

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

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

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3 CAPITAL AND LEVERAGE

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3.6 Capital Requirements for Categories 3B, 3C and 4

3.6.1 This Section applies to an Authorised Person in Category 3B, 3C or 4.

3.6.2 Subject to Section 3.6A, the Capital Requirement for such an Authorised Person is calculated as the higher of:

- (a) the applicable Base Capital Requirement as set out in Section 3.3; or
- (b) the Expenditure Based Capital Minimum as set out in Section 3.7.

Guidance

1. Section 3.6A specifies the Capital Requirements for Authorised Persons undertaking the Regulated Activity of Providing Money Services.
2. The Expenditure Based Capital Minimum is a component of the calculation of the Capital Requirement under Section 3.6 and is relevant in determining whether the Regulator has to be notified under Rule 3.20.2.

3.6A Capital Requirement for Providing Money Services

3.6A.1 Subject to Rule 3.6A.7, an Authorised Person with a Financial Services Permission enabling it to carry on the Regulated Activity of Providing Money Services must calculate the Capital Requirement for each activity it undertakes as the highest of:

- (a) the applicable Base Capital Requirement as set out in Section 3.3; and
- (b) (i) where it undertakes currency exchange the Expenditure Based Capital Minimum as set out in Section 3.7;
 - (ii) for a Money Remitter:
 - (A) the Expenditure Based Capital Minimum as set out in Section 3.7;
and
 - (B) the Variable Capital Requirement calculated in accordance with Rule 3.6A.2;
 - (iii) for a Payment Account Provider the Variable Capital Requirement calculated in accordance with Rule 3.6A.4; or
 - (iv) for a Stored Value Provider the Variable Capital Requirement calculated in accordance with Rule 3.6A.6.

Guidance

Where an Authorised Person undertakes two or more of the activities under the Regulated Activity of Providing Money Services at the same time, Rule 3.6A.6 specifies how the overall Capital Requirement for those activities should be calculated.

Money Remitters

3.6A.2 A Money Remitter must calculate its Variable Capital Requirement as the sum of the following:

- (a) 1.25% of the first \$10 million of monthly payment volume;
- (b) 0.5% of the next \$90 million of monthly payment volume;
- (c) 0.25% of the next \$150 million of monthly payment volume; and
- (d) 0.125% of any remaining monthly payment volume.

3.6A.3 (1) Subject to (2), monthly payment volume for a Money Remitter must be calculated as the total value of funds remitted by the Authorised Person in its preceding financial year divided by twelve.

(2) Where the Authorised Person has not completed a full financial year following its authorisation, the monthly payment volume must be calculated using the value of realised funds remitted since its authorisation and the projections contained in its business plan for the remainder of the financial year, subject to any adjustments required by the Regulator.

Payment Account Providers

3.6A.4 A Payment Account Provider must calculate its Variable Capital Requirement as the sum of the following:

- (a) 2.5% of the first \$10 million of monthly payment volume;
- (b) 1% of the next \$90 million of monthly payment volume;
- (c) 0.5% of the next \$150 million of monthly payment volume; and
- (d) 0.25% of any remaining monthly payment volume.

3.6A.5 (1) Subject to (2), monthly payment volume for a Payment Account Provider must be calculated as the total value of Payment Transactions executed by the Authorised Person in its preceding financial year divided by twelve.

(2) Where the Authorised Person has not completed a full financial year following its authorisation, the monthly payment volume must be calculated using the value of realised Payment Transactions since its authorisation and the projections contained in its business plan for the remainder of the financial year, subject to any adjustments required by the Regulator.

Guidance

1. Under Rules 3.6A.3(2) and 3.6A.5 (2), the projections for the remainder of the year should be informed by the value of realised funds remitted or Payment Transactions following the authorisation of the Authorised Person.
2. The monthly payment volume should be split into tranches, with the first \$10mn being assigned to the first tranche, the next \$90mn to the second tranche and so on.
3. The portion of the Variable Capital Requirement for each tranche is then calculated by multiplying the monthly payment volume in each tranche by the percentage factor associated with that tranche and then summing those portions to derive the overall Variable Capital Requirement.
4. Examples of the calculation of the Variable Capital Requirement follow for an Authorised Person acting as solely a Money Remitter or a Payment Account Provider, in both cases with a monthly payment volume of \$120mn.

