



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

2014

# Minimum Capital Requirement Report – Guidance Note for AIFMs and UCITS Management Companies



**MINIMUM CAPITAL REQUIREMENT REPORT**  
**NOTES ON COMPILATION**  
**(FIRMS HOLDING UCITS MANAGEMENT COMPANY AUTHORISATION AND/OR AIFM**  
**AUTHORISATION)**

The Minimum Capital Requirement Report must be submitted to the Central Bank by a Firm (‘the management company’) holding an authorisation as an Alternative Investment Fund Manager (AIFM) and/or as a UCITS Management Company. This report should be submitted along with the half yearly and annual audited accounts at the reporting intervals specified in paragraph 20 of Notice UCITS 2 and Chapter 3 of the AIF Rulebook. The Minimum Capital Requirement Report must be signed by a director or a senior manager of the management company.

**SECTION 1 – INITIAL CAPITAL PLUS ADDITIONAL AMOUNT**

- 1.1** The **Initial Capital Requirement** is €125,000 (Row 1.3).
- 1.2** When the net asset value of the Collective Investment Schemes (CIS)<sup>1</sup> under management exceeds €250,000,000, a management company must provide an additional amount of capital<sup>2</sup> equal to 0.02% of the amount by which the net asset value exceeds €250,000,000 (Row 1.6) (“**Additional Amount**”).
- 1.3** A management company need not provide up to 50% of the Additional Amount if:  
 (i) it benefits from a guarantee of the same amount given by a credit institution or insurance undertaking; and  
 (ii) the form of guarantee is approved by the Central Bank.  
 The portion of the of the Additional Amount (50% or higher) not covered by the guarantee should be inserted into Row 1.6 of the return so that the management company’s Capital Requirement, as stated on Row 1.7, is equal to the sum of 50% of the Additional Amount and the Initial Capital Requirement of €125,000.
- 1.4** The total of the Initial Capital Requirement and the Additional Amount required to be held by a management company is not required to exceed €10,000,000 (Row 1.7).

**SECTION 2 – EXPENDITURE REQUIREMENT**

- 2.1** The **Expenditure Requirement** (Row 2.4) is calculated as one quarter of a management company’s total expenditure taken from the most recent annual

<sup>1</sup> CIS include UCITS, and Alternative Investment Funds (AIFs) for which the UCITS manager/AIFM is the designated management company.

<sup>2</sup> See paragraph 6 below as to what assets can be taken into account in meeting this requirement.

accounts.<sup>3</sup> However, the Central Bank reserves the right to increase this amount should it be deemed not to reasonably reflect the current position of the management company.

- 2.2** Total expenditure includes all expenditure incurred by a management company. The following may be deducted from the expenditure figure:
- (a) Profit shares, bonuses etc.;
  - (b) Net losses arising in the translation of foreign currency balances;
  - (c) Shared commissions and fees payable which are directly related to commission;
  - (d) Fees, brokerages and other charges which are paid to clearing houses, exchanges and brokers;
  - (e) Fees to tied agents;
  - (f) Interest paid on client money; and
  - (g) Any other non-recurring expenses from non-ordinary activity.
- 2.3** All deductions from the total expenditure figure should be either clearly identified in the most recent audited annual accounts or supported with a letter from the auditors confirming the figures.

### **SECTION 3 – PROFESSIONAL LIABILITY RISKS**

- 3.1** The questions in relation to the Professional Liability Risk should only be answered by firms who hold authorisation as an Alternative Investment Fund Manager.
- 3.2** For the AIFs that it manages, the AIFM must have Additional Own Funds which are appropriate to cover potential liability risks arising from professional negligence. The Additional Own Funds should be at least equal to 0.01% of the value of the portfolio of AIFs under management or at least equal to an amount covered by a prior agreement with the Central Bank, which will not be less than 0.008% of the value of the portfolio of AIFs under management (Row 3.1).
- 3.3** If the AIFM does not have Additional Own Funds set aside to cover Professional Liability Risk, it is required to hold professional indemnity insurance against liability arising from professional negligence which is appropriate to the risks covered (Row 8.1).

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<sup>3</sup> The Minimum Capital Requirement Report submitted with the audited annual accounts must take the total expenditure figure from the latest set of annual audited accounts. For example, the Minimum Capital Requirement Report submitted with the semi-annual accounts for 2014 will take the total expenditure figure from the 2013 audited annual accounts.

