

CRYPTOASSETS (COREPRU AND CRYPTOPRU) INSTRUMENT 2026**Powers exercised**

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers);
 - (c) section 138C (Evidential provisions);
 - (d) section 138D (Actions for damages); and
 - (e) section 139A (Power of the FCA to give guidance); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.
- C. The FCA confirms and remakes in the Glossary of definitions any defined expressions used in the modules of the FCA’s Handbook of rules and guidance referred to in paragraph E where such defined expressions relate to any UK legislation that has been amended since those defined expressions were last made.

Commencement

- D. This instrument is one of a series of instruments which introduce or amend provisions of the Handbook relating to cryptoassets. These instruments all come into force on 25 October 2027, immediately after one another, in the following order:
- (1) Glossary (Cryptoassets) Instrument 2026;
 - (2) Cryptoassets (Stablecoins) Instrument 2026;
 - (3) Cryptoassets (Admission of Qualifying Cryptoassets to Trading and Offers of Qualifying Cryptoassets to the Public) Instrument 2026;
 - (4) Cryptoassets (Market Abuse) Instrument 2026;
 - (5) Cryptoassets (Intermediaries) Instrument 2026;
 - (6) Cryptoassets (Trading Platforms, Transparency and Records) Instrument 2026;
 - (7) Cryptoassets (Lending, Borrowing and Staking) Instrument 2026;
 - (8) Cryptoassets (Safeguarding) Instrument 2026;
 - (9) Cryptoassets (Client Assets Consequential) Instrument 2026;
 - (10) Cryptoassets (Conduct and Firm Standards) Instrument 2026; and
 - (11) Cryptoassets (COREPRU and CRYPTOPRU) Instrument 2026.

Amendments to the FCA Handbook

- E. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)	Annex D
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex E
Interim Prudential sourcebook for Investment Businesses (IPRU-INV)	Annex F

- F. The Prudential sourcebook for Insurers (INSPRU) is moved immediately after the Interim Prudential sourcebook for Insurers (IPRU-INS).
- G. The General Prudential sourcebook (GENPRU) is moved after the Interim Prudential sourcebook for Investment Businesses (IPRU-INV), so it is the last sourcebook in the Prudential Standards block within the Handbook.

Making the Core Prudential sourcebook (COREPRU) and the Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU)

- H. The FCA makes the rules and gives the guidance in Annexes B and C to this instrument.
- I. The Core Prudential sourcebook (COREPRU) is added as the first sourcebook in the Prudential Standards block within the Handbook.
- J. The Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU) is added to the Prudential Standards block within the Handbook, immediately after the Core Prudential sourcebook (COREPRU).

Notes

- K. In the annexes to this instrument, the notes (indicated by “**Note:**” or “*Editor’s note:*”) are included for the convenience of readers, but do not form part of the legislative text.

Citation

- L. This instrument may be cited as the Cryptoassets (COREPRU and CRYPTOPRU) Instrument 2026.
- M. The sourcebook in Annex B to this instrument may be cited as the Core Prudential sourcebook (COREPRU).
- N. The sourcebook in Annex C to this instrument may be cited as the Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU).

By order of the Board
25 June 2026

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>average CCO</i>	the rolling average of a <i>CRYPTOPRU firm's CCO</i> calculated in accordance with <i>CRYPTOPRU 4.7.9R</i> .
<i>average CCS</i>	the rolling average of a <i>CRYPTOPRU firm's CCS</i> calculated in accordance with <i>CRYPTOPRU 4.6.7R</i> .
<i>average CTF</i>	the rolling average of a <i>CRYPTOPRU firm's CTF</i> calculated in accordance with <i>CRYPTOPRU 4.8.4R</i> .
<i>average RCS</i>	the rolling average of a <i>CRYPTOPRU firm's RCS</i> calculated in accordance with <i>CRYPTOPRU 4.5.6R</i> .
<i>average SII</i>	the rolling average of a <i>CRYPTOPRU firm's SII</i> calculated in accordance with <i>CRYPTOPRU 4.4.3R</i> .
<i>CASS 16 stablecoin</i>	any <i>qualifying stablecoin</i> which is part of a <i>qualifying stablecoin product</i> that includes a <i>UK qualifying stablecoin</i> .
<i>CCO</i>	<i>cryptoasset client orders</i> .
<i>CCS</i>	<i>client cryptoassets staked</i> .
<i>CET1 permission</i>	the permissions in <i>MIFIDPRU 3.3A.3R</i> , <i>COREPRU 3.3.3R</i> and Article 26(3) of the <i>UK CRR</i> (including applied by any <i>rule</i> in the <i>FCA Handbook</i>).
<i>client cryptoassets staked</i>	the total daily value of <i>qualifying cryptoassets</i> for which the <i>firm</i> makes arrangements on behalf of another <i>person</i> (whether as <i>principal</i> or agent) for <i>qualifying cryptoasset staking</i> , calculated in accordance with <i>CRYPTOPRU 4.6.6R</i> .
<i>COREPRU</i>	the Core Prudential sourcebook.
<i>COREPRU firm</i>	a <i>firm</i> to which <i>COREPRU</i> applies in accordance with <i>COREPRU 1.1.1R</i> .
<i>cryptoasset client orders</i>	the value of <i>cryptoasset orders</i> , as calculated in accordance with <i>CRYPTOPRU 4.7</i> , that a <i>firm</i> handles: <ul style="list-style-type: none"> (a) for <i>clients</i>, when providing the following services:

	(i) reception and transmission of <i>cryptoasset orders</i> ; or
	(ii) <i>execution of orders on behalf of clients</i> ; or
	(b) solely in its capacity as the <i>qualifying CATP operator</i> .
<i>cryptoasset order</i>	an order that involves the purchase or sale of a <i>qualifying cryptoasset</i> except where the order involves a <i>CASS 16 stablecoin</i> and no other <i>qualifying cryptoasset</i> .
<i>cryptoasset trading flow</i>	the daily value of <i>cryptoasset orders</i> that a <i>CRYPTOPRU firm</i> enters in its own name, calculated in accordance with <i>CRYPTOPRU 4.8.4R</i> .
<i>CRYPTOPRU</i>	the Prudential sourcebook for <i>CRYPTOPRU Firms</i> .
<i>CRYPTOPRU firm</i>	a <i>firm</i> with <i>permission</i> to carry on any <i>regulated cryptoasset activity</i> that is not a <i>PRA-authorised person</i> .
<i>CTF</i>	<i>cryptoasset trading flow</i> .
<i>issuer liquid assets requirement</i>	an amount of <i>on-demand deposits</i> that a <i>CRYPTOPRU firm</i> must hold, in accordance with <i>CRYPTOPRU 6.1.9R</i> .
<i>K-CCD requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of <i>cryptoasset counterparty default risk</i> in accordance with <i>CRYPTOPRU 4.10</i> .
<i>K-CCO requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of the <i>CCO</i> of a <i>CRYPTOPRU firm</i> in accordance with <i>CRYPTOPRU 4.7</i> .
<i>K-CCS requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of the <i>CCS</i> of a <i>CRYPTOPRU firm</i> in accordance with <i>CRYPTOPRU 4.6</i> .
<i>K-CTF requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of the <i>CTF</i> of a <i>CRYPTOPRU firm</i> in accordance with <i>CRYPTOPRU 4.8</i> .
<i>K-NCP requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of <i>net cryptoasset position risk</i> in accordance with <i>CRYPTOPRU 4.9</i> .
<i>K-RCS requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of the <i>RCS</i> of a <i>CRYPTOPRU firm</i> , in accordance with <i>CRYPTOPRU 4.5</i> .
<i>K-SII requirement</i>	the part of the <i>K-factor requirement</i> calculated on the basis of the <i>SII</i> of a <i>CRYPTOPRU firm</i> , in accordance with <i>CRYPTOPRU 4.4</i> .
<i>level 1 asset</i>	a <i>short-term government debt instrument</i> or a <i>long-term government debt instrument</i> that has been issued by: <ul style="list-style-type: none"> (a) Canada; (b) France;

- (c) Germany;
- (d) the Netherlands;
- (e) the *United Kingdom*; or
- (f) the United States.

level 2 asset a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by:

- (a) Australia;
- (b) Austria;
- (c) Belgium;
- (d) Denmark;
- (e) Finland;
- (f) Ireland;
- (g) Italy;
- (h) Japan;
- (i) Luxembourg;
- (j) New Zealand;
- (k) Norway;
- (l) Portugal;
- (m) Spain;
- (n) Sweden; or
- (o) Switzerland.

level 3 asset a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by a member of the *OECD* not listed in the definitions of *level 1 asset* or *level 2 asset*.

overall risk assessment has the meaning in *COREPRU 7.2.1R*, which, in summary, is the systems, controls and procedures operated by a *firm* to:

- (a) identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm*'s business that may cause material harm; and

- (b) assess whether the *firm* should hold *own funds* or *liquid assets* to mitigate risks that may cause material harm.

overall risk assessment document has the meaning in *COREPRU* 7.2.9R, which, in summary, is the documentation used to record the *firm*'s review of the adequacy of its *overall risk assessment*.

RCS *relevant cryptoassets safeguarded*.

relevant cryptoassets safeguarded the value of *qualifying cryptoassets* and *relevant specified investment cryptoassets* in respect of which a *CRYPTOPRU firm* is *safeguarding cryptoassets*.

sectoral liquidity requirement a requirement on liquidity set out in a *sectoral prudential sourcebook*.

sectoral prudential sourcebook any of the following:

- (a) *CRYPTOPRU*; or
 (b) [intentionally left blank]

SII *stablecoins in issuance*.

stablecoins in issuance the *qualifying stablecoins* that the *qualifying stablecoin issuer* is liable to redeem, excluding any amount deducted in accordance with *COREPRU* 3.3.39R.

standard spot settlement period (in *CRYPTOPRU*) the period the *firm* uses (as part of its normal settlement practice) to settle a spot transaction in a *qualifying cryptoasset*.

Amend the following definitions as shown.

additional tier 1 capital (1) (in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.4.2R.

(2) (in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.2R.

additional tier 1 instrument (1) (in *COREPRU* and *CRYPTOPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.4.3R to *COREPRU* 3.4.15R and that is not a *common equity tier 1 instrument*.

(2) (in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.4A.3R to *MIFIDPRU* 3.4A.15R and that is not a *common equity tier 1 instrument*.

<i>additional tier 1 item</i>	(1) <u>(in COREPRU and CRYPTOPRU) has the meaning in COREPRU 3.4.2R.</u>
	(2) <u>(in MIFIDPRU) has the meaning in MIFIDPRU 3.4A.2R.</u>
<i>additional tier 1 or comparable instrument</i>	(1) <u>(in COREPRU) has the meaning in COREPRU 3.4.22R.</u>
	(2) <u>(in MIFIDPRU) has the meaning in MIFIDPRU 3.4A.22R.</u>
<i>basic liquid assets requirement</i>	the requirement <u>to hold a minimum amount of core liquid assets:</u>
	(1) <u>(in COREPRU and CRYPTOPRU) as set out in COREPRU 6.2.1R.</u>
	(2) <u>(in MIFIDPRU) as set out in MIFIDPRU 6.2.1R for a MIFIDPRU investment firm to hold a minimum amount of core liquid assets.</u>
<i>client</i>	...
	(B) in the <i>FCA Handbook</i> :
	...
	(2A) <u>(in MIFIDPRU 5 and CRYPTOPRU 5) a counterparty of the investment firm firm.</u>
	...
<i>common equity tier 1 capital</i>	(1) <u>(in COREPRU and CRYPTOPRU) has the meaning in COREPRU 3.3.2R.</u>
	(2) <u>(in MIFIDPRU) has the meaning in MIFIDPRU 3.3A.2R.</u>
<i>common equity tier 1 instrument</i>	(1) <u>(in COREPRU and CRYPTOPRU) a capital instrument that complies with the conditions in COREPRU 3.3.3R to COREPRU 3.3.18R.</u>
	(2) <u>(in MIFIDPRU) a capital instrument that complies with the conditions in MIFIDPRU 3.3A.3R to MIFIDPRU 3.3A.16R.</u>
<i>common equity tier 1 item</i>	(1) <u>(in COREPRU and CRYPTOPRU) has the meaning in COREPRU 3.3.2R.</u>
	(2) <u>(in MIFIDPRU) has the meaning in MIFIDPRU 3.3A.2R.</u>
<i>common equity tier 1 or comparable instrument</i>	(1) <u>(in COREPRU) has the meaning in COREPRU 3.3.31R.</u>
	(2) <u>(in MIFIDPRU) has the meaning in MIFIDPRU 3.3A.29R.</u>

<i>core liquid asset</i>	<p>(1) <u>(in COREPRU and CRYPTOPRU) has the meaning in COREPRU 6.3 (Core liquid assets).</u></p> <p>(2) <u>(in MIFIDPRU) has the meaning in MIFIDPRU 6.3 (Core liquid assets).</u></p>
<i>exposure value</i>	<p>(1) (in MIFIDPRU 5) the value of a <i>firm's</i> exposure to a <i>client</i> or <i>group of connected clients</i>, calculated in accordance with MIFIDPRU 5.4.</p> <p>(2) <u>(in CRYPTOPRU 5) the value of a <i>firm's</i> exposure to a <i>client</i> or <i>group of connected clients</i>, calculated in accordance with MIFIDPRU 5.4 as modified by CRYPTOPRU 5.</u></p>
<i>fixed overheads requirement</i>	<p>(1) ...</p> <p>(2) (in IPRU(INV)) the part of the <i>own funds</i> requirement calculated in accordance with IPRU(INV)11.3.3R (Fixed overheads requirement). <u>[deleted]</u></p> <p>(3) ...</p> <p>(4) <u>(in COREPRU and CRYPTOPRU) the part of the <i>own funds</i> requirement calculated in accordance with COREPRU 4.3 (Fixed overheads requirement).</u></p>
<i>investment management firm</i>	<p>a <i>firm</i> whose <i>permitted activities</i> include <i>designated investment business</i>, which is not an <i>authorised professional firm</i>, <i>bank</i>, <i>MIFIDPRU investment firm</i>, <u>COREPRU firm</u>, <i>collective portfolio management firm</i>, <i>credit union</i>, <i>energy market participant</i>, <i>friendly society</i>, <i>ICVC</i>, <i>insurer</i>, <i>media firm</i>, <i>oil market participant</i> or <i>service company</i>, whose <i>permission</i> does not include a <i>requirement</i> that it comply with IPRU-INV 3 (Securities and futures firms) or IPRU-INV 13 (Personal investment firms) and which is within (a), (b) or (c):</p> <p>...</p>
<i>K-CON requirement</i>	<p>the part of the <i>K-factor requirement</i> that accounts for <i>concentration risk</i> in the <i>trading book</i> of a MIFIDPRU investment firm, calculated in accordance with MIFIDPRU 5.7 <u>(including, where relevant, as applied and modified by CRYPTOPRU 5).</u></p>
<i>K-factor requirement</i>	<p>(1) <u>(in MIFIDPRU) the part of the <i>own funds</i> requirement calculated in accordance with MIFIDPRU 4.6.</u></p> <p>(2) <u>(in COREPRU and CRYPTOPRU) the part of the <i>own funds</i> requirement calculated in accordance with COREPRU 4.4.</u></p>

- management body* (1) (other than in (2) or (3)-) *the governing body and senior personnel* who are empowered to set the *person's* strategy, objectives and overall direction, and which oversee and monitor management decision-making in the following:
- (ai) ...
- (aii) a COREPRU firm (in relation to the requirements in COREPRU); or
- ...
- non-core liquid asset* ~~has the meaning in MIFIDPRU 7.7.8R, which is any of the following, except to the extent excluded by MIFIDPRU 7.7.8R(2):~~
- (1) ~~short term deposits at a credit institution that does not have a Part 4A permission in the UK to accept deposits; [deleted]~~
- (1A) ~~short term non-sterling deposits at a UK credit institution; [deleted]~~
- (2) ~~assets representing claims on, or guaranteed by, multilateral development banks or international organisations; [deleted]~~
- (3) ~~assets representing claims on or guaranteed by any third country central bank or government; [deleted]~~
- (4) ~~financial instruments; and [deleted]~~
- (5) ~~any other instrument eligible as collateral against the margin requirement of an authorised central counterparty. [deleted]~~
- (6) (in MIFIDPRU) has the meaning in MIFIDPRU 7.7.8R.
- (7) (in CRYPTOPRU) has the meaning in CRYPTOPRU 7.4.9R.
- overall financial adequacy rule* ...
- (2) ...
- (3) (in COREPRU and CRYPTOPRU) the requirement in COREPRU 2.3.1R.
- own funds* ...
- (4A) ...
- (4B) (in COREPRU and CRYPTOPRU) has the meaning in COREPRU 3.2.2R.

	(5)	(except in <i>MIFIDPRU</i> , <i>COREPRU</i> and <i>CRYPTOPRU</i>) has the meaning in article 4(1)(118) of the <i>UK CRR</i> , as it applied on 31 December 2021.
<i>own funds requirement</i>	(1)	(in <i>MIFIDPRU</i>) the requirement for a <i>MIFIDPRU investment firm</i> to maintain a minimum level of <i>own funds</i> specified in <i>MIFIDPRU</i> 4.3.
	(2)	(in <i>COREPRU</i> and <i>CRYPTOPRU</i>) the requirement for a <i>firm</i> to maintain a minimum level of <i>own funds</i> specified in <i>COREPRU</i> 4.1.
<i>permanent minimum capital requirement</i>	(1)	(in <i>MIFIDPRU</i>) the part of the <i>own funds requirement</i> calculated in accordance with <i>MIFIDPRU</i> 4.4.
	(2)	(in <i>COREPRU</i> and <i>CRYPTOPRU</i>) the part of the <i>own funds requirement</i> calculated in accordance with <i>COREPRU</i> 4.2.
<i>personal investment firm</i>		a <i>firm</i> whose <i>permitted activities</i> include <i>designated investment business</i> , which is not an <i>authorised professional firm</i> , <i>bank</i> , <i>MIFIDPRU investment firm</i> , <i>COREPRU firm</i> , <i>building society</i> , <i>collective portfolio management firm</i> , <i>credit union</i> , <i>energy market participant</i> , <i>ICVC</i> , <i>insurer</i> , <i>media firm</i> , <i>oil market participant</i> or <i>service company</i> , whose <i>permission</i> does not include a <i>requirement</i> that it comply with <i>IPRU(INV)</i> <i>IPRU-INV</i> 3 (Securities and futures firms) or <i>IPRU-INV</i> 5 (Investment management firms), and which is within (a), (b) or (c):
		...
<i>regulated covered bond</i>		(in <i>RCB</i> and <i>CRYPTOPRU</i> 7) (as defined in Regulation 1(2) of the <i>RCB Regulations</i>) a <i>covered bond</i> or <i>programme of covered bonds</i> , as the case may be, which is admitted to the register of <i>regulated covered bonds</i> maintained under Regulation 7(1)(b) of the <i>RCB Regulations</i> .
<i>relevant body</i>		(in <i>MIFIDPRU</i> and <i>COREPRU</i>) a general meeting of the shareholders of a <i>firm</i> or an equivalent meeting of the owners of a <i>firm</i> .
<i>relevant expenditure</i>	(1)	(in <i>MIFIDPRU</i> 4, <i>MIFIDPRU</i> 6 and <i>IPRU(INV)</i> <i>IPRU-INV</i> 11) relevant expenditure as calculated under <i>MIFIDPRU</i> 4.5.3R.
	(2)	(in <i>COREPRU</i>) relevant expenditure as calculated under <i>COREPRU</i> 4.3.3R.
<i>securities and futures firm</i>		a <i>firm</i> whose <i>permitted activities</i> include <i>designated investment business</i> or <i>bidding in emissions auctions</i> , which is not an <i>authorised professional firm</i> , <i>bank</i> , <i>MIFIDPRU investment firm</i> , <i>COREPRU firm</i> , <i>building society</i> , <i>collective portfolio management firm</i> , <i>credit union</i> , <i>friendly society</i> , <i>ICVC</i> , <i>insurer</i> , <i>media firm</i> or <i>service company</i> , whose <i>permission</i> does not include a <i>requirement</i> that it comply with <i>IPRU-INV</i> 5

(Investment management firms) or *IPRU-INV 13* (Personal investment firms), and which is within (a), (b), (c), (d), (e), (f), (g) or (ga):

...

*senior
management*

...

- (4) (in *MIFIDPRU* and *COREPRU*) those natural persons who exercise executive functions in ~~*MIFIDPRU investment firms firms*~~ and who are responsible and accountable to the *management body* for the day-to-day management of the *firm*, including for the implementation of the policies concerning the distribution of services and products to *clients* by it and its personnel.

...

*threshold
requirement*

either of the following in relation to a *MIFIDPRU investment firm* or a firm subject to *CRYPTOPRU 7*:

- (1) the *liquid assets threshold requirement*; or
- (2) the *own funds threshold requirement*.

tier 2 capital

- (1) (in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU 3.5.2R*.
- (2) (in *MIFIDPRU*) has the meaning in *MIFIDPRU 3.5A.2R*.

*tier 2
instruments*

- (1) (in *COREPRU* and *CRYPTOPRU*) a capital instrument that complies with the conditions in *COREPRU 3.5.3R* to *COREPRU 3.5.11R* and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.
- (2) (in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU 3.5A.3R* to *MIFIDPRU 3.5A.11R* and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.

tier 2 item

- (1) (in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU 3.5.2R*.
- (2) (in *MIFIDPRU*) has the meaning in *MIFIDPRU 3.5A.2R*.

*tier 2 or
comparable
instrument*

- (1) (in *COREPRU*) has the meaning in *COREPRU 3.5.17R*.
- (2) (in *MIFIDPRU*) has the meaning in *MIFIDPRU 3.5A.17R*.

trading book

...

- (6) ...
- (7) (in COREPRU) all positions in a financial instrument, commodity and qualifying cryptoasset held by a firm that are:
- (a) positions held with trading intent; or
 - (b) held to hedge positions held with trading intent.
- (8) (in CRYPTOPRU) all positions in a qualifying cryptoasset held by a firm that are:
- (a) positions held with trading intent; or
 - (b) held to hedge positions held with trading intent.

Annex B

The Core Prudential sourcebook (COREPRU)

In this Annex, all the text is new and is not underlined.

Insert the following new sourcebook, the Core Prudential sourcebook (COREPRU), as the first sourcebook in the Prudential Standards block.

1 Application

1.1 Application and interaction with sectoral prudential sourcebooks

Application

1.1.1 R *COREPRU* applies to a *CRYPTOPRU* firm.

1.2 COREPRU and the sectoral prudential sourcebooks

1.2.1 G *COREPRU* contains the prudential requirements that apply to the *firms* listed in *COREPRU* 1.1.1R.

1.2.2 G The prudential requirements in this sourcebook are cross-cutting requirements that are intended to apply across multiple sectors. These cross-cutting requirements are supplemented by sector-specific requirements in the *sectoral prudential sourcebooks*, such as *CRYPTOPRU*. *COREPRU* should therefore be read alongside any *sectoral prudential sourcebooks* which apply to a *firm*.

1.2.3 G For example, a *CRYPTOPRU* firm needs to comply with the *own funds requirement* in *COREPRU* 4.1. The *own funds requirement* has a variety of components, some of which are cross-cutting and defined in *COREPRU*, while others are sector-specific and defined in the *sectoral prudential sourcebooks* (which, in the case of a *CRYPTOPRU* firm, would mean *CRYPTOPRU*).

1.3 Notifications and applications for permission

1.3.1 R A notification or application for permission that is required by *COREPRU* must be submitted using the *online notification and application system*.

1.4 Actions for damages

1.4.1 R A contravention of any *rule* in *COREPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

2 Overall financial adequacy

2.1 Purpose

- 2.1.1 G *COREPRU* contains *rules* and *guidance* which supplement the overarching requirements under:
- (1) the appropriate resources *threshold condition* in Schedule 6 to the *Act* (as explained in *COND 2.4*) under which a *firm* must have appropriate resources in relation to the *regulated activities* that it carries on; and
 - (2) *Principle 4* (Financial prudence) under which a *firm* must maintain adequate financial resources.
- 2.1.2 G The overall purpose of the requirements in *COREPRU* is to ensure that a *firm*:
- (1) holds financial resources that are adequate for the business it undertakes; and
 - (2) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down of its business.
- 2.1.3 G The *FCA*:
- (1) recognises that there is a vast range of potential harms and that it will not be possible for the *FCA* or *firms* to eliminate all potential risks and sources of harm;
 - (2) considers that *firms* should focus on material harms, adopting a proportionate and risk-based approach to their business and operating models; and
 - (3) recognises that some *firms* may still fail, but considers that *firms* should aim to ensure that their wind-down occurs in an orderly manner, minimising the impact on *consumers* and the wider market.

2.2 Voluntary application of stricter requirements

- 2.2.1 R No provision in *COREPRU* or the *sectoral prudential sourcebooks* prevents a *firm* from:
- (1) holding *own funds* (or components of *own funds*) or *liquid assets* that exceed those required by an applicable *rule*; or
 - (2) applying other measures that are stricter than those required by an applicable *rule*.
- 2.2.2 G If a *firm* wishes to apply a stricter measure but is unsure of whether that measure would meet the prudential requirements applicable to it, it should discuss the proposal with the *FCA* before applying the measure.

2.3 Overall financial adequacy rule

- 2.3.1 R (1) A *firm* must, at all times, maintain *own funds* and *liquid assets* that are adequate in both amount and quality for the business it undertakes.
- (2) The requirement in (1) is known as the *overall financial adequacy rule*.
- 2.3.2 G The remainder of *COREPRU* expands upon the *overall financial adequacy rule* as follows:
- (1) *COREPRU 3* explains how a *firm* must quantify its *own funds*;
- (2) *COREPRU 4* explains how a *firm* must calculate an *own funds requirement* in accordance with a quantified methodology prescribed by the *FCA*;
- (3) *COREPRU 5* contains requirements relating to concentration risk;
- (4) *COREPRU 6* explains how a *firm* must calculate its *basic liquid assets requirement* in accordance with a quantified methodology prescribed by the *FCA*; and
- (5) *COREPRU 7* explains how a *firm* must carry out its *overall risk assessment*.

