Thistle Initiatives

Financial services compliance, without the complexity

CASE STUDY

THE INVESTMENT FIRMS PRUDENTIAL REGIME (IFPR)

01. THE CHALLENGE

The Investment Firms Prudential Regime (IFPR), implemented on 1st January 2022, requires firms that fall under its scope to calculate their own funds requirement and liquid asset requirement.

Recently the FCA has contacted firms that have failed to meet their own funds and liquid asset requirements, based on those firms' quarterly MIF returns.

An IFPR client of ours was looking for support and guidance on how to respond to the FCA regarding its level of own funds and liquid assets. This client was also trying to identify any shortfalls while monitoring its own funds and liquid assets at all times in compliance with the FCA's overall financial adequacy rules.

This client was not aware of the existence of investment firm groups where the firm structure meets the definition of MIFIPRU 2.4 and therefore, a prudential consolidation is triggered.

02. THE SOLUTION

The key to our approach with the firm was to fully understand the firm's structure and provide an IFPR gap analysis to the firm, which was unaware that it could take advantage of available transitional provisions (TP) to apply an alternative requirement for 5 years.

From our IFPR assessment, Thistle was able to identify more issues and other regulatory returns which had not been submitted correctly, especially in relation to the ICARA (MIF007). This was challenging as the client was unaware of the new MIFIDPRU rules and was struggling to identify its own funds threshold requirement and liquid asset threshold requirement for an individual MIFIDPRU investment firm and an investment firm group.

We also undertook a high-level review of the firm's ICARA and provided feedback highlighting areas of concern and potential improvements. Among the areas of concern we identified were the firm's finance team's relative lack of IFPR regulatory understanding.

We thoroughly stress tested the firm's financial forecasting assumptions to help it to set an indicator, making this an intrinsic part of the firm's day-to-day monitoring plan to prevent any shortfall in its own funds and liquid assets.

Thistle provided the client with a tailored IFPR guidance document and assisted it to respond to the FCA. We also provided ICARA workshops to the client to explain the MFIDPRU rules that apply to it and how in future it could improve its governance and controls to meet the FCA's overall financial adequacy rules.

03. THE RESULT

As a result, the firm developed and implemented an investment firm group and individual MIFIDPRU firm own funds and liquid assets monitoring plan in compliance with the FCA's overall financial adequacy rules.

Thistle Initiatives assisted the firm to respond to the FCA and the FCA is now satisfied with the firm's internal control and monitoring plan for own funds and liquid assets.

Our services

Investment Firms Prudential Regime

The IFPR introduced a requirement for all firms in scope of the regime to complete an internal capital adequacy and risk assessment (ICARA) process.

Through the ICARA process, firms identify the risk of harm in their operations and provide appropriate resources to mitigate harm, whether as a going concern or when winding down.

We've already supported hundreds of firms to understand and navigate the IFPR regime, and we continue to assist those with work still to do – or who simply want to verify they've got it right.

Genie Loh
Prudential Risk Consultant
genie.loh@thistleinitiatives.co.uk

Alex Paschalis
Investments Director
alex.paschalis@thistleinitiatives.co.uk