

## Annex 1, Part 1: K-Factor Investment Firm Classification

	K-Factors <sup>1</sup>									'Other' Factors <sup>2</sup>	
	K-AUM	K-COH	K-ASA	K-CMH	K-NPR	K-CMG <sup>3</sup>	K-DTF	K-TCD	K-CON	Balance Sheet	Total Gross Revenues <sup>4</sup>
K-Factor Grouping	RtC <sup>5</sup>				RtM <sup>6</sup>		RtF <sup>7</sup>			N/A	N/A
K-Factor Threshold	EUR 1.2 bn	Cash trades <sup>8</sup> : EUR 100m pd  Derivatives <sup>9</sup> : EUR 1 bn pd	Zero	Zero	Zero	Zero	Zero	Zero	None specified	EUR 100 m	EUR 30 m
Basis of K-factor assessment	Group wide	Group wide	Solo	Solo	Solo	Solo	Solo	Solo	Not specified	Group wide	Group wide

<sup>1</sup> End-of-day values to be used, except for K-CMH where the holding of client money AT ANY TIME will result in the firm exceeding the threshold for Class 2

<sup>2</sup> As per the end of the previous financial year

<sup>3</sup> The inclusion of K-CMG is said to be “subject to a prior decision by the relevant competent authority and a number of conditions” – see Annex to EBA opinion, para 152

<sup>4</sup> Annual operating income linked to the MiFID activities of the firm

<sup>5</sup> “RtC” is the potential risk that individual investment firms can pose to their customers

<sup>6</sup> “RtM” is the potential impact an investment firm can have on the markets in which it operates, should the firm fail or otherwise need to exit that market

<sup>7</sup> “RtF” is any risk to the investment firm itself

<sup>8</sup> Absolute gross settlement (Recommendation 28)

<sup>9</sup> Notional amount (Recommendation 28)

## Annex 1, Part 2: K-Factor Investment Firm Capital Requirements

Capital Requirement Calculation (CRC)											
$CRC = RtC + RtM + RtF$											
$CRC = \{(C_{K-AUM} \times K-AUM) + (C_{K-CMH} \times K-CMH) + (C_{K-ASA} \times K-ASA) + (C_{K-COH} \times K-COH)\} + \{Max (K-NPR, K-CMG^{10})\} + \{(C_{K-DTF} \times K-DTF) + (C_{K-TCD} \times K-TCD) + (C_{K-CON} \times K-CON)\}$											
K-Factors										‘Other’ Factors	
	K-AUM	K-COH	K-ASA	K-CMH	K-NPR	K-CMG	K-DTF	K-TCD	K-CON	Balance Sheet	Total Gross Revenues
K-factor coefficient (C <sub>k</sub> ) <sup>11</sup>	0.02%	Cash: 0.1% Derivs: 0.01%	0.04%	0.45%	None specified	Not specified	Cash: 0.01% Derivs: 0.01%	None specified <sup>12</sup>	None specified	Not applicable	Not applicable
Deferral Period <sup>13</sup>	3m	3m	3m	No lag	No lag	Not specified	3m	No lag	No lag	Not applicable	Not applicable
Averaging	12m Average	3m Average	3m Average	3m Average	No Averaging	Not specified	3m Average	No Averaging	No Averaging	Not applicable	Not applicable
Observation Point	Last day of month	Daily trading flow	End of day	End of day	End of day	Not specified	Daily trading flow	End of day	End of day	Not applicable	Not applicable
No of Observations	12	No working days in relevant	No working days in relevant	No working days in relevant	N/A	Not specified	No working days in relevant	N/A	N/A	Not applicable	Not applicable

<sup>10</sup> The inclusion of K-CMG is said to be “subject to a prior decision by the relevant competent authority and a number of conditions” – seen Annex to EBA opinion, para 152

<sup>11</sup> Recommendation 34

<sup>12</sup> The capital requirement is calculated as Exposure\* CRR risk factor

<sup>13</sup> “Deferral” refers to the timelag between the date of the calculation of capital requirements and the date on which the capital requirements take effect

		month	month	month			month				
--	--	-------	-------	-------	--	--	-------	--	--	--	--

- K-AUM: assets under management (both discretionary and non-discretionary);
- K-COH: client orders handled (calculated by adding the absolute amount of buys and sell and including both (a) reception and transmission, and (b) execution)<sup>14</sup>
- K-ASA: assets safeguarded and administered (including assets under safekeeping and administration even if these have been formally delegated to another firm, as well as assets under safekeeping and administration that have been formally delegated to the firm)
- K-CMH: client money held (this would not include securities belonging to clients, which would be dealt with under K-ASA)
- K-NPR: net position risk, calculated at the end of each day
- K-CMG: clearing member guarantee – the highest total intra-day margin posted by the firm with a clearing member in the previous 3 months
- K-DTF: daily trading flow (total value of transactions where the firm is trading in its own name calculated by adding the absolute amount of both buys and sell)
- K-TCD: trading counterparty default (i.e. counterparty credit risk) in relation to OTC derivatives, long settlement transactions and securities financing transactions
- K-CON: single name concentration risk for firms which trade in their own name

## Annex 2: Comparison of Proposed EBA Prudential Framework for Investment Firms

	Class 1 Firms	Class 2 Firms	Class 3 Firms
CRD/CRR applicable?	Yes	No	No
K-factors applicable?	No	Yes	Yes
K-factor upward reclassification	N/A	Not specified	Immediate/3-months <sup>15</sup>
K-factor downward reclassification	Not specified	After six months <sup>16</sup>	N/A
Minimum Capital Requirements	As per CRD/CRR	Max (PMC, FOR, K-FAC) <sup>17</sup>	Max (PMC, FOR) <sup>18</sup>
Capital structure composition	As per CRD/CRR	CET 1=> 56%	CET 1=> 56%

