

04/9

Financial Services Authority

Reporting requirements for mortgage, insurance and investment firms, and audit requirements for insurance intermediaries

Feedback on CP197 and made text

March 2004



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This Policy Statement reports on the main issues arising from Consultation Paper 197 (*Reporting requirements for mortgage, insurance and investment firms, and supplementary consultation on audit requirements*) and publishes final rules.

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'Roadmap' to the Policy Statement

Category of firm	Typical firms	Chapters most relevant
<p>Firms with permission to carry on one or more of the following 'retail mediation activities'</p> <ul style="list-style-type: none"> • mortgage arranging or advising; • the sale or administration of non-investment insurance contracts; • retail investment activities. 	<p>Intermediaries/ brokers, including IFAs</p> <p>Other investment firms carrying on retail mediation activities</p> <p>Firms handling claims</p> <p>Providers/lenders carrying on retail mediation activities</p>	<p>Chapter 3, which gives more information on our supervision strategy, including costs and benefits</p> <p>Chapter 4, which covers consultation issues on our reporting requirements (including the 'RMAR')</p> <p>Chapter 8, which covers consultation issues on client money audit requirements</p>
<p>Providers and lenders as follows</p> <ul style="list-style-type: none"> • a mortgage lender; or <p>in respect of sales to a private customer or a retail customer:</p> <ul style="list-style-type: none"> • an insurer; or • the operator of a regulated collective investment scheme or an investment trust savings scheme; or • a person who issues or manages the relevant assets of the issuer of a structured capital-at-risk product <p>This does not apply if the firm is a managing agent</p>	<p>Banks</p> <p>Building societies</p> <p>Credit unions</p> <p>Insurance providers</p> <p>Friendly societies</p> <p>Investment providers</p>	<p>Chapter 5, which covers consultation issues on our product sales data requirements</p>
<p>Mortgage Lenders and Administrators</p>	<p>Banks</p> <p>Building societies</p> <p>Credit unions</p>	<p>Chapter 6, which covers consultation issues on our reporting requirements (including the 'MLAR')</p>

The following chapters will also be relevant to all of the above firms:

- Chapter 1: Overview
- Chapter 2: Guidance on the scope and application of the reporting requirements
- Chapter 7: Systems and implementation

1 Overview

1.1 Consultation Paper 197: ‘*Reporting requirements for mortgage, insurance and investment firms, and supplementary consultation on audit requirements*’ (CP197) set out our proposals for collecting periodic information about firms that have permission to carry on one or more of the following activities:

- (a) **mortgage** lending or administration;
- (b) **mortgage** arranging or advising;
- (c) the sale or administration of **general insurance** or **pure protection contracts**; and
- (d) retail investment activities¹

The activities in (b) to (d) above are collectively described in this paper as ‘**retail mediation activities**’.

1. This is one of three new Handbook terms:

- **retail investment activities** are:
 - (a) *advising on investments*;
 - (b) *arranging (bringing about) deals in investments*; or
 - (c) *making arrangements with a view to transactions in investments*, in relation to *retail investments*, except when carried on by a *firm* exclusively with or for *intermediate customers* or *market counterparties*;
- a **retail investment** is (a) a *life policy*; or (b) a *unit*; or (c) a *stakeholder pension scheme*; or (d) an interest in an *investment trust savings scheme*; or (e) a *structured capital at risk product*; and
- a **retail investment firm** is a *firm* that has permission to carry on a *retail investment activity*.

1.2 The main proposals for regulatory reporting in Part I of CP197 were in three parts, and can be summarised as follows:

Reporting requirement	Description	Frequency
Retail Mediation Activities Return (RMAR, previously known as the RRAR)	Information required from firms that carry on retail mediation activities. Includes financial data, compliance with threshold conditions, information on conduct of business, training & competence etc.	Half yearly, but larger firms to report financial information quarterly.
Mortgage Lending & Administration Return (MLAR)	Information required from mortgage lenders and administrators. Includes financial data, lending analysis and information on mortgage administration.	Quarterly
Product Sales Data (PSD)	Information on individual transactions in mortgages, retail investments and non-investment insurance products. Required to be submitted by product providers.	Quarterly

1.3 Part II of CP197 sought comments on our proposals on audit requirements for firms in categories (b) and (c) above that hold client money.

1.4 We received 146 responses to CP197, broken down as follows (a list of the non-confidential respondents is included at Annex 4):

- 55 intermediary type firms (including IFAs and networks);
- 31 trade bodies/regulatory type organisations;
- 28 mortgage lenders (including 25 banks and building societies)
- 17 insurance providers; and
- 15 others, including compliance consultants and software providers.

1.5 This Policy Statement reports on the responses to the consultation, and outlines the decisions we have made in the light of responses. The final rules are in Appendix 1.

Who should read this Policy Statement?

1.6 The Policy Statement is relevant to all firms that have the permission to carry on one or more of the activities summarised above. As well as firms such as insurance brokers whose primary business is mediation, this includes other firms such as investment managers and banks, which might carry on the relevant activities in addition to their primary business.

1.7 The Policy Statement is also relevant to the product provider firms that will be required to submit Product Sales Data ('PSD' – see Chapter 5).

What does this Policy Statement cover?

1.8 The Policy Statement covers the following broad topics:

- In response to queries raised during consultation, Chapter 2 provides further guidance on the scope of the reporting requirements, and their application to different types of firm and combinations of regulated activities.

Part 1

- Chapter 3 gives more information on our supervisory strategy in respect of firms carrying on retail mediation activities, and the costs and benefits of our requirements.
- Chapter 4 covers issues relating to the reporting requirements for firms carrying on retail mediation activities (the ‘RMAR’, formerly known as the ‘RRAR’).
- Chapter 5 covers issues relating to Product Sales Data (‘PSD’ - the requirement for product providers to submit quarterly data on transactions in mortgage, investment and pure protection insurance products).

Part 2

- Chapter 6 deals with issues arising from the consultation in relation to the reporting requirements for mortgage lenders and administrators (including the Mortgage Lending & Administration Return - the ‘MLAR’).

Part 3

- Chapter 7 provides further information on the systems that will be required to implement electronic reporting and other issues such as the validation of data.

Part 4

- Chapter 8 covers issues arising from the consultation in relation to our client money audit requirements.

Mapping consultation questions

1.9 Although we asked for responses on a number of questions in CP197, this Policy Statement does not deal with comments on a question by question basis, because we have found that many respondents used different questions to raise similar issues or concerns. For this reason we found it clearer to set out our position on an issue by issue basis. For those who wish to identify where specific questions and issues are dealt with in this Policy Statement, we have provided a table in Annex 1 that maps the consultation questions to the relevant Policy Statement chapter or paragraph.

What are the key changes we have made since CP197?

RMAR frequency

- 1.10 CP197 proposed that most RMAR information should be submitted by firms every six months. Because of concerns raised about the costs to smaller firms of supplying six monthly financial information, we are introducing a transitional provision for smaller firms to exclude them from the requirement to report mid-year financial information for the first year. At the same time we will be looking for ways to provide further guidance to firms on what is expected from regulatory reporting, to help them to reach a position where they are able to complete the return without professional assistance.
- 1.11 These issues are dealt with in detail in Chapter 4.

PSD exclusions

- 1.12 In CP197 we asked for views on whether certain products should be excluded from the scope of PSD reporting. Because of a number of opinions that were expressed, we intend to reduce in the first instance the number of applicable products, in particular in the general insurance market. We consider that this reflects a proportionate approach, given the lower regulatory risks that are associated with these products.
- 1.13 This issue is dealt with in detail in Chapter 5.

PSD transitional provision – advised/non-advised

- 1.14 CP197 proposed that one of the data items for PSD reporting should be an indication of whether advice was given on each sale. In view of the responses to this proposal, we intend to introduce a transitional period of one year before we require this information. This information is not currently captured by product providers, so the transitional arrangement is intended to give more scope for this change to be built in as part of wider systems changes; this will reduce the upfront costs.
- 1.15 Again, this issue is dealt with in detail in Chapter 5.

Cost benefit analysis (CBA) and compatibility statement

- 1.16 The changes that we have made as a result of the feedback received will not result in any significant increase in costs to firms or decrease in benefits. The majority of the changes will in fact result in a significant decrease in costs for firms (as compared to the CBA in Annex 1 of CP197), so we have not included a revised CBA. We have, however, provided a fuller explanation of the benefits of our reporting requirements, and explained how we have used

the feedback on our original CBA to inform decisions about our final requirements (see Chapters 3, 6 and 8).

- 1.17 We consider that no changes are required to the compatibility statement set out in Annex 2 of CP197.

What should firms do next?

- 1.18 Now that the reporting requirements have been finalised (along with the Handbook text contained in the Policy Statement to CP198²), firms that carry on any of the retail mediation activities described in paragraph 1.1 have the information they need to start preparing for the introduction of electronic reporting in April 2005. So they should begin preparing systems and procedures to ensure that the appropriate information is submitted at the correct time. The table below sets out the milestones for implementing the requirements.

Milestones in implementing the reporting requirements	Date
Publication of PS04/9 and final rules and guidance (Finalised proposals and rules)	March 2004
Statutory regulation by the FSA begins and new rules relating to auditors come into force - mortgage and long-term care business - non-investment insurance mediation activities	30 October 2004 14 January 2005
Firms need to begin collecting information (for retail mediation activities and mortgage lending and administration)	1 April 2005
Product providers need to begin collecting product sales data	1 April 2005
Firms report information to the FSA in accordance with their accounting reference date (for retail mediation activities and mortgage lending and administration)	From July 2005
Product providers submit product sales data to the FSA, as at the end of each calendar quarter	From July 2005

2 PS04/8: 'Regulatory reporting – a new integrated approach', is published at the same time as this Policy Statement, and provides further information on reporting requirements. It should be read in conjunction with this paper, particularly in relation to the material on submission of information.

Publication of data

- 1.19 We stated in CP197 that we would consider whether we should publish a regular aggregated summary of the information we collect. A number of respondents expressed support for this, in particular for information collected via PSD and the MLAR. We therefore intend to develop these proposals, and will provide further information in due course.

CONSUMERS

While there is no material in this Policy Statement that is of direct relevance to retail consumers or consumer groups, the reporting requirements will help us to meet our statutory objectives, including providing the appropriate degree of protection to consumers.

2 Further guidance on the application and scope of the reporting requirements

2.1 This chapter provides guidance on the scope of the requirements in this Policy Statement, including clarification on:

- reporting by regulated activity;
- avoiding duplication in reporting requirements;
- requirements for authorised professional firms (APFs);
- reporting for groups;
- reporting of information on non-regulated activities;
- reporting by customer type; and
- the implications of Basel and other initiatives.

2.2 Some respondents to CP197 raised questions on the scope of the proposals. These included issues concerning which firms should be reporting to us, which sections of the returns they should complete and how often. This chapter provides further guidance in these areas. More detailed guidance on the specific returns can be found in Chapters 4, 5 and 6.

2.3 A number of respondents also asked questions that relate to the underlying Handbook policy, such as asking for clarification of the definitions of regulated activities to determine which requirements apply. In these cases we encourage firms to refer to the actual final policy rules which can be found on our website (www.fsa.gov.uk/mgi/).

2.4 The following sections provide further guidance on issues raised.

Reporting by regulated activity

2.5 **Background:** in CP197 we stated that the reporting requirements will apply to all firms that have permission to carry on one or more of the specified

regulated activities (repeated above in paragraph 1.1). This is the first part of our move towards ‘activity-based’ reporting for all firms (as outlined in CP198). As a guide, the Executive Summary of CP197 included a list of the types of firm that are likely to have the relevant regulated activities, although this was not intended to be exhaustive.

- 2.6 **Consultation responses:** some respondents queried whether the proposals in CP197 were applicable to certain types of firm. For example, we received responses from the investment management community questioning whether these firms should be subject to the RMAR.

Our response: we reiterate that the reporting requirements apply to regulated activities rather than firm types, and that any firm carrying on one or more of the activities listed in paragraph 1.1 will be affected by the proposals. This means that, for example, an investment management firm that also has permission to advise private customers on (or arrange transactions in) retail investments will be subject to the requirements. However, as outlined in the following paragraphs, we have considered where there may be duplicated requirements for firms carrying on other regulated activities, and the effect of this is that these firms will only be required to complete a portion of the RMAR.

We stated in the footnote to paragraph 2.15 of CP197 that if a currently authorised firm has one or more of the permissions that bring it within the scope of the requirements, but does not carry on these activities, it should arrange a variation of permission with its usual supervisory contact. This may remove the firm’s obligation to submit the RMAR. The same applies if a firm has permission to carry on retail investment activities with private customers but does not do so.

Avoiding duplicated reporting requirements for firms

- 2.7 **Background:** in CP197 we outlined how a key part of our strategy for integrated reporting was to minimise duplication and reduce the reporting burden on firms. We indicated how we intended to do this and committed to finalise our proposals in this Policy Statement. We also referred to the ‘hierarchy’ of regulated activities which was introduced in CP198, and explained that where there were similar reporting requirements, firms should report according to the requirements for the regulated activities that appear nearer the top of the hierarchy.
- 2.8 **Consultation responses:** respondents to CP197 welcomed this approach, highlighting the need to minimise costs.

Our response: we have now amended the draft text of Chapter 16 of the Supervision manual consulted on in CP197, to indicate which sections of the MLAR and RRAR apply to each firm type. This seeks to minimise duplicate reporting for firms that will be

required to complete regulatory returns other than the MLAR and RMAR. It also reduces a large amount of duplication that would otherwise occur between the financial sections of the MLAR and RMAR.

For example, a UK bank that is also a regulated mortgage lender is not required to submit the main financial sections of the MLAR (balance sheet, profit & loss, and capital – i.e. sections A1, A2, B1 & C of the MLAR). Similarly, an investment management firm that carries on retail investment activities will not be required to submit much of the financial section of the RMAR, (sections A, B, C, D2, D3, D4, D5 and E of the RMAR).

The tables below set out the sections of the MLAR and RRAR that will not be required from certain types of firm. This summarises the de-duplication that is built in to the current version of the rules in Appendix 1. It will be replaced in due course by a new version of the rules that takes account of regulated activities as well as firm type (more details are set out in PS04/8).

RMAR

Firm	Sections of the RMAR not required
Securities & futures firm or investment management firm	A, B, C, D2, D3, D4, D5 and E
Credit union	A, B, C and E
UK branch of a non-EEA bank	No duplication
EEA bank	A, B, C, D and E
Members' advisor	No duplication
APF	See 2.10 in this chapter
Firm carrying on mortgage lending/administration (including in addition to other firm types)	A and B
<i>Firms carrying on retail mediation activities only</i>	<i>No duplication</i>
Other firm types/regulated activities (except above)	A, B, C, D and E

Key: A: Balance sheet B: Profit & Loss C: Client Money D: Capital (D1: summary, D2: non-ISD capital, D3: ISD capital, D4: quarterly ISD capital and D5: Large Exposure) E: Professional Indemnity Insurance

MLAR

Firm	Sections of the MLAR not required
Securities & futures firm or investment management firm	A1, A2 and B1
Credit union	A1, A2, B1 and C
UK branch of a non-EEA bank	No duplication
EEA bank	A1, A2, B1 and C
Members' advisor	No duplication
APF	No duplication
Firms carrying on retail mediation activities	Duplication in RMAR (see above)
<i>Firm carrying on mortgage lending/administration only</i>	<i>No duplication</i>
Other firm types/regulated activities (except above)	A1, A2, B1 and C

Key: A1: Assets A2: Liabilities B1: Profit & Loss C: Capital

- 2.9 There may also be other exemptions for a firm, for example if it is passporting for any of the relevant activities, and these are outlined in our notes for completing the RMAR and MLAR (SUP 16 Annexes 18B and 19B respectively). However, a firm that requires a top up permission for mortgage lending, administration, advice or arranging should note that these exemptions may not be available for these activities. We intend to give more guidance and revise our rules accordingly later this year.

Authorised professional firms (APFs)

- 2.10 **Consultation responses:** several respondents to CP197 queried the application of the reporting requirements to APFs, because of the limited scope of the Handbook to these firms. It was also asked whether the current ‘Annual Questionnaire’ will still be required once the RMAR is in place.

Our response: the application of the RMAR to APFs has now been clarified in paragraphs 12 to 14 of the RMAR notes in SUP 16 Annex 18B. Broadly, APFs that are subject to a limited regulatory regime have a reduced reporting requirement: for example they are not required to submit a balance sheet or information on capital.

The current Annual Questionnaire will no longer be required from a firm whose only regulated activities are those within the scope of the RMAR. If an APF carries on other regulated activities, for example managing funds or corporate finance activities, it will still be required to submit the Annual Questionnaire until the revised reporting requirements come into force for these activities (the relevant consultation will take place later this year).

Reporting for groups

- 2.11 **Consultation responses:** we received several responses from firms questioning how they should complete returns where they formed part of a wider group of regulated companies.

Our response: in these cases, each legal entity that has a permission to carry on a regulated activity will need to submit a separate return, including solo consolidated subsidiaries of banks and building societies. This is consistent with the application of the Handbook rules for a firm carrying on the activities in 1.1 above. Firms should note that current reporting requirements for groups will continue to apply.

Reporting on non-regulated activities

- 2.12 **Consultation responses:** some firms asked how they should report information on business that is not within the scope of the regulated activities, for example

business with overseas customers or sales of unregulated products. This was raised particularly in reference to the profit and loss section of the RMAR, which requires a breakdown of revenue for the applicable regulated activities.

Our response: it is important that income from regulated activities and non-regulated activities are reported separately in the RMAR. This is because we use this data to evaluate the extent of each firm's activities that we are responsible for supervising, as defined by the relevant Regulated Activities Order. We consider this to be particularly important in monitoring the potential impact of a firm in terms of regulatory risk.

For a firm carrying on mortgage and insurance mediation, the definition of regulated business revenue is the same as 'annual income', which is required under the rules for calculation of capital.

In the MLAR we ask specifically for information about non-regulated lending as well as regulated lending. This is because we need to be able to take a view of overall residential lending as part of our supervisory focus, and also to be able to see this in the context of the UK mortgage market as a whole.

Reporting by customer type

- 2.13 **Consultation responses:** some respondents asked how firms should report in each section of the RMAR for regulated activities carried on for non-retail customers.

Our response: this depends on the underlying policy rule, and we have therefore made the guidance clearer in each relevant section of the RMAR. The standard approach is that information should be reported for all of a firm's relevant regulated business unless otherwise indicated. (For example, information on advising on non-investment insurance in the training and competence section is only relevant in relation to retail customers, whilst the balance sheet and profit and loss statement is reported according to the legal entity and therefore includes unregulated business.)

The exception is for product sales data, where it is worth emphasising that we only require product providers to report on individual sales (direct or via an intermediary) to retail or private customers (see Chapter 5). This is because we consider that the risks to consumers mainly lie in these transactions. Likewise, the supplementary products sales data in the RMAR should be reported in relation to retail customers (with the exception of claims handling).

Basel and other initiatives

- 2.14 **Consultation responses:** a few respondents asked how the reporting requirements might change because of the proposed revision to the Basel

Capital Accord and the transition to International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

Our response: as these revisions and transitions are in development, we have had to base our requirements on current policy and rules. Where relevant, firms should monitor developments and we will provide information on any new reporting requirements as part of our work in these areas.

Part 1

Information required for the supervision of firms carrying on retail mediation activities

3 Supervision strategy: the costs and benefits of the reporting requirements

3.1 This chapter provides information on:

- our supervisory framework;
- how we intend to use the information we collect; and
- the costs to firms of our requirements.

This information is specific to the activities covered by the Retail Mediation Activities Return and Product Sales Data; Chapter 6 provides similar information in relation to our supervision of firms carrying on mortgage lending and administration.

3.2 In Chapter 3 of CP197 we provided background on our supervisory approach and the role of regulatory reporting. In Annex 1 to CP197 we also provided information on the benefits we considered our approach would give, together with the estimated costs.

3.3 Overall, respondents to CP197 accepted the need for regulatory reporting, but there were issues raised about:

- how and whether we could usefully apply the information we were proposing to collect; and
- whether we had underestimated the costs of our proposals.

3.4 This chapter aims to give more information on our supervisory approach and the use of data, and explains how we have considered the comments about costs in developing our proposals.

Supervisory approach

3.5 In CP197 we explained our statutory objectives and the principles of good regulation. We explained how the nature and extent of our supervisory relationship with a firm depends on our assessment of the potential **impact** to

consumers and to other market participants of risks posed by the firm and on the **probability** that these risks will crystallise.

- 3.6 We also explained that we have a number of tools that we use to supervise firms. For firms deemed to be higher impact we expect to maintain a continuous regulatory relationship in order to develop and sustain a detailed understanding of risks posed by these firms. This would involve use of tools such as risk assessments, visits, and ‘skilled persons’ reports, together with regular and ad hoc regulatory reporting.
- 3.7 However, for smaller firms the regular use of these tools would not necessarily be proportionate. Our supervision of such firms therefore tends to centre on ‘baseline monitoring’, which includes the analysis of firm-specific and industry data to identify trends and anomalies. This helps up to determine the ‘thematic’ (sector wide) and firm-specific work we should undertake.
- 3.8 As the majority of firms carrying on retail mediation activities will be small, individually they are likely to pose a low risk to our statutory objectives, although collectively the risks they pose may be higher. For this reason we consider that baseline monitoring is the most cost effective method of supervision. The regulatory returns we have designed are intended to collect the information that is needed to perform adequate baseline monitoring at a firm and industry level.
- 3.9 It is important to note that if we did not collect this information, then we would need to consider using other tools such as a cycle of regular visits to firms. We consider that these would lead to much higher costs to us and also for firms in terms of higher costs including higher fees. So, while we recognise that there is a cost to firms of our reporting requirements, we consider them to be a more proportionate and cost effective method of supervision for us, for firms and ultimately for consumers.
- 3.10 In line with our overall supervisory strategy, we do of course intend to use a wider range of tools for the supervision of larger firms, and this includes the use of more frequent reporting.

How do we expect to use the information collected from regular reporting?

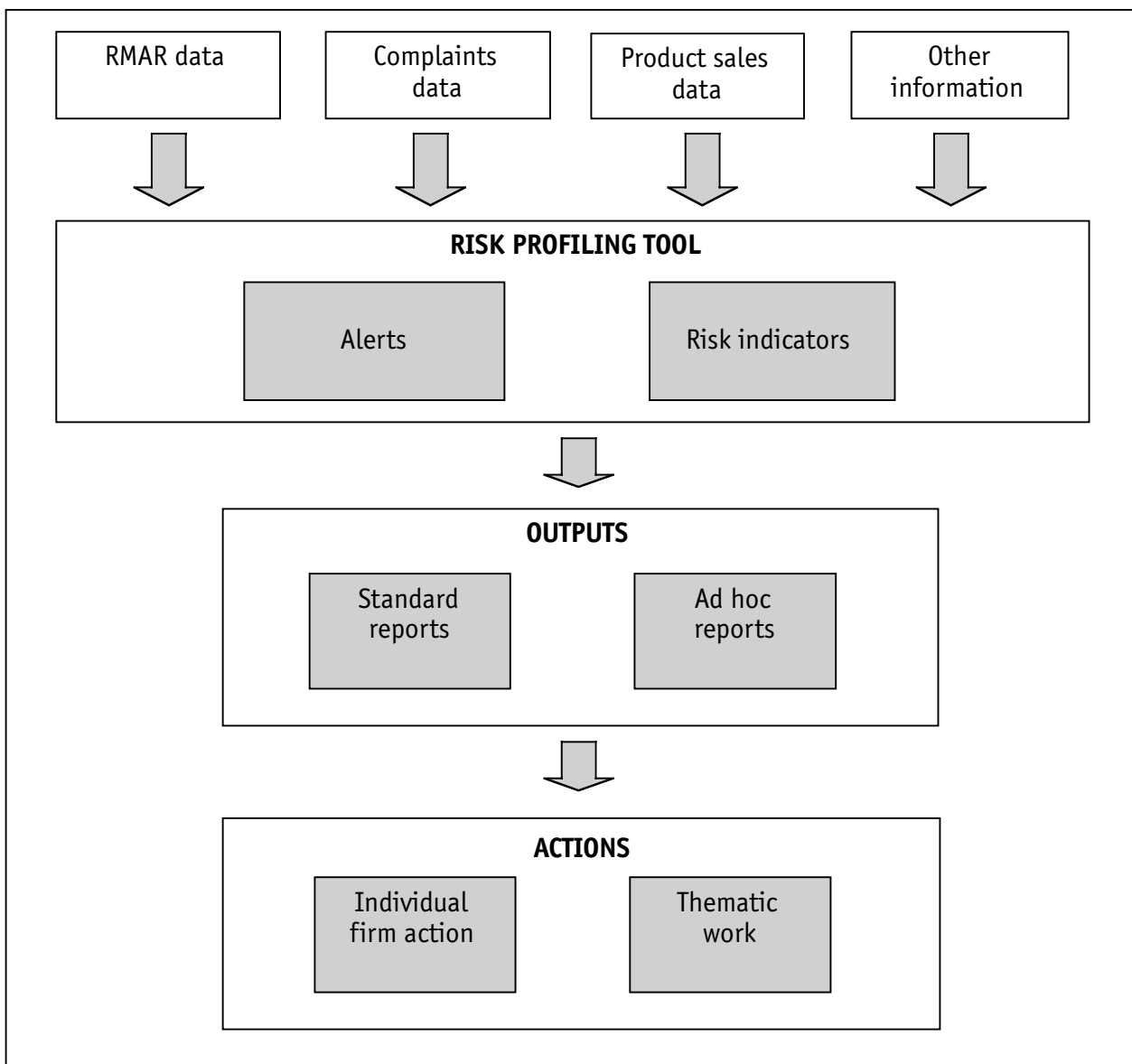
- 3.11 We have been developing an approach that will help us quickly and efficiently to analyse the information we collect. This builds on our current approach and experience of the supervision of smaller IFAs.
- 3.12 In Diagram 1 below we illustrate at a high level how we expect to use information and expand on this below. We also provide a number of practical examples in Annex 2.

3.13 As shown at the top of Diagram 1, we will have information that we are collecting from individual firms carrying on retail mediation activities and also from product providers. This will be supplemented by information we receive from other sources, including other regulators and from the supervisory actions that we take.

3.14 A risk profiling tool will help us evaluate this information. This will use the information to create:

- ‘alerts’: these will highlight any instances where firms may not be complying with our principles, threshold conditions or rules; and
- ‘risk indicators’: these will highlight something which we may want to record because the information may be symptomatic of problems within the firm.

Diagram 1: Supervision strategy



- 3.15 As we will be collecting regulatory information electronically, we can set up a number of reports that automatically highlight issues. For example, we could calculate and create an ‘alert’ where a firm has reported inadequate capital on the RMAR. It could also highlight a risk where, say, a firm has had a relatively high number of complaints. We can use these alerts and risk indicators to identify any outliers.
- 3.16 We also intend to build profiles of individual firms, sectors and products by combining the risk indicators and alerts with other information provided on the RMAR and the data from product providers. This will give us flexibility in being able to analyse all of the information we are collecting from firms in an efficient way – we can ‘slice and dice’ the information according to which particular firm, product, sector or risk we may wish to look at.
- 3.17 This system will also allow us to interrogate the data so that we can analyse industry trends, perform scenario analysis and select firms for thematic work. For example, if we are aware of an issue with the selling of a particular product we can use the system to identify which firms are selling that product. Looking forward, we could, for example, also combine information collected from firms with other demographic or socio-economic data feeds to build sector and firm based customer profiles.
- 3.18 So, this will help us to undertake more targeted and efficient supervisory action, which will be particularly important considering the number of firms that we expect to be carrying on these activities. Without such information we may have to undertake more visits and ask firms to complete ad hoc requests for information.
- 3.19 Some respondents to CP197 suggested we should collect more information for firms in higher risk sectors. However, we consider it more important to collect the minimum set of information and use the risk profiling tool to pay close attention to higher risk sectors or products. Even so, as outlined in chapter 5, we have made revisions to our product sales data proposals to focus initially on the areas and products where we expect we will be able to gain the most benefit.
- 3.20 Because of the importance of regulatory reporting in our supervision strategy, we will place considerable emphasis on ensuring we receive information that is timely and accurate. We highlighted in CP197 our policy and procedures regarding the late submission of information and noted that the provision of inaccurate information may lead us to take enforcement action.

Costs of our requirements

- 3.21 We received some comments about the costs of our proposals as outlined in the cost benefit analysis (CBA) section of CP197 (Annex 1). Overall, firms acknowledged the importance of regulatory reporting and recognised that we

had identified the areas of relative cost. However, the following comments were made:

- more data appears to be requested than under current regulatory regimes;
- the sample size used to perform the CBA was considered small; and
- it was suggested we had underestimated costs in certain areas.

3.22 This following section outlines our response in these areas, and includes some revisions to our proposals to make the requirements simpler and less costly to implement. We have explained in the previous section that we also see significant benefits from using information in our supervisory strategy, as it will help us identify non-compliance and risks posed by firms, products or sectors. We therefore consider our requirements to be proportionate, particularly in comparison to the alternatives, such as a cycle of regular visits.

Current regulatory regimes

3.23 Some respondents commented that our requirements appear more onerous than those required under the current voluntary regulatory regimes, such as GISC and the MCCB. However, our regulatory reporting requirements are broader and this reflects that:

- we have been given a much wider scope of responsibilities than these bodies, and we therefore need more information to monitor a wider range of rules and threshold conditions; and
- the current regulatory bodies use other methods such as regular visits to monitor firms. However, not all firms participate in the current voluntary regimes, therefore this approach would not be proportionate for the larger number of firms we expect to be supervising.

Sample size of CBA

3.24 Some respondents suggested the sample size of the CBA was too small and this had led to costs being underestimated. We consider that the sample size was representative in the context of the work performed. The interviews and written questionnaires were supplemented by detailed desk-based research on the processes and additional costs likely to be faced by the different types of firms. Interviews were also conducted with a number of industry and specialist bodies. KPMG, who undertook the study into the feasibility and costs of the proposals, also used a number of other databases on industry costs.

3.25 KPMG's work suggested that the key determinants of costs for firms were size and regulatory status. Therefore the firms for the sample were selected according to these factors and the cost benefit analysis in Annex 1 of the CP197 was also presented in this way.

Under-estimating costs

- 3.26 Several respondents suggested we had under-estimated the costs of our proposals. As we highlight in chapters 4 and 5, we consider that this is partly due to some misunderstandings about the requirements themselves. Many of the requirements are also difficult to cost – a fact that was acknowledged in the feedback received. The costs we referred to in CP197 were averages and therefore we recognise that there may be firms which have higher costs.
- 3.27 Despite these points, we do recognise that there are some areas that have a significant impact on firms, and have sought to modify our proposals (using the feedback on our CBA) in the following areas.

RMAR

- 3.28 A number of respondents highlighted the high cost of our proposals for smaller firms, particularly in providing financial information. This was an issue we acknowledged in CP197, but to lessen the initial impact on firms, we are introducing transitional arrangements. Now, smaller firms only need to submit financial information at their accounting reference date during the first financial year (i.e. they are not initially required to submit mid-year financial information).
- 3.29 This should have a significant impact on the smaller firms - our original cost benefit analysis suggested that the ongoing cost of completing the financial section for a ‘micro’ firm³ comprised of almost 90% of the total ongoing cost for submitting a return (see table 7 of Annex 1 of CP197). Paragraph 4.5 below also explains how we intend to provide more information to firms to help them complete the requirements in a more cost effective way.

PSD

- 3.30 Some product providers claimed we had underestimated costs associated with submitting product sales data. We have considered these comments and made adjustments to our proposals as follows:
- first, we have excluded general insurance products in the first instance from the scope of product sales data reporting. Based on our original cost benefit analysis which suggested that the majority of set-up costs would fall on the general insurance industry, we estimate that overall set up costs would now be equivalent to around a quarter of that estimated in CP197;
 - secondly, we are allowing firms a further year before they are required to collect information regarding whether advice was given on each sale. According to our original cost benefit analysis, this information accounted

3 A ‘micro’ firm was defined in the CBA in Annex 1 of CP197 as ‘a firm with either one or two advisers’.

for a significant proportion of the set-up cost in the mortgage and retail investment sectors. The transitional approach is aimed at reducing the impact of this; and

- although we will now be collecting some of this information from intermediaries via ‘supplementary product sales data’ in the RMAR, we have simplified these requirements. We consider that the costs for completing this section will be no higher, and may well be lower, than those estimated in CP197.

4 Consultation issues on the Retail Mediation Activities Return (RMAR)

- 4.1 This chapter explains the decisions we have taken in the light of consultation responses on the RMAR. These include issues relating to:
- frequency of reporting;
 - time limits for reporting; and
 - detailed comments on the RMAR.

