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Chapter 10 Summary: Prudential Rules for Debt Management Firms

# Overview

This chapter establishes prudential requirements for debt management firms and certain not-for-profit debt advice bodies to ensure they maintain adequate financial resources. The rules build on FCA threshold conditions and Principle 4, requiring firms to meet ongoing solvency requirements and maintain sufficient prudential resources to protect customers and ensure business resilience.

# Key Points and Main Findings

## Application and Scope

* Applies to: Debt management firms and not-for-profit debt advice bodies holding (or projecting to hold) £1 million+ in client money
* Exemption: Professional firms whose main business is their profession (≥50% income from professional fees) and whose regulated activities are incidental

## Core Requirements

* General solvency requirement: Firms must meet liabilities as they fall due at all times
* Prudential resources requirement: Firms must maintain prudential resources ≥ their calculated requirement
* Minimum threshold: Higher of £5,000 or calculated percentage of debts under management

## Calculation Methodology

* Tiered percentage structure:  
    
  0.25% of first £5 million of debts under management  
  0.15% of next £95 million  
  0.05% of remaining value
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* 0.15% of next £95 million
* 0.05% of remaining value
* Annual calculation: Required on accounting reference date each year
* Recalculation trigger: Required if debts under management increase by >15%
* 0.25% of first £5 million of debts under management
* 0.15% of next £95 million
* 0.05% of remaining value

## Eligible Prudential Resources

* Included items:  
    
  Share capital (fully paid)  
  Capital accounts (sole traders/partnerships)  
  Audited reserves and verified interim profits  
  Revaluation reserves  
  Qualifying subordinated loans/debt
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  Investments in own shares/subsidiaries  
  Intangible assets  
  Interim net losses  
  Excess drawings over profits
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* Audited reserves and verified interim profits
* Revaluation reserves
* Qualifying subordinated loans/debt
* Investments in own shares/subsidiaries
* Intangible assets
* Interim net losses
* Excess drawings over profits

# Important Details and Conclusions

## Subordinated Loans Requirements

* Must have minimum 5-year maturity or notice period
* Claims rank behind unsubordinated creditors
* Limited default events and remedies
* Must be unsecured, fully paid, and governed by UK law
* Amount limited to not exceed share capital + reserves - intangible assets

## Regulatory Implications

* Contraventions do not give rise to private rights of action under section 138D of the Act
* Firms must notify FCA within 14 days of any change in prudential resources requirement
* Standards aim to ensure firms can cover operational failures, pay redress, and maintain customer confidence
* Provides cushion against disruption if firm ceases trading

## Practical Application

* Firms carrying multiple regulated activities must meet the highest applicable requirement
* Accounting principles must align with annual financial statement preparation
* Transitional provisions applied until March 31, 2017 for certain requirements