

The IFPR: What is the impact for SNI firms?

The Financial Conduct Authority’s (FCA) first consultation paper (CP1) on the new UK prudential regime for investment firms (IFPR) focuses on the early chapters of the prudential sourcebook for MiFID investment firms (MIFIDPRU). This briefing looks at MIFIDPRU’s first chapter (MIFIDPRU 1) which deals with categorisation.

CP1 does not add to the categories set out in the [FCA discussion paper from June 2020](#) although the FCA still has to consult on the rest of MIFIDPRU 1. There is, however, increased clarity on exactly what firms will have to do. CP1 also makes it clear that references to the EU Investment Firms Directive and Regulation will not appear in the final Handbook text; the MIFIDPRU text and related UK law and regulation will be the final word on a firm’s obligations under the IFPR.

MIFIDPRU 1 sets out the criteria for determining whether a firm is a small and non-interconnected FCA investment (SNI) firm. In addressing its approach to compatibility of MIFIDPRU 1 text with its duties in the Financial Services Bill when making rules under the IFPR, the FCA notes that its proposals are aimed at more clearly delineating between those firms that pose a wider risk of harm to markets and clients and apply its supervisory focus accordingly. This indicates that, unsurprisingly, non-SNI firms will attract more attention from the FCA under the IFPR.

That said, CP1 also suggests that the main benefits for SNI firms will be exemption from the consolidation requirements in MIFIDPRU 2, and a more straightforward calculation in MIFIDPRU 4 for calculating the own funds requirement, i.e. how much regulatory capital a firm requires. The rules in MIFIDPRU 3 on own funds, i.e. what counts as regulatory capital, will, however be the same for SNI firms as non-SNI firms. Moreover, the FCA is looking to impose the same reporting frequency for SNI firms as for non-SNI firms in its proposed MIFIDPRU 9, thereby imposing a stricter requirement on SNI firms than that under the EU regime. The FCA indicates that it will consult on its approach to proportionality, i.e. applying remuneration, governance and risk management requirements, including the ICARA process to SNI firms, in the future consultations with the expectation that these requirements will be less onerous for SNI firms than for non-SNI firms.

This table summarises the provisions (which are, of course, subject to consultation and the final provisions may be different). A firm can streamline its assessment of whether they are in-scope as an SNI firm or a non-SNI firm by contacting us to utilise our scoping tool, which results in a tailored programme plan for the implementation of IFPR.

Measure	Threshold to be classified as an SNI MIFIDPRU investment firm	Methodology	Measurement of relevant values	Calculation on an individual basis or combined basis	Special notes
Assets under Management (AUM)	Less than £1.2bn	K-AUM Requirement	End-of-day	Combined	As a derogation from AUM and/or COH requirements, relevant values under K-AUM and K-COH requirements (a) using most recent 12 months without excluding the three most recent monthly values (b) 12 months from notice to the FCA.

Client orders handles (COH) (cash trades)	Less than £100m per day	K-COH Requirement	End-of-day	Combined	As above
Client orders handled (COH) (derivatives)	Less than £1bn per day	K-COH Requirement	End-of-day	Combined	As above
Assets safeguarded and administered (ASA)	Zero	K-ASA Requirement	End-of-day	Individual	
Client money held (CMH)	Zero	K-CMH Requirement	Intra-day*	Individual	* End-of-day value permitted if (a) there has been an error in record keeping or in reconciliation of accounts that incorrectly indicated the firm has breached the zero threshold for CMH and (b) the error is corrected before the end of the business day to which it relates.
On-and off-balance sheet total	Less than £100m	No special rules specified	End of last financial year for which accounts finalised by management body.	Combined	Where the relevant accounts have not been finalised and approved after six months from the end of the last financial year, provisional accounts must be used.

Total annual gross revenue from investment services and/or activities	Less than £30m, based on an average of annual figures for the two-year period immediately preceding the current financial year	Calculated as an average on the basis of the annual figures from the two-year period immediately preceding the given financial year	End of last financial year for which accounts finalised by management body	Combined	Where the relevant accounts have not been finalised and approved after six months from the end of the last financial year, provisional accounts must be used. Double counting arising in respect of gross revenues generated within the group to be excluded.
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General notes:

- as a firm that deals on own account cannot be a SNI MIFIDPRU Firm, the following are necessarily zero: daily trade flow (DTF), net position risk (NPR) clearing margin given (CMG) and trading counterparty fault (TCD);
- where a calculation is required on a combined basis, it must include MIFIDPRU investment firms; designated investment firms; collective portfolio management investment firms (investment services business only); and third country investment firms that carry on investment services and/or activities in the UK (UK business only);
- the MIFIDPRU 4 rules on K factors relevant to the calculation have yet to be consulted on; and
- rules in MIFIDPRU 1.2.13, 14,16 and 18 will deal with the how a firm moves above and below the SNI thresholds and has a place holder for what remuneration, governance and risk management requirements rules will not apply to an SNI, i.e. the proportionality rules.

Macfarlanes LLP

20 Cursitor Street London EC4A 1LT

T +44 (0)20 7831 9222 | F +44 (0)20 7831 9607 | DX 138 Chancery Lane | macfarlanes.com

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