent undertaking)* *- connected undertaking*	Sub-type of group undertaking (select one): *- MIFIDPRU investment firm* *- PRA designated investment firm* *- credit institution* *- other financial institution* *- ancillary services undertaking* *- tied agent*	Location (type country name) *Principal place of business and, separately, place of incorporation (if different)*

8. *[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

9. 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

10. *[If you selected "Existing financial conglomerate" in response to question 9]* Please confirm whether the Classification of Groups 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 Classification of Groups 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 9]* Please complete the Classification of Groups form in GENPRU 3 Annex 3G in relation to the financial conglomerate and attach it to this notification.

    ☐ Attached

13. Please provide a group 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 confirm whether the financial conglomerate the firm is ceasing to be a part of will continue to exist after the firm ceases to be part of it.

    ☐ Financial conglomerate will continue to exist

    ☐ Financial conglomerate will cease to exist

15. *[If you selected "Financial conglomerate will continue to exist"]* Please provide a group 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 Application and purpose

…

Purpose

3.1.4 G This chapter contains requirements for the calculation of a *MIFIDPRU investment firm's own funds*. These requirements are based on the provisions in Title I of Part Two of the *UK CRR*, but with the modifications set out in this chapter.

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.

…

3.3 Common equity tier 1 capital

3.3.1 R (1) A *firm* must determine its *common equity tier 1 capital* in accordance with Chapter 2 of Title I of Part Two of the *UK CRR*, as modified by the *rules* in this section.

(2) Any reference to the *UK CRR* in this section is to the *UK CRR* as applied by (1) and modified by the *rules* in this section.

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.]

…

Deductions from common equity tier 1 capital

…

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

(c) 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*.

MIFIDPRU 3 Annex 2R (Application under MIFIDPRU 3.3.3R(1) – permission to classify capital instruments as CET1) is replaced with the form below. The new text is not underlined.

Application under MIFIDPRU 3.3.3R for permission to classify an issuance of capital instruments as common equity tier 1 (CET1) capital

1. Please confirm which of the following the applicant firm is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. MIFIDPRU investment firm that is a GCT parent undertaking ☐

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) ☐

   If the application concerns more than one firm in the investment firm group, please submit separate applications for each firm.

   For applications on consolidated basis, references to firm/institution should be interpreted as to a consolidated situation of the UK parent.

2. For the instrument you would like to classify as CET1 capital, please provide the following information:

   a. Type of instrument (e.g. ordinary shares, partnership capital):

   b. If there is more than one class of the instrument, please list the different instrument classes:

   c. Total number of shares/units of instrument that have been issued or will be issued:

   d. Nominal value per share/unit of instrument:

£

e. Share premium per share, if applicable:

£

f. Total amount of capital being raised:

£

e. Proposed date to be issued:

f. Total expected CET 1 after the inclusion of the amounts to which this application relates (please complete for all that apply):

MIFIDPRU investment firm (solo CET1)	£
GCT parent undertaking (expected value of own funds instruments as specified in MIFIDPRU 2.6.2R(1))	£
Consolidating UK parent undertaking basis (consolidated CET1)	£

3. For capital instruments to qualify as CET 1 instruments, the following conditions must be met (see article 28 of the UK CRR). Please confirm whether these conditions are met:

a. The instruments are issued directly by your institution, with prior approval of the owners or, if permitted by national law, the management body of the institution:

Yes/No

b. The instruments are paid up and their purchase is not funded directly or indirectly by your institution (indirect funding is defined in MIFIDPRU 3 Annex 7.20R):

Yes/No

c. The instruments meet all of the following conditions as regards their classification:

i. they qualify as capital within the meaning of Art 28(1)(c)(i) of the UK CRR:

Yes/No

ii. they are classified as equity within the meaning of the applicable accounting framework:

Yes/No

iii. they are classified as equity capital for the purposes of determining balance sheet insolvency, where applicable under national insolvency law:

Yes/No

d. The instruments are clearly and separately disclosed on the balance sheet in the financial statements of your institution:

Yes/No

e. The instruments are perpetual:

Yes/No

f. The principal amount of the instruments may not be reduced or repaid except in the following cases:

i. the liquidation of your institution; or

ii. discretionary repurchases of the instruments or other discretionary means of reducing capital (e.g. call, redemption or repayment), where your institution has been granted prior permission of the competent authority under article 77 of the UK CRR:

Yes/No

g. The provisions governing the instruments do not indicate expressly or implicitly that the principal amount of the instruments would or might be reduced or repaid other than in the liquidation of your institution, and your institution does not otherwise provide such an indication prior to or at issuance of the instruments:

Yes/No

h. The instruments meet the following conditions regarding distributions:

i. there is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions:

Yes/No

ii. distributions to holders of the instruments may be paid only out of distributable items:

Yes/No

iii. the conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions:

Yes/No

iv. the level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance:

Yes/No

v. the conditions governing the instruments do not include any obligation for your institution to make distributions to their holders and your institution is not otherwise subject to such an obligation:

Yes/No

vi. non-payment of distributions does not constitute an event of default of your institution:

Yes/No

vii. the cancellation of distributions imposes no restrictions on your institution:

Yes/No

i. Compared to all the capital instruments issued by your institution, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments:

Yes/No

j. The instruments rank below all other claims in the event of insolvency or liquidation of your institution:

Yes/No

k. The instruments entitle their owners to a claim on the residual assets of your institution, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of the instruments issued and is not fixed or subject to a cap:

Yes/No

l. The instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following: (Answer yes if the instruments are not secured in this way)

i. your institution or its subsidiaries:

ii. the parent undertaking of your institution or its subsidiaries:

iii. the parent financial holding company or its subsidiaries:

iv. the mixed activity holding company or its subsidiaries:

v. the mixed financial holding company and its subsidiaries:

vi. any undertaking that has close links with the entities referred to in points i. to v.:

Yes/No

m. The instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation: (Answer "yes" if the instruments are not subject to any arrangement in this way)

Yes/No

4. Partnership capital (this section should only be completed by partnerships).

Is the capital contributed in accordance with MIFIDPRU 3.3.15R or MIFIDPRU 3.2.16R?

Yes/No

Material on how UK CRR article 28(1)(e) and (f) may be complied with can be found in MIFIDPRU 3.3.15R and 3.3.16R.

5. Please confirm whether the capital issuance to which this application relates meets the criteria required by the UK CRR (as applied by MIFIDPRU 3), including any relevant requirements in MIFIDPRU 3 Annex 7R.

Yes/No

Please note that the FCA may request a copy of the terms of the instrument, or further information.

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 issuance of additional tier 1 or tier 2 instruments). The text is not underlined.

3 Annex 7 Additional provisions relating to own funds

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 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 article 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:

$$l \leq 1.25 \text{ x } k$$

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:

$$kX + lY \leq (1.05) \text{ x } k \text{ x } (X + Y)$$

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* (whether for voting or non-voting instruments) are expressed 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 payout 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 three 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; and

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:

(i) those amounts are likely to reduce the profits of the *firm*; and

(ii) 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* of 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) 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.]

7.36 R (1) This *rule* contains the structure-based approach for the deduction of indirect holdings under *MIFIDPRU* 3 Annex 7.34R(1)(b).

(2) The amount to be deducted from common equity tier 1 items referred to in *MIFIDPRU* 3.3.6R(5) shall be equal to the percentage of funding, as defined in *MIFIDPRU* 3 Annex 7.35R(4), multiplied by the amount of *common equity tier 1 instruments* of the *firm* held by the *intermediate entity*.

(3) The amount to be deducted from common equity tier 1 items referred to in *MIFIDPRU* 3.3.6R(7) and (8) shall be equal to the percentage of funding, as defined in *MIFIDPRU* 3 Annex 7.35R(4), multiplied by the aggregate amount of *common equity tier 1 instruments* of *financial sector entities* 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 the requirements 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 the requirements 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 six 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 four 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 five 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 three 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; and

(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 Annex 8R Prudent valuation and additional valuation adjustments

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; and

(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 process 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.

4.12.2A R (1) When applying the *UK CRR* for the purposes of this section, a *firm* must apply the following, as modified by (2):

(a) the *Appropriately Diversified Indices RTS*;

(b) the *Market Definition RTS*; and

(c) 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 and BTS 945/2014.]

4.12.2B R Where a provision in Title IV of Part Three of the *UK CRR* requires a *firm* to determine a risk weighting by reference to the Standardised Approach to credit risk, for the purposes of this section, a *firm* must:

(1) apply the provisions in the *UK CRR* relating to the Standardised Approach to credit risk in the form in which they stood on 31 December 2021; but

(2) for the purposes of determining any mapping of credit quality steps under the provisions in (1), use the ECAI mappings applied by the *PRA* for the purposes of the rules in the *PRA Rulebook* relating to the Standardised Approach to credit risk for CRR firms, as amended from time to time.

[**Note:** BTS 2016/1799.]

4.12.2C G (1) Certain market risk provisions in the *UK CRR* (in the form in which it stood on 31 December 2021) require a *firm* to consider the underlying credit risk attaching to a position under the *UK CRR* Standardised Approach to credit risk. In certain cases, the credit risk rules require a *firm* to determine the risk attaching to the position by reference to "credit quality steps", which are

mapped to credit ratings issued by particular *credit rating agencies*. As the credit risk requirements in the *UK CRR* are no longer directly relevant under *MIFIDPRU*, the *FCA* will no longer be maintaining an *FCA* version of the ECAI credit quality step mappings in BTS 2016/1799 for these purposes.

(2) The effect of *MIFIDPRU* 4.12.2BR is that where a *firm* needs to determine the underlying credit risk of a position for the purposes of the *K-NPR requirement* by reference to credit quality steps, the *firm* should use the updated ECAI mappings maintained by the *PRA* for the purposes of the Standardised Approach to credit risk as it applies to CRR firms under the *PRA Rulebook*.

4.12.2D R A *firm* may treat the currency pairs listed in *MIFIDPRU* 4 Annex 13R as closely correlated for the purposes of article 354(1) of the *UK CRR*.

…

Permission to use internal models

…

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).

…

MIFIDPRU 4 Annex 6R (Application under MIFIDPRU 4.12.66R to use sensitivity models to calculate interest rate risk on derivative instruments) is replaced with the form below. The new text is not underlined.

Application under MIFIDPRU 4.12.66R for permission to use sensitivity models to calculate interest rate risk on derivative instruments in accordance with article 331(1) of the UK CRR

1. Please list all group undertakings in respect of which this application is being made.

FRN	Undertaking name

2. Please confirm the scope of the consolidated application for the model:

☐ Not applicable, as the model will only be applied at solo level

☐ The use of the model at solo and consolidated level will involve the same types of instruments

☐ The consolidated application for a model will include a wider range of instrument types than those covered by the model at solo level ▸ Give details below

For group applications, the below section (questions 3 to 7) must be completed separately for each entity requiring the permission, including for the consolidated situation of the consolidating UK parent if the application concerns a consolidated application of the model. Questions 5 and onwards must be completed separately for each set of instruments for which a net sensitivity position, weighted by maturity, is computed.

3. Please confirm the FRN and name of the MIFIDPRU investment firm or consolidating UK parent this section relates to:

FRN of firm	
Name of firm	

4. Please give a brief description of the nature of the firm's business and a full and clear explanation of why it is applying for this permission.

5. Please provide summary information for each of the items listed in the below table. For some items you are required to attach additional documentation.

Item	Summary Information
a. Description of the current methodology used for interest rate risk on derivative instruments covered in articles 328 to 330 UK CRR.	
b. Description of the sensitivity models used to calculate interest rate risk under article 331 UK CRR.	
c. Product scope of the requested permission – please indicate the instruments for which net sensitivity positions are used and the currencies in which those positions are denominated.	
d. For the product scope requested, confirm that the interest rate risk is managed on a discounted cashflow basis.	
e. For the product scope requested, briefly indicate any growth plans for the exposures.	
f. Capital impact of changing the calculation methodology from the existing approach (i.e. the capital impact of applying article 331 UK CRR) and total capital and market risk capital held at the same date.	
g. Provide worked examples of capital calculation under the current methodology and the new (article 331 UK CRR) methodology for a test portfolio composed of: • Long 100,000 1Y ATM equity index call option • Short 100,000 1Y ATM equity index put option • Long 100,000 2Y ATM equity index call option • Short 100,000 5Y ATM equity index call option • Short 3M equity index futures in sufficient quantity to hedge the equity delta of the options Assume that the base index level is 100 and that the equity index volatility is 20%. Please	

use these interest rate inputs[1] for the purposes of calculating the interest rate exposure. All options are European style exercise.	
h. Please provide documentation describing how you construct interest rate curves from market data. Please list all models that rely on these curves to calculate sensitivity to interest rate movements. For each model, please provide the list of products to which it applies and the date of the last validation.	
i. Explanation of how you calculate the interest rate sensitivity of your portfolio in each bucket.	
j. Explanation of how you handle interest rate basis risk.	

6. Please confirm whether each of the standards in the below table is met and provide information to demonstrate how it is met:

Standard	**Meets Standard?**	**Firm Analysis** *Please demonstrate using examples where appropriate how the minimum standards are met*
a. Sensitivity models generate positions which have the same sensitivity to interest rate changes as the underlying cash flows.	☐ Yes ☐ No	
b. Sensitivities are assessed with reference to independent movements in sample rates across the yield curve, with at least one sensitivity point in each of the maturity bands set out in Table 2 in article 339 UK CRR.	☐ Yes ☐ No	
c. Sensitivities are appropriate to produce accurate valuation changes based on the assumed interest rate changes set out in Table 2 of article 339 UK CRR.	☐ Yes ☐ No	

[1] *Editor's note*: The interest rate inputs document is available at the following address: http://www.fca.org.uk/your-fca/documents/forms/crr-article-331-interest-rate-inputs

Insert the following new annex, MIFIDPRU 4 Annex 13R, after MIFIDPRU 4 Annex 12G (Guidance on the interaction between K-AUM and K-COH). The text is not underlined.

4 Annex 13R **K-NPR requirement - provisions on closely correlated currencies**

Application and purpose

13.1 R This annex specifies currency pairs that may be treated as closely correlated for the purposes of article 354(1) of the *UK CRR* (as applied by *MIFIDPRU* 4.12.2R) when a *MIFIDPRU investment firm* or *UK parent entity* is calculating its *K-NPR requirement*.

13.2 R The following table lists closely correlated currencies for the purposes of *MIFIDPRU* 4 Annex 13.1R:

Part 1	**List of closely correlated currencies against the euro (EUR)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Czech koruna (CZK), British pound (GBP), Croatian kuna (HRK), Moroccan dirham (MAD), Romanian leu (RON).	
Part 2	**List of closely correlated currencies against the Arab Emirates dirham (AED)**
Angolan kwanza (AOA), Canadian dollar (CAD), Chinese yuan (CNY), British pound (GBP), Hong Kong dollar (HKD), Lebanese pound (LBP), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 3	**List of closely correlated currencies against the Albanian lek (ALL)**
Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Czech koruna (CZK), Danish krone (DKK), Croatian kuna (HRK), Moroccan dirham (MAD), Romanian leu (RON), euro (EUR).	
Part 4	**List of closely correlated currencies against the Angolan kwanza (AOA)**
Arab Emirates dirham (AED), Chinese yuan (CNY), Hong Kong dollar (HKD), Lebanese pound (LBP), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 5	**List of closely correlated currencies against the Bosnia and Herzegovina mark (BAM)**

Albanian lek (ALL), Bulgarian lev (BGN), Czech koruna (CZK), Danish krone (DKK), British pound (GBP), Croatian kuna (HRK), Moroccan dirham (MAD), Romanian leu (RON), euro (EUR).	
Part 6	**List of closely correlated currencies against the Bulgarian lev (BGN)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Czech koruna (CZK), Danish krone (DKK), British pound (GBP), Croatian kuna (HRK), Moroccan dirham (MAD), Romanian leu (RON), euro (EUR).	
Part 7	**List of closely correlated currencies against the Canadian dollar (CAD)**
Arab Emirates dirham (AED), Hong Kong dollar (HKD), Macau pataca (MOP), Singapore dollar (SGD), Taiwanese dollar (TWD), US dollar (USD).	
Part 8	**List of closely correlated currencies against the Chinese yuan (CNY)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), British pound (GBP), Hong Kong dollar (HKD), Lebanese pound (LBP), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 9	**List of closely correlated currencies against the Czech koruna (CZK)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Danish krone (DKK), Croatian kuna (HRK), Moroccan dirham (MAD), Romanian leu (RON), euro (EUR).	
Part 10	**List of closely correlated currencies against the Danish krone (DKK)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Czech koruna (CZK), British pound (GBP), Croatian kuna (HRK), Moroccan dirham (MAD), Romanian leu (RON), Singapore dollar (SGD).	
Part 11	**List of closely correlated currencies against the British pound (GBP)**
Arab Emirates dirham (AED), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Chinese yuan (CNY), Danish krone (DKK), Hong Kong dollar (HKD), Croatian kuna (HRK), Lebanese pound	

(LBP), Moroccan dirham (MAD), Macau pataca (MOP), Singapore dollar (SGD), Taiwanese dollar (TWD), US dollar (USD), euro (EUR).	
Part 12	**List of closely correlated currencies against the Hong Kong dollar (HKD)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Canadian dollar (CAD), Chinese yuan (CNY), British pound (GBP), Lebanese pound (LBP), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 13	**List of closely correlated currencies against the Croatian kuna (HRK)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Czech koruna (CZK), Danish krone (DKK), British pound (GBP), Moroccan dirham (MAD), Romanian leu (RON), Singapore dollar (SGD), euro (EUR).	
Part 14	**List of closely correlated currencies against the South Korean won (KRW)**
Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Taiwanese dollar (TWD).	
Part 15	**List of closely correlated currencies against the Lebanese pound (LBP)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Chinese yuan (CNY), British pound (GBP), Hong Kong dollar (HKD), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 16	**List of closely correlated currencies against the Moroccan dirham (MAD)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Czech koruna (CZK), Danish krone (DKK), British pound (GBP), Croatian kuna (HRK), Romanian leu (RON), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), euro (EUR).	
Part 17	**List of closely correlated currencies against the Macau pataca (MOP)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Canadian dollar (CAD), Chinese yuan (CNY), British pound (GBP), Hong Kong dollar (HKD), Lebanese pound (LBP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	

Part 18	List of closely correlated currencies against the Peruvian nuevo sol (PEN)
Arab Emirates dirham (AED), Angolan kwanza (AOA), Chinese yuan (CNY), Hong Kong dollar (HKD), South Korean won (KRW), Lebanese pound (LBP), Macau pataca (MOP), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 19	**List of closely correlated currencies against the Philippine peso (PHP)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Chinese yuan (CNY), Hong Kong dollar (HKD), South Korean won (KRW), Lebanese pound (LBP), Macau pataca (MOP), Malaysian Ringgit (MYR), Peruvian nuevo sol (PEN), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 20	**List of closely correlated currencies against the Romanian leu (RON)**
Albanian lek (ALL), Bosnia and Herzegovina mark (BAM), Bulgarian lev (BGN), Czech koruna (CZK), Danish krone (DKK), Croatian kuna (HRK), Moroccan dirham (MAD), euro (EUR).	
Part 21	**List of closely correlated currencies against the Singapore dollar (SGD)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Canadian dollar (CAD), Chinese yuan (CNY), Danish krone (DKK), British pound (GBP), Hong Kong dollar (HKD), Croatian kuna (HRK), South Korean won (KRW), Lebanese pound (LBP), Moroccan dirham (MAD), Macau pataca (MOP), Malaysian ringgit (MYR), Peruvian nuevo sol (PEN), Philippine peso (PHP), Thai baht (THB), Taiwanese dollar (TWD), US dollar (USD).	
Part 22	**List of closely correlated currencies against the Thai baht (THB)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Chinese yuan (CNY), Hong Kong dollar (HKD), Lebanese pound (LBP), Moroccan dirham (MAD), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Taiwanese dollar (TWD), US dollar (USD).	
Part 23	**List of closely correlated currencies against the Taiwanese dollar (TWD)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Canadian dollar (CAD), Chinese yuan (CNY), British pound (GBP), Hong Kong	

dollar (HKD), South Korean won (KRW), Lebanese pound (LBP), Moroccan dirham (MAD), Macau pataca (MOP), Malaysian Ringgit (MYR), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), US dollar (USD).	
Part 24	**List of closely correlated currencies against the US dollar (USD)**
Arab Emirates dirham (AED), Angolan kwanza (AOA), Canadian dollar (CAD), Chinese yuan (CNY), British pound (GBP), Hong Kong dollar (HKD), Lebanese pound (LBP), Macau pataca (MOP), Peruvian nuevo sol (PEN), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), Taiwanese dollar (TWD).	

