

**CAPITAL REQUIREMENTS DIRECTIVE IV (AIFMD AND UCITS
CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2013**

Powers exercised by the Financial Conduct Authority

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) the following sections of the Act:
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers); and
 - (c) section 139A (Power of the FCA to give guidance); and
 - (2) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions module of the FCA’s Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 January 2014.

Amendments to the Handbook

- D. 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) below.

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for UCITS firms (UPRU)	Annex B
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex C
Supervision manual (SUP)	Annex D

Notes

- E. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

European Union Legislation

- F. Although European Union legislation is reproduced in this instrument, only European Union legislation printed in the paper edition of the Official Journal of the European Union is deemed authentic.

Citation

- G. This instrument may be cited as the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instrument 2013.

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Amendments to the Glossary of definitions

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

<i>base capital resources requirement</i>	(1)	(except in <i>IPRU(INV)</i>) an amount of <i>capital resources</i> that...
	(2)	(in <i>IPRU(INV)</i>) an amount of own funds that a <i>collective portfolio management firm</i> must hold in line with <i>IPRU(INV)</i> 11.3.1R (Base capital resources requirement). [deleted]
<i>base own funds requirement</i>	(1)	(for the purposes of <i>IFPRU</i>)...
	(2)	<u>(for the purposes of <i>IPRU(INV)</i> 11) an amount of <i>own funds</i> that a <i>collective portfolio management firm</i> or a <i>collective portfolio management investment firm</i> must hold as set out in <i>IPRU(INV)</i> 11.3.1R (Base own funds requirement).</u>
<i>client money</i>	...	
	(2A)	(in <i>CASS</i> 6, <i>CASS</i> 7, <i>CASS</i> 7A and <i>CASS</i> 10 and, in so far as it relates to matters covered by <i>CASS</i> 6, <i>CASS</i> 7, <i>COBS</i> ; <u>or <i>GENPRU</i> or <i>IPRU(INV)</i> 11</u>) subject to the <i>client money rules</i> , money of any currency:
	...	
<i>initial capital</i>	...	
	(3)	(in <i>UPRU</i> and in accordance with article 28(1) of the <i>CRD</i>) capital the amount of own funds referred to in article 26(1)(a) to (e) of the <i>EU CRR</i> and calculated in accordance with <i>UPRU</i> Table 2.2.1R (Method of calculation of financial resources) composed of the specified items set out in that Table <u>Part Two of those Regulations (Own funds).</u>
	(3A)	<u>(in <i>IPRU(INV)</i> 11 and in accordance with article 28(1) of the <i>CRD</i>) capital the amount of <i>own funds</i> referred to in article 26(1)(a) to (e) of the <i>EU CRR</i> and calculated in line with <i>IPRU(INV)</i> Table 11.4 (Method of calculating initial capital and own funds) composed of the specified items in that Table</u> <u>Part Two of those Regulations (Own funds).</u>
<i>own funds</i>	...	

(2A) ~~(in IPRU(INV) 11) the own funds of a firm calculated with IPRU(INV) Table 11.4 (Method of calculating initial capital and own funds) has the meaning in article 4(1)(118) of the EU CRR.~~

...

(4) ~~(in UPRU) funds calculated in accordance with UPRU Table 2.2.1R (Method of calculation of financial resources) composed of the specified items set out in that Table has the meaning in article 4(1)(118) of the EU CRR.~~

qualifying capital instrument

~~(in UPRU and IPRU(INV)) means that part of a firm's capital which is a security of indeterminate duration, or other instrument, that fulfils the following conditions:~~

- ~~(a) it may not be reimbursed on the bearer's initiative or without the prior agreement of FCA;~~
- ~~(b) the debt agreement must provide for the firm to have the option of deferring the payment of interest on the debt;~~
- ~~(c) the lender's claims on the firm must be wholly subordinated to those of all non-subordinated creditors;~~
- ~~(d) the documents governing the issue of the securities must provide for debt and unpaid interest to be such as to absorb losses, whilst leaving the firm in a position to continue trading; and~~
- ~~(e) only fully paid-up amounts shall be taken into account. [deleted]~~

qualifying capital item

~~(in UPRU and IPRU(INV)) means that part of a firm's capital which has the following characteristics:~~

- ~~(a) it is freely available to the firm to cover normal banking or other risks where revenue or capital losses have not yet been identified;~~
- ~~(b) its existence is disclosed in internal accounting records; and~~
- ~~(c) its amount is determined by the management of the firm and verified by independent auditors, and is made known to, and is monitored by, FCA.~~

~~Note: verification by internal auditors will suffice until such time as EU provisions making external auditing mandatory have been implemented. [deleted]~~

qualifying subordinated

~~(1) (in UPRU) has the meaning given in IPRU(INV) 5.2.5(1) to~~

- loan*
- ~~(7) (Qualifying subordinated loans).~~
- (2) ~~(in *IPRU(INV)* 11) has the meaning given in *IPRU(INV)* 11.5 (Qualifying subordinated loans). [deleted]~~
- readily realisable investment*
- (1) ~~(except in *UPRU* and *IPRU(INV)*)~~
- (a) a packaged product;
- (b) a readily realisable security.
- (2) ~~(in *UPRU* and *IPRU(INV)*) means a unit in a regulated collective investment scheme, a life policy or any marketable investment other than one which is traded on or under the rules of a recognised or designated investment exchange so irregularly or infrequently:~~
- (a) ~~that it cannot be certain that a price for that investment will be quoted at all times; or~~
- (b) ~~that it may be difficult to effect transactions at any price which may be quoted. [deleted]~~

Annex B

Amendments to the Interim Prudential sourcebook for UCITS Firms (UPRU)

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

1 UCITS firms

...

1.2 Purpose

1.2.1 G ...

(3) The UCITS Directive incorporates references to provisions of the Banking Consolidation Directive and the Capital Adequacy Directive in relation to initial capital, own funds and fixed overheads. However, in line with article 163 of the CRD, the Banking Consolidation Directive and the Capital Adequacy Directive are repealed from 1 January 2014 and references to these directives are replaced with references to the CRD and the EU CRR in line with the correlation table set out in Annex II to the CRD and in Annex IV to the EU CRR.

2 Prudential requirements

2.1 Financial resources and financial resources requirements

...

Financial resources requirement

2.1.2 R The *financial resources requirement* for a firm is the higher of:

- (1) ...
- (2) 13/52 of its annual audited fixed expenditure the amount specified in article 97 of the EU CRR (Own funds based on fixed overheads) (as replicated in UPRU 2.1.2AEU).

2.1.2A EU Own Funds based on Fixed Overheads

- | | |
|-----------|---|
| <u>1.</u> | <u>In accordance with Articles 95 and 96, an investment firm and firms referred to in point (2)(c) of Article 4(1) that provide the investment services and activities listed in points (2) and (4) of Section A of Annex I to Directive 2004/39/EC shall hold eligible capital of at least one quarter of the fixed overheads of the preceding year.</u> |
|-----------|---|

2.	<u>Where there is a change in the business of an investment firm since the preceding year that the competent authority considers to be material, the competent authority may adjust the requirement laid down in paragraph 1.</u>
3.	<u>Where an investment firm has not completed business for one year, starting from the day it starts up, an investment firm shall hold eligible capital of at least one quarter of the fixed overheads projected in its business plan, except where the competent authority requires the business plan to be adjusted.</u>
[Note: article 97(1) to (3) of the <i>EU CRR</i>]	

Annual fixed expenditure

- 2.1.3 R For the purposes of this sourcebook, a *firm's* annual fixed expenditure is:
- (1) the sum of the amounts described as total expenditure in the four *quarterly financial returns* up to (and including) that prepared at the *firm's* most recent *accounting reference date*, less the following items (if they are included within that expenditure):
 - (a) staff bonuses, except to the extent that they are guaranteed;
 - (b) *employees'* and *directors'* shares in profits, except to the extent that they are guaranteed;
 - (c) other appropriations of profits;
 - (d) shared *commission* and fees payable which are directly related to *commission* and fees receivable which are included within total revenue;
 - (e) interest charges in respect of borrowings made to finance the acquisition of the *firm's* *readily realisable investments*;
 - (f) interest paid to *customers* on *client money*;
 - (g) interest paid to *counterparties*;
 - (h) fees, brokerage and other charges paid to *clearing houses*, exchanges and *intermediate brokers* for the purposes of *executing*, registering or clearing transactions;
 - (i) foreign exchange losses;
 - (j) other variable expenditure; or
 - (2) where the previous accounting period does not include twelve months' trading, an amount calculated in accordance with (1) pro-rated to an equivalent annual amount; or

- (3) where a *firm* has not prepared four *quarterly financial returns* since the commencement of its *permitted business*, an amount based on forecast expenditure included in the budget for the first twelve months' trading, as submitted with its application for authorisation. [deleted]

...