Tranche	Monthly payment volume (\$mn)	Activity	
		Money Remitter	Payment Account Provider
0 < ... ≤ 10	10	1.25% * 10 = 0.125	2.5% * 10 = 0.250
10 < ... ≤ 100	90	0.5% * 90 = 0.450	1% * 90 = 0.900
100 < ... ≤ 250	20	0.25% * 20 = 0.050	0.5% * 20 = 0.100
... > 250	-	-	-
Total	120		
Variable Capital Requirement (\$mn)		0.625	1.250

Stored Value Providers

- 3.6A.6** (1) Subject to (2), a Stored Value Provider must calculate its Variable Capital Requirement as 2.5% of the average daily outstanding Stored Value, calculated on the first Business Day of each calendar month and using the outstanding Stored Value at the end of each calendar day over the preceding six calendar months.
- (2) Where the Authorised Person has not completed six months of operations following its authorisation, the average daily outstanding Stored Value must be calculated using the daily outstanding Stored Value since its authorisation and the projections contained in its business plan for the remainder of the six-month period, subject to any adjustments required by the Regulator.

Guidance

Under (2), the projections for the remainder of the six-month period should be informed by the value of realised daily outstanding Stored Values following the authorisation of the Authorised Person.

Multiple activities under Providing Money Services

- 3.6A.7** (1) Subject to (2), an Authorised Person undertaking more than one of the activities of being a Money Remitter, a Payment Account Provider and a Stored Value Issuer must calculate its Total Variable Capital Requirement by summing the Variable Capital Requirements calculated under Rules 3.6A.2, 3.6A.4 and 3.6A.6 as appropriate.
- (2) An Authorised Person acting as both a Money Remitter and a Payment Account Provider must calculate its overall Variable Capital Requirement for the related activities by adding together the monthly payment volumes for those activities and undertaking the calculation in Rule 3.6A.4.

Guidance

An example of the calculation of the Variable Capital Requirement follows for an Authorised Person acting at the same time as a Money Remitter and a Payment Account Provider, with monthly payment volumes of \$90mn and \$120mn respectively for these activities, i.e. a total monthly payment volume of \$210mn.

Tranche	Monthly payment volume (\$mn)	Money Remitter and Payment Account Provider
0 < ... ≤ 10	10	2.5% * 10 = 0.250
10 < ... ≤ 100	90	1% * 90 = 0.900
100 < ... ≤ 250	110	0.5% * 110 = 0.550
... > 250	-	-
Total	210	
Variable Capital Requirement (\$mn)		1.700

- 3.6A.8** An Authorised Person undertaking more than one of the activities under Providing Money Services must calculate its Capital Requirement as the highest of, where applicable;
- (i) the Base Capital Requirement as set out in Section 3.3;
 - (ii) the Expenditure Based Capital Minimum calculated in accordance with Rule 3.7.1; and
 - (iii) the Total Variable Capital Requirement.

Guidance

The Total Variable Capital Requirement for an Authorised Person is the aggregate of the Variable Capital Requirements calculated in accordance with Rules 3.6A.2, 3.6A.4, 3.6A.6 and 3.6A.7 as appropriate.

Expenditure Based Capital Minimum

3.7.1 An Authorised Person 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.

Guidance

1. An Authorised Person is considered to be holding Relevant Money and subject to (a) where it offers Payment Services alongside currency exchange or Money Remittance.
2. An Authorised Person undertaking only one or both of currency exchange and Money Remittance to its customers, but not Payment Services, is considered not to hold Client Assets, in the form of Client Money, or Relevant Money and (b) applies.