3 Own funds

3.1 Purpose and interpretation

Purpose

- 3.1.1 G This chapter explains how a *firm* must calculate its *own funds*. *Own funds* is the term the *FCA* commonly uses to describe a *firm*'s regulatory capital.

Principles underlying the definition of own funds

- 3.1.2 G By requiring a *firm* to maintain an appropriate level of *own funds*, the *FCA* helps ensure that:
- (1) a *firm* can absorb losses while continuing to operate as a going concern;
- (2) a *firm* can absorb losses in *liquidation* in an orderly way that minimises harm to clients, markets and the wider financial system;
- (3) *own funds* are calculated consistently and transparently, allowing the *FCA* and other stakeholders to assess a *firm*'s loss-absorbing capacity; and
- (4) the interests of a *firm*'s owners are appropriately aligned with the long-term interests of the *firm* itself.

Interpretation

- 3.1.3 R A *firm* must categorise and value its assets and off-balance sheet items in accordance with the applicable accounting framework, unless a *rule* specifies otherwise.
- 3.1.4 G Every provision in the *Handbook* must be interpreted in the light of its purpose (*GEN 2.2.1R*). A *firm* must therefore look beyond the legal form of its capital arrangements and consider their economic substance. This includes considering matters not set out in the terms of a capital instrument.

Mutual societies

- 3.1.5 G The *FCA* recognises that a mutual society may require modification of certain requirements in this chapter. The *FCA* will generally use the *own funds* rules for mutual societies in the *PRA Rulebook* as the starting point for such modifications, but will discuss this with relevant mutual societies.

3.2 Composition of own funds

- 3.2.1 G The *FCA* divides *own funds* into categories, or tiers, reflecting differences in the extent to which the capital concerned meets the purposes set out in *COREPRU 3.1.2G*.
- 3.2.2 R The *own funds* of a *firm* are the sum of its:
- (1) *common equity tier 1 capital*;
 - (2) *additional tier 1 capital*; and
 - (3) *tier 2 capital*.
- 3.2.3 G The *FCA* generally prefers a *firm* to hold *common equity tier 1 capital* because it provides the highest quality of loss absorption and permanence. *Common equity tier 1 capital* can be used to meet a *firm's* capital requirements without limit. Other tiers of capital are subject to limits as set out in *COREPRU 3.2.4R*.
- 3.2.4 R A *firm* must, at all times, have *own funds* that satisfy all of the following conditions:
- (1) the *firm's common equity tier 1 capital* must be equal to or greater than 56% of the *firm's own funds requirement* under *COREPRU 4.1*;
 - (2) the sum of the *firm's common equity tier 1 capital* and *additional tier 1 capital* must be equal to or greater than 75% of the *firm's own funds requirement* under *COREPRU 4.1*; and
 - (3) the *firm's own funds* must be equal to or greater than 100% of the *firm's own funds requirement* under *COREPRU 4.1*.

3.3 Common equity tier 1 capital

- 3.3.1 G (1) *Common equity tier 1 capital* has the following core characteristics:

- (a) it is able to absorb losses as they occur;
 - (b) it ranks below all other claims in *liquidation*;
 - (c) it is permanent;
 - (d) there is no obligation to make a *distribution*; and
 - (e) the level of *distributions* is not capped.
- (2) The remainder of *COREPRU* 3.3 contains the detailed *rules* and *guidance* for calculating *common equity tier 1 capital*.

3.3.2 R A *firm* must calculate its *common equity tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found, as applicable.

Item		Relevant rules and guidance
<i>Common equity tier 1 items:</i>		
(1)	<i>common equity tier 1 instruments;</i>	<i>COREPRU</i> 3.3.3R to <i>COREPRU</i> 3.3.18R
(2)	share premium accounts related to the <i>common equity tier 1 instruments;</i>	
(3)	<i>retained earnings;</i>	
(4)	interim or provisional year-end profits;	<i>COREPRU</i> 3.3.19R and <i>COREPRU</i> 3.3.20G
(5)	<i>accumulated other comprehensive income;</i>	
(6)	<i>other reserves;</i>	
Note: Items (3) to (6) may only be recognised as <i>common equity tier 1 items</i> if they are available to the <i>firm</i> for unrestricted and immediate use to cover risks or losses as soon as these occur.		
LESS		
Deductions from <i>common equity tier 1 items:</i>		<i>COREPRU</i> 3.3.21G
(7)	losses for the current financial year;	<i>COREPRU</i> 3.3.22R

(8)	<i>intangible assets;</i>	<i>COREPRU 3.3.23R</i>
(9)	deferred tax assets that rely on future profitability;	<i>COREPRU 3.3.24R</i>
(10)	defined benefit pension fund assets;	<i>COREPRU 3.3.25R</i>
(11)	direct, indirect and synthetic holdings of own <i>common equity tier 1 instruments;</i>	<i>COREPRU 3.3.26R, 3.3.32R and 3.3.33G</i>
(12)	direct, indirect and synthetic holdings of <i>common equity tier 1 or comparable instruments of financial sector entities</i> where those entities have a <i>reciprocal cross-holding</i> with the <i>firm;</i>	<i>COREPRU 3.3.27R, COREPRU 3.3.28G, and COREPRU 3.3.31R to COREPRU 3.3.33G</i>
(13)	direct, indirect and synthetic holdings of <i>common equity tier 1 or comparable instruments of financial sector entities</i> which are not held in the <i>trading book;</i>	<i>COREPRU 3.3.29R to COREPRU 3.3.33G</i>
(14)	any excess of alternative tier 1 deductions above the <i>firm's additional tier 1 capital;</i>	<i>COREPRU 3.3.34R</i>
(15)	foreseeable tax charges relating to <i>common equity tier 1 items;</i>	<i>COREPRU 3.3.35R</i>
(16)	<i>qualifying holdings</i> outside the financial sector;	<i>COREPRU 3.3.36R and COREPRU 3.3.37G</i>
(17)	(for <i>partnerships or limited liability partnerships</i>) excess withdrawals;	<i>COREPRU 3.3.38R</i>
(18)	direct, indirect or synthetic holdings of <i>qualifying cryptoassets</i> issued by, or where the supply is controlled by, the <i>firm</i> or a connected entity;	<i>COREPRU 3.3.39R and COREPRU 3.3.40G</i>
ADJUSTED FOR		
Prudential filters for <i>common equity tier 1 capital:</i>		

(19)	cash flow hedges and changes in the value of own liabilities due to own credit standing; and	<i>COREPRU</i> 3.3.41R and <i>COREPRU</i> 3.3.42G
(20)	additional valuation adjustment for the <i>trading book</i> .	<i>COREPRU</i> 3.3.43R

Prior permission and notification of issuances of common equity tier 1 instruments

- 3.3.3 R (1) A *firm* must not classify an issuance of a capital instrument as a *common equity tier 1 instrument* unless:
- (a) it has obtained prior permission from the *FCA*; or
 - (b) (i) it is issuing new instruments on terms which are substantially the same as instruments for which the *firm* has already received the *FCA*'s prior permission; and
 - (ii) it notifies the *FCA* sufficiently far in advance of classifying the new instruments as *common equity tier 1 instruments*.
- (2) The *FCA* will grant the permission in (1)(a) if it is satisfied that the capital instrument meets the criteria in *COREPRU* 3.3.7R to *COREPRU* 3.3.18R.
- 3.3.4 R A *firm* that has been granted any *CET1 permission* is deemed to have been granted any other *CET1 permission* for the purposes of compliance with relevant *rules* in the *FCA Handbook*.
- 3.3.5 G The following example illustrates the effect of *COREPRU* 3.3.4R:
- (1) Firm Z was granted a *CET1 permission* under *MIFIDPRU* 3.3A.3R.
 - (2) It subsequently began to carry on *regulated cryptoasset activities* and became subject to *COREPRU*.
 - (3) Firm Z does not need to reapply for a *CET1 permission* under *COREPRU* 3.3.3R in respect of any capital instruments for which it has already received a *CET1 permission* under *MIFIDPRU* 3.3A.3R.
 - (4) In addition, if Firm Z then issues new instruments on terms which are substantially the same as instruments for which it received the permission under *MIFIDPRU* 3.3A.3R, it may notify under *COREPRU* 3.3.3R(1)(b) rather than obtaining a further permission.
- 3.3.6 G The *FCA* generally expects to receive a notification of a new issuance of an existing form of *common equity tier 1 instrument* under *COREPRU* 3.3.3R(1)(b) at least 20 *business days* before the *firm* intends to classify that issuance as *common equity tier 1 instruments*.

Common equity tier 1 instruments: loss absorption

- 3.3.7 R (1) A *common equity tier 1 instrument* must be classified as equity within the meaning of the applicable accounting framework.
- (2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.
- (3) The holder of the instrument must not have any right, arising from the non-payment of any sums connected to the instrument, to petition for the winding up or administration of the *firm*, or any similar procedure.
- (4) The instrument must not be secured by, or subject to, a guarantee or other arrangement which enhances the legal or economic seniority of the claim.
- (5) (a) The *common equity tier 1 instruments* must rank below all other claims in the event of *liquidation*, except for claims from holders of other ordinary *shares* which rank *pari passu* with the instruments.
- (b) The *common equity tier 1 instruments* must entitle their owners to a claim on the residual assets of the *firm* which, in the event of *liquidation* and after payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap, except that a claim specified as a percentage of residual assets does not constitute a fixed or capped claim.
- (c) Each *common equity tier 1 instrument* must absorb losses to the same degree as all other *common equity tier 1 instruments*, and all *common equity tier 1 instruments* must absorb losses before any other *own funds instruments* issued by the *firm*.
- 3.3.8 R While the conditions in *COREPRU* 3.3.7R(5) require *common equity tier 1 instruments* to absorb losses before any other *own funds instruments*, the fact that an *additional tier 1 instrument* or *tier 2 instrument* may be permanently written down does not prevent these conditions being met.
- 3.3.9 R (1) A *common equity tier 1 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.
- (2) Where an instrument is partly paid, only the paid-up portion is eligible as a *common equity tier 1 instrument*.
- 3.3.10 G *COREPRU* 3.3.9R requires that the full amount of capital has been irrevocably received by the *firm*, is fully under the *firm's* control, and does not directly or indirectly expose the *firm* to the credit risk of the investor. This condition is stricter than the definition of 'fully paid' in the Companies Act 2006, which may be met by an undertaking to pay.

- 3.3.11 R (1) *A common equity tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.
- (2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.
- 3.3.12 G (1) *COREPRU 3.3.11R* prevents the artificial inflation of a *firm's own funds* by prohibiting a *firm* from funding its own capital instruments, at issuance or thereafter. This includes situations where:
- (a) a *firm* grants a loan or other funding to an investor that is used to purchase the *firm's* own capital instruments;
- (b) a *firm* grants any funding to an existing investor in its capital instruments;
- (c) a *firm* provides a guarantee, enters into a credit derivative, or enters into some other form of arrangement so that the credit risk in a capital instrument is or may be transferred to the *firm*; or
- (d) the funding in (a), (b) or (c) is provided to an external investor indirectly, for example by a member of the *firm's group* or via another intermediary.
- (2) However, there is an exception for funding that is provided in the ordinary course of a *firm's* business. This covers situations where:
- (a) funding is provided as part of a *firm's* normal trading or business operations;
- (b) the terms are comparable to the terms the *firm* offers for third-party instruments; and
- (c) the funding is not designed to support the *firm's* capital position.
- (3) For example, a market maker providing standard margin lending that happens to involve the market maker's own capital instruments is likely to qualify for the exception. However, a structured arrangement specifically designed to fund purchases of the *firm's* capital instruments would not qualify.

Common equity tier 1 instruments: perpetuity

- 3.3.13 R (1) *A common equity tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:
- (a) the *firm* is in *liquidation*; or
- (b) the *firm* carries out a *reduction of capital* which complies with *COREPRU 3.6.4R* or *COREPRU 3.6.6R*.

- (2) A *firm* must not do anything to create an expectation that it will or might carry out a *reduction of capital* under (1)(b) when it issues the instrument, and the statutory or contractual terms of the instrument must not contain any feature which would or might give rise to such an expectation.
- 3.3.14 G (1) A *firm* generally has the right to carry out a *reduction of capital* under company law. However, *COREPRU* 3.6.4R requires that any *reduction of capital* is generally first approved by the *FCA*.
- (2) The *FCA* recognises that relevant documentation may acknowledge the fact that a *firm* is able to carry out a *reduction of capital*. However, the *firm* must not create an expectation that it would or might carry out a *reduction of capital* when it issues the relevant instrument.
- (3) An expectation that a *firm* would or might carry out a *reduction of capital* may be created by:
- (a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time;
 - (b) a term which suggests that a *reduction of capital* may be carried out at a particular point in time, or at the initiative of any *person* other than the *firm*, even if this is conditional upon the approval of the *firm's management body* and the *FCA*; or
 - (c) any other contractual or non-contractual indication that the *firm* would or might carry out a *reduction of capital* on a particular date, or in particular circumstances.

Common equity tier 1 instruments: perpetuity, partnerships and limited liability partnerships

- 3.3.15 R (1) This *rule* applies to:
- (a) a *partner's* account in a *firm* that is a *partnership*; and
 - (b) a member's account in a *firm* that is a *limited liability partnership*.
- (2) References to a *partner* or a *partnership* in this *rule* include a member and a *limited liability partnership* respectively.
- (3) A *partner's* account satisfies the conditions in *COREPRU* 3.3.13R if:
- (a) capital contributed by *partners* is paid into the account; and
 - (b) the terms of the partnership agreement ensure that (otherwise than with prior *FCA* consent under *COREPRU* 3.6.4R or in the circumstances set out in *COREPRU* 3.6.6R) capital may only be withdrawn from the account by a *partner* ('A') if:

- (i) A ceases to be a *partner* and an equal amount is contributed to another *partner's* account by A's former *partners* or any *person* replacing A as their *partner*;
- (ii) any reduction in the capital credited to A's account is immediately offset by an equal contribution to other *partner* accounts by one or more of A's *partners* (including any *person* becoming a *partner* of A at the time that the additional contribution is made);
- (iii) the *partnership* is wound up or dissolved; or
- (iv) the *firm* ceases to be *authorised* or no longer has a *Part 4A permission*.

Common equity tier 1 instruments: distributions

3.3.16 R A *common equity tier 1 instrument* must meet the following conditions regarding *distributions* (subject to *COREPRU* 3.3.18R):

- (1) the instrument must not provide or allow for the payment of preferential *distributions* over other *common equity tier 1 instruments* or any other capital instruments;
- (2) the instrument must not include a cap on *distributions* or any other restriction on the maximum amount payable;
- (3) the level of *distributions* must not be linked to the amount for which the instrument was purchased at issuance;
- (4) there must be no circumstances in which *distributions* are obligatory, including where non-payment triggers some other obligation (for example, to make payments in kind); and
- (5) failure to make *distributions* must not constitute an event of default.

3.3.17 G (1) *COREPRU* 3.3.16R(1) prohibits differentiated levels of *distributions*, or preferences in factors such as the order or timing of *distributions*, subject to the exception for instruments with fewer or no voting rights in *COREPRU* 3.3.18R.

- (2) *COREPRU* 3.3.16R(5) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Common equity tier 1 instruments: dividend multiples on instruments with fewer or no voting rights

3.3.18 R A *common equity tier 1 instrument* may pay a dividend multiple relative to another *common equity tier 1 instrument* if:

- (1) the higher dividend multiple applies to *common equity tier 1 instruments* with fewer or no voting rights;
- (2) the dividend multiple is set contractually or under the *firm's* constitution;
- (3) the dividend multiple is not revisable;
- (4) the same dividend multiple applies to all instruments with a dividend multiple;
- (5) the dividend multiple is no more than 125% of the *distribution* on one voting *common equity tier 1 instrument*; and
- (6) the total amount of *distributions* paid on all *common equity tier 1 instruments* during a 1-year period does not exceed 105% of the amount that would have been paid if instruments with fewer or no voting rights received the same *distributions* as voting instruments.

Inclusion of interim profits or provisional year-end profits in common equity tier 1 capital

- 3.3.19 R A *firm* must not include interim profits or year-end profits in its *common equity tier 1 capital* before its formal decision confirming final profit or loss for the year, unless:
- (1) those profits have been verified by a *person* who is independent of the *firm* and is responsible for the auditing of the accounts of that *firm*;
 - (2) the verification provides an adequate level of assurance that those profits have been evaluated in accordance with the principles set out in the applicable accounting framework;
 - (3) the *firm* is satisfied that any foreseeable charge or dividend has been deducted from the amount of those profits on a prudent and conservative basis; and
 - (4) the *firm* notifies the *FCA* as soon as reasonably practicable after including the profits in its *common equity tier 1 capital*.
- 3.3.20 G (1) When deducting foreseeable dividends under *COREPRU* 3.3.19R(3), a *firm* should consider:
- (a) any formal decisions about dividends that have been taken by the *firm's management body*;
 - (b) the upper end of any dividend policy;
 - (c) the ratio of dividends to income paid out in previous years; and
 - (d) any other factors that might reasonably affect the *firm's* approach to *distributions* for the relevant period.

- (2) When deducting foreseeable charges under *COREPRU* 3.3.19R(3), a *firm* should consider:
- (a) any tax charges attributable to the profits being verified;
 - (b) any other charges that are attributable to the relevant period but have not yet been reflected in the *firm's common equity tier 1 capital* calculation; and
 - (c) any other factors that might reasonably be expected to affect the final profit or loss figure for the period.

Deductions and filters for common equity tier 1 capital

- 3.3.21 G (1) Deductions and filters help to ensure that a *firm* measures its *own funds* in a way that reflects its ability to absorb losses in stressed conditions or *liquidation*.
- (2) They achieve this by adjusting accounting values, for example because those values:
- (a) are subject to significant valuation uncertainty;
 - (b) may not reflect realisable values in stressed conditions;
 - (c) include unrealised or market-value gains and losses that may reverse with changing market conditions; or
 - (d) are only realisable if the *firm* continues to operate as a going concern.

Deduction of losses for the current financial year

- 3.3.22 R (1) A *firm* must deduct losses for the current financial year, save where the losses have already resulted in a reduction in its *common equity tier 1 items*.
- (2) For the purposes of (1), a *firm* must:
- (a) apply the same accounting policies and standards as used for the year-end financial report;
 - (b) prudently estimate and assign income and expenses to the interim period in which they are incurred;
 - (c) recognise material or non-recurrent events in full and without delay in the interim period during which they arise; and
 - (d) determine profits, gains and losses, and deduct any resulting losses, as they arise.

Deduction of intangible assets

- 3.3.23 R (1) A *firm* must deduct *intangible assets*.
- (2) For the purposes of (1):
- (a) a *firm* must also deduct any *intangible assets* included in the valuation of its *qualifying holdings*;
 - (b) where the *qualifying holding* in (2)(a) is not wholly owned or controlled by the *firm*, the *firm* must only deduct the portion of *intangible assets* corresponding to its percentage of ownership or control; and
 - (c) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities that would be extinguished if the *intangible assets* became impaired or were derecognised, under the applicable accounting framework.
- (3) Where not already included under (1), a *firm* must also deduct its net position in any *qualifying cryptoasset* other than a *CASS 16 stablecoin*, where:
- (a) the *qualifying cryptoasset* is not traded on a *UK QCATP*; or
 - (b) the *qualifying cryptoasset* is held in the *trading book* but the *firm* is unable to value the *qualifying cryptoasset* in accordance with the requirements on prudent valuation in Article 105 of the *UK CRR* as applied by *MIFIDPRU 4.11.3R*.

Deduction of deferred tax assets that rely on future profitability

- 3.3.24 R (1) A *firm* must deduct deferred tax assets that rely on future profitability.
- (2) For the purposes of (1):
- (a) a *firm* may offset deferred tax liabilities against associated deferred tax assets if:
 - (i) the *firm* has a legally enforceable right to set off those current tax assets against current tax liabilities;
 - (ii) the deferred tax assets and the deferred tax liabilities arise from the same tax authority and for the same taxable entity; and
 - (iii) the deferred tax liabilities do not reduce the amount of *intangible assets* or defined pension fund assets deductible under *COREPRU 3.3.23R* or *COREPRU 3.3.25R*; and
 - (b) for the calculation of deferred tax assets and liabilities at consolidated level, a taxable entity includes any number of

entities which are members of the same tax group, fiscal consolidation, fiscal unity or consolidated tax return.

Deduction of defined benefit pension fund assets on the firm's balance sheet

- 3.3.25 R (1) A *firm* must deduct the value of any defined benefit pension fund assets on its balance sheet.
- (2) For the purposes of (1):
- (a) a *firm* must net off pension fund assets against its obligations under the fund; and
- (b) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities which would be extinguished if the assets became impaired or were derecognised, under the applicable accounting framework.

Deduction of holdings of own common equity tier 1 instruments

- 3.3.26 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *common equity tier 1 instruments*.
- (2) For the purposes of (1):
- (a) a *firm* must also apply the deduction where it could be obliged to purchase its own *common equity tier 1 instrument* as a result of an existing contractual obligation;
- (b) a *firm* must deduct its gross long position unless (2)(c) applies; and
- (c) a *firm* may deduct its net long position if:
- (i) the long and short positions are in the same underlying exposure;
- (ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and
- (iii) the long and short positions are both held in the *trading book* or are both held outside the *trading book*.

Deduction of holdings of common equity tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

- 3.3.27 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* that is designed to inflate the *own funds* of the *firm* artificially.

- (2) For the purposes of (1), a *firm* must deduct holdings based on its gross long position.

3.3.28 G The following factors indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially:

- (1) the cross-holding does not serve a genuine business purpose;
- (2) the timing and circumstances of the cross-holding suggest an intention to boost regulatory capital; or
- (3) there are other connections between relevant entities which might indicate coordinated capital management.

Deduction of holdings of common equity tier 1 or comparable instruments of financial sector entities

- 3.3.29 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.3.30R applies.
- (2) A *firm* must calculate holdings based on its gross long position unless (3) applies.
- (3) A *firm* may calculate holdings based on its net long position where:
- (a)
 - (i) the maturity date of the short position is the same as, or later than, the maturity date of the long position; or
 - (ii) the residual maturity of the short position is at least 1 year; and
 - (b) the long and short positions are held outside of the *trading book*.

Holdings of common equity tier 1 instruments issued by a financial sector entity within an investment firm group

- 3.3.30 R A *firm* is not required to deduct holdings of *common equity tier 1 instruments* of a *financial sector entity* under *COREPRU* 3.3.29R if it is part of an *investment firm group* and all of the conditions in *MIFIDPRU* 3.3A.28R are met.

Common equity tier 1 or comparable instruments

- 3.3.31 R A *common equity tier 1 or comparable instrument* means:
- (1) (for an entity subject to *COREPRU* or *MIFIDPRU*) a *common equity tier 1 instrument*;
 - (2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) ‘Tier 1 own funds’ as defined in the Own Funds (Solvency II

Firms) part of the *PRA Rulebook*, the inclusion of which is not restricted by Own Funds (Solvency II Firms) 4A.3 in the *PRA Rulebook*; and

- (3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that ranks below all other claims in *liquidation*.

Identifying and valuing indirect and synthetic holdings

3.3.32 R For the purposes of *COREPRU* 3.3.26R, *COREPRU* 3.3.27R and *COREPRU* 3.3.29R:

- (1) an indirect holding means an economic exposure through an intermediate entity such as a holding company or special purpose vehicle;
- (2) a *firm* must calculate the amount to be deducted for indirect holdings by:
- (a) identifying any intermediate entities or structures through which it may be exposed to a deductible *common equity tier 1 instrument*;
- (b) making a prudent estimate of the full economic exposure of the intermediate entities or structures to deductible instruments; and
- (c) deducting the proportion of economic exposure that is attributable to the *firm*;
- (3) a *firm* is not required to treat a holding in a *fund* as an indirect holding;
- (4) a synthetic holding means an economic exposure through a derivative instrument, guarantee, credit protection, or other similar arrangement; and
- (5) a *firm* must calculate the amount to be deducted for synthetic holdings by determining the maximum potential loss that would arise if the underlying deductible *common equity tier 1 instrument* or equivalent economic exposure had zero value, taking into account:
- (a) all contractual obligations relating to the position; and
- (b) any other features that could increase the *firm's* economic exposure.

- 3.3.33 G (1) *COREPRU* 3.3.32R explains how a *firm* should identify and value any indirect or synthetic holdings for the purposes of *COREPRU* 3.3.26R, *COREPRU* 3.3.27R and *COREPRU* 3.3.29R.
- (2) The *FCA* generally considers it disproportionate to require a *firm* to look through a *fund* for these purposes, given the limited exposures to a *firm's* own capital instruments and those of other *financial sector entities* that are likely to arise through most *funds*.

- (3) However, *COREPRU* 3.1.4G reminds *firms* to consider the economic substance of its capital arrangements. The *FCA* does not expect to see *firms* entering into arrangements intended to arbitrage this or other such concessions. Where a *fund* has a purpose or mandate to invest mainly in the capital instruments of *financial sector entities*, a *firm* should apply the relevant capital deductions accordingly.

Deduction of excess additional tier 1 deductions

- 3.3.34 R A *firm* must deduct from *common equity tier 1 items* the amount by which any items required to be deducted from *additional tier 1 capital* under *COREPRU* 3.4.2R exceed *additional tier 1 items*.

