

Capital adequacy of SIPP providers



FCA concerns over weaknesses of some SIPP providers and what would happen to clients' pensions if providers fail resulted in new capital adequacy (CAPAD) rules taking effect from 1 September 2016.

A few years down the line all SIPP providers should easily be able to give you details of their position.

Understanding these regulations

A few things about capital adequacy that may help you with your review:

- All asset types must be categorised by SIPP providers as either 'standard' or 'non-standard'.
- FCA has a list of 'standard assets' and any asset which is not on the list is automatically 'non-standard'.
- An asset, even when it is on the 'standard' list, must be categorised as 'non-standard' if cannot be valued or sold/realised within 30 days.
- FCA imposes a very significant premium to holding non-standard assets for SIPP providers because of the complexity of dealing with them. This follows a number of high profile investment failures where SIPP clients lost most or all of their pension savings. Many SIPP providers are known to hold significant volumes of non-standard assets.
- Typical standard assets include:
 - FCA approved investments – OEICS, unit trusts, bank accounts, listed stocks, etc.
 - Most commercial property / land – FCA have confirmed that these are mostly standard. However, hotel rooms, storage pods, landbanking etc will often be non-standard.
- Typical non-standard assets include:
 - Unlisted company shares
 - Unregulated investments e.g. UCIS.

Capital adequacy calculation

The calculation is complex and takes into account **every asset** owned by a SIPP member/trustee and its current value. As a SIPP provider's clients buy and sell assets, new SIPPs set up and old ones closed, the capital requirement for that provider will change.

FCA monitoring of a company's capital position

It is not clear exactly what the ongoing monitoring policy will be, but we anticipate the FCA will look to visit SIPP providers after implementing their new policy to validate their asset classifications and rigorously test the level and quality of their capital.

Xafinity's position

Xafinity is in great financial health and is in a very strong position with regards to the new requirements. We can reinforce this with facts:

- As with all SIPP providers, we continue to assess all the assets in the book against the FCA's list and updated guidance. Under 2.5% of assets held by Xafinity clients fall into the FCA's non-standard definition. This equates to just under 6 % of members holding at least one non-standard investment. This means that we believe our capital requirements are much lower than many SIPP providers.
- Our low level of non-standard assets is a result of our strong investment due diligence processes that rejected many of the assets now being labelled 'toxic', including Harlequin. This continues to be the case.
- Whilst the valuation of our capital position will vary daily, based on our current book it is around £847k.
- Xafinity SIPP Services Limited is owned by the XPS Pensions Group, which floated on the main market of the London Stock Exchange in February 2017.
- In January 2018 XPS Pensions Group completed the purchase of Punter Southall Group's actuarial, investment and administration business creating the largest pure pensions business in the UK, with turnover in excess of £110m and 900 staff over 15 locations.
- The capital holding for our SIPP business is less than 1 week's revenue for XPS Pensions Group.
- You can view our company accounts [here](#) for the year ending 31st March 2018. These show our financial strength as a Group.

I am pleased to share this information with you, and if you have any questions please do not hesitate to contact me or one of my team.



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