Amend the following as shown.

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
MIFIDPRU 7.2	General requirements relating to a *firm's* governance arrangements
MIFIDPRU 7.2A	Requirements relating to the risk management function
…	

…

7.1.3 R *MIFIDPRU* 7 applies as follows:

Section of *MIFIDPRU* 7	**Application to *SNI MIFIDPRU investment firms***	**Application to *non-SNI MIFIDPRU investment firms***	**Application at the level of an *investment firm group***
MIFIDPRU 7.2 ~~(Senior management and systems and controls)~~ (Internal governance)	Applies	Applies	Applies to the *UK parent entity* of an *investment firm* group to which consolidation applies under *MIFIDPRU* 2.5
MIFIDPRU 7.2A (Risk management function)	Does not apply	Applies to a *non-SNI MIFIDPRU investment firm* that has a risk management function in accordance with article 23 of the *MIFID Org Regulation*	Does not apply
…			

…

7.2 Internal governance

…

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 *MIFIDPRU* 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). The text is not underlined.

8 Disclosure

8.1 Application

8.1.1 R (1) Subject to (2) and (3), the requirements in this chapter apply to a *non-SNI MIFIDPRU investment firm*.

(2) *MIFIDPRU* 8.2 (Risk management objectives and policies), *MIFIDPRU* 8.4 (Own funds) and *MIFIDPRU* 8.5 (Own funds requirements) also apply to an *SNI MIFIDPRU investment firm* that has *additional tier 1 instruments* in issue.

(3) *MIFIDPRU* 8.6 (Remuneration policies and practices) applies to every *MIFIDPRU investment firm*.

(4) *MIFIDPRU* 8.7 (Investment policy) applies only to a *non-SNI MIFIDPRU investment firm* that does not fall within *MIFIDPRU* 7.1.4R(1).

8.1.2 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.

8.1.3 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*.

8.1.4 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.

8.1.5 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*.

8.1.6 G Where an *SNI MIFIDPRU investment firm* is reclassified as a *non-SNI MIFIDPRU investment firm*, it may choose to comply with the higher disclosure requirements applicable to a *non-SNI MIFIDPRU investment firm* in relation to the financial year in which it is reclassified.

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.

Application: proportionality

8.1.8 R In complying with the *rules* in this chapter, a *MIFIDPRU investment firm* must 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.

8.1.9 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 r*emuneration* policy to disclose more information than an *SNI MIFIDPRU investment firm*.

Application: when?

8.1.10 R As a minimum, a *firm* must publicly disclose the information specified in this chapter annually on:

(1) the date it publishes its annual *financial statements*; or

(2) where it does not publish annual *financial statements*, the date on which its annual solvency statement is submitted to the *FCA* in accordance with requirements in *SUP* 16.12.

8.1.11 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.

8.1.12 G A *MIFIDPRU investment firm* is reminded of the transitional provisions for disclosure requirements in *MIFIDPRU* TP 12.

Application: how?

8.1.13 R A *firm* must publish the information required by this chapter in a manner that:

(1) is easily accessible and free to obtain;

(2) is clearly presented and easy to understand;

(3) is consistent with the presentation used for previous disclosure periods or otherwise allows a reader of the information to make comparisons easily; and

(4) highlights in a summary any significant changes to the information disclosed, when compared with previous disclosure periods.

8.1.14 G A *firm* should consider the best way to make the disclosed information easy to understand, for example, by using tables, charts or diagrams, or cross-references to other information where relevant.

8.1.15 R A *firm* is not required to comply with *MIFIDPRU* 8.1.13R to the extent that compliance would breach the law of another jurisdiction.

8.1.16 E Making the disclosures required by this chapter available on a website will tend to establish compliance with the *rule* in *MIFIDPRU* 8.1.13R.

8.1.17 G Whilst the *FCA's* expectation is that a *firm* will use a website for the purpose of complying with *MIFIDPRU* 8.1.13R, if a *firm* does not maintain a website, or cannot use a website to publish some or all of the information required without breaching the law of another jurisdiction, it must nonetheless ensure that the alternative method of disclosure used complies with the overarching requirement in *MIFIDPRU* 8.1.13R.

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).

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

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) subject to *MIFIDPRU* 8.3.2R, the number of directorships (executive and non-executive) held by each member of the *management body*;

(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;

(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 R The following directorships are not within the scope of *MIFIDPRU* 8.3.1R(2):

(1) executive and non-executive directorships held in organisations which do not pursue predominantly commercial objectives; and

(2) executive and non-executive directorships held within the same group or within an undertaking (including a *non-financial sector entity*) in which the *firm* holds a *qualifying holding*.

8.3.3 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*.

8.4 Own funds

8.4.1 R (1) Subject to (2), a *firm* must disclose the following information regarding its *own funds*:

(a) 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*;

(b) a reconciliation of (a) with the capital in the balance sheet in the audited *financial statements* of the *firm*; and

(c) 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*.

(2) A *firm* that is not required to publish annual *financial statements* is only required to disclose the information specified at (1)(a) and (c).

8.4.2 R *A firm* must use the template available at *MIFIDPRU* 8 Annex 1R 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:

(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*.

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.

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 across the *firm*, broken down into the criteria for the assessment of the performance of:

(a) the *firm*;

(b) business units; and

(c) 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*; and

(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-c*ash* instruments;

(iv) *options*; or

(v) short or long-term incentive plans.

8.6.7 G In complying with *MIFIDPRU* 8.6.6R(1), a *firm* is reminded of the *rules* and *guidance* in *SYSC* 19G.4 on categorising fixed and variable *remuneration*.

Quantitative disclosures

8.6.8 R (1) Subject to (7), a *MIFIDPRU investment firm* must disclose the quantitative information required by (2) to (6) for the financial year to which the disclosure relates.

(2) An *SNI-MIFIDPRU investment firm* must disclose the total amount of *remuneration* awarded to all staff, split into:

(a) fixed *remuneration*; and

(b) variable *remuneration*.

(3) A *non-SNI MIFIDPRU investment firm* must disclose the total number of *material risk takers* identified by the *firm* under *SYSC* 19G.5.

(4) A *non-SNI MIFIDPRU investment firm* must disclose the following information, split into categories for *senior management*, other *material risk takers*, and other staff:

(a) the total amount of *remuneration* awarded;

(b) the fixed *remuneration awarded*; and

(c) the variable *remuneration* awarded.

(5) A *non-SNI MIFIDPRU investment firm* must disclose the following information, split into categories for *senior management* and other *material risk takers*:

(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*.

(6) A *non-SNI MIFIDPRU investment firm* not meeting the conditions in *SYSC* 19G.1.1R(2) must disclose the following information, split into categories for *senior management*, and other *material risk takers*:

(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) 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*.

(7) (a) For the purposes of (4), (5)(a), (5)(b) and (6), a *non-SNI MIFIDPRU investment firm* must aggregate the information to be disclosed for *senior management* and other *material risk takers*, where splitting the information

between those two categories would lead to the disclosure of information about one or two people.

(b) Where aggregation in accordance with (a) would still lead to the disclosure of information about one or two people, a *non-SNI MIFIDPRU investment firm* is not required to comply with the obligation in (4), (5)(a), (5)(b) or (6).

8.6.9 R A *non-SNI MIFIDPRU investment firm* that relies on *MIFIDPRU* 8.6.8R(7) must include a statement in the main body of its *remuneration* disclosure that:

(1) explains the obligations in relation to which it has relied on the exemption; and

(2) confirms that the exemption is relied on to prevent individual identification of a *material risk taker*.

8.6.10 G The purpose of the exemption referred to in *MIFIDPRU* 8.6.8R(7) is to avoid *firms* having to disclose information:

(1) that would enable a *material risk taker* to be identified; or

(2) that could be associated with a particular *material risk taker*.

8.6.11 G (1) When considering the exemptions in *MIFIDPRU* 8.6.8R(7), the *non-SNI MIFIDPRU investment firm* should apply the conditions to each information item separately. Where the information contained in at least one of the categories of *senior management* and other *material risk takers* relates to one or two *material risk takers*, the *non-SNI MIFIDPRU investment firm* is exempt from the requirement to split the information into these categories, and should aggregate the information. Where the aggregated information still relates to only one or two individuals, the *non-SNI MIFIDPRU investment firm* is exempt from the requirement to disclose that information.

(2) The *guidance* in (1) is illustrated by the following example:

(a) Firm A does not meet the conditions in *SYSC* 19G.1.1R(2). It has identified eight material risk takers under *SYSC* 19G.5.

(b) In relation to the information items required in *MIFIDPRU* 8.6.8R(4), five of the *material risk takers* are *senior management*, and three are other *material risk takers*. Firm A cannot rely on the exemption in *MIFIDPRU* 8.6.8R(7) because neither of the categories of *senior management* and other *material risk takers* contains one or two individuals. It must disclose the *remuneration* information required at *MIFIDPRU* 8.6.8R(4) broken down into the categories of

senior management, other *material risk takers*, and other staff.

(c) In relation to the information items required in *MIFIDPRU* 8.6.8R(5)(a), Firm A has awarded guaranteed *remuneration* to two material risk takers. Both are also *senior management*. The information in the category of *senior management* therefore relates to only two individuals. If Firm A aggregates the information from the *senior management* and other *material risk taker* categories in line with *MIFIDPRU* 8.6.8R(7), the figure is still two. Therefore, Firm A can rely on the exemption in *MIFIDPRU* 8.6.8R(7). It is exempt from the requirement to disclose the information on guaranteed *remuneration* required at *MIFIDPRU* 8.6.8(5)(a).

(d) In relation to the information items required in *MIFIDPRU* 8.6.8R(5)(b), Firm A has awarded severance payments to four *material risk takers*, of which three are members of *senior management* and one is another *material risk taker*. Because the category of other *material risk takers* relates only to one individual, Firm A can rely on the exemption in *MIFIDPRU* 8.6.8R(7). It should aggregate the total for both categories and disclose the information on severance payments required at *MIFIDPRU* 8.6.8(5)(b) as a single item. Firm A cannot rely on the exemption in *MIFIDPRU* 8.6.8R(7) because the aggregated total of *senior management* and other *material risk takers* is more than two.

(e) Firm A is not in scope of the disclosure requirements in *MIFIDPRU* 8.6.8R(6) because it meets the conditions in *SYSC* 19G.1.1R(2).

8.7 Investment policy

8.7.1 R A *non-SNI MIFIDPRU investment firm* not meeting the conditions in *MIFIDPRU* 7.1.4R 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

(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:

(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

(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.

8.7.2 R *A firm* must use the template available at *MIFIDPRU* 8 Annex 2R 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.

8.7.4 R (1) To the extent that any data item required by *MIFIDPRU* 8.7 is treated as proprietary information in accordance with (2), or confidential information in accordance with (3), a *firm* may refuse to disclose it, noting on the template available at *MIFIDPRU* 8 Annex 2R which item has not been disclosed and why.

(2) A *firm* may only treat information as proprietary information if sharing that information with the public would have a material adverse effect upon its business.

(3) A *firm* may only treat information as confidential information if there are obligations to customers or other counterparty relationships binding the *firm* to confidentiality.

8.7.5 R Where a *firm* refuses to disclose information in reliance on *MIFIDPRU* 8.7.4 R(2), the *firm* should record why the information is considered proprietary and make that information available to the *FCA* if requested.

8.7.6 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.

8.7.7 R The voting rights referred to in *MIFIDPRU* 8.7.6R(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.

8.7.8 G For the purpose of complying with *MIFIDPRU* 8.7.1R and *MIFIDPRU* 8.7.6R:

(1) reference to "directly or indirectly" held shares means that:

(a) a *firm* directly holds the shares on its balance sheet or the balance sheet of another group member; or

(b) the *firm* may exercise a voting right attaching to a share in a fiduciary capacity;

(2) in the circumstances described in (1), the disclosure requirement will apply where the voting rights are attached to shares held in the name of the *firm* and to shares held by clients where the *firm* exercises those voting rights;

(3) the fact that a *firm* has voting rights but chooses not to exercise them doesn't remove its obligation to comply with *MIFIDPRU* 8.7.1R and *MIFIDPRU* 8.7.6R; and

(4) "greater than 5% of all voting rights" means that the *firm* holds at least 5% of shares with voting rights plus one share, and the requirement is triggered when the *firm* meets this threshold at any point during the course of the year.

Disclosure template for information required under MIFIDPRU 8.4.1R in respect of own funds

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

Composition of regulatory own funds			
	Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**		
2	**TIER 1 CAPITAL**		
3	**COMMON EQUITY TIER 1 CAPITAL**		
4	Fully paid up capital instruments		
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
20	**ADDITIONAL TIER 1 CAPITAL**		
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24	Additional Tier 1: Other capital elements, deductions and adjustments		
25	**TIER 2 CAPITAL**		
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) TOTAL DEDUCTIONS FROM TIER 2		
29	Tier 2: Other capital elements, deductions and adjustments		

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Flexible template - rows to be reported in line with the balance sheet included in the audited financial statements of the investment firm. Columns should be kept fixed, unless the investment firm has the same accounting and regulatory scope of consolidation, in which case the volumes should be entered in column (a) only. Figures should be given in GBP thousands unless noted otherwise.				
		a	b	c
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		As at period end	**As at period end**	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1				
2				
3				
4				
5				
xxx	**Total Assets**			
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1				
2				
3				
4				
xxx	**Total Liabilities**			
Shareholders' Equity				
1				
2				
3				
xxx	**Total Shareholders' equity**			

Own funds: main features of own instruments issued by the firm
Free text. A non-exhaustive list of example features is included below.
Examples
Public or private placement
Instrument type
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date)
Nominal amount of instrument
Issue price
Redemption price
Accounting classification
Original date of issuance
Perpetual or dated
Maturity date
Issuer call subject to prior supervisory approval
Optional call date, contingent call dates and redemption amount
Subsequent call dates, if applicable
Coupons/dividends
Fixed or floating dividend/coupon
Coupon rate and any related index
Existence of a dividend stopper
Convertible or non-convertible
Write-down features
Link to the terms and conditions of the instrument

Disclosure template for information required under MIFIDPRU 8.7.1R in respect of voting rights

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

PROPORTION OF VOTING RIGHTS (insert additional rows as needed)

Company name	LEI	Proportion of voting rights attached to shares held directly or indirectly in accordance with MIFIDPRU 8.7.6R

Insert the following Annexes 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 rate 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.

TP 12 Disclosure requirements: transitional provisions

12.1 R *MIFIDPRU* TP 12 applies to a *MIFIDPRU investment firm*.

12.2 R For the purposes of *MIFIDPRU* TP 12, the "reference date" in relation to a set of disclosures means the date by reference to which those disclosures are prepared, being:

(1) in relation to disclosures showing the position of a *firm* at a fixed point in time, that point in time; and

(2) in relation to disclosures that must be prepared by reference to a period, the last day of that period.

Delayed application of rules for a commodity and emission allowance dealer

12.3 R (1) This *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 arrangements);

(c) *MIFIDPRU* 8.4 (Own funds);

(d) *MIFIDPRU* 8.5 (Own funds requirements), and

(e) *MIFIDPRU* 8.6 (Remuneration policies and practices).

Disclosures under BIPRU 11 or Part Eight of the UK CRR that have a publication date on or after 1 January 2022

12.4 R (1) This *rule* applies to disclosures required under either of the following, where the conditions in (2) are met:

(a) *BIPRU* 11; or

(b) Part Eight of the *UK CRR*.

(2) The conditions referred to in (1) are that:

(a) the reference date for the relevant disclosures in (1) is before 1 January 2022;

(b) the deadline to publish the disclosures in (1) falls on or after 1 January 2022; and

(c) as a result of one of the following, a *firm* is no longer required to publish the disclosures in (1):

(i) the deletion of the *BIPRU* sourcebook with effect from 1 January 2022; or

(ii) changes to the scope of the *UK CRR* that took effect on 1 January 2022.

(3) Where this *rule* applies, a *firm* must publish the relevant disclosures by no later than the deadline that would have applied under *BIPRU* 11 or Part Eight of the *UK CRR* (as applicable) if the *firm* had continued to be subject to those *rules* or that legislation in the form in which it stood immediately before 1 January 2022.

(4) A *firm* may comply with this *rule* by being included within disclosures made on a *consolidated basis* where that would have been permitted by *BIPRU* 11 or Part Eight of the *UK CRR* (as applicable) in the form in which those *rules* or that legislation stood immediately before 1 January 2022.

12.5 G The effect of *MIFIDPRU* TP 12.4R is that where a *firm* is required by *BIPRU* 11 or Part Eight of the *UK CRR* to makes disclosures with a reference date before 1 January 2022, it must still publish those disclosures even if the permitted deadline for publication falls on or after 1 January 2022. The deletion of *BIPRU* 11 or the removal of *MIFIDPRU investment firms* from the scope of the *UK CRR* with effect from 1 January 2022 does not relieve the *firm* of its obligation to make

those disclosures in accordance with the original deadline.