Deduction of foreseeable tax charges relating to common equity tier 1 items

- 3.3.35 R (1) This deduction applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.
- (2) Where this deduction applies, a *firm* must:
- (a) deduct any foreseeable current and deferred tax charges relating to *common equity tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;
 - (b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and
 - (c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

Deduction of qualifying holdings outside the financial sector

- 3.3.36 R (1) A *firm* must deduct the higher of:
- (a) the sum of the amounts by which any *qualifying holdings* in *non-financial sector entities* each exceed 15% of the *firm's own funds*; and
 - (b) the amount by which all of its *qualifying holdings* in *non-financial sector entities* exceed 60% of the *firm's own funds*.
- (2) The *own funds* limits in (1)(a) and (1)(b) must be calculated before applying this deduction.
- (3) When calculating the amounts in (1), a *firm* must treat a *fund* as a *non-financial sector entity*.
- (4) When calculating the amounts in (1), a *firm* must exclude:
- (a) shares held in the name of the *firm* on behalf of others;

- (b) shares held in the *trading book*; and
 - (c) shares which are not financial fixed assets, as defined in paragraph 94 of Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/401).
- 3.3.37 G (1) The following examples illustrate how to apply the deduction in *COREPRU* 3.3.36R.
- (2) Firm Z has *own funds* of £100m before applying this deduction. Firm Z has *qualifying holdings* in *non-financial sector entities* of £20m, £25m and £30m.
 - (3) Firm Z must deduct the higher of the amounts calculated under *COREPRU* 3.3.36R(1)(a) or (b).
 - (4) Firm Z calculates the amount in *COREPRU* 3.3.36R(1)(a) as $(£20m - £15m) + (£25m - £15m) + (£30m - £15m) = £30m$.
 - (5) Firm Z calculates the amount in *COREPRU* 3.3.36R(1)(b) as $(£20m + £25m + £30m) - £60m = £15m$.
 - (6) £30m is the higher amount and Firm Z therefore deducts £30m, which means Firm Z has *own funds* of £70m.

Deduction of excess partnership withdrawals

- 3.3.38 R A *firm* that is a *partnership* or a *limited liability partnership* must deduct the amount by which the aggregate of any amounts withdrawn by its *partners* or members exceeds the profits of the *firm*, except to the extent that the amount:
- (1) has already been deducted from the *firm's own funds* as a loss under *COREPRU* 3.3.22R;
 - (2) was repaid in accordance with *COREPRU* 3.3.15R(3); or
 - (3) is already reflected in a reduction of the *firm's own funds* that was permitted under *COREPRU* 3.6.4R or *COREPRU* 3.6.6R.

Deduction of own or connected qualifying cryptoassets

- 3.3.39 R (1) A *firm* must deduct any direct, indirect or synthetic holding of a *qualifying cryptoasset* issued by, or where supply is controlled by:
- (a) the *firm*;
 - (b) a member of the same *group* as the *firm*;
 - (c) a *controller*, shareholder or member of the *firm*;

- (d) a *director*, other *officer* or *employee* of the *firm*, or of any member of the same *group* as the *firm*; or
 - (e) a *close relative* of a *person* falling within (c) or (d).
- (2) Paragraph (1) does not apply if:
- (a) the *qualifying cryptoasset* is a *CASS 16 stablecoin*; or
 - (b) the full value of the *qualifying cryptoasset* is deducted in accordance with another *rule* in *COREPRU 3.3*.
- (3) A *firm* must calculate its holdings in (1) based on its gross long position.
- 3.3.40 G When considering whether it has control of supply of a *qualifying cryptoasset*, a *firm* should consider factors such as:
- (1) any contractual or non-contractual arrangements which give the *firm* control of supply; and
 - (2) whether the *firm* holds a position in the relevant *qualifying cryptoasset* that enables it to behave independently of other market participants to control supply.

Adjustment for cash flow hedges and changes in the value of own liabilities

- 3.3.41 R A *firm* must exclude the following from its *common equity tier 1 items*:
- (1) any unrealised gain or loss on cash flow hedges of financial instruments that are not measured at fair value, except where:
 - (a) the hedged item itself is measured at fair value; or
 - (b) the unrealised gain or loss represents effective net investment hedges of foreign operations; and
 - (2) any gain or loss arising from changes in the value of its liabilities that are due to changes in the *firm's* own credit standing.
- 3.3.42 G (1) *COREPRU 3.3.41R(1)* prevents unrealised gains or losses that arise from cash flow hedges from being included in *common equity tier 1 capital* where the hedged financial instruments are not measured at fair value. This filter is necessary because these hedge-related gains or losses may reverse over time, while not being matched by corresponding changes in the value of the hedged item in the regulatory capital calculation.
- (2) *COREPRU 3.3.41R(2)* ensures that a deterioration in a *firm's* own creditworthiness does not increase its *common equity tier 1 capital*. For example, if a *firm's* creditworthiness deteriorates, this could result in the fair value of its liabilities decreasing, resulting in an accounting gain. This gain is counterproductive from a prudential perspective because the

firm's financial condition is actually worsening. COREPRU 3.3.41R(2) filters this out to ensure capital reflects true loss-absorbing capacity.

Additional valuation adjustment for the trading book

- 3.3.43 R (1) A *firm* with a *trading book* must deduct the additional valuation adjustment in (2) from its *common equity tier 1 items*.
- (2) A *firm* must calculate the additional valuation adjustment as 0.1% of the base value of positions in the *trading book*.
- (3) The base value of positions in the *trading book* is the sum of the absolute value of fair-valued assets and liabilities stated in a *firm's* financial statements under the applicable accounting framework, except that:
- (a) positions in a *CASS 16 stablecoin* must be excluded;
 - (b) exactly matching offsetting fair-valued assets and liabilities must be excluded;
 - (c) where a change in the accounting valuation of fair-valued assets and liabilities would only partially be reflected in *common equity tier 1 capital*, the value of those assets or liabilities must only be included in proportion to the impact of the relevant valuation change on *common equity tier 1 capital*; and
 - (d) where a change in the accounting valuation of fair-valued assets and liabilities would have no impact on *common equity tier 1 capital*, the value of those assets or liabilities must be excluded.

3.4 Additional tier 1 capital

- 3.4.1 G (1) *Additional tier 1 capital* has the following core characteristics:
- (a) it converts into *common equity tier 1 capital*, or is written down, upon the occurrence of one or more trigger events;
 - (b) it has no fixed maturity;
 - (c) there is no inescapable obligation to make a *distribution*; and
 - (d) *distributions* do not accelerate when the *firm* experiences stress.
- (2) The remainder of COREPRU 3.4 contains the detailed *rules* and *guidance* for calculating *additional tier 1 capital*.
- 3.4.2 R A *firm* must calculate its *additional tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found, as applicable.

Item	Relevant rules and guidance
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<i>Additional tier 1 items:</i>		
(1)	<i>additional tier 1 instruments;</i>	<i>COREPRU 3.4.3R to COREPRU 3.4.16G</i>
(2)	share premium accounts related to the <i>additional tier 1 instruments</i> ;	
LESS		
<i>Deductions from additional tier 1 items:</i>		
(3)	direct, indirect and synthetic holdings of own <i>additional tier 1 instruments</i> ;	<i>COREPRU 3.4.17R and COREPRU 3.4.23R</i>
(4)	direct, indirect and synthetic holdings of <i>additional tier 1 or comparable instruments</i> of <i>financial sector entities</i> where those entities have a <i>reciprocal cross-holding</i> with the <i>firm</i> ;	<i>COREPRU 3.4.18R, COREPRU 3.4.19G, COREPRU 3.4.22R and COREPRU 3.4.23R</i>
(5)	direct, indirect and synthetic holdings of <i>additional tier 1 or comparable instruments</i> of <i>financial sector entities</i> which are not held in the <i>trading book</i> ;	<i>COREPRU 3.4.20R to COREPRU 3.4.23R</i>
(6)	any excess of tier 2 deductions above the <i>firm's tier 2 capital</i> ; and	<i>COREPRU 3.4.24R</i>
(7)	foreseeable tax charges relating to <i>additional tier 1 items</i> .	<i>COREPRU 3.4.25R</i>

Additional tier 1 instruments: loss absorption

- 3.4.3 R (1) If one or more trigger events occur, the full principal amount of the *additional tier 1 instrument* must be written down on a permanent or temporary basis, or the instrument converted into a *common equity tier 1 instrument*, in accordance with the requirements of *COREPRU 3.4.9R to COREPRU 3.4.12R*.
- (2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

- (3) An *additional tier 1 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.
 - (4) The instrument must rank below any *tier 2 instrument* in liquidation.
 - (5) The instrument must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.
 - (6) The provisions governing the instrument must not include any feature that could hinder the recapitalisation of the *firm*.
- 3.4.4 G For the purposes of *COREPRU* 3.4.3R(6), a feature that could hinder the recapitalisation of the *firm* includes:
- (1) a provision that requires the *firm* to compensate existing holders of capital instruments where a new capital instrument is issued; and
 - (2) other terms that could discourage the *firm* from issuing new capital instruments for recapitalisation.
- 3.4.5 R (1) An *additional tier 1 instrument* must be fully paid and the proceeds of issue must be immediately and fully available to the *firm*.
- (2) Where an instrument is partly paid, only the paid-up portion is eligible as an *additional tier 1 instrument*.
- 3.4.6 G *COREPRU* 3.3.10G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.
- 3.4.7 R (1) An *additional tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.
- (2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm*'s business.
- 3.4.8 G *COREPRU* 3.3.12G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

Additional tier 1 instruments: trigger events

- 3.4.9 R (1) A *firm* must specify one or more trigger events in the terms of an *additional tier 1 instrument*.
- (2) The trigger events specified under (1) must include a trigger event that occurs where the *common equity tier 1 capital* of the *firm* falls below a level specified by the *firm* that is no lower than 64% of the *firm*'s own *funds requirement*.
- (3) The full principal amount of an *additional tier 1 instrument* must be written down or converted when a trigger event occurs.

- (4) The amount recognised for *additional tier 1 instruments* and any associated share premium accounts must not exceed the amount of *common equity tier 1 items* that would be generated if there were a write-down or conversion.
- (5) Where a trigger event occurs, a *firm* must:
 - (a) convene the *management body* or other *relevant body* without delay to determine that a trigger event has occurred;
 - (b) immediately inform the *FCA*;
 - (c) inform the holders of the *additional tier 1 instruments*; and
 - (d) write down or convert the instruments without delay, and within 1 *month*.

- 3.4.10 G (1) *COREPRU 3.4.9R* requires that the principal amount of an *additional tier 1 instrument* converts into *common equity tier 1 instruments* or is written down if the *firm's common equity tier capital* falls below a specified level.
- (2) This level must be set at no lower than 64% of the *firm's own funds requirement* but a *firm* may set the relevant trigger at a higher level (such as 70% of its *own funds requirement*) if it wishes.
- (3) A *firm* may also specify additional trigger events alongside the required trigger event in *COREPRU 3.4.9R(2)*.

Additional tier 1 instruments: write-down

- 3.4.11 R Where a *firm* issues *additional tier 1 instruments* that write down:
- (1) the write-down must extinguish:
 - (a) the claim of the holder in *liquidation*;
 - (b) any amount required to be paid in the event of call or redemption of the instrument; and
 - (c) any *distribution* on the instrument;
 - (2) the write-down must apply to all holders of *additional tier 1 instruments* that include the same trigger; and
 - (3) in the case of a write-up after a temporary write-down:
 - (a) any write-up must be based on profits after the *firm* has taken a formal decision confirming the final profits;

- (b) any write-up must be at the full discretion of the *firm* (subject to (c) to (e) below), and there must be no obligation on the *firm* to operate or accelerate a write-up under specific circumstances;
- (c) any write-up must be operated on a pro rata basis among *additional tier 1 instruments* with the same trigger that was subject to write-down;
- (d) the maximum amount that can be written up must be calculated using the formula:

$$M = P * A/T$$
 where:
 - M = the maximum amount that can be written up;
 - P = the profit of the *firm*;
 - A = the aggregate nominal value (before write-down) of all *additional tier 1 instruments* that were subject to a write-down; and
 - T = the sum of the *common equity tier 1 capital* and *additional tier 1 capital* of the *firm*; and
- (e) any write-up amount must be treated as a payment that reduces the *firm's common equity tier 1 capital*.

Additional tier 1 instruments: conversion into common equity tier 1

- 3.4.12 R Where a *firm* issues *additional tier 1 instruments* that convert into *common equity tier 1 instruments*, it must:
- (1) specify in the provisions governing the *additional tier 1 instruments* either:
 - (a) the rate of such conversion; or
 - (b) a range within which the instruments will convert into *common equity tier 1 instruments*;
 - (2) retain all necessary authorisations for converting all of its *additional tier 1 instruments* into *common equity tier 1 instruments*; and
 - (3) ensure there are no procedural impediments to conversion under its constitutional or contractual arrangements.

Additional tier 1 instruments: perpetuity

- 3.4.13 R (1) An *additional tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:
- (a) the *firm* is in *liquidation*; or

- (b) the *firm* carries out a *reduction of capital* which:
 - (i) complies with *COREPRU* 3.6.4R or *COREPRU* 3.6.6R; and
 - (ii) does not take place before 5 years after the date of issuance, unless the conditions in *COREPRU* 3.6.6R(1) or (2) are met.
 - (2) The *additional tier 1 instrument* must not include any incentive for the *firm* to carry out a *reduction of capital*.
 - (3) A *firm* must not explicitly or implicitly indicate that the *additional tier 1 instrument* would be redeemed or repaid other than in *liquidation*, and the terms of the instrument must not provide such an indication.
 - (4) Where the *additional tier 1 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.
 - (5) A *firm* must not indicate explicitly or implicitly that the *FCA* would consent to a *reduction of capital*.
- 3.4.14 G (1) An incentive to carry out a *reduction of capital* in *COREPRU* 3.4.13R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed.
- (2) Examples of an incentive under (1) include:
 - (a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time; and
 - (b) marketing of the instrument in a way which suggests to investors that the instrument will be called.

Additional tier 1 instruments: distributions

- 3.4.15 R An *additional tier 1 instrument* must meet the following conditions regarding *distributions*:
- (1) the *firm* must at all times have full discretion to cancel *distributions* on the instruments for an unlimited period and on a non-cumulative basis;
 - (2) the *firm* must be able to use cancelled *distributions* to meet its obligations as they fall due, without restriction;
 - (3) failure to make *distributions* must not constitute an event of default;
 - (4) the *additional tier 1 instrument* must not include a requirement:

- (a) to make a *distribution* in the event of a *distribution* being made on another instrument that ranks the same or more junior;
 - (b) that, if a *distribution* is not made on that instrument, a *distribution* cannot be made on another capital instrument; or
 - (c) substituting the obligation to make a *distribution* with any other obligation to make payment in any other form; and
- (5) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

3.4.16 G *COREPRU* 3.4.15R(3) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Deduction of holdings of own additional tier 1 instruments

- 3.4.17 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *additional tier 1 instruments*.
- (2) For the purposes of (1):
- (a) a *firm* must also apply the deduction where it could be obliged to purchase the *additional tier 1 instrument* as a result of an existing contractual obligation;
 - (b) a *firm* must deduct its gross long position unless (2)(c) applies; and
 - (c) a *firm* may deduct its net long position if:
 - (i) the long and short positions are in the same underlying exposure;
 - (ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and
 - (iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of additional tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.4.18 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *additional tier 1 or comparable instruments of financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

- (2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.4.19 G The factors in *COREPRU* 3.3.28G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of additional tier 1 or comparable instruments of financial sector entities

- 3.4.20 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.4.21R applies.
- (2) A *firm* must calculate holdings based on its gross long position unless (3) applies.
- (3) A *firm* may calculate holdings based on its net long position where:
- (a)
- (i) the maturity date of the short position is the same or later than the maturity date of the long position; or
- (ii) the residual maturity of the short position is at least 1 year; and
- (b) the long and short positions are held outside of the *trading book*.

Holdings of additional tier 1 instruments issued by a financial sector entity within an investment firm group

3.4.21 R A *firm* is not required to deduct holdings of *additional tier 1 instruments* of a *financial sector entity* under *COREPRU* 3.4.20R if it is part of an *investment firm group* and all of the conditions in *MIFIDPRU* 3.4A.21R are met.

Additional tier 1 or comparable instruments

- 3.4.22 R An *additional tier 1 or comparable instrument* means:
- (1) (for an entity subject to *COREPRU* or *MIFIDPRU*) an *additional tier 1 instrument*;
- (2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) ‘Tier 1 own funds’ as defined in the Own Funds (Solvency II) part of the *PRA Rulebook*, the inclusion of which is restricted by Own Funds (Solvency II Firms) 4A.3 in the *PRA Rulebook*; and
- (3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that does not rank below all other claims in *liquidation* but absorbs losses on a going-concern basis.

Identifying and valuing indirect and synthetic holdings

- 3.4.23 R *COREPRU* 3.3.32R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *additional tier 1 instruments* as it applies to holdings of *common equity tier 1 instruments*.

Deduction of excess tier 2 deductions

- 3.4.24 R A *firm* must deduct from *additional tier 1 items* the amount by which any items required to be deducted from *tier 2 items* under *COREPRU* 3.5.2R exceed *tier 2 items*.

Deduction of foreseeable tax charges relating to additional tier 1 items

- 3.4.25 R (1) This *rule* applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.
- (2) Where this *rule* applies, a *firm* must:
- (a) deduct any current and deferred tax charges relating to *additional tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;
 - (b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and
 - (c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

3.5 Tier 2 capital

- 3.5.1 G (1) *Tier 2 capital* has the following core characteristics:
- (a) it ranks below ordinary creditors in *liquidation*;
 - (b) it has an original maturity of at least 5 years;
 - (c) it amortises over the final 5 years; and
 - (d) *distributions* do not accelerate when the *firm* experiences stress.
- (2) The remainder of *COREPRU* 3.5 contains detailed *rules* and *guidance* for calculating *tier 2 capital*.
- 3.5.2 R A *firm* must calculate its *tier 2 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found, as applicable.

Item	Relevant rules and guidance
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<i>Tier 2 items:</i>		
(1)	<i>tier 2 instruments;</i>	<i>COREPRU 3.5.3R to COREPRU 3.5.11R</i>
(2)	share premium accounts related to the <i>tier 2 instruments</i> ;	
LESS		
Deductions from <i>tier 2 items</i> :		
(3)	direct, indirect and synthetic holdings of own <i>tier 2 instruments</i> ;	<i>COREPRU 3.5.12R and COREPRU 3.5.18R</i>
(4)	direct, indirect and synthetic holdings of <i>tier 2 or comparable instruments of financial sector entities</i> where those entities have a <i>reciprocal cross-holding</i> with the <i>firm</i> ; and	<i>COREPRU 3.5.13R, COREPRU 3.5.14G, COREPRU 3.5.17R and COREPRU 3.5.18R</i>
(5)	direct, indirect and synthetic holdings of <i>tier 2 or comparable instruments of financial sector entities</i> which are not held in the <i>trading book</i> .	<i>COREPRU 3.5.15R to COREPRU 3.5.18R</i>

Tier 2 instruments: loss absorption

- 3.5.3 R (1) The claim on the principal amount of a *tier 2 instrument* must be wholly subordinated to the claims of all non-subordinated creditors.
- (2) A *tier 2 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.
- (3) A *tier 2 instrument* must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.
- 3.5.4 R (1) A *tier 2 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.
- (2) Where an instrument is partly paid, only the paid-up portion is eligible as a *tier 2 instrument*.
- 3.5.5 G *COREPRU 3.3.10G* applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

- 3.5.6 R (1) A *tier 2 instrument* must not be funded directly or indirectly by the *firm* itself.
- (2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.5.7 G *COREPRU 3.3.12G* applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

Tier 2 instruments: duration

- 3.5.8 R (1) A *tier 2 instrument* must have an original maturity of at least 5 years, with a *reduction of capital* prior to maturity only permissible where:
- (a) the *firm* is in *liquidation*; or
 - (b) the *firm* carries out a *reduction of capital* which:
 - (i) has been approved by the *FCA* under *COREPRU 3.6.4R*; and
 - (ii) does not take place before 5 years after the date of issuance, unless the conditions in *COREPRU 3.6.6R(1)* or *(2)* are met.
- (2) A *tier 2 instrument* must not include any incentive for the principal amount to be redeemed or repaid prior to maturity, or a right to accelerate early redemption or repayment.
- (3) A *firm* must not explicitly or implicitly indicate that the *tier 2 instrument* would be redeemed or repaid prior to maturity other than in *liquidation*, and the terms of the instrument must not provide such an indication.
- (4) Where the *tier 2 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

- 3.5.9 G (1) An incentive for the principal amount to be redeemed or repaid in *COREPRU 3.5.8R(2)* includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed before its stated maturity date.
- (2) Examples of an incentive under (1) include:
- (a) a term which creates an economic incentive for the *firm* to reduce or repay the principal before maturity; and
 - (b) marketing of the instrument in a way which suggests to investors that the instrument will be called before maturity.

Tier 2 instruments: amortisation

3.5.10 R Where a *tier 2 instrument* has a residual maturity of 5 years or less, the proportion of the instrument which qualifies as a *tier 2 item* must be calculated by multiplying A and B, where:

- (1) A is the notional amount of the instrument on the first *day* of the final 5-year period of its contractual maturity divided by the number of *days* in that period; and
- (2) B is the number of remaining *days* of contractual maturity of the instrument.

Tier 2 instruments: distributions

3.5.11 R A *tier 2 instrument* must meet the following conditions regarding *distributions*:

- (1) the holder of the instrument must have no right to accelerate the future scheduled payment of *distributions*, other than in *liquidation*; and
- (2) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

Deduction of holdings of own tier 2 instruments

3.5.12 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *tier 2 instruments*.

- (2) For the purposes of (1):
 - (a) a *firm* must also apply the deduction where it could be obliged to purchase the *tier 2 instrument* as a result of an existing contractual obligation;
 - (b) a *firm* must deduct its gross long position unless (c) applies; and
 - (c) a *firm* may deduct its net long position if:
 - (i) the long and short positions are in the same underlying exposure;
 - (ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and
 - (iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of tier 2 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.5.13 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *tier 2 or comparable instruments of financial sector entities* where those entities

have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

- (2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

- 3.5.14 G The factors in *COREPRU* 3.3.28G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of tier 2 or comparable instruments of financial sector entities

- 3.5.15 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *tier 2 or comparable instruments of financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.5.16R applies.

- (2) A *firm* must calculate holdings based on its the gross long position unless (3) applies.

- (3) A *firm* may calculate holdings based on its net long positions where:

(a)

- (i) the maturity date of the short position is the same or later than the maturity date of the long position; or

- (ii) the residual maturity of the short position is at least 1 year; and

- (b) the long and short positions are held outside of the *trading book*.

Holdings of tier 2 instruments issued by a financial sector entity within an investment firm group

- 3.5.16 R A *firm* is not required to deduct holdings of *tier 2 instruments of a financial sector entity* under *COREPRU* 3.5.15R if it is part of an *investment firm group* and all of the conditions in *MIFIDPRU* 3.5A.16R are met.

Tier 2 or comparable instruments

- 3.5.17 R A *tier 2 or comparable instrument* means:

- (1) (for an entity subject to *COREPRU* or *MIFIDPRU*) a *tier 2 instrument*;

- (2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*):

- (a) ‘Tier 2 basic own funds’ as defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

- (b) ‘Tier 3 own funds’ that are ‘basic own funds’ as those terms are defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

- (3) (for a *financial sector entity* not subject to (1) or (2)) any subordinated instrument that does not absorb losses on a going-concern basis.

Identifying and valuing indirect and synthetic holdings

- 3.5.18 R *COREPRU* 3.3.32R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *tier 2 instruments* as it applies to holdings of *common equity tier 1 instruments*.

3.6 General requirements for own funds instruments

- 3.6.1 R An *own funds instrument* must not pay *distributions* in a form other than cash or *own funds instruments* where:
- (1) the *firm* has the sole discretion to decide to make such payment; or
 - (2) a *person* other than the *firm* has the discretion to decide or require such payment to be made.
- 3.6.2 R For the purposes of the deductions in *COREPRU* 3.3.26R, *COREPRU* 3.3.29R, *COREPRU* 3.4.17R, *COREPRU* 3.4.20R, *COREPRU* 3.5.12R and *COREPRU* 3.5.15R, a *firm* may reduce the amount of a long position in a capital instrument by the portion of a short position in an index that is made up of the same underlying exposure, provided that:
- (1) the positions are either both held in the *trading book*, or both held outside of the *trading book*; and
 - (2) the positions are held at fair value on the *firm's* balance sheet.
- 3.6.3 R An *own funds instrument* and any associated share premium account immediately ceases to count towards *own funds* if it ceases to meet any applicable requirement in *COREPRU* 3.

Reduction of own funds instruments

- 3.6.4 R Save in the circumstances set out in *COREPRU* 3.6.6R, a *firm* must obtain the prior permission of the *FCA* to:
- (1) carry out a *reduction of capital* in relation to any of its *common equity tier 1 instruments*;
 - (2) reduce, distribute or reclassify as another *own funds* item the share premium accounts related to any of its *own funds instruments*;
 - (3) carry out a *reduction of capital* in relation to an *additional tier 1 instrument*, whether on a call date or otherwise; or
 - (4) carry out a *reduction of capital* in relation to a *tier 2 instrument* prior to maturity.

- 3.6.5 R The *FCA* will grant the permission in *COREPRU* 3.6.4R if it is satisfied that the *firm* will continue to exceed its *own funds threshold requirement* by a margin sufficient to ensure adequate financial resilience for the foreseeable future.
- 3.6.6 R A *firm* is not required to obtain the permission in *COREPRU* 3.6.4R if:
- (1) the instrument is being repurchased for market making purposes; or
 - (2) all of the following conditions are met:
 - (a) either of the conditions in *COREPRU* 3.6.7R are met;
 - (b) at least 20 *business days* before the *day* on which the *reduction of capital* is proposed to occur, the *firm* has notified the *FCA* of:
 - (i) the proposed *reduction of capital*; and
 - (ii) the basis on which the *firm* has concluded that either condition in (2)(a) is satisfied; and
 - (c) the *FCA* has not notified the *firm* of any objection to the proposal before the *day* on which the *reduction of capital* is proposed to occur.
- 3.6.7 R The conditions referred to in *COREPRU* 3.6.6R(2)(a) are that:
- (1) before or at the same time as the *reduction of capital*, the *firm* replaces the relevant *own funds instruments* with *own funds instruments* of equal or higher quality on terms that are sustainable for the income capacity of the *firm*, so that:
 - (a) the profitability of the *firm* will continue to be sound and will not see any negative change in the foreseeable future after the replacement of the original *own funds instruments* with *own funds instruments* of equal or higher quality; and
 - (b) the assessment of profitability in the foreseeable future in (1)(a) takes into account the *firm's* profitability in stressed situations; or
 - (2) the *firm* is redeeming *additional tier 1 instruments* or *tier 2 instruments* within 5 years of their date of issue and either:
 - (a) there is a change in the regulatory classification of the instruments that is likely to result in their exclusion from *own funds* or their reclassification as a lower-quality form of *own funds*, and both the following conditions are met:
 - (i) there are reasonable grounds to conclude that the change is sufficiently certain; and

- (ii) the regulatory reclassification of the instruments was not reasonably foreseeable at the time of their issuance; or
- (b) there is a change in the applicable tax treatment of those instruments which is material and was not reasonably foreseeable at the time of their issuance.