Frequency of reporting

- 4.2 **Background:** in CP197 we proposed that the RMAR should be submitted half yearly by most firms, and that larger firms (defined as those with annual income of more than £5m from their retail mediation activities in the previous financial year) should submit the financial sections (A to E) quarterly. We also sought respondents' views on whether firms for whom regulated activities are of secondary importance to their main business and whose gross income from such activities is relatively low (say, less than £10,000 per year) should be required to report annually rather than half yearly.
- 4.3 **Consultation responses:** a number of respondents claimed that it is unduly burdensome to require RMAR submission every six months, particularly for smaller firms.
- 4.4 Most of the respondents that expressed this point of view did so on the grounds that we had underestimated the cost, particularly in relation to the financial data required in sections A (balance sheet), B (P&L) & D (regulatory capital). Some of these views, however, were at least partially based on misunderstandings of the proposals or the associated cost benefit analysis (CBA), for example:

- respondents did not always take account of the fact that there is a policy requirement to maintain much of the information in the RMAR (e.g. on capital requirements and complaints, as outlined in previous CPs such as CP174). This means that there is a relatively small cost attached to the reporting of data that the firm is already required to maintain. For example, a firm is required to ensure that they hold sufficient financial resources at all times, and therefore have to maintain appropriate accounting records. This means that the actual reporting of information should not require significant additional resource;
- many respondents based their view on the assumption that external accountants would need to prepare and audit the financial data for each submission. There is in fact no requirement (on top of policy requirements) that the RMAR is audited before submission. However, we did include the costs of using accountants in our original CBA (indeed, it accounted for a large part of the cost for small firms).

4.5 There were also a number of respondents who thought we had not made the benefits clear and some that questioned whether we would have the resources to analyse the large volume of data. Others were unconvinced that we will be able to deliver an IS system that will be able to handle data collection and analysis on this scale. We have provided more information in Chapters 3 and 7.

Our response: on balance, we consider that the overall views of respondents gave grounds for us to revisit our proposals for the frequency of the RMAR. However, since all firms are required to hold adequate financial resources at all times, we consider it important that they have a sound grasp of their financial position. This is a key requirement in mitigating risks to consumers, and we do not therefore consider it appropriate to reduce the reporting frequency permanently. Instead, we have introduced a transitional arrangement that will exclude small firms⁴ from the requirement to submit financial information (sections A to E of the RMAR) at their mid-financial year for the first year after the requirements are implemented. We consider that this will give these firms more time to adapt to the requirements, and put in place procedures to collate and submit information without necessarily using external accountants. We have also simplified the requirements so that many firms should be able to complete them themselves at a lower cost (see table in Annex 3).

Although a transitional arrangement was originally considered only for small **secondary** intermediaries, we now consider that the option should extend to all small firms, because the views expressed in responses have led us to the conclusion that all firms that have a low income from regulated activities are equally likely to have difficulties in completing our financial requirements.

4 In this context, we have defined 'small firms' as those whose annual income from retail mediation activities in the previous financial year was £60,000 or less. For mortgage and insurance intermediaries, annual income should be determined in accordance with the Integrated Prudential sourcebook, paragraphs 9.3.42-50 (and we will provide further guidance on this in due course).

We also intend to introduce an educational programme, providing more information for firms on how to complete the reporting requirements, and emphasising that financial information does not need to be audited for our purposes.

We consider that this is a pragmatic approach that recognises and responds to the cost concerns that small firms have. At the same time we avoid undermining our supervision strategy because the concession is time limited, and also because we will still have six monthly non-financial information from firms (including confirmation that they meet the 'adequate resources' threshold condition).

Time limits for reporting

- 4.6 **Consultation responses:** in an issue that is linked to the points above on frequency, a number of respondents questioned whether 30 working days is enough time to prepare RMAR information for submission.

Our response: the time limit of 30 days was established as a reasonable deadline for the receipt of data of this type, bearing in mind the importance to the FSA of receiving information quickly enough to be able to act on it. The comments made in relation to this issue were mostly linked to the use of accountants in preparing data. So, we repeat our assertion that this should not be necessary for most firms, as the information requirements will be relatively simple to complete. The time limit is also consistent with the deadlines for all firms that were set out in CP198.

Detailed comments on RMAR data items

- 4.7 **Background:** details of our proposals for the information to be submitted in the RMAR were set out in Chapter 4 and Annex 5 of CP197. Annex 5 included a proforma of the individual data items along with guidance notes for completion of the RMAR.
- 4.8 **Consultation responses:** many respondents commented on the detail of the RMAR, and in some cases made suggestions for clarification or changes in the requirements.

Our response: as a result of these comments and suggestions, we have made a number of revisions to the information required in the RMAR and to the guidance notes in order to make them simpler and easier to understand. These are set out in a table in Annex 3. The RMAR data is set out in full in Annex A, Part 4 of Appendix 1.

- 4.9 The main amendments are also summarised here for clarity.

Removal of front sheet and complaints section

- 4.10 In CP197, the RMAR ‘front sheet’ was used to illustrate the standing data that firms would need to confirm as correct (as consulted on in CP198). It has now been removed from the return because the standing data itself is not specific to the firms covered by the RMAR requirements, but is relevant to all firms, and as such does not form part of the RMAR. Firms will still be required to confirm the accuracy of standing data we hold, and these issues are dealt with in the Policy Statement to CP198 (PS04/8).
- 4.11 The complaints section (section J), which was included in the CP197 version of the RMAR for illustrative purposes, has also been removed, even though the requirement to report complaints data remains in place and is dealt with in PS04/8. Again, this is because the complaints reporting requirements apply to all firms, not just those carrying on retail mediation activities.

Non-investment insurance contracts

- 4.12 CP197 referred to ‘general insurance and pure protection contracts’ to describe the scope of the reporting requirements in relation to insurance mediation activities. Since the publication of CP197, the scope of the Insurance Conduct of Business Rules has been finalised, and a new term, ‘non-investment insurance contracts’, has been defined to describe the relevant products. The new defined term encompasses general insurance and pure protection contracts, but excludes long-term care insurance contracts, which are treated as life policy investment products. This term is now used throughout the RMAR and its notes for completion.

Supplementary product sales data

- 4.13 As a result of the consultation process, the scope of product sales data (PSD) has been reduced. To offset this to some extent, we have introduced a new requirement in section I of the RMAR, asking firms to indicate which general insurance products they are active in selling, and also in which products this activity is significant.
- 4.14 This requirement only requires a ‘tick-box’ approach, and we do not believe that there is a significant cost to this. It should be noted in conjunction with this amendment that the remainder of section I has been simplified. Now, we no longer require firms to indicate the percentages of business in certain product types where they deal as agent or carry on regulated activities as part of a ‘chain’. We consider that overall, section I is no more difficult to complete than the version in CP197, and indeed should be simpler.

Fees data

- 4.15 This is a new section of the RMAR (section J) that collects information that is needed for calculating the fees payable by firms to the FSA, Financial Ombudsman Service and the Financial Services Compensation Scheme. The precise way in which these fees will be calculated is still under consultation. Therefore, further guidance on completing these data fields will be provided in due course in a separate consultation.

Authorised professional firms

- 4.16 Further information is provided (in paragraphs 14-16 of the introductory chapter of the RMAR notes for completion) on the scope and application of the RMAR to authorised professional firms. See also paragraph 2.10 above.

5 Consultation issues on product sales data ('PSD')

- 5.1 This chapter explains the decisions we have taken in the light of consultation responses on PSD.
- 5.2 The key issues arising from the consultation process were:
- some respondents raised concerns about the principle of provider firms being required to supply product sales data that will primarily be used to supervise intermediary firms;
 - doubts were expressed as to whether we really need such detailed information to supervise firms, and whether alternative approaches should be further investigated; and
 - there were concerns over the costs of our proposals, and in particular the cost of collecting and reporting specific data items (for example, many respondents expressed concern over the requirement to identify whether advice was given in relation to each sale).
- 5.3 We remain convinced that PSD represents the most cost effective way of obtaining good quality, accurate information to underpin our supervision strategy, and that providers should supply the data as opposed to the intermediary firms themselves. Although this represents a redistribution of costs, we consider that it will be to the benefit of the market as a whole that we have an accurate overview. We also remain convinced (based on research ahead of CP197, and the fact that no alternative suggestions were received during the consultation process) that there are no other viable ways of obtaining sales data that identifies the intermediary firm that carried out each sale.
- 5.4 The issue of how we will use data is dealt with in Chapter 3 (with examples provided in Annex 2). This explains the different ways in which we intend to use the data to help us to supervise intermediary firms. But we will also use PSD in the supervision of product provider firms.

5.5 We have considered the issues raised in relation to costs, and believe that our revised approach (as detailed below) will reduce costs for the majority of providers. To summarise, the key changes set out in the remainder of this chapter confirm that:

- we will not be requiring providers to report whether advice was given on sales until July 2006 (transitional provision of an extra year);
- all general insurance contracts (including private medical insurance) and term assurance contracts are now excluded from the scope of PSD;
- we have made some changes to the data required for mortgage sales, including making changes aimed at reducing the burden of reporting for lenders who voluntarily support the SML (Survey of Mortgage Lenders); and
- we have made a number of changes aimed at clarifying the application of our data requirements to fund managers.

Advised/non-advised and FSA reference number of firm

5.6 **Background:** in CP197 we explained that although we were aware that this data is not currently captured, we considered it essential for supervisory purposes. The reasons given for needing this information are summarised as follows:

- **FSA reference number of the firm:** this data is required so that we can identify the firm that carried out each sale (intermediary firm or provider). Although a number of trade bodies collect sales related data, none of these can identify the source of the business in this way; and
- **advised/non-advised data:** it is important to know whether the customer has received advice or not because of the different risks to consumers that arise from advised and non-advised sales. For example, there may be certain products where there is either a higher training and competence standard, or a requirement that all sales must be advised. Having access to this data will help us to monitor compliance with these standards and will also help us to identify areas of concern, for example where a firm sells a high percentage of lifetime mortgages on a non-advised basis.

5.7 **Consultation responses:** we received a lot of responses relating to this issue. The requirement to report the intermediary's FSA reference number was generally accepted, but very few firms were in favour of reporting whether the sale was advised or not. While a number of firms accepted the rationale for the information requirement, they still expressed concerns regarding the timescales for making changes to systems and processes, and the collection costs.

5.8 Some providers felt that we had underestimated the cost of collecting this information. This was particularly the case with some of the larger providers

who estimated higher costs because of the range of products offered and number of different systems used to process the business. However, very few respondents provided detailed cost estimates.

- 5.9 In addition, some providers also saw this as a request to collect data purely for regulatory purposes. In CP197 we had suggested that it would be useful for providers to know the basis on which an intermediary sale had been made in the event of a complaint or mis-selling claim. Some respondents disagreed, and some indicated that as long as the complaint did not relate to the product, it would just be referred back to the intermediary firm.
- 5.10 Many respondents suggested that as the intermediary was the only person who knew what level of advice had been provided, we should obtain this information directly from them.

Our response: as already indicated above, information on whether or not a customer has received advice is an important element of enabling us to monitor compliance with, and the effectiveness of, our regulatory requirements. Having taken account of our original CBA (CP197 Annex 1), and the limited additional cost estimates provided by some respondents, we remain of the view that seeking this information from a relatively small number of providers is more efficient and less costly than obtaining it from a large number of intermediary firms.

It should also be noted that the Principles for Businesses require a firm to pay due regard to the interests of its customers and treat them fairly. For a product provider to be sure that it is treating its customers fairly, we would expect it, amongst other things, to decide whether it is generally appropriate for the product to be sold to this market through an advised or a non-advised sales channel. We accept that there are products which may be suitable for sale through either channel, and that a product provider need not monitor the channels through which individual sales are made. However, we find it surprising that a product provider would insist that it has no high-level interest in whether a given product is sold with or without advice.

However, we are sympathetic to the concerns raised about costs – in particular those arising from the proposed implementation timetable. So, we have decided to defer the collection of advised/non-advised data for an extra year. This means that this data need not be reported until the end of the second quarter of 2006. Firms will therefore have two years to implement the necessary systems changes, which should help to alleviate concerns about scarce IT resources at the current time. For the life industry it will also provide more time to assess whether any further changes will be required in the light of the Sandler proposals.

We have decided to provide a reporting field for advised/non advised data, so that firms can provide the data if they have it before the required period.

Product coverage and scope

- 5.11 **Background:** in CP197 we asked for views on whether we should exclude from PSD reporting products that are generally considered to be ‘low risk’. We indicated that we thought this might apply to some annually renewable general insurance contracts such as car and home insurance.
- 5.12 **Consultation responses:** although some firms argued against excluding any products because to do so would not provide a complete picture of the market, there was strong support for the exclusion of all annually renewable general insurance products.
- 5.13 The argument for excluding these products was that it would not be proportionate to require this information, and that we should focus our time and resources on products where there is evidence of consumer detriment. Also, some respondents maintained that the structure of this market (the number of block policies sold and the bordereau arrangements that exist between the insurer and the intermediary firm) would make collecting this data a more costly exercise than our CBA had estimated.

Our response: we have responded to these views by considerably scaling back the initial scope of PSD, as shown in the table below:

Insurance products excluded from PSD reporting	Insurance products included in PSD reporting
<ul style="list-style-type: none"> All general insurance contracts (including Private Medical Insurance) Term Assurance 	<ul style="list-style-type: none"> Critical illness (standalone or where sold as a rider benefit to a term assurance contract) Income Protection

This approach acknowledges the high costs associated with the collection of transaction data on general insurance contracts (given the lack of any existing data collection function in these markets), and the need to ensure that this particular supervisory tool is initially focused in those areas where it will provide most benefit.

It also acknowledges the complex distribution arrangements that exist within the general insurance market. Even if we continued to require general insurance contracts within PSD, we would still have an incomplete picture of the market. This is because many general insurance contracts are sold by intermediaries in distribution chains. In these circumstances we had already agreed that providers would not be required to report PSD, and that intermediary firms themselves should instead provide a high level sales breakdown within the RMAR.

We have considered the arguments put forward regarding the exclusion of all pure protection products. The main arguments here centre on the fact that we have decided not to classify these products as higher risk. It has also been argued that we should

not include these products within PSD scope until there is evidence of consumer detriment.

While we acknowledge that pure protection products have not been classified as 'higher' risk, the majority of the mortgage and retail investment products included within the scope of PSD are not in a defined higher risk category either. The fact that we have not decided to treat these products as higher risk in our rules does not mean that we think that there are no risks to consumers associated with the sale of these products.

PSD is a pro-active supervisory tool aimed at identifying potential risk areas early so that the appropriate action can be taken to minimise consumer detriment. Although we have not decided to treat these products as higher risk in our rules, we still believe that the additional complexities associated with these particular products may increase risk to consumers. This is why we have provided additional guidance in our rules to firms selling these products.

We consider that PSD will be an efficient way of monitoring compliance with the enhanced guidance. It will provide us with accurate data to show which firms are selling these products, so that any potential problems can be quickly identified and dealt with. A high-level sales breakdown in the RMAR would not provide us with the level of detail we require.

So, we have decided that sales of income protection and critical illness policies will be included in the scope of PSD reporting. The reasons for this are;

- these products have complexities that increase the potential risks to consumers;
- there is already some concern over the sales of critical illness policies, that customers either do not have the cover they need, or are sold overlapping cover; and
- income protection and critical illness can be sold with an option to convert into long-term care insurance at a later date (typically at retirement). We therefore consider that this is an area we need to keep under review.

We consider that this approach represents a sensible starting point for our use of PSD. We intend to keep the position under review, and may propose an increase in scope if it becomes apparent from our supervision work that this is necessary.

Supplementary PSD in the RMAR

- 5.14 We will still need to know which firms are selling the types of contracts excluded from PSD. So, there is a revised requirement in the RMAR that all firms carrying on retail mediation activities in relation to general insurance contracts will be required to submit high-level data (see chapter 4).

Distribution chains in the non-investment insurance market

- 5.15 **Background:** the general insurance market has a complex distribution structure, and we have identified chains of up to 14 firms between the product provider and the firm that sold the product to the customer. So, we stated in CP197 that we would not expect providers to be able to identify who actually sold the product in these circumstances. Firms in distribution chains would instead have to supply a high-level sales breakdown within the RMAR, and this would help us to identify which firm actually sold the product to the customer.
- 5.16 **Consultation responses:** almost all respondents agreed with this approach, including intermediary firms (who will be required to submit the RMAR information).

Our response: in CP197 the 'supplementary PSD' section of the RMAR was structured to allow completion by intermediaries in distribution chains. Further refinements have been made to this section as a result of consultation feedback (see Chapter 4). These have the effect of simplifying this section.

Mortgages – reducing the need for multiple surveys

- 5.17 **Background:** in CP197 we proposed to collect more data items for mortgage products than for investment or insurance products. This was largely because of their structure; a mortgage product consists of a range – or menu - of features in addition to the 'interest rate type', and it is the additional features that help to identify specific risks. For example, it is of limited value to know that a mortgage has a fixed rate, but if we also know that the fixed rate mortgage has been set up on a self certified basis and with a high loan to value, it is of much more use.
- 5.18 By contrast, although some investment products carry more inherent risk than mortgages, the structure of products in the retail investment and pure protection markets tends to be more prescribed. So, a customer will buy a discrete product, rather than selecting a range of features from a menu that together make-up a more tailored product. Hence, we require less information and providers generally collect less (although we may over time decide that we will need extra data items to be reported to be able to support our supervisory objectives).
- 5.19 **Consultation responses:** many lenders expressed concerns about specific data items – the issues broadly related to why we require certain items and how we plan to use them, and individual concerns about the difficulty of reporting particular items. No common themes emerged other than almost all lenders expressing concern regarding the cost implications of having to identify whether advice had been given on a sale. Although many of the respondents already either subscribe to external marketing databases or voluntarily

support the Survey of Mortgage Lenders (SML) or both, none of these data collection exercises involves the collection of this particular data item.

- 5.20 Some respondents expressed concern that there was a considerable overlap between the data we propose to collect via PSD and data submitted to the SML. Moreover, they indicated that because PSD reporting requirements would be compulsory and the SML is a voluntary survey, there was a risk that lenders would stop supporting the SML because of the burden of dual reporting. This would be to the detriment of members of the Council of Mortgage Lenders, because this data is published in aggregate form and is a rich data source for the industry. It would also impact on the recently launched monthly House Price Index, which is an HMT initiative administered by the Office of the Deputy Prime Minister (ODPM).

Our response: in view of the feedback received, we have reviewed the data items with a view to ensuring that we only require information that will provide maximum benefit within the supervisory process. The issue related to the advised/non-advised data item is covered in paragraphs 5.6 to 5.10.

We have made a number of changes to the proposed data items which can be found in Appendix 1 (Annex A part 9). In summary, the main changes are:

- we have confirmed that the PSD requirement only relates to loans for house purchases and remortgage loans. **Further advances do not need to be reported;**
- we no longer require firms to report whether or not the mortgage interest rate was incentivised (or to provide the date the incentivised rate period ends) or to report the date of any extended early repayment charge period. These items are now included as optional fields (see paragraph 5.21 below); and
- because we understand that many lenders do not know the type of repayment vehicle on a mortgage, we have added a 'repayment vehicle unknown' option.

More importantly, because of the concerns raised about the impact on the SML, we have considered how we could assist in the data collection process to keep to a minimum the overall burden of reporting on the industry. Whilst PSD and the SML contain a number of common data items, some of the additional SML data items would not be required by the FSA for supervisory purposes. So, we would have no authority to require lenders to report these additional data items.

We have decided that we will add the additional data items to our data collection mechanism as 'SML optional data items'. The benefits of this approach are:

- it will enable PSD and SML data to be captured in a single reporting schema;
- SML participants will be able to submit one copy of the file to the SML data collection agency and one copy directly to us; and
- this approach has minimum impact on our systems and resources.

We understand that the Council of Mortgage Lenders will be advising its members on transitional and other issues related to these new reporting arrangements.

The SML optional data items that have been added to the PSD data report are:

- purchase price of property (purchases only);
- type of dwelling;
- number of habitable rooms/number of bedrooms;
- whether the dwelling is new;
- whether there is a garage;
- whether the main borrower is a sitting tenant;
- whether MPPI⁵ was taken out alongside the mortgage.

Even though the SML is a monthly survey (whereas PSD is a quarterly requirement), SML participants will be able to submit the PSD report to us monthly. Firms not wishing to participate in the SML survey do not need to report these optional fields and can either report to us quarterly or monthly.

Optional PSD reporting items

- 5.21 In Appendix 1 (Annex A part 9), there are now 3 optional PSD data items that relate to:
- the initial gross interest rate;
 - the date any incentivised rate ends; and
 - the data any extended early repayment charge ends.
- 5.22 In CP197 we did not specify a requirement for the initial interest rate to be reported. However, it has since been recognised that this information would be useful for a number of reasons. It will provide a useful overview of the types of products being offered in, for example, the fixed, capped and extended penalty markets. In the longer term it will also help us to evaluate the impact of regulation and to assess whether customers who receive advice generally benefit from a better value mortgage product.
- 5.23 These items are currently optional. The intention is that if firms do not have access to these items they are not required to report them. Where firms do have ready access to these items, we would like them to complete these fields.

5 MPPI – Mortgage payment protection insurance - provides protection against all of some of the following - accident, sickness or unemployment.

Fund managers

- 5.24 We received a number of comments about the application of PSD to fund managers. These are addressed below.

Regulated collective investment schemes (CIS)

- 5.25 **Background:** in CP197, regulated CIS were included – along with all retail investment products – within the scope of our PSD proposals.
- 5.26 **Consultation responses:** some respondents suggested that we should exclude regulated CIS from the scope of PSD. This was largely on the basis that these products are subject to a regime of product regulation which sets appropriate standards of protection for investors by specifying product features and how they are to be operated.

Our response: in spite of the product regulation that applies to CIS, there remains a risk that these products may be mis-sold or mis-bought. PSD will enable us to monitor this market and identify promptly any potential problem areas. We therefore remain of the view that it is appropriate to include these products within the scope of our PSD requirements.

Unregulated collective investment schemes and sales to non retail customers

- 5.27 **Background:** in CP197 the effect of the draft rules was to include unregulated CIS together with regulated CIS within the scope of our PSD proposals.
- 5.28 **Consultation responses:** some respondents questioned whether we had indeed intended to include unregulated CIS, given they were not generally sold to retail customers.

Our response: we see PSD as primarily a tool for monitoring product sales where the end customer is a retail or private customer. It would not therefore be helpful to mix data on sales of unregulated CIS (most of which are to non-private customers) with sales of regulated CIS. And we recognise that this would be out of line with existing industry data reporting initiatives. So for now, we have excluded unregulated CIS from the scope of our PSD requirements. We have also clarified the application of the rules to make clear that they only apply in respect of sales to private customers (whether direct or via intermediaries).

However, we recognise that there may be a higher risk of consumer detriment associated with unregulated CIS, and we will therefore re-consult in the near future on whether we should include them as a new reporting category within PSD.

PSD and fund supermarkets

- 5.29 **Background:** the PSD proposals in CP197 apply to product providers; as such they would not apply to intermediate companies such as fund supermarkets.
- 5.30 **Consultation responses:** some respondents noted that an increasing amount of investment business is now arranged via ‘fund supermarkets’. (The Investment Management Association has indicated that around 18% of all IFA investment business is transacted in this way, and this number is set to increase as more fund managers move away from managing their own distribution channels.) Where a provider distributes products via a fund supermarket, the provider is generally not able to identify which IFA sold the product; most of the information relating to the sale is held by the supermarket and is not passed back to the provider.

Our response: we recognise that in these cases it would be very costly to require product providers to collect the ‘missing’ information from fund supermarkets. We therefore intend that in these circumstances, the fund manager should still report all sales intermediated by a fund supermarket, but that for identification purposes all of these sales can be recorded against the FSA reference number of the relevant fund supermarket.

Although this solution will help us to understand the levels and types of business transacted via fund supermarkets, it does leave a gap in our supervisory information. Our longer-term objective is to be able to fill this gap such that we can identify sales by the individual intermediary that is dealing with the end customer. So, we plan to re-consult in a miscellaneous Consultation Paper in the near future regarding the need for PSD to be reported by fund supermarkets (and potentially also by ‘wrap’ platforms).

Availability of certain data items

- 5.31 **Background:** CP197 included proposals for certain customer details such as postcode and age. This is to help us build a profile of the type and geographical location of customers buying a given product.
- 5.32 **Consultation responses:** some respondents noted that for certain investment products – such as investment funds – some of the customer details proposed are not collected.

Our response: where customer data such as age and postcode may not be captured for certain investment products, these items have been made optional within the PSD data report (see Annex A, part 9 in Appendix 1).

Other issues arising from consultation

The need for definitions

- 5.33 **Background:** in CP197 we acknowledged that there were several mortgage and investment products that we had not defined, and asked for views on whether we should define these for PSD reporting purposes.
- 5.34 **Consultation responses:** most respondents agreed that we should provide definitions, on the basis that without them, products could be mis-reported and the data could be flawed. However, some respondents acknowledged the potential downside of very detailed prescriptive definitions and requested that there should be a certain degree of flexibility.

Our response: we have provided some additional material in the form of high level guidance. We consider that this provides a practical, flexible solution to the problem and should make it easier for firms to report to us. We will however keep the situation under review to ensure that we are providing the appropriate level of guidance for providers to work with.

In developing this guidance we have sought to avoid cutting across or conflicting with existing industry standards that firms have to comply with when submitting sales related data to other sources.

The additional guidance we have provided is in Appendix 1 (Annex A part 8).

Frequency and timeliness of data submission

- 5.35 **Background:** in CP197 we proposed that PSD should be submitted within 20 working days from the end of each calendar quarter.
- 5.36 **Consultation responses:** most firms agreed with this proposal. A small number suggested that half yearly would be more proportionate, while some suggested that the cost of monthly as opposed to quarterly reporting would be negligible because validation and production costs are likely to be broadly the same, regardless of monthly or quarterly submission.
- 5.37 On the 20 working day deadline, responses were evenly split. Respondents either agreed that 20 days was enough time and gave rise to no issues, or that 30 days would be more practical (and would align the timescale to that of the RMAR).

Our response: we have concluded that the 20 working day deadline remains appropriate. The time limit of 20 days was established as a reasonable deadline for the receipt of quarterly data of this type, bearing in mind the importance to us of receiving information quickly enough to be able to act on it (the RMAR 30 day deadline relates primarily to a half yearly report).

Potential Changes as result of 'Sandler' proposals

- 5.38 The FSA may introduce a simplified selling regime for a range of products (subject to research findings). When the actual requirements are known, we may need to make some changes to the PSD proposals for retail investments, so that we can monitor the success of the regime and the impact on consumers. The same will apply to equity based Child Trust Funds which are due to be launched in April 2005, as this is another area that we will keep under review.

Long Term Care Insurance (LTCI)

- 5.39 In CP200: *'Regulation of Long Term Care Insurance'*, we consulted on a new definition for LTCI. We intend to publish a feedback statement in April/May 2004 which will contain the final definition. All products meeting the final definition will be within the scope of PSD, as LTCI is listed as a reportable product.

Future changes to PSD reporting

- 5.40 We are conscious of the need to give providers some assurances about the way in which we will make changes to the PSD report in future. So we confirm that:
- changes will only be proposed where there is a very strong argument for doing so; and
 - we will aim not to propose any new data items for the first two years after the initial implementation date (exceptions are the transitioned advised/non-advised data item and the need to re-consult on unregulated CIS and fund supermarkets).
- 5.41 We also see merit in setting up a PSD Industry Forum that can be used as a sounding board to help us to gauge industry support for future PSD changes before issuing a Consultation Paper. Because PSD applies to mortgages, investments and pure protection contracts, we will probably need to establish different groups for different markets. Establishing these groups could help us to
- refine our data requirements before the consultation stage, which should result in better, more finely tuned proposals;
 - understand whether providers need more support in terms of the how to report particular products;
 - evaluate the implementation of PSD and the first few quarterly submissions to see whether we need to make any changes to make the process easier for providers to comply with; and

- discuss the launch of new products and agree steps for adding them to the data set where appropriate.
- 5.42 We will need a range of providers to participate in these groups in order to provide a representative range of views. At this stage we envisage that these groups would only meet twice a year, but there may need for ad hoc communications, depending on the issues arising.
- 5.43 If you are interested in participating in one of these groups, you can either write or send an email to the contact details listed at the front of this Policy Statement by **30 June 2004**. Once we have established the number of volunteers, we will contact you to let you know whether we will require your help or not.

Summary of amendments to the PSD requirements

- 5.44 A summary of amendments that have been made to the PSD requirements as a result of the consultation process are set out in the table in Annex 3.3.

Part 2

Information required for the supervision of mortgage lenders and administrators

6 Consultation issues on the Mortgage Lending and Administration Return (MLAR)

- 6.1 This chapter explains the decisions we have taken in the light of consultation responses on the MLAR, including:
- more on how we plan to use the information;
 - publishing information; and
 - our responses to detailed comments made on the MLAR and other requirements for mortgage lenders and administrators.
- 6.2 It is important to note that product providers in the insurance and investment sectors are also subject to financial and other reporting requirements, which are not covered in this Policy Statement.

How we will use the data

- 6.3 **Consultation responses:** while the majority of respondents considered the MLAR to be proportionate in its range and depth of coverage, some raised concerns about the level of detail and our ability to make full use of the data collected.

Our response: although we made a case in CP197 for the way in which we plan to use the data we collect, we see merit in clarifying some of the key aspects here. The MLAR will enable us to:

- capture key prudential data (such as balance sheet, profits and capital) for firms that have not previously been authorised by us for any regulated activity, and which therefore do not report this data elsewhere;
- undertake ‘baseline monitoring’ for all firms carrying on mortgage lending activities. This is the first analytical tool in our risk-based approach to supervision. It will enable the use of comparable data to compare firms with their own historical performance as well as with peers. It will enable outlier firms to be quickly identified, and instances to be flagged where firms are targeting particular groups of borrowers or potentially riskier products. It will also provide a

sound basis for informing any thematic follow-up work that we might undertake with selected groups of firms;

- assess the pace of growth in each firm's new mortgage lending business, the amounts lent at fixed and variable rates, and the interest rates prevailing;
- monitor risk profiles of new lending. The two dimensional analysis of loans falling into particular bands of income multiple and of loan to value ratio will act both as an indicator of consumer exposure to debt, as well as an indicator of a firm's own exposure to property values;
- establish the degree of credit impairment across each firm's loan book, and the extent to which borrowers are experiencing difficulties in servicing their loans. The arrears analysis will provide a basis for monitoring these aspects, as well as providing a standardised basis for comparing firms within the industry, and the ability to compile reliable industry arrears statistics in the future; and
- build on previous supervisory experience, gained over many years of monitoring mortgage lending by building societies using a similar range of concepts as those now being introduced in the MLAR, where there has been a demonstrable track record of making full use of such data.

Publishing statistics on mortgage lending

- 6.4 **Consultation responses:** a strong theme emerging from responses was support for our suggestion (in paragraph 3.22 of CP197) that we publish a regular aggregated summary of the mortgage lending information we collect from the MLAR.

Our response: the MLAR will enable us to compile aggregate statistics, thereby providing valuable feedback to industry sectors and individual firms. This will enable each firm to benchmark itself against the market and be able to review its own lending profile against trends across the market as a whole. We consider that this will prove to be a powerful management tool. As stated in Chapter 1 above, we intend to develop our proposals for publishing aggregated statistics on the lending market, and we will hold technical discussions with relevant parties.

Detailed comments made on reporting proposals in MLAR

- 6.5 We received a range of comments on various parts of the MLAR. However, there were no parts of the proposed return that generated adverse comments of a nature that were either repeated by significant numbers of other respondents, or which appeared to raise fundamental issues. In many ways this reflects the extensive technical pre-consultation that took place, on both

the MLAR and its associated guidance notes, with trade bodies and a number of individual firms over the two years prior to issuing CP197.

6.6 The following paragraphs highlight some of the issues raised

Timing of proposals

- 6.7 **Consultation responses:** several respondents drew attention to aspects of the MLAR where, under current proposals for implementation, firms may not have a full 12 months to implement system changes from the publication of final rules to when the first returns need to be prepared.
- 6.8 Specifically, there will be an implied need to collect some new information ahead of the planned implementation of the return (scheduled for a firm's first financial quarter starting on or after 1 April 2005). This new information falls into two categories:
- (a) information which needs to be captured for loans made after mortgage regulation comes into effect on 31 October 2004; and
 - (b) information that needs to be monitored from a later date but before 1 April 2005.

Our response on category (a): from the outset of mortgage regulation on 31 October 2004, firms will need to have in place appropriate systems and controls to monitor compliance with the mortgage rules. This will of course include being able to identify loans as being regulated (or otherwise). But they will not at this stage need to be able to report the full range of information required on the MLAR. By 1 April 2005, however, they will need to begin collecting data in the format set out in the new returns. So by this stage, they will need to have the systems in place to extract all of the necessary information on the MLAR (including on new loans made from the start of regulation). The only part of the MLAR that will require the extraction of historical data in this way is table E(2). From our discussion with industry representatives, we understand that most if not all of this new information should be readily available; and

Our response on category (b): this issue relates to the section on arrears (table F of the MLAR), where in order to complete the information on capitalisations it is necessary to have monitored performance of such an arrears case for a six month period. So in this case, it is the reporting requirements (rather than the underlying policy) which is the key driver. This would imply the need to have such systems in place from the end of 2004, effectively giving firms only nine months or less to prepare systems. We will therefore be confirming that the first reporting period for the Arrears table F will be deferred by three months (i.e. to first report this information in respect of financial quarters starting on or after 1 July 2005). This means that modified systems would not need to be in place before 1 April. This recognises that arrears reporting is an area where systems changes may involve more significant work, and is also likely to be of most concern to firms. Details are provided in section 2 in the Introduction to the MLAR guidance notes.