Disclosures under MIFIDPRU 8 with a reference date falling on or before 30 December 2022

12.6 R (1) This *rule* applies to disclosures required under *MIFIDPRU* 8 for which the reference date falls on or before 30 December 2022.

(2) Where this *rule* applies, a *firm* is not required to disclose the information required by the following:

(a) *MIFIDPRU* 8.2 (Risk management objectives and policies);

(b) *MIFIDPRU* 8.7 (Investment policy).

12.7 G (1) The effect of *MIFIDPRU* TP 12.6R is that for disclosures that have a reference date under *MIFIDPRU* 8 that falls on or before 30 December 2022, a *firm* is not required to disclose the information about its risk management or its investment policy that would ordinarily be required by that chapter. The reference date under *MIFIDPRU* 8 is the *firm's accounting reference date*.

(2) This means that for *firms* with an *accounting reference date* other than 31 December, their first disclosures under *MIFIDPRU* 8 in respect of the accounting year ending in 2022 do not need to include the information required under *MIFIDPRU* 8.2 or *MIFIDPRU* 8.7. Their disclosures for all subsequent accounting years must include all of the information required by *MIFIDPRU* 8.

(3) Conversely, for *firms* with an *accounting reference date* of 31 December, their first disclosures under *MIFIDPRU* 8 in respect of the accounting year ending on 31 December 2022 must include all of the information required by *MIFIDPRU* 8 (i.e. including the information required by *MIFIDPRU* 8.2 and *MIFIDPRU* 8.7), except for remuneration disclosures to which *MIFIDPRU* TP 12.8R applies. This is because *MIFIDPRU* will have been in force for an entire calendar year by that date and the *firm* should therefore have all of the information required to produce a complete disclosure reflecting the position as at 31 December 2022.

Remuneration disclosures that relate to a performance period that began before and ends after 1 January 2022

12.8 R (1) This *rule* applies to remuneration disclosures required under either of the following, where the conditions in (2) are met:

(a) *BIPRU* 11.5.18R to *BIPRU* 11.5.20R;

(b) article 450 of the *UK CRR*.

(2) The conditions referred to in (1) are that:

(a) the performance period to which the relevant disclosures in (1) relate;

(i) began before 1 January 2022, and

(ii) ends on or after 1 January 2022; and

(b) as a result of one of the following, a *firm* is no longer required to publish the disclosures in (1):

(i) the deletion of the *BIPRU* sourcebook with effect from 1 January 2022; or

(ii) changes to the scope of the *UK CRR* that took effect on 1 January 2022.

(3) Where this *rule* applies, a *firm*:

(a) is not required to publish the information specified in *MIFIDPRU* 8.6 for the performance period in (2)(a); and

(b) must publish the relevant disclosures that would have been required for that performance period under the rules in (1)(a) or (1)(b) (as applicable) if the *firm* had continued to be subject to those *rules* or that legislation in the form in which they stood immediately before 1 January 2022.

(4) A *firm* may comply with this *rule* by the remuneration disclosures required under (3)(b) being included within disclosures made on a *consolidated basis* where that would have been permitted by *BIPRU* 11 or article 450 of the *UK CRR* (as applicable) in the form in which those *rules* or that legislation stood immediately before 1 January 2022.

12.9 G (1) The effect of *MIFIDPRU* 12.8R is that for disclosures that relate to a remuneration performance period that begins before 1 January 2022 and ends on or after 1 January 2022, a *firm* is not required to disclose the information about its remuneration policies and practices that would ordinarily be required by *MIFIDPRU* 8.6. Instead, the *firm* must publish the remuneration information specified in the disclosure requirements that applied to the *firm* at the time at which the relevant performance period began (i.e. the remuneration information required either by *BIPRU* 11.5 or article 450 of the *UK CRR*, as applicable).

(2) For the first full performance period starting after 1 January 2022, a *MIFIDPRU investment firm* will be required to make its

first disclosures under *MIFIDPRU* 8.6 (Remuneration policies and practices) on the next occasion following the end of the relevant performance period on which:

(a) the *firm* publishes its annual *financial statements*; or

(b) where it does not publish annual *financial statements*, the date on which its annual solvency statement is submitted to the *FCA* in accordance with the requirements in *SUP* 16.12.

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* 4.4.6R.

Annex D

Amendments to the Supervision manual (SUP)

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

16 Reporting requirements

…

16.12 Integrated Regulatory Reporting

…

Regulated Activity Group 4

…

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

Data item	*Non-SNI MIFIDPRU investment firm*	*SNI MIFIDPRU investment firm*	*Investment firm group*	*Firm* other than a *MIFIDPRU investment firm*
…	…	…	…	…
Section F RMAR				Half yearly ~~(note 1)~~ ~~Quarterly~~ ~~(note 2)~~
Note 1	Annual regulated business revenue up to and including £5 million.			
Note 2	Annual regulated business revenue over £5 million.			
…	…			

…

Regulated Activity Group 7

…

16.12.22A R The applicable data items referred to in *SUP* 16.12.4R are set out according to type of firm in the table below:

Description of *data item*	*Firms'* prudential category and applicable *data item* (note 1)		
	MIFIDPRU investment firms	*Firms* subject to *IPRU(INV)* Chapter 13	*Firms* that are also in one or more of *RAGs* 2 to 6 and not subject to *IPRU(INV)* Chapter 13
…			
Professional indemnity insurance (~~note 15~~ note 11)	Section E RMAR	Section E RMAR	Section E RMAR
…			
Note 10	Only applicable to *firms* that are *collective portfolio management investment firms*.		
Note 11	Only applicable to *firms* that are subject to an *FCA* requirement to hold professional indemnity insurance and are not *MIFIDPRU investment firms*.		

…

Annex E

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 *FCA* is proposing or deciding to take action against a *person* under section 142S*		RDC
S143T(1) S143T(3)	When the *FCA* is proposing or deciding to make a *Part 9C prohibition order* under S143S(2) of the *Act*		*RDC* or *executive procedures*
S143U(2)(b) S143U(2)(c)	When the *FCA* is proposing or deciding to refuse an application for the variation or revocation of a *prohibition order* under S143U		*RDC* or *executive procedures*
S143W(1) S143W(5)	When the *FCA* is proposing or deciding to impose a penalty on a *person* under section 143V (2) of the *Act*		*RDC* or *executive procedures*
S143X(1) S143X(5)	When the *FCA* is proposing or deciding to publish a statement on a		*RDC* or *executive procedures*

	person under section 143P 143W((3) of the *Act*		
…	…	…	…

…

2 Annex 2G **Supervisory notices**

…

Section of the Act	Description	Handbook reference	Decision maker
…			
137S(5) 137S(8)(a)	when the *FCA* gives a direction under section 137S		*Executive procedures*
S143U(2)(a)	When the *FCA* decides to grant an application for the variation or revocation of a *prohibition order* under S143N(1) of the *Act*		*Executive procedures*
S143X	When the *FCA* decides to vary or cancel a restriction under S143W(6) of the *Act*		*RDC* or *executive procedures*
…	…		…

…

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 F

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*.

…

…

Appendix 2
Made rules (technical standards instrument)

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 1 January 2022.

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
25 November 2021

Annex A

Amendments to the Glossary of definitions

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

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

CRR investment services sector	a sector composed of one or more of the following entities: (a) a *designated investment firm*; and (b) a *financial institution* that is not an *investment firm*.
MIFIDPRU investment services sector	a sector composed of one or more of the following entities: (a) an *investment firm* (other than a *designated investment firm*); (b) a *financial institution* that is not an *investment firm*; and (c) (in the circumstances described in *GENPRU* 3.1.39R (The financial sectors: asset management companies and alternative investment fund managers)) an *asset management company* or an *alternative investment fund manager*.
significant SYSC firm	has the meaning in *SYSC* 1.5 (Significant SYSC firm).

Amend the following definitions as shown.

ancillary services undertaking	(1) ~~(for the purpose of *GENPRU* (except in *GENPRU* 3) and *BIPRU* (except in *BIPRU* 12) and subject to (2)) and in relation to an *undertaking* in a *consolidation group*, *sub-group* or another group of *persons*) an *undertaking* complying with the following conditions:~~ ~~(a) its principal activity consists of:~~ ~~(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 *credit institutions* or *investment firms*; and~~

(c) 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 *investment firms*.

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]

…

…

Banking sector

…

(b) a *financial institution* that is not an *investment firm*; and

…

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*.	
central bank	(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)]~~ [deleted]
	(2)	~~(except in (1))~~ has the meaning in article 4(1)(46) of the *UK CRR*.
charity	(in *BCOBS*~~, *BIPRU*~~ and in the definition of *relevant credit union client*) includes:	
	…	
CIU	(1)	~~(except in *IFPRU*)~~ collective investment undertaking.
	(2)	~~(in *IFPRU*) has the meaning in article 4(1)(7) of the *UK CRR*.~~ [deleted]
class	(1)	(in ~~*GENPRU*,~~ *INSPRU* and *SUP*) (in relation to a *contract of insurance*) any class of *contract of insurance* listed in Schedule 1 to the *Regulated Activities Order* (Contracts of insurance) and references to: …
clean-up call option	(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)]~~ [deleted]
	…	
client money	…	
	(2A)	(in *MIFIDPRU*, *FEES*, *CASS* 6, *CASS* 7, *CASS* 7A and *CASS* 10 and, in so far as it relates to matters covered by *CASS* 6, *CASS* 7,

COBS ~~or *GENPRU*~~ and *IPRU(INV)* 11) subject to the *client money rules*, *money* of any currency:

…

(5) (in *SYSC* 1.5) has the meaning in (1) to (4).

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)~~,~~ and *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 *standardised approach* to credit risk in *BIPRU*) a covered bond as defined in (1) that meets the following conditions:~~

~~(a) it is issued by a *credit institution* which has its registered office in the *United Kingdom*; and~~

~~(b) it is collateralised in accordance with *BIPRU* 3.4.107R (Exposures in the form of covered bonds).~~

~~[Note: point 68 of Part 1 of Annex VI of the *Banking Consolidation Directive* (Exposures in the form of covered bonds)]~~ [deleted]

…

credit enhancement (1) ~~(for the purposes of *BIPRU*) a contractual arrangement whereby the credit quality of a *position* in a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior *tranches* in the *securitisation* and other types of credit protection.~~

~~[Note: article 4(43) of the *Banking Consolidation Directive* (Definitions)]~~ [deleted]

…

credit quality step (1) ~~(except in *MIPRU*) a credit quality step in a *credit quality assessment scale* as set out in *BIPRU* 3.4 (Risk weights under the standardised approach to credit risk) and *BIPRU* 9 (*Securitisation*).~~ [deleted]

…

credit risk capital requirement (1) ~~(for a *BIPRU firm*) the part of the *capital resources requirement* of a *BIPRU firm* in respect of credit risk, calculated in accordance with *GENPRU* 2.1.51R (Calculation of the credit risk capital requirement).~~ [deleted]

…

CRM eligibility conditions (1) ~~(in relation to the *standardised approach* to credit risk), *BIPRU* 5.3.1R-*BIPRU* 5.3.2R, *BIPRU* 5.4.1R-*BIPRU* 5.4.8R, *BIPRU* 5.5.1R, *BIPRU* 5.5.4R, *BIPRU* 5.5.8R, *BIPRU* 5.1.6R and *BIPRU* 5.7.1R-*BIPRU* 5.7.4R; or~~ [deleted]

(2) ~~(in relation to the *IRB approach*), the provisions in (1) and *BIPRU* 4.4.83R, *BIPRU* 4.10-*BIPRU* 4.10.7R, *BIPRU*~~

~~4.10.9R, *BIPRU* 4.10.10R-*BIPRU* 4.10.12R, *BIPRU* 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]

(3) ~~[delete]~~ [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.

foreign currency ~~(in *GENPRU* and *BIPRU*)~~ (in relation to a *firm*) any currency other than the *base currency*.

group …

(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*~~ *MIFIDPRU investment firm* and in relation to a *person* "A") A and any *person*:

(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 (3)(a);

(e) who is a *subsidiary undertaking* of a *person* in (3)(c) or (3)(d); or

(f) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (3)(a)-(3)(e) or an assessment of the financial resources available to such *persons* would be misleading.

(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*:~~

~~(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]

…

immediate group …

(2) ~~(in *BIPRU* and in relation to any *person*) has the same meaning as in paragraph (1), with the omission of (1)(e).~~ [deleted]

implicit items (in relation to *long-term insurance business*) economic reserves arising in respect of ~~future profits,~~ assets which relate to future surpluses, *zillmerising* or hidden reserves ~~as more fully described in *GENPRU* 2 Annex 8~~.

in the money …

(2) ~~(for the purposes of BIPRU 7 (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]

individual liquidity guidance ~~(other than in (2)) *guidance* given to a *firm* about the amount, quality and funding profile of liquidity resources that the *appropriate regulator* has asked the *firm* to maintain.~~ [deleted]

investment firm …

(3) ~~(in the definition of *IDD ancillary insurance intermediary*, and in *IFPRU* and *BIPRU* 12) has the meaning in article 4(1)(2) of the *UK CRR*.~~

~~[Note: article 2(1)(4) of the *IDD*]~~ [deleted]

(4) ~~(in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12) any of the following:~~

~~(a) a *firm* in (3); and~~

~~(b) a *BIPRU firm*.~~ [deleted]

(5) ~~(in *SYSC* 19A (IFPRU Remuneration Code)) a *firm* in (3).~~ [deleted]

…

investment services sector ~~(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 *GENPRU* 3.1.39R (The financial sectors: Asset management companies and alternative investment fund managers)) an *asset management company* or an *alternative investment fund manager*.~~ [deleted]

~~(2)~~ ~~(in *BIPRU* (except in *BIPRU* 12) 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*, ~~with~~ which has 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 *mixed financial holding company*.

PD (1) ~~(except in *GENPRU* and *BIPRU*)~~ Prospectus Directive.

(2) ~~(in *GENPRU*, *BIPRU* and *BSOCS*) *probability of default*.~~ [deleted]

PRR (1) ~~(in *BIPRU*) *position risk requirement*.~~ [deleted]

(2) ~~(except in *BIPRU*)~~ the Prospectus Regulation Rules sourcebook.

qualifying holding (1) ~~(in *GENPRU* and *BIPRU*) has the meaning in *GENPRU* 2.2.203R (Qualifying holdings), which is in summary a direct or indirect holding of a *bank* or *building society* in a non-financial *undertaking* 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 *undertaking*.~~ [deleted]

(2) …

rated position (for the purposes of *MIPRU* ~~and *BIPRU* 9 (Securitisation)~~, and in relation to a *securitisation position*) describes a *securitisation position* which has an eligible credit assessment by an *eligible ECAI*.

[Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]

recognised third country investment firm (1) ~~(in *BIPRU* and *GENPRU* 3.2 (Third-country groups) as applies to a *BIPRU firm* in relation to a *third-country banking and investment group* and a *banking and investment group*) a *CAD investment firm* that 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 *CAD investment firm's* head office is located;~~

~~(c) that *third country competent authority* is named in Part 2 of *BIPRU* 8 Annex 6 (Non *UK* investment firm regulators'~~

~~requirements deemed CRD-equivalent for individual risks); and~~

~~(d)~~ ~~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 for *BIPRU* firms in *GENPRU* and *BIPRU*.~~ [deleted]

(2) ~~(except for the purpose in (1))~~ (in *GENPRU* ~~3.2 (Third country groups)~~ 3 (Cross sector groups) ~~in relation to a *third-country banking and investment group* and a *banking and investment group*~~) an *investment 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 tranched 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]

specific risk …

(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*.~~

~~[Note: paragraph 12 of Annex I of the *Capital Adequacy Directive*]~~ [deleted]

sponsor …

(2) ~~(in *BIPRU*), and~~ in *MIPRU* 4 and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation, an *undertaking* other than an *originator* that establishes and manages an *asset backed commercial paper programme* or other *securitisation* scheme that purchases *exposures* from third party entities.

[Note: article 4(42) of the *Banking Consolidation Directive* (Definitions)]

(3) ~~(in *IFPRU*) has the meaning in article 4(1)(14) of the *UK CRR*.~~ [deleted]

third-country banking and investment group a *banking and investment group* that meets the following conditions:

…

(b) it is not part of a wider *consolidation group* that is required by ~~*UK prudential sectoral regulation*~~ *UK prudential sectoral legislation* for the *banking sector*, the *CRR investment services sector* or the *MIFIDPRU investment services sector* to be subject to consolidated supervision.

trading book …

(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:

(a) *positions held with trading intent*; or

(b) held in order to hedge *positions held with trading intent*.

…

traditional securitisation (for the purpose of ~~*BIPRU* and~~ *MIPRU*) a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) involving the economic transfer of the *exposures* being *securitised* 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*.

allocation period	a single 24-hour period or, with the agreement of each *professional client* concerned, a period spanning five consecutive *business days*, during which an aggregated *series of transactions* may be *executed*.
alternative standardised approach	one of the following: (a) a version of the *standardised approach* to *operational risk* under which a *firm* uses different indicators for certain business lines as referred to in *BIPRU* 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 *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.
appropriate position risk adjustment	(1) (in relation to a *position* treated under *BIPRU* 7.6 (Option PRR)) the percentage figure applicable to that *position* under the table in *BIPRU* 7.6.8R (Appropriate Position Risk Adjustment); (2) (for any other purpose and in relation to a *position*) the *position risk adjustment* applicable to that position under BIPRU 7 (Market risk).
Article 134 relationship	(in accordance with Article 134 of the *Banking Consolidation Directive*) a relationship of one of the following kinds: (a) where a *person* exercises a significant influence over one or more *persons*, but without holding a *participation* or other capital ties in these *persons* and without being a *parent undertaking* of these persons; or (b) where two or more *persons* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.
at the money	(for the purposes of *BIPRU* 7 (Market risk) and in relation to an *option* or *warrant*) the strike price of that *option* or *warrant* being equal to the current market value of the underlying instrument.
backtesting exception	(in *BIPRU* 7.10 (Use of a value at risk model)) an exception (excluding a *specific risk backtesting exception*) arising out of backtesting a *VaR model* as more fully defined in *BIPRU* 7.10.103R.

Bank Accounts Directive	Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions.
base capital resources requirement	(1) an amount of *capital resources* that an *insurer* must hold as set out in *GENPRU* 2.1.30R (Table: Base capital resources requirement for an insurer) or a *BIPRU firm* must hold under *GENPRU* 2.1.41R (Base capital resources requirement for a BIPRU firm) and *GENPRU* 2.1.48R (Table: Base capital resources requirement for a BIPRU firm). (2) [deleted]
basic indicator approach	the approach to calculating the *ORCR* set out in *BIPRU* 6.3 (Operational risk: Basic indicator approach).
basis risk	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.
BIPRU Remuneration Code	*SYSC* 19C (BIPRU Remuneration Code).
BIPRU Remuneration Code staff	for a *BIPRU firm* and a *third country BIPRU firm*, has the meaning given in *SYSC* 19C.3.4R.
BIPRU remuneration principles proportionality rule	(in *SYSC* 19C) has the meaning given in *SYSC* 19C.3.3R.
buffer securities restriction	BIPRU 12.6.16R.
CAD 1 model	a risk management model of the type described in *BIPRU* 7.9 (Use of a CAD 1 model).
CAD 1 model approach	one of the following: (a) the approach to calculating part of the *market risk capital requirement* set out in *BIPRU* 7.9 (Use of a CAD 1 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 *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.