2.2 Methods of calculation of financial resources

2.2.1 R Part I

A firm must calculate its financial resources as shown below, subject to the detailed requirements set out in Part II.

Financial resources			Category	Part II
Para				
TIER 1				
(1)	Paid up share capital (excluding preference shares) [deleted]	A	2	
(2)	Share premium account [deleted]			
(3)	Audited reserves [deleted]		3	
(4)	Non-cumulative preference shares [deleted]			
(5)	<i>Eligible LLP members' capital</i> [deleted]		4	
(6)	Investments in own shares [deleted]	B		
(7)	Intangible assets [deleted]		5	
(8)	Material current year losses [deleted]		6	
(8A)	<i>Excess LLP members' drawings</i> [deleted]			
(9)	Material holdings in credit and financial institutions		7	

		[deleted]		
Initial capital = (A-B) =			C	1(b)
TIER 2				1
	(10)	Revaluation reserves [deleted]	D	
	(11)	Fixed term cumulative preference share capital [deleted]		1(a)
	(12)	Long term Qualifying Subordinated Loans [deleted]		1(a); 8
	(13)	Other cumulative preference share capital and debt capital [deleted]		
	(14)	Qualifying arrangements [deleted]		9
Own funds <i>Own funds</i> = (C+D) =			E	
TIER 3				
	(15)	Illiquid assets	F	11
Financial resources = (E-F) =			G	

PART II

DETAILED REQUIREMENTS

1 Ratios

(Items 11 and 12)

- (a) the total of fixed term cumulative preference shares (item 11) and long term *qualifying subordinated loans* (item 12) that may be included in Tier 2 capital is limited to 50 per cent of Tier 1 capital
;
- (b) Tier 1 capital must equal or exceed €125,000 at all times; and

- (e) Tier 2 capital must not exceed 100 per cent of Tier 1 capital.
[deleted]

2 Non-corporate entities

- (a) In the case of partnerships or sole traders, the following terms should be substituted, as appropriate, for items 1 to 4 in Tier 1 capital:
- (i) partners' capital accounts (excluding loan capital);
 - (ii) partners' current accounts (excluding unaudited profits and loan capital);
 - (iii) proprietor's account (or other term used to signify the sole trader's capital but excluding unaudited profits).
- (b) Loans other than *qualifying subordinated loans* shown within partners' or proprietors' accounts must be classified as Tier 2 capital under item 13.
- (c) For the calculation of *financial resources*, partners' current accounts figures are subject to the following adjustments in respect of a *defined benefit occupational pension scheme*:
- (i) a *firm* must derecognise any *defined benefit asset*;
 - (ii) a *firm* may substitute for *defined benefit liability* the *firm's deficit reduction amount*. The election must be applied consistently in respect of any one financial year.

Note

A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *FCA* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*. [deleted]

3 Audited Reserves

For the calculation of *financial resources*, the following adjustments apply to the audited reserves figure:

- (a) a *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost;
- (b) in respect of a *defined benefit occupational pension scheme*, a *firm* must derecognise any *defined benefit asset*;

- (e) a *firm* may substitute for a *defined benefit liability* the *firm's deficit reduction amount*. The election must be applied consistently in respect of any one financial year.

Note

A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *FCA* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

- (d) a *firm* must not include any unrealised gains from investment property.

Note

Unrealised gains from investment property should be reported as part of revaluation reserves.

- (e) where applicable, a *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax. [deleted]

4 Eligible LLP members' capital (Item 5)

Members' capital of a *limited liability partnership* may only be included in Tier 1 of the calculation (see item 5) if the conditions in *IPRU(INV) Annex A 2.2R* (Specific conditions for eligibility) and *IPRU(INV) Annex A 2.3R* (General conditions for eligibility) are satisfied. [deleted]

5 Intangible assets (Item 7)

Intangible assets comprise:

- (a) formation expenses to the extent that these are treated as an asset in the *firm's* accounts;
- (b) goodwill, to the extent that it is treated as an asset in the *firm's* accounts; and
- (e) other assets treated as intangibles in the *firm's* accounts. [deleted]

6 Material current year losses (Item 8)

Losses in current year operating figures must be deducted when calculating Tier 1 capital if such losses are material. For this purpose profits and losses must be calculated quarterly, as appropriate. If this calculation reveals a net loss it shall only be deemed to be material for the purposes of this Table if it exceeds 10 per cent of the *firm's* Tier 1

capital. ~~[deleted]~~

7 Material holdings in credit and financial institutions (Item 9)

Material holdings comprise:

- (a) ~~where the *firm* holds more than 10 per cent of the equity share capital of the institution, the value of that holding and the amount of any subordinated loans to the institution and the value of holdings in *qualifying capital items* or *qualifying capital instruments* issued by the institution;~~
- (b) ~~in the case of holdings other than those mentioned in (a) above, the value of holdings of equity share capital in, and the amount of subordinated loans made to, such institutions and the value of holdings in *qualifying capital items* or *qualifying capital instruments* issued by such institutions to the extent that the total of such holdings and subordinated loans exceeds 10 per cent of the *firm's own funds* calculated before the deduction of item 9.~~
~~[deleted]~~

8 Long term *qualifying subordinated loans* (Item 12)

~~Loans having the characteristics prescribed by *IPRU(INV)* 5.2.5(1) R may be included in item 12, subject to the limits set out in paragraph (1) above.~~
~~[deleted]~~

9 Qualifying arrangements (Item 14)

~~A *firm* may only include a *qualifying undertaking* or other arrangement in item 14 if it is a *qualifying capital instrument* or a *qualifying capital item*.~~
~~[deleted]~~

10 Interim profits

~~Non-*trading book* interim profits may only be included in Tier 1 of the calculation if they have been independently verified by the *firm's* external auditors.~~

~~For this purpose, the auditor should normally undertake at least the following:~~

- (a) ~~satisfy himself that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records;~~
- (b) ~~review the accounting policies used in calculating the interim profits so as to obtain comfort that they are consistent with those normally adopted by the *firm* in drawing up its annual financial statements;~~

- ~~(e) perform analytical review procedures on the results to date, including comparisons of actual performance to date with budget and with the results of prior periods;~~
- ~~(d) discuss with management the overall performance and financial position of the *firm*;~~
- ~~(e) obtain adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities and provisions for bad and doubtful debts have been properly taken into account in arriving at the interim profits; and~~
- ~~(f) follow up problem areas of which the auditors are already aware in the course of auditing the *firm's* financial statements.~~

~~A *firm* wishing to include interim profits in Tier 1 capital in a *financial return* should submit to the *FCA* with the *financial return* a verification report signed by its auditor which states whether the interim results are fairly stated.~~

~~Profits on the sale of capital items or arising from other activities which are not directly related to the *designated investment business* of the *firm* may also be included within the calculation of *financial resources* if they can be separately verified by the *firm's* auditors. In such a case, such profits can form part of the *firm's* Tier 1 capital as audited profits. [deleted]~~

11 Illiquid assets (Item 15)

Illiquid assets comprise:

...

UPRU 2.3 is deleted in their entirety. The deleted text is not shown.

Annex C

**Amendments to the Interim Prudential sourcebook for Investment Businesses
(IPRU(INV))**

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

Contents

Chapter

...

10 [deleted]

11 Collective Portfolio Management Firms and Collective Portfolio Management
Investment Firms

...