Notification of issuance of additional tier 1 and tier 2 instruments

- 3.6.8 R (1) A *firm* must notify the *FCA* at least 20 *business days* before the intended issuance date of the *firm's* intention to issue:
- (a) *additional tier 1 instruments*; or
 - (b) *tier 2 instruments*.
- (2) The notification requirement in (1) does not apply if:
- (a) the *firm* has previously notified the *FCA* of an issuance of the same class of *additional tier 1 instruments* or *tier 2 instruments*; and
 - (b) the terms of the new instruments are identical in all material respects to the terms of the instruments in the issuance previously notified to the *FCA*.
- (3) The notification under (1) must include the following:
- (a) confirmation of whether the instruments are intended to be classified as *additional tier 1 instruments* or *tier 2 instruments*;
 - (b) confirmation of whether the instruments are intended to be issued to external investors or only to other members of the *firm's* *group* or connected parties;
 - (c) a copy of the term sheet and details of any features of the capital instruments which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;
 - (d) confirmation from a member of the *firm's* *senior management* or *governing body* who has oversight of the intended issuance that the instruments meet the conditions in *COREPRU* 3.4 or *COREPRU* 3.5 (as applicable) to be classified as *additional tier 1 instruments* or *tier 2 instruments*; and
 - (e) a properly reasoned legal opinion from an appropriately qualified *individual*, confirming that the capital instruments meet the conditions in (3)(d).
- 3.6.9 G *Firms* that are proposing to classify an issuance of capital instruments as *common equity tier 1 capital* should refer to the obligations and *guidance* in

COREPRU 3.3.3R and COREPRU 3.3.6G. In particular, firms must obtain the FCA's prior permission for the first issuance of a class of instruments that is intended to comprise common equity tier 1 capital.

- 3.6.10 G Submitting a notification in accordance with *COREPRU 3.6.8R* does not guarantee that the relevant instruments meet the required conditions in *COREPRU 3.4* or *COREPRU 3.5* to qualify as *own funds*. The *firm* or *parent undertaking* must ensure that an instrument continues to meet the conditions to be counted as *own funds*, including if its terms are varied on a later date.

4 Own funds requirements

4.1 Own funds requirement

- 4.1.1 R A *firm* must at all times maintain *own funds* that are at least equal to its *own funds requirement*.
- 4.1.2 R The *own funds requirement* is the highest of:
- (1) the *permanent minimum capital requirement*;
 - (2) the *fixed overheads requirement*; or
 - (3) the *K-factor requirement*.
- 4.1.3 G *Authorised payment institutions* and *electronic money institutions* which are also subject to *COREPRU* should note that they need to meet any capital requirements imposed under the *Payment Services Regulations* and the *Electronic Money Regulations* separately and in addition to any applicable *own funds requirement*.

4.2 Permanent minimum capital requirement

- 4.2.1 R The *permanent minimum capital requirement* is the highest of the applicable requirements in the following table:

Category of firm	Applicable requirement
A <i>CRYPTOPRU firm</i>	The applicable requirement in <i>CRYPTOPRU 4.2.1R</i> (Permanent minimum capital requirement)
A <i>MIFIDPRU investment firm</i>	The applicable requirement in <i>MIFIDPRU 4.4</i> (Permanent minimum capital requirement)

4.3 Fixed overheads requirement

- 4.3.1 R (1) The *fixed overheads requirement* is an amount equal to one quarter of a *firm's relevant expenditure* during the preceding year.

- (2) When calculating its *fixed overheads requirement* in (1), a *firm* must use the figures resulting from the accounting framework applied in accordance with *COREPRU 4.3.2R*.
- (3) This *rule* is subject to *COREPRU 4.3.6R* and *COREPRU 4.3.8R*.
- 4.3.2 R (1) For the purposes of the calculation in *COREPRU 4.3.1R*, a *firm* must use the figures in its most recent:
- (a) audited *annual financial statements*; or
- (b) unaudited *annual financial statements*, where audited *annual financial statements* are not available.
- (2) If a *firm* has used unaudited *annual financial statements* in accordance with (1)(b) and audited *annual financial statements* subsequently become available, the *firm* must update the calculation in *COREPRU 4.3.1R* using the audited figures.
- (3) Where the financial statements in (1) do not cover a 12-*month* period, the *firm* must:
- (a) divide the amounts included in those statements by the number of *months* the financial statements cover; and
- (b) multiply the result of the calculation in (3)(a) by 12 to produce an equivalent annual amount.
- 4.3.3 R (1) For the purpose of *COREPRU 4.3.1R(1)*, a *firm* must calculate its *relevant expenditure* by:
- (a) calculating the *firm*'s total expenditure before distribution of profits; and
- (b) deducting any of the items in (2) from the total expenditure in (1)(a) to the extent that those items have been included in the expenditure.
- (2) The items that a *firm* may deduct from its total expenditure are:
- (a) any of the following, if they are fully discretionary:
- (i) staff bonuses and other variable *remuneration*;
- (ii) *employees*' , *directors*' , *partners*' and *limited liability partnership* members' shares in profits; and
- (iii) other appropriations of profits;
- (b) shared commission and fees payable that meet all of the following conditions:

- (i) they are directly related to commission and fees receivable;
 - (ii) the commission and fees receivable are included within total revenue; and
 - (iii) the payment of the commission and fees payable is contingent on receipt of the commission and fees receivable;
- (c) non-recurring expenses from non-ordinary activities;
 - (d) fees, brokerage and other charges paid to trading venues, intermediate brokers, central counterparties and other similar parties for the purposes of executing, registering and clearing transactions, provided that the fees, brokerage and charges are directly passed on and charged to customers, unless *COREPRU* 4.3.4R applies;
 - (e) 80% of the value of any fees, brokerage and other charges paid to trading venues, intermediate brokers, central counterparties and other similar parties for the purposes of executing, registering and clearing transactions, unless:
 - (i) the fees, brokerage or other charges have already been deducted under (d); or
 - (ii) *COREPRU* 4.3.4R applies;
 - (f) taxes where they fall due in relation to the annual profits of the *firm*;
 - (g) losses from trading in *financial instruments* or *qualifying cryptoassets*;
 - (h) payments related to contract-based profit and loss transfer agreements according to which the *firm* is obliged to transfer its annual profit to the *parent undertaking* following the preparation of the *firm's annual financial statements*;
 - (i) other expenses, to the extent that their value has already been reflected in a deduction from *own funds* under *COREPRU* 3; and
 - (j) (for a *MIFIDPRU investment firm*) any other deductions permissible under *MIFIDPRU* 4.5.3R and *MIFIDPRU* 4.5.4R.

4.3.4 R The deducted amounts in *COREPRU* 4.3.3R(2)(d) and (e) must not include fees and other charges necessary to maintain membership of, or otherwise meet loss-sharing financial obligations to, trading venues or central counterparties.

Expenses incurred on behalf of the firm by third parties

- 4.3.5 R (1) A *firm* must add any fixed expenses that have been incurred on its behalf by a third party to the *firm's* total expenditure for the purposes of COREPRU 4.3.3R in accordance with this *rule*.
- (2) A *firm* is not required to add fixed expenses which are already included in the figures resulting from COREPRU 4.3.3R.
- (3) Where a breakdown of the third party's expenses is available, the *firm* must add its share of the third party's expenses.
- (4) Where a breakdown of the third party's expenses is not available, the *firm* must:
- (a) add its share of the third party's expenses as projected in the *firm's* business plan; or
 - (b) (if the *firm* does not have a business plan that projects the third party's expenses) reasonably estimate the share of those expenses that are attributable to the *firm's* business and add that estimated share of expenses to the *firm's* total expenditure.

Material change to projected relevant expenditure during the year

- 4.3.6 R (1) This *rule* applies where:
- (a) there is an increase of 30% or more in the *firm's* projected *relevant expenditure* for the current year; or
 - (b) there would be an increase of £2 million or more in the *firm's* *fixed overheads requirement* based on projected *relevant expenditure* for the current year.
- (2) Where this *rule* applies, a *firm* must:
- (a) immediately recalculate its *fixed overheads requirement* by applying the methodology in COREPRU 4.3.3R to the projected *relevant expenditure*, taking into account the increase in (1);
 - (b) immediately substitute the revised *fixed overheads requirement* that results from the calculation in (2)(a) for the *firm's* previous *fixed overheads requirement* under COREPRU 4.3.1R(1); and
 - (c) immediately recalculate its *basic liquid assets requirement* using the revised *fixed overheads requirement* in (2)(b) and substitute the updated amount for its previous *basic liquid assets requirement*.
- 4.3.7 G (1) Where there is a material increase in the *firm's* projected *relevant expenditure* that triggers the obligation in COREPRU 4.3.6R, a *firm* should also consider the potential impact on its *overall risk assessment*

and the conclusions documented in its last *overall risk assessment document*.

- (2) The review in (1) is particularly important if the *firm's own funds requirement* was determined by the *fixed overheads requirement* immediately before the change occurred.

- 4.3.8 R (1) This *rule* applies where:
- (a) there is a decrease of 30% or more in the *firm's* projected *relevant expenditure* for the current year; or
 - (b) there would be a decrease of £2 million or more in the *firm's* *fixed overheads requirement* based on projected *relevant expenditure* for the current year.
- (2) Where this *rule* applies, a *firm* may:
- (a) recalculate its *fixed overheads requirement* by applying the methodology in *COREPRU 4.3.3R* to the projected *relevant expenditure*, taking into account the decrease in (1); and
 - (b) if it has obtained prior permission from the *FCA*, substitute the revised *fixed overheads requirement* that results from the calculation in (2)(a) for the *firm's* original *fixed overheads requirement*.
- (3) To obtain the permission in (2), a *firm* must demonstrate all of the following:
- (a) that one of the conditions in (1)(a) or (1)(b) is met and the projected decrease in the *firm's* *relevant expenditure* is a reasonable projection;
 - (b) that the *firm* has adequately considered the impact of the decrease on the *firm's* *overall risk assessment* and the conclusions documented in the *firm's* last *overall risk assessment document*; and
 - (c) that there is a reasonable basis to conclude that, following the reduction in the *firm's* *fixed overheads requirement*, the *firm* will continue to hold sufficient *own funds* and *liquid assets* to comply with its obligations under the *overall risk assessment*.
- 4.3.9 G (1) Under *COREPRU 4.3.2R*, a *firm* is required to calculate its *fixed overheads requirement* based on its *relevant expenditure* as set out in its *annual financial statement* for the previous year.
- (2) Under *COREPRU 4.3.6R*, if there is a material increase in the *firm's* projected *relevant expenditure* for the current year, the *firm* must recalculate its *fixed overheads requirement* on the basis of the projected

increased *relevant expenditure*, taking into account the impact of that change.

- (3) However, under *COREPRU* 4.3.8R, if there is a material change that results in a decrease in the *firm's* projected *relevant expenditure* for the current year, the *firm* must obtain permission from the *FCA* before substituting a reduced *fixed overheads requirement* calculated on the basis of the projected decrease.
- (4) In many cases, a material change of the type specified in *COREPRU* 4.3.6R(1) or *COREPRU* 4.3.8R(1) would result from planned changes to the *firm's* business. Examples of these changes may include:
- (a) starting or ceasing a major business line;
 - (b) acquiring or disposing of a major business; or
 - (c) undertaking a significant investment, upgrade or restructuring programme.
- (5) A *firm* that is planning to implement a material change to its business should calculate the anticipated impact of that change on its *fixed overheads requirement* (and its broader *own funds requirement*) before executing the relevant change. This should include considering the potential impact on its *overall risk assessment*.

Firms in business for less than 1 year

- 4.3.10 R (1) This *rule* applies where a *firm* has been in business for less than 1 year.
- (2) For the purposes of the calculation in *COREPRU* 4.3.1R, a *firm* must use the *relevant expenditure* included in its projections for the first 12 *months' trading*, as submitted in its application for *authorisation*.

4.4 Overall K-factor requirement

- 4.4.1 The *K-factor requirement* is the sum of all the applicable requirements in the following table:

Type of firm	Applicable requirements
A <i>CRYPTOPRU firm</i>	The requirements in <i>CRYPTOPRU</i> 4.3.1R.
A <i>MIFIDPRU firm</i>	The requirements in <i>MIFIDPRU</i> 4.6.1R.

- 4.4.2 G (1) The *sectoral prudential sourcebooks* contain parts of the *K-factor requirement* which relate to different activities.

- (2) A *firm* is only required to consider the parts of the *K-factor requirement* which are applicable to it. The application of each part of the *K-factor requirement* is explained in the relevant *sectoral prudential sourcebook*.
- (3) If a *firm* is subject to multiple *sectoral prudential sourcebooks*, it must sum the applicable parts of the *K-factor requirement* from each sourcebook.

5 Concentration risk

5.1 Monitoring obligation

- 5.1.1 R A *firm* must monitor and control its concentration risk using sound administrative and accounting procedures and robust internal control mechanisms.
- 5.1.2 G *COREPRU 5.1.1R* requires a *firm* to monitor and control all sources of concentration risk. It includes any concentration risk that may arise from the following:
 - (1) the location of any assets safeguarded in accordance with *CASS*;
 - (2) a *firm's* own cash deposits; and
 - (3) earnings.

6 Basic liquid assets requirement

6.1 Purpose

- 6.1.1 G This chapter contains *rules* and *guidance* about a *firm's* liquidity. It contains:
 - (1) a *basic liquid assets requirement* for a *firm* (*COREPRU 6.2*);
 - (2) *rules* and *guidance* on which assets count as *core liquid assets* for the purposes of the *basic liquid assets requirement* (*COREPRU 6.3*); and
 - (3) a *rule* excluding double counting of *core liquid assets* (*COREPRU 6.3.7R*).
- 6.1.2 G A *firm's* *basic liquid assets requirement* provides a minimum level of *core liquid assets* that the *firm* must maintain at all times. The purpose of the *basic liquid assets requirement* is to ensure that the *firm* always has a minimum stock of *liquid assets* to fund the initial stages of its wind-down process if wind-down becomes necessary. The *firm* cannot, therefore, use the value of the *core liquid assets* that it holds to meet the *basic liquid assets requirement* as *liquid assets* for any supplementary *sectoral liquidity requirement* or the liquidity needs of its ongoing business.
- 6.1.3 G A *firm* should also refer to the *rules* and *guidance* on any supplementary *sectoral liquidity requirement* that applies to it.

- 6.1.4 G The relevant *sectoral prudential sourcebook* may contain requirements relating to a *firm's* systems and controls for identifying, monitoring and reducing liquidity risks that may cause material harm.
- 6.1.5 G The *basic liquid assets requirement* in this chapter is based on a proportion of a *firm's fixed overheads requirement* and any guarantees provided to *clients*. A *firm* may need to hold more *liquid assets* to comply with its *liquid assets threshold requirement*.

6.2 Basic liquid assets requirement

- 6.2.1 R A *firm* must hold an amount of *core liquid assets* equal to the sum of:
- (1) one-third of the amount of its *fixed overheads requirement*; and
 - (2) 1.6% of the total amount of any guarantees provided to *clients*.
- 6.2.2 R Where a *firm* calculates a total amount for guarantees under *COREPRU* 6.2.1R(2), it must calculate:
- (1) the total value of guarantees that the *firm* has outstanding at the end of each *business day*; or
 - (2) an average value for the guarantees that the *firm* has had outstanding over an appropriate time period, which must be updated at regular, appropriate intervals.
- 6.2.3 G
- (1) *COREPRU* 6.2.2R(2) is intended to allow a *firm* to smooth out its liquidity requirement for guarantees, where the value of its outstanding guarantees fluctuates on a daily basis.
 - (2) An appropriate time period for calculating and updating this amount is likely to be a period that produces an average value that is representative of the overall liquidity risk arising out of the provision of guarantees to *clients*.

6.3 Core liquid assets

- 6.3.1 R Subject to *COREPRU* 6.3.3R to *COREPRU* 6.3.5R, a *core liquid asset* means any of the following, when denominated in pound sterling:
- (1) coins and banknotes;
 - (2) short-term deposits at a *UK-authorised credit institution*;
 - (3) assets representing claims on, or guaranteed by, the UK government or the Bank of England;
 - (4) units or shares in a *short-term MMF*; and

- (5) units or shares in a *third country* fund that is comparable to a *short-term MMF*.
- 6.3.2 G When assessing whether a *third country* fund is comparable to a *short-term MMF*, a *firm* should consider factors such as:
- (1) whether the restrictions on instruments eligible for inclusion in the fund are comparable to the restrictions on instruments in article 10(1) of the *Money Market Funds Regulation*; and
 - (2) whether the fund is subject to requirements concerning portfolio diversification and risk management which are comparable to the requirements applicable to *short-term MMFs* in the *Money Market Funds Regulation*.
- 6.3.3 R (1) If a *firm's relevant expenditure* is incurred in a currency other than pound sterling, the *firm* may also treat the following assets as *liquid assets*, when denominated in that currency:
- (a) coins and banknotes;
 - (b) short-term deposits at a *credit institution*;
 - (c) assets representing claims on, or guaranteed by, a central bank or government in a *third country*;
 - (d) units or shares in a *short-term MMF*; and
 - (e) units or shares in a *third country* fund that is comparable to a *short-term MMF*.
- (2) The proportion of *core liquid assets* denominated in any currency other than pound sterling that a *firm* can rely upon to meet its *basic liquid assets requirement* must be no greater than:
- (a) for the requirement in *COREPRU* 6.2.1R(1), the proportion of *relevant expenditure* incurred in that currency; and
 - (b) for the requirement in *COREPRU* 6.2.1R(2), the proportion of guarantees provided in that currency.
- (3) This *rule* is subject to *COREPRU* 6.3.5R.
- 6.3.4 G The effect of *COREPRU* 6.3.3R(2) is illustrated by the following example:
- (1) A *firm* has *relevant expenditure* with a value of £1,200,000, of which:
 - (a) 20%, equivalent to £240,000, is incurred in US dollars (USD); and
 - (b) 5%, equivalent to £60,000, is incurred in Swiss francs (CHF).

- (2) In addition, the *firm* has provided total guarantees to *clients* with a value of £10m of which 50%, equivalent to £5m, is denominated in USD.
- (3) The *firm's fixed overheads requirement* (one quarter of its *relevant expenditure* calculated in accordance with *COREPRU* 4.3) is £300,000.
- (4) Under *COREPRU* 6.2.1R, the *firm's basic liquid assets requirement* is £260,000, which reflects:
 - (a) £100,000 in respect of the requirement in *COREPRU* 6.2.1R(1) (one-third of the amount of its *fixed overheads requirement*); and
 - (b) £160,000 in respect of the requirement in *COREPRU* 6.2.1R(2) (1.6% of the total amount of any guarantees provided to *clients*).
- (5) To meet its requirement in *COREPRU* 6.2.1R, a *firm* may choose to use *liquid assets* listed in *COREPRU* 6.3.3R denominated in a currency other than pound sterling, up to a maximum equivalent to £105,000 in accordance with *COREPRU* 6.3.3R(2), as follows:
 - (a) for the requirement in *COREPRU* 6.2.1R(1), up to the equivalent of:
 - (i) £20,000 may be held in USD-denominated *liquid assets* (20% of 100,000 = 20,000); and
 - (ii) £5,000 may be held in CHF-denominated *liquid assets* (5% of 100,000 = 5,000); and
 - (b) for the requirement in *COREPRU* 6.2.1R(2), up to the equivalent of £80,000 (50% of 160,000 = 80,000) may be held in USD-denominated *liquid assets*.

6.3.5 R A *firm* must not treat any of the following as a *core liquid asset*:

- (1) any asset that belongs to a *client*; and
- (2) any other asset that is encumbered.

6.3.6 G (1) For the purposes of *COREPRU* 6.3.5R(1), an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples of assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

- (2) For the purposes of *COREPRU* 6.3.5R(2), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer or assign the asset.

Requirement to exclude double counting of core liquid assets

- 6.3.7 R A *firm* must not use the same *core liquid assets* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and any supplementary *sectoral liquidity requirement*.

Interaction between *COREPRU* and *MIFIDPRU*

- 6.3.8 G Where a *firm* is subject to the Core Prudential Sourcebook (*COREPRU*) and the Prudential Sourcebook for MiFID Investment Firms (*MIFIDPRU*), a *firm* can use the same *core liquid assets* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and *MIFIDPRU* 6.2.1R.

7 Overall risk assessment

7.1 Overall risk assessment

Application

- 7.1.1 R *COREPRU* 7 (Overall risk assessment) does not apply to a *firm* that is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*.
- 7.1.2 G The effect of *COREPRU* 7.1.1R is that, where a *firm* is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*, only the requirements in *MIFIDPRU* 7 (Governance and risk management) apply.

Purpose

- 7.1.3 G The overall purpose of *COREPRU* 7 is to ensure that a *firm*:
- (1) has appropriate systems and controls in place to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm*'s business that may cause material harm; and
 - (2) holds financial resources that are adequate for the business it undertakes.
- 7.1.4 G (1) *COREPRU* 7 contain *rules* and *guidance* which supplement:
- (a) the appropriate resources *threshold condition* in Schedule 6 to the *Act*, under which a *firm* must have appropriate resources in relation to the *regulated activities* that it carries on;
 - (b) *Principle 3* (Management and control), under which a *firm* must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
 - (c) *Principle 4* (Financial prudence), under which a *firm* must maintain adequate financial resources; and
 - (d) the systems and controls requirements in *SYSC*, in particular *SYSC* 4.1.1R, under which a *firm* must have robust governance arrangements, which include effective processes to identify,

manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms.

(2) The requirement for a *firm* to carry out an *overall risk assessment* is the articulation of the requirements in (1).

7.1.5 G This chapter builds on the requirements in *COREPRU* 7.1.4G and explains how a *firm* applies them to carry out its *overall risk assessment*.

7.1.6 G The *rules* and *guidance* in *COREPRU* 7 also build on the *FCA*'s general approach to assessing the adequacy of financial resources, as explained in Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources), which can be found on the *FCA*'s website at <https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf>. *Firms* should refer to that *guidance* when considering their obligations under *COREPRU* 7.

7.1.7 G A *firm* should also refer to the *rules* and *guidance* on any supplementary requirements on the *overall risk assessment* in the *sectoral prudential sourcebooks* (as applicable).

7.2 Overall risk assessment

Overall risk assessment: baseline requirement

- 7.2.1 R (1) Reflecting the requirement in *SYSC* 4.1.1R, a *firm* must have in place appropriate systems and controls to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm*'s business that may cause material harm:
- (a) to the *firm*'s *clients* and counterparties; or
 - (b) to the markets in which the *firm* operates.
- (2) If any risks that may cause material harm remain after a *firm* has implemented the systems and controls in (1), the *firm* must assess whether to hold *own funds* or *liquid assets* to mitigate those risks.
- (3) The requirements in this *rule* apply to a *firm*'s entire business, including:
- (a) all *regulated activities*; and
 - (b) any *unregulated activities*.
- (4) The systems, controls and procedures operated by a *firm* to comply with the requirements in this *rule* are known as the *overall risk assessment*.
- 7.2.2 R A *firm*'s *overall risk assessment* must be proportionate to the nature, scale and complexity of the business carried on by the *firm*.
- 7.2.3 G (1) A *firm*'s *overall risk assessment* is the collective term for the internal systems and controls that a *firm* must operate on an ongoing basis to identify, monitor and, if proportionate, reduce all risks from the ongoing

operation or winding down of the *firm's* business that may cause material harm.

- (2) As part of its *overall risk assessment*, a *firm* should consider what proportionate measures it can take to reduce risks that may cause material harm. The nature of such measures will vary depending on the *firm's* business and operating model. Examples may include implementing additional internal systems and controls, strengthening governance and oversight processes or changing how the firm conducts certain business. A *firm* will need to form a judgement about what is proportionate for its particular circumstances. That judgement will be informed by the *firm's* risk appetite.
- (3) A *firm* must assess whether it should hold *own funds* or *liquid assets* to mitigate risks that may cause material harm that it has identified under its *overall risk assessment*. This may be the case where the *firm* cannot identify other proportionate measures to mitigate risks that may cause material harm, or where it has applied these measures, but a residual risk of material harm remains. Any assessment must be realistic and based on severe but plausible assumptions.
- (4) A *firm* should therefore use its *overall risk assessment* to ensure it complies with the *overall financial adequacy rule*.

Overall financial adequacy rule

- 7.2.4 G *COREPRU 2.3* sets out the *overall financial adequacy rule*, which is the standard that the *FCA* applies to determine whether a *firm* has adequate financial resources.

Calculating the own funds threshold requirement and liquid assets threshold requirement

- 7.2.5 R (1) Subject to (2) and (3), a *firm* must use the assessment in *COREPRU 7.2.1R(2)* to calculate:
- (a) its *own funds threshold requirement*; and
 - (b) its *liquid assets threshold requirement*,
- to comply with the *overall financial adequacy rule*.
- (2) The amount of the *own funds threshold requirement* is the higher of:
 - (a) the *firm's own funds requirement*; and
 - (b) the amount of *own funds* resulting from the *firm's overall risk assessment*.
 - (3) The amount of the *liquid assets threshold requirement* cannot be lower than the sum of:

- (a) the *firm's basic liquid assets requirement*; and
- (b) any applicable *sectoral liquidity requirement*.

7.2.6 G *COREPRU 7.2.5R* complements the requirement in *COREPRU 7.2.1R* on the *overall risk assessment* by setting out how the *firm* determines the amount of *own funds* and *liquid assets* that it needs to hold to comply with the *overall financial adequacy rule*. The resulting *own funds threshold requirement* cannot be lower than the *firm's own funds requirement*. The resulting *liquid assets threshold requirement* cannot be lower than the sum of the *firm's basic liquid assets requirement* and any *sectoral liquidity requirement*.