Analysis of income multiples and loan to value ratios

- 6.9 Consultation responses: comments focused on a number of potential difficulties in classifying buy to let and business lending, as well as in categorising loans according to income status (e.g. ‘self cert’ loans).

Our response: to avoid these difficulties we have simplified the proposed analysis of income multiples. It will no longer be necessary to attempt to classify buy to let or business lending to specific income multiple bands. Instead they will be shown against a new ‘other’ category. We have also provided additional guidance in this area. In the case of income status, the definition has been simplified and the approach modified, so that there is no longer a restriction on classifying these loans to income multiple bands.

Credit history data

- 6.10 Consultation responses: respondents suggested that our approach to defining ‘impaired credit’ status for new borrowers had two potential weaknesses:
- (a) the absence of a threshold for minimum arrears would cast the net too widely, and
 - (b) the proposed arrears credit history of three years was longer than currently available from market providers of such information.

Our response: to address point (a), we have introduced a threshold of three missed payments; and in response to point (b) we have reduced arrears history requirements to two years.

Arrears monitoring

- 6.11 Consultation responses: a few respondents commented on the methodology for arrears monitoring, the capitalisation of arrears, and whether flexible loan products would pose any difficulties in applying the methodology.

Our response: we believe the proposed methodology deals with these issues, and should not pose conceptual difficulties for lenders. It is worth mentioning that the underlying methodology has in fact been successfully applied to the regulatory monitoring of building society arrears since 1992, and retrospective audits of completed returns have generally failed to highlight operational or definitional problems with the methodology. It is also a methodology used by the CML in its published arrears statistics. Even so, we revisited and updated the guidance before CP197 was issued, following detailed technical consultation with trade bodies and a number of lenders, and we therefore believe it adequately takes account of more recent changes in lending practice and loan product characteristics. The guidance on arrears therefore remains as proposed in CP197.

Securitisation

- 6.12 **Consultation responses:** we received some comments about the respective reporting roles of lenders and third party loan administrators, where packages of loans have been securitised and are therefore no longer shown on the lender's balance sheet. Specifically, respondents wanted to know who should be responsible for reporting any arrears in such portfolios, and how they should be reported (for example as part of table F, or using a copy of table F just for securitised assets).

Our response: we have consulted further with industry representatives to clarify the position, and from this it appears that firms were expecting to provide this type of information, which was considered to be relatively straightforward to prepare. We have therefore updated the guidance for lenders and loan administrators on the circumstances in which either party should report arrears on securitised loan assets. To avoid asking firms to complete a second version of table F for securitised assets (which had been seen as one of the implications of our previous guidance), we have instead adopted a less complicated approach. This is to ask for the requirement to be reported in new table 'H' in the part of the MLAR that covers mortgage administration activity. Contacts with firms suggest this approach is to be preferred. We do not consider that this amendment is significant in terms of increased costs to firms.

Impact of CP197 on existing building society reporting

- 6.13 **Background:** in the introduction to the notes on the MLAR we noted that there is potential overlap between some of the new reporting requirements and the building societies' current 'QFS1' return.
- 6.14 **Consultation response:** in its response to CP197, the Building Societies Association (BSA) expressed a desire to identify and agree the necessary changes to existing reporting as soon as practicable, and to that end offered to take part in technical discussions with the FSA.

Our response: the result is that changes to societies' existing reporting have been discussed and agreed. From the introduction of the MLAR, societies will no longer be required to complete certain sections of tables G(1), G(2), J, K(1) and K(2) of QFS1. Full details are provided at the end of Section 2 in the Introduction to the MLAR guidance notes.

Annual notifications

- 6.15 **Consultation response:** some respondents questioned whether the one year's implementation period would also apply to the annual notifications (e.g. the annual threshold conditions report) that currently apply to authorised firms

carrying on mortgage lending or administration, and will apply to newly authorised firms from October 2004.

Our response: the implementation period only applies to the MLAR – the other annual notifications required by the Handbook will be required as at the accounting reference date that follows authorisation for the relevant activities.

Summary of amendments to the MLAR

- 6.16 Details of amendments that have been made to the MLAR and notes as a result of the consultation process are set out in the table in Annex 3.2.

Part 3

Implementation

7 Systems and systems implementation

- 7.1 In CP197 we provided a summary of the systems we were considering for data reporting and how we proposed to implement them. We are now providing more information in this Policy Statement to give firms an indication of what is required and the systems we intend to use. Please note that we have not provided detailed technical specifications within this chapter. For more detailed information on what is required for RMAR and MLAR submission, firms should refer to the Policy Statement to CP198 (PS04/8). We also intend to publish more technical information on our website as highlighted below.
- 7.2 Specifically, this chapter contains information on:
- tailored reporting;
 - types of submission and data formats;
 - accuracy of reporting;
 - reminders for submission;
 - test facilities;
 - security; and
 - next steps.
- 7.3 We will implement these proposals with effect from 1 April 2005, which gives firms 12 months to prepare for the submission of the RMAR, MLAR and PSD.

‘Tailored’ reporting

- 7.4 In CP198 we explained our proposals for revising the reporting requirements for all firms over the next few years. We intend to develop a reporting structure based on firms’ regulated activities rather than firm type. So, we have identified some data items that are common to all firms, and others that are specific to one or more regulated activities.

- 7.5 Each regulated activity will have specific reporting requirements, so a firm whose regulated activities are limited to one ‘activity reporting group’ will only be required to complete the relevant requirements relating to that group. This should ensure that wherever possible, firms are not required to submit the same information more than once.
- 7.6 In practical terms this means that firms should be presented with a set of reporting requirements that is appropriate to their activities and firm type. This means that the returns that firms actually get will not be identical to the RMAR or MLAR returns that are illustrated in Appendix 1 (Annex A, part 4 and part 6 respectively). These set out the scope of data items we will require, but many of these data items may not be relevant to each firm and its activities.

Types of submission and data formats

- 7.7 PS04/8 confirms that a firm will be required to submit information to us electronically. To achieve this, two methods of submission have been agreed:
- ‘web form browser’ delivery using our secure internet site. In basic terms, this means that the firm will need to complete an online set of forms which it can access by logging on to the internet; and
 - direct submission with a ‘system to system’ transfer of data. Again in basic terms, this means that a firm will need to develop systems which will compile the correct information in the format we require. This can then be extracted to send to us.
- 7.8 Firms can use either approach to submit information to us, although we anticipate that only larger firms will use the direct submission route. Firms submitting PSD will be able to choose between web form submission and direct system to system This is summarised in the table below:

	RMAR & MLAR		PSD	
Method for submission	Web Form Browser (internet)	Direct system to system submission	Web Form Browser (internet)	Direct system to system submission
Format of data	Inputed online (but we will design this so it is compatible with the XBRL ⁶ taxonomy	XBRL taxonomy	Inputed online	XML ⁷

6 eXtensible Business Reporting Language

7 eXtensible Markup Language

- 7.9 To format the RMAR and MLAR data, we are using an XML-based open standard called XBRL. This is a derivation of XML that has been adapted and extended specifically for business and financial reporting, and is explained in more detail in Annex 4 of PS04/8. Together with the reporting notes, this will help firms to determine what information is required, how it is defined and in what format we require it.
- 7.10 For PSD reporting, we have decided to use a proprietary XML format, as no available standard such as XBRL exists. In any event, XML is an appropriate schema for dealing with transaction-based data such as PSD.
- 7.11 Firms will not need additional software to use web form submission, only an internet browser. We will publish our policy on supporting different desktop platforms and versions of web browsers as soon as possible. We will aim to support most users, but please note that it will not be cost effective to support all possible combinations or very old versions of software.

Accuracy of reporting

- 7.12 We require that information submitted to us should be complete and accurate. To support this requirement, ‘validations’ will be built into the keying in and submission process; these will test the completeness and accuracy of information. Different validation principles will apply depending on the data being reported and the methods for submission. The table below gives a simple overview of this subject.

Method for submission	Web Form Browser	Direct system to system submission
Type of validation	Most of the information will be validated as it is keyed into the fields. Firms will not be able to submit information if it fails any of these validation tests.	A firm can include our prescribed validations into its system before submission of information. We will also run these validations on submission, and returns which fail these will be rejected

- 7.13 We will publish the validations on our website as soon as possible after publication of PS04/8.

Reminders for submission

- 7.14 We are actively exploring ways to remind firms when a return is due, and will publish further details on this in due course.

Industry communication

- 7.15 To ensure that our policy for electronic reporting is implemented in a way that ensures we become easier to do business with, and that systems are mutually beneficial, a number of advisory panels and discussion groups are being developed. The function and purpose of these groups are fully explained in Annex 4 of PS04/8.

RMAR and MLAR Test Facilities

- 7.16 For details of the test facilities for the RMAR and MLAR, please see Annex 4 of PS04/8. The key points are:
- we will develop test facilities so that firms can submit dummy information;
 - firms will register with us to be able to use the test facilities; and
 - we will run a pilot exercise involving a representative selection of volunteer firms.

PSD test facilities

- 7.17 The PSD schema and supporting information will be available on our website as soon as possible following the publication of PS04/8. A test service will be developed by early 2005 to support firms in testing their systems. We also plan to conduct a pilot programme, details of which will be confirmed at a later date.
- 7.18 Test services will continue to be available after the implementation of production systems, to allow testing of changes and new systems.

Security

- 7.19 Respondents to CP198 raised concerns about the security of the information to be submitted. We intend that firms will be able to communicate with us in a secure environment, and more information is provided on this in PS04/8.

7.20 We are working to identify suitable standards of security, and the technology measures that we need to achieve them. As with other technical standards that affect the interface between firms and us, we will review our options and assess their impact in due course. We have convened a Technical Working Group with representatives from firms and software vendors, to advise on and review the decisions we make. We will publish the standards we adopt so that firms can satisfy themselves on this issue.

Summary of next steps

7.21 The table below summarises some of the next steps for rolling out the system requirements. This list should not be seen as exhaustive, however, and firms should continue to monitor our website, liaise with their relevant associations and be aware of other correspondence to ensure they remain aware of developments.

	RMAR & MLAR		PSD	
	Web Form Browser (internet)	Direct system to system submission	Web Form Browser (internet)	Direct system to system submission
Taxonomy published	N/A	March 2004	N/A	April 2004
Test service available	Q4 2004	Q2 2004	Q4 2004	Q1 2005
Pilot conducted	Q4 2004	Q4 2004	TBA	TBA

Part 4

Client money audit requirements

8 Consultation issues on the client money audit requirements in Part II of CP197

8.1 This chapter explains the decisions we have taken in the light of consultation responses on Part II of CP197. These include:

- requirements for mortgage lenders, administrators and intermediaries;
- costs and benefits;
- requirement to appoint auditors;
- content of the audit report;
- submission of reports; and
- Companies Acts exemptions.

8.2 In Part II of CP197, we set out our proposals on:

- audit requirements for firms that carry on mortgage or non-investment insurance activities, and hold client money; and
- the circumstances in which the auditor should be required to submit a client money report to us.

8.3 We received around 50 responses to each of the three questions posed in Part II.

Mortgage lenders, mortgage administrators and intermediaries not holding client assets

8.4 In the Policy Statement to CP174 published in September 2003, we set out ‘near-final’ rules on the appointment of auditors by mortgage lenders, mortgage administrators, and insurance and mortgage intermediaries not holding client money or other client assets. These rules are now published in this Policy Statement in their final form.

Mortgage intermediaries holding client assets

- 8.5 In CP197, we explained that we had set out in CP186 ('Mortgage regulation: draft conduct of business rules and feedback on CP146 (May 2003)') two options for protecting client money held by mortgage intermediaries, and that we had not yet decided which option to adopt. We have since decided that mortgage intermediaries holding client money will not be subject to client money rules. Instead we will rely on the protection provided by capital requirements, the compensation scheme and the authorisation process (option 1 in paragraph 7.6 of CP197). So we confirm that we will not apply the client money audit proposals in CP197 to mortgage intermediaries. The only remaining reference for these firms in the Client Assets Sourcebook (CASS) is where they are required to appoint an auditor under other statutory provisions (such as the Companies Acts) rather than under the Financial Services and Markets Act.
- 8.6 In the rest of this chapter, all references to intermediaries or firms carrying on mediation business are to insurance intermediaries only.

Costs and benefits

- 8.7 **Background:** in CP197 we asked for views on the costs and benefits of the proposals in Part II.
- 8.8 **Consultation responses:** a majority of respondents felt that the costs of our proposals were reasonable and proportionate. However, some respondents felt that the costs of the requirements were under-estimated, or questioned whether the benefits of the proposals to consumers were sufficiently explained.

Our response: we consider that the main benefit to consumers of the audit requirement is confirmation that an intermediary's systems and controls are adequate for holding client money or other client assets. This confirmation reduces the risk of misuse or loss of client money or other client assets. The audit requirement should not be viewed in isolation, but considered as part of the package of measures that we set out in the Policy Statement on CP174 ('Prudential and other requirements for mortgage firms and insurance intermediaries'). These measures are designed to ensure that intermediaries holding client money or other client assets, especially on a non-statutory trust basis, have adequate management, systems and controls to do this.

In relation to costs, we would stress that obtaining this type of data from an unauthorised sector is difficult. Even so, we do not think that our estimates are understated. While the costs for larger intermediaries are likely to be significantly higher than £5,000, we consider that £5,000 will represent the average cost (see footnote 11 to Annex 8 of CP197). We will continue to monitor the costs of the requirement and take account of them when we review the £30,000 exemption limit (see below).

Requirement to appoint auditors

8.9 **Background:** in CP197 we asked for views on the proposed criteria to exempt certain firms holding client money from the client money audit requirements. We proposed that an insurance intermediary should be subject to a client money and other assets audit requirement unless:

- the client money is held in a statutory, rather than a non-statutory, trust; and
- the intermediary does not hold more than £30,000 at any time during the course of the year being audited.

8.10 **Consultation responses:** responses to this proposal were mixed. Some respondents thought that the proposed exemption was appropriate and proportionate for smaller firms. Others supported our reasons for an exemption in principle, but questioned whether £30,000 was the right level (although suggestions were made for both higher and lower levels). A few considered that a limit based on gross premiums or annual income might be more appropriate.

8.11 Some respondents disagreed with the concept of an exemption, taking the view that anyone who holds client money, regardless of the amount or whether or not it is held in a statutory trust, should be subject to an independent audit requirement.

Our response: it is clear that the majority of respondents support an exemption to the client money audit requirement in principle, but disagree over the details. However, there is nothing substantive in the responses that persuades us that our proposed exemption level of £30,000 is incorrect. So, we remain of the view that this is an appropriate threshold that provides consumer protection while avoiding disproportionate costs. We will keep this limit under review, however, regarding both the number of firms that fall outside it, and any rise in the cost of insurance premiums and consequent rise in the value of client money held by intermediaries.

8.12 **Consultation response:** it was suggested that the £30,000 exemption should be extended to small intermediaries with non-statutory trust accounts. This was on the grounds that where amounts in such accounts were below £30,000 the audit costs would outweigh the regulatory benefits, given the amounts involved and the protection offered by the compensation scheme.

Our response: we do not propose to extend the £30,000 exemption to non-statutory trusts. We accept that the audit costs may be high for intermediaries with only a small amount of client money held in a non-statutory trust. However, we consider that this is a cost that these firms should take into account in determining whether to operate such a trust. We have set higher conditions for firms operating non-statutory trusts because of the higher risks for consumers that arise. We consider that the client

money audit requirement will help to confirm that firms can operate and implement a non-statutory trust effectively.

- 8.13 **Consultation responses:** several respondents asked us how frequently they would be required to perform reconciliations in order to ensure that they do not hold more than £30,000 in a statutory trust account at any time.

Our response: it is for a firm to ensure, on a continuing basis, that it meets our requirements. Under the Client Assets Sourcebook (CASS) 5.5.70 – 72R, a firm must reconcile its client money balances at least once every 25 business days. However, it is up to each firm to determine whether this minimum acceptable frequency is sufficient for its circumstances, given the fluctuations in its business and the amounts of client assets that it holds.

- 8.14 **Consultation responses:** several respondents asked whether our proposals applied to (i) an intermediary that does not hold client money or other client assets; and (ii) an intermediary holding client money as agent for an insurer.

Our response: on (i), we confirm that our proposals do not apply to an intermediary that does not hold client money or other client assets. The proposals also do not apply (ii) to customers' money received and held as agent of an insurer. We have added guidance for both (i) and (ii) to this effect.

- 8.15 **Consultation response:** we were asked whether we would extend the audit exemption proposals in CP197 to investment businesses as part of our review of external audit requirements.

Our response: we expect to consider this suggestion in our review of our external audit requirements across all authorised sectors.

Content of the auditor's report

- 8.16 **Background:** in CP197 we asked for views on the proposed audit requirements for firms holding client money or on the draft rules to implement them.

- 8.17 **Consultation responses:** several respondents pointed out that paragraph 7.15 of CP197 contained some inconsistencies with the draft rules (and also with Bulletin 2001/7 issued by the Auditing Practices Board, which is consistent with the rules).

Our response: any inconsistencies between paragraph 7.15 and the draft rules in relation to Bulletin 2001/7 were unintentional. We confirm that the draft rules are in line with both our policy intentions and Bulletin 2001/7. Any apparent differences in paragraph 7.15 should therefore be ignored.

8.18 **Consultation responses:** several respondents asked us to specify the exact scope and nature of the audit work to be carried out, or to develop guidance for auditors of insurance intermediaries in conjunction with the Auditing Practice Board (APB) and other accountancy bodies.

Our response: we note both suggestions. However, our proposed client money audit requirements for intermediaries are consistent with the requirements set out in SUP 3 for other authorised firms that hold client money. More generally, we believe that it is for the auditors themselves, in conjunction with relevant guidance and standards from the APB, the Institutes of Chartered Accountants and other accountancy bodies, to determine what they need to do to meet the client money audit requirement.

8.19 **Consultation responses:** several respondents asked whose responsibility it is to appoint an auditor and what are the responsibilities of senior management under our proposals.

Our response: it is clear from the comments received that there is some uncertainty over the duties and obligations of both intermediaries and auditors under our draft proposals. To avoid doubt, we have added further guidance to explain the rights and obligations of intermediaries. This makes it clear that it is the responsibility of an intermediary's senior management to determine, on a continuing basis, whether the intermediary is subject to this requirement, and to appoint an auditor if appropriate. More generally, SUP 3.7 sets out what a firm should consider when deciding whether it should notify us of matters raised by its auditor; this is amplified by SUP 15 (notifications to the FSA), and in particular SUP 15.3.

Submission of the report to firms and the FSA

8.20 **Consultation responses:** several respondents were unclear when an auditor should send us a copy of its client money audit report. They also sought clarity on what we meant by a 'serious' breach of the client money rules or matters which have 'serious regulatory impact' that require the auditor to notify us immediately.

Our response: the draft rules in CP197 rules set out our policy intention, that an auditor is required to send a report to the intermediary within four months of the end of the relevant period. The intermediary must then determine whether there are matters it should pass on to us, as set out in SUP 3.7 and SUP 3.15. The auditor is only required to send us the actual report if we request it within six years of the end of the period covered (but note the notification requirement referred to below).

More generally, the rights and duties of auditors are set out in SUP 3.8 (rights and duties of all auditors) and SUP 3.10 (Duties of auditors: notification and report on client assets). An auditor should bear these rights and duties in mind when carrying out client asset report work including whether anything should be notified to us immediately. We have added new guidance in SUP 3.2 to draw attention to this.

Companies Acts exemptions

- 8.21 **Consultation responses:** several respondents asked if our proposals were consistent with Companies Acts exemption levels for small and medium UK-incorporated companies.

Our response: consistency with the Companies Acts is not an issue. The Companies Acts stipulate that, upon authorisation by the FSA, small and medium UK-incorporated intermediaries will no longer be able to take advantage of the less onerous statutory reporting requirements and the audit exemptions that are available under the Companies Acts to them. So as soon as we authorise them, they will lose the availability of these exemptions and must arrange to have an audit and file full accounts with the Registrar of Companies.

Table mapping consultation questions to relevant Policy Statement chapter

As stated in Chapter 1 above, this Policy Statement does not deal with responses to CP197 on a question by question basis, because we found that many respondents used different questions to raise similar issues or concerns. The following table will assist respondents in identifying where specific questions and issues are dealt with in the Policy Statement.

Main issues raised by respondents	Ref to PS paragraph
1. What are your views on the rationale for collecting information, and on the costs and benefits of the proposals in part I of this CP?	
Comments that the requirements are too costly, or other issues on cost/benefits	3.21
Queries re scope of application, e.g. for APFs, investment management firms, firms that do not hold client money etc	Ch 2
Comments on policy rules rather than reporting requirements	2.3
Comments on FSA's supervision strategy rather than reporting requirements, e.g. the ability of FSA to cope with volume of data	Ch 3
Publication of aggregated data	1.19, 6.4
Timing of implementation	1.18
Duplication of reporting requirements	2.7
Comments on data submission	Ch 7 & PS04/8
2. Should firms for whom regulated retail activities are of secondary importance to the main business of the firm and whose gross income from such activities is low (say, less than £10,000 per year) be required to report annually rather than half yearly?	
Comments on higher risks posed by secondary intermediaries	4.5
Comments on APFs	2.10, 4.16
Comments that all firms should be treated the same to ensure integrity of data	4.5
Comments on FSA's supervision strategy	Ch 3
Suggested modifications to the 'small firms' threshold in CP197	Footnote to 4.5

3(a). What are your views on the proposed reporting requirements for firms carrying on regulated retail activities and on the draft rules to implement these?	
Comments on frequency of reporting	4.2-4.5
Comments on the submission deadline of 30 days after the reporting period.	4.6
Comments on individual data items or specific parts of the guidance notes	Annex 3.1
Perceived need for data to be compiled/audited by external accountants	4.4
Queries re scope of application, e.g. for APFs, investment management firms, firms that do not hold client money etc	Ch 2
Comments on FSA's supervision strategy rather than reporting requirements, e.g. the ability of FSA to cope with volume of data	Ch 3
Duplication of reporting requirements	2.7
CBA comments	3.21
Comments on policy rather than reporting requirements	2.3
Issues for APFs	2.10, 4.16
3(b). What are your views on the proposed reporting requirements for firms carrying on mortgage lending or administration and on the draft rules to implement these?	
Comments on level of detail in MLAR	6.3
Comments on reporting of data on arrears	6.11
Comments on 12 month implementation period	6.7-6.8
Comments on publication of aggregated MLAR data	6.4
Comments on individual data items or specific parts of the guidance notes	Annex 3.2
Duplication of reporting requirements	2.7
4. For mortgage and investment products that have not been defined in the Handbook glossary we are seeking views on whether you would find it useful for these terms to be defined. If so, how should these be defined for reporting purposes?	
Comments on defining mortgage and investment products for PSD	5.33-5.34
5. It is our understanding that the additional product sales data items for the mortgage market are already collected by most firms and therefore would be relatively low cost to provide. What are your views on our proposals covering these items?	
Comments on costs for systems changes	5.2-5.5
Comments on individual data items	5.17-5.23
6. Do you think that there are certain types of products that we should exclude from the scope of PSD reporting? If so, which products should we exclude?	
Comments on exclusion of certain products	5.11-5.13
Comments on FSA's supervision strategy rather than reporting requirements.	Ch 3
7. What are your views on the collection of the new data items for PSD?	
Comments on PSD requirement to report intermediary's FSA reference number	5.6-5.7
Comments on PSD requirement to report whether advice was given on each sale	5.6-5.10
8. In the general insurance and pure protection insurance markets, do you agree with our proposal that product sales data should not include information on intermediaries within a chain (other than the intermediary which deals direct with the provider)?	
Comments on reporting requirements for sales involving chains of intermediaries	5.15-5.16
9. Do you agree with our proposal for product sales data to be submitted quarterly within 20 working days of the end of the calendar quarter?	
Comments on quarterly submission of PSD	5.35-5.37
Comments on 20 day deadline for submission of PSD	5.35-5.37

10. What are your overall views on the proposed reporting requirements for PSD and on the draft rules to implement them?	
Comments on the proposed scope of PSD	Ch 5
Comments that the requirements are too costly, or other issues on cost/benefits	5.2-5.5 3.21-3.30
Comments on individual data items	Ch 5
Publication of aggregated data	1.19
Issues relating to the Survey of Mortgage Lenders	5.17-5.20
11. What are your views on the costs and benefits of the proposals in Part II of the CP?	
Comments on the costs and benefits of the audit proposals in Part II of CP197	8.7-8.8
12. What are your views on the proposed criteria to exempt certain firms holding client money from the client money audit requirements?	
Comments on the proposed criteria for exemption from the audit requirements, including the threshold of £30,000.	8.9-8.13
13. What are your views on the proposed audit requirements for firms holding client money or on the draft rules to implement them?	
Comments on the audit proposals in Part II of CP197	8.16-8.21

Illustration of how we may use data for the supervision of firms

This annex provides some illustrative examples of how we might use information to supervise

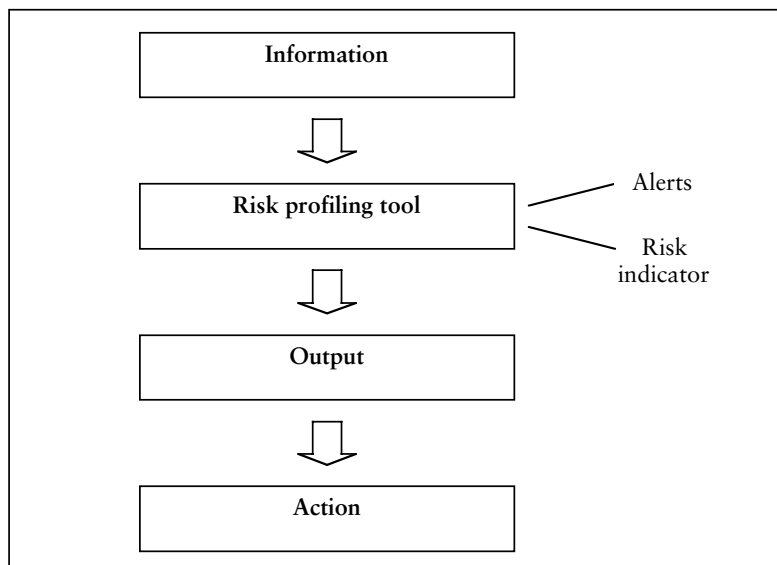
- A) firms carrying on mediation activities; and
- B) product providers reporting product sales data.

These should be seen merely as an indication of the types of analysis we may undertake; they are not intended to provide a complete picture of our supervision.

A) Firms carrying on mediation activities

1. In Chapter 3 we outlined our supervision strategy for small firms carrying on retail mediation activities. We emphasised the importance of baseline monitoring, and therefore regular reporting, in our approach, and outlined how we would use a risk profiling tool to monitor and evaluate risks. This approach is summarised in diagram 1 below.

Diagram 1: Supervision strategy

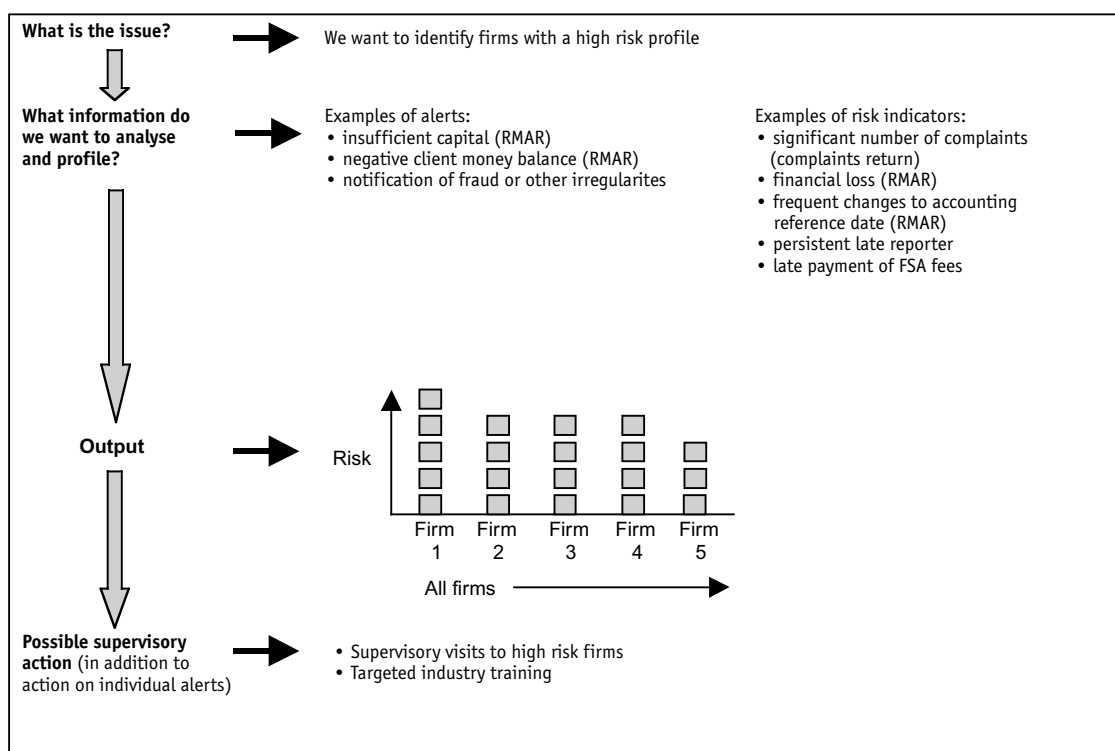


- In this annex we provide some examples of the profiles we may wish to explore using this approach, including outlining possible actions we could take.

Example 1: firms with a high risk profile

- One particular use of the risk profiling tool is to highlight firms that we consider generally to be higher risk. We will be able to use the information from regulatory reporting and other sources to establish to what extent there are any ‘alerts’ (i.e. non-compliance) or ‘risk indicators’ for any particular firm. Some of these potential alerts and risk indicators are listed in diagram 2 below. They include whether a firm has adequate capital (derived from the capital section of the RMAR) and where a firm has a high number of complaints (from the complaints return).

Diagram 2: Firms with higher risk profile



- Based on this information we can produce reports that help us analyse the risk profile of each firm. These could also help us analyse where there may be common risks across firms, sectors or products.
- We can use these reports to help us determine where to focus our supervisory resources. For example, we could use the following tools:
 - Supervisory visits.** The information can be used to help us target which firms to visit and the issues we could explore. For example, a firm may have a number of financial type issues – it may be reporting a loss and

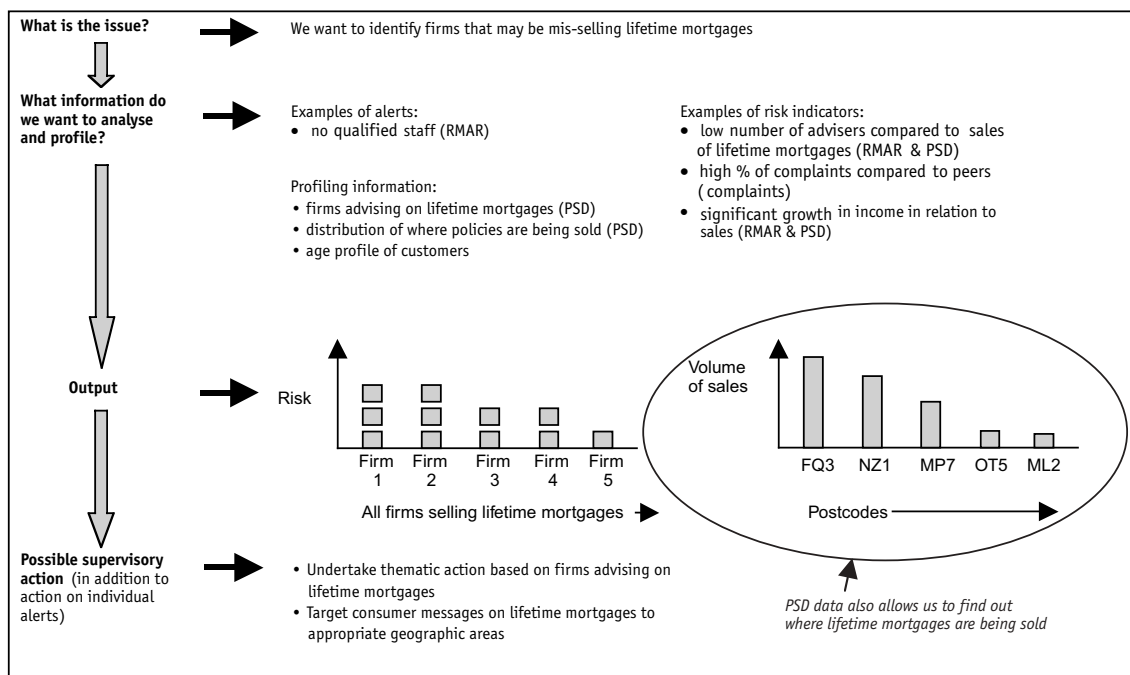
relatively low capital. We may therefore focus on the risk that this firm may not continue to meet the ‘adequate resources’ threshold condition. Alternatively, we may find that there has been a large increase in complaints against firms selling a particular product. We could therefore use this information to identify a range of firms to visit.

- **Industry training.** We may identify that there are a number of firms that are not complying with our rules in certain areas. We can use this information to highlight issues and good practice to firms and to provide industry training.
6. If we did not have this information for baseline monitoring then we would need to use more resource intensive tools of supervision to identify risks. For example, we might need to undertake more visits to firms, and since we might not be aware of the higher risk areas that we needed to look at these, these might be less focused.