## SECTION 4 – MINIMUM CAPITAL REQUIREMENT

- 4.1** A management company's **Minimum Capital Requirement** (Row 4.1) is:
- the higher of:
    - the Initial Capital Requirement plus the Additional Amount (if required); and
    - the Expenditure Requirement.
  - plus additional amount to cover potential liability risks arising from professional negligence for Alternative Investment Fund Managers only.

## SECTION 5 - OWN FUNDS

**5.1** A management company is required to have **Own Funds** at least equal to its Minimum Capital Requirement (Row 5.2).

**5.2** **Own Funds** for a management company will be based on the half yearly accounts or the annual audited accounts, whichever is most recent.

**5.3** **Own Funds** are calculated as the aggregate of:

- Fully paid up equity capital;
- Perpetual non-cumulative preference shares;
- **Eligible Capital Contribution** (see 7.4 below);
- Qualifying **Subordinated Loan Capital** (see 7.4 below);
- Share premium account;
- Disclosed revenue and capital reserves (excluding revaluation reserves);
- Interim net profits (may only be included if they have been audited); and
- Other reserves.

Less

- Current year losses not included in disclosed revenue and capital reserves above;
- Goodwill;
- Other Intangible Assets;
- Deferred Tax Assets that rely on future profitability;
- Defined Benefit Pension Fund Assets on the balance sheet of the institution;
- and
- Other deductions as required by Article 36 of the Capital Requirements Regulation (CRR).

**5.4** **Conditions for Eligible Capital Contributions and Subordinated Loan Capital**

The following conditions apply to Eligible Capital Contributions and to Subordinated Loan Capital (both perpetual and redeemable):

- (a) The prior approval of the Central Bank must be obtained in respect of the inclusion of the Eligible Capital Contribution or Subordinated Loan Capital in the **Own Funds** for capital adequacy purposes. Subordinated Loan Capital may not be incorporated in the calculation of the Initial Capital Requirement.
- (b) The Central Bank must be provided with documentary evidence<sup>4</sup> that the Eligible Capital Contribution or Subordinated Loan Capital has been received by the management company.
- (c) The management company must use the Capital Contribution Agreement, Perpetual Loan Subordination Agreement or the Loan Subordination Agreement (for redeemable Subordinated Loan Capital), without amendment. These documents are available on the Central Bank's website. Please see Section 10 for further detail on Qualifying Subordinated Capital.

## SECTION 6 – ELIGIBLE ASSETS

- 6.1 Liquid Assets** - The Minimum Capital Requirement must be invested in liquid assets or assets readily convertible to cash in the short term and must not include speculative positions.
- 6.2 Eligible Assets** - A management company is required to hold the higher of the Expenditure Requirement or the Initial Capital Requirement in the form of **Eligible Assets (Row 6.1)**. Eligible Assets must be easily accessible and free from any liens or charges and maintained outside the management company's group.
- 6.3** The Central Bank requires Eligible Assets to be held in an account that is separate to the account(s) used by a management company for the day-to-day running of its business.
- 6.4** Eligible Assets are calculated as follows:  
Total Assets (Non-current Assets plus Current Assets)  
**Less the following ineligible assets**
  - Fixed assets
  - Intangible assets
  - Cash or cash equivalents held with group companies
  - Debtors
  - Bad debt provisions
  - Prepayments
  - Intercompany amounts (gross)
  - Loans

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<sup>4</sup> Documentary evidence should include a copy of the original bank statement showing receipt of the relevant funds by the management company. The Central Bank may request independent confirmation of the receipt of additional capital, for example, auditor confirmation.

- CIS investments which are not daily dealing (see 7.4 below)
- Any other assets which are not easily accessible not included above.

**6.5** When a management company invests all or part of its capital in one or more CIS, the Central Bank reviews the relationships linking the CIS and the management company. It is the Central Bank's view that it is likely that where the management company invests in CIS promoted by other group companies or to which other group companies provide services, its access to those CIS is likely to be restricted, in the event that the related firm gets into difficulty. Accordingly, investments in such CIS will not rank as Eligible Assets for the purposes of satisfying the management company's Minimum Capital Requirement.