Transitional provisions

(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
...					
6	The changes to <i>IPRU(INV)</i> in Annex J of the Alternative Investment Fund Managers Directive Instrument 2013 <u>and Annex C of the Capital Requirements Directive IV (AIFMD and UCITS</u>	R	<p>(1) Where a <i>firm</i> meets the conditions in (2) the changes effected by the Annex <u>Annexes</u> listed in column (2) do not apply and the provisions in <i>IPRU(INV)</i> amended by that Annex <u>those Annexes</u> will continue to apply as they were in force as at 21 July 2013.</p> <p>(2) The conditions are: (a) the <i>firm</i> falls within regulation 72(1) of the <i>AIFMD UK regulation</i>; and (b) the <i>firm</i> does not have a <i>Part 4A permission to manage an AIF</i>.</p>	From 22 July 2013 until 21 July 2014	22 July 2013

	<u>Consequential Amendments) Instrument 2013</u>				
...					

Chapter 1: Application and General Provisions

...

1.2.2 R (1) *IPRU(INV)* applies to:

...

(j) an exempt CAD firm; ~~and~~

(k) a *collective portfolio management firm*; and

(l) a *collective portfolio management investment firm*.

...

...

1.2.5 R Table

This table belongs to IPRU(INV) 1.2.4R

...	
<i>Collective portfolio management firm</i>	Chapters 1 and 11
<u><i>Collective portfolio management investment firm</i></u>	<u>Chapters 1 and 11</u>
<i>Personal investment firm</i>	Chapters 1 and 13
...	

...

11 Chapter 11: Collective Portfolio Management Firms and Collective Portfolio Management Investment Firms

11.1 Introduction

Application

- 11.1.1 R This chapter applies to:
- (1) a collective portfolio management firm, and
 - (2) a collective portfolio management investment firm.
- 11.1.2 G A *collective portfolio management firm* that manages an *AIF* is an *internally managed AIF* or an *external AIFM*. ~~This~~ If the firm is a full-scope UK AIFM this affects the firm's base capital resources requirement (see IPRU(INV) 11.3.1R). An internally managed AIF that is a full-scope UK AIFM is not permitted to engage in activities other than the management of that AIF, whereas an external AIFM that is a full-scope UK AIFM may manage AIFs and/or UCITS, provided it has permission to do so. A firm full-scope UK AIFM that is an external AIFM and/or a UCITS management company may undertake any of the additional investment activities permitted by article 6(4) of AIFMD or article 6(3) of the UCITS Directive (as applicable), provided it has permission to do so, but if so it is subject to GENPRU and BIPRU rather than IPRU(INV) and is classified as a collective portfolio management investment firm, as opposed to a collective portfolio management firm.
- A collective portfolio management investment firm is also subject to the requirements of either (i) GENPRU and BIPRU or (ii) IFPRU in addition to the requirements of IPRU(INV) 11, as explained in IPRU(INV) 11.6.2G.
- 11.1.2A G A small authorised UK AIFM that is not also a UCITS management company is not a collective portfolio management firm or a collective portfolio management investment firm and is therefore not subject to IPRU(INV) 11. This type of firm is subject to IPRU(INV) 5 if it is an investment management firm, GENPRU and BIPRU if it is a BIPRU firm or IFPRU if it is an IFPRU investment firm.
- ...
- Purpose
- 11.1.4 R ...
- (2) This chapter also implements relevant requirements of *AIFMD* and the *UCITS Directive*, which includes imposing capital and professional indemnity insurance requirements on ~~an AIFM~~ a full-scope UK AIFM and a UCITS management company. AIFMD and the UCITS Directive incorporate references to provisions of the Banking Consolidation Directive and the Capital Adequacy Directive in relation to initial capital, own funds and fixed overheads. However, in line with article 163 of the CRD, the Banking Consolidation Directive and the Capital Adequacy Directive are repealed from 1 January 2014 and references to these directives are replaced with references to the CRD and the EU CRR in line with the correlation table set out in Annex II to the CRD and in Annex IV to the EU CRR.

11.2 Main requirements

Collective portfolio management firm

- 11.2.1 R A ~~collective portfolio management firm~~ firm must:
- (1) when it first becomes a *collective portfolio management firm* or a collective portfolio management investment firm, hold initial capital of not less than the applicable ~~base capital resources requirement~~ base own funds requirement (in line with *IPRU(INV)* 11.3.1R);
 - (2) at all times, maintain *own funds* which equal or exceed:
 - (a) the higher of:
 - (i) the *funds under management requirement* (in line with *IPRU(INV)* 11.3.2R); and
 - (ii) the ~~fixed overheads requirement~~ (in line with ~~*IPRU(INV)* 11.3.3R~~) amount specified in article 97 of the EU CRR (Own funds based on fixed overheads) (as replicated in *IPRU(INV)* 11.3.3AEU); plus
 - (b) whichever is applicable of:
 - (i) the *professional negligence capital requirement* (in line with *IPRU(INV)* 11.3.11G(1)(a)); or
 - (ii) the *PII capital requirement* (in line with *IPRU(INV)* 11.3.11G(1)(b)); and
 - (3) at all times, hold liquid assets (in line with *IPRU(INV)* 11.3.17R) which equal or exceed:
 - (a) the higher of:
 - (i) the *funds under management requirement* (in line with *IPRU(INV)* 11.3.2R) less the ~~base capital resources requirement~~ base own funds requirement (in line with *IPRU(INV)* 11.3.1R); and
 - (ii) the ~~fixed overheads requirement~~ (in line with ~~*IPRU(INV)* 11.3.3R~~) amount specified in article 97 of the EU CRR (Own funds based on fixed overheads); plus

...

[**Note:** article 9(5) and 9(7) of AIFMD and article 7(1)(a)(iii) of the UCITS Directive]

Professional negligence

- 11.2.2 G (1) The *professional negligence capital requirement* applies to a ~~firm~~ that manages an AIF (ie, an ~~external AIFM~~ or an ~~internally managed AIF~~) and full-scope UK AIFM which, in line with IPRU(INV) 11.3.11G(1)(a), covers professional liability risks by way of *own funds*.
- (2) The *PII capital requirement* applies to a ~~firm that manages an AIF~~ and full-scope UK AIFM which, in line with IPRU(INV) 11.3.11G(1)(b), decides to cover professional liability risks by professional indemnity insurance.

11.3 Detail of main requirements

Base ~~capital resources~~ own funds requirement

- 11.3.1 R The ~~base capital resources requirement~~ base own funds requirement for a *collective portfolio management firm* is:
- (1) €125,000 for a *firm* that is a ~~UCITS firm~~ UCITS management company or a full-scope UK AIFM that is an *external AIFM*; and
- (2) €300,000 for a full-scope UK AIFM that is an *internally managed AIF*.

[**Note:** article 9(1), (2) and (10) of AIFMD and article 7(1)(a) of the UCITS Directive]

Funds under management requirement

- 11.3.2 R The *funds under management requirement* is (subject to a maximum of €10,000,000) the sum of:
- (1) the ~~base capital resources requirement~~ base own funds requirement; plus
- (2) 0.02% of the amount by which the *funds under management* exceed €250,000,000.

[**Note:** article 9(3) of AIFMD and article 7(1)(a)(i) of the UCITS Directive]

Fixed overheads requirement

- 11.3.3 R The ~~fixed overheads requirement~~ is one quarter (13/52) of the *firm's* relevant ~~fixed expenditure calculated in line with IPRU(INV) 11.3.4R.~~ [deleted]

[**Note:** article 9(5) of AIFMD and article 7(1)(a)(iii) of the UCITS Directive]

11.3.3A EU

<u>Own Funds based on Fixed Overheads</u>	
<u>1.</u>	<u>In accordance with Articles 95 and 96, an investment firm and firms referred to in point (2)(c) of Article 4(1) that provide the investment services and activities listed in points (2) and (4) of Section A of Annex I to Directive 2004/39/EC shall hold eligible capital of at least one quarter of the fixed overheads of the preceding year.</u>
<u>2.</u>	<u>Where there is a change in the business of an investment firm since the preceding year that the competent authority considers to be material, the competent authority may adjust the requirement laid down in paragraph 1.</u>
<u>3.</u>	<u>Where an investment firm has not completed business for one year, starting from the day it starts up, an investment firm shall hold eligible capital of at least one quarter of the fixed overheads projected in its business plan, except where the competent authority requires the business plan to be adjusted.</u>
[Note: article 97(1) to (3) of the <i>EU CRR</i>]	

11.3.4 R

In ~~IPRU(INV) 11.3.3R~~, and subject to ~~IPRU(INV) 11.3.6R to IPRU(INV) 11.3.9R~~, a *firm's* relevant fixed expenditure is the amount described as total expenditure in its final income statement (FSA030) for the previous financial year, less the following items (if they are included within such expenditure):