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3.21 The Leverage Ratio

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3.21.4 An Authorised Person must notify the Regulator immediately in writing if, at any time, it does not hold, or is likely not to hold, an amount and quality of capital that is necessary to comply with Rule 3.1921.3.

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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 ~~should~~ 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 ^{5,3}
		Holding Client Assets <u>or</u> Relevant Money ⁴ <u>or</u> 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			
3B ^{6,4}	4mn	13/52nds	18/52nds	See guidance note 8 for Money Remitters and Payment Service Providers
3C ^{6,4}	250k or, where the Financial Services Permission permits only the Regulated Activity of Managing a Collective Investment Fund: (i) 150k for a Public Fund or one available to retail customers or (ii) 50k otherwise 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 ^{6,4, 7,5}	10k	6/52nds		
5	10mn			Credit, Market, Operational, CVA and Displaced Commercial

2. An Authorised Person, whichever Category it is a member of, must hold a minimum amount of CET1 Capital at the time that it obtains authorisation and at all times thereafter, in accordance with Rule 3.3.3, corresponding to the Base Capital Requirement.
3. The Expenditure Based Capital Minimum is calculated as the specified proportion of the Annual Audited Expenditure (AAE), calculated in accordance with Rule 3.7.2.
4. An Authorised Person in Category 3C undertaking the Regulated Activity of Providing Money Services that offers only one of or both currency exchange and Money Remittance to their customers, but not Payment Services, is considered not to hold Client Assets, in the form of Client Money, or Relevant Money.
- ~~35.~~ Where the Risk Capital Requirement is the binding capital requirement for an Authorised Person in Category 1, 2 or 5 it must also hold a Capital Conservation Buffer of CET1 Capital of 2.5% of the Total Risk Exposure Amount and, where applicable, a Countercyclical Capital Buffer of CET1 Capital, to be determined in accordance with Section 3.18.
- ~~46.~~ An Authorised Person in Category 3B, 3C or 4 must notify the Regulator immediately if its Capital Resources fall below 120% of its Capital Requirement, in accordance with Rule 3.20.2.
- ~~57.~~ An Authorised Person in Category 4 is only permitted to hold Insurance Monies.

8. An Authorised Person in Category 3C undertaking the Regulated Activity of Providing Money Services must calculate its Capital Requirement in accordance with the table below; where applicable, a Variable Capital Requirement must be calculated for activities undertaken as (a) a Money Remitter, (b) a Payment Account Provider and (c) a Stored Value Issuer and combined in accordance with Rule 3.6A.7 to determine the Total Variable Capital Requirement.

Activity	Capital Requirement (USD)		
	-----maximum of----->		
	BCR	EBCM (of AAE) ⁹	VCR
Currency Exchange		<u>13/52nds</u>	n/a
Money Remitter	250k	<u>13/52nds</u>	<u>Sole activity</u> <u>Sum of the following elements, based on monthly payment volume:</u> (i) <u>1.25% of the first 10 million;</u> (ii) <u>0.5% of the next 90 million;</u> (iii) <u>0.25% of the next 150 million; and</u> (iv) <u>0.125% of remaining monthly payment volume</u>
			<u>Both activities</u> <u>Sum of the following elements, based on combined monthly payment volume across both activities:</u> (i) <u>2.5% of the first 10 million;</u> (ii) <u>1.0% of the next 90 million;</u> (iii) <u>0.5% of the next 150 million; and</u> (iv) <u>0.25% of remaining monthly payment volume</u>
Payment Account Provider		n/a	<u>Sum of the following elements, based on monthly payment volume:</u> (i) <u>2.5% of the first 10 million;</u> (ii) <u>1.0% of the next 90 million;</u> (iii) <u>0.5% of the next 150 million; and</u> (iv) <u>0.25% of remaining monthly payment volume</u>
Stored Value Provider		n/a	<u>2.5% of average outstanding Stored Value</u>

9. Where an Authorised Person offers both (i) currency exchange or Money Remittance and (ii) Payment Services to its customers it must calculate the Expenditure Based Capital Minimum as 18/52nds of AAE.

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