7.2.7 G A *firm* should also refer to any supplementary *rules and guidance* on the *overall risk assessment* in any applicable *sectoral prudential sourcebook*.

Reviewing and documenting a firm's overall risk assessment

7.2.8 R A *firm* must:

- (1) carry out its *overall risk assessment* on an ongoing basis; and
- (2) review the adequacy of its *overall risk assessment*:
 - (a) at least once every 12 *months*; and
 - (b) irrespective of any review carried out under (a), following any material change in the *firm's* business model or operating model.

7.2.9 R (1) A *firm* must:

- (a) document any review carried out under *COREPRU 7.2.8R(2)*;
- (b) keep adequate records of its *overall risk assessment*; and
- (c) retain the documentation and records in (2) for at least 3 years from the date on which the relevant document or record was approved.

- (2) The documentation and records produced by the *firm* to comply with (1) are referred to as the *overall risk assessment document*.

Embedding the overall risk assessment

7.2.10 R A *firm* must embed the *overall risk assessment* within the *firm's* business model and strategic decision making.

8 Disclosure

8.1 Purpose

8.1.1 G (1) *COREPRU 8* does not contain *rules and guidance* on disclosure.

- (2) However, a *firm* may be subject to disclosure requirements in a *sectoral prudential sourcebook*.

Sch 1 Record keeping requirements

- Sch 1.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant record keeping requirements in *COREPRU*.
- (2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of record	Contents of record	When the record must be made	Retention period
<i>COREPRU</i> 7.2.9R	<i>Overall risk assessment document</i>	The <i>firm's</i> <i>overall risk assessment document</i>	At the time that the <i>overall risk assessment document</i> is approved by the <i>firm</i>	3 years from the date on which the <i>overall risk assessment document</i> is approved by the <i>firm</i>

Sch 2 Notification requirements

- Sch 2.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant notification requirements in *COREPRU*.
- (2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of notification	Trigger events	Time allowed
<i>COREPRU</i> 3.3.3R(1)	Notification of subsequent issuance of capital instruments qualifying as <i>common equity tier 1 instruments</i>	Proposed issuance of capital instruments of an existing class of <i>common equity tier 1 instruments</i>	No fewer than 20 <i>business days</i> before the issuance
<i>COREPRU</i> 3.3.19R(4)	Notification of inclusion of interim profits or year-end profits in the <i>firm's</i> <i>common equity tier 1 capital</i> where the	Inclusion of the interim profits or year-end profits in the <i>firm's</i> <i>common equity tier 1 capital</i> where the	Prompt notification

	conditions in <i>COREPRU</i> 3.3.19R are met	conditions in <i>COREPRU</i> 3.3.19R are met	
<i>COREPRU</i> 3.6.6R	Notification of proposed <i>reduction of capital</i> where the conditions in <i>COREPRU</i> 3.6.6R(2) are met	Proposed <i>reduction of capital</i> where the conditions in <i>COREPRU</i> 3.6.6R(2) are met	No later than the 20th <i>business day</i> before the <i>day</i> on which the <i>reduction of capital</i> will occur
<i>COREPRU</i> 3.6.8R	Notification of proposed issuance of <i>additional tier 1 instruments</i> or <i>tier 2 instruments</i>	Proposed issuance of <i>additional tier 1 instruments</i> or <i>tier 2 instruments</i>	At least 20 <i>business days</i> before the intended issuance date

Sch 3 Fees and other payment requirements

Sch 3.1 G *COREPRU* does not contain any *rules* that directly impose fees or other payments.

Sch 4 Rights of action for damages

- Sch 4.1 G (1) The table below sets out the *rules* in *COREPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss a result of the contravention.
- (2) If ‘Yes’ appears in the column headed ‘For private person?’, the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that person’s fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If ‘Yes’ appears in the column headed ‘Removed?’, this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.
- (3) The column headed ‘For other person?’ indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person*’s fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	Rights of action under section 138D of the Act		
	For private person?	Removed?	For other person?

All <i>rules</i> in <i>COREPRU</i>	No	Yes – <i>COREPRU</i> 1.3.1R	No
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Sch 5 Rules that can be waived or modified

- Sch 5.1 G The *rules* in *COREPRU* may be waived or modified by the *FCA* under section 138A of the *Act* (Modification or waiver of rules) where the conditions in that section are met.

Annex C

The Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU)

In this Annex, all the text is new and is not underlined.

Insert the following new sourcebook, the Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU), in the Prudential Standards block, immediately after the Core Prudential sourcebook (COREPRU).

1 Application

1.1 Application and purpose

Application

- 1.1.1 G Each chapter of *CRYPTOPRU* explains which *CRYPTOPRU firms* it applies to.

Purpose

- 1.1.2 G The purpose of *CRYPTOPRU* is to set out sectoral prudential requirements for *CRYPTOPRU firms*.
- 1.1.3 G *CRYPTOPRU* supplements the core requirements in *COREPRU* and should be read in conjunction with the prudential requirements set out there.
- 1.1.4 G Generally, the *rules* in *CRYPTOPRU* are intended to cover the *CRYPTOPRU activities* undertaken by a *CRYPTOPRU firm*, but certain requirements apply to a *firm* as a whole.
- 1.1.5 G The requirements in *CRYPTOPRU* expand upon the basic requirements under the appropriate resources *threshold condition* (referred to in *COND 2.4*) and the requirement in *Principle 4* for a *firm* to maintain adequate financial resources.

1.2 Actions for damages

- 1.2.1 R A contravention of any *rule* in *CRYPTOPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

2 Overall financial adequacy for CRYPTOPRU firms

2.1 Guidance

- 2.1.1 G *CRYPTOPRU firms* are required to comply with the requirements on overall financial adequacy that are set out in *COREPRU 2*. There are no sectoral *rules* on overall financial adequacy for these *firms*.

3 Own funds for CRYPTOPRU firms

3.1 Guidance

- 3.1.1 G *CRYPTOPRU firms* are required to comply with the requirements on *own funds* that are set out in *COREPRU 3*. There are no sectoral *rules* on *own funds* for these *firms*.

4 Sectoral own funds requirement for CRYPTOPRU firms

4.1 Application

- 4.1.1 R This chapter applies to a *CRYPTOPRU firm*.

4.2 Permanent minimum capital requirement

- 4.2.1 R The *permanent minimum capital requirement* is the highest of the applicable requirements in the following table:

Category of firm	Permanent minimum capital requirement
A firm with permission for <i>dealing in qualifying cryptoassets as principal</i>	£750,000
A firm with permission for <i>issuing a qualifying stablecoin</i>	£350,000
A firm with permission for <i>safeguarding cryptoassets</i>	£150,000
A firm with permission for <i>arranging qualifying cryptoasset staking</i>	£150,000
A firm with permission for <i>operating a qualifying CATP</i>	£150,000
A firm with permission for <i>dealing in qualifying cryptoassets as agent</i>	£75,000
A firm with permission for <i>arranging deals in qualifying cryptoassets</i>	£75,000

4.3 CRYPTOPRU K-factor requirement

- 4.3.1 R The parts of the *K-factor requirement* in *CRYPTOPRU* are:
- (1) the *K-SII requirement*;

- (2) the *K-RCS requirement*;
- (3) the *K-CCS requirement*;
- (4) the *K-CCO requirement*;
- (5) the *K-CTF requirement*;
- (6) the *K-NCP requirement*;
- (7) the *K-CCD requirement*; and
- (8) the *K-CON requirement*.

4.4 K-factor requirement for stablecoins in issuance (K-SII)

- 4.4.1 R The *K-SII requirement* of a firm that is issuing a qualifying stablecoin is equal to 1% of its average *SII*.
- 4.4.2 R A firm must calculate its *K-SII requirement*:
- (1) on the first *business day* on which *CRYPTOPRU* applies to the firm; and
 - (2) thereafter, on the first *business day* of each month.

Calculating SII

- 4.4.3 R A firm must calculate its average *SII* by:
- (1) taking the total *SII* as measured at the end of each *business day* for the previous 9 months;
 - (2) excluding the values for the most recent 3 months; and
 - (3) calculating the arithmetic mean of the daily values for the remaining 6 months.
- 4.4.4 G (1) As the definition of *SII* includes any *qualifying stablecoins* that the *qualifying stablecoin issuer* is liable to redeem, this:
- (a) includes *qualifying stablecoins* that were *minted* at any time, including before *CRYPTOPRU* came into force; and
 - (b) includes *qualifying stablecoins* that have been *minted* by a person other than the *qualifying stablecoin issuer* (which could include *qualifying stablecoins minted* outside the UK) if they are fungible with the relevant *qualifying stablecoins*; but
 - (c) excludes *qualifying stablecoins* that have been *burned*.

- (2) The definition of *SII* excludes *qualifying stablecoins* the value of which has been deducted from the *qualifying stablecoin issuer's own funds*, in accordance with *COREPRU 3.3.39R*. Such *qualifying stablecoins* will not therefore be included in the calculation of *average SII*.

Firms with less than 9 months of data on *SII*

- 4.4.5 R Where a *firm* has been *issuing a qualifying stablecoin* for less than 9 months, it must calculate its *average SII* as follows:
- (1) during the first *month* in which it is *issuing a qualifying stablecoin*, the *firm* must:
- (a) make a best-efforts estimate of expected *SII* for that *month*; and
- (b) use that estimate as its *average SII*; and
- (2) during the subsequent 8 *months*, the *firm's average SII* must be calculated in accordance with *CRYPTOPRU 4.11.1R(2)*.

4.5 **K-factor requirement for qualifying cryptoassets and relevant specified investment cryptoassets that are safeguarded (K-RCS)**

- 4.5.1 R The *K-RCS requirement* of a *firm* that is *safeguarding cryptoassets* is equal to 0.04% of its *average RCS*.
- 4.5.2 G (1) The definition of *RCS* only includes the *qualifying cryptoassets* and *relevant specified investment cryptoassets* in respect of which the *firm* is carrying on the activity of *safeguarding cryptoassets*. Any other *qualifying cryptoassets* and *relevant specified investment cryptoassets* do not therefore need to be included in a *firm's* calculation of the *K-RCS requirement* (except to the extent that *CRYPTOPRU 4.5.3R* applies).
- (2) As part of its *overall risk assessment*, a *firm* should also consider risks arising from amounts it may be obliged to return to a *client* which do not amount to the *regulated activity* of *safeguarding cryptoassets*. An example would be obligations to a *client* under a title transfer collateral arrangement where that *client* is not a 'consumer' (as those terms are defined at article 9N(5) of the *RAO*).
- 4.5.3 R Where a *firm* is subject to both *CRYPTOPRU* and *MIFIDPRU*, it is not required to include in the calculation of *K-RCS relevant specified investments cryptoassets* already captured in the *K-ASA requirement*.
- 4.5.4 R If a *firm* is unsure whether *qualifying cryptoassets* and *relevant specified investment cryptoassets* are held in the course of *safeguarding cryptoassets*, it must treat those *qualifying cryptoassets* and *relevant specified investment*

cryptoassets as being held in the course of *safeguarding cryptoassets* for the purposes of calculating *K-RCS*.

Calculating RCS

- 4.5.5 R A *firm* must calculate its *K-RCS* requirement:
- (1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and
 - (2) thereafter, on the first *business day* of each *month*.
- 4.5.6 R A *firm* must calculate its *average RCS* by:
- (1) taking the total *RCS* as measured at the end of each *business day* for the previous 9 *months*;
 - (2) excluding the values for the most recent 3 *months*; and
 - (3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.
- 4.5.7 R A *firm* must include the value of the relevant *qualifying cryptoassets* and *relevant specified investment cryptoassets* in its measurement of *RCS* in both of the following situations:
- (1) the *firm* has appointed a third party to carry out the activity of *safeguarding cryptoassets* which the *firm* has undertaken to its *client* to safeguard; or
 - (2) a third party has appointed the *firm* to carry out the activity of *safeguarding cryptoassets*.
- 4.5.8 G (1) The effect of *CRYPTOPRU* 4.5.7R is that a *firm* will not reduce its level of *RCS* by appointing a third party to carry out the activity of *safeguarding cryptoassets*.
- (2) However, a *firm* will increase the level of its *RCS* by accepting the appointment from a third party to carry out the activity of *safeguarding cryptoassets*.
- (3) This reflects the harm that may result from a breach of the *firm's* direct *safeguarding* responsibilities or the *firm's* responsibilities in relation to the selection, appointment and periodic review of any third party which the *firm* has appointed to carry out the activity of *safeguarding cryptoassets*.

Firms with less than 9 months of data on RCS

- 4.5.9 R Where a *firm* has been *safeguarding cryptoassets* for less than 9 *months*, it must calculate its *average RCS* as follows:

- (1) during the first *month* in which it is *safeguarding cryptoassets*, the *firm* must:
 - (a) make a best-efforts estimate of expected *RCS* for that *month*; and
 - (b) use that estimate as its *average RCS*; and
- (2) during the subsequent 8 *months*, the *firm's average RCS* must be calculated in accordance with *CRYPTOPRU 4.11.1R(2)*.

4.6 K-factor requirement for client cryptoassets staked (K-CCS)

- 4.6.1 R The *K-CCS requirement* of a *firm* that is *arranging qualifying cryptoasset staking* is equal to 0.04% of its *average CCS*.
- 4.6.2 R A *firm* is not required to include in its measurement of *CCS* any *qualifying cryptoassets* already included in its calculation of *K-RCS*.
- 4.6.3 G (1) In some cases, *firms* may be simultaneously *arranging qualifying cryptoasset staking* and *safeguarding cryptoassets* in relation to the same *qualifying cryptoassets*.
- (2) In those situations, the *FCA* expects *firms* to apply the rule in *CRYPTOPRU 4.6.2R* and not include the relevant *qualifying cryptoassets* in the measurement of *CCS*.
- (3) As a consequence, the risks inherent to *qualifying cryptoasset staking* would not be considered as part of *K-CCS* or *K-RCS*. Therefore, the *firm's overall risk assessment* should consider any potential material risks that may arise in connection with *arranging qualifying cryptoasset staking* that are not captured in the definition of *CCS* and *RCS*.
- 4.6.4 G Where a *firm* is *arranging qualifying cryptoasset staking* in its own name (as *principal*), but on behalf of a *client*, it should include the relevant *qualifying cryptoassets* within its measurement of *CCS* under *CRYPTOPRU 4.6.1R*.
- 4.6.5 R The definition of *arranging qualifying cryptoasset staking* includes arrangements for *qualifying cryptoasset staking* both as *principal* and as agent. Where a *firm* makes arrangements for *qualifying cryptoasset staking* as *principal* but it is unclear about whether such arrangement is for the *firm's* own benefit or the *client's*, it must include those *qualifying cryptoassets* in the calculation of its *K-CCS* until it is satisfied that it is not *arranging qualifying cryptoasset staking*.

Calculating CCS

- 4.6.6 R A *firm* must calculate its *K-CCS requirement*:

- (1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and
- (2) thereafter, on the first *business day* of each *month*.

4.6.7 R A *firm* must calculate its *average CCS* by:

- (1) taking the total *CCS* as measured at the end of each *business day* for the previous 9 *months*;
- (2) excluding the values for the most recent 3 *months*; and
- (3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.6.8 R A *firm* must include *qualifying cryptoassets* in its measurement of *CCS* in both of the following situations:

- (1) the *firm* has appointed a third party to carry out *arranging qualifying cryptoasset staking* which the *firm* has undertaken to its *client* to carry out; or
- (2) a third party has appointed the *firm* to carry out *arranging qualifying cryptoasset staking*.

4.6.9 G (1) The effect of *CRYPTOPRU* 4.6.8R is that a *firm* will not reduce its level of *CCS* by appointing a third party to carry out *arranging qualifying cryptoasset staking*.

(2) However, a *firm* will increase the level of its *CCS* by accepting the appointment from a third party to carry out *arranging qualifying cryptoasset staking*.

(3) This reflects the harm that may result from a breach of the *firm's* direct responsibilities for *arranging qualifying cryptoasset staking* or the *firm's* responsibilities in relation to the selection, appointment and periodic review of any third party which the *firm* has appointed to carry out *arranging qualifying cryptoasset staking*.

Firms with less than 9 months of data on *CCS*

4.6.10 R Where a *firm* has been *arranging qualifying cryptoasset staking* for less than 9 *months*, it must calculate its *average CCS* as follows:

- (1) During the first *month* in which it is *arranging qualifying cryptoasset staking*, the *firm* must:
 - (a) make a best-efforts estimate of expected *CCS* for that *month*; and
 - (b) use that estimate as its *average CCS*.

- (2) During the subsequent 8 *months*, the *firm's average CCS* must be calculated in accordance with *CRYPTOPRU 4.11.1R(2)*.

4.7 K-factor requirement for cryptoasset client orders (K-CCO)

- 4.7.1 R The *K-CCO requirement* of a *CRYPTOPRU firm* is equal to 0.1% of its *average CCO*.
- 4.7.2 G The definition of *CCO* includes *cryptoasset orders* that a *firm* handles:
- (1) when providing the following services:
- (a) reception and transmission of *cryptoasset orders*; or
- (b) *execution of orders on behalf of clients*; or
- (2) solely in its capacity as the *qualifying CATP operator*.

Execution of cryptoasset orders in the firm's own name

- 4.7.3 R A *firm* is not required to include a *cryptoasset order* executed by it in its own name (including where the *firm* executes an order in its own name on behalf of a *client*) in its measurement of *CCO*.
- 4.7.4 G Where a *firm* executes a *cryptoasset order* in its own name (irrespective of whether the order is ultimately for the benefit of a *client*), the order is included within the *firm's* measurement of its *CTF* under *CRYPTOPRU 4.8* (K-CTF requirement) and not within its measurement of *CCO* under this section.

Introduction to an authorised person

- 4.7.5 G Arrangements that are solely arrangements under which *persons* will be introduced to an *authorised person* authorised to carry on a *regulated cryptoasset activity* specified in chapter 2B of the *Regulated Activities Order* do not need to be included in the measurement of *CCO*.

Arrangements which do not bring about transactions

- 4.7.6 G Arrangements which do not, or would not, bring about the transaction to which the arrangements relate do not need to be included in the measurement of *CCO*.

Interaction between client orders in CRYPTOPRU and MIFIDPRU

- 4.7.7 G A *firm* may handle transactions involving both *qualifying cryptoassets* and *financial instruments*. In this case, it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a *K-CCO requirement* under this section (K-CCO) in respect of the *qualifying cryptoasset*, and a *K-COH requirement* under *MIFIDPRU 4.10* (K-COH) for the *financial*

instrument. Its total *K-factor requirement* will be the sum of all applicable parts of the *K-factor requirement* in those sourcebooks (*COREPRU 4.4.1R*).

- 4.7.8 G The basic definition of *CCO* includes:
- (1) *cryptoasset orders* that the *firm* executes when providing execution services for a *client*;
 - (2) *cryptoasset orders* that the *firm* has received from a *client* and transmitted to another entity for execution; and
 - (3) *cryptoasset orders* that a *firm* handles solely in its capacity as a *qualifying CATP operator*.

Calculating *CCO*

- 4.7.9 R A *firm* must calculate its *K-CCO requirement*:
- (1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and
 - (2) thereafter, on the first *business day* of each *month*.
- 4.7.10 R A *firm* must calculate the amount of its *average CCO* by:
- (1) taking the total *CCO* as measured throughout each *business day* over the previous 9 *months*;
 - (2) excluding the daily values for the most recent 3 *months*; and
 - (3) calculating the arithmetic mean of the daily values of the remaining 6 *months*.
- 4.7.11 R (1) When measuring its *CCO*, a *firm* must use the sum of the absolute value of each buy order and sell order.
- (2) The value in (1) is the amount paid or received on the order at the time at which it is executed, unless the *firm* has applied the approach in *CRYPTOPRU 4.7.13R*.
- (3) A *firm* may calculate the value of a *cryptoasset order* by deducting any transaction costs to reflect the consideration paid or received by the *client* for the relevant *cryptoasset order*, provided that the transaction costs are not paid separately to the *firm* by the *client*.
- 4.7.12 G (1) Under the general approach in *CRYPTOPRU 4.7.11R(2)*, a *firm* determines the gross value of an order by multiplying the market price of the *qualifying cryptoasset* by the quantity of the *qualifying cryptoasset* being purchased or sold.
- (2) However, *CRYPTOPRU 4.7.11R(3)* permits (but does not require) a *firm* to calculate the value of a *cryptoasset order* by reference to the

consideration paid or received by the *client* for the *cryptoasset order* (ie, net of transaction costs), provided that the transaction costs are included in the gross value of the order and are not paid by the *client* to the *firm* separately.

- (3) For example, Firm A executes a *cryptoasset order* on behalf of a *client*. The total cost, including transaction costs, is £100. The *client* receives *qualifying cryptoassets* worth £88, after Firm A uses £12 to cover transaction costs. Under the standard approach in *CRYPTOPRU* 4.7.11R(2), Firm A may record the value of the *cryptoasset order* in its *CCO* as £100 (ie, the gross cost of the order). The *firm* may, for example, choose this approach for reasons of simplicity and administrative convenience.
- (4) Alternatively, in the example in (3) the *firm* may apply the approach under *CRYPTOPRU* 4.7.11R(3) to record the value of the *cryptoasset order* in its *CCO* as £88 (ie, net of transaction costs paid by the *client* in relation to the transaction).
- (5) However, a *firm* cannot rely on *CRYPTOPRU* 4.7.11R(3) to reduce the value of a *cryptoasset order* by transaction costs that are paid separately by the *client* to the *firm*.
- (6) For example, Firm B executes a *cryptoasset order* to buy 100 *qualifying cryptoassets*. The total cost of the *cryptoasset order* is £100. The *client* additionally pays £12 to Firm B for transaction costs. In this case, Firm B must record the net value of the *cryptoasset order* under *CRYPTOPRU* 4.7.11R(2) in its *CCO* as £100 (and not £88), as the transaction costs have been paid separately.

- 4.7.13 R (1) By way of derogation from *CRYPTOPRU* 4.7.11R(2), a *firm* that receives and transmits an order that is a *cryptoasset order* may apply the approach in this *rule* to determine the value of that order for the purposes of measuring *CCO*.
- (2) Where a *firm* applies the approach in this *rule*, the value of the *cryptoasset order* is determined by reference to:
 - (a) for an order which specifies a fixed price or limit price at which the order should be executed, that price; or
 - (b) for an order which does not specify a price, the market price of the relevant order at the end of the *day* on which the order is transmitted by the *firm*.
 - (3) A *firm* that applies the approach in this *rule* must apply it either:
 - (a) in relation to all *cryptoasset orders* that the *firm* receives and transmits; or
 - (b) only in relation to *cryptoasset orders* that the *firm* receives and transmits where it does not receive timely information

from the executing entity about the terms on which the order was executed.

- (4) A *firm* that applies the approach in this *rule* must document which basis in (3) applies.

Firms with less than 9 months of data on CCO

- 4.7.14 R Where a *firm* has been handling *cryptoasset orders* constituting *CCO* for less than 9 *months*, it must calculate its average under *CRYPTOPRU* 4.7.10R as follows:
- (1) During the first *month* in which it is handling *cryptoasset orders* constituting *CCO*, the *firm* must:
- (a) make a best-efforts estimate of expected *CCO* for that *month*; and
- (b) use that estimate as its *average CCO*.
- (2) During the subsequent 8 *months*, the *firm's average CCO* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.8 K-factor requirement for cryptoasset trading flow (K-CTF)

- 4.8.1 R The *K-CTF requirement* of a *CRYPTOPRU firm* is equal to 0.1% of *average CTF*.
- 4.8.2 G The definition of *CTF* includes *cryptoasset orders* that a *firm* enters in its own name.

Interaction between orders in a firm's own name in *CRYPTOPRU* and *MIFIDPRU*

- 4.8.3 G A *firm* may handle transactions involving both *qualifying cryptoassets* and *financial instruments*. In this case, it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a *K-CTF requirement* under this section (K-CTF) in respect of the *qualifying cryptoasset*, and a *K-DTF requirement* under *MIFIDPRU* 4.15 (K-DTF) for the *financial instrument*. Its total *K-factor requirement* will be the sum of all applicable parts of the *K-factor requirement* in those sourcebooks (*COREPRU* 4.4.1R).

Calculating CTF

- 4.8.4 R A *firm* must calculate its *K-CTF requirement*:
- (1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and
- (2) thereafter, on the first *business day* of each *month*.
- 4.8.5 R A *firm* must calculate the amount of its *average CTF* by:

- (1) taking the total *CTF* as measured throughout each *business day* in each of the previous *9 months*;
 - (2) excluding the daily values for the most recent *3 months*; and
 - (3) calculating the arithmetic mean of the daily values for the remaining *6 months*.
- 4.8.6 R (1) When measuring its *CTF*, a *firm* must use the sum of the absolute value of each buy order and sell order.
- (2) The value in (1) is the amount paid or received on the order.
- 4.8.7 G When measuring *CTF* for the purposes of *CRYPTOPRU* 4.8.5R, a *firm* must include transactions executed by a *firm* in its own name either for itself or on behalf of a *client*.

Firms with less than 9 months of data on *CTF*

- 4.8.8 R Where a *firm* has had *cryptoasset orders* for less than *9 months*, it must calculate its *average CTF* under *CRYPTOPRU* 4.8.5R as follows:
- (1) During the first *month* in which it has had *cryptoasset orders*, the *firm* must:
 - (a) make a best-efforts estimate of expected *CTF* for that *month*; and
 - (b) use that estimate as its *average CTF*.
 - (2) During the subsequent *8 months*, the *firm's average CTF* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.9 K-factor requirement for net cryptoasset position (K-NCP)

Scope

- 4.9.1 R This section applies to a *firm* that enters into positions in a *qualifying cryptoasset* that are recorded in the *trading book*.

Purpose

- 4.9.2 G (1) This section contains the minimum *own funds requirement* for market risk in *qualifying cryptoasset* positions.
- (2) As part of the *overall risk assessment*, a *firm* should consider whether it needs to hold any additional *own funds* for its *qualifying cryptoasset* positions, having regard to the characteristics of each *qualifying cryptoasset* it trades.