**6.6** A management company must be in a position to demonstrate its on-going compliance with the capital adequacy requirements outlined in this document. Where a management company's financial position changes materially at any time between reporting dates, which would impact on its compliance with its regulatory capital requirements, it must notify the Central Bank immediately and take any necessary steps to rectify its position.

## **SECTION 7 – PREVIOUS GUARANTEE AGREED WITH CENTRAL BANK**

**7.1** The firm must disclose any Additional Amount covered by a guarantee previously agreed with the Central Bank.

## **SECTION 8 – PROFESSIONAL INDEMNITY INSURANCE**

**8.1** The firm is required to disclose if it holds Professional Indemnity Insurance. This question should only be answered by firms who hold authorisation as an Alternative Investment Fund Manager.

## **SECTION 9 – COMPLIANCE TEST**

**9.1** Alternative Investment Fund Managers are required to indicate if they were in compliance with the requirements in relation to Professional Indemnity Insurance throughout the period.

**9.2** All management companies must fill in Rows 9.3 to 9.5.

**SECTION 10 - QUALIFYING SUBORDINATED CAPITAL**

**10.1** The following additional conditions apply to the use of redeemable Subordinated Loan Capital:

- (a) The extent to which such loans rank as **Own Funds** will be reduced on a straight-line basis over the last five years before repayment date.
- (b) The qualifying amount of redeemable subordinated debt is calculated as follows:

Remaining term to maturity	_____
Gross Amount	_____
Less Amortisations	_____
= Qualifying Amount	_____

## MINIMUM CAPITAL REQUIREMENT REPORT

(FIRMS HOLDING BOTH UCITS MANAGEMENT COMPANY AUTHORISATION AND AIFM  
AUTHORISATION)

Minimum Capital Requirements Report		
1. INITIAL CAPITAL REQUIREMENT PLUS ADDITIONAL AMOUNT		
		All monetary amounts are in €000's
1.1	What base currency was the below financial data prepared in? (Note all data entered on this return must be in €000's)	
1.2	Exchange Rate used in CCY/EUR format if functional currency is not Euro (Note - Central Bank of Ireland rate must be used)	
1.3	Initial Capital Requirement <b>(A)</b>	
1.4	Assets under Management at Reporting Date	
1.5	Excess over €250m (if applicable)	
1.6	<b>Additional Amount</b> (if applicable) [0.02% of Excess over €250m] <b>(B)</b>	
1.7	Initial Capital Requirement (A) plus Additional Amount (B) if applicable) <b>(C)</b> (The amount to be included at (C) is not required to exceed €10m.)	
2. EXPENDITURE REQUIREMENT		
2.1.1	Total Expenditure (taken from Profit & Loss account)	
	<b>LESS:</b>	
2.2.1	Profit Shares, Bonuses, etc.	
2.2.2	Net losses on translation of foreign currency balances	
2.2.3	Shared Commissions and Fees Payable which are directly related to commission	
2.2.4	Fees, Brokerage and Other charges paid to clearing houses, exchanges and brokers	
2.2.5	Fees to tied agents	
2.2.6	Interest paid on Client Money	
2.2.7	Any other non-recurring expenses from non-ordinary activities	
2.3	<b>Net Qualifying Expenditure</b>	
2.4	<b>EXPENDITURE REQUIREMENT</b> [One quarter of Net Qualifying Expenditure] <b>(D)</b>	
3. PROFESSIONAL LIABILITY RISKS		
3.1	<p><b>This question only applies to firms authorised as an Alternative Investment Fund Manager.</b></p> <p>Additional Own Funds set aside to cover Professional Liability Risks <b>(E)</b> (at least equal to 0.01% of the value of portfolio of AIFs managed OR equal to an amount covered by prior agreement with the Central Bank (not less than 0.008% of the value of portfolio of AIFs managed))</p>	



