UK Investment Firm Prudential Regime (IFPR)

Getting ready for 1 January 2022

Regulatory Update: Part 3 of 4

The information provided is not an exhaustive statement of all the potentially applicable requirements and conditions, and is not intended to be a substitute for detailed analysis of the IFPR rules.

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IFPR Overview

Background to the IFPR

- The IFPR is the UK variant of the EU's Investment Firms Regulation and Directive (IFR/IFD) which was implemented on 26 June 2021.
- The IFPR replaces the Capital Requirements Regulation/Directive (CRR/CRD) for UK investment firms (including CAD-exempt firms), given the CRR was more designed for the banking sector.
- Building on FG20/1Assessing Adequate Financial Resources, the FCA link its *financial adequacy* Threshold Conditions to the requirements of the IFPR.

Timeline for implementation

- The final IFPR rules set out in the legal instruments – FCA 2021/38 and FCA 2021/39. FCA have also published FG21/5: General guidance on the application of ex-post risk adjustment to variable remuneration. The third policy statement PS21/17 is addressed across legal instruments FCA 2021/49, FCA 2021/50 and FCA 2021/51.
- Firms are advised to start collecting data for IFPR one month before implementation date of 1 January 2022 i.e. from 30 November 2021.
- DWF's overview of the technical changes arising as a result of the introduction of the IFPR is summarised through a series of four regulatory change updates.

IFPR: 12 key areas for consideration by firms	
1.	Firm categorisation
2.	Capital resources
3.	Capital requirements
4.	Liquidity requirements
5.	Financial Threshold Conditions
6.	Regulatory reporting & Disclosures
7.	Group reporting & consolidation
8.	Risk Management
9.	Governance
10.	Remuneration
11.	FCA rulebook and supervisor processes
12.	Other new requirements

The IFPR is implemented on 1 January 2022.

IFPR changes

Group Reporting & Consolidation

Under the IFPR, the following entities are caught by Group Consolidation Requirement (GCR):

- UK parent undertakings (regulated and unregulated)
- Relevant subsidiaries/sister companies: at least one entity is an FCA investment firm
- Connected undertakings- e.g. where the sister company has the same management as the investment firm.
- Regulatory reporting will be submitted at a solo basis, but the group also has to submit group regulatory reporting. Even if the UK parent is unregulated, it will have a direct responsibility under the IFPR to report at group level to the FCA, unless the Group Capital Test (GCT) can be met.
- Full consolidation is required unless certain conditions are met, as defined by the GCT. To qualify for GCT, the group structure must be sufficiently simple to justify applying a GCT, and there is no significant risk of harm to others (clients or markets) from the group that would otherwise require that the group should be supervised on a consolidated basis. It is the FCA's expectation that many UK investment firm groups will fall within the scope of the GCT.

Risk Management

Central to a firm's risk management framework under IFPR is the Internal Capital Adequacy and Risk Assessment (ICARA).

- The focus of the firm's risk management framework and ICARA is more on harms as opposed to simply risks to the firm, considering and monitoring harm posed to consumers, clients and markets, as well as to the firm itself. The ICARA should not be treated as a once a year process with senior management sign-off, rather senior management should drive and be involved fully in the ICARA process.
- The FCA have stated that they expect that firms will recognise, monitor, control and mitigate the risks to which they are exposed, and the potential for harm their activities pose to consumers and markets. FCA will hold senior management and governing bodies responsible for this, tying-in with the Senior Manager and Certification Regime (SM&CR).
- The FCA also expects all IFPR firms to do recovery planning, which includes both quantitative and qualitative indicators that provide an early identification that the firm is running into capital and/or liquidity/funding difficulties.

IFPR changes

Governance

Under the IFPR, all firms are expected to have robust governance arrangements that include:

- A clear organisational structure with defined, transparent and consistent lines of responsibility;
- Effective processes to identify, manage, monitor and report the risks they are or might be exposed to, or pose or might pose to others; and;
- Adequate internal control mechanisms, including sound administration and accounting procedures.
- Firms must also comply with risk management rules (ICARA), the MIFIDPRU Remuneration Code, and other relevant requirements under SYSC.

Remuneration

There will be three firm categories for the IFPR MIFIDPRU Remuneration Code. There will be no proportionality levels under the IFPR compared to current practices, so there will be changes for current limited licence/limited activity firms, although the IFPR Rem Code rules will be similar to the current IFPRU Rem Code.

IFPR Remuneration Category	IFPR Firm Categorisation
• Basic Remuneration Requirements	• Small and Non-interconnected firms (SNI)
• Standard Remuneration Requirements	• Non-SNI firms
• Extended Remuneration Requirements	• Largest non-SNI firms. On and off balance sheet test of >=£300m or the trading book is at least £150m with a balance sheet of at least £100m.

- The largest non-SNI firms will have to have risk, remuneration and nomination committees, with at least 50% being non-executive members of the management body.
- Small number of firms that are not currently a significant IFPRU firm but are enhanced firms under the SM&CR, will need to establish committees under IFPR

Next steps

Take action..

The following steps should be considered right now by Boards and Senior Management:

1. Understand the final IFPR rules set out in the legal instruments FCA 2021/38 and FCA 2021/39. Also, see if FG21/5: General guidance on the application of ex-post risk adjustment to variable remuneration applies to your firm.
2. Establish an IFPR Steering Committee/Working Group to interact with all operationally interdependent areas of the business
3. Understand where you will need to make changes to the Governance structure as a result of IFPR
4. Brief the Remuneration Committee on changes affecting remuneration practices
5. Identify the stages to implement the ICARA, governance and remuneration provisions
6. Engage with us to assist with your preparations and avoid costly mistakes

Seeks professional input..

It is important that investment firms such IFPRU, BIPRU, or exempt CAD firms, plan for IFPR now and understand how governance and remuneration policies will be affected.

Contact us for :

- Advice
- A gap analysis
- An impact analysis
- Assistance with capital planning
- Detailed implementation support

Contact us..

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