

IFPR: Impact

Summary impact assessment template

Introduction

The UK Investment Firm Prudential Regime (IFPR) will take effect on January 1, 2022. This will have a significant impact on UK MiFID investment firms and CPMIs, who should start considering the likely impact of the new prudential regime and the adjustments that will be required to their internal systems and controls. The starting point for such firms is to collect all relevant data in order to assess their classification under the new regime. Another important point is whether the shift in the prudential capital framework creates an opportunity for a change in business strategy and approach.

IFPR: Impact can help you to manage each step of your internal implementation project. It provides a high level summary of the draft "Prudential sourcebook for MiFID Investment Firms" (MIFIDPRU) and any consequential amendments to other FCA sourcebooks.

Topic	IFPR	Requirements summary	Impact level	Action points	Responsibility
Status quo					
FCA CPs		<p>On June 23, 2020, HM Treasury published a policy statement providing detail on its legislative approach for prudential standards in the Financial Services Bill. In the policy statement HM Treasury highlighted that systemic investment firms are already prudentially regulated and supervised under CRR/CRD by the UK banking authority through a designation procedure exercised by the Prudential Regulation Authority (PRA). HM Treasury and the PRA therefore do not intend to require such firms, which will be PRA-designated investment firms, to apply for authorisation as credit institutions.</p> <p>On June 23, 2020, the Financial Conduct Authority (FCA) published Discussion Paper 20/2: Prudential requirements for MiFID investment firms (DP20/2).</p> <p>On December 14, 2020, the FCA published Consultation Paper 20/24: A new UK prudential regime for MiFID investment firms (CP20/24). CP20/24 follows DP20/2 which the FCA issued in June 2020. In CP20/24 the FCA was seeking views on the first tranche of proposed rules to introduce the UK Investment Firm Prudential Regime (IFPR), a new prudential regime for UK firms authorised under the Markets in Financial Instruments Directive II (MiFID II). This is the first in a programme of Consultation Papers and Policy Statements that the FCA will issue to introduce the regime.</p> <p>On April 19, 2021, the FCA issued the second phase of proposed rules to introduce the IFPR by publishing Consultation Paper 21/7: A new UK prudential regime for MiFID investment firms (CP21/7). CP21/7 should be read in conjunction with the FCA's first consultation paper on the IFPR which it published last December (CP20/24).</p> <p>On April 29, 2021, the Financial Services Bill received Royal Assent and became the Financial Services Act 2021 (The FS Act). The FS Act enables the introduction by the FCA of the IFPR and introduces, amongst other things, a new definition of "FCA investment firm."</p> <p>On June 29, 2021, the FCA published Policy Statement 21/6: Implementation of Investment Firms Prudential Regime (PS21/6). PS21/6 is the FCA's first policy statement on the IFPR. In PS21/6 the FCA provides feedback on the comments it received on its first consultation paper on IFPR (CP20/24) and sets out near final rules.</p> <p>On July 26, 2021, the FCA published Policy Statement 21/9: Implementation of Investment Firms Prudential Regime (PS21/9). PS21/9 is the FCA's second policy statement on the IFPR. In PS21/9 the FCA provides feedback on the comments received on its second consultation paper on IFPR (CP21/07) and sets out near final rules.</p>	●	For noting.	N/A

Topic	IFPR	Requirements summary	Impact level	Action points	Responsibility
FCA CPs (continued)		On July 26, 2021, the FCA published Policy Statement 21/9: Implementation of Investment Firms Prudential Regime (PS21/9). PS21/9 is the FCA's second policy statement on the IFPR. In PS21/9 the FCA provides feedback on the comments received on its second consultation paper on IFPR (Consultation Paper 21/7: A new UK prudential regime for MiFID investment firms (CP21/07)) and sets out near final rules.	●	For noting.	N/A
Classification of FCA investment firms and application of MIFIDPRU					
What is a MiFIDPRU investment firm for the purpose of IFPR?	Glossary of the FCA Handbook, section 143A of the FS Act	An FCA investment firm is defined by reference to section 143A of the FS Act. In summary, this is an investment firm that: (a) has a Part 4A permission to carry on one or more regulated activities; (b) is not designated by the PRA; and (c) has its registered office or, if it has no registered office, its head office in the UK. N.B.: Any firm that is not subject to MIFID, including those that are article 3 exempt, is not affected by IFPR. Any Firms which would be MIFID article 3 exempt but have previously opted-in to MIFID will need to apply for a variation of permission if they would like to stop opting-in.	●	Identify all UK authorised MiFID investment firms and MiFID exempt firms.	Legal and/or compliance
How will these rules apply to CPMIs?	MIFIDPRU 11.2 G	The definition of an FCA investment firm includes Collective Portfolio Management Firms (CPMIs). Subject to some exceptions (for example the calculation of the fix overheads requirement), the requirements in MIFIDPRU apply only to the MiFID business of a CPMI. It will not apply them to its collective portfolio management business. The prudential requirements for the collective portfolio management business of Alternative Investment Fund Managers Directive (AIMFD) and Undertakings in Collective Investments in Transferable Securities (UCITS) managers in Chapter 11 of IPRU-INV will remain unchanged, subject to some consequential amendments and changes to the fixed overheads requirement (FOR) calculation.	●	Identify all CPMIs with MiFID top-up permissions. All CPMIs with MiFID top-up permissions will be affected by IFPR. Identify the relevant MiFID part of the business.	Legal and/or compliance
How will these rules apply to international firms?	MIFIDPRU 11.3G, 1.4G	MIFIDPRU imposes obligations on UK parent entities and responsible UK parents for entities established overseas that form part of the same investment firm group, even though these entities may not be carrying on business in the UK. Where an overseas investment firm is applying for authorisation in the UK, MIFIDPRU will not apply directly to that firm. The FCA needs to be satisfied that an investment firm established overseas will be subject to broadly equivalent prudential supervision to MIFIDPRU in its home jurisdiction. If this is not the case, the FCA would generally expect the firm to establish a UK subsidiary.	●	For noting.	N/A

