The Ultimate IFPR Guide

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INTRODUCTION

The leading industry advice from legal and financial experts has been compiled into this ultimate IFPR guide for your convenience. Hold on to the guide for reference while you follow the steps to prepare your organisation.

WHAT IS IFPR, AND WHEN IS IT COMING?

One of the many hot topics on the UK regulatory agenda is the implementation of the new **Investment Firms Prudential Regime** (IFPR). The new regime, which is authorised under the Markets in Financial Instruments Directive (EU/2014/65) ("MiFID"), is set to come into force on **1 January 2022**. For EU authorised investment firms, the EU Investment Firm Regulation and Directive (IFR/IFD) will cease from June 2021.

The IFPR introduces a single prudential regime for all **MiFID** investment firms regulated by the FCA. IFPR will simplify firms' prudential obligations and will establish a 'risk-based approach' that focuses on capturing any risks arising from the firms' activities that could pose threats to their clients and the markets in which they operate.

With the introduction of the new regime fast approaching, firms need to begin to prepare to meet the IFPR's requirements.[1]

[1]Mike Dalmrias, 6th May, 2021
https://complyport.com/start-preparing-for-the-new-prudential-regime-ifpr/

WHAT ARE THE KEY IFPR CHANGES?

Significant changes to the framework include, but are not limited to:

- The categorisation of investment firms
- Small and non-interconnected (SNI) firm, or a non-SNI
- Initial Capital Required (ICR)
- Base requirements are increasing for all firms
- Remuneration policy
- Only basics aspects of the policy need to be followed by SNIs
- Own funds requirements
- Higher of permanent minimum capital and fixed over-head requirements (and K factors for Non-SNI firms
- K-Factor requirements
- Reporting thereon for Non-SNI firms only
- Risk management
- A framework, which centres on potential 'harms' rather than risks
- Regulatory reporting requirements
- Several new regulatory returns to be completed on a quarterly basis
- Liquidity
- Firm's may be required to hold at least one month of fixed overheads in liquid assets
- Concentration risk
- All firms will be required to monitor their concentration risk
- Prudential consolidation
- Or a Group Capital Test, subject to FCA permission[1]

[1]Price Bailey, 9th November 2021
https://www.pricebailey.co.uk/blog/investment-firms-prudential-regime-ifpr-new-year-brings-new-regulatory-requirements-fca-investment-firms/

CONFIRM IFPR CLASSIFICATION

The prudential categories such as IFPRU, BIPRU and exempt CAD will cease to exist. Instead, firms within the scope of the IFPR will be classified within one of two categories.

Firstly, firms that fall below certain thresholds will be classified as a small and non-interconnected investment (SNI) firm. These firms will benefit from some proportionality under the new regime.

Secondly, any firms exceeding the SNI criteria will be classified as a non-small and non-interconnected investment (non-SNI) firm.

Even if a firm is initially classified as SNI, this is something it needs to keep a close eye on, particularly if it is close to one or more of the thresholds.

Where a firm is part of a group structure, the UK parent entity of the group will be responsible for determining the group's classification as an SNI or non-SNI firm.[1]

CALCULATE YOUR NEW OWN FUNDS REQUIREMENT AND CHECK YOUR CAPITAL

These are our five main points for firms that will become subject to the "Own Funds" rules (OFR):

- The scope for non-standard Core Equity Tier 1 (CET 1) instruments currently permitted is likely to be limited.
- The rules on deductions from CET 1, including those on deferred tax assets and DB pension fund assets, will change;
- The ratio between Tier 1 and Tier 2 instruments will change;
- Certain types of instruments, such as Tier 3 and perpetual fully paid non-cumulative preference shares, will no longer be allowed; and
- The FCA processes for CET1 pre-notifications and the redemption of CET1 and T2 instruments will become stricter.

In light of the above, firms will need to:

- Revisit their capital structures;
- Change their capital structures as necessary to take into account the changes to the rules on eligibility and ratios of instrument;
- Reconsider their CET1 calculations in light of changes to the rules on deductions; and
- Revisit their processes for issuing new OFR compliant capital instruments.[2]

[1]Jane Greenwood, September 28 2021
https://www.ftadviser.com/fca/2021/09/28/how-to-prepare-your-firm-for-the-ifpr-deadline/?page=2
[2]Macfarlanes LLP
https://www.macfarlanes.com/media/3705/the-ifpr-what-is-the-impact-on-capital-structure.pdf

CAN YOUR FIRM MEET THE NEW LIQUIDITY REQUIREMENTS?

Under the IFPR, firms' liquidity requirement will be 1/3 of the FOR plus 1.6% of guarantees to clients. This is more lenient than the AIFMD liquidity requirement.

However, the definition of liquid assets has become stricter and means much of the requirement should be met with either cash or highly liquid assets.

Any receivables on the balance sheets are subject to certain haircuts and restrictions. Firms managing their liquidity on a centralised group basis (informally), need to formalise those arrangements to ensure that receivable meets the definition.[1]

CONSIDER YOUR INTERNAL CAPITAL ADEQUACY AND RISK ASSESSMENT (ICARA) PROCESS

The ICARA process is the ongoing risk management process that sits at the heart of the IFPR. Although on the surface, it looks similar to the ICAAP that many firms will be familiar with, there are some important differences, for example:

- The focus on the underlying processes that firms have in place to perform the ICARA
- A greater emphasis on the accountability of senior managers for risk management
- Firms must clearly articulate their wind-down plans as part of the ICARA process
- There's a much bigger focus on liquidity

The ICARA process explicitly builds on the FCA's 2020 guidance on assessing adequate financial resources (FG20/1), so revisiting your firm's response to FG20/1 is a good place to start.

You'll also need to think about the date that you'll submit your ICARA process reporting form. You'll need to notify the FCA of your chosen submission date, so you'll need to work out when it should be, by reference to other components of the ICARA process.[2]

[1]Michael Chambers, 20th September 2021
https://www.aima.org/article/investment-firms-should-prepare-now-for-big-changes-under-the-fca-s-new-prudential-regime.html
[2]Jane Greenwood, 8th November 2021
https://www.moneymarketing.co.uk/opinion/urgent-priorities-for-your-ifpr-to-do-list/

THE FIRST STEP

Synetec have worked with **Argentex**, **Genesis** and **Exotix** to resolve this issue by building out a bespoke tool that enables them to efficiently pull reports and ensure compliance.

Feel free to get in contact today for a **complimentary assessment meeting** to understand how Synetec can assist member firms in the transition to the new regime.

Get in touch to see how IFPR reporting can be automated:

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ABOUT SYNETEC

We are the trusted partner for financial software solutions and automation for operation-critical environments. We deliver highest quality services at speed, supporting operational growth by enhancing, modernising and scaling existing operations.

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