CAD 1 model waiver a *waiver* that requires a *firm* to use the *CAD 1 model approach* 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 the Capital Requirements Regulations 2006 (SI 2006/3221).

Regulations 2006		
capital resources gearing rules	(1)	[deleted]
	(2)	[deleted]
	(3)	(in relation to a *BIPRU firm*) *GENPRU* 2.2.30R, *GENPRU* 2.2.46R and *GENPRU* 2.2.49R and *GENPRU* 2.2.50R.
capital resources table	(1)	[deleted]
	(2)	[deleted]
	(3)	[deleted]
	(4)	(in relation to a *BIPRU firm*) whichever of the tables in *GENPRU* 2 Annex 4, *GENPRU* 2 Annex 5 or *GENPRU* 2 Annex 6 applies to the *firm* under *GENPRU* 2.2.19R.
cash assimilated instrument	a certificate of deposit or other similar instrument issued by a *lending firm*. [Note: article 4(35) of the *Banking Consolidation Directive* (Definitions)]	
CCR	*counterparty credit risk*	
CCR internal model method	one of the following:	
	(a)	the method of calculating the amount of an *exposure* set out in *BIPRU* 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 *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.
CCR internal model method permission	a *requirement* or a *waiver* that requires a *BIPRU firm* or a *CAD investment firm* to use the *CCR internal model method*	
CCR mark to market method	the method of calculating the amount of an *exposure* set out in *BIPRU* 13.4 (CCR mark to market method).	
CCR standardised method	the method of calculating the amount of an *exposure* set out in *BIPRU* 13.5 (CCR standardised method).	

CIU look through method	one of the *standard CIU look through method* or the *modified CIU look through method*.
CIU PRR	the *collective investment undertaking PRR*.
closely related	(in *GENPRU* and *BIPRU*) describes a relationship between two or more *persons* under which one or more of the following applies: (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 *persons*.
collective investment undertaking PRR	the part of the *market risk capital requirement* calculated in accordance with *BIPRU* 7.7.5R (Calculation of the collective investment undertaking PRR).
combined buffer	has the meaning in regulation 2(1) (Interpretation) of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014).
commodity extended maturity ladder approach	the method of calculating the *commodity PRR* in *BIPRU* 7.4.32R (Extended maturity ladder approach).
commodity maturity ladder approach	the method of calculating the *commodity PRR* in *BIPRU* 7.4.25R (Maturity ladder approach).
commodity PRR	the part of the *market risk capital requirement* calculated in accordance with *BIPRU* 7.4 (Commodity PRR) or, in relation to a particular *position*, the portion of the overall *commodity PRR* attributable to that *position*.
commodity simplified approach	the method of calculating the *commodity PRR* in *BIPRU* 7.4.24R (Simplified approach).
consolidated capital resources	(in relation to a *UK consolidation group* or a *non-UK sub-group* and in *GENPRU* and *BIPRU*) that group's capital resources calculated in accordance with *BIPRU* 8.6 (Consolidated capital resources).

consolidated capital resources requirement	(in relation to a *UK consolidation group* or a *non-UK sub-group* and in *GENPRU* and *BIPRU*) an amount of *consolidated capital resources* that that group must hold in accordance with *BIPRU* 8.7 (Consolidated capital resources requirement).
consolidated credit risk requirement	(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) has the meaning in *BIPRU* 8.7 (Consolidated capital resources requirements) which is in summary the part of that group's *consolidated capital resources requirement* relating to credit risk calculated in accordance with *BIPRU* 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under *BIPRU* 8.7.
consolidated fixed overheads requirement	(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) has the meaning in *BIPRU* 8.7 (Consolidated capital resources requirements) which is in summary the part of that group's *consolidated capital resources requirement* relating to the *fixed overheads requirement* (as referred to Article 21 of the *Capital Adequacy Directive* and the definition of *fixed overheads requirement*) calculated in accordance with *BIPRU* 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under *BIPRU* 8.7.
consolidated indirectly issued capital	has the meaning in *BIPRU* 8.6.12R (Indirectly issued capital and group capital resources), which is in summary any *capital instrument* issued by a member of a *UK consolidation group* or *non-UK sub-group* where the conditions in *BIPRU* 8.6.12R are met.
consolidated market risk requirement	(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) has the meaning in *BIPRU* 8.7 (Consolidated capital resources requirement) which is in summary the part of that group's *consolidated capital resources requirement* relating to *market risk* calculated in accordance with *BIPRU* 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under *BIPRU* 8.7.
consolidated requirement component	has the meaning in *BIPRU* 8.7.11R (Calculation of the consolidated requirement components), which in summary is one of the following: (a) the *consolidated credit risk requirement*; or (b) the *consolidated fixed overheads requirement*; or (c) the *consolidated market risk requirement* (d) [deleted]
consolidating supervisor	has the meaning in article 4(1)(41) of the *UK CRR*.
contingency funding plan	(1) [deleted]

(2) (in *BIPRU* 12 and *BSOCS*) a plan for dealing with liquidity crises as required by *BIPRU* 12.4.10R.

contractual cross product netting agreement (for the purpose of *BIPRU* 13.7 (Contractual netting)) has the meaning set out in *BIPRU* 13.7.2R, which is in summary a written bilateral agreement between a *firm* and a *counterparty* which creates a single legal obligation covering all included bilateral master agreements and transactions belonging to different product categories.

conversion factor (for the purposes of *BIPRU*) 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).

core UK group eligible capital means the eligible capital in the *core UK group* calculated in line with *IFPRU* 8.2.7R.

core UK group permission a permission given by the *FCA* under article 113(6) of the *UK CRR* (see *IFPRU* 8.1.14G to *IFPRU* 8.1.21G).

core UK group waiver (in *BIPRU*) a *waiver* that has the result of requiring a *firm* to apply:

(a) (in relation to the *credit risk capital requirement*) *BIPRU* 3.2.25R (Zero risk-weighting for intra-group exposures: core UK group), which in summary allows a *firm* to assign a *risk weight* of 0% to *exposures* to members of its *core UK group* instead of complying with *BIPRU* 3.2.20R (Calculation of risk-weighted exposure amounts under the standardised approach); or

(b) [deleted]

corporate (in relation to the *IRB approach* or the *standardised approach* to credit risk) a *person* an *exposure* to whom is a *corporate exposure*.

corporate exposure

(1) (in relation to the *IRB approach*) an *exposure* falling into *BIPRU* 4.3.2R(3) (IRB exposure classes).

(2) (in relation to the *standardised approach* to credit risk) an *exposure* falling into *BIPRU* 3.2.9R(7) (Standardised approach to credit risk exposure classes).

correlation trading portfolio (in *BIPRU* 7) a portfolio consisting of *securitisation positions* and nth-to-default credit derivatives that meet the criteria set out at *BIPRU* 7.2.42AR, or other *positions* which may be included in accordance with *BIPRU* 7.2.42BR.

countercyclical buffer rate the rate:

(a) expressed as a percentage of *total risk exposure amount* set by the *UK countercyclical buffer authority*; or

(b) expressed in terms equivalent to a percentage of total risk exposure amount set by a *third-country countercyclical buffer authority*,

that a *firm* must apply in order to calculate its *countercyclical capital*

	buffer. [Note: article 128(7) of the *CRD* (Definitions)]
countercyclical capital 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* 10.3.
counterparty credit risk	(1) (for the purposes of *BIPRU*) 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]
counterparty risk capital component	the part of the *credit risk capital requirement* calculated in accordance with *BIPRU* 14.2.1R (Calculation of the counterparty risk capital component).
CRD bank	a *bank* which uses the *UK CRR* to measure the capital requirement on its trading book.
CRD financial instrument	has the meaning set out in *BIPRU* 1.2.7R to *BIPRU* 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.
CRD full-scope firm	an investment firm as defined in article 4(1)(2) of the *UK CRR* that is subject to the requirements imposed by the *UK* provisions that implemented *MiFID* (or which would be subject to those requirements if its head office were in the *UK*) and that is not a *limited activity firm* or a *limited licence firm*.
CRD implementation measure	(in relation to an *person* and for the purposes of *GENPRU* and *BIPRU* (except in *GENPRU* 3 and *BIPRU* 12), a provision of the *Banking Consolidation Directive* or the *Capital Adequacy Directive* and an *EEA State* other than the *United Kingdom*) a measure implementing that provision of that Directive for that type of *person* in that *EEA State*.
CRD ITS on templates, definitions and IT-solutions	the *UK* 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 *CRD* which is part of *UK* law by virtue of the *EUWA*.
CRD RTS on the identification of the geographical	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

location of credit exposures for calculating institution-specific countercyclical capital buffer rates

for calculating institution-specific countercyclical capital buffer rates which is part of *UK* law by virtue of the *EUWA*.

credit quality assessment scale

the credit quality assessment scale:

(1) onto which the credit assessments of an export credit agency are mapped under the table in *BIPRU* 3.4.9R (Exposure for which a credit assessment by an export credit agency is recognised); or

(2) published by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* which determine:

(a) (in relation to an *eligible ECAI* whose recognition is for *risk weighting* purposes other than those in (2)(b)) with which of the *credit quality steps* set out in *BIPRU* 3.4 (Risk weights under the standardised approach to credit risk) the relevant credit assessments of an *eligible ECAI* are to be associated; or

(b) (in relation to an *eligible ECAI* whose recognition is for *securitisation risk-weighting* purposes) with which of the *credit quality steps* set out in *BIPRU* 9 (Securitisation) the relevant credit assessments of the *eligible ECAI* are to be associated.

credit risk capital component

the part of the *credit risk capital requirement* calculated in accordance with *BIPRU* 3.1.5R (Calculation of the credit risk capital component).

credit risk mitigation

(1) (in *GENPRU* (except in *GENPRU* 3) and *BIPRU* (except in *BIPRU* 12)) a technique used by an *undertaking* to reduce the credit risk associated with an *exposure* or *exposures* which the *undertaking* continues to hold.

[Note: article 4(30) of the *Banking Consolidation Directive* (Definitions)]

(2) (except in (1)) has the meaning in article 4(1)(58) of the *UK CRR*.

credit valuation adjustment

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty; and so that this adjustment:

(a) reflects the market value of the credit risk due to any failure to

perform on contractual agreements with a counterparty; and

(b) may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the *firm* and the counterparty.

critical functions 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 *UK* or to disrupt financial stability in the *UK* 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*]

CRM minimum requirements (1) in relation to the *standardised approach* to credit risk); *BIPRU* 5.2.9R-*BIPRU* 5.2.10R, *BIPRU* 5.3.3R, *BIPRU* 5.4.9R-*BIPRU* 5.4.13R, *BIPRU* 5.5.2R, *BIPRU* 5.5.5R-*BIPRU* 5.5.6R, *BIPRU* 5.6.2R-*BIPRU* 5.6.3R, *BIPRU* 5.7.6R-*BIPRU* 5.7.14R; or

(2) (in relation to the *IRB approach*), the provisions in (1) and *BIPRU* 4.4.85R, *BIPRU* 4.10.13R, *BIPRU* 4.10.15R, and *BIPRU* 4.10.18R-*BIPRU* 4.10.19R.

cross product netting (for the purpose of *BIPRU* 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 *netting set* pursuant to the *rules* about cross-product netting set out in *BIPRU* 13.

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

CRR ITS on supervisory reporting the *UK* 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 *UK* law by virtue of the *EUWA*.

current 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 larger of zero, or the market value

of a transaction or portfolio of transactions within a *netting set* with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy.

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

defined liquidity group a *DLG by default* or *DLG by modification*.

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) it must, with a view to achieving that primary investment objective, invest exclusively in either or both assets (i) of the kind mentioned in *BIPRU* 12.7.2R(1) and (2), or (ii) sight deposits with *credit institutions* that are at all times fully secured against assets of the kind mentioned in *BIPRU* 12.7R(1) and (2);

(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 CRR*124 (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).)

DLG by modification (firm level)

(in relation to any reporting period under *SUP* 16 (Reporting requirements) and a *UK ILAS BIPRU firm* that has an *intra-group liquidity modification* during any part of that period (a *group liquidity reporting firm*)) the *firm* and each *person* on whose liquidity support the *firm* can rely, under that *intra-group liquidity modification*, for any part of that period for the purpose of the *overall liquidity adequacy rule* (as the *overall liquidity adequacy rule* applies to the *firm* on a solo basis). A *firm* has a 'DLG by modification (firm 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 related definitions, is set out in *SUP* 16 Annex 26 (Guidance on designated liquidity groups in *SUP* 16.12).)

early amortisation provision

(1) (in *BIPRU*) (in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation) 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.

[Note: article 100 of the *Banking Consolidation Directive* (Securitisation of revolving exposures)]

(2) (except in (1)) has the meaning in article 242(16) of the *UK CRR*.

EE

expected exposure.

effective EE

effective expected exposure.

effective EPE

effective expected positive exposure.

effective expected exposure

for the purpose of *BIPRU* 13 (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 *expected exposure* that occurs at that date or any prior date; alternatively, it may be defined for a specific date as the greater of the *expected exposure* at that date, or the effective *exposure* at the previous date.

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

effective expected positive exposure for the purpose of *BIPRU* 13) the weighted average over time of *effective expected exposure* 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*, where the weights are the proportion that an individual *expected exposure* represents of the entire time interval.

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

effective maturity for the purpose of the *CCR internal model method* and with respect to a *netting set* with maturity greater than one year) the ratio of the sum of *expected exposure* over the life of the transactions in the *netting set* 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)]

EL *expected loss*.

eligible capital has the meaning in article 4(1)(71) of the *UK CRR*.

eligible partnership capital (in relation to a *BIPRU firm*) has the meaning in *GENPRU* 2.2.93R.

EPE *expected positive exposure*.

equity (for the purposes of *BIPRU* 7 and *IFPRU* 6) a *share*

equity exposure (in relation to the *IRB approach*) an exposure falling into the *IRB exposure class* referred to in *BIPRU* 4.3.2R(5) (equity exposures).

equity PRR the part of the *market risk capital requirement* calculated in accordance with *BIPRU* 7.3 (Equity PRR and basic interest rate PRR for equity derivatives) but so that:

(a) the *equity PRR* excludes the part of the *market risk capital requirement* calculated under *BIPRU* 7.3.45R (Basic interest rate PRR for equity derivatives); and

(b) in relation to a particular *position*, it means the portion of the overall *equity PRR* attributable to that *position*.

excess spread (for the purposes of *BIPRU* 9 (Securitisation), in relation to a *securitisation* (within the meaning of paragraph (2) of the definition of

	securitisation137)) finance charge collections and other fee income received in respect of the *securitised exposures* net of costs and expenses. [Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]
excess trading book position	has the meaning in *GENPRU* 2.2.264R (Deductions from total capital: Excess trading book position).
exempt full scope IFPRU investment firm	a *full-scope IFPRU investment firm* falling into BIPRU 12.1.4R.
expected 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 average of the distribution of *exposure*s 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 exposure*s where the weights are the proportion that an individual *expected exposure*s 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.
financial collateral simple 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.
Financial Collateral Directive	the Council Directive of 6 June 2002 relating to financial collateral arrangements (No. 2002/47/EC).
financial derivative instrument	(for the purposes of *BIPRU*) has the meaning in *BIPRU* 13.3.3R (Definition of a financial derivative instrument); the definition is adjusted for the purposes of the definition of *counterparty risk capital component* in accordance with *BIPRU* 14.2.3R (Credit derivatives).
FINREP firm	(a) a *credit institution* or *investment firm* subject to the *UK CRR* that is also subject to section 403(1) of the Companies Act 2006; or (b) a *credit institution* other than one referred to in section 403(1) of the Companies Act 2006 that prepares its consolidated accounts in conformity with *UK-adopted international accounting standards*. [Note: article 99 of the *UK CRR*]
firm-specific liquidity stress	(in relation to a *firm* and any reporting obligations under *SUP* 16 (Reporting requirements)): (a) (in the case of reporting obligations on a solo basis (including on the basis of the *firm's UK branch*) the *firm* failing to meet, not complying with or being in breach of: (i) the liquidity resources requirement calculated by that *firm* as adequate in its current *Individual Liquidity Adequacy Assessment* or *Individual Liquidity Systems Assessment*; or

(ii) the level of its liquid assets buffer advised in any current *individual liquidity guidance* that the *firm* has accepted; or

(iii) its funding profile advised in any current *individual liquidity guidance* that the *firm* has accepted; or

(iv) the *overall liquidity adequacy rule*; or

(v) BIPRU 12.2.8R (*ILAS BIPRU firm* adequate buffer of high quality, unencumbered assets) or BIPRU 12.2.11R (liquid assets buffer is at least equal to the *simplified buffer requirement*); or

(vi) the *simplified buffer requirement* (taking into account *BIPRU* TP 29 (Liquid assets buffer scalar: simplified ILAS BIPRU firms) 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 factor*s 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 position*s 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*.
in the money percentage	(for the purposes of *BIPRU* 7 (Market risk) and in relation to an *option* or *warrant*) the percentage calculated under *BIPRU* 7.6.6R (The in the money percentage).
incremental risk charge	(in *BIPRU* 7.10 (Use of a value at risk model)) has the meaning in *BIPRU* 7.10.116R (Capital calculations for VaR models), which is in summary, in relation to a *business day*, the incremental risk charge required under the provisions in *BIPRU* 7.10 about *specific risk*, in respect of the previous *business day's* close-of-business *positions* with respect to which those provisions apply.
Individual Liquidity Adequacy Assessment	a *standard ILAS BIPRU firm's* assessment of the adequacy of its liquidity resources and systems and controls as required by the *rules* in *BIPRU* 12.5.
Individual Liquidity Adequacy Standards	the regime of liquidity assessment set out in the *rules* and *guidance* in *BIPRU* 12.5.
Individual Liquidity Systems Assessment	a *simplified ILAS BIPRU firm's* assessment of the adequacy of its systems and controls as required by the *rules* in *BIPRU* 12.6.
initial commitment	(for the purposes of *BIPRU* and in relation to *underwriting*) the date specified in *BIPRU* 7.8.13R (Time of initial commitment).
initial coupon rate	(in relation to a *tier one instrument*) the *coupon* rate of the instrument at the time it is issued.
innovative tier one capital	an item of capital that is stated in *GENPRU* 2.2 (Capital resources) to be innovative tier one capital.

