UK Investment Firm Prudential Regime (IFPR)

Getting ready for 1 January 2022

Regulatory Update: Part 1 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. A third policy statement is due to be published by the end of 2021, before the IFPR implementation date of 1 January 2022.
- Firms are advised to start collecting data for IFPR one month before implementation, 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

Firm Categorisation

Moving to an IFPR firm categorisation- approximately 3,200 FCA firms will be IFPR firms.

MiFID Investment Firm Categorisations	IFPR Firm Categorisations
• IFPRU firms	• Small and Non-interconnected firms (SNI)
• BIPRU firms	• Non-SNI firms
• Exempt CAD firms	• Certain large (systemically important) firms will continue to be subject to the CRR and not the IFPR (it is estimated this is a cohort of eight UK firms)
• Local firms	• Small and Non-interconnected firms (SNI)
• CPMI firms	
• Others (e.g. oil market participants)	

Capital resources

The IFPR introduces a new set of flowcharts to determine the categorisation of firms and the type of regulatory capital to be held in the future.

Capital Resources: CET1	Capital Resources: AT1	Capital Resources: T2
• The IFPR follows the capital resource instrument definitions of the CRR		
• The IFPR does not allow Tier 3 capital instruments, that currently BIPRU and exempt CAD firms are allowed to utilise.		
• Deductions are made in full under the IFPR and include intangible assets such as software.		
• Ref: Common Equity Tier 1 Capital (CET1) and Deductions Flow Chart	• Ref: Additional Tier 1 Capital (AT1) and Deductions Flow Chart.	• Ref: Tier 2 Capital (T2) and Deductions Flow Chart.

IFPR changes

Capital requirements

Key points to note

- The Pillar 1 capital requirements under the CRR/IFPRU and BIPRU will be replaced by the Own Funds Requirement (OFR) under the IFPR. The OFR is the higher of the Permanent Minimum Requirement (PMR) and Fixed Overhead Requirement (FOR) for SNI firms, and the higher of the PMR, FOR and KFR for non-SNI firms
- Transitional Provisions (TPs) will be in place for five years from the implementation date of 1 January 2022 so that firms can adjust to the potentially higher capital requirements of the IFPR. However the TPs are only for the minimum requirements (PMR, FOR and KFR) and do not affect the ICARA levels of capital a firm needs.

Permanent Minimum Requirement (PMR)

- £750,000 where MiFID activities include one or more of the following:
  - Dealing on own account (this includes matched principal dealers, as the exemption is removed under IFPR)
  - Underwriting and/or placing on a firm commitment basis
- £75,000 where MiFID activities are only among the following:
  - Reception and transmission of orders
  - Execution of orders on behalf of clients
  - Portfolio management
  - Investment advice
  - And the firm does not have the permission to hold client money or assets
- £150,000 for all other FCA investment firms

K-Factor Requirement (KFR)

Sum of the three categories: Risk to Market (RtM), Risk to Customer (RtC) and Risk to Firm (RtF):

- RtM: K-NPR (net position risk) and K-CMG (clearing margin given)
- RtC: K-AUM (assets under management), K-ASA (client assets safeguarded and administered), K-CMH (client money held) and K-COH (client orders handled)
- RtF: K-TCD (trading counterparty default), K-DTF (daily trading flow) and K-CON (concentration risk)
- K-ASA - not applicable to the regulated activity of "arranging safeguarding & administration of assets".
- For K-AUM, this includes AUM delegated by the firm to a third party, but excludes AUM delegated to the firm by a UK CPMI or equivalent third country firm subject to similar requirements.

Next steps

Take action..

The following steps should be considered 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. Draw up a timeline/road map
3. Understand the new prudential categorisation of your firm, the type of capital required to be held and the impact of the K-factors based upon your activity.
4. Model the own funds and all resulting changes to the capital requirements for your firm under IFPR
5. Where appropriate, review Group structures and the impact on capital
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 ensure that they have appropriate regulatory capital to meet the new requirements.

Contact us for :

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

Contact us..

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