- ~~(1) staff bonuses, except to the extent that they are guaranteed;~~
- ~~(2) *employees' and directors' shares in profits, except to the extent that they are guaranteed;*~~
- ~~(3) other appropriations of profits;~~
- ~~(4) shared *commission* and fees payable which are directly related to *commission* and fees receivable which are included within total revenue;~~
- ~~(5) interest charges in respect of borrowings made to finance the acquisition of the *firm's readily realisable investments;*~~
- ~~(6) interest paid to *customers on client money;*~~
- ~~(7) interest paid to *counterparties;*~~
- ~~(8) fees, brokerage and other charges paid to *clearing houses, exchanges and intermediate brokers* for the purposes of *executing, registering or clearing transactions;*~~
- ~~(9) foreign exchange losses; and~~

- (10) ~~other variable expenditure. [deleted]~~
- 11.3.5 G ~~The income statement (FSA030) should be completed on a cumulative basis, so that the final income statement in a *firm's* financial year (ie the period that ends on the *firm's* accounting reference date) relates to the entire year. [deleted]~~
- 11.3.6 R ~~The relevant fixed expenditure of a *firm* is:~~
- (1) ~~where its final income statement (FSA030) for the previous financial year does not relate to a twelve month period, an amount calculated in accordance with *IPRU(INV)* 11.3.4R, pro-rated so as to produce an equivalent twelve month amount; or~~
- (2) ~~where it has not completed twelve months' trading, an amount based on forecast expenditure included in the budget for the first twelve months' trading, as submitted with its application for *authorisation*. [deleted]~~
- 11.3.7 R ~~A *firm* must adjust its relevant fixed expenditure calculation so far as necessary to the extent that since the submission of its final income statement (FSA030) for the previous financial year or since the budget was prepared (if *IPRU(INV)* 11.3.6R(2) applies):~~
- (1) ~~its level of fixed expenditure changes materially; or~~
- (2) ~~the *regulated activities* comprised within its *permission* change. [deleted]~~
- 11.3.8 G ~~In *IPRU(INV)* 11.3.4R to *IPRU(INV)* 11.3.7R, fixed expenditure is expenditure which is inelastic relative to fluctuations in a *firm's* levels of business. Fixed expenditure is likely to include most salaries and staff costs, office rent, payment for the rent or lease of office equipment, and insurance *premiums*. It may be viewed as the amount of funds which a *firm* would require to enable it to cease business in an orderly manner, should the need arise. This is not an exhaustive list of such expenditure and a *firm* will itself need to identify which costs amount to fixed expenditure. [deleted]~~
- 11.3.9 R ~~If a *firm* has a material proportion of its expenditure incurred on its behalf by another *person* and such expenditure is not fully recharged by that *person*, then the *firm* must adjust its relevant fixed expenditure calculation by adding back in the whole of the difference between the amount of the expenditure and the amount recharged. [deleted]~~
- 11.3.10 G ~~Under *IPRU(INV)* 11.3.9R, the *FCA* would consider 10% of a *firm's* expenditure incurred on its behalf by other *persons* as material. [deleted]~~

Professional negligence

- 11.3.11 G ~~A *firm* that manages an *AIF* full-scope UK AIFM should:~~

...

...

IPRU(INV) 11.4 and 11.5 are deleted in their entirety. The deleted text is not shown.

Insert the following new sections after the deleted section for IPRU(INV) 11.5. The text is new and is not underlined.

11.6 Additional requirements for collective portfolio management investment firms

- 11.6.1 G A *collective portfolio management investment firm* is required to comply with the applicable requirements of either of the following sourcebooks in addition to complying with *IPRU(INV)* 11:
- (1) *GENPRU* and *BIPRU* if it is a *BIPRU firm*; or
 - (2) *IFPRU* if it is *IFPRU investment firm*.
- 11.6.2 G (1) A *collective portfolio management investment firm* may undertake the following *MiFID business*: *portfolio management*; investment advice; safekeeping and administration in relation to *shares* or *units* of collective investment undertakings; and (if it is an *AIFM investment firm*) reception and transmission of orders in relation to *financial instruments*.
- (2) Subject to the conditions that the *firm* is not authorised to provide safekeeping and administration in relation to *shares* or *units* of collective investment undertakings and is not permitted to hold client money or client assets in relation to its *MiFID business* (and for that reason may not place itself in debt with those clients) competent authorities may allow the *firm* to stay on the capital requirements that would be binding on that *firm* as at 31 December 2013 under the *Banking Consolidation Directive* and the *Capital Adequacy Directive* (in line with article 95(2) of the *EU CRR*). The *FCA* has exercised this derogation and, as such, a *firm* meeting those conditions is a *BIPRU firm*. If the above conditions are not met, a *collective portfolio management investment firm* is an *IFPRU investment firm*.
- 11.6.3 G A *collective portfolio management investment firm* is required to comply with the applicable requirements of the sourcebooks set out in *IPRU(INV)* 11.6.1G, in parallel with its requirements under *IPRU(INV)* 11. This means that a capital instrument may be used to meet either or both sets of requirements provided it meets the conditions set out in the relevant

sourcebook.

- 11.6.4 G (1) When a *collective portfolio management investment firm* that is a *BIPRU firm* calculates the *credit risk capital requirement* and the *market risk capital requirement* for the purpose of calculating the variable capital requirement under *GENPRU 2.1.40R* it must do so only in respect of *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.
- (2) Generally, *BIPRU* only applies to a *collective portfolio management investment firm* that is a *BIPRU firm* in respect of its *designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However, *BIPRU 2.2* (Internal capital adequacy standards), *BIPRU 2.3* (Interest rate risk in the non-trading book), *BIPRU 8* (Group risk - consolidation) and *BIPRU 11* (Disclosure) apply to the whole of its business.
- 11.6.5 G (1) When a *collective portfolio management investment firm* that is an *IFPRU investment firm* calculates the total risk exposure amount in article 92(3) of the *EU CRR*, the *own funds requirements* referred to in article 92(3)(a) (Risk weighted exposure amount for credit risk and dilution risk) and article 92(3)(b) (Risk weighted exposure amount for position risk) should include only those arising from its *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.
- (2) Generally, *IFPRU* only applies to the *designated investment business* (excluding *managing an AIF* and *managing a UCITS*) of a *collective portfolio management investment firm* that is an *IFPRU investment firm*. However, *IFPRU 2.2* (Internal capital adequacy standards) and *IFPRU 2.3* (Supervisory review and evaluation process: Internal capital adequacy standards) apply to the whole of its business.

11.7 Capital reporting

- 11.7.1 G The reporting requirements of capital adequacy for a *collective portfolio management firm* and a *collective portfolio management investment firm* are set out in *SUP 16.12* (Integrated regulatory reporting). In summary, the relevant capital adequacy forms for its business of *managing an AIF* or *managing a UCITS* are as follows:
- (1) a *collective portfolio management firm* is required to submit FIN066 (and FSA042 if it is a *UCITS firm*);
- (2) a *collective portfolio management investment firm* that is an *IFPRU investment firm* is required to submit FIN067 (and FSA042 if it is a *UCITS investment firm*) and report using COREP; and

- (3) a *collective portfolio management investment firm* that is a *BIPRU firm* is required to submit FIN068 (and FSA042 if it is a *UCITS investment firm*) and FSA003.

Annex D

Amendments to the Supervision manual (SUP)

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

16 Annex 24R Data items for SUP 16.12

FIN066 and FIN067 are deleted and replaced with the following forms (the text of these forms is new and is not underlined).