innovative tier one capital resources	the amount of *capital resources* at stage C of the *capital resources table* (Innovation tier one capital).
innovative tier one instrument	a *potential tier one instrument* that is stated in *GENPRU* 2.2 (Capital resources) to be an innovative instrument.
interest rate duration method	the method of calculating the part of the *interest rate PRR* that relates to *general market risk* set out in *BIPRU* 7.2.63R (General market risk calculation: Duration method).
interest rate maturity method	the method of calculating the part of the *interest rate PRR* that relates to *general market risk* set out in *BIPRU* 7.2.59R (General market risk calculation: The maturity method).
interest rate PRR	the part of the *market risk capital requirement* calculated in accordance with *BIPRU* 7.2 (Interest rate PRR) or *BIPRU* 7.3.45R (Basic interest rate PRR for equity derivatives) or, in relation to a particular *position*, the portion of the overall *interest rate PRR* attributable to that *position*.
interest rate simplified maturity method	the method of calculating the part of the *interest rate PRR* that relates to *general market risk* set out in *BIPRU* 7.2.56R (General market risk calculation: Simplified maturity method).
interest-rate contract	interest-rate contracts listed in paragraph 1 of Annex II to the *UK CRR*.
internal approaches	one or more of the following, as referred to in the *UK CRR*: (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).
internal capital adequacy assessment process	a *firm's* assessment of the adequacy of its capital and financial resources, as required by the *ICAAP rules*.
international organisation	(for the purposes of *GENPRU* and *BIPRU*) an organisation referred to in *BIPRU* 3.4.30R (Exposures to international organisations).

intra-group liquidity modification	a modification to the *overall liquidity adequacy rule* of the kind described in *BIPRU* 12.8.7G.
investment firm consolidation waiver	(in relation to a *BIPRU firm*) a *waiver* (described in *BIPRU* 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 *CAD Article 22 group*.
IRB approach	one of the following: (a) the adjusted method of calculating the *credit risk capital component* set out in *BIPRU* 4 (IRB approach) and *BIPRU* 9.12 (Calculation of risk weighted exposure amounts under the internal ratings based approach), including that approach as applied under *BIPRU* 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.
IRB exposure class	(in relation to the *IRB approach*) one of the classes of *exposure* set out in *BIPRU* 4.3.2R (exposure classes).
IRB permission	a *requirement* or a *waiver* that requires a *BIPRU firm* or a *CAD investment firm* to use the *IRB approach*.
KIRB	(for the purposes of *BIPRU* 9 (Securitisation), in relation to a *securitisation* (within the meaning of paragraph (2) of the definition of *securitisation*) 8% of the *risk weighted exposure amounts* that would be calculated under the *IRB approach* in respect of the *securitised exposures*, had they not been *securitised*, plus the amount of *expected losses* associated with those *exposures* calculated under the *IRB approach*. [Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]
lending firm	(for the purposes of *rules* in *BIPRU* about *credit risk mitigation*) a *firm* that has an *exposure*, whether or not deriving from a loan. [Note: article 90 of the *Banking Consolidation Directive* (Credit risk mitigation)]

LGD	*loss given default*.
limited activity firm	has the meaning in article 96(1) of the *UK CRR*.
limited licence firm	has the meaning in article 95(1) of the *UK CRR*.
liquidity facility	(for the purposes of *BIPRU* 9 (Securitisation), in relation to a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) the *securitisation position* arising from a contractual agreement to provide funding to ensure timeliness of cash-flows to investors. [Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]
loss	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)] (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 *data item* submitted by the *firm*, then paragraphs (b) and (c) apply at the level of the *branch* rather than of the *firm*.

lower stage of capital	(with respect to a particular item of capital in the *capital resources table*) a stage in the *capital resources table* below that in which that item of capital appears.
lower tier three capital	an item of capital that is specified in stage P of the *capital resources table* (Lower tier three).
lower tier three capital resources	the sum calculated at stage P of the *capital resources table* (Lower tier three).
lower tier two capital	(1) [deleted] (2) (in *BIPRU*, *GENPRU* and *INSPRU*) an item of capital that is specified in stage H of the capital resources table (Lower tier two capital)
lower tier two capital resources	the sum calculated at stage H of the calculation in the *capital resources table* (Lower tier two capital)
lower tier two instrument	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 *firm's lower tier two capital resources*.
LTICR	*long-term insurance capital requirement*
main BIPRU firm Pillar 1 rules	*GENPRU* 2.1.40R (Variable capital requirement for *BIPRU firms*), *GENPRU* 2.1.41R (*Base capital resources requirement* for *BIPRU firms*), *GENPRU* 2.1.48R (Table: Base capital resources requirement for a BIPRU firm).
margin agreement	for the purpose of *BIPRU* 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 *exposure* of that second counterparty to the first counterparty exceeds a specified level. [Note: Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions)]
margin period of 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 time period from the last exchange of collateral covering a *netting set* 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 *Banking Consolidation Directive* (Definitions)]
margin threshold	for the purpose of *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the largest amount of an *exposure* that remains outstanding until one party has the right to call for collateral. [Note: Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions)]
market liquidity stress	(in relation to a *firm* and any reporting obligations under *SUP* 16 (Reporting requirements)): (a) (in the case of reporting obligations on a solo basis) any market that is of material significance to the *firm* being materially adversely affected by crystallised *liquidity risk* or a substantial number of participants in any such market being materially adversely affected by crystallised *liquidity risk*, whether or not the *firm* itself is so affected; (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 the *firm* are to the *firm* and that group considered together; (c) (in the case of reporting obligations with respect to a *firm's UK branch*) has the same meaning as in (a) except that references to the *firm* are to that *branch*.
market risk capital requirement	the part of the *capital resources requirement* of a *BIPRU firm* in respect of *market risk*, calculated in accordance with GENPRU 2.1.52R (Calculation of the market risk capital requirement).
master netting agreement internal	(a) the method of calculating the effect of *credit risk mitigation* described in *BIPRU* 5.6.16R to *BIPRU* 5.6.28G;

models 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 *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.

master netting agreement internal models approach permission

requirement or a *waiver* that requires a *BIPRU firm* to use the *master netting agreement internal models approach* 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.

material holding

(1) [deleted]

(2) (for the purposes of *GENPRU* and *BIPRU*) has the meaning in *GENPRU* 2.2.209R (Deductions from tiers one and two: Material holdings (BIPRU firm only)).

material insurance holding

has the meaning in GENPRU 2.2.212R (Material holdings) or, for an *exempt CAD firm* which is an *investment management firm*, in *IPRU(INV)* Table 5.8.

Material Risk Takers Regulation

the *UK* 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 *UK* law by virtue of the *EUWA*.

MCR

minimum capital requirement.

MDA

the maximum distributable amount calculated in line with *IFPRU* 10.4.3R.

member contribution

any paid up contribution by a member of a *mutual* where the members' accounts meet the following criteria:

(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 *firm*'s *capital resources* to fall below the required level, or, if after dissolution of the *firm*, all the *firm*'s 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 *appropriate regulator* must be notified at least one month in advance of the intended date of such payments; and

(c) the *appropriate regulator* must be notified of any amendment to the relevant provisions of the memorandum and articles of association or other constitutional documents.

mezzanine securitisation positions for the purposes of *BIPRU* 9.3.7R, *BIPRU* 9.4.11R and *BIPRU* 9.5.1R(6), *securitisation positions* to which a *risk weight* lower than 1250% applies and which are more junior than the most senior position in the relevant *securitisation* and more junior than any *securitisation* position in the relevant *securitisation* to which:

(a) in the case of a *securitisation position* subject to the *standardised approach* to *securitisation* set out in *BIPRU* 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.
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
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.

multiplication factor (in *BIPRU* 7.10 (Use of a value at risk model)) a multiplication factor applied to a *VaR measure* for the purpose of calculating the *model PRR* made up of the *minimum multiplication factor* as increased by the *plus factor*, all as more fully defined in *BIPRU* 7.10.118R (Capital calculations: Multiplication factors).

net leverage the ratio of total assets, less those bought under reverse *repo* arrangements, to total equity.

net underwriting exposure has the meaning in *BIPRU* 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 *BIPRU* 7.8.35R to the *net underwriting position*.

net underwriting position the net underwriting position calculated under *BIPRU* 7.8.17R (Calculating the net underwriting position).

non-core concentration risk group counterparty has the meaning in *BIPRU* 10.9A.4R (Definition of non-core concentration risk group counterparty), which is in summary (in relation to a *firm*) each 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* satisfy the conditions in *BIPRU* 10.9A.4R (Definition of non-core concentration risk group counterparty).

[Note: article 113(4)(c) of the *Banking Consolidation Directive*]

non-core large exposures group (in relation to a *firm*) all counterparties which:

(1) are listed in the *firm's non-core large exposures group permission*;

(2) satisfy the conditions in *IFPRU* 8.2.6R (Intra-group exposures: non-core large exposures group); and

(3) for which *exposures* are exempted, under article 400(2)(c) of the *UK CRR* (Exemptions), from the application of article 395(1) of the *UK CRR* (Limits to large exposures).

non credit-obligation asset	(in relation to the *IRB approach*) an *exposure* in the form of a non credit-obligation asset or falling under BIPRU 4.9.5R (Non credit-obligation assets).
non-core large exposures group exemption	the exemption in *IFPRU* 8.2.6R (Intra-group exposures: non-core large exposures group).
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*. A *firm* with a *non-UK DLG by modification (firm level)* cannot also have a *UK DLG by modification*. (*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]
open currency position	the amount calculated under *BIPRU* 7.5.19R (Open currency position) as part of the calculation of the *foreign currency PRR*.

option hedging method	the method of calculating the *option PRR* in *BIPRU* 7.6.24R (The hedging method).	
option PRR	the part of the market risk capital requirement calculated in accordance with *BIPRU* 7.6 (Option PRR) or, in relation to a particular position, the portion of the overall option PRR attributable to that position.	
option standard method	the method of calculating the option PRR in *BIPRU* 7.6.20R to *BIPRU* 7.6.22R (The standard method).	
original financing costing amount	(in relation to a *share*, *debenture* or other investment in, or external contribution to the capital of, a *firm* that is subject to a *step-up*) the *financing cost amount* 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 *step-up*.	
OTC derivative transaction	a derivative financial instrument of a type listed on Annex II to the *UK CRR* that is traded over the counter.	
out of the money	(for the purposes of *BIPRU* 7 (Market risk) and in relation to an *option* or *warrant*) that *option* or *warrant* being neither *at the money* nor *in the money*.	
overall liquidity adequacy rule	*BIPRU* 12.2.1R.	
overall Pillar 2 rule	(1)	(in *GENPRU*, *BIPRU* and *INSPRU*) *GENPRU* 1.2.30R (Systems, strategies, processes and reviews for certain *firms*).
	(2)	(in *IFPRU*) IFPRU 2.2.7R (Strategy processes and systems).
own estimates of volatility adjustments approach	the approach to calculating volatility adjustments under the *financial collateral comprehensive method* under which the *firm* uses its own estimates of such adjustments, as more fully described in *BIPRU* 5.4 (Financial collateral) and including that approach as applied to master netting agreements as described in BIPRU 5.6 (Master netting agreements)	
parent financial holding company in the UK	(1)	(in *GENPRU* (except *GENPRU* 3 and *BIPRU* (except *BIPRU* 12)) a *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*.
	(2)	[deleted]
	(1)	(in *GENPRU* (except *GENPRU* 3 and *BIPRU* (except *BIPRU* 12)) an *institution* which has an *institution* or a *financial institution* as a

parent institution in the UK		*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*.
	(2)	[deleted]
parent mixed financial holding company in the UK	(1)	(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*.
	(2)	[deleted]
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 exposure*s 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 commodities		a physical holding of a *commodity*, or documents evidencing title to a *commodity*.
PIBS		*permanent interest bearing shares*.
plus factor		(in *BIPRU* 7.10 (Use of a value at risk model)) an increase to the *minimum multiplication factor* based on *backtesting exceptions* as more fully defined in *BIPRU* 7.10.124R (Capital calculations: Multiplication factors).

position	(1)	(in accordance *BIPRU* 1.2.4R (Definition of the trading book: Positions)) includes proprietary positions and positions arising from client servicing and market making.
	(2)	(in *IFPRU*) has the meaning which it has, or is used, in the *UK CRR*.
position risk adjustment		a percentage applied to a *position* as part of the process of calculating the *PRR* in relation to that *position* as set out in the tables in *BIPRU* 7.2.44R (Specific risk position risk adjustments), *BIPRU* 7.2.57R (General market risk position risk adjustments), *BIPRU* 7.3.30R (Simplified equity method position risk adjustments), *BIPRU* 7.3.34R (Position risk adjustments for specific risk under the standard equity method) and *BIPRU* 7.6.8R (The appropriate position risk adjustment) and also as set out in *BIPRU* 7.2.48AR to *BIPRU* 7.2.48LR.
position risk requirement		a capital requirement applied to a position treated under *BIPRU* 7 (Market risk) as part of the calculation of the *market risk capital requirement* or, if the relevant provision of the *Handbook* distinguishes between *general market risk* and *specific risk*, the portion of that capital requirement with respect to whichever of *general market risk* or *specific risk* is specified by that provision.
potential tier one instrument		an item of capital that falls into GENPRU 2.2.62R (Tier one capital: General).
probability of default		(for the purpose of *BIPRU*) the probability of default of a counterparty over a one year period; for the purposes of the *IRB approach*, default has the meaning in the definition of *default*. [Note: article 4(25) of the *Banking Consolidation Directive* (Definitions)]
profit and loss figure		(in *BIPRU* 7.10 (Use of a value at risk model) and in relation to a *business day*) a *firm's* actual profit or loss for that day in respect of the trading activities within the scope of the *firm's VaR model permission*, adjusted by stripping out specified items, as more fully defined in *BIPRU* 7.10.100R (Backtesting: Calculating the profit and loss).
protection buyer		(in *BIPRU*) (in relation to a credit derivative) the *person* who transfers credit risk. [Note: paragraph 8 of Annex I of the *Capital Adequacy Directive* (Calculating capital requirements for position risk)]
protection seller		(in *BIPRU*) (in relation to a credit derivative) the *person* 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

(1) [deleted]

(2) (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*;

(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*.

qualifying revolving retail exposure

(in relation to the *IRB approach*) *retail exposures* falling into *BIPRU* 4.6.44R(2) (Qualifying revolving retail exposures).

rating system	(in relation to the *IRB approach* and in accordance with *BIPRU* 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 *exposures* to grades or pools (rating), and the quantification of *default* and *loss* estimates for a certain type of *exposure*.
ratings based method	(for the purposes of *BIPRU* 9 (Securitisation)) the method of calculating *risk weighted exposure* amounts for *securitisation positions* set out in *BIPRU* 9.12.10R-*BIPRU* 9.12.19R and *BIPRU* 9.14.2R. [Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]
reciprocal cross-holding	has the meaning in *GENPRU* 2.2.219R (Deductions from tiers one and two: Reciprocal cross holdings) which is in summary a holding of a *firm* of *shares*, any other interest in the capital, and subordinated debt, whether in the *trading book* or *non-trading book*, in: (a) a *credit institution*; or (b) a *financial institution*; that satisfies the conditions in *GENPRU* 2.2.219R.
recovery capacity	the capability of an *RRD institution* to restore its financial position following a significant deterioration. [Note: article 2(1)(103) of *RRD*]
recovery plan	a document which provides for measures to be taken by an *RRD institution* which is not subject to supervision on a *consolidated basis* to restore its financial position following a significant deterioration of its financial situation. [Note: articles 2(1)(32) and 5 of *RRD*]
reduced net underwriting position	the *net underwriting position* as adjusted under *BIPRU* 7.8.27R (Calculating the reduced net underwriting position).
regulatory high risk category	(for the purposes of the *standardised approach* to credit risk) an item that falls into *BIPRU* 3.4.104R (Items belonging to regulatory high risk categories under the standardised approach to credit risk).
regulatory surplus value	has the meaning set out in *GENPRU* 1.3.48R.
Regulatory technical standards 1152/2014	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 *UK* law as a result of section 3 of the *EUWA*.
relevant credit exposures	exposures, other than those referred to in article 112(a) to (f) of the *UK CRR* (Exposure classes), that are subject to: (a) the *own funds requirements* for credit risk under Part Three, Title II of the *UK CRR*; (b) where the *exposure* is held in the *trading book*, *own funds requirements* for specific risk under Part Three, Title IV, Chapter 2 of the *UK CRR* or incremental default and migration risk under Part Three, Title IV, Chapter 5 of the *UK CRR*; or (c) where the *exposure* is a *securitisation*, the *own funds requirements* under Part Three, Title II, Chapter 5 of the *UK CRR*. [Note: article 140(4) of *CRD*]
Remuneration Code	*SYSC* 19A (IFPRU Remuneration Code)for *IFPRU investment firms* and *overseas firms* in *SYSC* 19A.1.1R(1)(d) that would have been an *IFPRU investment firm* if it had been a *UK domestic firm*.
Remuneration Code staff	(for an *IFPRU investment firm* and an overseas firm in *SYSC* 19A1.1.1R(1)(d) that would have been an *IFPRU investment firm* if it had been a *UK domestic firm*) has the meaning given in *SYSC* 19A.3.4R which is, in summary, an *employee* whose professional activities have a material impact on the *firm's* risk profile, including any *employee* who is deemed to have a material impact on the *firm's* risk profile in accordance with the *Material Risk Takers Regulation*.
remuneration principles proportionality rule	(in *SYSC* 19A) has the meaning given in *SYSC* 19A.3.3R.
reporting level	(in *SUP* 16 (Reporting requirements) and in relation to a *data item*) refers to whether that *data item* is prepared on a solo basis or on the basis of a group such as a *UK DLG by modification* 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 *tranched* 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 *UK parent undertaking*.
RRD group financial support agreement	an agreement to give financial support to an *RRD institution* which, at any time after the agreement has been concluded, has infringed an *RRD early intervention condition* or is likely to infringe one of those conditions in the near future.
RRD group member	a member of an *RRD group* that is: (a) an *RRD institution*; or (b) a *financial institution*; or

	(c)	a *financial holding company*; or
	(d)	a *mixed financial holding company*.
RRD institution	(a)	a *credit institution*; or
	(b)	an *IFPRU 730K firm*.
		[Note: article 2(1)(23) of *RRD*]
RRD Regulation		the *UK* 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 *UK* law by virtue of the *EUWA*.
same stage of capital		(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.
secured lending transaction		(for the purposes of *BIPRU*) any transaction giving rise to an *exposure* secured by collateral which does not include a provision conferring upon the *person* with the *exposure* the right to receive margin frequently. [Note: point 2 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (Eligibility of credit risk mitigation)]
securities or commodities borrowing		see *securities or commodities lending or borrowing transaction*.
securities or commodities lending		see *securities or commodities lending or borrowing transaction*.
securities PRR		the *interest rate PRR*, the *equity PRR*, the *option PRR* (but only in relation to *positions* which under *BIPRU* 7.6.5R (Table: Appropriate calculation for an option or warrant) may be subject to one of the other *PRR* charges listed in this definition or which would be subject to such a *PRR* charge if *BIPRU* 7.6.5R did not require an *option PRR* to be calculated), the *CIU PRR* and the *PRR* calculated under *BIPRU* 7.11 (Credit derivatives in the trading book) and so that:
	(a)	the *securities PRR* includes any *PRR charge* calculated under a *CAD 1 permission*; and

(b) the *securities PRR* does not include any *PRR charge* calculated under a *VaR model permission* unless the provision in question provides otherwise.

significant IFPRU firm has the meaning in *IFPRU* 1.2 (Significant IFPRU firm).

simple capital issuer a *BIPRU firm* that meets the following conditions:

(a) it does not raise capital through a special purpose vehicle;

(b) it only includes non-convertible and non-exchangeable *capital instruments* in its *capital resources*;

(c) (if it includes *capital instruments* in its *capital resources* on which *coupons* are payable) such *coupons* are not subject to a *step-up*;

(d) it only includes *capital instruments* in its *tier one capital resources* consisting of ordinary *shares*, perpetual non-cumulative preference *shares* or partnership or *limited liability partnership* capital accounts;

(e) it only includes non-redeemable *capital instruments* in its *tier one capital resources*; and

(f) (if it includes *capital instruments* in its *tier one capital resources* on which *coupons* are payable) such coupons are non-cumulative, non-mandatory and in cash.

simplified buffer requirement *BIPRU* 12.6.9R.

simplified equity method the method of calculating the *equity PRR* set out in *BIPRU* 7.3.29R (Simplified equity method).

simplified ILAS the approach to the calculation of the liquid assets buffer of a *simplified ILAS BIPRU firm* described in *BIPRU* 12.6.

simplified ILAS BIPRU firm an *ILAS BIPRU firm* that, in accordance with the procedures in *BIPRU* 12 (Liquidity), is using the *simplified ILAS*.

simplified ILAS waiver a waiver permitting an *ILAS BIPRU firm* to operate *simplified ILAS*.

