Notification template for Article 130 CRD

Template for notifying the EBA on the intended exemption of small and medium-sized investment firms from the requirement to maintain an institution-specific countercyclical capital buffer

<table>
<tr><th colspan="2">1. Notifying national authority (If several designated authorities, please mention all of them)</th></tr>
<tr><td>1.1 Name of the notifying authority</td><td>Financial Conduct Authority (UK)</td></tr>
<tr><th colspan="2">2. Definition and Motivation for the exemption of small and medium-sized investment firms</th></tr>
<tr><td>2.1. Definition</td><td>- Clearly define which small and medium-sized investment firms are exempted from maintaining a capital conservation buffer

The capital conservation buffer only applies to investment firms which are subject to an initial capital requirements of EUR 730,000 through article 28(2) of Directive 2013/36/EU (the CRD).

The Financial Conduct Authority has exempted investment firms who meet the criteria in of a small and medium-sized in accordance with the European Commission Recommendation 2003/361/EC from maintaining a countercyclical capital buffer, in accordance with article 130(2) of the CRD.

To qualify, a firm must therefore meet the following conditions:
<table>
<tr><th>Employees</th><th>Turnover</th><th>or</th><th>Balance sheet total</th></tr>
<tr><td>< 250</td><td colspan="2">≤ € 50 m</td><td>≤ € 43 m</td></tr>
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<tr><td>2.2. Motivation</td><td>- Why do you believe that small and medium-sized investment firms should be exempted from maintaining an institution-specific countercyclical capital buffer?
- Does this exemption threaten the stability of the financial system of the Member State? Why not?

There are approximately 240 investment firms with an initial capital requirement of EUR 730,000 in the UK. Approximately 230 of these are prudentially regulated by the Financial Conduct Authority, with the remaining prudentially regulated by the Prudential Regulation Authority. Broadly, firms with a CRD initial capital requirement of EUR 730k and a balance sheet above GBP 15bn are regulated by the Prudential Regulation Authority in the UK, because they are deemed to be the investment firms within the UK who pose potential risks to financial stability.[1]

Using balance sheet size as a proxy for market share, the UK market is highly concentrated. To illustrate, the largest investment firm in the UK has a balance sheet in the region of GBP 500bn, and the tenth largest has a balance sheet less than GBP 15bn. The twentieth is around GBP</td></tr>
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[1] The Prudential Regulation Authority's current investment firm designation policy can be seen here: http://www.bankofengland.co.uk/publications/Documents/other/pra/designationofinvestmentfirms.pdf

	2bn. We therefore find it highly unlikely that an investment firm with a balance sheet less than EUR 43m or turnover less than EUR 50m could raise a risk to financial stability in the UK national market. We view Pillar 2 as an appropriate regime to cover the risks posed by such firms, and do not believe that an additional capital buffer requirement is necessary. Should such an investment firm breach its own funds/additional own funds requirements, we expect that such a smaller firm could exit/fail with negligible risk to the integrity of the wider market. It does not therefore follow that additional capital requirements to address counter cyclicality are necessary for these firms, in the context of mitigating risks to financial stability. We also note that these firms will be subject to Directive 2014/59/EU (Bank Recovery and Resolution Directive), and so their risks to the wider market will be further mitigated through the rules in that Directive.
3. Miscellaneous	
3.1. Contact person(s) at notifying authority	James Roberts; +4420 7066 9746; james.roberts@fca.org.uk
3.2. Any other relevant information	None.