Example 2: firms advising on sales of lifetime mortgages

7. In this example, we may want to highlight firms that are potentially mis-selling lifetime mortgages. Firstly, product sales data could be used to identify which firms are advising on lifetime mortgages, in which proportions and to whom. The information from regulatory reporting (and other sources) can then be used to highlight the relevant alerts or risk indicators in relation to this issue. Some examples of these are shown in diagram 3 below and include whether the firm may be advising on lifetime mortgages without appropriately qualified staff.

Diagram 3: Firms advising on sales of lifetime mortgages



8. Based on this information we can use the risk profiling tool to produce reports that help us analyse the risk profile of each firm. They can also help us identify where there may be common issues – for example, where there may be a regional concentration of sales.
9. As in the previous example, we can use this to help us determine where to focus our supervisory resources. For example, we could use the following tools:
 - **Supervisory visits.** The information will help us target which firms to visit and the particular issues we could explore. We may also focus on firms which we consider higher risk for other reasons (such as those firms highlighted in the previous example above) so that we are efficient in our contact with firms.
 - **Consumer awareness.** We may identify issues with the selling of products in particular areas – this will help us target any consumer awareness initiatives.
10. As in the previous example, if we did not have this information for baseline monitoring then we would need to use more resource intensive tools of supervision to identify risks. For example, we might need to conduct surveys to establish which firms sell lifetime mortgages, in which quantities and where. We might also not be able to make the best use of visits to firms as we might not be aware of other issues that we could explore.

B) Product providers reporting product sales data

11. In paragraph 5.4 we referred to the possible use of product sales data in our supervision of product providers. We use an example below for lifetime mortgages.

Example 3: Lenders offering lifetime mortgages

12. In example 2 above we outlined how we could use the risk profiling tool to highlight which intermediaries we might want to focus our supervisory resources on, concerning the possible mis-selling of lifetime mortgages. Also, supervisors of the lenders actually providing lifetime mortgages can use the information collected from product sales data as part of their ongoing supervision of firms. This may cover their direct sales of products (where the above example could also apply), sales via intermediaries (which could, for example, give rise to reputational risk) and prudential issues.

13. The table below give examples on the possible information that could be collected and what it might be used for.

Product Sales Data (PSD) filtered for Lifetime Mortgages

Field	Purpose
Size of loan Value of property Age of borrower	The combination of these data fields can help us to identify issues that may need further investigation. For example, higher loan to value products sold to 'younger' retired consumers may be more risky for lenders who give 'no-negative equity' guarantees, if they misjudge mortality risk.
Type of interest rate	Fixed and capped rates limit the risk to the borrower and the lender. A high percentage of variable rate sales could be an indicator of inappropriate product sales and risk management.
Post-code	Geographical analysis of the distribution of lifetime mortgages could help to identify lenders with particularly high exposures to local property markets. This analysis can be linked with regional house price indices to highlight concentration risks should house prices fall.
Intermediary FSA reference number	Alone, or in combination with other fields, analysis of lending flows from different intermediaries could be used to identify concentration risk. Should an intermediary be found separately to be in breach of FSA rules, the data will provide us with a list of affected lenders.

14. We will use PSD information along with information reported on other returns (such as the capital data reported on the MLAR) to monitor performance and product sales trends for each firm. We can then use this to help us determine whether any action could be taken against any individual firm and/or whether there is a need for thematic work looking at the industry as a whole (for example, we could decide to look at origination and risk management of lifetime mortgages across a range of lenders).
15. So, product sales data will be a useful tool in supervising both firms carrying on mediation and the product providers.

Table of RMAR, MLAR & PSD amendments following the consultation process

3.1 RMAR amendments

Note: the cell references below refer to the Policy Statement version of the RMAR, not the version published in CP197.

Section	Summary of amendments
Introduction to reporting notes	Title of reporting notes and throughout: name of the reporting return changed from 'Regulated Retail Activities Requirements ('RRAR') to 'Retail Mediation Activities Return' ('RMAR'). This amendment is to provide a closer reflection of the activities to which the reporting requirements apply.
	Contents sheet: removal of Front Sheet section and section J on complaints. See below.
	Contents sheet: section on Large Exposures moved from 'K' to 'D5' to sit with the related capital requirements for ISD investment firms
	Contents sheet: new 'section J' on fees data. See below.
	Paragraph 5: abbreviations table amended to take account of final Handbook text arising from consultations
	Paragraph 6(b) and throughout: insertion of references to ' non-investment insurance contracts ' instead of 'general insurance contracts/pure protection contracts', reflecting the scope of the policy requirements in the final version of the ICOB. The new defined term excludes long-term care insurance contracts ('LTCP'), which are treated as life policy investment products.
	Paragraph 6(c): addition of 'assisting' activity to the scope of retail investment activities, reflecting the treatment of LTCI as noted above.
	Paragraphs 14-16: additional guidance on scope of requirements for APFs
	Paragraph 17(c): further guidance on accounting principles
	Deletion of paragraph relating to policy consultations – no longer applicable.
Front sheet	This section has been deleted because it has been concluded that standing data (which was covered by this section in CP197) is not specific to the firms covered by the RMAR requirements, but is relevant to all firms, and as such should not form part of the RMAR. Firms will still be required to confirm the accuracy of standing data held by the FSA, and these issues are dealt with in the policy statement to CP198, which is being published at the same time as this paper.
Section A Balance sheet	Cell ref BS10: addition of 'other assets' in line with GAAP.
	Cell refs BS11-13, BS16, BS25: wording amended in line with GAAP.
	Cell ref BS19: it was concluded that the appropriate memo item on the balance sheet should be <u>guarantees provided by</u> (rather than <u>to</u>) the firm.
	'Auditor's name and address' have been deleted from this section as this data is maintained as part of standing data.

Section	Summary of amendments
Section B Profit & Loss	Notes to cell refs PL1, PL6, PL11: further guidance on commission sharing.
	Notes to cell refs PL2, PL7, PL12: clarification of treatment of commission received by appointed representatives
	Notes to cell refs PL5, PL10, PL15, PL20: revised definition of annual income in accordance with final Handbook text (PRU 9.3.44)
	Cell ref PL23: simplification of reporting requirements for expenditure, i.e. requirement for a single figure rather than a breakdown of expenditure by staff, premises etc.
	Cell refs PL24, PL25, PL27, PL28: wording amended in line with GAAP.
Section C Client money	Section C general notes: scope of client money reporting requirements amended to exclude mortgage mediation activity, following final policy rules. References to MCOB are deleted throughout the section.
	'Auditor's name and address' have been deleted from this section as this data is maintained as part of standing data.
	Cell ref CM1 and notes: wording amended to require notification here only if issues have not previously been reported in line with policy requirements.
	Cell refs CM2 to CM14: revised to split out client money held in relation to non-investment insurance activity and retail investment activity.
Section D	Section D notes: rule references updated throughout to reflect final Handbook text.
	Section D notes: the section covering Large Exposures requirements has been moved from 'K' to 'D5' to sit with similar requirements for ISD investment firms
Section D1 Regulatory capital	Section D1 general notes: revised to reflect the 'higher of' capital requirements in PRU, which extend to all firms that are subject to IPRU(INV) or CRED in addition to PRU.
	Notes to cell refs RC1 to RC3: added examples of firms that may be exempt from the capital requirements.
	Notes to cell ref RC13: amended to make specific reference to the 'higher of' capital resources calculation for firms subject to IPRU(INV) or CRED in addition to PRU.
	Cell ref RC15 and notes: new requirement for personal investment firms to state their firm category under IPRU(INV). This is to ensure that the appropriate capital requirements are applied to each firm.
	Cell ref RC19 and notes: clarification that the data required here is the additional own funds requirements in relation to PII.
	Cell ref RC20 and notes: new field that provides the facility for firms to report other individual capital requirements that apply.
	Notes to cell refs RC34 & RC40: added notes confirming that the balance sheet value for goodwill does not have to be deducted as an intangible asset until 2008.
Section D2 Financial resources (non-ISD)	Section D2 notes on 'net current assets test' revised to more closely reflect its purpose.
	Section D2 notes on application of 'expenditure based requirement' revised for clarity.
	Item 14: added to own funds to reflect IPRU(INV) policy on PASS loan adjustments.
Section D3 Financial resources (ISD)	Item 21: additional requirement for the Sterling/Euro exchange rate, to allow firms and the FSA to ensure that the applicable ISD capital requirement is met.
Section D4 CAD13	Section D4 notes on CAD13 quarterly financial resources revised for clarity.
Section D5 Large exposures	Section moved from 'K' to 'D5'

Section	Summary of amendments
Section E PII	Section E notes: paragraph added stating application of PII requirements to authorised professional firms.
	Notes to cell refs PI1 to PI3: amended to reflect revised exemption criteria in IPRU(INV).
	Notes to cell ref PI13: amended to provide clarification of this requirement's significance to authorised professional firms in complying with IPRU(INV).
	Cell ref PI22 and notes: amendment to reflect that this amount should be in respect of all PII policies, if applicable.
Section F Threshold conditions	Section F notes on approved persons: amended to reflect final policy.
	Section F notes on controllers: amended to reflect final policy.
	Notes to cell ref THR1: amended to provide clarification of this requirement's significance to authorised professional firms in complying with IPRU(INV).
	Cell ref THR4 and notes: amended to clarify that the notification referred to is something that should have taken place at the time of the event, and should not be made as part of the reporting process.
	Cell refs THR5 & THR6 and notes: clarification of reporting requirement in relation to approved persons.
	Cell ref THR9 and notes: amended to clarify that the notification referred to is something that should have taken place at the time of the event, and should not be made as part of the reporting process.
Section G Training & competence	Section G notes: clarification of the application of the specific training & competence requirements to the activity of advising on non-investment insurance contracts.
	Notes to cell ref TC1: clarification of reporting requirement.
	Cell references TC2 to TC5 and notes: clarification of the scope of this reporting requirement.
	Cell references TC6 to TC9 and notes: clarification of the scope of this reporting requirement, recognising that supervisors may or may not give advice to customers themselves.
	Cell references TC10 to TC20 and notes: reworded for clarity.
	Notes to cell refs TC25 & TC26: further information on what is meant by 'designing' filtering questions.
Section H Conduct of business	Section H: deletion of sub-sections covering 'product provider self placements' and 'regulated activities income other than commission and fees'. This information was previously required to assist in calculating FSA fees, and has been superseded by the new section J below. Related notes also deleted.
	Notes to cell refs COB5 to COB7: further notes on non-authorised introducers.
	Cell refs COB57 to COB62 and notes: revised information requirements in relation to product provider panels.
	Cell ref COB68 and notes: this requirement was previously in the complaints section, which has been deleted (see below).
	Notes to cell ref COB71: further notes added on introducer ARs.
Section I Supplementary PSD	Sub-section (i), columns A & B (and notes): new section that reflects the reduction in scope of PSD for some non-investment insurance products. Requirement for firms to indicate the products in which they have been active for retail customers, and where this business was significant.
	Sub-section (ii), columns C D & E (and notes) - chains: in CP197 this was sub-section 3). This sub-section has been simplified – firms are no longer required to state the percentage of business in each column - they now only have to indicate in which products their business forms part of chains, where this is significant and where the firm deals directly with the customer.
	Sub-section (iii), columns F & G (and notes) – dealing as agent: in CP197 this was sub-section 2). Again this has been simplified so that firms only have to indicate the products in which they deal as agent and where this is significant, not the percentage bands.
	Sub-section (iv) (and notes) – claims handling: in CP197 this was sub-section 1). This sub-section has been simplified so that firms are only required to report the number of claims handled during the period, not the value of those claims.

Section	Summary of amendments
Section J Complaints	This section has been deleted from the RMAR. The amendments to DISP to take account of electronic reporting of complaints data were set out in CP198, not CP197, but were included in the RMAR for illustrative purposes. This is no longer appropriate, as the requirements are not specific to the RMAR but are common to all authorised firms. Issues on complaints arising from both consultations are dealt with in the policy statement to CP198.
New section J Fees data	This is a new section that sets out data requirements to be used for the calculation of FSA, FOS and FSCS fees. The precise way in which these fees will be calculated is still under consultation.

3.2 MLAR amendments

Section	Summary of amendments
Guidance: Introduction	Section 2 of the Introduction has been revised to provide firmer guidance for firms as to the particular tables of MLAR that they need to complete. This section now also contains details of the commencement of arrears reporting, and provisions affecting building societies to avoid duplication with existing reporting. Section 4 contains firmer definition of the mortgage market: it now refers only to the UK.
Front sheet: Standing data set	This section has been deleted because it has been concluded that standing data (which was covered by this section in CP197) is not specific to the firms covered by the MLAR, but is relevant to all firms, and as such should not form part of the MLAR. Firms will still be required to confirm the accuracy of standing data held by the FSA, and these issues are dealt with in the policy statement to CP198, which is being published at the same time as this paper.
Section A: Balance sheet	No change to return or guidance notes
Section B: Profit & Loss	No change to return or guidance notes.
Section C: Capital	No change to return or guidance notes.
Section D: Business flows	No change to return or guidance notes
Section E: New business profile	Sections E1 and E2 changed as follows: <ul style="list-style-type: none"> Return: all 'Not evidenced' line items now moved to form an 'of which' analysis of totals. Guidance: definition of 'Not evidenced' now simplified Return: new line item 'Other' introduced in each subsection to cater for buy to let, business loans and lifetime mortgages. Guidance: now expanded to cover 'Other'. Guidance: 'Valuation' under Loan to valuation ratio section revised to also allow indexed valuation methodologies to be used. Section E3: guidance for E3.1 Impaired credit history, revised at items (i), (ii), (iii) to introduce revised thresholds and, in the case of arrears, credit histories cut to 2 years
Section F: Arrears	No change to return or guidance notes from CP197. But a short introduction has been added to the guidance notes to clarify how they are to be used by lenders for table F, and administrators for table H.
Section G: Administration- Business profile	Return: the question at the beginning has been modified to clarify when a firm does not need to complete table G Guidance: for G1 we have added material to clarify the reporting of on & off balance sheet loans where a lending administrator also has a mortgage lending activity

Section	Summary of amendments
Section H (new): <i>Administration - Arrears</i>	This section has been added to enable arrears on securitised loan assets to be reported more conveniently, instead of requiring a second version of table F to be prepared (which was seen as confusing). The format is as per table F (a few lines deleted) and uses the same guidance, while new text clarifies the types of loans to be included in this analysis.
Section J (new): <i>Fees data</i>	This is a new section that sets out data requirements to be used for the calculation of FSA and FOS fees. The precise way in which these fees will be calculated is still under consultation.

3.3 PSD amendments

These amendments relate to changes made to the reporting fields and supporting notes originally in Annex 7 of CP197.

Summary of amendments
GENERAL
New data reporting field required to capture the FSA reference number of the firm providing the report
Transitional provision to give firms an extra year before they are required to report whether product sale was advised or not
RETAIL INVESTMENTS
Customer age now changed to Date of Birth (DD/MM/YYYY)
Customer date of birth and post code are now optional items
PURE PROTECTION CONTRACTS
All GI contracts of insurance and term assurance contracts are no longer reportable products. PSD now only applies to Income Protection and Critical Illness (whether sold as a standalone policy or as a rider benefit to a term assurance contract)
MORTGAGES
Clarification that further advances do not need to be reported
Descriptions provided for flexible mortgage, offset mortgage, loans where income is not evidenced (self certification) and total gross income
Lifetime mortgages: for lifetime mortgages the following data reporting fields are now optional – term of mortgage, income basis, total gross income and income verification
Interest rate data: Deleted - LIBOR interest rate type Cashback moved to the mortgage characteristic data field Deleted - data fields relating to 1) whether the interest rate was incentivised 2) date any incentivised rate ends and 3) date early repayment charge ends
Mortgage characteristics: now have one category for offset mortgages (previous two categories for offset positive and offset negative). Cashback added to this field
Type of borrower: council tenants now also included registered social landlord tenant exercising their right to buy
Method of repayment: deleted - pure interest only requirement. Added the facility for firms to report interest only mortgages where the repayment vehicle is unknown.
Income basis: this replaces the previous 'Mortgagee' field. New requirement to indicate whether income assessment has been made on a single or joint basis.
Remortgage transactions only: in response to feedback we have added another field to allow firms to report where extra money has been used for home improvements and debt consolidation
Employment status: Deleted – need to report whether borrower is part time employee or student
Total gross income: total income of all borrowers whose income was used in the credit assessment now applies (in CP197 we stated that this only applied to the first named borrower)

Summary of amendments
Income verification: reduced requirement that replaces the previous confirmation of borrower income requirement. Firms must report whether income has been evidenced or not
CCJ's: requirement now applies to all borrowers and is based on the value of CCJ's (rather than the number) within the last 3 years
Impaired credit history: requirement now applies to all borrowers – arrears are now based on a 2 year history (3 years proposed in CP197)
Optional PSD reporting items: Initial gross charging rate of interest, date incentivised rate period and early repayment charge period ends
SML Optional reporting items: the following data items are only of relevance to lenders who currently support the Survey of Mortgage Lenders: Purchase price of property, type of dwelling, number of habitable rooms/bedrooms, does the property have a garage, is the dwelling new and has the mortgage payment protection insurance been taken out with the mortgage?

List of non-confidential respondents to CP197

1 Stop Insurance Consultants Ltd
Advance Insurance Agencies Ltd
Aegon UK plc
AIB Group (UK) plc
Alan Boswell Insurance Brokers Ltd
Alexander Forbes Financial Services Ltd
Alexander Forbes Risk Services UK Ltd
Alliance & Leicester plc
Alpha Insurance Brokers Limited
Aon Ltd
Aspey Insurance Brokers Ltd
Asset IFA
The Association of British Credit Unions Ltd (ABCUL)
The Association of British Insurers (ABI)
The Association of Friendly Societies (AFS)
The Association of Independent Financial Advisers (AIFA)
The Association of Medical Insurance Intermediaries (AMII)
The Association of Mortgage Intermediaries (AMI)
The Association of Private Client Investment Managers and Stockbrokers (APCIMS)
AXA UK plc

Barclays plc
Barnes Marsland
Bensons Insurance Brokers
Berkeley Alexander Ltd
Bristol & West plc
Britannia Building Society
The British Insurance Brokers' Association (BIBA)
British United Provident Association Ltd
The British Venture Capital Association (BVCA)
Broadgate Insurance Services
Brydon Associates
The Building Societies Association
Central Financial Planning Ltd
Chartered Institute of Loss Adjusters
Chelsea Building Society
Cheltenham & Gloucester plc
City and Trust Finance Ltd
Claim Experts Ltd
Council of Mortgage Lenders (CML)
County Adjusters
Create Solutions Ltd
Darlington Building Society
David J. Miller Ltd
Derbyshire Building Society
Director & Staff Benefit Services
Dove Financial Management Ltd
Eastern Alliance Ltd
Ecclesiastical Insurance Group plc
Egg plc

Elkcrest Ltd
Finance & Leasing Association (FLA)
First National
The Folgate Partnership Ltd
Friends Provident Life and Pensions Ltd
FSA Small Business Practitioner Panel
Furness Building Society
Gartmore Fund Managers Ltd
General Insurance Standards Council (GISC)
GMAC-RFC Ltd
HBOS plc
Healthcare Insurance Report
Healthcare Plus
Hill House Hammond Ltd
Hinckley and Rugby Building Society
Houlder Insurance Services Ltd
HR Independent Financial Services Ltd
The Institute of Chartered Accountants in England & Wales (ICAEW)
The Institute of Insurance Brokers (IIB)
Insurance Compliance Services Ltd
Intermediary Mortgage Lenders Association (IMLA)
Investment & Life Assurance Group (ILAG)
The Investment Management Association (IMA)
Irwin Mitchell
John S. Pidgeon & Co
Joint Investment Business Committee, on behalf of ICAEW, ICAS & ICAI
Kensington Group plc
L P Dawe Insurance Consultants
Lambeth Building Society

The Law Society of Scotland
Legal & General Group plc
Lexham Insurance Consultants Ltd
Littlejohn Frazer
Lloyd's
Lloyd's Market Association (LMA)
Lloyd's Motor Underwriters Association (LMUA)
Lloyds TSB Bank plc
Loadline Ltd
London Investment Banking Association (LIBA)
London Market Brokers' Committee (LMBC)
London Society of Chartered Accountants (LSCA)
Loughborough Building Society
Lupton Fawcett
Lynbrook Insurance
Mansfield Building Society
Marsh Ltd
Medical Insurance Advisers Ltd
Melton Mowbray Building Society
Misys General Insurance
Mortgage Code Compliance Board (MCCB)
National Australia Group Europe Ltd
Nationwide Building Society
Norwich & Peterborough Building Society
Nvesta plc
Office for National Statistics (ONS)
Patients' Aid Association
Paul Scully Insurance Services
Pennant Independent Financial Services Ltd

Perkins Slade Ltd
Pinnacle Insurance plc
Police Mutual Assurance Society Ltd
Portman Building Society
PricewaterhouseCoopers LLP
Progressive Alternative Investments Ltd
Provincial Hospital Services Association
Prudential Assurance Company Ltd
R3: Group
Regent Healthcare
Retail Motor Industry Federation Ltd
Royal & SunAlliance
Sabre Insurance Company Ltd
Scarborough Building Society
Skandia Group
Smart and Cook Ltd
The Society of Motor Manufacturers and Traders
Southern Pacific Mortgage Ltd
St. Paul Syndicate Services Ltd
Standard Life Assurance Company
Standard Life Bank
Standard Life Healthcare Ltd
Standard Life Investments Ltd
Star Financial Planning Ltd
Stroud & Swindon Building Association
Surrenda-link Ltd
T.H. March & Co Ltd
Townends Insurance Brokers Ltd
Unisys Ltd

Unum Ltd

W S Moreland & Co Ltd

West Country Health Care

WHFIS Ltd

Wiffen & Partners (Insurance Brokers) Ltd

Wiltshire & Co Ltd

Zurich Financial Services Ltd

We also received two responses from respondents who asked for their replies to remain confidential. We have taken these responses into account in finalising the requirements.

Final rules on reporting and audit requirements

Contents

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**SUPERVISION MANUAL (REPORTING AND AUDIT REQUIREMENTS)
INSTRUMENT 2004**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the “Act”):
- (1) section 138 (General rule-making power);
 - (2) section 150(2) (Actions for damages);
 - (3) section 156 (General supplementary powers); and
 - (4) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).

Commencement

- C. This instrument comes into force on 1 April 2005, except as indicated in the table below.

Handbook Provision	Commencement date
The provisions in Part 2 of Annex A that relate to mortgage lenders, mortgage intermediaries and mortgage administrators Transitional provision 10A in Part 1 of Annex A (in respect of mortgage mediation activities); Transitional provision 12F in Part 1 of Annex A.	31 October 2004
The provisions in Part 2 of Annex A that relate to insurance intermediaries and exempt insurance intermediaries Transitional provision 10A in Part 1 of Annex A (in respect of insurance mediation activities) The Glossary definition for ‘exempt insurance intermediary’ in Annex B	14 January 2005

Amendments to the Supervision manual (SUP)

D. SUP is amended in accordance with Annex A to this instrument.

Amendments to the Glossary

E. The Glossary is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Supervision Manual (Reporting and Audit Requirements) Instrument 2004.

By order of the Board
18 March 2004

Contents of annexes to this instrument

ANNEX A

Part 1 **Amendments to SUP Transitional Provisions**

Part 2 **Amendments to SUP 3**

Part 3 **Amendments to SUP 16 (excluding annexes)**

Part 4 **SUP 16 Ann 18AR**

Part 5 **SUP 16 Ann 18BG**

Part 6 **SUP 16 Ann 19AR**

Part 7 **SUP 16 Ann 19BG**

Part 8 **SUP 16 Ann 20G**

Part 9 **SUP 16 Ann 21R**

ANNEX B **Amendments to the Glossary**

ANNEX A

Amendments to the Supervision manual

In this Annex, underlining indicates new text and striking through indicates deleted text. Where an entire new section of text is being inserted, the place where it goes is indicated and it is not underlined.

Part 1: Amendments to SUP Transitional Provisions

Insert the following new transitional provisions in the correct sequential order.

SUP 2 Table

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
10A	SUP 16.4 SUP 16.5	R	SUP 16.4 (Annual controllers report) and 16.5 (Annual close links report) do not apply to a <i>firm</i> with <i>permission</i> to carry on only <i>insurance mediation activity, mortgage mediation activity, or both</i> .	(1) in respect of <i>mortgage mediation activities</i> , 31 October 2004 - 31 March 2005; (2) in respect of <i>insurance mediation activities</i> , 14 January 2005 - 31 March 2005.	1 April 2005
12B	SUP 16.7.7R; SUP 16.7.9R; SUP 16.7.11R; SUP 16.7.16R; SUP 16.7.20R; SUP 16.7.24R; SUP 16.7.26R; SUP 16.7.28R; SUP 16.7.35R;	R	(1) Where a <i>rule</i> in SUP 16.7 requires a <i>firm</i> to submit information using the <i>RMAR</i> on a half-yearly basis, and the <i>firm</i> has: (a) annual income of less than £5m but more than £60,000 in total from <i>insurance mediation activity, mortgage mediation activity and retail investment activity</i> , and (b) an <i>accounting reference date</i> which (i) falls between 31 December 2004 and 31 March 2005; or (ii) falls between 30 June 2005 and 30 September 2005 this must be read as a reference to providing the first return in accordance with SUP TR 12CR. (2) Where a <i>rule</i> in SUP 16.7 requires a <i>firm</i> to submit information using the <i>RMAR</i> on a half-	From 1 April 2005	1 April 2005

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
	<p>SUP 16.7.54R;</p> <p>SUP 16.7.57R;</p> <p>SUP 16.7.62R;</p> <p>SUP 16.7.65R;</p> <p>SUP 16.7.73R;</p> <p>SUP 16.7.76R</p> <p>SUP 16.7.79R</p> <p>SUP 16.7.80R</p>		<p>yearly basis, and the <i>firm</i> has:</p> <p>(a) annual income of less than £5m but more than £60,000 in total from <i>insurance mediation activity, mortgage mediation activity and retail investment activity</i>, and</p> <p>(b) an <i>accounting reference date</i> which is not within (1)(b);</p> <p>the first return must cover the <i>firm's</i> first full financial half-year which starts on or after 1 April 2005 and be submitted 30 <i>business days</i> after period end.</p> <p>(3) Where a <i>firm</i> is carrying on <i>regulated activities</i> before 1 April 2005 and is required under a <i>rule</i> in SUP 16.7 to submit information using the <i>MLAR</i>, the first return must cover the <i>firm's</i> first full financial quarter which starts on or after this date and be submitted 20 <i>business days</i> after period end.</p> <p>(4) Where a <i>rule</i> in SUP 16.7 requires a <i>firm</i> to submit information using the <i>RMAR</i> on a half-yearly basis, and the <i>firm</i> has:</p> <p>(a) annual income of less than £60,000 in total from <i>insurance mediation activity, mortgage mediation activity and retail investment activity</i>, and</p> <p>(b) an <i>accounting reference date</i> which falls between 1 January 2005 and 31 December 2005 the relevant <i>rule</i> must be read as requiring the first return to be provided in accordance with SUP TR 12DR.</p>		

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision				(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
12C		R	If SUP TR 12B R (1) - (3) applies, the <i>firm's</i> first return must be provided as follows:					
			<i>Accounting reference date</i>	Reporting period starts	Reporting period ends	Return to be provided		
			Between 30 June 2005 and 30 September 2005	1 April 2005	<i>Accounting reference date</i> within 2005	30 <i>business days</i> after period end.		
			Between 31 December 2004 and 31 March 2005	1 April 2005	6 months after <i>accounting reference date</i> within 2005	30 <i>business days</i> after period end		
12D		R	(1) If SUP TR 12BR (4) applies, the <i>firm's</i> first return must be provided as follows:					
			<i>Accounting reference date</i>	Reporting period starts	Reporting period ends	Return to be provided		
			Between 31 December 2004 and 31 March 2005	1 April 2005	6 months after <i>Accounting reference date</i> within 2005	30 <i>business days</i> after period end (Note 1)		
			Between 1 April 2005 and 29 June 2005	the business day following <i>accounting reference date</i> within 2005	6 months after <i>Accounting reference date</i> within 2005	30 <i>business days</i> after period end. (Note 1)		
			Between 30 June 2005 and 29 September 2005	1 April 2005	<i>Accounting reference date</i> within 2005	30 <i>business days</i> after period end		
			Between 30 September 2005 and 30 December 2005	6 months preceding <i>accounting reference date</i> within 2005	<i>Accounting reference date</i> within 2005	30 <i>business days</i> after period end		

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision				(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
12E		R	(2) If SUP TR 12BR (4) applies, the <i>firm's</i> second return must be provided as follows:					
			Between 30 June 2005 and 29 September 2005	the business day following <i>accounting reference date</i> within 2005	6 months after <i>Accounting reference date</i> within 2005	30 <i>business days</i> after period end (Note 1)		
12F	SUP 16.7.77R	R	A <i>mortgage administrator</i> or <i>mortgage lender</i> must submit an annual report and audited accounts annually, 3 months after the <i>firm's accounting reference date</i>				31 October 2004 - 31 March 2005	1 April 2005
14A	SUP 16.11.7R	R	Until 1 July 2006, a <i>firm</i> will not contravene SUP 16.11.7R if it does not complete the data reporting field 'Advice at the point of sale' (see SUP 16 Ann 21R).				1 April 2005 – 30 June 2006	1 April 2005

Note 1 = The return need not provide data for sections A, B, C, D, E of the RMAR.

Part 2: Amendments to SUP 3

3.1.2 Table Applicable sections (see SUP 3.1.1R)
R

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
...		
(9)	<u>Mortgage lender</u>	<u>SUP 3.1, SUP 3.2, SUP 3.8</u>
(10)	<u>Insurance intermediary (other than an exempt insurance intermediary) to which CASS 5 (Client money and mandates) (except for CASS 5.2 (Holding money as agent)) applies (see Note 4)</u>	<u>SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10</u>
(11)	<u>Exempt insurance intermediary and insurance intermediary not subject to SUP 3.1.2R (10) which has an auditor appointed under or as a result of a statutory provision other than in the Act</u>	<u>SUP 3.1, SUP 3.2, SUP 3.7</u>
(12)	<u>Mortgage intermediary or mortgage administrator which has an auditor appointed under or as a result of a statutory provision other than in the Act.</u>	<u>SUP 3.1, SUP 3.2, SUP 3.8</u>
Note 1 - ...		
Note 4	<p>The <u>client money</u> audit requirement in SUP 3.1.2R(10) therefore applies to all <u>insurance intermediaries</u> except:</p> <ul style="list-style-type: none"> • <u>those which do not hold client money or other client assets in relation to insurance mediation activities; or</u> • <u>those which only hold up to, but not exceeding, £30,000 of client money under a statutory trust arising under CASS 5.3.</u> <p><u>Insurance intermediaries</u> which, in relation to <u>insurance mediation activities</u>, hold no more than that amount of <u>client money</u> only on a statutory trust are <u>exempt insurance intermediaries</u>.</p>	

...

3.1.2A If a firm falls within more than one row in column (1) of the table in SUP
G 3.1.2R, SUP 3.1.1R requires the firm and its external auditor to comply with
all the sections referred to in column (2) or (3). For example, a bank which
carries on designated investment business which is also a mortgage lender,
falls in rows (4) and (9). Therefore, the bank must comply with SUP 3.1 to
SUP 3.7, and its external auditor must comply with SUP 3.1, SUP 3.2, SUP
3.8 and SUP 3.10.

3.2.4 SUP 3.1.1R and SUP 3.1.2R limit the application of this chapter in relation to:
G

- (1) *authorised professional firms* to which COB 9.1 (Custody) and COB 9.3 (Client money) do not apply or which are not required by IPRU(INV) 2.1.2R to comply with chapter 3, 5, 10 or 13 of IPRU(INV);
- (2) *oil market participants, and energy market participants, to whom IPRU(INV) 3 does not apply;*
- (3) *small personal investment firms; and*
- (4) *service companies;*
- (5) *exempt insurance intermediaries;*
- (6) *insurance intermediaries not subject to SUP 3.1.2R (10);*
- (7) *mortgage intermediaries; and*
- (8) *mortgage administrators.*

~~Such a firm is~~ Such firms are not required, under this chapter, to appoint an auditor because SUP 3.3 (Appointment of auditors) does not apply. If such a firms appoints an auditor under or as a result of a statutory provision other than in the *Act*, for example, under the Companies Act 1985, SUP 3.7 (Notification of matters raised by auditor) and SUP 3.8 (Rights and duties of all auditors) nevertheless apply to help the FSA discharge its functions under the *Act*. See SUP 3.1.2R, Note 4, for further clarification concerning insurance intermediaries and those which qualify as exempt insurance intermediaries.

3.2.5 It is the responsibility of an *insurance intermediary's* senior management to
G determine, on a continuing basis, whether the insurance intermediary is an
exempt insurance intermediary for the purposes of this requirement and to
appoint an auditor if management determines the firm is no longer exempt.
SUP 3.7 (amplified by SUP 15) sets out what a firm should consider when
deciding whether it should notify the FSA of matters raised by its auditor.