<b>4. MINIMUM CAPITAL REQUIREMENT</b>		
Higher of <b>Initial Capital Requirement</b> plus <b>Additional Amount</b> (if applicable) <b>(C)</b> and <b>Expenditure Requirement (D)</b> plus additional amount to cover potential liability risks arising from professional negligence <b>(E)</b>		
4.1	<b>MINIMUM CAPITAL REQUIREMENT (F)</b> - {[Higher of (C) and (D)] plus additional amount to cover potential liability risks arising from professional negligence (E) }	
<b>5. OWN FUNDS</b>		
5.1.1	Equity Capital fully paid up	
5.1.2	Perpetual Non-cumulative Preference Shares	
5.1.3	Eligible Capital Contributions	
5.1.4	Qualifying Subordinated Loan Capital (See 'Note on Qualifying Subordinated Loan Capital' below)	
5.1.5	Share Premium Account	
5.1.6	Disclosed Revenue and Capital Reserves (excluding Revaluation Reserves)(from most recent audited figures)	
5.1.7	Audited Interim Net Profits	
5.1.8	Other Reserves	
5.1	<b>Total</b>	
5.2.1	<i>(LESS: Current Year Losses not included in Disclosed Reserves and Capital Reserves above)</i>	
5.2.2	<i>(LESS: Goodwill)</i>	
5.2.3	<i>(LESS: Other Intangible Assets)</i>	
5.2.4	<i>(LESS: Deferred Tax Assets that rely on future profitability)</i>	
5.2.5	<i>(LESS: Defined Benefit Pension Fund Assets on the balance sheet of the institution)</i>	
5.2.6	<i>(LESS: Other Deductions as per Article 36 of the CRR)</i>	
5.2	<b>OWN FUNDS (G)</b>	
<b>6. ELIGIBLE ASSETS (Must be held outside the Group)</b>		
6.1.1.1	Total Non-current Assets (taken from Balance Sheet)	
6.1.1.2	Current Assets (taken from Balance Sheet)	
6.1.1	<b>TOTAL ASSETS</b>	
	Less: <b>Ineligible Assets</b>	
6.1.2.0 1	Fixed Assets	
6.1.2.0 2	Intangible Assets	
6.1.2.0 3	Cash held with group companies	
6.1.2.0 4	Debtors	
6.1.2.0 5	Bad Debt Provisions	
6.1.2.0 6	Prepayments	
6.1.2.0 7	Intercompany Amounts (gross)	
6.1.2.0 8	Loans	
6.1.2.0 9	Investment Funds which are not daily dealing	
6.1.2.1 0	Any other assets which are not easily accessible not included above	
6.1.2	<b>Total Ineligible Assets</b>	

6.1	<b>ELIGIBLE ASSETS (H)</b>	
<b>7. PREVIOUS GUARANTEE AGREED WITH CENTRAL BANK</b>		
7.1	Additional Amount covered by guarantee previously agreed with Central Bank <b>(I)</b> (if applicable)	
<b>8. PROFESSIONAL INDEMNITY INSURANCE</b>		
8.1	<p><b>This question only applies to firms authorised as an Alternative Investment Fund Manager.</b></p> <p>Does the firm hold Professional Indemnity Insurance against liability arising from professional negligence which is appropriate to the risks covered?</p>	Yes/No/N.a
<b>9. COMPLIANCE TEST</b>		
9.1	<p><b>This question only applies to firms authorised as an Alternative Investment Fund Manager.</b></p> <p>If the answer to 8.1 is no, are Own Funds (G) plus Additional Amount covered by guarantee (I) (if applicable) at least equal to Minimum Capital Requirement (F)?</p>	Yes/No/N.a.
9.2	<p><b>This question only applies to firms authorised as an Alternative Investment Fund Manager.</b></p> <p>If the answer to 8.1 is yes, are Own Funds (G) plus Additional Amount covered by guarantee (I) (if applicable) less Additional Amount set aside to cover Professional Liability Risks (E) at least equal to Minimum Capital Requirement (F)?</p>	Yes/No/N.a.
9.3	Are Eligible Assets (H) at least equal to the higher of the Expenditure Requirement (D) or Initial Capital Requirement (A)?	Yes/No
9.4	Where are Eligible Assets held? Note: Upload relevant bank statements through the Online Reporting System.	Free text
9.5	Was the firm in compliance with the capital adequacy requirements throughout the period under review?	Yes/No
<b>10. NOTE ON QUALIFYING SUBORDINATED CAPITAL</b>		
	The qualifying amount of <b>redeemable subordinated debt</b> is calculated as follows:	
10.1	Remaining term to maturity (Months)	
10.2.1	Gross Amount	
10.2.2	Less Amortisations	
10.2	= Qualifying Amount	
<b>11. Signature/Position/Date</b>		
11.1	Signature	
11.2	Position	
11.3	Date	



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