

Throgmorton:

FCA Investment Firm Prudential Regime Data Request

On 17th November 2020, the FCA issued a data request questionnaire, sent to UK authorised investment firms who are considered to fall within the scope of the upcoming changes to the FCA's prudential regime.

There are 2 versions of the data request: one for solo-regulated entities and one for consolidated groups. The due date is **4th January 2021**.

Background

At a European level, a new investment firm prudential regime ("IFPR") is due to take effect from 26th June 2021. By this time, the UK will have fully exited the EU and will no longer be subject to European legislation or regulation. The FCA is therefore seeking to establish a national version of the IFPR and this questionnaire is designed to gather data that can inform their rulemaking.

The FCA have recently advised that implementation of the national prudential regime will be delayed by 6 months, taking effect from 1st January 2022.

Completing the Questionnaire

A template pdf questionnaire can be viewed on the FCA website at the following link:
https://www.onlinesurveys.fca.org.uk/CP/File.php?F=F_1Cfy4Et8CqN0Znv.

The requested data items may appear complex and unfamiliar but are based on the EU IFPR construct and therefore background information and guidance are available, for example within the [FCA's DP 20-2 Prudential regime for MiFID investment firms](#).

Section 1 - Remuneration:

Key Facts:

- Within your disclosure, you should include the remuneration data from the last complete performance year for:
 - all individuals who met the 'Remuneration Code Staff' criteria relevant to your firm; and
 - individuals whose business activities have an impact on the risk profiles of your firm and/or your consolidated group (if applicable).
- All individuals' remuneration should be represented as if they had been working full-time and for the full performance year; and
- Variable remuneration should reflect the amounts awarded in the relevant performance year, irrespective of when it will be paid.

Table 1: Remuneration of Material Risk Takers

1a. How many employees of your entity did you identify as 'Remuneration Code staff' under each of these Remuneration Codes?

The relevant Codes are found in the FCA Handbook at SYSC 19 A – E, using the following links:

- IFPRU - [SYSC 19A](#);
- AIFM - [SYSC 19B](#);
- BIPRU - [SYSC 19C](#);
- UCITS - [SYSC 19E](#).

The number of employees entered should be based on the full performance year. Therefore, if your firm had 5 Remuneration Code staff in the first 6 months of the year but one person left the firm in July and was not replaced, you would still enter 5 in the table.

1b. How many of these employees identified as 'Remuneration Code staff' were awarded variable remuneration of:

When calculating variable remuneration, you should include:

- a. bonus awards (whether in cash, shares or other non-cash instruments);
- b. executive reward schemes (e.g. long-term incentive schemes);
- c. guaranteed variable remuneration; and
- d. discretionary pension benefits.

The value entered should be calculated per individual, as if they were working full time and for the whole performance period.

1c. How many of these employees identified as 'Remuneration Code staff' were awarded total annual remuneration of:

For this section, for each qualifying employee, you should add the individuals' fixed remuneration (salary plus any other elements of fixed pay that are not linked to performance criteria) to their variable remuneration (as calculated under 1b).

Section 2 - Assets Under Management (K-AUM):

Key Facts:

- AUM is defined as the fair value of assets.
- Disclosable AUM includes:
 - discretionary portfolio management; and
 - non-discretionary arrangements which constitute investment advice on an ongoing basis (e.g. investment advice to an entity that retains ultimate trading discretion).
- Both absolute positive and negative values must be represented (i.e. no netting);
- There are 4 considerations to be borne in mind in order to avoid double counting;
- All values should be converted into GBP and represented in millions; and
- A comments box has been provided, so firms should ensure that they use this to set out any assumptions they have made in preparing their calculations.

K-AUM	Assets under Management	The investment firm should determine the value of total assets under management on the last business day of each of the preceding 15 months. They must then exclude the 3 most recent monthly values and calculate the average of the remaining 12 months from that period, to determine the disclosable rolling monthly average.
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Section 3 - Assets Safeguarded and Administered (K-ASA):

Key Facts:

- There is a general assumption that there will be no negative values, but the regulator has anticipated that there may be exception, so has included the option to enter a negative value;
- Included within this definition is the safeguarding and administration of assets which are formally delegated to or from another financial entity;
- All values should be converted into GBP and are represented in millions; and
- A comments box has been provided, so firms should ensure that they use this to set out any assumptions they have made in preparing their calculations.

K-ASA	Assets safeguarded and administered	The investment firm should determine the total value of assets safeguarded and administered at the end of each business day for the previous nine months. They should then exclude the daily values from the 3 most recent months and calculate the daily average of the remaining 6 months, to determine the disclosable rolling daily average.
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Section 4 - Client Order Handled K-COH:

Key Facts:

- This definition encompasses the value of orders handled both through the:
 - reception and transmission of client orders; and
 - execution of client orders **in the name of the client**.

NOTE: this differs from Section 5 below, which captures the execution of client order **in the name of the firm**.
- Different calculation methodologies are prescribed for different types of trades;
- Multiple categories of trades must be excluded from the K-COH calculations, so firms should go through each of these carefully in order to avoid over counting;
- Particular focus is given to interest rate derivatives, which comprise 2 separate data items:
 - absolute notional value; and
 - absolute notional value of each contract multiplied by the duration of the contract.
- All values should be converted into GBP and represented in millions; and
- A comments box has been provided, so firms should ensure that they use this to set out any assumptions they have made in preparing their calculations.

K-COH	Client money held	The investment firm should determine the total value of client money held at the end of each business day for the previous nine months. They should then exclude the daily values from the 3 most recent months and calculate the daily average of the remaining 6 months, to determine the disclosable rolling daily average.
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Section 5 - Daily Trading Flow (K-DTF):

Key Facts:

- This definition encompasses the value of transactions both from:
 - Dealing on own account; and
 - execution of client orders **in the name of the firm.**
- Different calculation methodologies are prescribed for different types of trades;
- Several categories of trades must be excluded from the K-DTF calculations, so firms should go through each of these carefully in order to avoid over counting;
- Particular focus is given to interest rate derivatives, which comprise 2 separate data items:
 - absolute notional value; and
 - absolute notional value of each contract multiplied by the duration of the contract.
- All values should be converted into GBP and represented in millions; and
- A comments box has been provided, so firms should ensure that they use this to set out any assumptions they have made in preparing their calculations.

K-DTF	Daily trading flow	The investment firm should determine the total value of daily trading flow at the end of each business day for the previous nine months. They should then exclude the daily values from the 3 most recent months and calculate the daily average of the remaining 6 months, to determine the disclosable rolling daily average.
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If you need further information please do not hesitate to get in touch with our Compliance Solutions team **Mel Scotland** melanie.scotland@throgmorton.co.uk or **Julie Ferguson** julie.ferguson@throgmorton.co.uk directly or via compliancesolutions@throgmorton.co.uk.

NOTE: The information which is summarised within this client update does not constitute professional advice and is intended to be general in nature. It does not take into account the specific circumstances of your firm. Further analysis is required prior to completing the FCA's data request questionnaire.