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FCA Started First Consultation on the Implementation of Investment Firms Prudential Regime

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On 14 December 2020, the Financial Conduct Authority ("**FCA**") published the first out of three consultation papers on the implementation of the Investment Firms Prudential Regime ("**IFPR**") (CP20/24) in relation to a new UK prudential regime for investment firms authorised under the Markets in Financial Instruments Directive (EU/2014/65) ("**MiFID**").

The UK government announced in July 2020 (please also refer to our article on these announcements) that it supported the intended outcomes of the new European prudential regime, but that it will not implement the new European prudential regime which will be introduced by the Investment Firms Regulation (EU/2019/2033) ("**IFR**") and Investment Firms Directive (EU/ 2019/2034) ("**IFD**").

Hence, the IFPR will be based on the European rules but will be adjusted to suit the UK regulatory environment after Brexit. The consultation paper presents a more simplified and streamlined approach to prudential requirements for solo-regulated investment firms in the UK and represents a major change for investment firms compared to the current UK regime. It is therefore critical that firms adequately prepare for the regime, even though the current implementation target for the IFPR is 1 January 2022.

The key proposals that are covered in this consultation paper include:

- The categorisation of investment firms.
- Prudential consolidation.
- Own funds and own funds requirements.
- Reporting requirements.

The FCA also intends to establish a new prudential sourcebook relating to the IFPR: the Prudential sourcebook for MiFID Investment Firms ("**MIFIDPRU**").

UK firms within the scope of IFPR should monitor developments in relation to the FCA's approach to the new regime closely as they will need to comply with the new requirements when they come into force in 2022.

If you have any questions on the proposals contained in CP20/24 or on the IFR/IFD, please get in touch with our European Financial Services Regulatory team.

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