Meaning of ‘position’

- 4.9.3 R For the purposes of this section, a position in *qualifying cryptoasset* includes:
- (1) any *qualifying cryptoasset* that a *firm* owns beneficially;
 - (2) any *qualifying cryptoasset* that a *firm* has an existing contractual right to receive in the future (for example, under an arrangement in which it has lent the cryptoasset to a *client*); and
 - (3) (in the case of a short position) any *qualifying cryptoasset* that a *firm* has an existing contractual obligation to deliver in the future (for example, under an arrangement in which it has borrowed the cryptoasset from a *client*).
- 4.9.4 G (1) A *firm* that trades in *qualifying cryptoassets* in its own name, including where it does so on behalf of clients, must calculate the *K-NCP requirement*.
- (2) A *firm* must calculate the *K-NCP requirement* even where it seeks to match or offset trades in such a way that it is not immediately exposed to movements in market prices.
 - (3) However, where a *firm* only executes trades in the name of the client, or as a custodian, it is not required to calculate the *K-NCP requirement*.

Managing the trading book

- 4.9.5 G (1) The definition of *trading book* includes both a *firm*'s own proprietary positions and positions in its own name arising from client servicing. The *FCA* would therefore generally expect a *firm*'s positions in a *qualifying cryptoasset* to be recorded in the *trading book*. However, some holdings may be excluded, such as where the *firm* needs the *qualifying cryptoasset* to pay bills or other operating expenses.
- (2) Where a *UK QCATP operator* engages in *matched principal trading* or other trading that is permitted by *CRYPTO* 6.6, these activities should be included in the *trading book*.
- 4.9.6 R A *firm* must manage its *trading book* for *qualifying cryptoassets* in accordance with *MIFIDPRU* 4.11.3R, reading any references to 'financial instrument' as references to *qualifying cryptoasset*.
- 4.9.7 G The requirement in *CRYPTOPRU* 4.9.6R applies when a *firm* values any *qualifying cryptoasset* held in the *trading book* for the purposes of both:
- (1) calculating its *own funds* under *COREPRU* 3; and
 - (2) calculating any parts of the *K-factor requirement* under *CRYPTOPRU* 4.

General rule

- 4.9.8 R A *firm* must calculate its *K-NCP requirement* by:
- (1) identifying positions in *qualifying cryptoassets* which are in scope;
 - (2) netting positions in identical *qualifying cryptoassets*;
 - (3) expressing the value of each net position in its functional currency;
 - (4) calculating a requirement for each net position in each *qualifying cryptoasset*; and
 - (5) summing the resulting requirements for each *qualifying cryptoasset*.

Monitoring of K-NCP

- 4.9.9 R A *firm* must be able to monitor its *K-NCP requirement* on an intra-day basis.

Positions in scope of K-NCP

- 4.9.10 R A *firm* must calculate its *K-NCP requirement* by reference to any position it holds in the *trading book* in any *qualifying cryptoasset*, except:
- (1) a position in a *CASS 16 stablecoin*;
 - (2) a position in a *qualifying cryptoasset* which has already been deducted in full under *COREPRU 3*; or
 - (3) a position in a *financial instrument* to which the *firm* applies the *K-NPR requirement* or the *K-CMG requirement* under *MIFIDPRU*, except where it applies the netting approach in *CRYPTOPRU 4.9.15R*.

Interaction between position risk requirements and own funds deductions

- 4.9.11 G To avoid double-counting, if a *firm* has already deducted its position in a *qualifying cryptoasset* in full (for example, because it cannot prudently value the position in accordance with Article 105 of the *UK CRR* as applied by *MIFIDPRU 4.11.3R*), it is not required to calculate a *K-NCP requirement* for that position.

Interaction between position risk requirements in CRYPTOPRU and MIFIDPRU

- 4.9.12 G (1) A *firm* may trade in both *qualifying cryptoassets* and *financial instruments*, in which case it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a position risk requirement under this section (*K-NCP*), and a position risk requirement under *MIFIDPRU 4.12* (*K-NPR*) or *MIFIDPRU 4.13* (*K-CMG*). Its total *K-factor requirement* will be the sum of all applicable parts of the *K-factor requirement* in those sourcebooks (*COREPRU 4.4.1R*).

- (2) The *FCA*'s general policy is that such a *firm* should not be required to recognise the same exposure twice and should be permitted to net or offset positions appropriately.
- (3) The definition of *qualifying cryptoasset* generally excludes a *specified investment cryptoasset*. This means that a tokenised *financial instrument* in the *trading book* will not be subject to the *K-NCP requirement* and will instead be subject to the *K-NPR requirement* or the *K-CMG requirement*.
- (4) However, a *firm* may also hold a *financial instrument* which gives economic exposure to a *qualifying cryptoasset* – for example, a derivative over a *qualifying cryptoasset*, or a *fund* invested in a *qualifying cryptoasset*. In this case, *CRYPTOPRU* 4.9.10R(3) avoids double-counting by ensuring that such a position is only subject to one net position risk requirement.
- (5) While a position in a *financial instrument* which gives economic exposure to a *qualifying cryptoasset* will generally be subject to the *K-NPR requirement* or the *K-CMG requirement*, *CRYPTOPRU* 4.9.15R allows a *firm* to include this position in its *K-NCP requirement* instead. This permits the recognition of potential hedging effects for exposures in identical *qualifying cryptoassets*.

Netting positions in an identical qualifying cryptoasset

- 4.9.13 R A *firm* must not net long and short positions in a *qualifying cryptoasset* unless the positions are in an identical *qualifying cryptoasset*.
- 4.9.14 G *Qualifying cryptoassets* are identical if they:
- (1) enjoy identical rights in all respects; and
 - (2) are fungible with one another.
- 4.9.15 R (1) This *rule* applies where a *firm* has:
- (a) a position in a *qualifying cryptoasset* in scope of the *K-NCP requirement*; and
 - (b) a position in a *financial instrument* in scope of the *K-NPR requirement* or the *K-CMG requirement* which gives economic exposure to an identical *qualifying cryptoasset* as in (1)(a).
- (2) Where this *rule* applies, a *firm* may:
- (a) exclude the position which gives economic exposure to a *qualifying cryptoasset* from the *K-NPR requirement* or the *K-CMG requirement*; and

- (b) include both positions in the *K-NCP requirement*, to arrive at its net long or short position in each *qualifying cryptoasset*.
- 4.9.16 G (1) An example of the situation in *CRYPTOPRU* 4.9.15R is as follows. Firm Z has 3 of a particular *qualifying cryptoasset*. Firm Z has entered into a forward contract which gives it long exposure to 3 more of this *qualifying cryptoasset*. Firm Z is required to deliver 5 of this *qualifying cryptoasset* to a counterparty in 3 months' time.
- (2) Firm Z therefore has a net long position of 1 in the relevant *qualifying cryptoasset*.
- (3) In effect, forward positions are treated as being equivalent to spot positions for the purposes of calculating the *K-NCP requirement*.
- 4.9.17 R Where a *firm* has economic exposure to a *qualifying cryptoasset* through a *fund*, it may not apply the approach in *CRYPTOPRU* 4.9.15R unless it is aware of the actual *qualifying cryptoasset* the *fund* is invested in, and only nets off identical *qualifying cryptoassets*.

Calculating the K-NCP requirement

- 4.9.18 R The *K-NCP requirement* for each net position in a *qualifying cryptoasset* must be calculated by multiplying the value for each net position in a *qualifying cryptoasset* (ignoring the sign) by 40%.

4.10 K-factor requirement for cryptoasset counterparty default (K-CCD)

Scope

- 4.10.1 R The *K-CCD requirement* applies to a *firm* that enters into a *trading book* transaction involving a *qualifying cryptoasset* which exposes it to a risk of counterparty default that persists for longer than the *standard spot settlement period*.
- 4.10.2 G (1) The *FCA* does not expect a *firm* that simply trades in spot *qualifying cryptoassets* to calculate the *K-CCD requirement*.
- (2) However, where a *firm* enters into any *qualifying cryptoasset* transaction in the *trading book* that takes longer to complete – for example, by lending *qualifying cryptoassets* to a counterparty – it must calculate the *K-CCD requirement*.
- (3) [to follow]
- (4) A *firm* must calculate the *K-CCD requirement* even if it receives collateral to help mitigate against the risk of counterparty default. The *K-CCD requirement* recognises collateral as part of the calculation.

Purpose

- 4.10.3 G (1) This section contains the minimum *own funds requirement* for counterparty risk in transactions involving a *qualifying cryptoasset*. It prescribes standardised risk factors for different types of counterparty, and standardised volatility adjustments for different types of asset.
- (2) As part of the *overall risk assessment*, a *firm* should consider whether it needs to hold any additional *own funds* for its transactions involving a *qualifying cryptoasset*, having regard to the characteristics of each of its counterparties and the assets it trades.

General rule

- 4.10.4 R A *firm* must calculate its *K-CCD requirement* by:
- (1) identifying transactions in *qualifying cryptoassets* which are in scope in accordance with *CRYPTOPRU 4.10.5R*;
 - (2) calculating the exposure value for each transaction in its functional currency in accordance with *CRYPTOPRU 4.10.6R*;
 - (3) using each exposure value to calculate a requirement for each transaction in accordance with *CRYPTOPRU 4.10.11R*; and
 - (4) summing the resulting requirements for each transaction.

Transactions in scope of K-CCD

- 4.10.5 R (1) A *firm* must calculate its *K-CCD requirement* by identifying every transaction and contract involving any *trading book qualifying cryptoasset* which exposes it to a risk of counterparty default that persists for longer than the *standard spot settlement period*, except where (2) applies.
- (2) A *firm* is not required to calculate the *K-CCD requirement* for a transaction or contract involving a *qualifying cryptoasset* where the value of the transaction or contract has been deducted in full under *COREPRU 3*.
- (3) Where the *K-CCD requirement* applies to a transaction or contract, and the *firm* receives collateral which would be deductible in full under *COREPRU 3*, the *firm* must apply a volatility adjustment of 100% to the collateral under *CRYPTOPRU 4.10.8R*.

Calculating the exposure value

- 4.10.6 R The exposure value must be calculated using the following formula:
 Exposure value = Max (0; RC – C)
 where:

- (1) RC = the replacement cost calculated in accordance with *CRYPTOPRU* 4.10.7R; and
- (2) C = collateral as calculated in accordance with *CRYPTOPRU* 4.10.8R.

Replacement cost

- 4.10.7 R The replacement cost is the current market value of the asset that the *firm* is due to receive from the counterparty to the transaction, increased by the volatility adjustment in *CRYPTOPRU* 4.10.9R.

Collateral

- 4.10.8 R The value of C is the current market value of any collateral received by the *firm*, decreased in accordance with the relevant volatility adjustment specified in *CRYPTOPRU* 4.10.9R.

Volatility adjustment

- 4.10.9 R The volatility adjustment for each asset class is specified in the table below.

Asset class	Volatility adjustment
<i>CASS 16 stablecoin</i>	0%
Any asset class referred to in <i>MIFIDPRU</i> 4.14.25R	The applicable volatility adjustment listed in Column (B) of <i>MIFIDPRU</i> 4.14.25R
Any other <i>qualifying cryptoasset</i>	40%

- 4.10.10 G (1) The following is an example of how the volatility adjustment to collateral under *CRYPTOPRU* 4.10.8R and *CRYPTOPRU* 4.10.9R applies.
- (2) A *firm* receives collateral in the form of a *qualifying cryptoasset*. The notional value of the collateral is 100.
- (3) *CRYPTOPRU* 4.10.8R requires the notional value of the collateral to be decreased by the applicable volatility adjustment.
- (4) The relevant volatility adjustment in *CRYPTOPRU* 4.10.9R is 40%.
- (5) The resulting value of the collateral after the volatility adjustment has been applied is therefore 60.

Calculating the K-CCD requirement

- 4.10.11 R The *K-CCD requirement* for each transaction must be calculated using the following formula:

$$\alpha * EV * RF$$

where:

- (1) $\alpha = 1.2$;
- (2) EV = the exposure value calculated in accordance with *CRYPTOPRU* 4.10.6R; and
- (3) RF = the risk factor applicable to the counterparty type as set out in *CRYPTOPRU* 4.10.12R.

Risk factor

- 4.10.12 R The risk factor for a counterparty is set out in the following table:

Counterparty type	Risk factor
Central governments, central banks and public sector entities	1.6%
<i>Credit institutions, investment firms and CRYPTOPRU firms</i>	1.6%
<i>retail client with negative balance protection under CRYPTO 9.7</i>	83.33%
Other counterparties	8%

- 4.10.13 G
- (1) The following example illustrates how to calculate the *K-CCD requirement*.
 - (2) In this example, there are two *qualifying cryptoassets*, neither of which are *CASS 16 stablecoins*. Cryptoasset A is traded on a *UK QCATP*, whereas Cryptoasset B is not.
 - (3) A *firm* lends out Cryptoasset A valued at £100 to another *CRYPTOPRU firm*. The *firm* receives Cryptoasset B valued at £100 as collateral.
 - (4) The transaction is in scope of the *K-CCD requirement*.
 - (5) The *K-CCD requirement* is $\alpha * EV * RF$.
 - (6) α is 1.2, and the RF for another *CRYPTOPRU firm* is 1.6%.

- (7) The EV (Exposure Value) is the RC (Replacement Cost) – C (Collateral).
- (8) The RC (Replacement Cost) is the current market value of Cryptoasset A, £100, increased by a volatility adjustment of 40%, to a total of £140.
- (9) As Cryptoasset B is not traded on a *UK QCATP*, the value of C (Collateral) is reduced by a volatility adjustment of 100%, to zero.
- (10) The EV is therefore $£140 - £0 = £140$.
- (11) The *K-CCD requirement* for this transaction is $1.2 * £140 * 1.6\% = £2.688$.

4.11 Modified calculation for CRYPTOPRU firms performing CRYPTOPRU activities for less than 9 months

- 4.11.1 R (1) This *rule* applies to the calculation of:
- (a) *average SII* (for the purpose of *CRYPTOPRU* 4.4.5R(2));
 - (b) *average RCS* (for the purpose of *CRYPTOPRU* 4.5.9R(2));
 - (c) *average CCS* (for the purpose of *CRYPTOPRU* 4.6.10R(2));
 - (d) *average CCO* (for the purpose of *CRYPTOPRU* 4.7.13R (2));
and
 - (e) *average CTF* (for the purpose of *CRYPTOPRU* 4.8.7R (2)).
- (2) For the purpose of calculating the values in (1), a *firm* must calculate the arithmetic mean of the daily values over the previous *n months - y months*, where:
- *n* = the number of *months* that have elapsed since *CRYPTOPRU* began to apply (with the *month* during which *CRYPTOPRU* begins to apply being counted as *month 1*); and
 - *y* = the greater of 0 and (*n - 6 months*).

4.12 Conversion of amounts into the firm's functional currency

- 4.12.1 R This section applies to the calculation of:
- (1) *SII*;
 - (2) *RCS*;
 - (3) *CCS*;
 - (4) *CCO*; and

- (5) *CTF*.
- 4.12.2 R (1) When measuring the value of the relevant metric in *CRYPTOPRU* 4.12.1R for a particular *business day*, a *firm* must convert all amounts into its functional currency.
- (2) For the purposes of the currency conversion in (1), a *firm* must:
- (a) determine the conversion rate by reference to an appropriate market rate; and
- (b) record the rate that was chosen.
- 4.12.3 G The effect of *CRYPTOPRU* 4.12.2R(1) is that, when measuring the value of the relevant metric at the end of each *business day*, a *firm* must convert all amounts into its functional currency using an appropriate market rate. The relevant metric for each preceding *business day* should continue to be measured by reference to the conversion rate that was applicable on that preceding day.
- 4.12.4 R The values used by a *firm* under *CRYPTOPRU* 4.12.2R(2) should be consistent with the information on *qualifying cryptoassets* and *relevant specified investment cryptoassets* in any relevant regulatory data reported by the *firm* to the *FCA*, and in any internal or external reconciliations and records maintained in accordance the *FCA*'s record keeping requirements, unless a *rule* or relevant *guidance* requires the *firm* to take a different approach.

5 Concentration risk

5.1 K-factor requirement for concentration risk (K-CON)

Scope

- 5.1.1 R This chapter applies to a *firm* that enters into a *trading book* transaction involving a *qualifying cryptoasset*.
- 5.1.2 G (1) This chapter operates by cross-applying and modifying the concentration risk requirements in *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.
- (2) Where a *firm* is in scope of both this chapter and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, the effect is that:
- (a) it is required to calculate a single *concentration risk soft limit* for its exposures to each *client* or *group of connected clients* in accordance with *MIFIDPRU* 5.5.1R;

- (b) when calculating whether its exposures exceed the *concentration risk soft limit*, it must sum:
 - (i) exposures caught by *MIFIDPRU 5.4.1R*;
 - (ii) exposures caught by *CRYPTOPRU 4.10.5R* (Transactions in scope of K-CCD); and
 - (iii) any other exposures to a *qualifying cryptoasset* which is issued by, or the supply of which is controlled by, a particular *client* or *group of connected clients*;
 - (c) it must calculate a single *K-CON requirement* for any exposures that exceed the *concentration risk soft limit*; and
 - (d) when calculating whether its exposures exceed the hard limits in *MIFIDPRU 5.9*, it must sum the exposures in (2)(b).
- (3) Where a *firm* is in scope of this chapter but not *MIFIDPRU 5.4* to *MIFIDPRU 5.10*, the effect is that:
- (a) it is required to calculate a *concentration risk soft limit* for its exposure to each *client* or *group of connected clients* in accordance with *MIFIDPRU 5.5.1R*;
 - (b) when calculating whether its exposures exceed the *concentration risk soft limit*, it is only required to consider:
 - (i) exposures caught by *CRYPTOPRU 4.10.5R* (Transactions in scope of K-CCD); and
 - (ii) other exposures to a *qualifying cryptoasset* which is issued by, or the supply of which is controlled by, a particular *client* or *group of connected clients*;
 - (c) it must calculate a *K-CON requirement* for any exposures that exceed the *concentration risk soft limit*; and
 - (d) when calculating whether its exposures exceed the hard limits in *MIFIDPRU 5.9*, it must sum the exposures in (3)(b).

Firms in scope of both CRYPTOPRU and MIFIDPRU

- 5.1.3 R (1) The modifications in this *rule* apply to a *firm* in scope of both this chapter and *MIFIDPRU 5.4* to *MIFIDPRU 5.10*.
- (2) *MIFIDPRU 5.1.7R* applies as if it read as shown in the table below:

‘*MIFIDPRU 5.3* to *MIFIDPRU 5.10* apply to a *firm* when:

(1)	<i>dealing on own account</i> in relation to transactions that are recorded in the <i>trading book</i> ; and
(2)	entering into <i>trading book</i> transactions involving <i>qualifying cryptoassets</i> .’

- (3) *MIFIDPRU 5.3.1G* applies as if, after the words ‘that is *dealing on own account*’ there were inserted the words ‘or trading in *qualifying cryptoassets*’.
- (4) *MIFIDPRU 5.4.1R* applies as if it read as shown in the table below:

‘For the purposes of <i>MIFIDPRU 5.5</i> to <i>MIFIDPRU 5.10</i> , a <i>firm</i> must calculate an <i>exposure value (EV)</i> for each <i>client</i> or <i>group of connected clients</i> by adding together the following items:	
(1)	the positive excess of the <i>firm</i> ’s long positions over its short positions in all the <i>trading book financial instruments</i> issued by the <i>client</i> in question, using the approach specified for K-NPR in <i>MIFIDPRU 4.12.2R</i> to calculate the net position for each instrument;
(2)	the exposure value of contracts and transactions referred to in <i>MIFIDPRU 4.14.3R</i> with the <i>client</i> in question, calculated using the approach specified for K-TCD in <i>MIFIDPRU 4.14.8R</i> ;
(3)	the exposure value of contracts and transactions referred to in <i>CRYPTOPRU 4.10.5R</i> with the <i>client</i> in question, calculated using the approach specified for K-CCD in <i>CRYPTOPRU 4.10.6R</i> ; and
(4)	the positive excess of the <i>firm</i> ’s long positions over its short positions in all the <i>trading book qualifying cryptoassets</i> :
	(a) which are issued by the <i>client</i> or <i>group of connected clients</i> ; or
	(b) where supply is controlled by the <i>client</i> or <i>group of connected of connected clients</i> ,
	and using the approach specified for K-NCP in <i>CRYPTOPRU 4.9</i> to calculate the net position for each <i>cryptoasset</i> .’

- (5) The definition of *MIFIDPRU-eligible institution* applies as if it included a *CRYPTOPRU firm*.

- (6) *MIFIDPRU 5.7.3R(2)* applies as if it read as shown in the table below:

‘(a)	The <i>OFR</i> for an individual <i>client</i> is the sum of:		
	(i)	the <i>TCD own funds requirement</i> for exposures to that <i>client</i> ;	
	(ii)	the <i>K-NPR requirement</i> for exposures to that <i>client</i> , subject to (b);	
	(iii)	the <i>K-CCD requirement</i> for exposures to that <i>client</i> ; and	
	(iv)	the <i>K-NCP requirement</i> for exposures in a relevant <i>qualifying cryptoasset</i> :	
		(A)	which is issued by the <i>client</i> or <i>group of connected clients</i> ; or
		(B)	the supply of which is controlled by that <i>client</i> or <i>group of connected clients</i> .
(b)	Where exposures arise from the positive excess of a <i>firm</i> ’s long positions over its short positions in all the <i>trading book financial instruments</i> issued by the <i>client</i> in question, the net position of each instrument calculated using the approach specified for <i>K-NPR</i> in <i>MIFIDPRU 4.12.2R</i> only includes specific-risk requirements.		
(c)	A <i>firm</i> that calculates a <i>K-CMG requirement</i> for a portfolio must calculate the <i>OFR</i> using the approach specified for <i>K-NPR</i> in <i>MIFIDPRU 4.12.2R</i> , subject to (b).		
(d)	The <i>OFR</i> for a <i>group of connected clients</i> must be calculated by adding together the exposures to individual <i>clients</i> within the group, and then determining a single own funds requirement for exposures to the group as if the group were a single <i>undertaking</i> .’		

- 5.1.4 R (1) This *rule* applies to a *firm* that is in scope of this chapter but which is not in scope of *MIFIDPRU 5.4* to *MIFIDPRU 5.10*.
- (2) A *firm* to which this *rule* applies must apply *MIFIDPRU 5.1.11G* to *MIFIDPRU 5.1.19G* and *MIFIDPRU 5.4* to *MIFIDPRU 5.10*, with the modifications below.
- (3) *MIFIDPRU 5.4.1R* applies as if it read as shown in the table below:

‘For the purposes of <i>MIFIDPRU 5.5</i> to <i>MIFIDPRU 5.10</i> , a <i>firm</i> must calculate an <i>exposure value (EV)</i> for each <i>client</i> or <i>group of connected clients</i> by adding together:	
(1)	the exposure value of contracts and transactions referred to in <i>CRYPTOPRU 4.10.5R</i> with the <i>client</i> in question, using the approach specified for K-CCD in <i>CRYPTOPRU 4.10.6R</i> ; and
(2)	the positive excess of the <i>firm’s</i> long positions over its short positions in all the <i>trading book qualifying cryptoassets</i> :
	(a) which are issued by the <i>client</i> or <i>group of connected clients</i> ; or
	(b) the supply of which is controlled by the <i>client</i> or <i>group of connected clients</i> ,
	and using the approach specified for K-NCP in <i>CRYPTOPRU 4.9</i> to calculate the net position for each cryptoasset.’

- (4) The definition of *MIFIDPRU-eligible institution* applies as if it included a *CRYPTOPRU firm*.
- (5) *MIFIDPRU 5.7.1R* and *MIFIDPRU 5.10.1R(1)* apply as if the references to a *MIFIDPRU investment firm* were replaced with references to a *CRYPTOPRU firm*.
- (6) *MIFIDPRU 5.7.3R(2)* applies as if it read as shown in the table below:

‘(a)	The <i>OFR</i> for an individual <i>client</i> is the sum of:	
	(i)	the <i>K-CCD requirement</i> for exposures to that <i>client</i> ; and
	(ii)	the <i>K-NCP requirement</i> for exposures in a relevant <i>qualifying cryptoasset</i> :
		(A) which are issued by the <i>client</i> or <i>group of connected clients</i> ; or
		(B) the supply of which is controlled by that <i>client</i> or <i>group of connected clients</i> .
(b)	The <i>OFR</i> for a <i>group of connected clients</i> must be calculated by adding together the exposures to individual <i>clients</i> within the group, and then determining a single own	

	funds requirement for exposures to the group as if the group were a single <i>undertaking</i> .’
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6 Sectoral liquidity requirement

6.1 Application and purpose

Application

- 6.1.1 R This chapter applies to a *CRYPTOPRU firm* that is carrying out the activity of *issuing a qualifying stablecoin*.

Purpose

- 6.1.2 G This chapter contains *rules and guidance* on the amount of *on-demand deposits* that a *qualifying stablecoin issuer* must hold to ensure it has adequate financial resources and can comply with the requirement in *CASS 16.2.1R(4)* at all times (its ‘*issuer liquid assets requirement*’).
- 6.1.3 G The *issuer liquid assets requirement* supplements the *basic liquid assets requirement* that *COREPRU 6* requires all *CRYPTOPRU firms* to meet.

Issuer liquid assets requirement

- 6.1.4 R A *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* based on the following assets in its *backing asset pool*:
- (1) *core backing assets*, excluding *on-demand deposits*; and
 - (2) *expanded backing assets*.
- 6.1.5 G Where a *firm* issues multiple *qualifying stablecoins*, it must calculate its *issuer liquid assets requirement* based on the *backing asset pool* for each *qualifying stablecoin*.
- 6.1.6 R
- (1) For a unit in a *public debt CNAV MMF*, a *qualifying stablecoin issuer* that is aware of the underlying investments on a daily basis may look through and calculate its *issuer liquid assets requirement* based on the underlying government debt securities.
 - (2) For the purpose of (1), where the underlying investments include a *repurchase transaction*, the *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* in accordance with *CRYPTOPRU 6.1.7R*.
 - (3) If a *qualifying stablecoin issuer* cannot look through in accordance with (1) and (2), or chooses not to do so, it must (instead of performing the calculation in *CRYPTOPRU 6.1.9R*) calculate its *issuer liquid assets requirement* by multiplying the notional value of the unit by 5%.