3.2.6 The rights and duties of auditors are set out in SUP 3.8 (Rights and duties of

G all auditors) and *SUP 3.10 (Duties of auditors: notification and report on client assets)*. *SUP 3.8.10G* includes the auditor's statutory duty to report certain matters to the *FSA* imposed by regulations made by the Treasury under sections 342(5) and 343(5) of the *Act* (information given by auditor or actuary to the *FSA*). An auditor should bear these rights and duties in mind when carrying out *client* asset report work, including whether anything should be notified to the *FSA* immediately.

...

3.10.5 **Table Client assets report**

R

Whether in the auditor's opinion	
(1)	the <i>firm</i> has maintained systems adequate to enable it to comply with the rules in <i>COB 9.1 to COB 9.4 and CASS 5.1 to CASS 5.8 (except CASS 5.2)</i> throughout the period since the last date as at which a report was made;
(2)	the <i>firm</i> was in compliance with the rules in <i>COB 9.1 to COB 9.4 and CASS 5 (except CASS 5.2)</i> , at the date as at which the report has been made;
(3)	in the case of an <i>investment management firm, personal investment firm a UCITS management company or securities and futures firm ...</i> ; and
(4)	if there has been a <i>secondary pooling event</i> during the period, the <i>firm</i> <u>has</u> complied with the rules in <i>COB 9.5 and CASS 5.6 (Client money distribution)</i> in relation to that pooling event.

3.10.7 **R** An auditor must deliver a report under *SUP 3.10.4R* to the *FSA* so as to be received within four months of the end of each period covered, unless it is the auditor of a *firm* falling within category (10) of *SUP 3.1.2R*.

...

3.10.8A **R** The auditor of a *firm* falling within category (10) of *SUP 3.1.2R* must deliver a report under *SUP 3.10.4R*:

(1) to the *firm* so as to be received within four months of the end of each period covered; and

(2) to the *FSA* upon request within six years of the end of the period covered.

3.10.8B The rights and duties of auditors are set out in SUP 3.8 (Rights and duties of all auditors) and SUP 3.10 (Duties of auditors: notification and report on client assets). SUP 3.8.10G also refers to the auditor's statutory duty to report certain matters to the FSA imposed by regulations made by the Treasury under sections 342(5) and 343(5) of the Act (information given by auditor or actuary to the FSA). An auditor should bear these rights and duties in mind when carrying out client asset report work, including whether anything should be notified to the FSA immediately.

3.10.8C It is the responsibility of an insurance intermediary's senior management to determine, on a continuing basis, whether the firm is an exempt insurance intermediary for the purposes of this requirement and to appoint an auditor if management determines the firm is no longer exempt. SUP 3.7 (amplified by SUP 15) sets out what a firm should consider when deciding whether it should notify the FSA of matters raised by its auditor.

Part 3: Amendments to SUP 16

16.1.3 R

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
...		
<p><i>SUP 16.4 and SUP 16.5</i></p>	<p>All categories of <i>firm</i> except:</p> <p>...</p> <p>(h) a <i>UCITS qualifier</i>;</p> <p>(i) a <i>firm with permission to carry on only retail investment activities</i>;</p> <p>(j) a <i>firm with permission to carry on only insurance mediation activity, mortgage mediation activity, or both</i>;</p> <p>(k) a <i>firm falling within both (i) and (j)</i></p>	<p>Entire sections</p>
...		
<i>SUP 16.7</i>	...	
	<i>Personal investment firm</i>	<i>SUP 16.7.42R to SUP 16.7.53R</i>
...		
	<i>Insurer</i> <i>Friendly society</i>	<i>SUP 16.7.73R to SUP 16.7.75R</i>
	<p><u>A firm not subject to other reporting requirements in SUP 16.7:</u></p> <p><u>(1) with permission to carry on one or more of:</u></p> <p>(a) <u>insurance mediation activity</u>; or</p> <p>(b) <u>mortgage mediation activity</u>; or</p> <p>(c) <u>mortgage</u></p>	<p><u>SUP 16.7.76R to SUP 16.7.81G</u></p>

	<u>lending; or</u> <u>(d) mortgage administration; or</u> <u>(2) which is a retail investment firm</u>	
...		
<u>SUP 16.11</u>	<u>A firm, other than a managing agent, which is:</u> <u>(1) a mortgage lender; or</u> <u>(2) an insurer; or</u> <u>(3) the operator of a regulated collective investment scheme or an investment trust savings scheme; or</u> <u>(4) a person who issues or manages the relevant assets of the issuer of a structured capital-at-risk product.</u>	<u>Entire section</u>

...

16.3.2 G This chapter has been split into ~~six~~ eight sections, covering:

...

- (5) persistency reports (*SUP 16.8*); ~~and~~
- (6) annual appointed representatives reports (*SUP 16.9*);
- (7) confirmation of standing data (*SUP 16.10*); and
- (8) product sales data reporting (*SUP 16.11*).

...

16.3.13R ...

- (4) If the due date for submission of a report required by this chapter is a set period of time after the end of a half-year, a quarter, or a month, the

dates will be determined by (a) or (b) below except where otherwise indicated:

(a) the firm's accounting reference date;

(b) monthly, 3 monthly or 6 months after the firm's accounting reference date, as the case may be.

- 16.7.2G (1) Financial reporting requirements for insurers, excluding friendly societies are set out in IPRU(INS). For their other reporting requirements, see SUP 16.7.73R -16.7.75R.
- (2) Financial reporting requirements for friendly societies are set out in IPRU(FSOC). For their other reporting requirements, see SUP 16.7.73R -16.7.75R.

Purpose

16.7.3G
Principle 4 requires firms to maintain adequate financial resources, and the Interim Prudential sourcebooks (or, in the case of firms with permission to carry on insurance mediation activity, mortgage mediation activity, or both, PRU) set out the FSA's detailed capital adequacy requirements. By submitting regular financial reports, firms enable the FSA to monitor their compliance with Principle 4 and with the detailed requirements of the Interim Prudential sourcebooks or PRU, as the case may be. These reports also help the FSA to analyse firms' financial condition and performance and to understand their business. By means of further collation and review of the data which those reports provide, the FSA also uses the reports to identify developments across the financial services industry and its constituent sectors.

...

16.7.5G

Table Applicable rules and guidance on financial reports (see SUP 16.7.1G)

Firm category	Applicable rules and guidance
...	
<i>Personal investment firm</i>	SUP 16.7.42G – SUP 16.7.53G
<i>Authorised professional firm</i> (Note 2)	SUP 16.7.54R – SUP 16.7.54AR
...	
<i>Insurer</i> <i>Friendly society</i>	<u>SUP 16.7.73R – SUP 16.7.75R</u>

<p><u>A firm, not subject to other reporting requirements in SUP 16.7:</u></p> <p><u>(a) with permission to carry on one or more of:</u></p> <p><u>(1) insurance mediation activity; or</u></p> <p><u>(2) mortgage mediation activity; or</u></p> <p><u>(3) mortgage lending; or</u></p> <p><u>(4) mortgage administration; or</u></p> <p><u>(b) which is a retail investment firm.</u></p>	<p><u>SUP 16.7.76R – SUP 16.7.81G</u></p>
---	---

...

Compulsory electronic submission of certain reports to the FSA

16.7.6AR A firm which is required by this section to submit an RMAR or an MLAR must provide the relevant data specified in SUP 16 Ann 18AR or 19AR respectively by electronic means made available by the FSA.

16.7.6BG The RMAR is relevant to the reporting requirements of firms carrying on insurance mediation activity, mortgage mediation activity or retail investment activity. The MLAR is relevant to firms carrying on mortgage lending or mortgage administration.

16.7.6CR Where reference is made in SUP 16.7 to adequate information relating to the following activities:

- (1) insurance mediation activity; or
- (2) mortgage mediation activity; or
- (3) retail investment activity;

this includes all sections of the RMAR in addition to those relating to financial reports, except where otherwise indicated.

16.7.6DG The RMAR comprises sections relating both to financial reporting and other sections (e.g. Training and Competence and COB data).

16.7.6EG Where SUP 16.7 requires a report containing adequate information on one or more of the following activities:

(1) insurance mediation activity;

(2) mortgage mediation activity;

(3) mortgage lending;

(4) mortgage administration;

(5) retail investment activity;

a firm should submit a report only if it carries on at least one of those activities.

...

16.7.8R

Table ~~Financial~~ Reports from a UK bank (see SUP 16.7.7R)

Content of report	Form or Return (Note 1)	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> (1) <u>insurance mediation activity;</u> (2) <u>mortgage mediation activity;</u> (3) <u>retail investment activity.</u>	<u>RMAR</u> (excluding sections A, B, C, D, E)	<u>Half yearly</u>	<u>30 business days after period end</u>
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u> (excluding A1, A2, B1 and C)	<u>Quarterly</u>	<u>20 business days after quarter end</u>

Note 1= When giving the report required, a *bank* must use the form or return indicated, if any. The content of the form has the status of *guidance* on the type of information that should be provided to meet the reporting obligation. A copy of the form is located at SUP 16 Ann 1R. The RMAR and MLAR are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of rules.

...

16.7.10R

Table ~~Financial~~ Reports from an EEA Bank (see SUP 16.7.9R)

Content of report	Form or Return (Note 1)	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> (1) <u>insurance mediation activity;</u> (2) <u>mortgage mediation activity;</u> (3) <u>retail investment activity.</u>	<u>RMAR</u> (excluding <u>A, B C, D, E</u>)	<u>Half yearly</u>	<u>30 business days after period end</u>
<u>Adequate information relating to mortgage lending and mortgage administration</u>	<u>MLAR</u> (excluding <u>A1, A2, B1, C</u>)	<u>Quarterly</u>	<u>20 business days after quarter end</u>

Note 1 = When giving the report required, a *bank* must use the form or return indicated, if any. The content of the form has the status of *guidance* on the type of information that should be provided to meet the reporting obligation. A copy of the form is located at SUP 16 Ann 1R. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

...

16.7.12R

Table ~~Financial~~ Reports from a bank established outside the EEA (see SUP16.7.11R)

Content of report	Form or Return (Note 1)	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> (1) <u>insurance mediation activity;</u> (2) <u>mortgage mediation activity;</u> (3) <u>retail investment activity.</u>	<u>RMAR</u> (Note 3)	<u>Half yearly (quarterly for sections A to E for larger firms, subject to Note 3 exemptions)</u> (Note 2)	<u>For half yearly report: 30 business days after period end.</u> <u>For quarterly report: 30 business days after quarter end</u>
<u>Adequate information relating to mortgage lending and mortgage administration</u>	<u>MLAR</u>	<u>Quarterly</u>	<u>20 business days after quarter end</u>

Note 1 = When giving the report required, a *bank* must use the form or return indicated, if any. The content of the form has the status of *guidance* on the type of information that should be provided to meet the reporting obligation. A copy of the form is located at SUP 16

Ann 1R. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

Note 2 = For the purposes of *RMAR* reporting, a larger *firm* is a *firm* whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a *firm's* total revenue relating to *insurance mediation activity, mortgage mediation activity and retail investment activity*.

Note 3 = A *firm* which submits an *MLAR* is not required to submit sections A and B of the *RMAR*.

...

16.7.17R

Table ~~Financial~~ Reports from a building society (see SUP 16.7.16R)

Content of report	Form <u>or</u> Return (Note 1)	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> <u>(1) <i>insurance mediation activity</i>;</u> <u>(2) <i>mortgage mediation activity</i>;</u> <u>(3) <i>retail investment activity</i>.</u>	<u><i>RMAR</i></u> (excluding sections A, B, C, D, E)	<u>Half yearly</u>	<u>30 <i>business days</i> after period end.</u>
<u>Adequate information relating to <i>mortgage lending</i> and <i>mortgage administration</i>.</u>	<u><i>MLAR</i></u> (excluding A1, A2, B1 and C)	<u>Quarterly</u>	<u>20 <i>business days</i> after quarter end</u>

Note 1 = When giving the report required, a *building society* must use the form or return indicated, if any. The content of the form has the status of *guidance* on the type of information that should be provided to meet the reporting obligation. A copy of the form is located at SUP 16 Ann 3R for all reports (except the “Analysis of interest rate gap” for which no form is provided). The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

...

16.7.21R

Table ~~Financial~~ Reports required from service companies (see SUP16.7.20R)

Report	Frequency	Due date
Annual audited financial statements	Annually	6 months after the <i>firm's accounting reference date</i>

...

16.7.25R

Table ~~Financial~~ Reports required from a securities and futures firm which is a category A or B firm or a broad scope firm (see SUP 16.7.24R)

Report	Return	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> (1) <i>insurance mediation activity</i> ; (2) <i>mortgage mediation activity</i> ; (3) <i>retail investment activity</i> .	<u>RMAR</u> (excluding sections A, B, C, E) (Note 5)	<u>Half yearly</u> (quarterly for section D for larger firms) (Note 6)	<u>For half yearly report: 30 business days after period end</u> <u>For quarterly report: 30 business days after quarter end</u>
<u>Adequate information relating to mortgage lending and mortgage administration</u>	<u>MLAR</u> (excluding A1, A2 and B1) (Note 5)	<u>Quarterly</u>	<u>20 business days after quarter end</u>

...

Note 5 = When giving the report required, a *firm* must use the return indicated. The RMAR and MLAR are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of rules.

Note 6 = For the purposes of RMAR reporting, a larger *firm* is a *firm* whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a *firm's* total revenue relating to insurance mediation activity, mortgage mediation activity and retail investment activity.

...

16.7.27R

Table ~~Financial~~ Reports required from a securities and futures firm which is a category C or D firm or an arranger or venture capital firm (see SUP16.7.26R)

Report	Return	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u>	<u>RMAR</u> (excluding	<u>Half yearly</u> (quarterly for	<u>For half yearly report: 30 business</u>

<u>(1) insurance mediation activity;</u>	<u>sections A, B, C, E)</u> <u>(Note 5)</u>	<u>section D for larger firms)</u>	<u>days after period end</u>
<u>(2) mortgage mediation activity;</u>		<u>(Note 6)</u>	<u>For quarterly report: 30 business days after quarter end</u>
<u>(3) retail investment activity.</u>			
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u> <u>(excluding A1, A2 and B1)</u> <u>(Note 5)</u>	<u>Quarterly</u>	<u>20 business days after quarter end</u>

...

Note 5 = When giving the report required, a *firm* must use the return indicated. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

Note 6 = For the purposes of *RMAR* reporting, a larger *firm* is a *firm* whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a *firm's* total revenue relating to *insurance mediation activity, mortgage mediation activity and retail investment activity*.

...

16.7.29R

Financial Reports from a securities or futures firm which is an adviser, local or a traded options market maker (see SUP 16.7.28R)

<u>Report</u>	<u>Return</u>	<u>Frequency</u>	<u>Due date</u>
...			
<u>Adequate information relating to the following activities:</u>	<u>RMAR</u> <u>(excluding sections A, B, C, E)</u> <u>(Note 1)</u>	<u>Half yearly</u> <u>(quarterly for section D for larger firms)</u>	<u>For half yearly report: 30 business days after period end</u>
<u>(1) insurance mediation activity;</u>		<u>(Note 2)</u>	<u>For quarterly report: 30 business days after quarter end</u>
<u>(2) mortgage mediation activity;</u>			
<u>(3) retail investment activity.</u>			
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u> <u>(excluding A1, A2 and B1)</u> <u>(Note 1)</u>	<u>Quarterly</u>	<u>20 business days after quarter end</u>

Note 1 = When giving the report required, a firm must use the return indicated. The RMAR and MLAR are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of rules.

Note 2 = For the purposes of RMAR reporting, a larger firm is a firm whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a firm's total revenue relating to insurance mediation activity, mortgage mediation activity and retail investment activity.

- 16.7.33R (1) Any report in SUP 16.7.23R to SUP 16.7.30R submitted to the FSA by a securities and futures firm must be signed by two authorised signatories satisfying the requirements of SUP 16.7.33R(2), except for:
- (a) the audited accounts of a subsidiary of the firm and the firm's audited annual; financial statements; and
 - (aa) reports in accordance with SUP 16 Ann 18AR or SUP 16 Ann 19AR; and
 - (b) other reports where the firm is a sole trader, when only one authorised signatory is required.

...

...

16.7.36R

Table ~~Financial~~ Reports from an investment management firm (see SUP 16.7.35R)

Report	Return	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> (1) <u>insurance mediation activity;</u> (2) <u>mortgage mediation activity;</u> (3) <u>retail investment activity.</u>	<u>RMAR</u> (excluding sections A, B, C, E) (Note 6)	<u>Half yearly</u> (quarterly for section D for larger firms) (Note 7)	<u>For half yearly report: 30 business days after period end</u> <u>For quarterly report: 30 business days after quarter end</u>
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u> (excluding A1, A2 and B1) (Note 6)	<u>Quarterly</u>	<u>20 business days after quarter end</u>

...

Note 6 = When giving the report required, a *firm* must use the return indicated. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

Note 7 = For the purposes of *RMAR* reporting, a larger *firm* is a *firm* whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a *firm's* total revenue relating to *insurance mediation activity, mortgage mediation activity and retail investment activity*.

...

SUP 16.7.42G to SUP 16.7.53G inclusive are deleted.]

16.7.54R (1) An *authorised professional firm* must submit an annual questionnaire to the *FSA* every year in accordance with, and in the same format as, the form contained in SUP 16 Ann 9R, unless its only regulated activities are one or more of:

(a) *insurance mediation*;

(b) *mortgage mediation*;

(c) *retail investment*.

...

(3) An *authorised professional firm* must also, where applicable, submit a report to the *FSA* in accordance with SUP 16.7.54AR.

16.7.54AR

Table Reports from an authorised professional firm (see SUP16.7.54R)

<u>Report</u>	<u>Return (Note 1)</u>	<u>Frequency</u>	<u>Due date</u>
<u>Adequate information relating to the following activities:</u> (1) <u><i>insurance mediation activity</i></u> ; (2) <u><i>mortgage mediation activity</i></u> ; (3) <u><i>retail investment activity</i></u> .	<u><i>RMAR</i></u> (Note 3)	<u>Half yearly</u> <u>(quarterly for</u> <u>sections A to E</u> <u>for larger firms,</u> <u>subject to Note 3</u> <u>exemptions)</u> (Note 2)	<u>For half yearly</u> <u>report: 30 business</u> <u>days after period end</u> <u>For quarterly report:</u> <u>30 business days</u> <u>after quarter end</u>
<u>Adequate information relating to</u> <u><i>mortgage lending and mortgage</i></u> <u><i>administration</i></u> .	<u><i>MLAR</i></u>	<u>Quarterly</u>	<u>20 business days</u> <u>after quarter end</u>

Note 1 = When giving the report required, a *firm* must use the return indicated. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

Note 2 = For the purposes of *RMAR* reporting, a larger *firm* is a *firm* whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a *firm's* total revenue relating to *insurance mediation activity, mortgage mediation activity and retail investment activity*.

Note 3 = A *firm* which submits an *MLAR* is not required to submit sections A and B of the *RMAR*.

...

16.7.58R

Table Financial Reports from a members' adviser (see SUP16.7.57R)

Report	Return (Note 1)	Frequency	Due date
...			
Quarterly reporting statement		Quarterly	15 <i>business days</i> after quarter end
Adequate information relating to the following activities: (1) <i>insurance mediation activity</i> ; (2) <i>mortgage mediation activity</i> ; (3) <i>retail investment activity</i> .	<i>RMAR</i> (Note 3)	Half yearly (quarterly for sections A to E for larger firms, subject to Note 3 exemptions) (Note 2)	For half yearly report: 30 <i>business days</i> after period end For quarterly report: 30 <i>business days</i> after quarter end
Adequate information relating to mortgage lending and mortgage administration.	<i>MLAR</i>	Quarterly	20 <i>business days</i> after quarter end

Note 1 = When giving the report required, a *firm* must use the return indicated. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

Note 2 = For the purposes of *RMAR* reporting, a larger *firm* is a *firm* whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a *firm's* total revenue relating to *insurance mediation activity, mortgage mediation activity and retail investment activity*.

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Note 3 = A firm which submits an MLAR is not required to submit sections A and B of the RMAR.

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16.7.63R

Table Financial Reports required from a credit union (see SUP16.7.62R)

Content of report	Form or Return	Frequency	Due date
Key financial data	CQ	Quarterly	One <i>month</i> after quarter end
Extended financial data	CY	Annually	Seven <i>months</i> after the financial year end
<u>Adequate information relating to the following activities:</u> (1) <i>insurance mediation activity;</i> (2) <i>mortgage mediation activity;</i> (3) <i>retail investment activity.</i>	<u>RMAR</u> (excluding sections A, B, C, E) (Note 1)	<u>Half yearly</u> (quarterly for section D for larger firms) (Note 2)	<u>For half yearly report: 30 business days</u> after period end <u>For quarterly report: 30 business days</u> after quarter end
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u> (excluding A1, A2, B1 and C) (Note 1)	<u>Quarterly</u>	<u>20 business days</u> after quarter end

Note 1 = When giving the report required, a firm must use the return indicated. The RMAR and MLAR are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of rules.

Note 2 = For the purposes of RMAR reporting, a larger firm is a firm whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a firm's total revenue relating to insurance mediation activity, mortgage mediation activity and retail investment activity.

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16.7.63A G Guidance Notes for the completion of the reports are contained in SUP 16 Ann 15 G, SUP 16 Ann 18BG and SUP 16 Ann 19BG.

...

16.7.66R

Table Financial Reports from an ELMI (see SUP16.7.65R)

Content of report	Form or Return (Note 1)	Frequency	Due date
...			
<u>Adequate information relating to the following activities:</u> <u>(1) insurance mediation activity;</u> <u>(2) mortgage mediation activity;</u> <u>(3) retail investment activity.</u>	<u>RMAR</u> <u>(excluding sections A, B, C, D, E)</u>	<u>Half yearly</u>	<u>30 business days after period end</u>
<u>Adequate information relating to mortgage lending and mortgage administration</u>	<u>MLAR</u> <u>(excluding A1, A2, B1 and C)</u>	<u>Quarterly</u>	<u>20 business days after quarter end</u>

Note 1=When giving the report required, an *ELMI* must use the form or return indicated (if any).

A copy of forms BSD 3 and ELM-CA/LE are set out in SUP 16 Annex 1R. The RMAR and MLAR are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of rules.

...

Insurers and friendly societies

16.7.73R If an *insurer* or a *friendly society* is carrying on any of the activities set out in SUP 16.7.74R, it must submit a report to the *FSA* in accordance with SUP 16.7.75R.

16.7.74R The activities referred to in SUP 16.7.73R are:

- (1) insurance mediation activity;
- (2) mortgage mediation activity;
- (3) retail investment activity;
- (4) mortgage lending; and
- (5) mortgage administration.

16.7.75R

Table Reports from an insurer or friendly society (see SUP 16.7.73R)

<u>Report</u>	<u>Return (Note 1)</u>	<u>Frequency</u>	<u>Due date</u>
<u>Adequate information relating to the following activities:</u> <u>(1) insurance mediation activity;</u> <u>(2) mortgage mediation activity;</u> <u>(3) retail investment activity.</u>	<u>RMAR</u> <u>(excluding sections A, B, C, D, E)</u>	<u>Half yearly</u>	<u>30 business days after period end</u>
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u> <u>(excluding A1, A2, B1 and C)</u>	<u>Quarterly</u>	<u>20 business days after quarter end</u>

Note 1 = When giving the report required, a *firm* must use the return indicated. The *RMAR* and *MLAR* are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of *rules*.

A firm not subject to other reporting requirements in SUP 16.7

16.7.76R A firm not subject to other reporting requirements in SUP 16.7,

(a) with permission to carry on one or more of:

-

(1) insurance mediation activity;

(2) mortgage mediation activity;

(3) mortgage lending;

(4) mortgage administration; or

(b) which is a retail investment firm;

must submit reports to the FSA in accordance with SUP 16.7.77R.

16.7.77R

Table Reports from a firm not subject to other reporting requirements in SUP 16.7

<u>Report</u>	<u>Return</u>	<u>Frequency</u>	<u>Due date</u>
---------------	---------------	------------------	-----------------

	<u>(Note 1)</u>		
<u>Adequate information relating to the following activities:</u> <u>(1) insurance mediation activity;</u> <u>(2) mortgage mediation activity;</u> <u>(3) retail investment activity.</u>	<u>RMAR</u> <u>(Note 4)</u>	<u>Half yearly (quarterly for sections A to E for larger firms)</u> <u>(Note 2)</u> <u>(Note 3)</u>	<u>For half yearly report: 30 business days after period end.</u> <u>For quarterly report: 30 business days after quarter end</u>
<u>Adequate information relating to mortgage lending and mortgage administration.</u>	<u>MLAR</u>	<u>Quarterly</u>	<u>20 business days after quarter end</u>
<u>If the firm is a mortgage lender or mortgage administrator, annual report and audited accounts.</u>	<u>N/A</u>	<u>Annually</u>	<u>3 months after the firm's accounting reference date</u>

Note 1 = When giving the report required, a firm must use the return indicated. The RMAR and MLAR are located at SUP 16 Ann 18AR and Ann 19AR respectively and have the status of rules.

Note 2 = For the purposes of RMAR reporting, a larger firm is a firm whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a firm's total revenue relating to insurance mediation activity, mortgage mediation activity and retail investment activity.

Note 3 = Firms categorised under IPRU(INV) 13 as A1, A2 or A3 should submit financial information (RMAR sections A, B, C, D and E) in accordance with ISD and CAD requirements, as follows:

<u>Category of firm</u>	<u>Frequency</u>	<u>Due date</u>
<u>Category A1</u>	<u>Monthly</u>	<u>15 business days after month end</u>
<u>Category A2</u>	<u>Quarterly</u>	<u>30 business days from the end of the relevant period.</u>
<u>Category A3</u>	<u>half yearly (quarterly for larger firms – Note 2)</u>	<u>30 business days from the end of the relevant period.</u>

Note 4 = A firm which submits an MLAR is not required to submit sections A and B of the RMAR.

16.7.78R Where a mortgage lender or mortgage intermediary establishes a special purpose vehicle, it must ensure that any report which the mortgage lender or mortgage intermediary makes in accordance with SUP 16.7.76R takes account of the activities of the special purpose vehicle as if those activities were the activities of the mortgage lender itself.

16.7.79R An incoming EEA firm which in the United Kingdom carries on only cross border services and is not subject to other reporting requirements in SUP 16.7 with permission to carry on:

- (1) insurance mediation activity; or
- (2) mortgage mediation activity; or
- (3) mortgage lending; or
- (4) mortgage administration; or
- (5) retail investment activity;

is subject to the requirements of SUP 16.10 only, and no requirements in respect of the RMAR or MLAR.

16.7.80R An incoming EEA firm with a branch in the United Kingdom, not subject to other reporting requirements in SUP 16.7, with permission to carry on:

- (1) insurance mediation activity; or
- (2) retail investment activity;

is required to provide such information relating to those activities as is specified in SUP 16 Ann 18BG and SUP 16 Ann 19BG.

16.7.81G SUP 16.7.80R is relevant, for example, to an insurance broker registered in another EEA State pursuant to the IMD, which exercises its EEA right to establish a branch in the United Kingdom and is not subject to other reporting requirements in SUP 16.7.

...

16.11 Product Sales Data Reporting

Application

- 16.11.1R This chapter applies to a firm which is a *mortgage lender*; or
in respect of sales to a *private customer* or a *retail customer*:
- (1) an *insurer*; or
 - (2) the *operator* of a *regulated collective investment scheme* or an *investment trust savings scheme*; or
 - (3) a *person* who issues or manages the relevant assets of the issuer of a *structured capital-at-risk product*,
- unless the *firm* is a *managing agent*.

Purpose

- 16.11.2G
- (1) The purpose of this chapter is to set out the requirements for *firms* in the retail mortgage, investment, and *pure protection contract* markets specified in SUP 16.11.1R to report individual product sales data to the *FSA*. This requirement applies whether the *regulated activity* has been carried out by the *firm*, or through an intermediary which has dealt directly with the *firm*.
 - (2) The purpose of collecting this data is to assist the *FSA* in the ongoing supervision of *firms* engaged in retail activities and to enable the *FSA* to gain a wider understanding of market trends in the interests of protecting *consumers*.

Reporting requirement

- 16.11.3R
- (1) A *firm* must submit a report (the ‘data report’) containing the information required by SUP 16.11.5R quarterly, within 20 *business days* of the end of the quarter, unless (3) applies.
 - (2) The reporting periods are the four calendar quarters of each year beginning on 1 January.
 - (3) A *firm* need not submit a data report if no relevant sales have occurred in the quarter.
- 16.11.4G
- (1) A *firm* may submit a data report more frequently than quarterly if it wishes.

- (2) If it is easier and more practical for a *firm* to submit additional data relating to products other than those specified in *SUP* 16.11.5R, it may submit that additional data to the *FSA* in a data report.

Content of the report

- 16.11.5R The data report must contain sales data in respect of the following products:
- (1) *retail investments*;
 - (2) *pure protection contracts*; and
 - (3) *regulated mortgage contracts* (but not further advances).
- 16.11.6G *Guidance* on the type of products covered by *SUP* 16.11.5R is contained in *SUP* 16 Ann 20G.
- 16.11.7R The data report must comply with the provisions of *SUP* 16 Ann 21R.
- 16.11.8R The data report must relate both to transactions undertaken by the *firm* and to transactions undertaken by an intermediary which has dealt directly with the *firm*.
- 16.11.9R A *firm* must provide the data report to the *FSA* electronically in a standard format provided by the *FSA*.
- 16.11.10G A data report will have been provided to the *FSA* in accordance with *SUP* 16.11.9R only if all mandatory data reporting fields (as set out in *SUP* 16 Ann 21R) have been completed correctly and the report has been accepted by the relevant *FSA* reporting system.

Use of reporting agents

- 16.11.11R
- (1) A *firm* may appoint another *person* to provide the data report on the *firm's* behalf if the *firm* has informed the *FSA* of that appointment in writing.
 - (2) Where (1) applies, the *firm* must ensure that the data report complies with the requirements of *SUP* 16.11 and identifies the originator of the transaction.

SUP 16 Ann 7R is deleted.

SUP 16 Ann 8G is deleted.

Retail Mediation Activities Return ('RMAR')

Illustration of reporting requirements for firms carrying on retail mediation activities

Sup 16 Ann 18AR

Retail Mediation Activities Return ('RMAR')

SECTION A: Balance sheet

Fixed assets

Intangible assets	BS1	
Tangible assets	BS2	
Investments	BS3	
TOTAL FIXED ASSETS	BS4	BS1 + BS2 + BS3

Current assets

Stocks	BS5	
Debtors	BS6	
Investments held as current assets	BS7	
Cash at bank and in hand	BS8	
TOTAL CURRENT ASSETS	BS9	BS5 + BS6 + BS7 + BS8

Other assets

BS10

Liabilities: amounts falling due within one year

Bank loans and overdrafts	BS11
Other liabilities falling due within one year	BS12

TOTAL AMOUNTS FALLING DUE WITHIN ONE YEAR	BS13	BS11 + BS12
--	-------------	-------------

Net current assets

BS14	BS10 less BS13
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Total assets less current liabilities

BS15	BS4 + BS10.1 + BS14
-------------	---------------------

Other liabilities falling due after more than one year

BS16

Provisions for liabilities and charges

BS17

Net assets

BS18	(BS15 less BS16) less BS17
-------------	----------------------------

Memo: guarantees provided by firm

BS19

Memo: personal net assets

BS20

Capital and reserves

Capital account (incorporated businesses)

Ordinary share capital	BS21	
Preference share capital	BS22	
Share premium account	BS23	
Profit and Loss account	BS24	
Other reserves	BS25	
TOTAL CAPITAL AND RESERVES	BS26	BS21 + BS22 + BS23 + BS24 + BS25

Yes / No

Was the firm's last annual accounts audit report qualified?

BS27

Capital account (unincorporated businesses)

Sole trader/Partners' capital account	BS28	
Sole trader/Partners' current account	BS29	
TOTAL CAPITAL AND RESERVES	BS30	BS28 + BS29

SECTION B: Profit and Loss account

B1: Regulated Business Revenue

	Commissions		Fees	Other income (reg activities)	Regulated business revenue
	Gross	Net			
Regulated mortgage contracts	PL1	PL2	PL3	PL4	PL5
Non-investment insurance	PL6	PL7	PL8	PL9	PL10
Retail investments	PL11	PL12	PL13	PL14	PL15
TOTAL	PL16	PL17	PL18	PL19	PL20

B2: Other P&L

Other Revenue (income from non-regulated activities)	PL21	
TOTAL REVENUE	PL22	PL20 + PL21
TOTAL EXPENDITURE	PL23	
Profit/(Loss) on ordinary activities before taxation	PL24	PL22 less PL23
Profit/(Loss) on extraordinary activities before taxation	PL25	
Taxation	PL26	
Profit/(Loss) for the period before dividends and appropriations	PL27	(PL24 + PL25) - PL26
Dividends and other appropriations	PL28	
Retained Profit	PL29	PL27 less PL28

SECTION C: Client money and assets

Have any notifiable issues been raised in relation to client money or other assets, either in the firm's last client assets audit report or elsewhere, that have not previously been notified to the FSA?

Yes / No

CM1

How is your client account(s) set up (tick all that apply)?