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How will these rules apply to tied agents?	MIFIDPRU 1.1.7G	Certain provisions in MIFIDPRU, including requirements in MIFIDPRU 2 on groups and MIFIDPRU 4 on own funds requirements, apply to business carried on by tied agents. The references in MIFIDPRU to tied agents do not include appointed representatives that do not meet the definition of a tied agent.	●	<p>Check whether any investment business is carried on by tied agents and/or by appointed representatives.</p> <p>Consider potential risks from business carried on by appointed representatives as part of the ICARA process.</p>	Legal and/or compliance
Voluntary application of stricter measures	MIFIDPRU 1.1.8R, 1.1.9G	<p>Investment firms can apply stricter measures (i.e. hold own funds or components of own funds) or liquid assets that exceed the requirements in MIFIDPRU.</p> <p>N.B.: Firms must ensure that they are still meeting the basic requirements of MIFIDPRU. If a firm is unsure it should discuss the proposal with the FCA before applying that measure.</p>	●	For noting.	N/A
Non-SNI MIFIDPRU investment firms	MIFIDPRU 1.2.1R	<p>A non-SNI MIFIDPRU investment firm is an investment firm that exceeds one of the pre-defined thresholds for SNI MIFIDPRU investment firms.</p> <p>Non-SNI MIFIDPRU investment firm will be subject to the full prudential requirements set out in MIFIDPRU.</p>	●	Classify all affected firms in accordance with the new prudential categories based on the categorisation thresholds set out below. This will determine the scope of the rules that will apply to the affected firms.	Finance
SNI MIFIDPRU investment firms	MIFIDPRU 1.2.1R, 1.2.12G	<p>SNI MIFIDPRU investment firms are those investment firms that do not conduct investment services which carry a high risk for clients, the markets or themselves and that fall below all of the categorisation thresholds set out below.</p> <p>SNI MIFIDPRU investment firms will be subject to the new prudential regime but can benefit from various modifications and exemptions.</p>	●	Classify all affected firms in accordance with the new prudential categories based on the categorisation thresholds set out below. This will determine the scope of the rules that will apply to the affected firms.	Finance

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Categorisation threshold	MIFIDPRU 1.2.2G to 1.2.12G	Categorisation threshold	●	<p>Identify all relevant items (AUM, COH, ASA etc.) and run test calculations in accordance with the methodology set out in MIFIDPRU. The items for the categorisation that will apply will depend on the MiFID investment services and activities the affected entity undertakes.</p> <p>In addition, calculate the "on-and off-balance sheet value" and the "total annual gross revenue" in order to determine the classification.</p> <p>Please note that the categorisation thresholds, with the exception of the "on-and off-balance sheet total", only relate to the MiFID activities the firm undertakes.</p>	Finance	
		1 Average AUM (assets under management)*				Less than £ 1.2bln.
		2 Average COH (client orders handled)*				Less than either (i) £100m daily cash trades or (ii) £1bln daily derivatives.
		3 Average ASA (assets safeguarded and administered)				Zero.
		4 Average CMH (client money held)				Zero.
		5 Average DTF (daily trading flow)				Zero.
		6 NPR (net position risk) or CMG (clearing margin given)				Firm must not have permission to deal on own account, so that these measures must always be zero.
		7 TCD (trading counterparty default)				
		8 On-and off-balance sheet total*				Less than £100m.
		9 The total annual gross revenue from the investment services and activities of the investment firm*				Less than €30m, based on an average of annual figures for the two year period immediately preceding the current financial year.
10 Whether firm is a clearing member or indirect clearing member under MIFIDPRU 10.2	Firm must not be a clearing member or indirect clearing member.					
<p>*Calculated on a combined basis for each of the following entities that form part of the same group as that MIFIDPRU investment firm: (a) MIFIDPRU investment firms; (b) designated investment firms; (c) collective portfolio management firms; (d) third country investment firms that carry on investment services and/or activities in the UK.</p> <p>N.B: When calculating the contribution to the combined position of the group of a collective portfolio management firm, the MIFIDPRU investment firm is required to include only amounts that are attributable to the investment services and/or activities that fall within COLL6.9.9.R(4) to(6) or FUND 1.4.3R(3)to(6).</p>						

Contacts

We can help you with each step of your implementation programme. To find out more, please get in touch with a member of the team below:



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