- 6.1.7 R For a *repurchase transaction*, a *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* based on any government debt securities that have been exchanged for the duration of the contract.
- 6.1.8 G The effect of *CRYPTOPRU 6.1.7R* is that a *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* based on any government debt securities that have been exchanged as part of a *repurchase transaction* (whether as a repurchase agreement or reverse repurchase agreement).
- 6.1.9 R A *firm* must calculate its *issuer liquid assets requirement* by:
- (1) determining whether an asset is a *level 1 asset*, a *level 2 asset* or a *level 3 asset*;
 - (2) determining the charge for each asset, in accordance with the table in *CRYPTOPRU 6.1.11R*;
 - (3) multiplying the notional value of each asset by the relevant charge; and
 - (4) adding together the output from step (3) for all the assets to which *CRYPTOPRU 6.1.4R* applies.
- 6.1.10 G (1) The calculation of the *issuer liquid assets requirement* in *CRYPTOPRU 6.1.4R* is illustrated by the following example.
- (2) In accordance with *CASS 16.2.1R*, a *qualifying stablecoin issuer* holds the following *core backing assets* and *expanded backing assets* in its *backing asset pool* for the *qualifying stablecoins* that it has issued:
- (a) £30,000 in *long-term government debt instruments* issued by the *UK* (a *level 1 asset*) with a residual maturity of 5 years and a coupon of 4%;
 - (b) £50,000 in *short-term government debt instruments* issued by the *UK* (a *level 1 asset*) with a residual maturity of 3 months and a coupon of 5%; and
 - (c) £20,000 in *on-demand deposits*.
- (3) The *issuer liquid assets requirement* should be calculated by multiplying the notional value of the *long-term government debt instruments* and the *short-term government debt instruments* by the charge found in the table in *CRYPTOPRU 6.1.11R* as follows:
- £30,000 x 3.50% = £1,050
- £50,000 x 0.20% = £100

(4) *On-demand deposits* are not included in the calculation (this reflects the fact that the aim of the *issuer liquid assets requirement* is to capture price risk).

(5) The *issuer liquid assets requirement* is £1,150.

6.1.11 R This table belong to *CRYPTOPRU* 6.1.9R(2):

Asset charge					
Maturity bands	Level 1 - Coupon ≤ 3%	Level 1 - Coupon > 3%	Level 2 - Coupon ≤ 3%	Level 2 - Coupon > 3%	Level 3 (No coupon)
$0 \leq 1$ month	0.00%	0.00%	0.50%	0.50%	3.0%
$> 1 \leq 3$ months	0.20%	0.20%	0.50%	0.50%	3.0%
$> 3 \leq 6$ months	0.40%	0.40%	0.50%	0.50%	3.0%
$> 6 \leq 12$ months	0.70%	0.70%	0.70%	0.70%	3.0%
$> 1 \leq 2$ years	1.50%	1.50%	1.50%	2.00%	5.0%
$> 2 \leq 3$ years	1.75%	2.25%	2.25%	2.75%	5.0%
$> 3 \leq 4$ years	2.25%	2.75%	2.75%	3.25%	6.0%
$> 4 \leq 5$ years	2.75%	3.50%	3.25%	4.00%	6.0%
$> 5 \leq 7$ years	3.50%	3.75%	3.75%	5.00%	8.0%
$> 7 \leq 10$ years	3.75%	6.00%	4.50%	7.00%	8.0%
$> 10 \leq 15$ years	6.00%	8.50%	7.00%	10.00%	12.0%
$> 15 \leq 20$ years	6.00%	8.50%	7.00%	13.00%	15.0%
$> 20 \leq 25$ years	8.50%	12.50%	10.00%	16.00%	20.0%
$> 25 \leq 30$ years	8.50%	15.00%	10.00%	18.00%	25.0%
> 30 years	12.50%	20.00%	15.00%	25.00%	30.0%

Permissible assets

6.1.12 R For the purposes of meeting the *issuer liquid assets requirement*, the *on-demand deposits* must:

- (1) be held at a *UK-authorised credit institution*, except where the *reference currency* of the *qualifying stablecoin* is not pound sterling, in which case it may be held at a *credit institution*; and
- (2) be denominated in the *reference currency* of each relevant *qualifying stablecoin*.

6.1.13 G A *firm* must not use the same *on-demand deposits* to meet the *basic liquid assets requirement* in *COREPRU 6.2.1R* and the *issuer liquid assets requirement*.

7 Overall risk assessment for CRYPTOPRU firms

7.1 Application

- 7.1.1 R This chapter applies to a *CRYPTOPRU firm*.
- 7.1.2 R *CRYPTOPRU 7* (Overall risk assessment) does not apply to a *firm* that is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*.
- 7.1.3 G The effect of *CRYPTOPRU 7.1.2R* is that, where a *firm* is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*, only the requirements in *MIFIDPRU 7* (Governance and risk management) apply.
- 7.1.4 G The following table summarises the content of *CRYPTOPRU 7*.

Section	Summary of content
<i>CRYPTOPRU 7.1</i>	Application
<i>CRYPTOPRU 7.2</i>	Overall risk assessment: capital and liquidity planning, stress testing, wind-down planning and recovery planning
<i>CRYPTOPRU 7.3</i>	Overall risk assessment: own funds
<i>CRYPTOPRU 7.4</i>	Overall risk assessment: liquid assets
<i>CRYPTOPRU 7.5</i>	Overall risk assessment: review and document
<i>CRYPTOPRU 7.6</i>	Overall risk assessment: firms forming part of a group

Purpose

- 7.1.5 G (1) *COREPRU 7* contains the general requirement for *firms* to carry out an *overall risk assessment*. This requirement is designed to ensure that a *firm*:

- (a) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all risks that may cause material harm which result from the ongoing operation or the winding down of its business; and
- (b) holds financial resources that are adequate for the business it undertakes.

(2) A *firm* should therefore start by considering the *rules* and *guidance* on the *overall risk assessment* in *COREPRU 7* (Overall risk assessment).

7.1.6 G *CRYPTOPRU 7* contains *rules* and *guidance* which supplement the overarching requirements in *COREPRU 7*.

7.2 Overall risk assessment: capital and liquidity planning, stress testing, wind-down planning and recovery planning

Business model assessment and capital and liquidity planning

7.2.1 R As part of its *overall risk assessment*, a *firm* must:

- (1) have a clearly articulated business model and strategy;
- (2) have a clearly articulated risk appetite that is consistent with the business model and strategy identified under (1);
- (3) identify any material risks of misalignment between the *firm's* business model and operating model and the interests of its *clients* and the wider financial markets, and evaluate whether those risks have been adequately mitigated;
- (4) consider on a forward-looking basis the *own funds* and *liquid assets* that will be required to meet the *overall financial adequacy rule*, taking into account any planned future growth; and
- (5) consider severe but plausible stresses that could affect the *firm's* business and consider whether the *firm* would still have sufficient *own funds* and *liquid assets* to meet the *overall financial adequacy rule*.

Stress testing

7.2.2 G *CRYPTOPRU 7.2.1R(5)* requires a *firm* to use stress testing to consider whether it holds sufficient *own funds* and *liquid assets*. *Firms* should refer to Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources), which can be found on the *FCA's* website at <https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf>, for specific guidance on the *FCA's* expectations in relation to stress testing.

Recovery actions

7.2.3 R As part of its *overall risk assessment*, a *firm* must identify:

- (1) levels of *own funds* and *liquid assets* that the *firm* considers, if reached, may indicate that there is a credible risk that the *firm* will breach the *overall financial adequacy rule*; and
- (2) potential recovery actions that the *firm* would expect to take:
 - (a) to avoid a breach of the *overall financial adequacy rule* where the *firm's own funds* or *liquid assets* fall below the levels identified in (1); and
 - (b) to restore compliance with the *overall financial adequacy rule* if the *firm* were to breach it during a period of financial difficulty.

7.2.4 G A *firm* should adopt a proportionate approach to identifying potential recovery actions, taking into account the nature, scale and complexity of the *firm's* business and operating model. The actions that the *firm* proposes must be credible and justifiable, taking into account the circumstances in which the actions may be likely to be required.

Wind-down planning

7.2.5 G (1) *COREPRU* 7.2.1R contains the requirement on the *overall risk assessment*, which includes the analysis of the *firm's* winding down.

(2) As part of its *overall risk assessment*, a *firm* should therefore:

- (a) identify the steps and resources that would be required to ensure the wind-down and termination of the *firm's* business in a realistic timescale; and
- (b) evaluate the risks arising from winding down the *firm's* business that may cause material harm, and identify how to mitigate them.

(3) When carrying out a wind-down planning assessment under (1) and (2), and determining the timeline and any required actions, a *firm* should refer to the *guidance* in *WDPG* and in Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources), which can be found on the *FCA's* website at <https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf>.

7.2.6 R (1) A *firm* must use its wind-down analysis under *CRYPTOPRU* 7.2.5G to assess the amount of *own funds* and *liquid assets* that would be required to ensure the wind-down of its business without causing material harm.

(2) The *firm's* assessment in (1) must not result in amounts that are lower than:

- (a) in the case of *own funds*, the *firm's fixed overheads requirement*; and
- (b) in the case of *liquid assets*, the *firm's basic liquid assets requirement*.

7.3 Overall risk assessment: own funds

Purpose

- 7.3.1 G The purpose of this section is to supplement the general requirements on the *overall risk assessment* and the calculation of the *own funds threshold requirement* in *COREPRU 7*.

Compliance with the overall financial adequacy rule

- 7.3.2 G (1) *COREPRU 2.3.1R* sets out the *overall financial adequacy rule*.
- (2) *COREPRU 7.2.1R* and *COREPRU 7.2.5R* set out the *firm's* requirements to assess and calculate its *own funds threshold requirement* to comply with the *overall financial adequacy rule*.
- (3) To comply with the *overall financial adequacy rule*, a *firm* must therefore hold the higher of:
- (a) the amount of *own funds* that the *firm* requires at any given point in time to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle (Assessment 'A'); and
 - (b) the amount of *own funds* that a *firm* would need to hold to ensure that the *firm* can be wound down without causing material harm (Assessment 'B').

Own funds threshold requirement: types of own funds

- 7.3.3 R (1) Unless (2) applies, a *firm* must meet its *own funds threshold requirement* with *own funds* that satisfy the following conditions:
- (a) subject to (b), at least 75% of the *own funds threshold requirement* must be met with any combination of *common equity tier 1 capital* and *additional tier 1 capital*; and
 - (b) at least 56% of the *own funds threshold requirement* must be met with *common equity tier 1 capital*.
- (2) The *FCA* may specify an alternative combination of *own funds* for the purpose of (1) in a requirement applied to a *firm*.

Notification of own funds falling below the own funds threshold requirement

- 7.3.4 G (1) *SUP 15.3.1R(1)* sets out the *firm's* obligation to notify the *FCA* as soon as it becomes aware that the *firm* is failing to meet one or more of the threshold conditions, or may fail to do so in the foreseeable future.
- (2) To satisfy this obligation in *SUP 15.3*, the *FCA* expects a *firm* to provide immediate notification if its *own funds* fall below the level of its *own funds threshold requirement*.
- (3) The *FCA* expects such a notification to include the following information:
- (a) a clear statement of the current level of the *firm's own funds* in comparison to its *own funds threshold requirement*;
 - (b) an explanation of why the *firm's own funds* have reached the current level; and
 - (c) the recovery actions required by *CRYPTOPRU 7.2.3R(2)(b)* that the *firm* has already taken or will take to restore compliance with its *own funds threshold requirement*.

7.4 Overall risk assessment: liquid assets

Purpose

- 7.4.1 G The purpose of this section is to supplement the general requirements on the *overall risk assessment* in *COREPRU 7*. It sets out *sectoral rules and guidance* for the *firm's* assessment and calculation of its *liquid assets threshold requirement*.

Assessing and monitoring the adequacy of liquid assets

- 7.4.2 R (1) As part of its *overall risk assessment*, a *firm* must:
- (a) for its ongoing business operations:
 - (i) assess its liquidity needs over a rolling 90-day period; and
 - (ii) calculate the amount of *liquid assets* it needs to hold to meet its liquidity needs under (a)(i); and
 - (b) produce a reasonable estimate of the amount of *liquid assets* required to ensure that the *firm* could be wound down without causing material harm.
- (2) The assessment and calculations in (1) must take into account any risks that may cause material harm which the *firm* has identified under *COREPRU 7.2.1R* and that have not been fully mitigated through any measures taken.

- (3) Without prejudice to the ongoing nature of its *overall risk assessment*, the *firm* must update the analysis in (1) immediately following any material change in the *firm*'s business model or operating model.
- (4) To produce the analysis in (1), the *firm* must ensure that it has in place reliable management information systems to provide timely and forward-looking information on its liquidity position.
- 7.4.3 R (1) As part of the *firm*'s assessment of its liquidity needs, it must consider its funding profile by:
- (a) producing a reasonable estimate of the *firm*'s funding needs over the next 12 *months*, taking into account the results of the *firm*'s stress testing under *CRYPTOPRU* 7.2.1R(5);
 - (b) identifying the *firm*'s funding sources for the next 12 *months*, taking into account any risk to the roll-over of funding during that period (including due to potential stressed conditions); and
 - (c) identifying actions to mitigate funding gaps arising from the potential withdrawal or unavailability of funding arrangements or from significant increases in the cost of funding.
- (2) Where a *firm* identifies funding gaps that it cannot fully close, it must, each *day*:
- (a) assess its funding gap for the next 90-*day* rolling period; and
 - (b) ensure it holds *liquid assets* to cover that funding gap.
- 7.4.4 G (1) *CRYPTOPRU* 7.4.3R explains that a *firm* must consider its funding profile by estimating its funding needs and identifying its funding sources over the next 12 *months*. This allows the *firm* to plan and then to determine where future daily funding gaps may occur beyond the next 90-*day* rolling period. This may lead the *firm* to hold additional *liquid assets* to meet those future gaps as the 90-*day* periods roll forward. A *firm* will use such assessment on a daily basis to determine whether it needs to hold additional *liquid assets* to cover the total value of any funding gaps over the current 90-*day* rolling period. A *firm* should consider its funding profile as frequently as appropriate.
- (2) The effect of *CRYPTOPRU* 7.4.3R(2) and *CRYPTOPRU* 7.4.4G(1) is illustrated by the following example:
- (a) A *firm* carries out the assessment of its funding needs and sources under *CRYPTOPRU* 7.4.3R, and identifies a total funding gap of £200,000 over the current 90-*day* rolling period resulting from:
 - (i) a £110,000 peak margin call due on day 20;

- (ii) an £80,000 payment of corporation tax payable on day 60; and
 - (iii) a £10,000 payment of staff bonuses on day 70.
- (b) The *firm* takes an overdraft facility for £100,000 to partially mitigate the total funding gap of £200,000. This means that the *firm* still has a funding gap of £100,000 without mitigating actions.
- (c) The *firm* must therefore hold additional *liquid assets* for the amount of £100,000 to cover the total value of the funding gap during the 90-day rolling period under *CRYPTOPRU* 7.4.3R(2).

Compliance with the overall financial adequacy rule

- 7.4.5 G (1) *COREPRU* 2.3.1R sets out the *overall financial adequacy rule*.
- (2) *COREPRU* 7.2.1R and *COREPRU* 7.2.5R set out the *firm's* requirements to assess and calculate its *liquid assets threshold requirement* to comply with the *overall financial adequacy rule*.
- (3) To comply with the *overall financial adequacy rule*, a *firm* must therefore hold at least the sum of:
- (a) the *basic liquid assets requirement*;
 - (b) the *issuer liquid assets requirement*; and
 - (c) the higher of:
 - (i) the amount of *liquid assets* that the *firm* requires to fund its ongoing business operations (taking into account potential periods of financial stress) resulting from the *firm's* assessment of its liquidity under *CRYPTOPRU* 7.4.2R(1)(a) (Assessment 'A'); or
 - (ii) the amount of *liquid assets* that a *firm* would need to hold when commencing its wind-down process to ensure that the *firm* could be wound down without causing material harm under *CRYPTOPRU* 7.4.2R(1)(b) (Assessment 'B').
- (4) The *firm* should use the analysis it produces under *CRYPTOPRU* 7.4.2R to ensure that it complies with the *overall financial adequacy rule*.
- (5) The *liquid assets threshold requirement* is the amount of *liquid assets* that a *firm* needs to hold at any given time to comply with the *overall financial adequacy rule*.

(6) This is illustrated by the example in *CRYPTOPRU 7.4.6G*.

7.4.6 G The following example illustrates how a *firm* determines its *liquid assets threshold requirement*:

- (1) A *firm* has a *basic liquid assets requirement* of £2m under *COREPRU 6.2*.
- (2) The *firm* has an *issuer liquid assets requirement* of £3m under *CRYPTOPRU 6.1*.
- (3) Through its *overall risk assessment*, the *firm* assesses that it needs an amount of *liquid assets* of:
 - (a) £3m for its ongoing business operations to cover its liquidity needs over a 90-day rolling period under *CRYPTOPRU 7.4.2R(1)(a)* (Assessment ‘A’); and
 - (b) £4m for a wind-down without causing material harm under *CRYPTOPRU 7.4.2R(1)(b)* (Assessment ‘B’).
- (4) As the amount in (3)(b) for Assessment ‘B’ (£4m) is higher than in (3)(a) for Assessment ‘A’ (£3m), then the amount of £4m is added to the sum of the *basic liquid assets requirement* (£2m) and the *issuer liquid assets requirement* (£3m).
- (5) The *firm’s liquid assets threshold requirement* would, therefore, be £9m (the sum of the amounts in (1), (2) and (3)(b)).

7.4.7 G When considering its likely liquidity needs and funding profile under *CRYPTOPRU 7.4.2R(1)(a)* and *CRYPTOPRU 7.4.3R*, a *firm* should consider, among other factors:

- (1) the ordinary level of *liquid assets* that would typically be required to operate the *firm’s* underlying business, taking into account any seasonal variations;
- (2) any risks that may realistically cause material harm during the next 12 months and their potential impact on the *firm’s* liquidity position;
- (3) any *liquid assets* that the *firm* may need to use as collateral or to meet margining requirements;
- (4) any estimated gaps in funding, including during periods of severe but plausible stress;
- (5) any risk to the roll-over of funding due to potential stressed conditions – for example, changes to lenders’ risk appetites or financial resilience and significant increases in the cost of funding;
- (6) any estimated gaps between liquidity inflows and outflows; and

- (7) the stability of funding sources.

Liquid assets threshold requirement: types of liquid assets

- 7.4.8 R (1) Subject to (2) and (3), a *firm* may hold the *liquid assets* necessary to comply with its *liquid assets threshold requirement* in any combination of:
- (a) any *core liquid asset*; or
 - (b) any *non-core liquid asset*, as defined in *CRYPTOPRU 7.4.9R*, provided that the *firm* applies an appropriate haircut in accordance with *CRYPTOPRU 7.4.11R*.
- (2) This *rule* does not apply in relation to the *liquid assets* that a *firm* is holding to meet its *basic liquid assets requirement* or the *issuer liquid assets requirement*, which must be *core liquid assets*.
- (3) A *firm* may only use a *non-core liquid asset* for the purpose in (1) if the *firm* is satisfied that the asset can easily and promptly be converted into cash, even in stressed market conditions.

Non-core liquid assets

- 7.4.9 R (1) Except as specified in (2), a *non-core liquid asset* means any of the following:
- (a) short-term deposits at a *credit institution* that does not have a *Part 4A permission* in the UK to accept deposits;
 - (b) short-term non-sterling deposits at a *UK credit institution*;
 - (c) assets representing claims on, or guaranteed by, multilateral development banks and international organisations;
 - (d) assets representing claims on, or guaranteed by, any *third country* central bank or government; and
 - (e) *financial instruments*.
- (2) A *firm* must not treat any of the following as a *non-core liquid asset*:
- (a) any asset that belongs to a *client*;
 - (b) any other asset that is encumbered; or
 - (c) any asset issued by the *firm* or any of its affiliated entities, except a short-term deposit with an affiliated *credit institution*.
- 7.4.10 R (1) For the purposes of *CRYPTOPRU 7.4.9R(2)(a)*, an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples

of assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

- (2) For the purposes of *CRYPTOPRU 7.4.9R(2)(b)*, an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer, or assign the asset.

- 7.4.11 R A *firm* must apply an appropriate haircut to the value of a *non-core liquid asset* to reflect the potential loss of value when converting the asset into cash during stressed market conditions.
- 7.4.12 G The *FCA* considers that a minimum haircut of no less than that in the range specified in the table in *CRYPTOPRU 7.4.13G* is likely to be appropriate for the purposes of *CRYPTOPRU 7.4.11R*.
- 7.4.13 G This table belongs to *CRYPTOPRU 7.4.12G*.

Non-core liquid asset	Haircut
Short-term deposits at a <i>credit institution</i> that does not have <i>Part 4A permission</i> in the <i>UK</i> to accept deposits	0%
Short-term non-sterling deposits at a <i>UK credit institution</i>	0%
Assets representing claims on, or guaranteed by, multilateral development banks or international organisations	0%
Assets representing claims on, or guaranteed by, any <i>third country</i> central bank or government	0% - 50%
<i>Regulated covered bonds</i> , or comparable covered bonds regulated in a <i>third country</i>	7% - 30%
Asset-backed securities eligible for 'STS' designation under the <i>Securitisation Regulations 2024</i> , and backed by residential loans, personal loans, leases or commercial loans for purposes other than commercial real estate development, or comparable asset-backed securities regulated in a <i>third country</i>	25% - 35%
High-quality corporate debt securities	15% - 50%
Shares that form part of a major stock index	50%
<i>Financial instruments</i> not covered above for which there is a liquid market as defined in article 2(1)(17) of <i>MiFIR</i> or article 2(1)(17) of <i>EU MiFIR</i>	55%

- 7.4.14 G For the purposes of applying *CRYPTOPRU* 7.4.11R and *CRYPTOPRU* 7.4.12G to shares or units in a *CIU*:
- (1) where a *firm* is aware of the exposures underlying the *CIU*, it may look through to the underlying exposures to assign an appropriate haircut;
 - (2) where a *firm* is not aware of the exposures underlying the *CIU*, it should assume that the *CIU* invests, up to the maximum amount allowed under its mandate, in the highest risk assets permissible; and
 - (3) in either case, a *firm* should consider applying an additional haircut to reflect any additional loss of value that could result from the underlying exposures being held through a *CIU*.

Additional provisions on systems and procedures on the issuer liquid assets requirement

- 7.4.15 G A *qualifying stablecoin issuer* subject to the *issuer liquid assets requirement* should also refer to the *rules* and *guidance* on systems and procedures to identify, measure and manage risks in relation to its *expanded backing assets* in *CASS* 16.2.16R to *CASS* 16.2.24R.

Notification of liquid assets falling below the liquid assets threshold requirement

- 7.4.16 G (1) *SUP* 15.3.1R(1) sets out the *firm's* obligation to notify the *FCA* as soon as it becomes aware that the *firm* is failing to meet one or more of the threshold conditions, or may fail to do so in the foreseeable future.
- (2) To satisfy this obligation in *SUP* 15.3, the *FCA* expects a *firm* to provide immediate notification if its *own funds* fall below the level of its *own funds threshold requirement*.
- (3) The *FCA* expects such a notification to include the following information:
- (a) a clear statement of the current level of the *firm's own funds* in comparison to its *own funds liquid assets threshold requirement*;
 - (b) an explanation of why the *firm's liquid assets* have reached the current level; and
 - (c) the recovery actions required by *CRYPTOPRU* 7.2.3R(2)(b) that the *firm* has already taken or will take to restore compliance with its *liquid assets threshold requirement*.

7.5 Overall risk assessment: review and document

Overall risk assessment document: content

- 7.5.1 R When documenting its *overall risk assessment* under *COREPRU 7.2.9R*, a *firm* must include the following in its *overall risk assessment document*:
- (1) an overview of the business model assessment and capital and liquidity planning undertaken by the *firm* under *CRYPTOPRU 7.2.1R*;
 - (2) a summary of the risks identified by the *firm* under *COREPRU 7.2.1R* that may cause material harm and any steps taken to mitigate them;
 - (3) an analysis of the effectiveness of the *firm*'s systems and controls to identify, monitor and, if proportionate, reduce all risks that may cause material harm;
 - (4) an explanation of how the *firm* is complying with the *overall financial adequacy rule*, including a breakdown of the following as at the review date:
 - (a) available *own funds*;
 - (b) available *liquid assets*; and
 - (c) the *firm*'s assessment of its *threshold requirements*;
 - (5) a summary of any stress testing carried out by the *firm*;
 - (6) the levels of *own funds* and *liquid assets* that, if reached, the *firm* has identified under *CRYPTOPRU 7.2.3R(1)* may indicate that there is a credible risk that the *firm* will breach its *threshold requirements*;
 - (7) the potential recovery actions that the *firm* has identified under *CRYPTOPRU 7.2.3R(2)* and *CRYPTOPRU 7.2.4G*; and
 - (8) an overview of the *firm*'s wind-down planning under *COREPRU 7.2.1R* and *CRYPTOPRU 7.2.5G*.

Senior management responsibility for the firm's overall risk assessment

- 7.5.2 R (1) The content of the *overall risk assessment document* must be reviewed and approved by the *firm*'s *governing body* within a reasonable period after the review under *COREPRU 7.2.8R* has been completed.
- (2) As part of its review under (1), the *governing body* must specifically review and approve the key assumptions underlying the overall risk assessment.
- 7.5.3 G (1) Under *COCON 2.2.2R*, *senior conduct rules staff members* must take reasonable steps to ensure that the business of the *firm* for which they

are responsible complies with the relevant requirements and standards of the *regulatory system*.