FIN066 - Capital adequacy (for collective portfolio management firms)

Regulatory Capital		A
Own Equity Tier 1		
1	Fairly up capital instruments	<input type="text"/>
2	Share premium	<input type="text"/>
3	Retained earnings	<input type="text"/>
4	Other reserves	<input type="text"/>
5	All other CET1 capital elements	<input type="text"/>
6	Deductions / Adjustments from CET1	<input type="text"/>
7	TOTAL	<input type="text"/>
Additional Tier 1		
8	AT1 Capital elements	<input type="text"/>
9	Deductions / Adjustments from AT1	<input type="text"/>
10	TOTAL	<input type="text"/>
Tier 2		
11	Subordinated loans	<input type="text"/>
12	Other T2 capital elements	<input type="text"/>
13	Deductions / Adjustments from T2	<input type="text"/>
14	TOTAL	<input type="text"/>
15	OWN FUNDS	<input type="text"/>
Regulatory capital tests		
Own funds test for collective portfolio management firms		
16	Own funds	<input type="text"/>
17	Higher of	<input type="text"/>
18	Funds under management requirement	<input type="text"/>
19	and	<input type="text"/>
20	Fixed overheads requirement	<input type="text"/>
21	+ (either) Professional negligence capital requirement	<input type="text"/>
22	+ (or) PII capital requirement	<input type="text"/>
23	Total capital requirement	<input type="text"/>
24	Surplus / deficit of own funds	<input type="text"/>
Liquid assets test		
25	Liquid assets requirement	<input type="text"/>
26	Liquid assets held	<input type="text"/>
27	Surplus / deficit of liquid assets	<input type="text"/>
Professional Indemnity Insurance		
28	Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	<input type="text"/>
29	If PII is held, provide the following policy details	

PII policy	PII basic information				Required Indemnity Limits						Indemnity Limits			PII detailed information		
	Annualised premium	Insurer (from last)	Start date	Renewed date	Single Indemnity limits: Sterling/Euros or Unlimited	Single Limits of Indemnity	Aggregate Indemnity Limits in Sterling/Euros or Unlimited	Aggregate Limit of Indemnity	Single Indemnity limits: Sterling/Euros or unlimited	Single Indemnity Limit of Indemnity	Aggregate Indemnity Limit of Indemnity	Aggregate Indemnity Limit of Indemnity	Business line	Policy excess	Policy exclusions	

FIN067 - Capital adequacy - supplemental (for collective portfolio management investment firms subject to IFPRU)

Regulatory capital tests		A
1	Own funds	[]
	Higher of:	
	Higher of:	
2	Funds under management requirement	[]
3	and	
	Fixed overheads requirement	[]
4	+ (either) Professional negligence capital requirement	[]
5	+ (or) PII capital requirement	[]
6	Subtotal	[]
	and	
7	Own funds requirement	[]
8	Total requirement	[]
9	Surplus / (deficit) of financial resources	[]
Liquid assets test		
10	Liquid assets requirement	[]
11	Liquid assets held	[]
12	Surplus / deficit of liquid assets	[]
Professional indemnity insurance		
13	Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	[]
14	If PII is held, provide the following policy details	

PII policy	PII basic information				Required Indemnity Limits								PII detailed information							
	A	B	C	D	E		F		G		H		I		J	K	L	M	N	O
	Annualised premium	Insurer (from list)	Start date	Renewal date	Single Indemnity limit: Sterling/ Euros or Unlimited	Single Indemnity Limit of Indemnity	Aggregate Indemnity Limit: Sterling/Euros or Unlimited	Aggregate Indemnity Limit of Indemnity	Single Indemnity Limit: Sterling/ Euros or unlimited	Single Indemnity Limit of Indemnity	Aggregate Indemnity Limit in: Sterling/ Euros or unlimited	Aggregate Indemnity Limit of Indemnity	Aggregate Indemnity Limit in: Sterling/ Euros or unlimited	Business line	Policy excess	Policy exclusions				

FIN068 is added as follows (the text is new and is not underlined).

FIN068 - Capital adequacy - supplemental (for collective portfolio management firms subject to BPR0)

Regulatory Capital	A
Own Equity Tier 1	
1 Paid-up capital instruments	
2 Share premium	
3 Retained earnings	
4 Other reserves	
5 All other CET1 capital elements	
6 Deductions / Adjustments from CET1	
7 TOTAL	
Additional Tier 1	
8 AT1 Capital elements	
9 Deductions / Adjustments from AT1	
10 TOTAL	
Tier 2	
11 Subordinated loans	
12 Other T2 capital elements	
13 Deductions / Adjustments from T2	
14 TOTAL	
15 OWN FUNDS	
Regulatory capital items	
Own funds less: AIFMD business	
16 Own funds	
Higher of:	
17 Funds under management requirement and:	
18 Fund overheads requirement	
19 + general Professional negligence/capital requirement	
20 + for PI capital requirement	
21 Total capital requirement	
22 Surplus / deficit of own funds	
Liquid assets test	
23 Liquid assets requirement	
24 Liquid assets held	
25 Surplus / deficit of liquid assets	
MPCD business	
26 Own funds	
27 Variable capital requirement	
28 Surplus / deficit	
Professional indemnity insurance	
29 Specify whether your firm holds additional own funds or PI in accordance with regulatory requirements	
30 FPI is held, provide the following policy details	

PI policy	PI basic information												PI detailed information		
	Annualised premium	Insurer (year-adj)	Start date	Renewal date	Single indemnity	Single Limit of indemnity	Aggregate indemnity	Aggregate Limit of indemnity	Single indemnity	Single Limit of indemnity	Aggregate indemnity	Aggregate Limit of indemnity	Business line	Policy excess	Policy exclusions
					Single or Unlimited	Single or Unlimited	Aggregate or Unlimited	Single or Unlimited	Single or Unlimited	Aggregate or Unlimited	Aggregate or Unlimited				

Amend the following as shown.

16 Annex 25G Guidance notes for data items in SUP 16 Annex 24R

...

FIN066 – Capital Adequacy (for *collective portfolio management firms*)

...

Data elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Regulatory capital		
	1 to 19 <u>15</u>	The figures in this section should be consistent with those submitted in FSA029 for the same reporting period and should be allocated based on <u>EU CRR definitions of regulatory capital</u> . <u>Deductions should be reported as a minus figure.</u>
Regulatory capital test		
<i>Own funds test for collective portfolio management firms</i>		
Own funds	20B <u>16A</u>	The amount of <i>own funds</i> calculated in line with <u>IPRU(INV) 11.4 article 4(1)(118) of the EU CRR</u> . This is the figure entered at 49B <u>15A</u> .
Funds under management requirement	21B <u>17A</u>	...
Fixed overheads requirement	22B <u>18A</u>	This is one quarter of the annualised fixed expenditure calculated in line with <u>IPRU(INV) 11.3.3R 11.3.3AEU</u> . The amount to be entered in this element is calculated using elements 30 to 42 in the fourth quarter of the preceding financial year. Each of the four quarters in any financial year should use the figure calculated in the fourth quarter of the preceding year. Where there was no preceding year, the figure entered is that determined in line with IPRU(INV) 11.3.6R.
Professional negligence capital requirement	23B <u>19A</u>	The amount of additional <i>own funds</i> used to cover potential liability risks arising from professional negligence for <i>AIFM</i> activities in lieu of professional indemnity insurance, as per <u>IPRU(INV) 11.3.11G(1)(a)</u> . When calculating this amount, <i>firms</i> should include the amount of any assets under management that are

		<p>delegated to the firm by mandate, see <i>IPRU(INV)</i> 11.3.14EU. Note that this treatment is different from that prescribed for the <i>funds under management requirement</i> (see the guidance in line 21B <u>17A</u>).</p> <p>If a firm makes an entry in 23B <u>19A</u> it should not make an entry in 24B <u>20A</u>.</p> <p><u>This entry is only relevant for full-scope UK AIFMs and should be left blank if the firm is not a full-scope UK AIFM.</u></p>
PII capital requirement	24B <u>20A</u>	<p>The amount of any additional <i>own funds</i> required to cover any defined excess and exclusions in the insurance policy, as required by <i>IPRU(INV)</i> 11.3.11G(1)(b).</p> <p>If a firm makes an entry in 24B <u>20A</u> it should not make an entry in 23B <u>19A</u>.</p> <p><u>This entry is only relevant for full-scope UK AIFMs and should be left blank if the firm is not a full-scope UK AIFM.</u></p>
Total capital requirement	25B <u>21A</u>	This is the higher of 21B <u>17A</u> and 22B <u>18A</u> , plus either 23B <u>19A</u> or 24B <u>20A</u> .
Surplus / deficit of own funds	26B <u>22A</u>	This is 20B <u>16A</u> less 25B <u>21A</u> .
<i>Liquid assets test</i>		
Liquid assets requirement	27B <u>23A</u>	...
Liquid assets held	28B <u>24A</u>	...
Surplus / deficit of liquid assets	29B <u>25A</u>	This is 28B <u>24A</u> less 27B <u>23A</u> .
Calculation of relevant annual expenditure for forthcoming year		
	30 to 42	<p>This section of the data item must be completed when the reporting period end date is equal to the <i>firm's</i> accounting reference date, ie the fourth quarter. This does not need to be completed during the other three quarters. Where appropriate, figures entered should match those on FSA030 for the same reporting period.</p> <p>When, as per <i>IPRU(INV)</i> 11.3.6R(2), the firm is using projected figures, these should be entered in this section.</p>
Total expenditure (per income statement)	30B	This should be the amount entered in element 22A of FSA030 for the same reporting period. FSA030 should be completed on a cumulative basis, so the amounts entered in the fourth quarter represent the entire financial year up to the accounting reference date.