<sup>14</sup> The operations of an MTF/OTF will not be counted as K-COH by the MTF/OTF operator  
<sup>15</sup> 3-month period only applies where the K-factor thresholds for K-AUM or K-COH are exceeded  
<sup>16</sup> Recommendation 7  
<sup>17</sup> Recommendation 24  
<sup>18</sup> Recommendation 25

		Additional Tier 1 <= 44% Tier 2 <= 25%	Additional Tier 1 <= 44% Tier 2 <= 25%
PMC Requirement <sup>19</sup>	EUR 5 million	PMC = IC	PMC = IC
Transitional period to PMC compliance <sup>20</sup>	None	None	5 years
FOR Requirement	Min 25% previous year's fixed overheads	Min 25% previous year's fixed overheads	Min 25% previous year's fixed overheads
FOR requirement transitional period <sup>21</sup>	None	None	5 years
Liquidity coverage requirements (LCR) applicable? <sup>22</sup>	Yes, Subject to Commission Delegated Regulation (EU) 2015/61 <sup>23</sup>	Yes, must have internal rules and procedures to monitor, measure and manage exposures and liquidity <sup>24</sup>	Yes, must have internal rules and procedures to monitor, measure and manage exposures and liquidity <sup>25</sup>
Basis of LCR measurement <sup>26</sup>	Solo, unless centralised liquidity management function exists	Solo, unless centralised liquidity management function exists	Solo, unless centralised liquidity management function exists
LCR requirements	As per CRD	One-third of FOR <sup>27</sup>	One-third of FOR <sup>28</sup>
LCR Eligible Assets	(a) "High quality liquid assets" of Level 1, 2A and 2B <sup>29</sup> , and (b) unencumbered cash	(a) "High quality liquid assets" of Level 1, 2A and 2B, and (b) unencumbered cash	(a) "High quality liquid assets" of Level 1, 2A and 2B, (b) unencumbered cash, and (c) trade debtors and fees/commissions receivable within 30 days (up to a limit of one-third of LCR requirements) <sup>30</sup>
LCR Eligible Asset Haircuts	TBD, except that cash benefits from a zero haircut	TBD, except that cash benefits from a zero haircut	TBD, except that cash benefits from a zero haircut

<sup>19</sup> Minimum capital buffer required on an on-going basis which cannot be replaced by professional indemnity insurance – see Recommendation 21

<sup>20</sup> Recommendation 22

<sup>21</sup> Recommendation 22

<sup>22</sup> Recommendation 37

<sup>23</sup> Recommendation 37

<sup>24</sup> Recommendation 38

<sup>25</sup> Recommendation 38

<sup>26</sup> Recommendation 11

<sup>27</sup> Recommendation 39

<sup>28</sup> Recommendation 39

<sup>29</sup> See Commission Delegated Regulation 2015/61

<sup>30</sup> Recommendation 43

			trade debtors and fees/commissions receivable within 30 days will be subject to a 50% haircut
Concentration limits applicable?	Firms required to identify, manage and monitor concentration risk	Firms required to identify, manage and monitor concentration risk	Firms required to identify, manage and monitor concentration risk
Basis of concentration limits measurement <sup>31</sup>	Solo basis	Solo basis	Solo basis
Concentration Risk Restrictions <sup>32</sup>	As per CRD/CRR	When firm trading on own account or executing client orders in its own name, 25% exposure limits apply, unless exposure is to a credit institution/investment firm (where exposure limit is Min [100%, Max (EUR 150m, 25%)])	N/A
Concentration Risk Reporting <sup>33</sup>	As per CRD/CRR	Regulatory reporting on counterparty credit risk, institutions where client assets and firm's own cash deposited and source of earnings	No reporting requirements
Regulatory reporting <sup>34</sup>	Subject to same reporting as credit institutions under CRD/CRR	Subject to simplified reporting framework: capital, capital requirements and k-factors to be reported.  More granular reporting envisaged as compared to Class 3 firms, including capital composition, capital calculations, liquidity requirements and concentration risk	Subject to simplified reporting framework – capital, capital requirements and k-factors to be reported.
Public disclosure requirements <sup>35</sup>	As per CRD/CRR	Limited to level of capital and capital requirements	None
Remuneration <sup>36</sup>	Subject to remuneration framework set out in	Should be subject to provisions similar to Articles	Only subject to remuneration provisions of MiFID

<sup>31</sup> Recommendation 11

<sup>32</sup> Recommendation 48

<sup>33</sup> Recommendation 46 and 47

<sup>34</sup> Recommendation 51

<sup>35</sup> Recommendation 53

<sup>36</sup> Recommendation 59

	CRD	92 to 94 of CRD WRT material risk takers  Disclosure of data WRT high earners is recommended.	
--	-----	---	--

### Annex 3: Initial Capital Requirements (IC)<sup>37</sup>

Investment Services and Activities undertaken <sup>38</sup>	Capital Requirement (EUR)	
	Holding client money or assets	Not holding client money or assets
Reception and transmission of orders in relation to one or more financial instruments;	150,000	75,000
Execution of orders on behalf of clients	150,000	75,000
Dealing on own account	750,000	750,000
Portfolio management	150,000	75,000
Investment advice	150,000	75,000
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	750,000	750,000
Placing of financial instruments without a firm commitment basis	150,000	75,000

<sup>37</sup> Capital required in the authorisation phase – see Recommendation 20

<sup>38</sup> Taken from Section A of Annex I to MiFID II (Directive 2014/65/EU)