SLRP the *Supervisory Liquidity Review Process*.

solo consolidation waiver	a waiver of the type described in *BIPRU* 2.1 (Solo consolidation).
sovereign, institution and corporate IRB exposure class	(in relation to the *IRB approach*) an *exposure* falling into the *IRB exposure classes* referred to in *BIPRU* 4.3.2R(1)-(3) (Sovereigns, institutions and corporates).
specialised lending exposure	(in relation to the *IRB approach*) an *exposure* falling into *BIPRU* 4.5.3R (Definition of specialised lending).
specific risk backtesting exception	(in *BIPRU* 7.10 (Use of a value at risk model) and in relation to a *firm*) an exception arising out of backtesting a *VaR model* with respect to *specific risk* as more fully defined in that *firm's VaR model permission*.
specific risk position risk adjustment	(in *BIPRU*) a *position risk adjustment* for specific risk including any such *position risk adjustment* as applied under *BIPRU* 7.6.8R (Table: Appropriate position risk adjustment).
specific 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 exposure to a particular counterparty is positively correlated with the *probability of default* of the counterparty due to the nature of the transactions with the counterparty; a *firm* is exposed to *specific wrong-way risk* if the future exposure to a specific counterparty is expected to be high when the counterparty's *probability of default* is also high. [Note: Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions)]
spread risk	the risk that a spread (that is, the difference in price or yield) between two variables will change.
SPV	(1) (in *GENPRU* 2.2 (Capital resources)) has the meaning in *GENPRU* 2.2.126R (Other tier one capital: innovative tier one capital: indirectly issued tier one capital). (2) (in *BIPRU* 8 (Group risk - consolidation)) has the meaning in *BIPRU* 8.6.15R (Indirectly issued capital and group capital resources).
standard CIU look through method	the method for calculating the *PRR* for a *position* in a *CIU* set out in *BIPRU* 7.7.4R and *BIPRU* 7.7.7R to *BIPRU* 7.7.10R.

standard equity method	the method of calculating the *equity PRR* set out in BIPRU 7.3.32R (Standard equity method).
standard frequency liquidity reporting firm	a *standard ILAS BIPRU firm* that is not a *low frequency liquidity reporting firm*.
standard ILAS BIPRU firm	an *ILAS BIPRU firm* that is not a *simplified ILAS BIPRU firm*.
standard market risk PRR rules	(in *BIPRU*) the rules relating to the calculation of the *market risk capital requirement* excluding the *VaR model approach* and any *rules* modified so as to provide for the *CAD 1 model approach*.
standardised approach	(for the purposes of *BIPRU*) one of the following: (a) (where expressed to relate to credit risk) the method for calculating capital requirements for credit risk in *BIPRU* 3 (Credit risk) and *BIPRU* 9.2.1R(1) and *BIPRU* 9.11 (Standardised approach); (b) [deleted] (c) (where not expressed to relate to any risk and used in *BIPRU* 3, *BIPRU* 4 (IRB approach), *BIPRU* 5 (Credit risk mitigation), *BIPRU* 9 (Securitisation)) it has the meaning in (a); (d) [deleted] (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 *BIPRU* 8 (Group risk - consolidation). (f) [deleted]
standardised credit risk exposure class	(in relation to the *standardised approach* to credit risk) one of the classes of exposure set out in *BIPRU* 3.2.9R (Exposure classes).
step-up	(in relation to any item of capital) any change in the *coupon* 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: (a) includes (in the case of a fixed rate) an increase in that *coupon* 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 *coupon* is calculated that results in an increase in the absolute amount of the *coupon*; and
	(d)	does not include (in the case of a floating rate) an increase in the absolute amount of the *coupon* caused by fluctuations in the fluctuating figure by reference to which the absolute amount of the *coupon* floats.
stock financing	a transaction where a *physical commodity* is sold forward and the cost of funding is locked in until the date of the forward sale.	
stressed VaR	(in *BIPRU*) the stressed VaR measure in respect of *positions* coming within the scope of the *VaR model permission*, calculated in accordance with the *VaR model*, *BIPRU* 7.10 (Use of a Value at Risk Model) and any methodology set out in the *VaR model permission* based on a stressed historical period.	
sub-consolidated basis	has the meaning in article 4(1)(49) of the *UK CRR*.	
supervisory formula method	(for the purposes of *BIPRU* 9 (Securitisation), in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation180) the method of calculating *risk weighted exposure amounts* for *securitisation positions* set out in *BIPRU* 9.12.21R-*BIPRU* 9.12.23R and *BIPRU* 9.14.3R. [Note: Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)]	
Supervisory Liquidity Review Process	the *appropriate regulator's* assessment of the adequacy of certain *firms*' liquidity resources as described in *BIPRU* 12.2 and *BIPRU* 12.5.	
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]

third country IFPRU 730k firm an *overseas firm* that would be an *IFPRU 730k firm* if it had been a *UK domestic firm*, had carried on all of its business in the *United Kingdom* and had obtained whatever authorisations for doing so as are required under the *Act*.

third country investment services undertaking (in *BIPRU*) a *CAD investment firm*, a *financial institution* or an *asset management company* in a country other than the *UK*.

third-country countercyclical buffer authority (1) the authority of a *third country* empowered by law or regulation with responsibility for setting the *countercyclical buffer rate* for that *third country*; or

(2) the European Central Bank when it carries out the task of setting a countercyclical buffer rate for an *EEA State* 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
tier one capital	(1)	[deleted]
	(2)	(in *BIPRU* and *GENPRU*) 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 *capital resources table*.
tier one capital resources		the sum calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions).
tier one instrument		an item of capital that falls into *GENPRU* 2.2.62R (Tier one capital: General) and is eligible to form part of a *firm's tier one capital resources*.
tier three capital		an item of capital that is *upper tier three capital* or *lower tier three capital*.
tier three capital resources		the sum calculated at stage Q of the *capital resources table* (Total tier three capital).
tier three instrument		an item of capital that falls into *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*.
tier two capital	(1)	[deleted]
	(2)	(in *BIPRU*, *GENPRU* and *INSPRU*) an item of capital that is specified in stages G (Upper tier two capital) or H (Lower tier two capital) of the *capital resources table*.
tier two capital resources		the sum calculated at stage I (Total tier two capital) of the calculation in the *capital resources table*.
tier two instrument		a *capital instrument* that meets the conditions in *GENPRU* 2.2.159R (General conditions for eligibility as tier two capital instruments) or *GENPRU* 2.2.177R (Upper tier two capital: General) and is eligible to form part of a *firm's tier two capital resources*.
total risk exposure amount		the total risk exposure amount of a *firm* calculated in accordance with article 92(3) of the *UK CRR* (Own funds requirements).

trading book policy statement	(1)	(in *BIPRU*) has the meaning in *BIPRU* 1.2.29R (Trading book policy statements) which is in summary a single document of a *person* recording the policies and procedures referred to in *BIPRU* 1.2.26R and *BIPRU* 1.2.27R.
	(2)	(in *IFPRU*) the statement of policies and procedures relating to the *trading book*.
trading book systems and controls rules	*GENPRU* 1.3.13R(2) to (3) (General requirements: Methods of valuation and systems and controls), *GENPRU* 1.3.14R to *GENPRU* 1.3.16R (Marking to market), *GENPRU* 1.3.17R to *GENPRU* 1.3.25R (Marking to model), *GENPRU* 1.3.26R to *GENPRU* 1.3.28R (Independent price verification), *GENPRU* 1.3.30R to *GENPRU* 1.3.33R (Valuation adjustments or reserves), *GENPRU* 2.2.86R (Core tier one capital: profit and loss account and other reserves: Losses arising from valuation adjustments) and *GENPRU* 2.2.248R to *GENPRU* 2.2.249R (Tier three capital: lower tier three capital resources).	
UK countercyclical buffer authority	(for the purposes of *IFPRU* 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.	
UK DLG by modification	a *DLG by modification (firm level)* in which each member is a *UK ILAS BIPRU firm*. A *firm* with a *UK DLG by modification* cannot also have a *non-UK DLG by modification (firm level)*.	
UK financial sector company	a company that is a:	
	(a)	*UK bank*; or
	(b)	*UK insurer*; 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 *INSPRU*) 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*.
value at risk	(in relation to risk modelling or estimation for the purposes of *BIPRU*) the measure of risk described in *BIPRU* 7.10.146R (Requirement to use value at risk methodology).
VaR	*value at risk*
VaR measure	(in *BIPRU*) an estimate by a *VaR model* of the worst expected loss on a portfolio resulting from market movements over a period of time with a given confidence level.
VaR model	a value at risk model as described in *BIPRU* 7.10 (Use of a Value at Risk Model).
VaR model approach	one of the following: (a) the approach to calculating part of the *market risk capital requirement* set out in *BIPRU* 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 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.
VaR model permission	a *requirement* or a *waiver* that requires a *BIPRU firm* or a *CAD investment firm* to use the *VaR model approach* on a solo basis or, if the context requires, a consolidated basis.
VaR number	has the meaning in *BIPRU* 7.10.115R (Capital calculations: General) which in summary is (in relation to a *business day* and a *VaR model*) the *VaR measure*, in respect of the previous *business day*'s close-of-business *positions* in products coming within the scope of the *VaR model permission*, calculated by the *VaR model* and in accordance with *BIPRU* 7.10 (Use of a Value at Risk Model) and any methodology set out in the *VaR model permission*.
VaR specific risk minimum requirements	*BIPRU* 7.10.46R to *BIPRU* 7.10.52R (Model standards: Risk factors: Specific risk) and *BIPRU* 7.10.107R (Backtesting: Specific risk backtesting).
Volatility risk	the potential loss due to fluctuations in implied *option* volatilities.
whole-firm liquidity modification	a modification to the *overall liquidity adequacy rule* of the kind described in *BIPRU* 12.8.22G.
write-down and conversion powers	the powers referred to in article 59(2) and in points (e) to (i) of article 63(1) of *RRD*. [Note: articles 2(1)(66) of *RRD*]
working day 0	has the meaning in *BIPRU* 7.8.23R (Working day 0), which is in summary (in relation to an underwriter) the *business day* on which a *firm* that is *underwriting* or sub-*underwriting* becomes unconditionally committed to accepting a known quantity of *securities* at a specified price.
zero-specific-risk security	a notional debt *security* used, for the purpose of calculating *PRR*, to represent the interest rate *general market risk* arising from certain *derivative* and forward transactions as specified in *BIPRU* 7.2 (Interest rate PRR).

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 *SMCR firm*	Chapters 4 to 12, 18, 19D, ~~19F.2~~ 19F, 19G, 21, 22, 23, 24, 25, 26, 27, 28
Every other *firm*	Chapters 4 to 12, 18, 19D, ~~19F.2~~ 19F, 19G, 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
…	
~~*BIPRU firm* (including a *third-country BIPRU firm*)~~	~~Chapters 4 to 10, 12, 18, 19C, 19F.2, 20, 21, 22, 23, 24, 25, 26, 27, 28~~
~~*IFPRU investment firm*~~ *MIFIDPRU investment firm* (including an *overseas firm* that would have been ~~an *IFPRU investment firm*~~ a *MIFIDPRU investment firm* if it had been a *UK domestic firm*, except that *SYSC* 19G does not apply to such a *firm*)	Chapters 4 to 10, 12, 18, ~~19A, 19F.2~~ 19F, 19G, ~~20,~~ 21, 22, 23, 24, 25, 26, 27, 28

…

1.4 Application of SYSC 11 to 28

What?

…

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* 14 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 1 Detailed Application of SYSC

…

Part 3	**Tables summarising the application of the common platform requirements to different types of firm**	
…		
	Common platform firm	
3.2	G	…
3.2-ZA	G	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.
…		
	MiFID optional exemption firm and a third country firm	
…		

3.2D	R	…	
		(2)	In (1), 'significant' means a *MiFID optional exemption firm* that ~~meets one of more of the conditions in paragraphs (1) to (5) of *IFPRU* 1.2.3R and related *rules* and *guidance*~~ is a *significant SYSC firm*.
…			

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 *BIPRU firm*~~ [deleted]	~~Rule for a *BIPRU firm* that is a *UCITS investment firm*~~ [deleted]	~~Not applicable~~ [deleted]	~~*Third country BIPRU firms*: Rule~~ ~~Other *firms*: Not applicable~~ [deleted]
…				
SYSC 4.1.2AAR	~~Rule for a *BIPRU firm*~~ [deleted]	~~Rule for a *BIPRU firm* that is a *UCITS investment firm*~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
…				
SYSC 4.3A.-1R	~~Rule (except for an *AIFM investment firm* that is not a~~	~~Rule for a *CRR firm* that is a *UCITS investment firm*~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]

	~~*CRR firm*~~) [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
SYSC 4.3A.7AR	Rule (except for a *MIFIDPRU investment firm*)	Not applicable	Not applicable	Not applicable
SYSC 4.3A.7BG	Guidance for a *MIFIDPRU investment firm*	Guidance for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.8R	Rule ~~(except for an *AIFM investment firm* that is not a *CRR firm*)~~ (except for a *MIFIDPRU investment firm*)	~~Rule for a *CRR firm* that is a *UCITS investment firm*~~ Not applicable	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*~~ Not applicable	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 for a *MIFIDPRU investment firm*	~~Rule for a *UCITS investment firm*; otherwise guidance~~ Guidance for a *UCITS investment firm*	Not applicable	Guidance
…				
SYSC 7.1.7BG	~~Guidance applies only to a *BIPRU firm*~~ Guidance applicable to a *CRR firm*	~~Rule for a *UCITS investment firm*, otherwise guidance~~ Not applicable	~~Guidance~~ Not applicable	~~Guidance~~ Not applicable
…				
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	Guidance applies only to a *MIFIDPRU investment firm*	Guidance applies only to a *UCITS investment firm*	Not applicable	Not applicable
…				
SYSC 7.1.9R	~~Rule applies to a *BIPRU firm*~~ [deleted]	~~Rule for a *UCITS investment firm*; otherwise not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
SYSC 7.1.10R	~~Rule applies to a *BIPRU firm*~~ [deleted]	~~Rule for a *UCITS investment firm*; otherwise not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
SYSC 7.1.11R	~~Rule applies to a *BIPRU firm*~~ [deleted]	~~Rule for a *UCITS investment firm*; otherwise not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
SYSC 7.1.12G	~~Guidance applies to a *BIPRU firm*~~ [deleted]	~~Rule for a *UCITS investment firm*; otherwise not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
SYSC 7.1.13R - 7.1.16R	~~Rule applies to a *BIPRU firm*~~ [deleted]	~~Rule for a *UCITS investment firm*; otherwise not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
…				
SYSC 7.1.16CR	~~Rule applies to a *CRR firm*~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]

SYSC 7.1.17R	Rule applies to a *CRR firm*	~~Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
SYSC 7.1.18R	Rule applies to a *CRR firm*	~~Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
SYSC 7.1.18AAG	Guidance applies to a *CRR firm*	~~Guidance for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
SYSC 7.1.18BR	Rule applies to a *CRR firm*	~~Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
SYSC 7.1.19R	Rule applies to a *CRR firm*	~~Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
SYSC 7.1.20R	Rule applies to a *CRR firm*	~~Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
SYSC 7.1.21R	Rule applies to a *CRR firm*	~~Rule for a *UCITS*~~	Not applicable	Not applicable

		~~*investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable		
SYSC 7.1.22R	Rule applies to a *CRR firm*	~~Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable~~ Not applicable	Not applicable	Not applicable
…				

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 applicable:

(1) ~~(for a *firm* to which *SYSC* 19A applies) *SYSC* 19A (IFPRU 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

Management body

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 *SYSC* 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~~ [deleted]	~~*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 G ~~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*~~ <u>*Dual-regulated Remuneration Code*</u>, 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 *firm* is a ~~*significant IFPRU firm*~~ *significant SYSC firm*	It becomes an *enhanced scope SMCR firm* one year and three *months* after the date in ~~*IFPRU* 1.2.3R~~ *SYSC* 1.5.2R (the three-*month* period in ~~*IFPRU* 1.2.6R(2)~~ *SYSC* 1.5.5R(2) 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 *SMCR banking firm*, including an *EEA SMCR banking firm*	Each member of the *dual-regulated firms Remuneration Code staff* of the *firm* in column (1) of this row (1). This includes any *person* who meets any of the criteria set out in ~~articles 3 to 5 of the *Material Risk Takers Regulation*~~ articles 6 to 8 of the *Material Risk Takers Regulation 2020* (criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).
…	
(4) A *firm* ~~falling within *SYSC* 19A.1 (application provisions for~~	~~Each member of the *Remuneration Code staff* 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 *overseas SMCR firm*	~~*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).~~
…	
Note: The definition of the *persons* included in column (2) applies in relation to an *EEA SMCR firm* in one of the rows of column (1) in the same way as it does to other *overseas SMCR firms* in that row. The definitions of *dual-regulated firms Remuneration Code staff*, ~~*Remuneration Code staff*~~, and *AIFM Remuneration Code staff* ~~and *BIPRU Remuneration Code staff*~~ apply accordingly. 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.	