Non-investment insurance

Retail investments

Risk Transfer	Segregated Trusts	
	Statutory	Non-statutory
CM2	CM3	CM4
	CM5	

If not risk transfer:

Client money credit total as at reporting date

Client money debit total as at reporting date

Net client money balance as at reporting date

Non-investment insurance		Retail investments
Statutory	Non-statutory	Statutory
CM6	CM7	CM8
CM9	CM10	CM11
CM12	CM13	CM14

Yes / No

If non-statutory, has auditor's confirmation of systems and controls been obtained?

CM15

Yes / No

Is any client money invested (other than on deposit)?

CM16

Yes / No

Do you hold client money for business undertaken by an AR?

CM17

Does the firm hold any client assets (other than client money)?

Mortgage	Non-investment insurance	Retail investments
CM18	CM19	CM20

SECTION D1: Regulatory Capital

Is the firm exempt from these capital requirements in relation to any of its retail mediation activities?

	Non- investment insurance	Retail investments
Mortgage		
RC1	RC2	RC3

Mortgage and non-investment insurance

Base requirement
5% of annual income (firms holding client money)
2.5% of annual income (firms not holding client money)

Client money	Non-client money
RC4 (£10000)	RC5 (£5000)
RC6	
	RC7

Capital requirement (higher of above)

RC8	RC9
-----	-----

Other FSA capital requirements (if applicable)
Additional capital requirements for PII (if applicable)

RC10
RC11

TOTAL CAPITAL REQUIREMENT

TOTAL CAPITAL RESOURCES

TOTAL CAPITAL EXCESS/DEFICIT

RC12	(RC8 or RC9) + RC10 + RC11
RC13	See notes
RC14	RC13 less RC12

Eligible capital (mortgage and non-investment insurance)

Incorporated firms

Share capital
Audited reserves
Interim net profits (audited)
Interim net profits (not audited)
Revaluation reserves
Eligible subordinated loans
less Investments in own shares
less Intangible assets
less interim net losses
TOTAL CAPITAL RESOURCES

RC27
RC28
RC29
RC30
RC31
RC32
RC33
RC34
RC35
RC36

RC27 + RC28 + RC29 + RC31
+ RC32 less RC33 less RC34
less RC35

IPRU(INV) requirements for personal investment firms (retail investment activities only)

Category of personal investment firm under IPRU(INV)

RC15

Own funds requirement

Own funds

Surplus/deficit of own funds

Additional own funds requirement for PII (if applicable)
Other FSA capital requirements (if applicable)

RC16	A
RC17	B
RC18	C
RC19	
RC20	

Adjusted net current assets requirement (if applicable)

Adjusted net current assets (if applicable)

Surplus/deficit (if applicable)

RC21 (£1)	D
RC22	E
RC23	F

Expenditure based requirement (if applicable)

Adjusted Capital/liquid capital (if applicable)

Surplus/deficit (if applicable)

RC24	G
RC25	H
RC26	I

Unincorporated firms

Capital of a sole trader or partnership
Eligible subordinated loans
Personal assets not needed to meet non-business liabilities
less Intangible assets
less interim net losses
less excess of drawings over profits for a sole trader or p'ship
TOTAL CAPITAL RESOURCES

RC37
RC38
RC39
RC40
RC41
RC42
RC43

RC37 + RC38 + RC39 less
RC40 less RC41 less RC42

SECTION D2: FINANCIAL RESOURCES - NON-ISD PERSONAL INVESTMENT FIRMS

OWN FUNDS (TEST 1)		ADJUSTED NET CURRENT ASSETS (TEST 1A)		EXPENDITURE-BASED REQUIREMENT (TEST 2)	
	£		£	£	£
1 Paid up share capital (excluding preference shares redeemable by shareholders within 2 years)		18 Net current assets (from balance sheet)		25 Total assets less total liabilities (from balance sheet)	
2 Share premium account		less		26 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part I adjustments required against assets	
3 Audited retained profits		19 Long term assets adjustment		27 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for subordinated loans	
4 Verified interim profits		20 Connected persons adjustment		28 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for indemnity commission	
5 Revaluation reserves		21 Investments adjustments		29 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for deficiencies in subsidiaries	
6 Short term subordinated loans				30 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for contingent liabilities	
7 Debt capital				31 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for foreign exchange risk	
8 Balances on proprietors' or partners' capital accounts				32 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for redeemable preference shares	
9 Balances on proprietors' or partners' current accounts				33 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II adjustment for derivatives	
10 Personal assets				34 IPRU(INV) Table 13.12.3(1)/ 13.12.3(2) Part II other adjustments against liabilities	
11 Less intangible assets					
12 Less material current year losses					
13 Less excess of current year drawings over current year losses					
14 PASS Loan Adjustments					
15 OWN FUNDS (1+2+3+4+5+6+7+8+9+10-11-12-13+14)	B	22 ADJUSTED NET CURRENT ASSETS (18-19-20-21)	E	35 ADJUSTED CAPITAL/ LIQUID CAPITAL [(25+27)-26-28-29-30-31-32-33-34]	H
16 Own funds requirement	A - £10,000	23 Requirement	D - £1	36 Expenditure requirement per IPRU(INV) 13.12	G
17 SURPLUS/(DEFICIT) (15-16)	C	24 SURPLUS/(DEFICIT) (22-23)	F	37 SURPLUS/(DEFICIT) (35-36)	I

SECTION D3: FINANCIAL RESOURCES - ISD PERSONAL INVESTMENT FIRMS

OWN FUNDS (TEST 1)		ADJUSTED NET CURRENT ASSETS (TEST 1A)		EXPENDITURE-BASED REQUIREMENT (TEST 2)	
1 Paid up ordinary share capital		23 Net current assets (from balance sheet)		30 Total assets less total liabilities (from balance sheet)	
2 Share premium account		24 Less: long term assets adjustment		31 Illiquid asset adjustments	
3 Audited reserves (excluding revaluation reserve)		25 Less: connected persons adjustment		32 Counterparty risk adjustments	
4 Verified interim profits		26 Less: investments adjustments		33 Position risk adjustments	
5 Non-cumulative preference shares (if not redeemable by shareholders within 5 years)				34 Foreign exchange risk adjustments	
6 Balances on proprietors' or partners' capital accounts				35 Preference shares adjustments	
7 Balances on proprietors' or partners' current accounts (audited or verified)				36 Large exposure risk adjustments	
8 INITIAL CAPITAL (1+2+3+4+5+6+7)				37 Long term subordinated loans	
9 Less: investment in own shares				38 Short term subordinated loans	
10 Less: intangible assets				39 Sub total (30-31-32-33-34-35-36+37+38)	
11 Less: material current year losses				40 Preference shares (5+16+18)	
12 Less: material holdings in credit and financial institutions				41 Table 13.3.2(2) own funds restrictions	
13 Less: excess of current year drawings over current year profits.				42 Balance A (38+40+41)	
14 ORIGINAL OWN FUNDS (8-9-10-11-12-13)				43 Balance B (14-33)	
15 Revaluation reserves				44 Balance C (43 x 250%)	
16 Cumulative preference share capital (if not redeemable by shareholders within 5 years)				45 If Balance A is greater than Balance C , enter difference	
17 Long-term subordinated loans					
18 Preference share capital (if not redeemable by shareholders within 2 years) and debt capital					
19 OWN FUNDS (14+15+16+17+18)	B	27 ADJUSTED NET CURRENT ASSETS (23-24-25-26)	E	46 LIQUID CAPITAL (39-45)	H
20 Own funds requirement IPRU(INV)13.3R	A	28 Requirement	D: £1	47 Expenditure based requirement per IPRU(INV)13.5R	G
21 Enter exchange rate € : £					
22 OWN FUNDS SURPLUS/(DEFICIT) (19-20)	C	29 SURPLUS/(DEFICIT) (27-28)	F	48 SURPLUS/ (DEFICIT) (46-47)	I

SECTION D4: QUARTERLY FINANCIAL RESOURCES - CAD13 - ISD PERSONAL INVESTMENT FIRMS

1. Liquid capital from last year-end return (based on audited accounts)
2. Less: current year losses
3. Subordinated loans introduced
4. Subordinated loans repaid
5. Share capital/ proprietors' capital/ partners' capital introduced since the date of the last audited figures
6. Share capital/ proprietors' capital/ partners' capital withdrawn since the date of the last audited figures
- 7. Total: 1 - 2 + 3 - 4 + 5 - 6**
8. Less: expenditure based requirement (46)
- 9. Financial resources surplus/(deficit): 7 - 8**

SECTION D5: ISD PERSONAL INVESTMENT FIRMS - REPORTABLE LARGE EXPOSURES & CALCULATION OF ADJUSTMENT

Counterparty	(£) Exposure	% exempt	£ Net large exposure
LE1	LE2	LE3	LE4
TOTAL LARGE EXPOSURE			LE5

SECTION E: PII Self-Certification

Is the firm exempt from the PII requirements in respect of any regulated activities? (tick as appropriate)

Mortgage advising/arranging	Non-inv insurance advising/arranging/dealing/assisting	Retail investment advising/arranging
PI1	PI2	PI3

If not exempt, has the firm renewed its PII cover since the last reporting date?

PI4	PI5	PI6
-----	-----	-----

Have any of the data items below changed since the last reporting date (or since you last notified the FSA of any changes)?

PI7	PI8	PI9
-----	-----	-----

If any of the data items have changed, please amend the following section as appropriate, in relation to each applicable PII policy:

What activities are covered by the policy?

Mortgage advising/arranging	PI10
Non-inv insurance advising/arranging/dealing/assisting	PI11
Retail investment advising/arranging	PI12
Is the cover compliant?	PI13
Annual premium	PI14
Limit of Indemnity - single claim/aggregate	PI15
Policy excess	PI16
Increased excess(es) for specific business types	PI17
Policy exclusion(s) for specific business types	PI18
Renewal date	PI19
Insurer name	PI20

Amount of additional capital required for increased excess(es) (where applicable, total amount for all PII policies)

PI22

Personal investment firms only:

Total amount of additional own funds required for policy exclusion(s)

PI23

Total of additional own funds required

PI24

Total of readily realisable own funds

PI25

Excess/deficit of readily realisable own funds

PI26

Y/N

Does the firm have any other PII policies?

PI21

SECTION F: Threshold conditions

Adequate resources

Does the firm have adequate resources in relation to its regulated activities?

THR1

Close links

Are you exempt from close links reporting requirements?

THR2

If not, have there been changes to your close links since the FSA was last informed?

THR3

If yes, on what date did the changes take effect?
(if no notification has been made, please notify us separately of the changes)

THR4

Approved persons

Have there been changes to your approved persons' details since the FSA was last informed?

THR5

If yes, on what date did the changes take effect?
(if no notification has been made, please notify us separately of the changes)

THR6

Controllers

Are you exempt from the controllers reporting requirements?

THR7

If not, have there been changes to your controllers since the FSA was last informed?

THR8

If yes, on what date did the changes take effect?
(if no notification has been made, please notify us separately of the changes)

THR9

SECTION G: Training and Competence

Total number of all staff

Of which:

Number of staff that give advice

Number of staff that supervise others to give advice

Number of advisers that have been assessed as competent

Number of advisers that have passed approved examinations

Number of advisers that have left since the last reporting date

Number of staff that take private customers through stakeholder pension scheme decision trees

Number of staff that supervise non-advised sales of lifetime mortgages

Number of staff that design filtering questions for non-advised sales of lifetime mortgages

Mortgages		Advising on non- investment insurance (retail customers)	Retail investments		Total
advising	arranging		advising	arranging	
					TC1
TC2		TC3	TC4		TC5
TC6		TC7	TC8		TC9
TC10		TC11	TC12		TC13
TC14			TC15		TC16
TC17		TC18	TC19		TC20
				TC21	TC22
	TC23				TC24
	TC25				TC26

SECTION H: COB Data

Sources of business: please tick all that apply, or confirm here that there have been no changes since the last reporting date no changes COB1

- Marketing lists
- Referrals from non-authorised introducers
- Referrals from intermediaries
- Telephone sales
- Cold calling
- Sales visits
- Postal sales
- Direct offer financial promotions
- Repeat customers
- Internet Sales
- Other

	Non-inv Mortgage	insurance	Retail investments
COB2	COB3	COB4	
COB5	COB6	COB7	
COB8	COB9	COB10	
COB11	COB12	COB13	
COB14	COB15	COB16	
COB17	COB18	COB19	
COB20	COB21	COB22	
COB23	COB24	COB25	
COB26	COB27	COB28	
COB29	COB30	COB31	
COB32	COB33	COB34	

Advertising
Does your firm approve financial promotions and/or qualifying credit promotions? COB35 COB36 COB37

Types of advertising: please tick all that apply, or confirm here that there have been no changes since the last reporting date no changes COB38

- Newspaper
- Magazine
- T.V.
- Radio
- Internet
- Other

	Non-inv Mortgage	insurance	Retail investments
COB39	COB40	COB41	
COB42	COB43	COB44	
COB45	COB46	COB47	
COB48	COB49	COB50	
COB51	COB52	COB53	
COB54	COB55	COB56	

Do you use one or more lists or panels of preferred product providers? y/n COB57

If yes, indicate the applicable types of business

	Non-inv Mortgage	insurance	Retail investments
COB58	COB59	COB60	

What (if known) is the total number of providers on the panel(s)? COB61
How often (if known) are the panel(s) reviewed? COB62

General COB data

Do regulated activities form the core business of the firm? COB63
If not, specify type of core business: COB64

Do you give independent advice? COB65

Clawed back commission (retail investment firms only)

Clawed back commission by: Number COB66
Value COB67

Complaints

Does the firm have complaints handling procedures? y/n COB 68

Monitoring of Appointed Representatives ('ARs')

Number of ARs registered with the firm COB69
Of which, number of 'secondary' ARs COB70
Of which, number of introducer ARs COB71
Number of advisers within ARs COB72

(Only firms that have ARs)
Does the firm have appropriate systems and procedures to ensure that the activities of its ARs are effectively monitored and controlled? COB73

Number of ARs that have been subject to monitoring visits by the firm during the reporting period. COB74

Number of ARs that have been subject to file reviews by the firm during the reporting period. COB75

Number of ARs that have been subject to financial checks by the firm during the reporting period. COB76

Has any other monitoring of ARs by the firm taken place? COB77

SECTION I: supplementary product sales data

(i) non-investment insurance product information

- 1 Please indicate in column **A** each product type where the firm has advised or arranged transactions for retail customers during the reporting period
- 2 Please indicate in column **B** where the firm's retail business in the product type formed more than 40% by premium of all of its retail non-investment insurance activities.

(ii) non-investment insurance chains

- 3 Total non-investment insurance premium derived from retail customers SU85
- 4 Of this business, please indicate in column **C** the products where retail sales were passed up a chain and in column **D** where this business is significant*
- *significant is where premium collected from being in a chain for this product amounts to
- 1) more than 40% of the premium collected for all non-investment insurance activities with retail customers, or
- 2) more than 40% of premium collected for all retail business in this product
- 6 Please also indicate in column **E** where the firm has dealt directly with the retail customer within the chain

Product types:	A y/n	B y/n	C y/n	D y/n	E y/n	F y/n	G y/n
Private motor	SU1	SU2	SU3	SU4	SU5	SU6	SU7
Household	SU8	SU9	SU10	SU11	SU12	SU13	SU14
Creditor - Payment protection	SU15	SU16	SU17	SU18	SU19	SU20	SU21
Travel	SU22	SU23	SU24	SU25	SU26	SU27	SU28
Personal accident - sickness	SU29	SU30	SU31	SU32	SU33	SU34	SU35
Legal expenses	SU36	SU37	SU38	SU39	SU40	SU41	SU42
Private Medical Insurance (PMI)	SU43	SU44	SU45	SU46	SU47	SU48	SU49
Critical illness	SU50	SU51	SU52	SU53	SU54	SU55	SU56
Private Health Insurance (PHI)	SU57	SU58	SU59	SU60	SU61	SU62	SU63
Life assurance (or term assurance)	SU64	SU65	SU66	SU67	SU68	SU69	SU70
HealthCare cash plan	SU71	SU72	SU73	SU74	SU75	SU76	SU77
Extended warranty (motor only)	SU78	SU79	SU80	SU81	SU82	SU83	SU84

(iii) dealing as agent

If you **deal as agent** for non-investment insurance contracts:
Please provide:

- 7 Number of sales to retail customers during the reporting period where the firm dealt as agent SU86
- 8 Premium paid by retail customers during the reporting period where the firm dealt as agent SU87
- 9 Of the total of these sales, please indicate in column **F** the products where the firm dealt as agent and in column **G** where this business is significant*.
- *significant is where premium collected from dealing as agent in this product amounts to
- 1) more than 40% of the premium collected for all non-investment insurance activities with retail customers, or
- 2) more than 40% of premium collected for all retail business in this product

(iv) claims handling

If you **assist** in the administration and performance of contracts of insurance:
Please provide:

- 11 Number of claims handled on behalf of customers during the reporting period SU88

(v) Lloyd's brokers - product sales data

	Retail	Commercial Reinsurance	Total
12 % of regulated business revenue	SU89	SU90	SU91 100%

Round to nearest 20% and ensure figures add to 100%

SECTION J: data required for calculation of fees

Income for fees calculations

	FSA	FOS	FSCS
Regulated mortgage contracts	F1	F2	F3
Non-investment insurance	F4	F5	F6
Retail investments	F7	F8	F9

Part 5: SUP 16 Ann 18BG

**NOTES FOR COMPLETION OF
THE RETAIL MEDIATION ACTIVITIES RETURN ('RMAR')**

Contents

Introduction	General notes on the RMAR
Section A:	Balance Sheet
Section B:	Profit & Loss Account
Section C:	Client Money
Section D:	Regulatory Capital
Section E:	Professional Indemnity Insurance
Section F:	Threshold Conditions
Section G:	Training & Competence
Section H:	Conduct of Business
Section I:	Supplementary product sales data
Section J:	Data required for calculation of fees

Introduction: general notes on the RMAR

1. These notes aim to assist *firms* in completing and submitting the **Retail Mediation Activities Return** ('**RMAR**').
2. The purpose of the RMAR is to provide a framework for the collection of information required by the *FSA* as a basis for its supervision activities. It also has the purpose set out in paragraph 16.7.3G of the Supervision Manual, i.e. to help the *FSA* to monitor *firms*' capital adequacy and financial soundness.

Defined terms

3. *Handbook* terms are italicised in these notes.
4. Terms referred to in the RMAR and these notes, where defined by the Companies Act 1985 or other relevant accounting provisions, bear that meaning for these purposes. The descriptions indicated in these notes are designed simply to repeat, summarise or amplify the relevant statutory or other definitions and terminology without departing from their full meaning or effect.

Key abbreviations

5. The following table summarises the key abbreviations that are used in these notes:

APF	<i>Authorised professional firm</i>
AR	<i>Appointed representative</i>
CAD	<i>The Capital Adequacy Directive</i>
CASS	The Client Assets sourcebook, part of the FSA Handbook
COB	The Conduct of Business sourcebook, part of the FSA Handbook
CRED	The Credit unions sourcebook, part of the FSA Handbook
DISP	Dispute resolution: the Complaints sourcebook, part of the FSA Handbook
EEA	<i>The European Economic Area</i>
ICOB	The Insurance: Conduct of Business sourcebook, part of the FSA Handbook
IMD	<i>The Insurance Mediation Directive</i>
IPRU(INV)	The Interim Prudential sourcebook for investment businesses, part of the FSA Handbook
ISD	<i>The Investment Services Directive</i>
LTCI	Long term care insurance
MCOB	The Mortgages: Conduct of Business sourcebook, part of the FSA Handbook
PII	Professional indemnity insurance
PRU	The Integrated Prudential sourcebook, part of the FSA Handbook
RMAR	Retail Mediation Activities Return, i.e. the information requirements to which these notes refer.
SUP	The Supervision Manual, part of the FSA Handbook
T&C	Training and competence, part of the FSA Handbook

Scope

6. The following *firms* are required to complete the RMAR:

(a) *firms* with *permission* to carry on *insurance mediation activity* in relation to *non-investment insurance contracts*.

By way of example, this would include a broker advising on private motor insurance, household insurance or critical illness cover. It would not though include *advice* on a *life policy*;

(b) *firms* with *permission* to carry on *mortgage mediation activity*;

(c) *firms* (defined as *retail investment firms*) that have *private customers*, and have *permission* to carry on the following activities in relation to *retail investments*:

- *Advising on investments*;
- *Arranging (bringing about) deals in investments*;
- *Making arrangements with a view to transactions in investments*;

Retail investments are defined as:

- (a) a *life policy*; or
- (b) a *unit*; or
- (c) a *stakeholder pension scheme*; or
- (d) an interest in an *investment trust savings scheme*; or
- (e) a *structured capital-at-risk product*.

The practical effect of the *private customer* limitation in the definition of *retail investment firms* is to exclude from the requirements *firms* that carry on *retail investment activities* exclusively with or for *intermediate customers* or *market counterparties*.

Note also that all *long-term care insurance contracts* are defined as *life policies*, and as such are included as *retail investments*.

Application of RMAR sections

7. Many of the *firms* conducting the above *regulated activities* also have the *permission* to carry on other *regulated activities*, including for example mortgage lending and administration, *managing investments* or *dealing in investments as agent*. These *firms* are required to complete the RMAR in addition to other data requirements.

8. However, not all *firms* are required to complete all sections of the RMAR. Certain data requirements will be duplicated because of the separate reporting requirements imposed in relation to other *regulated activities*. Broadly, a *firm* that has the *permission* to carry on other *regulated activities* will not be subject to our proposed data requirements for financial reporting (RMAR sections A, B, C, D & E) or *threshold conditions* (section F), as we would expect to be collecting similar information as part of the data requirements for these other activities. For details, see SUP 16.7.

EEA Firms

9. In accordance with the relevant directives, *incoming EEA firms* are not subject to all reporting requirements. In broad terms, this means that *incoming EEA firms* carrying on

insurance mediation activity by way of *cross border services* only are not required to complete the RMAR. The same applies to *incoming EEA firms* providing *cross border services* only, pursuant to the *ISD*.

10. In broad terms, *incoming EEA firms* carrying on *regulated activities* through a branch in the *United Kingdom* are not required to complete the sections of the RMAR in the following table.

Prudential reporting requirements	Section A (balance sheet)
	Section B (profit & loss)
	Section C (<i>client money</i>)
	Section D (capital requirements)
	Section E (professional indemnity insurance)
Threshold conditions	Section F (save in relation to questions about <i>approved persons</i>)
Training & competence	Section G

11. *Firms* that only carry on reinsurance mediation are not required to complete section C.

Authorised professional firms

12. APFs that are subject to *IPRU (INV) 2.1.3R* (for their *investment activity*) or *PRU 9.3.10R* (for *insurance mediation activity* or *mortgage mediation activity*) are not required to complete sections A, B2 or D. APFs that are members of the Law Society of England and Wales, the Law Society of Scotland or the Law Society of Northern Ireland are also not required to complete section C (see below).
13. The application of the capital requirements to APFs is set out in *IPRU(INV) 2.1.2R* (for *retail investment activity*) and *PRU 9.3.10R* (for *mortgage mediation activity* and *insurance mediation activity*).
14. Where APFs are required to submit financial information (i.e. sections A to E), they should do so in relation to all of their *regulated activities*. Section F should also be completed in relation to all *regulated activities*. Other sections (G to I) need not include information in relation to *non-mainstream regulated activities*. However, APFs may complete all sections on the basis of all of their *regulated activities* if this approach is more cost effective.

Accounting Principles

15. The following principles should be adhered to by *firms* in the submission of financial information (sections A to E).
- (a) Unless a rule requires otherwise, amounts to be reported within the *firm's* balance sheet and profit and loss account should be determined in accordance with:
- (i) the requirements of all relevant statutory provisions (e.g. Companies Act 1985);
 - (ii) UK generally accepted accounting practice (UK GAAP). This is set out in the Financial Reporting Standards and Statements of Standard Accounting Practice issued or adopted by the Accounting Standards Board;

- (iii) the provisions of (c) and (d) below.
- (b) If the *firm* is a *body corporate* with one or more *subsidiaries*, its financial statements should be unconsolidated.
- (c)
 - (i) All amounts should be shown in pounds sterling, unless otherwise specified in the *Handbook* (e.g. in *PRU 9.2.13R*).
 - (ii) A *firm* should translate assets and liabilities denominated in other currencies into pounds sterling using the closing mid-market rate of exchange.
 - (iii) Taxation, when reported at a quarter or half year end, should be based on an estimate of the likely effective tax rate for the year applied to the interim profit or loss arising.
 - (iv) Balances on *client bank accounts* and related client accounts must not form part of the *firm's* own balance sheet.
- (d) No netting is permitted (that is, amounts in respect of items representing assets or income may not be offset against amounts in respect of items representing liabilities or expenditure, as the case may be, or vice versa).

Other

16. You will note that some questions in the RMAR refer to the “last reporting date”. If the RMAR is being completed for the first time, you should treat the date the *firm* became authorised to carry on any of the relevant *regulated activities* as the “last reporting date”, except where otherwise indicated (e.g. in sections E & H).
17. Unless otherwise indicated, the information submitted should cover all of the *firm's* transactions in the relevant products, and all of its *customers* and *market counterparties* (where relevant).

NOTES FOR COMPLETION OF THE RMAR

Section A: Balance sheet

The balance sheet data should be compiled in accordance with generally accepted accounting practice. Incorporated *firms* will already be submitting this information to Companies House under Companies Act requirements, and it would normally be expected that non-incorporated *firms* would compile this data for management purposes. If further assistance is required in completing the balance sheet, professional guidance should be sought.

This information will be used by the *FSA* to monitor the *firm's* financial position and satisfy itself as to the *firm's* ongoing solvency. Aggregated data may also be used to inform our supervision activities.

The frequency of reporting for this section is determined by *SUP* 16.7.

Firms that have *appointed representatives* ('ARs') should note that balance sheet data should be submitted for the *firm* only, not its ARs.

Section B: Profit & Loss Account

Profit & loss ('P&L') should be reported on a cumulative basis throughout the *firm's* financial year.

Sub-section B1 – regulated business revenue: covers the data required on the *firm's* revenue from its *regulated activities*.

Sub-section B2 – other P&L: incorporates the remainder of the profit & loss data requirements.

Firms that receive combined income in relation to both regulated and non-regulated activities (for example mortgage packagers) may have difficulties in separately identifying their regulated income from their non-regulated income. If this is the case, *firms* should, (a) in the first instance, ask the provider of the income for an indication of the regulated/non-regulated split; and (b) if this is not available, make an estimate of the income derived from each activity.

In section B1, a *firm* that has *appointed representatives* ('ARs'), including a *network*, should ensure that the figures submitted for income are calculated before deducting any commissions shared with its ARs in respect of the *regulated activities* for which the *firm* has accepted responsibility as *principal*.

Section B: guide for completion of individual fields

Commissions (gross)	<p>This should include all commission income in respect of the relevant regulated business:</p> <ul style="list-style-type: none"> • for <i>regulated mortgage contracts</i>, this includes commissions received for <i>advising on regulated mortgage contracts</i> and <i>arranging</i>, but not lending and administration; • for <i>non-investment insurance contracts</i>, it should include commissions received for <i>advising</i>, <i>arranging</i> and <i>dealing</i> activities; • for <i>retail investments</i>, only commission received in relation to the relevant activities should be recorded here. <p>Gross commissions will include commission that is received and passed on to another <i>person</i>.</p> <p>Where commission is shared between two or more <i>firms</i>, the gross commission should not be double counted, i.e. each <i>firm</i> should report only the commission it has received.</p>
Commissions (net)	<p>This should be the amount of the gross commission figure that is retained by the <i>firm</i> and, where applicable, its <i>appointed representatives</i>, (i.e. not passed on to another <i>person</i>) in respect of each type of business.</p>
Fees	<p>You should record here net income received from <i>customers</i> or other sources on a fixed fee rather than commission basis, but only in respect of the relevant <i>regulated activities</i>.</p>
Other income from regulated activities	<p>You should record here any income that has derived from the relevant <i>regulated activities</i> during the reporting period, which has not been recorded under commissions or fees.</p> <p>Such income may include interest on <i>client money</i>, where the <i>firm</i> is permitted to retain this, or payments made by product providers on a basis other than fees or commissions.</p>
Regulated business revenue	<p>This is the total of the <i>firm's</i> income during the reporting period in relation to its relevant <i>regulated activities</i>.</p> <p>For an <i>insurance intermediary</i> or a <i>mortgage intermediary</i>, this should be calculated in the same way as 'annual income', as specified in PRU 9.3.44R (although in this context the period is not generally annual). This <i>rule</i> states: "For a firm which carries on <i>insurance mediation activity</i> or <i>mortgage mediation activity</i>, annual income... is the amount of all brokerage, fees, <i>commissions</i> and other related income (for example, administration charges, overrides, profit shares) due to the <i>firm</i> in respect of or in relation to those activities".</p>
Other Revenue (income from non-regulated activities)	<p>Gross revenue arising from the <i>firm's</i> non-regulated activities, if any, should be entered here.</p>

Section C: Client Money and assets

In broad terms, *client money* includes *money* that belongs to a *client*, and is held by a *firm* in the course of carrying on *regulated activities*, for which the *firm* has responsibility for its protection. It does not include *deposits* (where the *firm* acts as deposit-taker).

The *client money rules* define further what is and is not *client money*, and set out requirements on *firms* for the proper handling of and accounting for *client money*. If a *firm* fails, there is a greater direct risk to consumers, and a greater adverse impact on market confidence, if it is a holder of *client money*.

Note 1: *firms* that only carry on *mortgage mediation activity* or *reinsurance mediation* are exempt from the *client money rules*, and are not therefore required to complete this section of the RMAR (unless, in the case of reinsurance mediation, the *firm* has made an election under CASS 5.1.1R(3)(a)).

Note 2: *authorised professional firms* regulated by The Law Society (England and Wales), The Law Society of Scotland or The Law Society of Northern Ireland must comply with the rules of their *designated professional body*, and if they do so, they will be deemed to comply with the relevant sections of CASS. These *firms* are not therefore required to complete this section of the RMAR.

Section C: guide for completion of individual fields

Have any notifiable issues been raised in relation to client money or other assets, either in the firm's last client assets audit report or elsewhere, that have not previously been notified to the FSA?	SUP 3.10 sets out the requirement for auditors to report annually on the <i>firm's</i> systems and controls in relation to <i>client money or custody assets</i> . Auditors and <i>firms</i> are required to report significant issues to the FSA (see SUP 3.8.10G and SUP15.3). Therefore, if you answer 'yes' here, you should ensure that the relevant issues are notified to us.
Risk transfer	See CASS 5.2 – holding money as agent of <i>insurance undertaking</i>
Statutory Trust	See CASS 4.2 and 5.3
Non-statutory Trust	See CASS 5.4
Client money credit total as at reporting date	This should be the total of credits on the <i>firm's client money</i> account(s) as at the current date of return.
Client money debit total as at reporting date	This should be the total of any debits on the <i>firm's client money</i> account(s) as at the current date of return.
Net client money balance as at reporting date	This should be the aggregate balance on the <i>firm's client money</i> account(s). (The reporting of this figure should not be taken to mean that <i>firms</i> are permitted to offset an overdrawn client bank account against one that is in credit.)
If non-statutory, has auditor's confirmation of systems and controls been obtained?	This refers to the requirement in CASS 5.4.4R(2) that the <i>firm</i> should obtain written confirmation from its auditor that adequate systems and controls are in place.
Is any client money invested (other than on deposit)?	You should indicate 'yes' here if the <i>firm</i> has invested any <i>client money</i> other than in a bank account. See CASS 5.5.14. (Note: this is only permitted for <i>client money</i> that is held in a non-statutory trust.)
Do you hold client money for business undertaken by an AR?	If the <i>firm</i> has <i>appointed representatives</i> that receive <i>client money</i> , you should state 'yes' here. The requirements of CASS 4.3.15R (investment activities) and/or CASS 5.5.18 (<i>insurance mediation activity</i>) should be adhered to in these circumstances.
Does the <i>firm</i> hold any client assets (other than client money)?	If the <i>firm</i> holds client assets and is subject to the requirements of either CASS 2 or CASS 5.8, state 'yes' here.

Section D: Regulatory Capital

‘Higher of’ requirements

In this section there are separate calculations of regulatory capital and capital resources requirements for the different types of business covered by the data requirements. The calculations are the same, however, for both *mortgage mediation activity* and *insurance mediation activity* relating to *non-investment insurance contracts*.

If a *firm* carries on one or both of:

- *mortgage mediation activity*, and/or
- *insurance mediation activity* relating to *non-investment insurance contracts*,

and additionally carries on

- *designated investment business* (i.e. is subject to *IPRU(INV)*);

then a ‘**higher of**’ requirement applies. This is set out in *PRU* 9.3.24R, which provides that in these circumstances, the higher of the capital resources requirements relating to the respective activities should apply.

In section **D1**, therefore, there are separate reporting requirements to establish the appropriate capital requirements for the following groups of activities and/or *firms* (the requirements have to be completed for all applicable category) :

- firms* carrying on *mortgage mediation activity*, and/or *insurance mediation activity* relating to *non-investment insurance contracts* (the capital requirements are the same for both activities, calculated in section D1);
- personal investment firms* that carry on *retail investment activities*, but no other *designated investment business*. Capital requirements are calculated in section D2 or D3 below as applicable;
- other *personal investment firms*, and *firms* that are subject to *PRU*, but are also subject to *IPRU(INV)* or *CRED* (see below). These capital requirements are not calculated as part of the RMAR.

