

New Prudential Regime for Investment Firms

The Financial Conduct Authority (“FCA”) is introducing a new UK Investment Firm Prudential Regime (IFPR) for investment firms authorised under MiFID which will come into force on 1 January 2022. The new regime will have a significant impact on the prudential requirements that apply to many investment firms, including Collective Portfolio Management Investment Firms, and will particularly impact firms that belong as part of a UK company group structure.

Firms should assess their classification under the new regime and, where applicable, comply with new requirements including:

- Increased minimum capital requirement;
- Consolidated reporting required for firms belonging part of UK group companies;
- New public disclosure requirements and quarterly returns due on the FCA’s RegData system;
- Enhanced governance and remuneration requirements;
- Implementation of a new Internal Capital Adequacy and Risk Assessment (“ICARA”) process to replace ICAAP;
- Implementation of new policies e.g., Remuneration, Disclosure and Prudential policies.

In this article, we summarise the action points to get your firm ready for IFPR. This article forms part of our IFPR Readiness series.

Determine your firm’s classification

The first step is to determine which prudential category your firm falls into. Firms will no longer be classified as Exempt CAD, BIPRU or IFPRU firms under the new regime. There are two types of investment firms under IFPR:

- ‘Small and non-inter connected’ (“SNI”); or
- Firms that are not SNIs (“Non-SNI”).

SNI firms are those whose activities fall below the following thresholds in the table below. Firms operating above these thresholds or who deal on their own account and/or hold client money and/or safeguarding client assets will be deemed to be Non-SNIs.

Measure	Threshold
Assets under management	<£1.2bn
Client orders handled	<£100 million a day cash trades
Client orders handled – derivative trades	< £1 billion per day
Assets safeguarded and administered	Zero
Client Money held	Zero
On- and off balance sheet	<£100 million
Total annual gross revenue from investment services and activities	<£30 million

Understand the impact to your firm

The new requirements will apply differently to SNIs and non-SNIs. A summary of requirements are set out below:

Issue	New Requirement for SNI	New Requirement for Non- SNI
Own Funds – composition of capital	Common Equity Tier 1 capital \geq 56% of own funds requirement; Common Equity Tier 1 + Additional Tier 1 Capital \geq 75% of own funds requirement; Common Equity Tier 1 + Additional Tier 1+Tier 2 \geq 100% of own funds requirement. No tier 3 capital permissible.	
Own Funds Requirements	Greater of: (1) £75k; or (2) Fixed Overheads Requirement (“FOR”) of $\frac{1}{4}$ of fixed annual expenses.	Greater of: (1) £75k, £125k or £750k ¹ ; or (2) Fixed Overheads Requirement (“FOR”) of $\frac{1}{4}$ of fixed annual expenses; or (3) new K-factor requirements, a mix of activity and exposure based requirements.

¹ Depending on scope of activity.

Group Capital Requirements	The relevant own funds, own funds requirements, concentration risk, liquidity, disclosure and reporting will have to be applied on a solo and consolidated basis. If a group is sufficiently simple and does not pose a significant threat to clients or the markets, the parent could apply to use a group capital test instead of the consolidated own funds requirement.	
Concentration Risk	Basic requirement to monitor and control 'concentration risk'.	Same as for SNI's but additional reporting requirements.
Liquid Asset Requirement	Maintain 'basic liquid asset requirement' equal to 1/3 of FOR to be held in core liquid assets.	
Risk Management, Governance and Review Process	<p>The ICAAP will be replaced the ICARA which will form the centre piece of a firm's risk management framework and assesses financial resource adequacy to ensure it corresponds with the risk, harm and complexity of your business model rather than prescribed ICAAP risk categories. Requires firms to set their 'own funds threshold requirement' and 'liquid asset threshold requirement' which dictates their overall financial adequacy.</p> <p>Stress testing, recovery and a wind down plans must be included in the ICARA and reported to the FCA via a new return annually. Assessments may be reviewed periodically by the FCA.</p>	
Reporting	Change to RegData reporting with quarterly capital, liquidity, SNI threshold monitoring, balance sheet and income statement. Annual ICARA and remuneration reports.	Same as SNI information with additional concentration risk and remuneration reporting.
Remuneration	All firms subject to 'basic remuneration requirements' for all staff in relation to MiFID business.	<p>Same as SNIs with additional 'standard remuneration requirements' for Material Risk Takers.</p> <p>'Extended remuneration requirements' apply to significant non-SNI firms on deferral of bonuses, use of non-cash instruments and retention periods.</p>
Public disclosure	Some disclosure required if own funds consist of anything other than common equity tier 1 capital regarding risk management objectives, own funds and own funds requirement.	Firms need to disclose risk management objectives, own funds and own funds requirement, remuneration, and governance arrangements (similar to current Pillar 3 obligations). Larger non-SNIs will also need to disclose ESG risks and investment policy.

Next steps

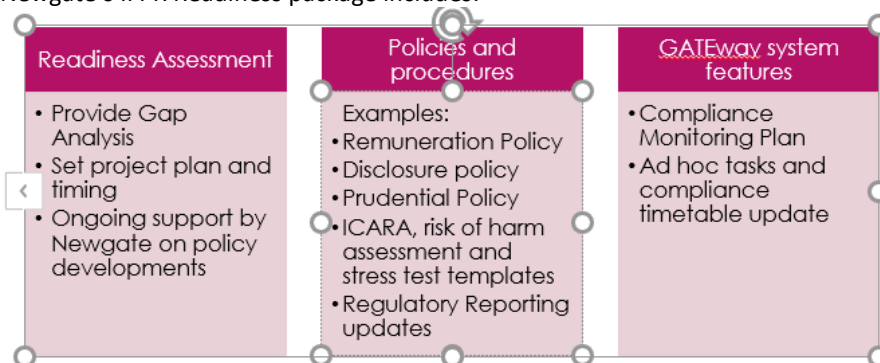
Firms should start familiarising themselves with the proposed IFPR changes and starting planning on how to meet the new requirements.

How can Newgate help?

Newgate have developed a Readiness Assessment to undertake a gap analysis of a firm's systems and controls against the requirements identifying any remediation actions to be undertaken.

We have developed an enhanced compliance framework on our proprietary compliance system "GATEway" that encompasses updated policies, assessment documents and the compliance monitoring plan to ensure these changes are considered and complied with on an ongoing basis.

Newgate's IFPR Readiness package includes:



Please do not hesitate to get in touch to discuss how we can help.



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