



Prudential – Investment, Insurance Intermediation and Banking Rules (PRU)

*In this attachment underlining indicates new text and striking through indicates deleted text.

1 APPLICATION, INTERPRETATION AND CATEGORISATION

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1.3 Categories of Authorised Persons

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Category 4

1.3.6 An Authorised Person is in Category 4 if:

- (a) its Financial Services Permission authorises it to carry on one or more of the Regulated Activities of Arranging Credit, Arranging Deals in Investments, Advising on Investments or Credit, Arranging Custody, Insurance Intermediation, Providing Trust Services (where it is not acting as trustee in respect of an express trust), Insurance Management, Acting as the Administrator of a Collective Investment Fund, ~~or~~ Operating a Multilateral Trading Facility or Organised Trading Facility, ~~or~~ Operating a Private Financing Platform or Providing Third Party Services; and
- (b) it does not meet the criteria of Categories 1, 2, 3A, 3B, 3C or 5.

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CAPITAL AND LEVERAGE

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3.3 Base Capital Requirement

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3.3.2 The table below sets out the Base Capital Requirement for each Category of Authorised Persons.

Category	Base Capital Requirement (US \$)
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4	10,000, except where an Authorised Person has a Financial Services Permission: <u>a) to carry out the Regulated Activity of Operating a Private Financing Platform and holds Client Assets, in which case the Base Capital Requirement is 150,000; or</u> <u>b) to carry out the Regulated Activity of Providing Third Party Services, in which case the Base Capital Requirement will be 50,000.</u>

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3.7 Expenditure Based Capital Minimum

3.7.1 An Authorised Person, other than one that has a Financial Services Permission to carry out the Regulated Activity of Providing Third Party Services, must calculate its Expenditure Based Capital Minimum as:

- (a) in the case of an Authorised Person which holds Client Assets or Relevant Money or Insurance Money, 18/52nds;
- (b) in the case of an Authorised Person in Category 3B or 3C which does not hold Client Assets or Relevant Money or Insurance Money, 13/52nds; or
- (c) in the case of an Authorised Person in Category 4, which does not hold Insurance Money, 6/52nds;

of the Annual Audited Expenditure, calculated in accordance with Rule 3.7.2.

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6 OPERATIONAL RISK

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6.12 Professional indemnity insurance

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6.12.2 An Authorised Person must:

- (a) subject to Rule 6.12A, take out and maintain professional indemnity insurance cover appropriate to the nature, size, complexity and risk profile of the Authorised Person's business;
- (b) at least annually, provide the Regulator with a copy of the professional indemnity insurance cover in (a) covering the following 12 month period and be able to demonstrate its adequacy in relation to the nature, size, complexity and risk profile of the Authorised Person's business; and
- (c) notify the Regulator of any material changes to the cover in (a), including the level of cover, its renewal or termination.

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6.12A Professional indemnity insurance for Third Party Providers

Minimum Coverage for Third Party Providers

6.12A.1 A Third Party Provider must maintain at all times a minimum professional indemnity insurance coverage of US\$150,000.

Transaction Limits

6.12A.2 A Third Party Provider must ensure that its remaining professional indemnity insurance coverage is always greater than thirty times the average daily value of all Third Party Transactions in the past ninety calendar days.

6.12A.3 The value of a Third Party Transaction must be calculated as:

(a) where the Third Party Transaction leads to a Payment Transaction, the value of the Payment Transaction; or

(b) US\$0.10.

6.12A.4 A Third Party Provider must calculate the value of its remaining professional indemnity insurance coverage by subtracting the value of any unsettled claims made against its professional indemnity insurance from the total value of its professional indemnity insurance coverage.

Guidance

1. A Third Party Provider's risk profile is that of a financial services firm and not of a software development firm, notwithstanding that software is a key component of a Third Party Provider's business model.
2. Rule 6.12A.2 requires a Third Party Provider to maintain sufficient professional indemnity insurance coverage to reimburse Customers should operational risk events occur.
3. A Third Party Provider is expected to manage the size and volume of its Third Party Transactions within its remaining professional indemnity insurance cover. Such management could take place through imposing limits on the number or value of transactions.
4. A Third Party Provider should review the adequacy of its professional indemnity insurance cover periodically to determine whether, based on its projected number or value of transactions, it should increase the value of its professional indemnity insurance coverage.

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A3.2 Capital Requirements

Guidance

1. This table summarises the Capital Requirement that an Authorised Person is subject to and an Authorised Person must hold sufficient Capital Resources at all times to meet the Capital Requirement.

Capital Requirement (USD)				
Category	-----maximum of-----			
	Base Capital Requirement ²	Expenditure Based Capital Minimum ³		Risk Capital Requirement ⁵
		Holding Client Assets or Relevant Money ⁴ or Insurance Money?		
		No	Yes	
1	10mn			Credit, Market, Operational and CVA (plus, where appropriate, Displaced Commercial)
2	2mn			Credit, Market, Operational and CVA
3A	500k			See guidance note 8 for Money Remitters and Payment Service Providers
3B ⁶	4mn			
3C ⁶	250k	13/52nds of Annual Expenditure	18/52nds of Annual Expenditure	
	except where an Authorised Person has a Financial Services Permission only to carry out the Regulated Activity of Managing a Collective Investment Fund, in which case the Base Capital Requirement is the higher of: a) 150,000 if the Authorised Person manages a Public Fund or any other type of fund that is available to retail customers; or b) 50,000 otherwise.			
4 ^{6,7}	10k			

	<u>except where an Authorised Person has a Financial Services Permission:</u> a) <u>to carry out the Regulated Activity of Operating a Private Financing Platform and holds Client Assets, in which case the Base Capital Requirement is 150,000; or</u> b) <u>to carry out the Regulated Activity of Providing Third Party Services, in which case the Base Capital Requirement will be 50,000.</u>	6/52nds of Annual Expenditure		
5	10mn			Credit, Market, Operational, CVA and Displaced Commercial

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