Key takeaways for Class 3 Firms (Small and non-interconnected)

General

- Investment firms that have both total assets less than EUR100m and revenue less than EUR30m can fall under Class 3 subject to meeting several stringent K-factor thresholds linked to AUM/AUA and client orders handled. See decision tree to establish if you can be classed under Class 3.
- Note that, IFPRU125K (limited license) and IFPU730K (full scope) firms are unlikely to be classed as Class 3 as they typically either hold client funds or assets or will typically deal on own account on proprietary or matched principal basis exposing them to risk on financial instruments traded.
- Class 3 firms are exempt from the K-factor requirements and only have to meet the higher of Permanent Minimum Capital requirement (PMC) and Fixed Overhead Requirement (FOR).
- MIFID Investment firms currently subject to a EUR50K base capital requirement will see an increase in Permanent Minimum Capital requirement (PMC) to EUR75K under the IFD.

Credit risk

- Firms subject to the CRR were required to assess all assets not deducted from own funds against credit risk and hold capital against items like bank balance, receivable, tangible assets, etc. The concept of credit risk has been omitted under the IFR and depending on Balance Sheet exposures some investments firms may benefit from this lack of detailed capital quantification for credit risk.

Market risk

- Quantification of capital against market risk is not needed for Class 3 firms.

Counterparty Credit risk

- Quantification of capital against counterparty credit risk is not needed for Class 3 firms.

Concentration risk

- Quantification of capital against concentration risk is not needed for Class 3 firms.
- Monitoring and risk management still needed.

Simplified own funds calculations

- Firms subject to CRR might be familiar with the concept of TREA (Total Risk Exposure Amount) which was essentially the firms Pillar 1 variable capital requirement multiplied by 12.5 to arrive at TREA. The requirement for firms under the CRR was to hold CET1, Tier 1 (CET 1+ AT1), and Total Capital (CET1+AT1+Tier2) of at least 4.5%, 6.0%, and 8.0%, respectively of TREA. It was not uncommon for firms to find the concept of TREA puzzling. The concept of TREA has been removed from the IFR where a more straightforward 'Own Funds' calculation has been introduced where Capital Resources (CET1+AT1+Tier 2) have to be equal to or greater than the overarching capital requirement (higher of PMC and FOR).

Simplified Liquidity Requirements

- Class 3 firms can be made exempt from the liquidity requirements by competent authorities. However, if liquidity requirements are to apply to such firms, the overarching liquidity rule is for firms to hold one third of the fixed overhead requirement in liquid assets. The use of liquid assets is established in line with Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirement for Banks.