In each case, it is the higher of the capital requirements that applies and is compared with the applicable calculation of financial resources.

Standard ‘version 1’ credit unions are exempt from the capital requirements in *PRU*, although they have capital requirements under the Credit Unions sourcebook (‘*CRED*’). For other credit unions, the capital resources requirement should be the higher of the amounts required under *PRU* or *CRED*.

Note on the scope of Sections D2, D3, D4 & D5: *firms* that carry on *designated investment business* and are subject to the RMAR, but do not meet the definition of *personal investment firm*, i.e. are not subject to *IPRU(INV)* Chapter 13, will **not** be subject to these sections. Such *firms*, e.g. smaller stockbrokers that advise on *retail investments* as an incidental part of their business, remain subject to the financial resources requirements associated with their principal *regulated activities*.

Sub-sections: this section is sub-divided as follows:

D1: in this sub-section, *firms* are required to complete the regulatory capital sections that are applicable for the types of business undertaken. The *personal investment firms* referred to in (ii) above are required to complete one of sections D2 or D3 to arrive at the totals required in D1.

D2: this section is completed by *personal investment firms* that are **not** subject to the requirements of *ISD* and the *Capital Adequacy Directive* (CAD). It is used to calculate the financial resources and financial resources requirements set out in Chapter 13.10-12 of the Interim Prudential Sourcebook for Investment Businesses (*IPRU(INV)*). This in turn will provide the totals to be submitted in the D1 fields marked A to I as applicable.

D3: this section is completed by *personal investment firms* that **are** subject to the requirements of *ISD* and CAD. It is used to calculate the financial resources and financial resources requirements set out in *IPRU(INV)* 13.3-5. This in turn will provide the totals to be submitted in the D1 fields marked A to I as applicable.

D4: this section is also completed by *personal investment firms* that are subject to the requirements of *ISD* and CAD. It is used to complete the quarterly financial resources statement that is required from these *firms* under CAD.

D5: this section relates to the requirements imposed by CAD on *ISD personal investment firms* in relation to *large exposures*.

Section D1: guide for completion of individual fields

Is the firm exempt from these capital requirements in relation to any of its retail mediation activities?	The <i>firm</i> should indicate here if any <i>Handbook</i> exemptions apply in relation to the capital requirements in <i>PRU</i> or <i>IPRU(INV)</i> Chapter 13. Examples of <i>firms</i> that may be subject to exemptions include <ul style="list-style-type: none"> • Lloyd’s <i>managing agents</i> (<i>PRU</i> 9.3.11R); • solo consolidated <i>subsidiaries of banks</i> or <i>building societies</i>; • small <i>credit unions</i> (as defined in <i>PRU</i> 9.3.8R); and • <i>investment firms</i> not subject to <i>IPRU(INV)</i> Chapter 13 (unless they additionally carry on <i>mortgage mediation activity</i> or <i>insurance mediation activity</i> relating to <i>non-investment insurance contracts</i>).
Mortgage and non-investment insurance mediation (see sub paragraph (i) above)	
Base requirement	The minimum capital requirements for <i>firms</i> carrying on <i>mortgage mediation activity</i> and for <i>insurance mediation activity</i> relating to <i>non-investment insurance contracts</i> are set out in <i>PRU</i> 9.3.30R. If the <i>firm</i> carries on <i>designated investment business</i> as well as <i>mortgage mediation activity</i> , <i>insurance mediation activity</i> or both, requirements under both <i>IPRU(INV)</i> and <i>PRU</i> need to be considered, as it is the higher of the requirements that needs to be met (see general notes above).
5% of annual income (firms holding client money)	For <i>firms</i> that hold <i>client money</i> or other <i>client assets</i> in relation to <i>insurance mediation activity</i> or <i>mortgage mediation activity</i> , this should be calculated as 5% of the annual income (see <i>PRU</i> 9.3.30R(2)) from the <i>firm’s insurance mediation activity</i> , <i>mortgage mediation activity</i> , or both.

2.5% of annual income (firms not holding client money)	For <i>firms</i> that do not hold <i>client money</i> or other <i>client</i> assets in relation to <i>insurance mediation activity</i> or <i>mortgage mediation activity</i> , this should be calculated as 2.5% of the annual income (see <i>PRU</i> 9.3.30R(1)) from the <i>firm's insurance mediation activity, mortgage mediation activity, or both.</i>
Capital requirements (higher of above)	The higher of the base requirement and 5% of annual income (<i>firms</i> that hold <i>client money</i> or other <i>client</i> assets), or the higher of the base requirement and 2.5% of annual income (<i>firms</i> that do not hold <i>client money</i> or other <i>client</i> assets)
Other <i>FSA</i> capital requirements (if applicable)	The <i>FSA</i> may from time to time impose additional requirements on individual <i>firms</i> . If this is the case for your <i>firm</i> , you should enter the relevant amount here. This excludes capital requirements in relation to PII, which are recorded below. There may be additional capital requirements imposed on <i>firms</i> that carry on a number of different <i>regulated activities</i> . For example, <i>firms</i> that carry on the activities of mortgage lending or mortgage administration in addition to <i>mortgage mediation activity</i> and/or <i>insurance mediation activity</i> , and are not exempted under <i>PRU</i> 9.3.4R, may have an additional requirement under <i>PRU</i> 9.3.40R(2).
Additional capital requirements for PII (if applicable)	If the <i>firm</i> has any increased excesses on its PII policies, the total of the additional capital requirements required by the tables in <i>PRU</i> 9.2.19R or 9.2.20R should be recorded here. See also section E of the RMAR.
TOTAL CAPITAL REQUIREMENT	Appropriate totals from above
TOTAL CAPITAL RESOURCES	This should be the total of capital resources calculated in accordance with <i>PRU</i> 9.3 in this section (D1) for incorporated or unincorporated <i>firms</i> as applicable. For <i>firms</i> that are additionally subject to <i>IPRU(INV)</i> or <i>CRED</i> , this should be the higher of the amount calculated in this section ('total capital resources') and the financial resources determined by <i>IPRU(INV)</i> or <i>CRED</i> . See <i>PRU</i> 9.3.51R.
TOTAL CAPITAL EXCESS/DEFICIT	This should show the amount of capital resources that the <i>firm</i> has in relation to its capital requirement.
IPRU(INV) requirements for personal investment firms (retail investment activities only)	<i>Firms</i> that carry on <i>retail investment activities</i> , but no other <i>designated investment</i> business, are subject to this section. It is populated from section D2 or D3 as applicable (see sub paragraph (ii) above).
Category of personal investment firm under <i>IPRU(INV)</i>	If the <i>firm</i> is subject to Chapter 13 of <i>IPRU(INV)</i> , it should enter here its firm category as defined in <i>IPRU(INV)</i> Appendix 13(1), i.e. A1, A2, A3, B1, B2 or B3.
Own funds requirement	See Section D2 or D3 as applicable The own funds requirement ('OFR') should be calculated in accordance with Chapter 13 of the Interim Prudential Sourcebook for Investment Firms. <i>ISD Firms</i> see section <i>IPRU (INV)</i> 13.3 <i>Non-ISD Firms</i> see section <i>IPRU (INV)</i> 13.10 For a <i>low resource firm</i> , the OFR is always £10,000.

Own funds	<p>See Section D2 or D3 as applicable This field should be filled in using the figure for own funds that is derived from the calculation in Section D2 or D3 as applicable.</p> <p>Own funds should be calculated in accordance with Chapter 13 of the Interim Prudential Sourcebook for Investment Firms.</p> <p><i>ISD Firms</i> see <i>IPRU (INV)</i> 13.3 <i>Non-ISD Firms</i> see <i>IPRU (INV)</i> 13.10</p> <p>Source data for the own funds calculation should be entered in the separate financial resources section for <i>ISD firms</i> or <i>non-ISD firms</i> as applicable.</p>
Surplus/deficit of own funds	<p>See Section D2 or D3 as applicable This field should be filled in using the figure for surplus/deficit that is derived from the calculation in Section D2 or D3 as applicable.</p> <p>This should show the amount of the <i>firm's</i> own funds in relation to its own funds requirement.</p>
Additional own funds requirement for PII (if applicable)	<p>If the <i>firm</i> has any increased excesses or exclusions on its PII policies, the total of the additional capital requirements required by <i>IPRU(INV)</i> 13.1.4 should be recorded here. See also section E of the RMAR.</p>
Other <i>FSA</i> capital requirements (if applicable)	<p>The <i>FSA</i> may from time to time impose additional requirements on individual <i>firms</i>. If this is the case for your <i>firm</i>, you should enter the relevant amount here. This excludes capital requirements in relation to PII, which are recorded above.</p>
Adjusted net current assets requirement (if applicable)	<p>See Section D2 or D3 as applicable All <i>personal investment firms</i> except <i>low resource firms</i> should at all times have adjusted net current assets of at least £1.</p> <p><i>Low resource firms</i> should enter 'n/a' here.</p>
Adjusted net current assets (if applicable)	<p>See Section D2 or D3 as applicable All <i>personal investment firms</i> except <i>low resource firms</i> should at all times have adjusted net current assets of at least £1.</p> <p><i>Low resource firms</i> should enter 'n/a' here.</p> <p>This field should be filled in using the figure for adjusted net current assets that is derived from the calculation in Section D2 or D3 as applicable. Adjusted net current assets should be calculated in accordance with Chapter 13 of the Interim Prudential Sourcebook for Investment <i>Firms</i>.</p> <p><i>ISD Firms</i> see <i>IPRU (INV)</i>13.4 <i>Non-ISD Firms</i> see <i>IPRU (INV)</i>13.11</p>
Surplus/deficit (if applicable)	<p>See Section D2 or D3 as applicable All <i>personal investment firms</i>, except <i>low resource firms</i>, should at all times have adjusted net current assets of at least £1.</p> <p><i>Low resource firms</i> should enter 'n/a' here.</p> <p>This field should be filled in using the figure for surplus/deficit that is derived from the calculation in section D2 or D3 of the data requirements.</p> <p>This shows whether the <i>firm's</i> net current assets are positive.</p>

Expenditure based requirement (if applicable)	<p>See Section D2 or D3 as applicable All <i>personal investment firms</i>, except <i>low resource firms</i>, should calculate their expenditure based requirement ('EBR') in accordance with Chapter 13 of the Interim Prudential Sourcebook for Investment Firms.</p> <p><i>Low resource firms</i> should enter 'n/a' here.</p> <p><i>ISD Firms</i> see <i>IPRU (INV)</i> 13.5 <i>Non-ISD Firms</i> see <i>IPRU (INV)</i> 13.12</p>
Adjusted Capital/liquid capital (if applicable)	<p>See Section D2 or D3 as applicable This field should be filled in using the figure for adjusted capital/liquid capital that is derived from the calculation in Section D2 or D3 as applicable.</p> <p>Adjusted/liquid capital should be calculated in accordance with Chapter 13 of the Interim Prudential Sourcebook for Investment Firms.</p> <p><i>ISD Firms</i> see <i>IPRU (INV)</i> 13.5 <i>Non-ISD Firms</i> see <i>IPRU (INV)</i> 13.12</p> <p><i>Low resource firms</i> should enter 'n/a' here.</p>
Surplus/deficit (if applicable)	<p>See Section D2 or D3 as applicable This field should be filled in using the figure for surplus/deficit that is derived from the calculation in Section D2 or D3 as applicable.</p> <p>This shows the amount of the <i>firm's</i> adjusted/liquid capital in relation to its expenditure based requirement.</p> <p><i>Low resource firms</i> should enter 'n/a' here.</p>
Eligible capital (mortgage and non-investment insurance)	
Incorporated firms	
Share capital	As reported in section A
Audited reserves	<p>These are the audited accumulated profits retained by the <i>firm</i> (after deduction of tax and dividends) and other reserves created by appropriations of share premiums and similar realised appropriations. Reserves also include gifts of capital, for example, from a <i>parent undertaking</i>.</p> <p>If reserves have not been audited this field should be zero.</p>
Interim net profits (audited)	Interim net profits should be audited by the <i>firm's</i> external auditor, net of tax or anticipated dividends and other appropriations. Normally this will mean that they form a proportion of the <i>firm's</i> P&L account in field BS24, but if no audit has been undertaken during the reporting period it should be a nil return.
Interim net profits (not audited)	Other unverified profits (not included in total capital resources)
Revaluation reserves	Revaluation reserves (unrealised reserves arising from revaluation of fixed assets) can only be included here if audited.
Eligible subordinated loans	Subordinated loans should be included in capital on the basis of the provisions in <i>PRU</i> 9.3.56R and <i>PRU</i> 9.3.57R.
Less investments in own shares	Amounts recorded in the balance sheet as investments which are invested in the <i>firm's</i> own shares should be entered here for deduction.
Less intangible assets	<p>Any amounts recorded as intangible assets in section A above should be entered here for deduction.</p> <p>The balance sheet value for goodwill does not have to be deducted here until 14 January 2008. See <i>PRU</i> 9.3.53R</p>
Less interim net losses	Interim net losses should be calculated in relation to the period following the date as at which the capital resources are being calculated. The figures do not have to be audited to be included.

Unincorporated firms	
Capital of a sole trader or partnership	See <i>PRU 9.3.52R</i>
Eligible subordinated loans	Subordinated loans should be included in capital on the basis of the provisions in <i>PRU 9.3.56R</i> and <i>PRU 9.3.57R</i> .
Personal assets not needed to meet non-business liabilities	<p><i>PRU 9.3.54R</i> and <i>9.3.55G</i> state that a <i>sole trader</i> or <i>partner</i> <u>may</u> use personal assets to cover liabilities incurred in the <i>firm's</i> business unless:</p> <p>(1) those assets are needed to meet other liabilities arising from: (a) personal activities; or (b) another business activity not regulated by the <i>FSA</i>; or (2) the <i>firm</i> holds <i>client money</i> or other <i>client</i> assets.</p> <p>This field may be left blank if the <i>firm</i> is able to satisfy the capital resources requirements without relying on personal assets.</p>
Less intangible assets	<p>Any amounts recorded as intangible assets in section A above should be entered here for deduction.</p> <p>The balance sheet value for goodwill does not have to be deducted here until 14 January 2008. See <i>PRU 9.3.53R</i></p>
Less interim net losses	Interim net losses should be calculated in relation to the period following the date as at which the capital resources are being calculated. The figures do not have to be audited to be included.
Less excess of drawings over profits for a sole trader or partnership	Any excess of drawings over profits should be calculated in relation to the period following the date as at which the capital resources are being calculated. The figures do not have to be audited to be included.

Section D2: non-*ISD* personal investment firms

This section is for non-*ISD* personal investment firms. Its purpose is to assist in calculating the financial resources data that is required in section D1 above, based on the requirements of *IPRU(INV)* 13.10 to 13.12.

All non-*ISD* personal investment firms are required to meet the Own Funds financial resources test as follows:

Own Funds (test 1)

IPRU(INV) requires that all non-*ISD* personal investment firms have financial resources of at least £10,000 at all times. The Own Funds test is designed to evaluate firms' adherence to this requirement.

In addition, firms that do not fall within the definition of a low resource firm are required to meet the following additional financial resources tests.

Adjusted Net Current Assets (test 1A)

The purpose of this test is to ensure that the firm has adequate working capital to be able to meet its liabilities as and when they fall due. It does this by taking the firm's net current assets (from the balance sheet), and applying the following actions:

- (1) excluding assets which cannot be realised or recovered within twelve months;

- (2) excluding amounts receivable from *connected persons* (to the extent that they are not properly secured, except certain allowable deposits);
- (3) valuing *investments* at current market value.

The resulting balance should be at least £1.

Expenditure Based Requirement (test 2)

This is a capital requirement for *personal investment firms* that are not *low resource firms*, based on a *firm's* overall audited expenditure. The Expenditure Based Requirement is calculated as a fraction of the *firm's* annual fixed costs which, for this purpose, are based upon the *firm's* annual audited expenditure and, in general terms, exclude cost items that would not be incurred were there no income. Thus staff bonuses and *partners'* profit shares (unless guaranteed) and any shared commissions are not treated as fixed costs for the purposes of the calculation.

Section D3: ISD personal investment firms

This section of the data requirements is provided for *ISD personal investment firms*, to assist in calculating the financial resources data that is required in section D1 above, based on the requirements of *IPRU(INV)* 13.2-5.

All *ISD personal investment firms* are required to meet the following three financial resources tests:

Own Funds (test 1)

IPRU(INV) requires that *ISD personal investment firms* have appropriate financial resources in relation to their prudential category at all times. The Own Funds Requirements for these *firms* are:

for a Category A1 *firm*: €730,000;

for a Category A2 *firm*: €125,000;

for a Category A3 *firm*: €50,000.

The Own Funds test is designed to evaluate *firms'* adherence to these requirements.

Adjusted Net Current Assets (test 1A)

See Section D2 in relation to non-*ISD personal investment firms* above.

Expenditure Based Requirement (test 2)

See Section D2 in relation to non-*ISD personal investment firms* above.

Section D4: CAD 13 quarterly financial resources (ISD personal investment firms)

The purpose of this section is to measure *firms'* compliance with the *Capital Adequacy Directive* ('CAD') on a quarterly basis, as required by the directive. *Firms* should use figures

taken from their most recently audited accounts, unless they relate to a change in resources of a kind specified in this section of the RMAR, e.g. the introduction of a subordinated loan.

Section D5: reportable *Large Exposures (ISD personal investment firms)*

This section relates to the requirements imposed by CAD on *ISD personal investment firms* in relation to *large exposures*.

A *large exposure* exists where a *firm* is owed a debt by, or is otherwise exposed to another person, or to two or more affiliated *persons*, and that exposure equals or exceeds 10% of its own funds. Under *IPRU(INV)*, a *firm* is required to ensure that its *large exposures* do not exceed 25% of its own funds (or the aggregate of exposure to its holding company, or a subsidiary company or a group of subsidiaries of its holding company does not exceed 20% of own funds).

The detailed requirements in relation to *large exposures* are set out in *IPRU(INV)* 13.6, including the types of *exempt exposures* that may be excluded from the calculations.

SUP 16 requires that *large exposures* be reported to the *FSA* on a quarterly basis. This part of the data requirements fulfils that requirement, and assists *firms* in calculating the level of reportable exposure (excluding *exempt exposures*) which then feeds into the calculation of the Expenditure Based Requirement.

Section E: Professional Indemnity Insurance

This section requires *firms* to confirm that they are in compliance with the prudential requirements in relation to professional indemnity insurance (PII).

Data is required in relation to all PII policies that a *firm* has in place, up to a limit of ten (the *firm* will be prompted to submit data on all applicable policies). If a *firm* has more than ten policies, it should report only on the ten largest policies by premium.

Note on the scope of Section E: *retail investment firms* that fall within the scope of these data requirements, but do not meet the definition of *personal investment firm*, i.e. are not subject to *IPRU(INV)* 13, will **not** be subject to this section.

The PII requirements for *authorised professional firms* ('APFs') that carry on *retail investment activities* are set out in *IPRU(INV)* 2.3. APFs that carry on *mortgage mediation activity* or *insurance mediation activity* are subject to the full requirements of *PRU* 9.2.

Section E: guide for completion of individual fields

Is the firm exempt from the PII requirements in respect of any regulated activities?	<p>The conditions for exemptions from the PII requirements for <i>firms</i> carrying on <i>insurance</i> or <i>mortgage mediation</i> are set out in <i>PRU</i> 9.2.1R paragraphs (3) to (6).</p> <p>Personal investment firms can only be exempted by individual waiver granted by the <i>FSA</i> (unless <i>IPRU(INV)</i> 13.1.5R applies in respect of comparable guarantees)</p> <p><i>Retail investment firms</i> that do not meet the definition of <i>personal investment firm</i> are not required to complete this section of the RMAR.</p>
If not exempt, has the firm renewed its PII cover since the last reporting date?	<p>The purpose of this question is to ensure that <i>firms</i> do not have to fill in the same information each time they report when the information only changes annually.</p> <p>If the <i>firm</i> is reporting for the first time, you should enter 'yes' here and complete the data fields below.</p> <p>You should only enter 'n/a' if the <i>firm</i> is exempt from the PII requirements in respect of all of <i>regulated activities</i> forming part of the RMAR.</p>
Have any of the data items below changed since the last reporting date (or since you last notified the FSA of any changes)?	<p>The purpose of this question is to ensure that <i>firms</i> do not have to fill in the same information for each period when the information only changes annually.</p> <p>If the <i>firm</i> is reporting for the first time, you should enter 'yes' here and complete the data fields below.</p> <p>You should only enter 'n/a' if the <i>firm</i> is exempt from the PII requirements in respect of all of the <i>regulated activities</i> within the scope of the RMAR.</p>
What activities are covered by the policy(ies)?	You should indicate which <i>regulated activities</i> are covered by the <i>firm's</i> PII policy or policies.

Is the cover compliant?	<p>The required terms for PII cover are set out in the Prudential Sourcebooks as follow:</p> <p><i>Insurance intermediaries and mortgage intermediaries – PRU 9.2</i> <i>Personal investment firms - IPRU(INV) 13.1</i></p> <p><i>Authorised professional firms</i> that carry on <i>retail investment activities</i> should note that by ticking this box they are providing confirmation that they are in compliance with <i>IPRU(INV)2.3.2E</i>, which requires them to have PII cover that is at least equivalent to the requirements of their <i>designated professional body</i>.</p>
Annual premium	This should be the annual premium that is paid by the <i>firm</i> , net of tax and any other add-ons.
Limit of Indemnity	<p>You should record here the indemnity limits on the <i>firm's</i> PII policy or policies, both in relation to single claims and in aggregate.</p> <p>For <i>insurance intermediaries</i>, see <i>PRU 9.2.13R</i>. For <i>mortgage intermediaries</i>, see <i>PRU 9.2.15R</i>. For <i>personal investment firms</i>, see <i>IPRU(INV) 13.1.4E</i>.</p> <p>If the <i>firm</i> is subject to more than one of the above limits (because of the scope of its <i>regulated activities</i>), and has one PII policy for all of its <i>regulated activities</i>, the different limits should be reflected in the policy documentation.</p>
Policy excess	<p>For <i>insurance intermediaries</i> and <i>mortgage intermediaries</i>, see <i>PRU 9.2.16-20R</i>. For <i>personal investment firms</i>, see <i>IPRU(INV) 13.1.4E</i>.</p>
Increased excess(es) for specific business types	<p>If the prescribed excess limit is exceeded in respect of a type or types of business, the amount(s) of the increased excess should be stated here. The type(s) of business to which the increased excess applies should be selected from the drop-down box.</p> <p>(Some of the business types in the drop-down box include pensions, endowments, FSAVCs, splits/zeroes, precipice bonds, income drawdown, <i>lifetime mortgages</i>, discretionary management, other)</p>
Policy exclusion(s) for specific business types	<p>If there are any exclusions in the <i>firm's</i> PII policy, the business type(s) to which they relate should be selected from the drop-down box.</p> <p>(Some of the business types in the drop-down box include pensions, endowments, FSAVCs, splits/zeroes, precipice bonds, income drawdown, <i>lifetime mortgages</i>, discretionary management, other)</p>
Renewal date	The next date by which the current cover needs to be renewed.
Insurer name	<p>The name of the <i>insurance undertaking</i> providing cover. If cover is provided by a Lloyd's syndicate, the name of the syndicate should be stated.</p> <p>If a policy is underwritten by more than one <i>insurance undertaking</i>, you should state 'multiple' along with the number of <i>insurance undertakings</i></p>
Does the <i>firm</i> have any other PII policies?	If 'Y' is entered here, the <i>firm</i> will be required to submit the information above for further policies as applicable (up to a maximum of ten).
Amount of additional capital required for increased excess(es) (where applicable, total amount for all PII policies)	This should be calculated using the tables in <i>IPRU(INV) 13.1.4(12)E</i> or <i>PRU 9.2.20-22</i> as applicable. The total of additional capital (i.e. in relation to all of the <i>firm's</i> PII policies) should have been reported under 'additional capital requirements for PII' and/or 'additional own funds for PII' in section D1.

Amount of additional own funds required for policy exclusion(s)	<i>Personal investment firms</i> only - this should be calculated in accordance with <i>IPRU(INV)</i> 13.1.4(13)R. The total of additional own funds (i.e. in relation to all of the <i>firm</i> 's PII policies) should have been reported under 'additional capital requirements for PII' and/or 'additional own funds for PII' in section D1.
Total of additional own funds required	<i>Personal investment firms</i> only – this is the same figure as in section D1, representing the total of additional own funds that are required under <i>IPRU(INV)</i> 13.1.4 for all of the <i>firm</i> 's PII policies.
Total of readily realisable own funds	<i>Personal investment firms</i> only - you should state here the total of the own funds reported in section D that are classed as 'readily realisable' under the terms of <i>IPRU(INV)</i> 13.1.4(4)R.
Excess/deficit of readily realisable own funds	This field will automatically calculate the excess or deficit, i.e. the 'total of additional own funds required' less the 'total of readily realisable own funds'

Section F: the *threshold conditions*

Sub-heading: adequate resources

This section relates to *threshold condition 4*, by virtue of which the resources of *firms* must, in the opinion of the *FSA*, be adequate in relation to the *regulated activities* that they carry on.

The scope of this requirement is set out in Chapter 2.4 of the Threshold Conditions Sourcebook (*COND* 2.4). In summary, 'resources' refers to both financial and non-financial resources, and to the means of managing those resources. Examples of matters to which the *FSA* will have regard when assessing whether a *firm* satisfies *threshold condition 4* include, among others, the following:

- whether the *firm* has access to adequate capital by reference to the *FSA*'s prudential requirements;
- whether the *firm* can meet all its liabilities as they fall due; and
- whether the *firm* has taken steps to identify and measure any risks of regulatory concern, and has installed appropriate systems and controls to manage them.

Sub-heading: close links

This section relates to *threshold condition 3*. *Firms* should consult *COND* 2.3, as well as Chapter 11 of the Supervision Manual ('*SUP*').

This section of the return replaces the *close links* annual reporting requirement in *SUP* 16.5.4R, which does not now apply to those *firms* subject only to the RMAR for the purposes of regulatory reporting. Moreover, the existing exemptions for certain other *firms* from the existing reporting requirements in *SUP* 16.5.1G are retained.

Sub-heading: approved persons

The approved persons regime is one of the ways in which the *FSA* satisfies itself that *firms* are operating in accordance with *threshold conditions* 4 (adequate resources) and 5 (suitability).

An “approved person” is a *person* in relation to whom the *FSA* has given its approval under the *Act* for the performance of a *controlled function*. In broad terms, the individuals the *FSA* approves fall into the following categories:

- individuals exerting significant influence over the *firm’s regulated activities*;
- individuals dealing directly with *customers*; and
- individuals dealing with the property of *customers*.

For *retail investment firms*, all individuals undertaking *controlled functions* in relation to the above categories are subject to the *approved persons* regime.

For *firms* carrying on *mortgage mediation activity* and/or *insurance mediation activity* relating to *non-investment insurance contracts*, the ‘significant influence’ category is subject to the *approved persons* regime, but not the ‘customer functions’.

See, generally, *SUP* 10.4 for specification of *significant influence functions* and *customer functions*.

Sub-heading: controllers

In very broad terms, so far as those required to fill in this part of the return are concerned, the *Handbook* requires notification of changes in a *firm’s controllers* as follows:

A *UK domestic firm* other than a *UK insurance intermediary* must notify the *FSA* of any of the following events concerning the *firm*:

- (1) a *person* acquiring *control* or ceasing to have *control*;
- (2) an existing *controller* acquiring an additional *kind of control* or ceasing to have a *kind of control*;
- (3) an existing *controller* increasing or decreasing a *kind of control* which he already has so that the percentage of shares or *voting power* concerned becomes or ceases to be equal to or greater than 20%, 33% or 50%;
- (4) an existing *controller* becoming or ceasing to be a *parent undertaking*.

An *overseas firm* must notify the *FSA* of any of the following events concerning the *firm*:

- (1) a *person* acquiring *control* or ceasing to have *control*;
- (2) an existing *controller* becoming or ceasing to be a *parent undertaking*.

A *UK insurance intermediary* must notify the *FSA* of any of the following events concerning the *firm*:

- (1) a *person* acquiring *control*;
- (2) a *controller*;

- (a) decreasing the percentage of shares held in the *firm* from 20% or more to less than 20%; or
 - (b) decreasing the percentage of shares held in a *parent undertaking* of the *firm* from 20% or more to less than 20%; or
 - (c) decreasing the percentage of voting power which it is entitled to exercise, or control the exercise of, in the *firm* from 20% or more to less than 20%; or
 - (d) decreasing the percentage of voting power which it is entitled to exercise, or control the exercise of, in a *parent undertaking* of the *firm* from 20% or more to less than 20%;
- (3) an existing *controller* becoming or ceasing to be a *parent undertaking*.

A summary of these notification requirements is provided in Annex 1G of SUP 11.

This section of the return replaces the annual *controllers* reporting requirement in SUP 16.4.5R, which does not now apply to those *firms* subject only to the RMAR for the purposes of regulatory reporting. Moreover, the exemptions for certain other *firms* from the existing reporting requirement in SUP 16.4.1G are retained.

Section F: guide for completion of individual fields

<p>Adequate Resources Does the firm have adequate resources in relation to its regulated activities?</p>	<p>In answering this question you should carefully consider the <i>guidance</i> in COND 2.4, which sets out the criteria that the FSA will use in determining whether a <i>firm</i> is deemed to have adequate resources.</p> <p><i>Authorised professional firms</i> should note that by ticking this box they are providing confirmation that they are in compliance with IPRU(INV)2.2, which requires them to be able to meet their liabilities as they fall due.</p>
<p>Close Links Are you exempt from close links reporting requirements?</p>	<p>The categories of <i>firm</i> that are exempt from the reporting requirement are listed in the relevant parts of SUP 16.1.3R.</p>
<p>If not, have there been changes to your close links since the FSA was last informed?</p>	<p>For detailed <i>guidance</i> on what constitutes a <i>close link</i>, see COND 2.3.</p>
<p>If yes, on what date did these changes take effect? (if no notification has been made, please notify us separately of the changes)</p>	<p>See SUP 11.9. All <i>firms</i> should have notified the FSA immediately if they have become aware that they have become or ceased to be <i>closely linked</i> with another <i>person</i>.</p> <p>If there have been changes in <i>close links</i> that have not been notified to the FSA, you should do this now.</p>
<p>Approved Persons Have there been changes to your approved persons' details since the FSA was last informed?</p>	<p>State yes if, for example, any of the <i>firm's</i> approved persons have joined or left during the reporting period, but the FSA was not notified in accordance with normal procedures.</p>

<p>If yes, on what date did these changes take effect? (if no notification has been made, please notify us separately of the changes)</p>	<p>Any changes in the <i>firm's approved persons</i>, e.g. joiners and leavers, should have been notified at the time to the <i>FSA</i>. Detailed requirements in relation to <i>approved persons</i> are set out in <i>SUP 10.13</i></p> <p>If the appropriate notification was not made at the time, you should state here the date the change took effect. If there has been more than one unnotified change, you should enter the date of the most recent change.</p> <p>If there have been changes in relation to <i>approved persons</i> that have not been notified to the <i>FSA</i>, you should do this now.</p>
<p>Controllers Are you exempt from the controllers reporting requirements?</p>	<p>The categories of <i>firm</i> that are exempt from the reporting requirement are listed in the relevant parts of <i>SUP 16.1.3R</i></p>
<p>If not, have there been changes to your controllers since the <i>FSA</i> was last informed?</p>	<p>See, generally, <i>SUP 11.4</i>.</p>
<p>If yes, on what date did these changes take effect? (if no notification has been made, please notify us separately of the changes)</p>	<p>See, generally, <i>SUP 11.4</i>. If there have been changes in <i>controllers</i> that have not been notified to the <i>FSA</i>, you should do this by means of normal supervisory channels.</p>

Section G: Training & Competence ('T&C')

Principle 3 of the *Principles for Businesses* requires *firms* to take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems. This includes making proper arrangements for individuals associated with a *regulated activity* carried on by a *firm* to achieve and maintain competence.

Our approach to training and competence is set out in the Training & Competence Sourcebook ('*TC*'). There are two parts to the Sourcebook:

Chapter 1 (the Commitments) consists of *guidance* that applies to those *firms* indicated in *TC 1.1.6G* (which includes all *firms* with a *Part IV permission*). It states that the *firm's* commitments to training and competence should be that employees are competent and remain competent for the work that they do, that they are appropriately supervised, that their competence is regularly reviewed, and that the level of competence is appropriate to the nature of the business.

Chapter 2 (specific requirements for particular activities) – for those *firms* indicated in *TC 2.1.1R* who are involved in specified activities, such as *advising on investments* or on *regulated mortgage contracts* (see, generally, *TC 2.1.4R*), we have set additional training and competence requirements over and above the Commitments. These extra requirements cover recruitment, training, attaining competence, (in some cases this includes a requirement for individuals to pass an examination), maintaining competence, and the supervision of individuals.

It should be noted that Chapter 2 only applies in relation to advising on *non-investment insurance contracts* where this activity is carried on with or for *retail customers*.

We will use the data we collect in this section to assess the nature of *firms'* compliance with training and competence requirements.

