

**INVESTMENT FIRMS PRUDENTIAL REGIME  
(IFPR)  
COMPLIANCE MANUAL CHAPTER**

**[DATE] 202[2]**

*Suitable for SNI MIFIDPRU investment firms only*

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## 1 INTRODUCTION

A revised prudential regime for FCA-authorised investment firms, the Investment Firms Prudential Regime (“**IFPR**”), came into force on 1 January 2022.

The IFPR rules are mainly set out in a new FCA Sourcebook called MIFIDPRU. In conjunction with the introduction of MIFIDPRU, the BIPRU, IFPRU, IPRU (INV) Chapter 9 and IPRU (INV) Chapter 13.1A FCA Sourcebooks were repealed and the UK CRR and technical standards deriving from it ceased to be directly applicable to investment firms.

Equally, all prudential categories of investment firms that existed prior to the introduction of the IFPR, such as “IFPRU firm”, “BIPRU firm” and “exempt CAD firm”, were abolished by the FCA.

## 2 FIRM CATEGORISATION AS SNI FIRM (MIFIDPRU 1)

Under the IFPR, there are only two categories of investment firms, small and non-interconnected firms (“**SNI firms**”) and non-SNI firms. Most investment firms (including the Firm) are SNI firms.

An investment firm is an SNI firm if it does not have permission to deal on own account and satisfies all the following conditions:

- average assets under management (AUM) < £1.2 billion. AUM includes for these purposes both discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature.
- average client orders handled (COH):
  - cash trades < £100 million per day;
  - derivative trades < £1 billion per day;

COH includes both the execution of orders on behalf of a client and the reception and transmission of client orders.

- average assets safeguarded and administered = zero;
- average client money held = zero;
- average daily trading flow = zero;
- on- and off-balance sheet total < £100 million;
- average total annual gross revenue from investment services and/or activities < £30 million;
- not a clearing member or an indirect clearing member firm; and
- not appointed to act as a depositary.

Non-SNI firms are firms that exceed any one of the above SNI thresholds. This means, for example, that firms that hold client money or client assets are non-SNI firms.

SNI firms (such as the Firm) are subject to less onerous prudential requirements under the IFPR, including in respect of reporting, disclosure and remuneration. The main IFPR requirements that are applicable to the Firm are described in the following sections.

The Firm must notify the FCA promptly if it ceases to satisfy the SNI thresholds at any time. This notification must be submitted via the online notification and application system using the form in MIFIDPRU 1 Annex 4R.

### **3 GROUP CONSOLIDATION (MIFIDPRU 2)**

#### **3.1 Level of Application of Requirements**

The Firm must comply with the rules in MIFIDPRU 3 to MIFIDPRU 9 on an individual basis, subject to limited exemptions that may apply if the Firm is part of an insurance or banking group.

In addition, if the Firm is part of an investment firm group, the Firm's investment firm group must comply with prudential requirements on a consolidated basis unless the FCA grants its permission for the group to use the group capital test ("**GCT**") as an alternative to the consolidated prudential requirements.

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

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

[The Firm is not part of an investment firm group/The Firm is part of an investment firm group which comprises the following entities: - COMPLIANCE OFFICER TO COMPLETE].

#### **3.2 Group Capital Test**

MIFIDPRU 2.5 (Prudential Consolidation) does not apply to an investment firm group where:

- (1) the UK parent entity of that investment firm group or a MIFIDPRU investment firm within that investment firm group has applied to the FCA for permission to use the GCT; and
- (2) the application demonstrates to the satisfaction of the FCA that:
  - (a) the group structure of the investment firm group is sufficiently simple to justify applying the GCT; and
  - (b) there are no significant risks to clients or to the market stemming from the investment firm group as a whole that require supervision on a consolidated basis.

An application for permission to use the GCT:

- (1) must be made using the form in MIFIDPRU 2 Annex 2R, and should be submitted using the online notification and application system;
- (2) must include certain prescribed information including:
  - (a) a group structure chart;
  - (b) an explanation of why the group structure is sufficiently simple to justify the application of the GCT;
  - (c) an explanation of why there are no significant risks to clients or to the market stemming from the investment firm group that require supervision on a consolidated basis; and
  - (d) calculations which show how each parent undertaking within the investment firm group would satisfy the GCT.

Where the FCA has granted permission to use the GCT, a UK parent entity and any other GCT parent undertakings in the investment firm group no longer need to comply with the rules in MIFIDPRU 2.5 (Prudential Consolidation).

Instead, they will be required to hold "own funds instruments" sufficient to cover the sum of the following:

- (1) the sum of the full book value of their holdings, subordinated claims and instruments referred to in MIFIDPRU 3.3.6R(8), article 56(d), and article 66(d) of the UK CRR in relevant financial undertakings in the investment firm group; and