Deductions from expenditure	31A to 40A	Deductions from expenditure should be made in line with <i>IPRU(INV)</i> 11.3.4R
Relevant fixed expenditure	41B	This is 30B less the sum of 31A to 40A
Relevant annualised fixed expenditure	42B	<p>If the figures submitted in FSA030 for the period ending on the <i>firm's</i> accounting reference date do not include twelve month's trading, then the amount calculated in 41B must be pro-rated to an equivalent annual amount. This situation may occur if the <i>firm</i> has changed its accounting reference date.</p> <p>Where a <i>firm</i> has not completed a full year since the commencement of its permitted business, an amount based on forecast expenditure included in its budget for the first twelve months' trading, as submitted with its application for membership, should be entered.</p>
Professional Indemnity Insurance		
Specify whether your firm holds additional own funds or PII in accordance with <i>IPRU(INV)</i> 7.3.12R regulatory requirements	43B <u>26A</u>	...
<i>PII Basic information</i>		
	44-27	...
Annualised premium	44A <u>27A</u>	...
Insurer (from list)	44B <u>27B</u>	...
Start date	44C <u>27C</u>	...
Renewal date	44D <u>27D</u>	...
Currency of indemnity limits <u>Required Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited</u>	44E <u>27E</u>	<p>Using the appropriate International Organization for Standardization ISO 4217 three digit code (eg, GBP), enter the currency Specify whether in which the indemnity limits limit in fields field 44F <u>27F</u> to 44J are is reported in GBP or EUR.</p> <p>If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave <u>27F</u> blank.</p>
Limit of indemnity required: single <u>Required Indemnity Limits: Single Limit of Indemnity</u>	44F <u>27F</u>	<p>You should record here, in the currency specified in <u>27E</u>, the required indemnity limits on the <i>firm's</i> PII policy or policies, received in relation to single claims. A <i>firm</i> should calculate this amount with reference to <i>IPRU(INV)</i> 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be</p>

		converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.
<u>Limit of indemnity required: aggregate Required Indemnity Limits: Aggregate Indemnity Limit in Sterling/Euros or Unlimited</u>	44G <u>27G</u>	<p>You should record here the required indemnity limits on the <i>firm's</i> PII policy or policies, or in aggregate. A firm should calculate this amount with reference to <i>IPRU(INV)</i> 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.</p> <p><u>Specify whether the indemnity limit in field 27H is reported in GBP or EUR.</u></p> <p><u>If the aggregate limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27H blank.</u></p>
<u>Limit of indemnity received: single Required Indemnity Limits: Aggregate Limit of Indemnity</u>	44H <u>27H</u>	<p>You should record here, in the currency specified in <u>27G</u>, the required indemnity limits on the <i>firm's</i> PII policy or policies, received in relation to single claims. A firm should calculate this amount with reference to <i>IPRU(INV)</i> 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.</p>
<u>Indemnity Limits: Single Indemnity Limits: Sterling/Euros or unlimited</u>	<u>27I</u>	<p><u>Specify whether the indemnity limit in field 27J is reported in GBP or EUR.</u></p> <p><u>If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27J blank.</u></p>
<u>Limit of indemnity received: aggregate Indemnity Limits: Single Limit of Indemnity</u>	44J <u>27J</u>	<p>You should record here, in the currency specified in <u>27I</u>, the indemnity limits on the <i>firm's</i> PII policy or policies, received in aggregate relation to single claims.</p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.</p>
<u>Indemnity Limits:</u>	<u>27K</u>	<u>Specify whether the indemnity limit in field 27L is</u>

<u>Aggregate Indemnity Limit in: Sterling/Euros or unlimited</u>		reported in GBP or EUR. <u>If the aggregate limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27L blank.</u>
<u>Indemnity Limits: Aggregate Limit of Indemnity</u>	<u>27L</u>	<u>You should record here, in the currency specified in 27K, the indemnity limits on the firm's PII policy or policies, received in aggregate.</u>
<i>PII detailed information</i>		
Business line (from list)	44K <u>27M</u>	... Where the policy contains different excesses for different business lines, <i>firms</i> should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 44L <u>27N</u> . Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'.
Policy excess	44L <u>27N</u>	... In line with <i>IPRU(INV)</i> 11.3.11G(1)(b), a <i>firm</i> should include additional own funds sufficient to cover the highest excess in the amount reported in 24B <u>20A</u> .
Policy exclusions	44M <u>27O</u>	... In line with <i>IPRU(INV)</i> 11.3.11G(1)(b), a <i>firm</i> should include additional own funds sufficient to cover any liabilities arising in the amount reported in 24B <u>20A</u> .

FIN066 – Capital Adequacy (for *collective portfolio management firms*) validations

Internal validations

Data elements are referenced by row, then column.

Validation number	Data element		
1	<u>6B7A</u>	=	$\Sigma(4B1A:5B6A)$
2	<u>12B10A</u>	=	$\Sigma(7A:11A)8A - 9A$
3	<u>13B14A</u>	=	$6B\Sigma(11A:12A) - 12B13A$
4	<u>19B15A</u>	=	$\Sigma(13B:18B)7A + 10A + 14A$
5	<u>20B16A</u>	=	<u>19B15A</u>
6	<u>25B21A</u>	=	(higher of <u>21B17A</u> and <u>22B18A</u>) + <u>23B19A</u> + <u>24B20A</u>
7	<u>26B22A</u>	=	<u>20B16A</u> - <u>25B21A</u>
<u>8</u>	<u>25A</u>	=	<u>24A-23A</u>
10	41B	=	30B - $\Sigma(31A:40A)$

External validations

Validation — Data
number — element

1 — 30B — FSA030.22A

FIN067 – Capital adequacy – supplemental (for *collective portfolio management investment firms* subject to IFPRU)

Introduction

FIN067 provides a framework for the collection of prudential information required by the FCA for its supervision activities. The data item is intended to reflect the underlying prudential requirements in ~~GENPRU 2.1.63R to 2.1.74R~~ IPRU(INV) 11 and IFPRU and allows monitoring against those requirements.

...

Data Elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Own funds	1A	This amount should be equal to the figure entered in element 57A of FSA003 <u>the appropriate fields under COREP</u> for the same reporting period.
...		
Fixed overheads requirement	3A	The amount calculated in line with GENPRU 2.1.53R <u>IPRU(INV) 11.3.3AEU</u> . The amount should equal element 104A on FSA003 <u>the appropriate fields under COREP</u> for the same reporting period.
Professional negligence capital requirement	4A	<p>The amount of additional <i>own funds</i> used to cover potential liability risks arising from professional negligence in relation to <i>AIFM</i> activities in lieu of professional indemnity insurance, as per GENPRU 2.1.67G(1)(a) <u>IPRU(INV) 11.3.11G(1)(a)</u>.</p> <p>When calculating this amount, <i>firms</i> should include the amount of any assets under management that are delegated to the firm by mandate, as set out in GENPRU 2.1.70EU <u>IPRU(INV) 11.3.14EU</u>. Note that this treatment is different from that prescribed for the <i>funds under management requirement</i> (see the guidance in line 2A).</p> <p>If a <i>firm</i> makes an entry in 4A it should not make an entry in 5A.</p> <p><u>This entry is only relevant for full-scope UK AIFMs and should be left blank if the firm is not a full-scope UK AIFM.</u></p>