- (2) In particular, *COCON* 4.2.12G explains that *senior conduct rules staff members* should take reasonable steps to ensure that the business for which they are responsible:
 - (a) has operating procedures and systems with well-defined steps for complying with the detail of relevant requirements and standards of the *regulatory system*; and
 - (b) is run prudently.
- (3) The *FCA* considers that the *overall risk assessment* is a key requirement of the *regulatory system* for *firms* subject to *CRYPTOPRU* 7 and is an essential part of a *firm's* internal systems and procedures for ensuring that the *firm's* business is run prudently. Accordingly, *senior conduct rules staff members* should take an active role in contributing to the analysis required under the *overall risk assessment* in respect of the business areas for which they are responsible and in embedding its requirements into those business areas.
- (4) *Firms* and *senior conduct rules staff members* should refer to *COCON*, and in particular the *guidance* in *COCON* 3 and *COCON* 4, for further information on the *FCA's* general approach to assessing compliance with the relevant conduct rules.

7.6 Overall risk assessment: firms forming part of a group

Purpose

- 7.6.1 R The purpose of this section is to ensure that:
- (1) a *firm* adequately considers the risks of group membership;
 - (2) a *firm* has adequate financial resources on an individual basis in light of the risk of its group membership; and
 - (3) a *firm's* membership of a group does not impede its ability to wind down individually without causing material harm.

Meaning of 'group'

- 7.6.2 R For the purposes of this section, group includes any entity to which a *firm* is linked by a material level of shared ownership or control.

Analysis of group risks by individual firms

- 7.6.3 R Where a *firm* is a part of a group, the *firm's overall risk assessment* must take into account any risks that may cause material harm and which are a result of

the *firm's* relationship with other members of that group or the group as a whole ('group risks').

- 7.6.4 G The requirement in *CRYPTOPRU* 7.6.3R applies in relation to any relationship that the *firm* has with any member of that group, irrespective of whether the other entity is an *authorised person* or where it is located.

Identifying and monitoring group risks

- 7.6.5 R A *firm* must identify and monitor any group risks that may cause material harm, including:
- (1) direct financial exposures to another group member, such as:
 - (a) trading activity between the *firm* and another group member;
 - (b) intra-group lending arrangements and other group treasury activity; and
 - (c) any guarantees provided by the *firm* for the benefit of another group member;
 - (2) indirect financial exposures to another group member, such as:
 - (a) reliance on another group member for revenue generation;
 - (b) reliance on another group member for services or functions; and
 - (c) expectations that the *firm* will provide financial resources to meet financial liabilities incurred by another group member, even if these expectations are not legally enforceable;
 - (3) risks that may result from other aspects of group membership, such as:
 - (a) shared reputation;
 - (b) shared *clients*; and
 - (c) shared policies or control frameworks.

Mitigating group risks

- 7.6.6 R Where proportionate, a *firm* must reduce any group risks that may cause material harm, including by:
- (1) assuring itself of the non-financial resources (for example, control frameworks and back-office functions) of relevant group members;
 - (2) assuring itself of the financial resources and financial resilience of relevant group members; and

- (3) ensuring sufficiently independent decision making by the *firm*, so that the interests of the other group members are not prioritised by the *firm* over the interests of the *firm* itself and its *clients*.

Holding financial resources in the absence of other mitigants for group risks

- 7.6.7 R If any risk that may cause material harm remains after a *firm* has complied with *CRYPTOPRU* 7.6.5R, the *firm* must assess whether to hold *own funds* or *liquid assets* to mitigate risks that may cause that material harm.
- 7.6.8 G For example, if a *firm* identifies that it relies on functions performed by another group member which is not backed by adequate financial resources, the *firm* may hold *own funds* and *liquid assets* to ensure that, in the event of failure of the relevant group member, it has the resources to procure the relevant functions.

Assessment of risk at group level

- 7.6.9 G Where two or more *CRYPTOPRU firms* are members of the same group, each *firm* should document its *overall risk assessment* on an individual basis in accordance with *CRYPTOPRU* 7.5.1R.

8 Sectoral prudential disclosure requirements for CRYPTOPRU firms

8.1 Application

- 8.1.1 R (1) This chapter applies to a *CRYPTOPRU firm* that meets the condition in (2).
- (2) The condition in (1) is that on the *firm's accounting reference date* its *own funds requirement* (determined in accordance with *COREPRU* 4.1.2R) is equal to the *fixed overheads requirement* or the *K-factor requirement*.
- 8.1.2 G The effect of *CRYPTOPRU* 8.1.1R is that the disclosure requirements in this chapter do not apply to a *CRYPTOPRU firm* where, on the *firm's accounting reference date*, its *own funds requirement* (determined in accordance with *COREPRU* 4.1.2R) is the *permanent minimum capital requirement*.

Application: proportionality

- 8.1.3 R In complying with this chapter, a *firm* must provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organisation, and to the nature, scope and complexity of its activities.

Application: when?

- 8.1.4 R As a minimum, a *firm* must publicly disclose the information specified in this chapter annually:
- (1) on the date it publishes its *annual financial statements*; or

- (2) where it does not publish *annual financial statements*, on the date it submits its confirmation statement to Companies House under the Companies Act 2006.

8.1.5 G The *FCA* considers it would be appropriate for a *firm* to consider making more frequent public disclosure where particular circumstances demand it – for example, in the event of a major change to its business model or where a merger has taken place.

Application: how?

8.1.6 R A *firm* must publish the information required by this chapter in a manner that:

- (1) is easily accessible and free to obtain;
- (2) is clearly presented and easy to understand;
- (3) is consistent with the presentation used for previous disclosure periods or otherwise allows a reader of the information to make comparisons easily; and
- (4) highlights in a summary any significant changes to the information disclosed, when compared with previous disclosure periods.

8.1.7 G In complying with the disclosure requirements in *CRYPTOPRU 8*, a *firm* should consider the best way to make the disclosed information easy to understand – for example, by using:

- (1) tables, charts or diagrams, or cross-references to other information, where relevant; or
- (2) the template available at *CRYPTOPRU 8* Annex 1.

8.1.8 R A *firm* is not required to comply with *CRYPTOPRU 8.1.6R* to the extent that compliance would breach the law of another jurisdiction.

8.1.9 E Making the disclosures required by this chapter available on a website will tend to establish compliance with the *rule* in *CRYPTOPRU 8.1.6R(1)*.

8.1.10 G While the *FCA's* expectation is that a *firm* will use a website for the purpose of complying with *CRYPTOPRU 8.1.6R*, if a *firm* does not maintain a website, or cannot use a website to publish some or all of the information required without breaching the law of another jurisdiction, it must nonetheless ensure that the alternative method of disclosure used complies with the overarching requirement in *CRYPTOPRU 8.1.6R(1)*.

8.2 Risk management

8.2.1 R A *firm* must disclose:

- (1) a concise statement approved by the *firm's governing body* describing any risks associated with the business strategy that may cause material harm; and
- (2) a summary of the strategies and processes used to manage the risks in (1).

8.2.2 G The *FCA* would expect a *firm* to use information from its *overall risk assessment* to provide the disclosures in *CRYPTOPRU* 8.2.1R.

8.3 Own funds

- 8.3.1 R (1) Subject to (2), a *firm* must disclose the following information regarding its *own funds*:
- (a) the composition of its *own funds*, listing each of the following:
 - (i) *common equity tier 1 items, additional tier 1 items, and tier 2 items*;
 - (ii) all regulatory adjustments, filters and deductions applied; and
 - (iii) the resulting total for each tier of capital;
 - (b) a reconciliation showing how each item in (a) corresponds to specific line items in the balance sheet in the *firm's* audited financial statements; and
 - (c) a description of the main features of the *common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments* issued by the *firm*.
- (2) A *firm* that is not required to publish *annual financial statements* is only required to disclose the information specified at (1)(a) and (c).

8.4 Own funds requirements

- 8.4.1 R A *firm* must disclose the following information regarding its compliance with *COREPRU* 4.1 (Own funds requirement) and *CRYPTOPRU* 4 (Sectoral own funds requirement for *CRYPTOPRU* firms):
- (1) the *permanent minimum capital requirement*;
 - (2) the *K-factor requirement* broken down as follows:
 - (a) the sum of:
 - (i) the *K-CTF requirement*;
 - (ii) the *K-CCO requirement*;

- (iii) the *K-CCS requirement*;
 - (iv) the *K-CON requirement*;
 - (v) the *K-RCS requirement*; and
 - (vi) the *K-SII requirement*;
- (b) the *K-CCD requirement* broken down by type of counterparty as set out in *CRYPTOPRU 4.10.12R*;
 - (c) the *K-NCP requirement*; and
- (3) the *fixed overheads requirement*.

8.5 Firms forming part of a group

Purpose

8.5.1 G This section contains:

- (1) a *rule* on the general information a *firm* must disclose where it is a member of a group; and
- (2) *rules* and *guidance* on the detailed financial information a *firm* must provide in relation to its ultimate *parent undertaking* ('A'), the content of which depends on whether the *firm* has *Part 4A permission* to carry on *dealing in qualifying cryptoassets as principal* or not.

Meaning of 'group' and 'A'

8.5.2 R For the purposes of this section:

- (1) group has the meaning in *CRYPTOPRU 7.6.2R*;
- (2) 'A' means the *firm's* ultimate *parent undertaking*, irrespective of whether it is located in the *UK*.

General group disclosures

8.5.3 R Where a *firm* is part of a group, the *firm* must disclose:

- (1) any direct activity financial exposures the *firm* has to other group members, such as:
 - (a) trading between the *firm* and other group members;
 - (b) intra-group lending arrangements and other group treasury activity; and
 - (c) any guarantees provided by the *firm* for the benefit of other group members;

- (2) any indirect financial exposures the *firm* has to other group members, such as:
 - (a) reliance on other group members for revenue generation; and
 - (b) expectations that the *firm* will upstream cash or dividends to meet financial liabilities incurred by other group members, even if these expectations are not legally enforceable; and
- (3) the name, the jurisdiction of incorporation and the principal place of business of A and any intermediate *parent undertakings* between the *firm* and A.

Financial information about the firm's ultimate parent undertaking

8.5.4 R Where a *firm* does not have *Part 4A permission* to carry on the activity of *dealing in qualifying cryptoassets as principal*, the *firm* must disclose the following financial information in relation to A:

- (1) total assets;
- (2) any investment in group undertakings;
- (3) goodwill;
- (4) other intangible assets; and
- (5) equity items (or equivalent capital/members' interests).

8.5.5 R Where a *firm* has *Part 4A permission* to carry on the activity of *dealing in qualifying cryptoassets as principal*, the *firm* must disclose the following financial information in relation to A:

- (1) A's complete statement of financial position (balance sheet), including all line items as reported and the related notes, prepared:
 - (a) where A is required to prepare accounts in the *UK*, in accordance with the *UK* accounting framework applicable to A; or
 - (b) where A prepares accounts under another jurisdiction's accounting framework (but it is not required to prepare accounts in the *UK*), in accordance with that jurisdiction's accounting framework, provided they give a true and fair view of A's financial position; or
 - (c) where A is not required to prepare accounts in any jurisdiction, on a basis consistent with the accounting framework applied by the *firm* or, where this is not practicable, on another reasonable and consistent basis; and

(2) A's encumbered and unencumbered assets.

8.5.6 G Where a *firm* discloses information under *CRYPTOPRU* 8.5.5R, the *FCA* considers it good practice for the *firm*:

- (1) where A falls within *CRYPTOPRU* 8.5.5R(1)(c), to provide management information that presents all assets, liabilities and equity items in a balance sheet format that gives a fair view of A's financial position;
- (2) where A has a different corporate form (for example, it is a limited liability partnership, a partnership or an unincorporated entity), to adapt the financial information to reflect the relevant corporate structure while ensuring that all assets, liabilities and equity/capital accounts are disclosed;
- (3) where local accounting standards differ materially from *UK-adopted international accounting standards*, to provide reconciling items or explanatory notes to aid understanding of material differences; and
- (4) when disclosing encumbered and unencumbered assets under *CRYPTOPRU* 8.5.5R(2), to explain whether assets are pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) that affects the *firm*'s ability to liquidate, sell, transfer, or assign the asset.

Compliance using a firm's website

8.5.7 G Where A is required to publish financial accounts in its country of incorporation that contain all the information required by *CRYPTOPRU* 8.5.4R or *CRYPTOPRU* 8.6.5R, a *firm* can demonstrate compliance with those disclosure requirements by providing a direct link to such accounts on its website.

8 Disclosure template for information required under CRYPTOPRU 8

Annex

1

8 G This annex consists of a template which can be found at the following link:
Annex [Editor's note: insert link].

1

Disclosure template for information required under CRYPTOPRU 8

This template is provided for the disclosure of the information under CRYPTOPRU 8. A firm is not required to use it. However, we are providing this template to make it easier for firms to demonstrate compliance with CRYPTOPRU 8.1.6R. The note below each template heading indicates which firms it applies to.

Template RM1 – Risk management

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.

This template refers to the disclosures on risk management in CRYPTOPRU 8.2.

How to complete this template: Provide free text disclosure under each item below. There is no prescribed format.

Item	Disclosure
(1)	A concise statement approved by the firm's governing body describing any risks associated with the business strategy that may cause material harm.
(2)	A summary of the strategies and processes used to manage the risks identified in item (1).

Template OF1 – Own funds

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.

This template refers to the disclosures on own funds in CRYPTOPRU 8.3.

How to complete this template: This template has 3 sections corresponding to the 3 disclosure requirements in CRYPTOPRU 8.3.1R(1). Firms should complete only the rows that are relevant to their own funds structure and leave other rows blank.

Note for firms completing this template: ‘Annual financial statements’ means audited financial statements where the firm is required to be audited, or formally prepared annual financial statements where the firm is exempt from audit under the Companies Act 2006.

	Item	Amount (GBP thousands)	Source reference in annual financial statements
Section A – Composition of own funds			
Common equity tier 1 (CET1) capital			
1	Fully paid-up capital instruments		
2	Share premium		
3	Retained earnings		
4	Interim or year-end profits		
5	Accumulated other comprehensive income (AOCI)		
6	Other reserves		
LESS – Deductions from CET1 capital			
7	(-) Losses for the current financial year		
8	(-) Intangible assets (including goodwill)		
9	(-) Deferred tax assets that rely on future profitability		
10	(-) Defined benefit pension fund assets		
11	(-) Own CET1 instruments (direct, indirect and synthetic holdings)		

12	(-) Reciprocal cross-holdings in CET1 or comparable instruments		
13	(-) Holdings in CET1 instruments of financial sector entities which are not held in the trading book (direct, indirect and synthetic holdings)		
14	(-) Excess deductions from AT1 capital		
15	(-) Foreseeable tax charges relating to CET1 items		
16	(-) Qualifying holdings outside the financial sector		
17	(-) Excess withdrawals (for partnerships and LLPs only)		
18	(-) Holdings of qualifying cryptoassets issued by, or the supply of which is controlled by, the firm or a connected entity (direct, indirect and synthetic holdings)		
ADJUSTED FOR – Prudential filters			
19	(+/-) Cash flow hedges		
20	(+/-) Additional valuation adjustments (AVA) for the trading book		
20A	(+/-) Other CET1 deductions and adjustments [please specify]		
20B	Total CET1 capital		
Additional tier 1 (AT1) capital			
21	AT1 capital instruments		
22	Share premium accounts related to AT1 instruments		
LESS – Deductions from AT1 capital			
23	(-) Own AT1 instruments (direct, indirect and synthetic holdings)		
24	(-) Reciprocal cross-holdings in AT1 instruments		

25	(-) Holdings in AT1 instruments of financial sector entities which are not held in the trading book (direct, indirect and synthetic holdings)		
26	(-) Excess deductions from tier 2 capital		
27	(-) Foreseeable tax charges relating to AT1 items		
27A	(+/-) Other AT1 deductions and adjustments [please specify]		
27B	Total AT1 capital		
Tier 2 capital			
28	Tier 2 instruments		
29	Share premium accounts related to tier 2 instruments		
LESS – Deductions from tier 2 capital			
30	(-) Own tier 2 instruments (direct, indirect and synthetic holdings)		
31	(-) Reciprocal cross-holdings in tier 2 instruments		
32	(-) Holdings in tier 2 instruments of financial sector entities which are not held in the trading book (direct, indirect and synthetic holdings)		
32A	(+/-) Other tier 2 deductions and adjustments [please specify]		
32B	Total tier 2 capital		
32C	TOTAL OWN FUNDS		

Section B – Reconciliation of regulatory own funds to balance sheet

How to complete this section: Use one row for each line item in your balance sheet. Column (a) shows the balance sheet value from your annual financial statements. Column (b) should show the Section A row number that corresponds to that balance sheet item, where applicable – for example, the Section A row number for ‘retained earnings’ should be entered against the retained earnings line on your balance sheet, and the Section A deduction row number for ‘intangible assets’ should be entered against the goodwill and intangibles line on your balance

sheet. Most asset and liability rows will not have a Section A counterpart and column (b) should be left blank for those rows. Enter amounts in thousands of GBP unless noted otherwise.

		a	b
		Balance sheet as in published financial statements	Cross reference to Section A of template OF1
Assets – Breakdown by asset classes according to the balance sheet in the annual financial statements.			
1			
2			
3			
4			
xxx	Total assets		
Liabilities – Breakdown by liability classes according to the balance sheet in the annual financial statements.			
1			
2			
3			
4			
xxx	Total liabilities		

Shareholders' equity			
1			
2			
3			
xxx	Total shareholders' equity		
<p>Section C – Main features of own funds instruments issued by the firm</p> <p>How to complete this section: Describe the main features of each common equity tier 1 instrument, additional tier 1 instrument and tier 2 instrument issued by the firm. For each instrument, the description must include:</p> <p>(1) the type of instrument (common equity tier 1, additional tier 1 or tier 2);</p> <p>(2) the amount outstanding;</p> <p>(3) the applicable accounting treatment;</p> <p>(4) whether the instrument is permanent (with no maturity date) or has a fixed maturity date; and</p> <p>(5) any other significant features of the instrument (for example, loss absorption mechanisms, ranking in insolvency, and distribution rights).</p> <p>Firms may provide this information in a table or in free text.</p>			

<p>Template OFR1 – Own funds requirements</p> <p>This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.</p> <p>This template refers to the disclosures on own funds requirements in CRYPTOPRU 8.4.</p> <p>How to complete this template: Enter the amounts in thousands of GBP. Enter the K-CCD requirement broken down by each counterparty type as specified in CRYPTOPRU 4.10.12R.</p>		
	Item	Amount (GBP thousands)
1	Permanent minimum requirement (PMR)	

K-factor requirement	
2A	The sum of: <ul style="list-style-type: none"> i. the K-CTF requirement; ii. the K-CCO requirement; iii. the K-CCS requirement; iv. the K-CON requirement; v. the K-RCS requirement; and vi. the K-SII requirement.
2B	The K-CCD requirement broken down by type of counterparty
2C	The K-NCP requirement
2	Total K-factor requirement
3	Fixed overheads requirement (FOR)

Template GG1 – General group disclosures

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.

This template refers to the disclosures on group arrangements required under CRYPTOPRU 8.5. The amounts disclosed in section 1 should be given as at the firm's financial year-end.

1. Direct financial exposures the firm has to other group members:

	Item	Amount (GBP thousands)
a	Trading activity between the firm and other group members (Note for firms: This refers to outstanding trading positions with other group members as at the firm's financial year-end.)	
b	Intra-group lending arrangements and other group treasury activity	
c	Any guarantees provided by the firm for the benefit of other group members	

2. Indirect financial exposures the firm has to other group members

	Item	Description
a	Reliance on other group members for revenue generation	[Free text – provide the details of the firm's reliance on other group members for

		revenue generation, including the activities or arrangements giving rise to that reliance.]
b	Expectations that the firm will upstream cash or dividends to meet financial liabilities incurred by other group members, even if these expectations are not legally enforceable	[Free text – provide the details of any such expectations, including the circumstances in which they arise and whether any formal or informal arrangements underpin them.]
<p>3. Details of the firm’s ultimate parent undertaking (‘A’) and the intermediate parent undertakings between the firm and A</p> <p>Note for firms: CRYPTOPRU 8.5.2R (2) defines ‘A’ as the firm’s ultimate parent undertaking, irrespective of whether it is located in the UK.</p>		
	Item	Description
a	The name of the firm’s ultimate parent undertaking ‘A’	
b	The jurisdiction of incorporation of the firm’s ultimate parent undertaking ‘A’	
c	The principal place of business of the firm’s ultimate parent undertaking ‘A’	
d	The name, jurisdiction of incorporation and principal place of business of any intermediate parent undertakings between the firm and the firm’s ultimate parent undertaking ‘A’. Where there is more than one intermediate parent undertaking, each should be listed separately.	
<p>4. Financial information about the firm’s ultimate parent undertaking ‘A’ (applies to a firm that does not have Part 4A permission to carry on the activity of dealing in qualifying cryptoassets as principal)</p>		
	Item	Amount (GBP thousands)
a	Total assets	
b	Any investment in group undertakings	

c	Goodwill	
d	Other intangible assets	
e	Equity items (or equivalent capital/members' interests)	

Template FI-A – Financial information in relation to A (for a firm with Part 4A permission to carry on dealing in qualifying cryptoassets as principal)

1. A's complete statement of financial position

How to complete this item: Firms must either: (i) append A's complete statement of financial position (balance sheet), including all line items as reported and the related notes, directly to this disclosure; or (ii) where CRYPTOPRU 8.5.7G applies (A is required to publish accounts that contain all the required information), provide a direct link to those published accounts. The statement must be prepared on one of the following bases (indicate which applies):

	<p>a. Where A is required to prepare accounts in the UK, in accordance with the UK accounting framework applicable to A; or</p> <p>b. Where A prepares accounts under another jurisdiction's accounting framework (but it is not required to prepare accounts in the UK), in accordance with that jurisdiction's accounting framework, provided they give a true and fair view of A's financial position; or</p> <p>c. Where A is not required to prepare accounts in any jurisdiction, on a basis consistent with the accounting framework applied by the firm or, where this is not practicable, on another reasonable and consistent basis.</p>	
	Free text to provide the direct link to the published accounts of A where CRYPTOPRU 8.5.7G applies.	

2. A's encumbered and unencumbered assets

	Free text to list A's encumbered and unencumbered assets.
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Sch 1 Record keeping requirements

- Sch 1.1 G (1) There are no record keeping requirements in *CRYPTOPRU*.
- (2) *CRYPTOPRU firms* are reminded of the general record keeping obligations that apply under *SYSC 9* (Record keeping).

Sch 2 Notification requirements

Sch 2.1 G There are no notification requirements in *CRYPTOPRU*.

Sch 3 Fees and other payment requirements

Sch 3.1 G *CRYPTOPRU* does not contain any *rules* that directly impose fees or other payments.

Sch 4 Rights of action for damages

Sch 4.1 G (1) The table below sets out the *rules* in *CRYPTOPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss a result of the contravention.

(2) If ‘Yes’ appears in the column headed ‘For private person?’, the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that *person’s* fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If ‘Yes’ appears in the column headed ‘Removed?’, this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

(3) The column headed ‘For other person?’ indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person’s* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	Rights of action under section 138D of the <i>Act</i>		
	For private person?	Removed?	For other person?
All <i>rules</i> in <i>CRYPTOPRU</i>	No	Yes – <i>CRYPTOPRU</i> 1.2.1R	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G The *rules* in *CRYPTOPRU* may be waived or modified by the *FCA* under section 138A of the *Act* (Modification or waiver of rules) where the conditions in that section are met.

Annex D

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Own funds

3.1A Application, purpose and interpretation

...

Mutual societies

3.1A.8 G ...

Firms also subject to COREPRU

3.1A.9 R Where a *MIFIDPRU investment firm* is also a *COREPRU firm*, it must calculate its *own funds* in accordance with *COREPRU 3* rather than this chapter.

...

4 Own funds requirements

...

4.5 Fixed overheads requirement

...

Firms that have been providing investment services and/or activities for less than one year

4.5.11 R ...

Firms also subject to COREPRU

4.5.12 R Where a *MIFIDPRU investment firm* is also a *COREPRU firm*, it must calculate the *fixed overheads requirement* in accordance with *COREPRU 4.3* rather than this section.

...

4.14 K-TCD requirement

...

Transactions to which K-TCD applies

...

- 4.14.5 R The *K-TCD requirement* does not apply to the following transactions ~~with the following counterparties~~:
- (1) transactions with central governments and central banks, where the underlying exposures would receive a 0% risk weight under article 114 of the *UK CRR*;
 - (2) transactions with multilateral development banks listed in article 117(2) of the *UK CRR*; ~~or~~
 - (3) transactions with international organisations listed in article 118 of the *UK CRR*; ~~or~~
 - (4) transactions for which the firm calculates a *K-CCD requirement* under *CRYPTOPRU 4.10*.

...

Annex E

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4 Capital resources

...

4.2 Capital resources requirements

...

Capital resources requirement: firms carrying on regulated activities including designated investment business

4.2.5 R The capital resources requirement for a *firm* ~~(other than a credit union) carrying on regulated activities, including designated investment business and to which IPRU(INV) does not apply,~~ which is also a MIFIDPRU investment firm is the higher of:

- (1) the requirement which is applied by this chapter according to the activity or activities of the *firm* (treating the relevant *rules* as applying to the *firm* by disregarding its *designated investment business*); and
- (2) the financial resources requirement which is applied by the Prudential sourcebook for MiFID Investment Firms (*MIFIDPRU*).

4.2.5A G ...

4.2.5B G A *firm* that is also a *COREPRU firm* is required to comply with *COREPRU* in addition to *MIPRU* 4.

...

4.4 Calculation of capital resources

The calculation of a firm's capital resources

4.4.1 R (1) ...

- (2) If the *firm* is subject to the Prudential sourcebook for MiFID Investment Firms (*MIFIDPRU*) or the Interim Prudential sourcebook for investment businesses (~~*IPRU(INV)*~~ *IPRU-INV*), the capital resources are the higher of:

...

Annex F

Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU-INV)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 **Application and General Provisions**

...

1.2 **Application**

...

1.2.2 R ...

(2) *IPRU-INV* does not apply to:

...

(c) a *MIFIDPRU investment firm* (unless it is a *collective portfolio management investment firm*); or

(ca) a *COREPRU firm*.

...

...

...