…

TP 3 Remuneration codes

Part A	IFPRU Remuneration Code [deleted]	
~~1~~	~~R~~	~~[deleted]~~
~~2~~	~~R~~	~~[deleted]~~
~~3~~	~~R~~	~~[deleted]~~
~~4~~	~~G~~	~~[deleted]~~
~~5~~	~~G~~	~~[deleted]~~
~~6[FCA] [PRA]~~	~~R~~	~~[expired]~~

~~6A[FCA] [PRA]~~	~~R~~	~~(1)~~	~~Paragraph (2) applies in relation to a *firm* that was not subject to the version of the *Remuneration Code* 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 *Remuneration Code* 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 *firms* 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 *rules* 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 *overseas firm* deems an *employee* not to be *Remuneration Code staff*~~	~~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 *firm* to approve a higher maximum ratio between the fixed and variable components of total *remuneration*~~	~~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?
…					
SYSC 11 to ~~*SYSC* 19A, and *SYSC* 19D~~ *SYSC* 21			No	Yes *SYSC* 1.4.2R	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)

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*, 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 1: Application, notification and vetting fees		
(1) Fee payer	(2) Fee payable (£)	Due date
…	…	…

…		
(o) ~~In relation to a *BIPRU firm*, a *firm* applying to the *FCA* for permission to use one of the *advanced prudential calculation approaches* listed in *FEES* 3 Annex 6R (or *guidance* on its availability), including any future proposed amendments to those approaches.~~ [deleted]	~~(1) Unless (2) applies, *FEES* 3 Annex 6.~~ ~~(2) (a) Unless (b) applies a *firm* submitting a second application for the permission or *guidance* 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 *FEES* 3 Annex 6, but only in respect of that second application~~ ~~(b) No fee is payable by a *firm* 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 *guidance* in accordance with prescribed submission requirements.~~ [deleted]	~~Where the *firm* has made an application directly to the *FCA*, on or before the date the application is made, otherwise within 30 days after the *FCA* notifies the *firm* that its *EEA* parent's *Home State regulator* has requested assistance.~~ [deleted]
(oa) ~~Either:~~ ~~(i) a *firm* applying to the *FCA*~~ ~~for permission to use one of the internal approaches listed in *FEES* 3 Annex 6A (or *guidance* on its availability), including any future proposed amendments to those approaches or (in the case of any application~~	~~(1) Unless (2) applies, *FEES* 3 Annex 6A.~~ ~~(2) (a) Unless (b) applies a *firm* submitting a second application for the permission or *guidance* 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 *FEES* 3 Annex 6A, but~~	~~Where the *firm* has made an application directly to the *FCA*, on or before the date the application is made, otherwise within 30 days after the *FCA* notifies the *firm* that its *EEA* parent's consolidating supervisor has requested assistance.~~ [deleted]

~~being made for such permission to the *FCA*~~ ~~as consolidating supervisor under the *UK CRR*) any *firm* making such an application; or~~ ~~(ii) in the case of an application to the consolidating supervisor other than the *FCA*~~ ~~for the use of the IRB approach and the consolidating supervisor requesting the *FCA's*~~ ~~assistance in accordance with the *UK CRR*, any *firm* to which the *FCA* would have to apply any decision to permit the use of that approach.~~ [deleted]	~~only in respect of that second application.~~ ~~(b) No fee is payable by a *firm* 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 *guidance* 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.~~ [deleted]	
…		

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]**

Amend the following as shown.

4 Annex 1AR	**FCA activity groups, tariff bases and valuation dates**

Part 1

This table shows how the FCA links the *regulated activities* for which a *firm* has *permission* to activity groups (fee-blocks). A *firm* can use the table to identify which fee-blocks it falls into based on its *permission*.

…	
A.10 Firms dealing as principal	its *permission* includes (a) *dealing in investments as principal*; and/or (b) *bidding in emissions auctions*; **BUT NOT** if one or more of the following apply: … the *firm* is an *oil market participant*, *energy market participant* or a local (except where the *firm* is *bidding in emissions auctions*); the *firm* would be an *oil market participant* or *energy market participant* if it were not a *MiFID investment firm* (except where the *firm* is *bidding in emissions auctions*); …
A.13 Advisors, arrangers, dealers or brokers	(1) … **OR** (2) its *permission*; (a) includes one or more of the following: (i) in relation to one or more *designated investments*: … *dealing as principal in investments* where the activity is carried on as a matched principal broker, *oil market participant*, *energy market participant* or local; *dealing as principal in investments* where the activity is carried on by a *firm* that would be an *oil market participant* or *energy market participant* if it were not a *MiFID investment firm*; …

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.

…

Definition of financial conglomerate: the financial sectors: general

…

3.1.8 R …

(1A) ~~In determining the *investment services sector* for the purpose of identifying a *financial conglomerate* in the boxes entitled Threshold Test 1, Threshold Test 2 and Threshold Test 3 in the *financial conglomerate definition decision tree*, any *investment firm* that does not fall within the definition of article 4(1)(2) of the *UK CRR* is excluded.~~ [Deleted]

…

…

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 ~~A~~ 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
Banking and investment services sector	For the *Banking sector*	~~the *UK CRR*~~ Part Four of the *UK CRR*	~~Part Four of the *UK CRR*~~ The *UK CRR* and the *PRA Rulebook*
	For the *investment services sector*	*MIFIDPRU* 5	*SYSC* 12.1.12R
Insurance sector		*PRA* Rulebook: Solvency II Firms Group Supervision 16.1	PRA Rulebook: Solvency II Firms: Groups: 16.2
Note		Any *waiver*, approval or permission granted to a member of the *financial conglomerate*, on ~~a solo (or individual for the purposes of the *UK CRR*~~ an individual or consolidated basis, shall not apply in respect of the *financial conglomerate* for the purposes of *GENPRU* 3.1.36R. For this purpose, "permission" refers to a consent, approval or agreement conferred on the *appropriate regulator* as *competent authority* ~~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) ~~In~~ 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	4.4	A *mixed financial holding company* must be treated in the same way as:

holding company		(1) a *financial holding company* (if Part One, Title II, Chapter 2 of the *UK CRR* and the *PRA* Rulebook: Groups Part) are applied; ~~or~~ (2) an *insurance holding company* (if the *rules* in PRA Rulebook: Solvency II Firms: Group Supervision are applied)~~.~~; or (3) an *investment holding company* (if the *rules* in *MIFIDPRU* are applied).

8 Table: PART 5: Principles applicable to all methods

…		
Cross sectoral capital	5.3	(1) The solvency requirements for each different *financial sector* represented in a *financial conglomerate* required by *GENPRU* 3.1.29R must be covered by own funds elements in accordance with the corresponding *applicable sectoral rules*. (2) If there is a deficit of own funds at the *financial conglomerate* 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 *GENPRU* 3.1.29R. [**Note:** second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the *Financial Groups Directive*]
…		
Application of sectoral rules: Banking sector and investment services sector	5.6	~~In relation to a *BIPRU firm* that is a member of a *financial conglomerate* where there are no *credit institutions* or *investment firms*, the following adjustments apply to the *applicable sectoral rules* for the *banking sector* and the *investment services sector* as they are applied by the *rules* in this annex.~~ ~~(1) References in those *rules* to *non-UK sub-groups* if applicable do not apply.~~ ~~[deleted]~~ ~~(3) Any *investment firm consolidation waivers* granted to members of the *financial conglomerate* do not apply.~~ ~~(4) (For the purposes of Parts 1 and 2), without prejudice to the application of requirements in *BIPRU* 8 preventing the use of an *advanced prudential calculation approach* on a consolidated basis, any *advanced prudential calculation approach permission* that applies for the purpose of *BIPRU* 8 does not apply.~~

		~~(5) (For the purposes of Parts 1 and 2), *BIPRU* 8.5.9R and *BIPRU* 8.5.10R do not apply.~~ ~~(6) (For the purposes of Part 3), where the *financial conglomerate* does not include a *credit institution*, the method in *GENPRU* 2 Annex 4 must be used for calculating the capital resources and *BIPRU* 8.6.8R does not apply.~~ ~~(Other than as above) the *UK CRR* and the provisions which implemented the *CRD* apply for the *banking sector* and the *investment services sector*.~~ [deleted]
…		

9 Table: PART 6: Definitions used in this Annex

…	…	….
Solo capital resources requirement: Banking sector and investment service sector	6.2	(1) Save in the circumstances in paragraphs 6.6 to 6.7A, ~~The~~ the *solo capital resources requirement* of an *undertaking* in the *banking sector* or the *investment services sector* must be calculated in accordance with ~~this *rule*, subject to paragraph 6.6~~ the *UK* prudential requirements that apply to that *undertaking* on a solo basis. (2) ~~The *solo capital resources requirement* of a *building society* is its *own funds requirements*.~~ [deleted] (3) ~~The *solo capital resources requirement* of an *electronic money institution* is the capital resources requirement that applies to it under the *Electronic Money Regulations*.~~ [deleted] (4) ~~If there is a *credit institution* in the *financial conglomerate*, the *solo capital resources requirement* for any *undertaking* in the *banking sector* or the *investment services sector* is, subject to (2) and (3), calculated in accordance with the *UK CRR* for calculating the *own funds requirements* of a *bank*.~~ [deleted] (5) ~~If:~~ ~~(a) the *financial conglomerate* does not include a *credit institution*;~~ ~~(b) there is at least one *investment firm* in the *financial conglomerate*; and~~ ~~(c) all the *investment firms* in the *financial conglomerate* are *limited licence firms* or *limited activity firms*;~~ ~~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:~~

		~~(i) (if there is a limited activity firm in the financial conglomerate), an *IFPRU limited activity firm*; or~~ ~~(ii) (in any other case),an *IFPRU limited licence firm*.~~ [deleted] (6) ~~If:~~ ~~(a) the *financial conglomerate* does not include a *credit institution*; and~~ ~~(b) (5) does not apply;~~ ~~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] (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]
…		
Solo capital resources requirement: non-UK firms subject to equivalent regimes in the banking sector or investment services ~~sector~~ sectors	6.6	The *solo capital resources requirement* 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 *sectoral rules* for its *financial sector* that apply to it in the state or territory in which it has its head office provided that: (1) there is no reason for the *firm* applying the *rules* in this annex to believe that the use of those *sectoral rules* would produce a lower figure than would be produced under paragraph 6.2; and (2) paragraph 6.3 applies to the entity and those *sectoral rules*.
Solo capital resources requirement: mixed financial	6.7	(1) The *solo capital resources requirement* of a *mixed financial holding company* is a notional capital requirement. ~~It~~ Subject to (2), it is the capital adequacy requirement that applies to *regulated entities* in the *most important financial sector* under the table in paragraph 6.10.

holding company		(2) Where the *banking and investment services sector* is the *most important financial sector*, the capital adequacy requirement will be: (a) where there is a *UK credit institution* in the *financial conglomerate*, the requirements in the table in paragraph 6.10 for the *banking sector*; or (b) in all other cases, the requirements in the table in paragraph 6.10 for the *investment services sector*.
Solo capital resources requirement: other non-regulated financial sector entities	6.7A	The *solo capital resources requirement* of a non-regulated *financial sector entity* other than a *mixed financial holding company* is a notional capital requirement calculated in accordance with Article 12 of Part 1 (FCA) of Regulation (EU) 342/2014.
Reference to "rules"	~~6.7A~~ 6.7B	A reference to "*rules*" in this annex includes any *onshored regulations* that are relevant to the purpose ~~of~~ for which "*rules*" as used refers to.

…

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

Financial sector	Sectoral rules
Banking sector	Part One, Title II, Chapter 2 of the *UK CRR* and ~~*IFPRU* 8.1~~ the *PRA Rulebook*.
Insurance sector	PRA Rulebook: Solvency II Firms: Group Supervision.

Investment services sector	~~(in relation to an *IFPRU investment firm* which is a member of a *financial conglomerate* for which the *PRA* is the *coordinator*) Part One, Title II, Chapter 2 of the *UK CRR* and the *PRA* Rulebook;~~ *MIFIDPRU* 2.4 and 2.5. ~~(in relation to a *designated investment firm* or an *IFPRU investment firm* which is a member of a *financial conglomerate* for which the *FCA* is the *coordinator*) Part One, Title II, Chapter 2 of the *UK CRR* and *IFPRU* 8.1;~~ ~~(in relation to a *BIPRU firm* that is a member of a *financial conglomerate* where there are no *credit institutions* or *investment firms* for which the *FCA* is the *coordinator*) *BIPRU* 8 and *BIPRU* TP.~~

…

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 *sectoral rules* applied by Part 2 of this annex cover all prudential *rules* applying on a consolidated basis including those relating to large exposures and concentration risk (as applicable).
…	

…

4 Table: PART 4: Definition used in this Annex

4.1	This Part sets out the definition which a *firm* must apply for the purposes of this annex as it applies in relation to *GENPRU* 3.2.
4.2	A reference to "*rules*" in this annex includes any *onshored regulations* that are relevant to the purpose ~~of~~ for which "*rules*" as used refers to.

3 Annex 3G 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]]

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:

(a) Branches should be included as part of the parent entity.

(b) Include in the calculations overseas entities owned by the relevant group or sub-group.

(c) There are only two sectors for this purpose: banking/investment and insurance.

(d) 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 %

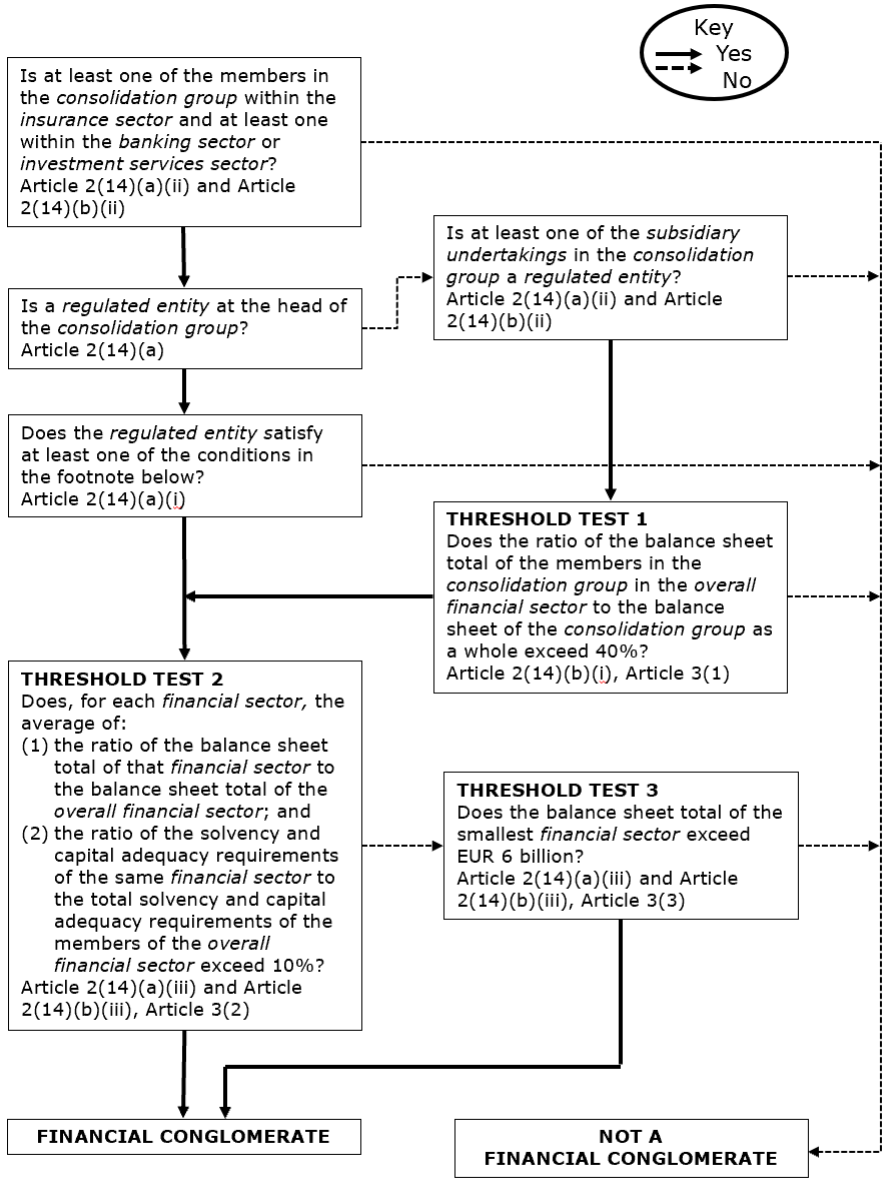
The smallest sector is the sector with the smallest relevant percentage.

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.

3 Annex 4	**(see GENPRU 3.1.5R)**



Footnote: the conditions are that the *UK regulated entity* at the head of the *consolidation group:*
is a *parent undertaking* of a member of the *consolidation group* in the *overall financial sector,*
has a *participation* in a member of the *consolidation group* that is in the *overall financial sector,* or
has a *consolidation Article 12(1) relationship* with a member of the *consolidation group* that is in the *overall financial sector.*

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 *depositary* in accordance with *FUND* 3.11.10R(2) or *COLL* 6.6A.8R(3)(b)(i).

…

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

…

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 *depositary* in accordance with *FUND* 3.11.10R(2) or *COLL* 6.6A.8R(3)(b)(i).

…

Summary of conditions for classification as an SNI MIFIDPRU investment firm and associated calculation requirements

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 *firm* is a *clearing member* or *indirect clearing firm* under *MIFIDPRU* 10.2	*Firm* must not be a *clearing member* or *indirect clearing firm*		Individual	
Whether the *firm* has been appointed to act as a *depositary* in accordance with *FUND* 3.11.10R(2) or *COLL* 6.6A.8R(3)(b)(i)	*Firm* must not be appointed as a *depositary* under the relevant *FUND* and *COLL* provisions		Individual	
…				

MIFIDPRU 1 Annex 4R (Notification under MIFIDPRU 1.2.16R that a firm no longer qualifies to be classified as an SNI investment firm) is replaced with the form below. The new text is not underlined.

MIFIDPRU 1 Annex 4R

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

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

If the reclassification results from a change in regulated activities that the MIFIDPRU investment firm undertakes, and the firm notifies us of that fact as part of a variation of permission application, a separate notification using this form is not required.

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

a. the SNI status of a MIFIDPRU investment firm ☐

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

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

2. Please provide the following information:

a. Condition(s) no longer met (please select all that apply)	Average AUM ☐ Average COH (cash trades) ☐ Average COH (derivatives trades) ☐ On- and off-balance sheet total ☐ Total annual gross revenue ☐ Average CMH ☐ Average ASA ☐ Average DTF ☐ Clearing member/indirect clearing firm status ☐
b. Date from which conditions ceased to be met	*DD/MM/YYYY*

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

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

Yes/No

4. Please confirm your understanding that the firm:

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

   b. will need to comply with the obligations in MIFIDPRU 1.2.18R(1) within 12 months of the date it first ceased to meet the SNI conditions in MIFIDPRU 1.2.R.