PII capital requirement	5A	The amount of any additional <i>own funds</i> required to cover any defined excess and exclusions in the insurance policy, as required by <i>GENPRU 2.1.67G(1)(b)</i> <i>IPRU(INV) 11.3.11G(1)(b)</i> . If a <i>firm</i> makes an entry in 5A it should not make an entry in 4A. <u>This entry is only relevant for <i>full-scope UK AIFMs</i> and should be left blank if the <i>firm</i> is not a <i>full-scope UK AIFM</i>.</u>
<u>Subtotal</u>	<u>6A</u>	<u>This is higher of 2A and 3A plus 4A or 5A.</u>
Variable capital requirement <u>Own funds requirements</u>	6A <u>7A</u>	The amount of <i>own funds requirements</i> calculated in line with <i>GENPRU 2.1.45R</i> article 92 of the <i>EU CRR</i> . The amount should equal element 70A on FSA003 <u>the appropriate fields under COREP</u> for the same reporting period.
Total requirement	7A <u>8A</u>	This is the higher of 2A and 3A plus 4A or 5A, <u>6A and 7A.</u>
Surplus / deficit of own funds	8A <u>9A</u>	This is 1A less 7A <u>8A.</u>
Liquid assets test		
Liquid assets requirement	9A <u>10A</u>	The amount of <i>own funds</i> required by <i>GENPRU 2.1.64R</i> <i>IPRU(INV) 11.2.1R(3)</i> .
Liquid assets held	10A <u>11A</u>	...
Surplus / deficit of liquid assets	11A <u>12A</u>	This is 10A <u>11A</u> less 9A <u>10A.</u>
Professional Indemnity Insurance		
Does your firm hold additional own funds or PII in accordance with <i>GENPRU 2.1.67G</i> <u>regulatory requirements</u>	12A <u>13A</u>	...
<i>PII Basic information</i>		
	13 <u>14</u>	...
Annualised premium	13A <u>14A</u>	...
Insurer (from list)	13B <u>14B</u>	...
Start date	13C <u>14C</u>	...
Renewal date	13D <u>14D</u>	...
<u>Currency of indemnity limits</u> <u>Required Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited</u>	13E <u>14E</u>	Using the appropriate International Organization for Standardization ISO 4217 three-digit code (eg, GBP); <u>enter the currency State whether in which the indemnity limits limit, in fields field 13F 14F to 13J are is reported in GBP or EUR.</u>

		<p>If the single limit of indemnity is unlimited, select <u>'unlimited'</u> from the dropdown and leave 14F blank.</p>
<p>Limit of indemnity required: single <u>Required Indemnity Limits: Single Limit of Indemnity</u></p>	<p>13F <u>14F</u></p>	<p>You should record here, <u>in the currency specified in 14E</u>, the required indemnity limits on the <i>firm's</i> PII policy or policies for single claims. A <i>firm</i> should calculate this amount with reference to GENPRU 2.1.71EU <u>IPRU(INV) 11.3.15EU</u> and include the amount of any assets under management that are delegated to the firm by mandate.</p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.</p>
<p>Limit of indemnity required: aggregate <u>Required Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or Unlimited</u></p>	<p>13G <u>14G</u></p>	<p>You should record here the required indemnity limits on the <i>firm's</i> PII policy or policies, in aggregate. A <i>firm</i> should calculate this amount with reference to GENPRU 2.1.71EU and include the amount of any assets under management that are delegated to the firm by mandate.</p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.</p> <p><u>Specify whether the indemnity limit in field 14H is reported in GBP or EUR.</u></p> <p><u>If the single limit of indemnity is unlimited, select 'unlimited' from the dropdown and leave 14H blank.</u></p>
<p>Limit of indemnity received: single <u>Required Indemnity Limits: Aggregate Limit of Indemnity</u></p>	<p>13H <u>14H</u></p>	<p>You should record here, <u>in the currency specified in 14G</u>, the <u>required</u> indemnity limits on the firm's PII policy or policies in relation to single aggregate claims. <u>A firm should calculate this amount with reference to IPRU(INV) 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</u></p> <p>Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.</p>
<p><u>Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited</u></p>	<p><u>14I</u></p>	<p><u>Specify whether the indemnity limit in field 14J is reported in GBP or EUR.</u></p>

		If the single limit of indemnity is unlimited select <u>'unlimited'</u> from the dropdown and leave 14J blank.
<u>Limit of indemnity received: aggregate Indemnity Limits: Single Limit of Indemnity</u>	13J 14J	You should record here, in the currency specified in 14I, the <u>required</u> indemnity limits on the <i>firm's</i> PII policy or policies, received in aggregate. <u>A firm should calculate this amount with reference to IPRU(INV) 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</u> Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.
<u>Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or Unlimited</u>	14K	<u>Specify whether the indemnity limit in field 14J is reported in GBP or EUR.</u> <u>If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 14L blank.</u>
<u>Indemnity Limits: Aggregate Limit of Indemnity</u>	14L	<u>You should record here, in the currency specified in 14I, the indemnity limits on the <i>firm's</i> PII policy or policies, received in aggregate.</u>
<i>PII detailed information</i>		
Business line (from list)	13K 14M	For policies that cover all business lines, <i>firms</i> should select 'All' from the list provided. Where the policy contains different excess for different business lines, <i>firms</i> should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 13L 14N. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'.
Policy excess	13L 14N	... In line with GENPRU 2.1.67G(1)(b) <u>IPRU(INV) 11.3.11G(1)(b)</u> , a <i>firm</i> should include additional own funds sufficient to cover the highest excess in the amount reported in 5A.
Policy exclusions	13M 14O	... In line with GENPRU 2.1.67G(1)(b) <u>IPRU(INV) 11.3.11G(1)(b)</u> , a <i>firm</i> should include additional own funds sufficient to cover any liabilities arising in the amount reported in 5A.

FIN067 – Capital adequacy – supplemental (for collective portfolio management investment firms subject to IFPRU) validations

Internal validations

Data elements are referenced by row, then column.

Validation number	Data element		
1	<u>7A6A</u>	=	Higher of ((Higher of 2A and 3A) + 4A + 5A) and 6A
<u>2</u>	<u>8A</u>	=	<u>Higher of 6A and 7A</u>
<u>23</u>	<u>8A9A</u>	=	<u>1A – 7A8A</u>
<u>34</u>	<u>11A12A</u>	=	<u>10A11A – 9A10A</u>

External validations

Validation number	Data element		
------------------------------	-------------------------	--	--

1	1A	=	FSA003.57A
2	3A	=	FSA003.104A
3	6A	=	FSA003.70A

The following text is new and is not underlined.

FIN068 – Capital Adequacy - supplemental (for *collective portfolio management investment firms* subject to *GENPRU/BIPRU*)

Introduction

FIN068 provides a framework for the collection of prudential information required by the *FCA* for its supervision activities. The data item is intended to reflect the underlying prudential requirements in *IPRU(INV)* 11 and *GENPRU/BIPRU* and allows monitoring against those requirements.

Defined terms

Where terms used in these notes are defined by the Companies Act 2006, as appropriate, or the provisions of the *firm's* accounting framework (usually UK GAAP or *IFRS*) they should have that meaning. The descriptions in these notes are designed to repeat, summarise or amplify the relevant statutory or other definitions and terminology without departing from their full meaning or effect.

- The data item should comply with the principles and requirements of the *firm's* accounting framework, which will generally be UK GAAP (including relevant provisions of the Companies Act 2006 as appropriate) or *IFRS*.
- The data item should be completed on an unconsolidated basis.
- The data item should be in agreement with the underlying accounting records.
- Accounting policies should be consistent with those adopted in the *firm's annual report and accounts* and consistently applied.
- Information required should be prepared in line with generally accepted accounting standards.

- The data item should not give a misleading impression of the *firm*. A data item is likely to give a misleading impression if a *firm* wrongly omits or includes a material item or presents a material item in the wrong way.

Currency

You should report in the currency of your annual audited accounts, ie in Sterling, Euro, US dollars, Canadian dollars, Swedish Kroner, Swiss Francs or Yen. Figures should be reported in 000s.

Data elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Regulatory capital		
	1 to 15	The figures in this section should be consistent with those submitted in FSA001 for the same reporting period and should be allocated based on <i>EU CRR</i> definitions of regulatory capital. Deductions should be reported as a minus figure.
Regulatory capital tests		
<i>Own funds test – AIFMD/UCITS business</i>		
Own funds	16A	The amount of <i>own funds</i> calculated in line with article 4(1)(118) of the <i>EU CRR</i> . This is the figure entered at 15A.
Funds under management requirement	17A	Up to a maximum of €10,000,000, this is the <i>base capital resources requirement</i> plus 0.02% of the amount by which the <i>firm's funds under management</i> exceeds €250,000,000. If the data item is not submitted with figures in Euros, then the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date. The appropriate definition of <i>funds under management</i> to be used in this calculation is that set out in the <i>FCA Handbook</i> Glossary of definitions.
Fixed overheads requirement	18A	This is one quarter of the annualised fixed expenditure calculated in line with <i>IPRU(INV)</i> 11.3.3AEU.
Professional negligence capital requirement	19A	The amount of additional <i>own funds</i> used to cover potential liability risks arising from professional negligence for <i>AIFM</i> activities in lieu of professional indemnity insurance, as per <i>IPRU(INV)</i> 11.3.11G(1)(a). When calculating this amount, <i>firms</i> should include the amount of any assets under management that are delegated to the firm by mandate, see <i>IPRU(INV)</i> 11.3.14EU. Note that this treatment is different from

		<p>that prescribed for the <i>funds under management requirement</i> (see the guidance in line 17A).</p> <p>If a <i>firm</i> makes an entry in 19A it should not make an entry in 20A.</p> <p>This entry is only relevant for <i>full-scope UK AIFMs</i> and should be left blank if the <i>firm</i> is not a <i>full-scope UK AIFM</i>.</p>
PII capital requirement	20A	<p>The amount of any additional <i>own funds</i> required to cover any defined excess and exclusions in the insurance policy, as required by <i>IPRU(INV)</i> 11.3.11G(1)(b).</p> <p>If a <i>firm</i> makes an entry in 20A it should not make an entry in 19A.</p> <p>This entry is only relevant for <i>full-scope UK AIFMs</i> and should be left blank if the <i>firm</i> is not a <i>full-scope UK AIFM</i>.</p>
Total capital requirement	21A	This is the higher of 17A and 18A, plus either 19A or 20A.
Surplus / deficit of own funds	22A	This is 16A less 21A.
<i>Liquid assets test – AIFMD/UCITS business</i>		
Liquid assets requirement	23A	This is the amount required by <i>IPRU(INV)</i> 11.2.1R(3).
Liquid assets held	24A	This is the amount of liquid assets held by the <i>firm</i> at the reporting date. Assets are regarded as liquid if they are readily convertible to cash within one month. This figure must not include speculative positions.
Surplus / deficit of liquid assets	25A	This is 24A less 23A.
<i>Own funds tests – MiFID business</i>		
Own funds	26A	This amount should be equal to the figure entered in element 15A of FSA003 for the same reporting period.
Variable capital requirement	27A	The amount calculated in line with <i>GENPRU</i> 2.1.45R. The amount should equal element 70A on FSA003 for the same reporting period.
Surplus (deficit)	28A	This amount should be equal to the figure entered in element 106A of FSA003 for the same reporting period.
Professional Indemnity Insurance		
Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	29A	The <i>firm</i> should report either “Own funds” or “PII”. Where a <i>firm</i> has PII but also holds <i>own funds</i> to cover any excesses and/or exclusions on the policy, the <i>firm</i> should report “PII”.
<i>PII Basic information</i>		
	30	<i>Firms</i> should enter details on all relevant PII policies,

		<p>using a separate line for each policy.</p> <p>A <i>firm</i> may satisfy its requirements for professional indemnity insurance with a policy that also provides cover to one or more entities other than the <i>firm</i>, provided the policy satisfies the conditions of the <i>AIFMD level 2 regulation</i> in respect of the <i>firm</i>, exclusive of the cover provided to other entities by the policy. If such a policy is held, each <i>firm</i> covered by the policy should include the policy information on their return.</p>
Annualised premium	30A	This should state the premium payable (in descending order of size, where relevant), net of tax and any other add-ons. If the premium covers a period other than 12 months, it should be annualised before ranking.
Insurer (from list)	30B	Select the PII insurer from the list provided. If you have more than one policy with the same insurer, they should be combined. If the insurer is not listed, select 'Other'. If a policy is underwritten by more than one insurance undertaking or Lloyd's syndicate, you should select 'multiple'.
Start date	30C	Enter the start date of the policy.
Renewal date	30D	Enter the renewal date of the policy.
Required Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited	30E	<p>Specify whether the indemnity limit in field 30F is reported in GBP or EUR.</p> <p>If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 30F blank.</p>
Required Indemnity Limits: Single Limit of Indemnity	30F	<p>You should record here, in the currency specified in 30E, the required indemnity limits on the <i>firm's</i> PII policy or policies in relation to single claims.</p> <p>A <i>firm</i> should calculate this amount with reference to <i>IPRU(INV)</i> 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</p>
Required Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or Unlimited	30G	<p>Specify whether the indemnity limit in field 30H is reported in GBP or EUR.</p> <p>If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 30H blank.</p>
Required Indemnity Limits: Aggregate Limit of Indemnity	30H	<p>You should record here, in the currency specified in 30G, the required indemnity limits on the <i>firm's</i> PII policy or policies in relation to aggregate claims.</p> <p>A <i>firm</i> should calculate this amount with reference to <i>IPRU(INV)</i> 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.</p>

Indemnity Limits: Single Indemnity Limits: Sterling/Euros or unlimited	30I	Specify whether the indemnity limit in field 30J is reported in GBP or EUR. If the single limit is unlimited, select 'unlimited' from the dropdown and leave 30J blank.
Indemnity Limits: Single Limit of Indemnity	30J	You should record here, in the currency specified in 30J, the indemnity limits on the <i>firm's</i> PII policy or policies, received in relation to single claims.
Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or unlimited	30K	Specify whether the indemnity limit in field 30L is reported in GBP or EUR. If the aggregate limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 30L blank.
Indemnity Limits: Aggregate Limit of Indemnity	30L	You should record here, in the currency specified in 30K, the indemnity limits on the <i>firm's</i> PII policy or policies received in aggregate.
<i>PII detailed information</i>		
Business line (from list)	30M	For policies that cover all business lines, <i>firms</i> should select 'All' from the list provided. Where the policy contains different excesses for different business lines, <i>firms</i> should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 30N. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'.
Policy excess	30N	For policies that cover all business lines with no difference in excesses, this should be the excess applicable. Otherwise, it should contain the highest excess for each business line that differs. In line with <i>IPRU(INV)</i> 11.3.11G(1)(b), a <i>firm</i> should include additional own funds sufficient to cover the highest excess in the amount reported in 20A.
Policy exclusions	30O	If there are exclusions in the <i>firm's</i> PII policy, the business type(s) to which they relate should be selected here from the list provided. In line with <i>IPRU(INV)</i> 11.3.11G(1)(b), a <i>firm</i> should include additional own funds sufficient to cover any liabilities arising in the amount reported in 20A.

FIN068 – Capital Adequacy (for *collective portfolio management investment firms*) validations

Internal validations

Data elements are referenced by row, then column.

Validation number	Data element		
1	7A	=	$\Sigma(1A:6A)$
2	10A	=	9A-8A
3	14A	=	$\Sigma(11A:12A) - 13A$
4	15A	=	7A + 10A + 14A
5	16A	=	15A
6	21A	=	(higher of 17A and 18A) + 19A + 20A
7	22A	=	16A - 21A
8	25A	=	24A - 23A
9	28A	=	26A - 27A

Amend the following as shown.

TP 1.8 AIFMD

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: date in force	Handbook provisions: coming into force
1	The changes to SUP 16.12 set out in Annex M of the Alternative Investment Fund Managers Directive 2013, other than those relating to FSA041 and Annex D of the <u>Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instruments 2013</u> .	R	(1) Where a <i>firm</i> meets the conditions in (2) the changes effected by the Annex Annexes listed in column (2) do not apply...
2	The changes to SUP 16.12 set out in Annex M of the	R	(1) Where a <i>firm</i> meets the conditions in (2) the changes effected by the	From 22 July 2013 until 30 January 2014	...

Alternative Investment Fund Managers Directive Instrument 2013, other than those relating to FSA041 and <u>Annex D of the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instrument 2013.</u>		Annex <u>Annexes</u> listed in column (2) do not apply...	<u>22 July 2014</u>	
---	--	--	---------------------	--