Yes

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

5. Please provide the following information:

a. Condition(s) no longer met on a consolidated basis (please select all that apply)	Average AUM ☐ Average COH (cash trades) ☐ Average COH (derivatives trades) ☐ On- and off-balance sheet total ☐ Total annual gross revenue ☐ Average CMH ☐ Average ASA ☐ Average DTF ☐ Entity within group deals on own account ☐ Non-SNI investment firms within the group ☐
b. Date from which conditions ceased to be met on a consolidated basis	*DD/MM/YYYY*

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

   Please confirm whether the group continues to meet all conditions in MIFIDPRU 1.2.1R on a consolidated basis other than those listed in MIFIDPRU 1.2.15R(2).

Yes/No

7. Please confirm your understanding that the group:

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

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

Yes

MIFIDPRU 2 Annex 1R (Application under MIFIDPRU 2.3.3R for an exemption from application of specific requirements on an individual basis) is replaced with the form below. The new text is not underlined.

Part A – Permission under MIFIDPRU 2.3.1R to be exempt from disclosure requirements in MIFIDPRU 8 (Disclosure by investment firms) for SNI firms in consolidated insurance groups

Details of Senior Manager responsible for this application:

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

Title	
First names	
Surname	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm that the applicant firm is a small and non-interconnected investment firm (SNI) by providing the following information.

   Please refer to MIFIDPRU 1.2.1R, which sets out the basic conditions to be classified as an SNI firm and explains how the numerical metrics should be calculated.

Average AUM	*number*
Average COH (cash)	*number*
Average COH (derivatives)	*number*
On- and off-balance sheet total	*number*
Annual gross revenue from MiFID services and activities	*number*

   Please tick to confirm that the following statements are true about the applicant firm:

   ☐ It does not have permission to deal on own account

   ☐ It does not act as a clearing member or an indirect clearing firm

   ☐ It does not hold client money and/or safeguard client assets in the course of its MIFID business

   ☐ Its average DTF is zero

   ☐ It is not appointed to act as a depositary in accordance with FUND 3.11.10R(2) or COLL 6.6A.8R(3)(b)(i)

2. Please provide the FRN and name of the parent insurance/reinsurance undertaking.

FRN	
Name	

3. Please confirm that the PRA has been notified about the firm's application to be exempt from disclosure requirements in MIFIDPRU 8.

   Please note that the FCA will consult the PRA before making a determination.

   ☐ Yes

   Name of PRA contact for this application:

PRA supervisor / contact name	
Phone number	
Email address	

4. Please attach a group structure chart clearly demonstrating that the applicant firm is a subsidiary of a parent insurance/reinsurance undertaking within a PRA consolidation group.

   ☐ Attached

5. With regards to the own funds held by the parent undertaking and the applicant firm:

   a. Please explain how you are satisfied that own funds are distributed adequately between the two firms:

   b. Please attach a breakdown of the own funds held by each firm.

      ☐ Attached

6. Please confirm that the following statements are true with respect to the arrangements between the parent undertaking and the applicant firm. Separately, in the text boxes provided please explain how these arrangements satisfy each of the below points and provide supporting evidence wherever possible.

   a. There is no current or foreseen material practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the parent undertaking.

      ☐ Yes

      ☐ Supporting evidence/information attached

b. Either the parent undertaking will guarantee the commitments entered into by the firm, or the risks of the firm are of negligible interest.

☐ Yes

☐ Supporting evidence/information attached

c. The risk evaluation, measurement and control procedures of the parent undertaking include the firm.

☐ Yes

☐ Supporting evidence/information attached

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

☐ Yes

☐ Supporting evidence/information attached

Part B – Individual exemption from liquidity requirements under MIFIDPRU 2.3.2R for MIFIDPRU investment firms in consolidated CRR or MIFIDPRU groups

Details of Senior Manager responsible for this application:

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

Title	
First names	
Surname	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm that the UK parent entity of the investment firm group the applicant firm is part of has not applied for an exemption from consolidated liquidity requirements under MIFIDPRU 2.5.19R.

   ☐ Yes

2. Please confirm which of the following applies to the applicant firm:

   a. The firm is part of a CRR prudential consolidation group and supervised on a consolidated basis; or

      ☐ Yes

   b. The firm is part of an IFPR prudential consolidation group, supervised on a consolidated basis, and the parent undertaking complies with MIFIDPRU 6 on a consolidated basis.

      ☐ Yes

3. Where 2.a. applies, please confirm that the PRA has been notified about the firm's application to be exempt from liquidity requirements on an individual basis.

   The FCA will consult the PRA before making a determination.

   ☐ Yes

   Name of PRA contact for this application:

PRA supervisor / contact name	
Phone number	
Email address	

4. Please attach a group structure chart which clearly identifies the prudential consolidation group that the applicant firm is part of. Please include FRNs of the group entities.

   ☐ Attached

5. Please explain how the parent undertaking:

   a. monitors and oversees the liquidity positions of the applicant firm as well as of all other institutions and MIFIDPRU investment firms within the group that will be exempt from liquidity requirements on an individual basis; and

   b. ensures a sufficient level of liquidity for all these entities.

6. The applicant firm is required to have entered into contracts that provide for the free movement of funds between the parent undertaking and the firm to enable each of them to meet their individual obligations and joint obligations as they become due.

   a. Please explain how the arrangements between the applicant firm and its parent undertaking satisfy this requirement.

   b. To the best of your knowledge, do you foresee any material, practical or legal impediments to these contracts being fulfilled?

      ☐ Yes ▸ Give details below
      ☐ No

   c. Please attach copies of the relevant contracts.

      ☐ Attached

…

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* 4.4.6R 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* 4.4.6R 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 *depositary* 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 *depositary* 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 *depositary*. 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 *depositary*. If the *firm*

identifies a potential material harm that results from its activities as a *depositary*, 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 Guidance notes on data items in MIFIDPRU 9 Annex 1R

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)	*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)	*SUP* 3.1 - *SUP* 3.7, *SUP* 3.11	*SUP* 3.1, *SUP* 3.2, *SUP* 3.8, *SUP* 3.10
(7A)	*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~~	*SUP* 3.1 - *SUP* 3.7, *SUP* 3.11	*SUP* 3.1, *SUP* 3.2, *SUP* 3.8, *SUP* 3.10

	~~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]			
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 itis 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.			
…			

…

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*~~ *MIFIDPRU investment firms*)	*IPRU(INV)*

Society of Lloyd's and Lloyd's *managing agents*	*IPRU(INS)*

…

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 *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*, when a *subsidiary* of the *firm* is during the period a *nominee company* in whose name *custody assets* of the *firm* are registered during the period, that *nominee company* has maintained throughout the period systems for the custody, identification and control of *custody assets* which:	
	(a)	were adequate; and
	(b)	included reconciliations at appropriate intervals between the records maintained (whether by the *firm* or the *nominee company*) and statements or confirmations from *custodians* or from the *person* 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 *full-scope UK AIFM* and a *small authorised UK AIFM*	*SUP* 16.8.3R
~~*SUP* 16.20~~ [deleted]	~~A *firm* to which *MIFIDPRU* 4.4.1R applies and a *qualifying parent undertaking* that is required to send a *recovery plan*, a *group recovery plan* or information for a resolution plan to the *FCA*~~	~~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	*UK bank*
	Dormant account operator

	A *non-UK bank*	
2.2	The *Society*	
3	*MIFIDPRU investment firms*	
	All other *firms* subject to the following chapters in *IPRU(INV)*:	
	(1)	Chapter 3
	(2)	Chapter 5
	(3)	~~Chapter 9~~ [deleted]
4	*MIFIDPRU investment firms*	
	Collective portfolio management firm	
	All other *firms* subject to the following chapters in *IPRU(INV)*:	
	(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 *data item*	*Firms'* prudential category and applicable *data items* (note 1)	
	MIFIDPRU investment firms	Firms other than *MIFIDPRU investment firms*

		IPRU(INV) Chapter 3	*IPRU(INV)* Chapter 5	~~*IPRU(INV)* Chapter 9~~	*IPRU(INV)* 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)	~~FSA031~~	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-*K-CON*)	MIF004 (notes 2, 3 and 11)				
Concentration risk (*K-CON*)	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 *data item*	*Firms'* prudential category and applicable *data items* (note 1)						
	MIFIDPRU investment firms	*Firms* other than *MIFIDPRU investment firms*					
		IPRU(INV) Chapter 3	*IPRU(INV)* Chapter 5	~~*IPRU(INV)* Chapter 9~~	*IPRU(INV)* Chapter 11	*IPRU(INV)* Chapter 12	*IPRU(INV)* Chapter 13

					(*collective portfolio management firms* only)		
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)	~~FSA031~~	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-*K-CON*)	MIF004 (notes 3, 4 and 7)						
Concentration risk (*K-CON*)	MIF005 (notes 3, 4 and 7)						
Group capital test	MIF006 (notes 4 and 8)						
Information on *P2P agreements*						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 *data item*	*Firms'* prudential category and applicable *data items* (note 1)			
	IPRU(INV) Chapter 3	*IPRU(INV)* Chapter 5	~~*IPRU(INV)* Chapter 9~~	*IPRU(INV)* 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 *data item*	*Firms'* prudential category and applicable *data items* (note 1)				
	MIFIDPRU investment firms	Firms other than *MIFIDPRU investment firms*			
		IPRU(INV) Chapter 3	*IPRU(INV)* Chapter 5	~~*IPRU(INV)* Chapter 9~~	*IPRU(INV)* 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)	~~FSA031~~	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 (*K-CON*)	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 18B G Notes for completion of the Retail Mediation Activities Return ('RMAR')

Introduction: General notes on the RMAR

…

5. The following table summarises the key abbreviations that are used in these notes:

APF	*Authorised professional firm*
AR	*Appointed representative*
~~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 *firm* exempt from these capital resources requirements in relation to any of its retail or distribution mediation activities?	The *firm* should indicate here if any *Handbook* exemptions apply in relation to the capital resources requirements in *MIPRU* or *IPRU-INV* 13. Examples of *firms* that may be subject to exemptions include: • Lloyd's *managing agents* (*MIPRU* 4.1.11R); • solo consolidated subsidiaries of banks or *building societies*; • small *credit unions* (as defined in *MIPRU* 4.1.8R); and • *investment firms* not subject to *IPRU-INV* 13 (unless they additionally carry on *home finance mediation activity* or *insurance distribution activity* relating *to non-investment insurance contracts*).
Home finance mediation and non-investment insurance distribution	
…	…

Other *FCA* capital resources requirements (if applicable)	The *FCA* may from time to time impose additional requirements on individual *firms*. If this is the case for your *firm*, you should enter the relevant amount here. This excludes capital resources requirements in relation to PII, which are recorded below. If the *firm* carries on *designated investment business* as well as *home finance mediation activity*, *insurance distribution activity* or both, requirements under *IPRU(INV)*, ~~*IFPRU*~~, ~~*GENPRU* or *BIPRU*~~ *MIFIDPRU* and *MIPRU* 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 *MIPRU* requirement then you should include the difference here.
…	…
Capital resources	This should be the capital resources calculated in accordance with *MIPRU* 4 for incorporated or unincorporated *firms* as applicable. For *firms* that are additionally subject to *IPRU(INV)*~~, *IFPRU*, *GENPRU*~~ or ~~*CREDS*~~ *MIFIDPRU*, this should be the higher of the capital resources per *MIPRU* 4 and the financial resources determined by *IPRU(INV)*~~, *IFPRU*, *GENPRU*~~ or ~~*CREDS*~~ *MIFIDPRU*. See *MIPRU* 4.4.1R.
…	…

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 33A Remuneration Benchmarking Information Report [deleted]

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 *firm* the regulatory intervention point mentioned in that *rule* is added to the list in paragraph (a) of the definition of *firm-specific liquidity stress* in the case of that *firm* for as long as *BIPRU* TP 30.4R applies to it.~~	~~For as long as *BIPRU* TP 30.4R applies to the *firm*~~	~~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

…

Depositaries appointed under COLL 6.6A.8R(3) (non-bank depositaries): Capital requirements

6.6B.7 G A *depositary* 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 *depositary* of a *UCITS scheme* must maintain *own funds* of at least £4million.~~ [deleted]

[*Editor's note*: this requirement has been moved to *MIFIDPRU* 4.4.6R.]

6.6B.9 G (1) ~~If the *depositary* 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 Depositaries

…

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 *depositary* functions. The *FCA* requires such entities to obtain authorisation as a *depositary* 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 *depositary* 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* 4.4.6R.]

3.11.17 G ~~Where the *firm* referred to in *FUND* 3.11.16R is a *full-scope IFPRU investment firm* which is a *depositary* 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 (*IPRU*)	Chapter 1 (Application and General) of (Interim Prudential sourcebook: Investment Businesses) applies. Chapter 3 (Financial resources for Securities and Futures Firms which are not MiFID investment firms ~~or which are exempt BIPRU commodities firms or exempt IFPRU commodities firms~~) of *IPRU(INV)*applies, with the following qualifications: (a) *energy market participants* whose main business consists of

		the generation, production, storage, distribution and/or transmission of *energy* may be granted a *waiver* of Chapter 3 in the *FCA's* discretion: see *SUP* 21.~~; and~~ (b) ~~the concentrated risk requirements do not apply to an *energy 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] (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] The other parts of *IPRU(INV)* do not apply. The other sourcebooks do not apply.
	~~General Prudential sourcebook (*GENPRU*)~~ [deleted]	~~Except for provisions on capital requirements and the *ICAAP rules*, this applies to an *energy market participant* if it is an *exempt BIPRU commodities firm*: see *BIPRU* TP 15.9G-*BIPRU* TP 15.10G.~~ [deleted]
	~~Prudential sourcebook for Banks, Building Societies and Investment Firms (*BIPRU*)~~ [deleted]	~~Except for provisions on capital requirements and the *ICAAP rules*, this applies to an *energy market participant* if it is an *exempt BIPRU commodities firm*: see *BIPRU* TP 15.9G-*BIPRU* TP 15.10G.~~ [deleted]
	~~Prudential sourcebook for Investment~~	~~Except for provisions on combined buffer, *own funds*, *own funds requirements* and the *ICAAP rules*, this applies to an~~

	~~Firms (*IFPRU*)~~ [deleted]	~~*energy market participant* if it is an *exempt IFPRU commodities firm*: see *IFPRU* 1.1.1G.~~ [deleted]
Regulatory processes	…	
	Supervision manual (*SUP*)	This applies, with the following qualifications: (a) in *SUP* 3 (Auditors), only some provisions apply if *IPRU(INV)* 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 *energy market participant* (because it has been granted a *waiver* of that chapter): see *SUP* 3.1.2R; (c) SUP 16.12 (Integrated Regulatory Reporting): *energy market participants* whose main business consists of the generation, production, storage, distribution and/or transmission of *energy* may be granted a *waiver* of this section in the *FCA's* discretion: see *SUP* 21; (d) *SUP* 17A (Transaction reporting): does not apply to *energy market participants* which are not ~~*MiFID investment firms* or~~ *third country investment firms*; and (e) *SUP* App 2 (Insurers: Scheme of operations) does not apply.
…		

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.

1.2.2 G **Parts of the Handbook applicable to oil market participants**

This table belong to *OMPS* 1.2.1G

	Part of Handbook	**Applicability to oil market participants**
…		
Prudential standards	Interim Prudential sourcebooks (*IPRU*)	Chapter 1 (Application and General) of *IPRU(INV)* (Interim Prudential sourcebook: Investment Businesses) applies. Chapter 3 (Financial resources for Securities and Futures Firms which are not MiFID investment firms ~~or which are exempt BIPRU commodities firms or exempt IFPRU commodities firms~~) of *IPRU(INV)*applies, with the following qualifications: (a) to an *oil market participant* only if it is a member of a *recognised*

		investment exchange or a *designated investment exchange* which is, under the rules of that exchange, entitled to trade with other members: see *IPRU(INV)* 3-1A~~;~~. (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] (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] ~~The other parts of *IPRU(INV)* do not apply.~~ [deleted] The other *IPRU* sourcebooks do not apply.
	~~General Prudential sourcebook (*GENPRU*)~~ [deleted]	~~Except for provisions on capital requirements and the *ICAAP rules*, this applies to an *oil market participant* if it is an *exempt BIPRU commodities firm*: see *BIPRU* TP 15.9G-*BIPRU* TP 15.10G.~~ [deleted]
	~~Prudential sourcebook for Banks, Building Societies and Investment Firms (*BIPRU*)~~ [deleted]	~~Except for provisions on capital requirements and the *ICAAP rules*, this applies to an *oil market participant* if it is an *exempt BIPRU commodities firm*: see *BIPRU* TP 15.9G-*BIPRU* TP 15.10G.~~ [deleted]
	~~Prudential sourcebook for Investment Firms (*IFPRU*)~~ [deleted]	~~Except for provisions on combined buffer, *own funds*, *own funds requirements* and the *ICAAP rules*, this applies to an *oil market participant* if it is an *exempt*~~

		~~*IFPRU commodities firm*: see *IFPRU* 1.1.1G.~~ [deleted]
…		
Regulatory processes	…	
	Supervision manual (*SUP*) …	This applies, with the following qualifications: (a) in *SUP* 3 (Auditors), only some provisions apply if *IPRU(INV)* 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 *oil market participant*: see *SUP* 3.1.2R; (c) *SUP* 16.7 (Financial reports) does not apply to the *firm* if *IPRU(INV)* 3 does not apply: see SUP 16.1.3R and *SUP* 16.7.5G; (d) *SUP* 17A (Transaction reporting) does not apply to an *oil market participant* which is not a ~~*MiFID investment firm* or a~~ *third country investment firm*: (e) *SUP* App 2 (Insurers: Scheme of operations) does not apply.
…		

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:
…		
PERG 13:		
Guidance on the scope of the *UK* provisions which implemented MiFID ~~and CRD IV~~	Any *UK person* who needs to know whether *MiFID* ~~or the *CRD* and *UK CRR* (which allow provisions which correspond to the recast *CAD* to continue to apply to certain firms) apply to him~~ applies to them	the scope of the UK provisions which implemented *MiFID* ~~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~~;~~.
- ~~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 their 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 were~~ 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 and 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 Annex 1 Do the UK provisions which implemented MiFID apply to us?

[*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 Annex 3 Are you subject to the CRD and UK CRR (or allowed to be subject to the recast CAD)? [deleted]

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**
Sample wind-down scenarios (covering those that are fast and slow-moving, *firm* specific and macro-economic) might include: • Severe economic downturn leading to continual ~~*losses*~~ losses with no sign of recovery; and …	…

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