Firms that have *appointed representatives* ('ARs') should note that the information submitted in this section should include its ARs as well as the *firm* itself.

Section G: guide for completion of individual fields

Total number of all staff	<p>This should be the total number of staff that worked for the <i>firm</i> as at the end of the reporting period.</p> <p>Therefore, employees that may have advised during the period but were not employed as at the end date should not be included.</p>
Of which:	
Number of staff that give advice	<p>'Advice' is given where the sale of a product is based on a recommendation given to the <i>customer</i> on the merits of a particular product.</p> <p>If staff advise in relation to more than one business type (i.e. mortgage advising, advising on <i>non-investment insurance contracts</i> or retail investment products), they should be counted in each applicable field. The 'total' in the right hand column field should be the actual number of applicable employees, however, rather than a total of the three columns.</p> <p>Note: in relation to advising on <i>non-investment insurance contracts</i>, this total should not include employees that do not advise <i>retail customers</i>.</p>
Number of staff that supervise others to give advice	<p>Note the requirements in the Training & Competence Sourcebook (TC 2.4, 2.6 and 2.7) for employees to be appropriately supervised, and also the competencies that are required for those who supervise others.</p> <p>If any of these staff carries out supervisory activities in relation to more than one business type, they should be counted in each applicable field. The 'total' in the right hand column field should be the actual number of applicable employees, however, rather than a total of the three columns.</p>
Number of advisers that have been assessed as competent	<p>This is a subset of the total of 'number of staff that give advice' above.</p> <p>See TC 2.1.4R for the detailed training & competence requirements relating to individual activities.</p> <p>If staff are competent in relation to more than one business type, they should be counted in each applicable field. The 'total' in the right hand column field should be the actual number of applicable employees, however, rather than a total of the three columns.</p>

Number of advisers that have passed <i>approved examinations</i>	<p>This is a subset of the total in ‘number of staff that give advice’ above.</p> <p>In the case of certain activities, <i>TC 2</i> imposes requirements on <i>firms</i> in relation to their <i>employees</i> and passing <i>approved examinations</i>. See, for example, requirements relating to <i>employees</i> engaged in <i>advising a customer on a regulated mortgage contract</i> other than a <i>regulated mortgage contract</i> that the firm has concluded solely for a business purpose (Table <i>TC 2.1.4R (1)(p)</i>), and requirements relating to <i>employees</i> engaged in <i>advising on investments</i> which are <i>packaged products</i> (Table <i>TC 2.1.4R (1)(f)</i>).</p> <p>If staff have qualifications in relation to more than one business type, they should be counted in each applicable field. The ‘total’ in the right hand column field should be the actual number of applicable employees, however, rather than a total of the three columns.</p>
Number of advisers that have left since the last reporting date	<p>This is the total number of advisory staff that have left the <i>firm</i> during the current reporting period.</p> <p>If any of these staff used to carry out advisory activities in relation to more than one business type, they should be counted in each applicable field. The ‘total’ in the right hand column field should be the actual number of applicable employees, however, rather than a total of the three columns.</p>
Number of staff that take private customers through stakeholder pension scheme decision trees	See <i>TC 2.1.4R Table (2)(e)</i> .
Number of staff that supervise non-advised sales of lifetime mortgages	The reason this information is required is because the detailed requirements in <i>TC 2</i> are extended to staff that supervise non-advised sales of <i>lifetime mortgages</i> where filtering questions are used, because of the higher risks associated with these products (see <i>TC 2.1.4R Table (2)(g)</i>).
Number of staff that design filtering questions for non-advised sales of lifetime mortgages	<p>The reason this information is required is because the detailed requirements in <i>TC 2</i> are extended to staff involved in designing filtering questions for the non-advised sale of <i>lifetime mortgages</i>, because of the higher risks associated with these products (see <i>TC 2.1.4R Table (1)(q)</i>).</p> <p>Note: we would expect this total to include staff that supervise and/or sign off filtering questions as well as those that actually design them.</p>

Section H: Conduct of Business (‘COB’) Data

In this section we are seeking data from *firms* in relation to:

- the various sources of business;
- advertising;
- commission clawback (*retail investment firms* only);
- monitoring of *appointed representatives*.

We will use the data collected in this section to establish the extent and nature of *firms*’ business, and thereby assess the potential risks posed by *firms*’ business activities.

Firms that have *appointed representatives* ('ARs') should note that the information submitted in this section should take account of the business generated by its ARs as well as the *firm* itself.

Sub-headings: sources of business/advertising

This information is being requested to provide high level data on the ways in which *firms* attract business. This will assist the *FSA* in targeting its supervisory resources towards those areas of the sales process and market where risks to consumers appear to be greatest. For example, we might use supervisory resources to look at all *firms* in a certain area that advertise in print media.

Sub-heading: general COB data

In this sub-section we are requesting general information on the *firm's* conduct of business.

Sub-heading: Clawed back commission (retail investment firms only)

Commission is typically paid to advisers in two main ways:

- non-indemnity commission - this is where payments from providers/lenders to advisers are non-refundable should the policy lapse, cancel or be surrendered.
- indemnity commission – this is colloquially referred to as 'up-front' commission and describes the situation where a provider would pay an adviser an amount of money based on a percentage of the first year's premiums for a regular premium contract. This sum is paid immediately on commencement, on the assumption that the policy will stay in force for a number of months/years ('the earnings period'). Should the *customer* stop paying premiums within the 'earnings period' (generally between 24 & 48 months) then the provider would ask the adviser to repay the 'unearned' commission. This is known as 'clawback'.

Sub-heading: monitoring of *appointed representatives*

An appointed representative ('AR') is a *person* (other than an *authorised person*) who:

- (a) is a party to a contract with an *authorised person* (his *principal*) which:
 - (i) permits or requires him to carry on business of a description prescribed in the *Appointed Representatives Regulations*; and
 - (ii) complies with such requirements as are prescribed in those Regulations; and
- (b) is someone for whose activities in carrying on the whole or part of that business his *principal* has accepted responsibility in writing; and who is therefore an *exempt person* in relation to any *regulated activity* comprised in the carrying on of that business for which his *principal* has accepted responsibility.

A *firm* has significant responsibilities in relation to an AR that it has appointed, which are set

out in detail in *SUP 12*. In summary, the *firm* is responsible, to the same extent as if it had expressly permitted it, for anything the *appointed representative* does or omits to do, in carrying on the business for which the *firm* has accepted responsibility.

Before a *firm* appoints a *person* as an *appointed representative*, and afterwards **on a continuing basis**, it should take reasonable care to ensure that:

- (1) the appointment does not prevent the *firm* from satisfying and continuing to satisfy the *threshold conditions*;
- (2) the *person*:
 - (a) is solvent;
 - (b) is suitable to act for the *firm* in that capacity; and
 - (c) has no *close links* which would be likely to prevent the effective supervision of the *person* by the *firm*; and
- (3) the *firm* has adequate:
 - (a) controls over the *person's regulated activities* for which the *firm* has responsibility (see *SYSC 3.1*); and
 - (b) resources to monitor and enforce compliance by the *person* with the relevant requirements applying to the *regulated activities* for which the *firm* is responsible and with which the *person* is required to comply under its contract with the *firm*.

Accordingly, *firms* are required to monitor and oversee the activities of their ARs. It is the *firm's* responsibility to be able to demonstrate that it has adequate procedures and resources in place to monitor these activities.

By collecting the high level data required in this sub-section, we will be able to gain an understanding of the methods that *firms* are employing to remain in compliance with the monitoring requirements. This will be used to inform thematic and/or *firm-specific* work in this area.

Section H: guide for completion of individual fields

Sources of Business Sources of business: please tick all that apply, or confirm here that there have been no changes since the last reporting date	The purpose of the 'no changes' checkbox is so that <i>firms</i> do not have to fill in the same information each quarter when it has not changed. If the <i>firm</i> is reporting for the first time, you should leave this field blank and complete the data fields below.
Marketing lists	This is where a <i>firm</i> uses a commercially obtained list of potential <i>customers</i> to carry out marketing of its services.
Referrals from non-authorized introducers	A non-authorized introducer is a <i>person</i> who is neither authorised by the <i>FSA</i> nor an <i>appointed representative</i> , and who introduces business to <i>firms</i> or <i>appointed representatives</i> . This would include a non-authorized professional firm that refers business to an <i>APF</i> .
Referrals from intermediaries	Referrals from other intermediaries, including <i>appointed representatives</i> .
Telephone sales	Sales arising solely from telephone conversations with the <i>customer</i> .

Cold calling	See <i>COB</i> 3.10, and <i>MCOB</i> 3.7.
Sales visits	Sales arising from a visit to the <i>customer</i> by the <i>firm</i> .
Postal sales	Sales arising solely by exchange of postal correspondence.
Direct offer financial promotions	See <i>Glossary</i> definition.
Repeat customers	Sales made to <i>customers</i> who had previously transacted business with the <i>firm</i> .
Internet Sales	Sales arising from the <i>customer's</i> use of the internet. This could include business originated from the <i>firm's</i> internet advertising (website or directory membership), or sales transacted online.
Other	Any other sources of business not covered in this section.
Advertising	
Does your firm approve financial promotions (including qualifying credit promotions)?	A financial promotion is an invitation or inducement to <i>engage in investment activity</i> . This question relates to approval of the content of the <i>financial promotion</i> for the purposes of section 21 of the <i>Act</i> . 'Qualifying credit' is defined in the <i>Glossary</i> . See, generally, <i>AUTH</i> Appendix 1 for <i>guidance on financial promotion</i> and related activities.
Types of advertising: please tick all that apply, or confirm here that there have been no changes since the last reporting date	The purpose of this question is so that <i>firms</i> do not have to fill in the same information each quarter when it has not changed. If the <i>firm</i> is reporting for the first time, you should leave this field blank and complete the data fields below.
Do you use one or more lists or panels of preferred product providers? If yes, indicate the applicable types of business	You should indicate here the types of business in respect of which the <i>firm</i> uses lists or panels.
What (if known) is the total number of providers on the panel(s)?	If the <i>firm</i> compiles its own panel(s), you should state here the total number of product providers that are included as at the reporting date. It is acceptable to leave this field blank if, for example, the <i>firm</i> uses a panel or panels compiled by a product provider or packager firm.
How often (if known) are the panel(s) reviewed?	If the <i>firm</i> compiles its own panel(s), you should state the frequency with which the panel or list is reviewed and amended as appropriate, e.g. quarterly. If separate panels are reviewed with differing frequencies, you should state the least frequent. It is acceptable to leave this field blank if, for example, the <i>firm</i> uses a panel or panels compiled by a product provider or packager firm.
General COB data	
Do regulated activities form the core business of the firm?	'Core business' for these purposes is the activity from which the largest percentage of the <i>firm's</i> gross income is derived. Note for an <i>authorised professional firm</i> specifying that its core business is 'professional services': if the <i>firm's</i> income from <i>regulated activities</i> is 50% or more of its total income (disregarding a temporary variation of not more than 5% over the preceding year's figure), then it should have regard to <i>IPRU(INV)</i> 2.1.2R (4) and give notification to the <i>FSA</i> .

If not, specify type of core business	<p>Where applicable, the <i>firm</i> should specify its core business from the following:</p> <p>Motor Dealer (includes commercial vehicles, motorcycles and scooters, new & used vehicles) Hire/Lease of vehicles Mobility & Access Equip./Vehicles Other</p> <p>Associations or Institutions Utilities Trade Union University Housing Association & Trust Trade Body Sports Club & Association Other</p> <p>Retail - Goods Electrical Appliance Retailer Furniture Retailer Mobile Telephones Sports Equipment (e.g. Fishing Tackle, Golf) Caravans & Mobile Homes Other goods (e.g. Photographic, coin & stamp dealers)</p> <p>Service sector Travel (e.g. booking accommodation & holidays) Supermarket Veterinary Surgeon Removals (e.g. domestic, business & overseas) Property management (including overseas) Building improvements/extensions (e.g. bathroom, kitchen, conservatories) Other services (e.g. Post Offices, Hire Services)</p> <p>Other if none of the above categories is applicable to the <i>firm's</i> business, e.g. loss assessor, professional services provided by an <i>authorised professional firm</i>.</p>
Do you give independent advice?	You should state 'yes' if the <i>firm</i> gives advice on regulated products or services that is independent of product providers or marketing groups.
Clawed back commission (retail investment firms only)	
Clawed back commission by:	
Number	Number of policies where cancellations have led to commissions being clawed back during the reporting period.
Value	Total value of clawed back commission during the period.
Complaints	
Does the firm have complaints handling procedures?	<p><i>DISP</i> 1.2 requires that all <i>firms</i> that conduct business with <i>eligible complainants</i> have in place appropriate and effective written complaint handling procedures.</p> <p>Additionally, <i>firms</i> that carry on <i>insurance mediation</i> are required to have a complaints handling procedure for all complaints, including those from non-eligible complainants (see <i>DISP</i> 1.2.1A R).</p>

Monitoring of Appointed Representatives ('ARs')	
Number of ARs registered with the firm	Total number of ARs for which the <i>firm</i> has regulatory responsibility, as at the reporting date.
Of which, number of 'secondary' ARs	An AR is a secondary AR if: <ul style="list-style-type: none"> the activities for which it is exempt are limited to <i>insurance mediation activities</i> only; and its principal purpose is to carry on activities other than <i>insurance mediation activities</i>.
Of which, number of introducer ARs	See <i>Glossary</i> definition
Number of advisers within ARs	This should be the total of advisory staff across all of the <i>firm's</i> appointed representatives. Advisory staff are those that advise <i>customers</i> on the merits of purchasing a particular product. By definition this total will not include staff at introducer ARs.
Does the firm have appropriate systems and procedures in place to ensure that the activities of its ARs are effectively monitored and controlled?	A summary of the <i>firm's</i> responsibilities under SUP 12 is set out under the sub-heading "monitoring of appointed representatives" above. The <i>firm</i> should be able to demonstrate that it has been in compliance with the requirements in SUP 12 throughout the reporting period.
Number of ARs that have been subject to monitoring visits by the firm during the reporting period.	This is one of the ways in which <i>firms</i> with ARs may fulfil their responsibilities under SUP 12.
Number of ARs that have been subject to file reviews by the firm during the reporting period.	This is one of the ways in which <i>firms</i> with ARs may fulfil their responsibilities under SUP 12.
Number of ARs that have been subject to financial checks by the firm during the reporting period.	This is one of the ways in which <i>firms</i> with ARs may fulfil their responsibilities under SUP 12.
Has any other monitoring of ARs by the <i>firm</i> taken place?	If the <i>firm</i> uses other methods to fulfil its monitoring responsibilities under SUP 12, you should state 'yes' here.

Section I: supplementary product sales data

Most of the product sales data ('PSD') required by the *FSA* is collected quarterly from product providers. However, this process does not include all types of *non-investment insurance contract*, and also leaves other gaps in data on sales, which we aim to fill by means of the data collected in this section.

We use this data in conjunction with PSD to identify market trends and thus inform our thematic supervision work. In addition to this, we may use the combined sales data to form a view about the state of affairs of individual *firms*, which may inform supervisory or other action.

Firms that have *appointed representatives* ('ARs') should note that the information submitted in this section should also take account of the business of its ARs as well as the *firm* itself.

Sub-heading: (i) non-investment insurance product information

In this section *firms* are asked for aggregate data on their non-investment insurance advising and arranging activities (with *retail customers*). The information required is an indication of

the product types in which the *firm* has been active during the reporting period, and a further indication of how significant this activity is (i.e. whether it forms more than 40% by premium of all of the *firm's* retail non-investment insurance activities)

This information enables us to ascertain the importance of each product type to the *firm* and to target thematic work in this area.

Sub-heading: (ii) Dealing as agent for *non-investment insurance contracts*

This section captures transactions with *retail customers* by *firms* with delegated authority (e.g. where the *firm* can bind risks on behalf of the *insurance undertaking* without further reference to the *insurance undertaking*). *Firms* are required to submit aggregate volumes and value of this business, and to indicate which products they have dealt in.

Firms are also required to indicate whether this business is significant. ‘Significant’, in this context, is where the premium collected in relation to business where the *firm* dealt as agent amounts to (a) more than 40% of premium collected for all non-investment insurance business, or (b) more than 40% of premium collected for all business in a particular product).

Again, this enables us to ascertain the importance of this business to the *firm* and to target thematic work in this area.

Sub-heading: (iii) non-investment insurance chains

It is common practice in the non-investment insurance market for some *firms* to pass their business to another intermediary rather than directly to the product provider, forming a ‘chain’. Product Sales Data only identifies the *firm* that has submitted the business to the product provider, although this may not necessarily be the intermediary that originated the sale. This section captures data on sales that form part of chains. Collecting information on gross and net brokerage (as outlined in section B1 above) gives us some information about the extent to which a *firm* is part of a chain, and to supplement this, we are requesting the following data in this section:

- (1) the total of premium from *non-investment insurance contracts* that is derived from sales to *retail customers*;
- (2) whether transactions in the listed product types have been passed up a chain;
- (3) whether this business is significant. ‘Significant’, in this context, is where the premium collected in relation to business forming part of a chain amounts to (a) more than 40% of premium collected for all non-investment insurance business, or (b) more than 40% of premium collected for all retail business in a particular product; and
- (4) whether, in relation to this business, the *firm* has dealt directly with the *customer* during the reporting period (i.e. has been the first intermediary in the chain).

Note: Lloyd’s brokers are exempt from the reporting requirement in this section.

Sub-heading: (iv) claims handling

The activity of ‘**assisting in the administration and performance of a contract of insurance**’ encompasses claims handling on behalf of *customers*, and this section aims to capture information on claims handling that is not collected from product providers as part of PSD.

This enables us to ascertain the importance of this activity to the *firm* and to target thematic work in this area. *Firms* should note that where claims are handled on behalf of an *insurer* only, this does not constitute a *regulated activity*.

Sub-heading: (v) Lloyd’s brokers – product sales data

This information is required because data on business placed through Lloyd’s is not collected as part of product sales data. To fill the gap, this section requires Lloyd’s brokers to submit data on the percentage of revenue earned through their *regulated activities* that is derived from retail, commercial and reinsurance business. This information is used alongside the product sales data to inform our thematic supervision work.

Section I: guide for completion of individual fields

(i) non-investment insurance product information	
Please indicate in column A each product type where the firm has advised or arranged transactions for retail customers during the reporting period	You should state ‘yes’ in column A for each relevant product.
Please indicate in column B where the firm’s retail business in the product type formed more than 40% by premium of all of its non-investment insurance activities.	You should state ‘yes’ in column B for each relevant product, based on an estimate of the percentage of business. If you think the product might account for more than 40% of business but are not sure, you should state ‘yes’.
(ii) non-investment insurance chains	
Total non-investment insurance premium derived from retail customers	You should state here the total of premiums paid by <i>retail customers</i> during the reporting period in relation to non-investment insurance products.
Of this business, please indicate in column C the products where retail sales were passed up a chain and in column D where this business is significant (see notes above)	You should state ‘yes’ in column C for each product in which transactions have been passed up a chain. If this business is significant (see definition above) for one or more product types, this should be indicated in column D.
Please also indicate in column E where the firm has dealt directly with the retail customer within the chain	<i>Firms</i> should also indicate in column E the product types for which they transact business in a chain, but directly with the <i>customer</i> .
(iii) dealing as agent	
Number of sales to retail customers during the reporting period where the firm dealt as agent	You should state here the number of sales during the reporting period where the <i>firm</i> dealt as agent of a product provider (i.e. with delegated authority).
Premium paid by retail customers during the reporting period where the firm dealt as agent	You should state here the total value of premiums from policyholders during the reporting period, where the <i>firm</i> dealt as agent of a product provider (i.e. with delegated authority). For regular premium business, annualised figures should be used.
Of the total of these sales, please indicate in column F the products where the firm dealt as agent, and in column G where this business is significant (see notes above)	You should state ‘yes’ in column F for each product in which the <i>firm</i> has dealt as agent, and also in column G for each product type where this business is significant.

(iv) claims handling	
If you assist in the administration and performance of contracts of insurance: Please provide: Number of claims handled on behalf of customers during the reporting period	If you are authorised to <i>assist in the administration and performance of a contract of insurance</i> on behalf of <i>customers</i> , you should state here the number of new insurance claims that have been handled on <i>customers'</i> behalf during the reporting period.
(v) Lloyd's brokers - product sales data	
% of regulated business revenue	This should be a summary of the percentages of the <i>firm's</i> revenue in relation to retail, commercial and reinsurance business: Retail: insurance offered to individuals as opposed to commercial entities. Commercial: insurance taken out by a commercial entity (as opposed to an individual). Reinsurance: insurance protection taken out by an insurer to limit its aggregation of exposure on business written. Figures may be rounded to the nearest 20%, but the total should be 100%.
Product types:	The product types in this table are defined in the Interim Prudential sourcebook for insurers (' <i>IPRU(INS)</i> ')

Section J: data required for calculation of fees

This information is required so that we can calculate the fees payable by *firms* in respect of the *FSA*, Financial Ombudsman Service ('*FOS*') and the Financial Services Compensation Scheme ('*FSCS*').

The precise way in which these fees will be calculated is still under consultation. Therefore, further information on the completion of these data fields will be provided in due course.

Income for fees calculations	<i>Firms</i> will need to report data for the purpose of calculating <i>FSA</i> , <i>FOS</i> and <i>FSCS</i> levies. The rules to implement these measures will be subject to consultation in 2004 (see below).
FSA	The formal rules for calculating <i>FSA</i> fees will be subject to consultation in the second quarter ('Q2') of 2004, and will become final <i>handbook</i> text in Q3 2004.
FOS	<i>Mortgage mediation</i> and <i>insurance mediation</i> : the formal rules for calculating <i>FOS</i> fees will be subject to consultation in March 2004, and will become final <i>handbook</i> text in Q3 2004. <i>Retail investment activities</i> : consultation dates to be confirmed.
FSCS	<i>Mortgage mediation</i> and <i>insurance mediation</i> : the formal rules for calculating <i>FSCS</i> fees will be subject to consultation in March 2004, and will become final <i>handbook</i> text in Q3 2004. <i>Retail investment activities</i> : consultation dates to be confirmed.

Mortgage Lending and Administration Return ('MLAR')

Illustration of reporting requirements for firms carrying on mortgage lending and administration activities

Sup 16 Ann 19AR MORTGAGE LENDING & ADMINISTRATION RETURN ('MLAR')

Summary of Contents	Table
Balance Sheet	A
Profit & Loss Account	B
Capital	C
Lending - Business flows & rates	D
Residential Lending to individuals - New business profile	E
Lending - Arrears analysis	F
Mortgage administration - Business profile	G
Mortgage administration - Arrears analysis	H
Fee tariff measures	J

A BALANCE SHEET

(£000s)

A

		<i>Balance at end of quarter</i>				<i>Balance at end of quarter</i>	
A1	Assets			A2	Liabilities		
A1.1	Fixed assets			A2.1	Shareholders' funds		
A1.2	Intangible assets			A2.2	Minority interests		
A1.3	Tangible assets			A2.3	Provisions for liabilities and charges		
A1.4	Investments			A2.4	Creditors		
A1.5	Current assets:			A2.5	Amounts falling due within one year		
A1.6	Loans to customers			A2.6	Amounts falling due after more than one year		
A1.7	Stocks			A2.7	Other liabilities		
A1.8	Debtors			A2.8	TOTAL LIABILITIES		
A1.9	Investments						
A1.10	Cash at bank and in hand						
A1.11	Other current assets						
A1.12	TOTAL ASSETS						

Unsecuritised balances

Gross balances Provisions Net balances

Securitised balances

Gross balances Provisions Non recourse finance Net balances

A3 Analysis of loans to customers

A3.1	Residential loans to individuals						
A3.2	Regulated						
A3.3	Non regulated						
A3.4	Other secured loans						
A3.5	Other loans						
A3.6	All loans to customers						

NB: A3.6[col 3] + A3.6[col 7] = A1.6

B PROFIT AND LOSS ACCOUNT

(£000s)

B

B0	Financial year -to-date is <input type="text"/> months (ie 3,6,9 or 12)	B2 Provisions analysis	Provisions balance at start of financial year	Write offs in financial year to date	Provisions charge in financial year to date	Provisions balance at period end
B1 Summary Profit & Loss Account						
<u>Income</u>						
B1.1	Gross profit on non-financial activities	B2.1	Residential loans to individuals			
B1.2	Interest receivable	B2.2	Regulated			
B1.3	Interest payable	B2.3	Non regulated			
B1.4	Net interest receivable	B2.4	Other secured loans			
B1.5	Fees and commissions receivable	B2.5	Other loans			
B1.6	Profits on dealing investments	B2.6	All loans to customers	<input type="text"/>	<input type="text"/>	<input type="text"/>
B1.7	Other income					
B1.8	TOTAL Income					<input type="text"/>
<u>Expenditure</u>						
B1.9	Staff costs					
B1.10	Fees and commissions payable					
B1.11	Occupancy					
B1.12	Other operating expenses					
B1.13	Other expenses					
B1.14	Total Expenses					<input type="text"/>
B1.15	OPERATING PROFIT (= B1.8 - B1.14)					<input type="text"/>
B1.16	Provisions					
B1.17	Taxation					
B1.18	Minority interests					
B1.19	PROFIT FOR THE FINANCIAL PERIOD (= B1.15 - B1.16 - B1.17 - B1.18)					<input type="text"/>
B1.20	Dividends paid and proposed					
B1.21	Retained profit for the financial period (= B1.19 - B1.20)					

C CAPITAL

(£000s)

C

CAPITAL RESOURCES		<i>Balance at quarter end</i>	CAPITAL REQUIREMENTS		
C1 Eligible capital			C4 For a lender, or an administrator with administered assets on its balance sheet.		
				<i>Balance at quarter end</i>	
C1.1 Reserves		_____	C4.1 Asset based measure:		
C1.2 Interim profits		_____	C4.2 Total assets	_____	
C1.3 Issued capital		_____	C4.3 Undrawn commitments	_____	
C1.4 General Provisions		_____	C4.4 Intangible assets	_____	
C1.5 Other eligible capital		_____	C4.5 Total adjusted assets	<input type="text"/>	(= C4.2 + C4.3 - C4.4)
C1.6 Total Eligible Capital		<input type="text"/>	C4.6 CAPITAL REQUIREMENT:		
			a) Minimum	_____ 100	reflecting minimum capital of £100,000
			b) 1% of C4.5	_____	using asset based measure
			c) Actual requirement	<input type="text"/>	being the higher of a) and b)
C2 Deductions from capital			C5 For an administrator not having administered assets on its balance sheet.		
C2.1 Investments in own shares		_____		<i>Latest financial year ending / /</i>	<i>Estimated current financial year ending / /</i>
C2.2 Intangible assets		_____	C5.1 Income based measure :		
C2.3 Interim net losses		_____	C5.2 Total income	_____	_____
C2.4 Other deductions		_____	C5.3 Relevant adjustments	_____	_____
C2.5 Total Deductions		<input type="text"/>	C5.4 Total relevant income	<input type="text"/>	<input type="text"/> (= C5.2 - C5.3)
C3 CAPITAL RESOURCES (= C1.6 - C2.5)		<input type="text"/>	C5.5 CAPITAL REQUIREMENT:		
			a) Minimum	_____ 100	_____ 100 reflecting minimum capital of £100,000
			b) 10% of C5.4	_____	_____ using income based measure
			c) Actual requirement	<input type="text"/>	<input type="text"/> being the higher of a) and b)

D(1) LENDING : Business flows & rates

(£000's)

D(1)

	<i>Balance at end of previous quarter</i>	<i>Advances made in quarter</i>	<i>Repayment of principal</i>	<i>Write offs in quarter</i>	<i>Other debits/ (credits) and transfers (net)</i>	<i>Balance at end of quarter (a)</i>
D1 Loans: Advances/Repayments						
Residential lending to individuals :						
D1.1 Regulated						
D1.2 Non regulated						
D1.3 Other secured loans						
D1.4 TOTAL Secured loans						

a) Column 6 = Col 1 + Col 2 - Col 3 - Col 4 + Col 5

Transactions in quarter included in D1 [column 5]

	<i>Loans acquired</i>	<i>Loans sold</i>	<i>Loans securitised</i>	<i>Other</i>	<i>Total (b)</i>	<i>Balance at end quarter on loan assets subject to non-recourse funding</i>
D2 Loans: Book movements						
Residential lending to individuals :						
D2.1 Regulated						
D2.2 Non regulated						
D2.3 Other secured loans						
D2.4 TOTAL Secured loans						

(b) D1 column [5] = D2[Col 1 - Col 2 - Col 3 + Col 4]

Balances at end of quarter

	TOTAL £000s	Of which at :		Of which at :			Interest rates at end of quarter (to 2 decimal places)			
		Fixed rates £000s	Variable rates £000s	less than 2% above BBR £000s	2 < 3% above BBR £000s	3 < 4% above BBR £000s	4% or more above BBR £000s	Weighted average nominal annual rate on all balances %	balances at fixed rates %	balances at variable rates %
D3 Loans: Interest rates										
Residential loans to individuals: Regulated										
D3.1 Total book										
D3.2 Advances in quarter										
Residential loans to individuals: Non Regulated										
D3.3 Total book										
D3.4 Advances in quarter										
Other secured loans:										
D3.5 Total book										
D3.6 Advances in quarter										
All secured loans:										
D3.7 Total book										
D3.8 Advances in quarter										

D(2) LENDING : Business flows

(£000's)

D(2)

	<i>Commitments outstanding at end of previous quarter</i>	<i>Commitments made since end of previous quarter</i>	<i>Cancellations in quarter</i>	<i>Advances made in quarter (a)</i>	<i>Other debits/(credits) and transfers (net)</i>	<i>Commitments outstanding at end of quarter</i>
D4 Loans: Advances/Repayments						
Residential lending to individuals						
D4.1 Regulated						
a) House purchase	_____	_____	_____	_____	_____	_____
b) Remortgage	_____	_____	_____	_____	_____	_____
c) Other	_____	_____	_____	_____	_____	_____
d) TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
D4.2 Non regulated						
a) House purchase	_____	_____	_____	_____	_____	_____
b) Remortgage	_____	_____	_____	_____	_____	_____
c) Other	_____	_____	_____	_____	_____	_____
d) TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
D4.3 Other secured loans	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
D4.4 TOTAL Secured loans	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

a) Entries should agree with relevant items in Column 2 of D1.

E(1) RESIDENTIAL LOANS TO INDIVIDUALS: Income Multiple & LTV

(£000s)

E (1)

		<u>Gross advances in quarter : (amount) by LTV</u>			
		<= 75 %	Over 75 <= 90 %	Over 90 <= 95 %	Over 95 %
E1	SINGLE income multiple				
	Regulated				
E1.1	Less than 2.50	_____	_____	_____	_____
E1.2	2.50 < 3.00	_____	_____	_____	_____
E1.3	3.00 < 3.50	_____	_____	_____	_____
E1.4	3.50 < 4.00	_____	_____	_____	_____
E1.5	4.00 or over	_____	_____	_____	_____
E1.6	Other	_____	_____	_____	_____
E1.7	TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
E1.7a	of which: Not evidenced	_____	_____	_____	_____
	Non Regulated				
E1.8	Less than 2.50	_____	_____	_____	_____
E1.9	2.50 < 3.00	_____	_____	_____	_____
E1.10	3.00 < 3.50	_____	_____	_____	_____
E1.11	3.50 < 4.00	_____	_____	_____	_____
E1.12	4.00 or over	_____	_____	_____	_____
E1.13	Other	_____	_____	_____	_____
E1.14	TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
E1.14a	of which: Not evidenced	_____	_____	_____	_____
	All Loans				
E1.15	Less than 2.50	_____	_____	_____	_____
E1.16	2.50 < 3.00	_____	_____	_____	_____
E1.17	3.00 < 3.50	_____	_____	_____	_____
E1.18	3.50 < 4.00	_____	_____	_____	_____
E1.19	4.00 or over	_____	_____	_____	_____
E1.20	Other	_____	_____	_____	_____
E1.21	TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
E1.21a	of which: Not evidenced	_____	_____	_____	_____

		<u>Gross advances in quarter : (amount) by LTV</u>			
		<= 75 %	Over 75 <= 90 %	Over 90 <= 95 %	Over 95 %
E2	JOINT income multiple				
	Regulated				
E2.1	Less than 2.00	_____	_____	_____	_____
E2.2	2.00 < 2.50	_____	_____	_____	_____
E2.3	2.50 < 2.75	_____	_____	_____	_____
E2.4	2.75 < 3.00	_____	_____	_____	_____
E2.5	3.00 or over	_____	_____	_____	_____
E2.6	Other	_____	_____	_____	_____
E2.7	TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
E2.7a	of which: Not evidenced	_____	_____	_____	_____
	Non Regulated				
E2.8	Less than 2.00	_____	_____	_____	_____
E2.9	2.00 < 2.50	_____	_____	_____	_____
E2.10	2.50 < 2.75	_____	_____	_____	_____
E2.11	2.75 < 3.00	_____	_____	_____	_____
E2.12	3.00 or over	_____	_____	_____	_____
E2.13	Other	_____	_____	_____	_____
E2.14	TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
E2.14a	of which: Not evidenced	_____	_____	_____	_____
	All Loans				
E2.15	Less than 2.00	_____	_____	_____	_____
E2.16	2.00 < 2.50	_____	_____	_____	_____
E2.17	2.50 < 2.75	_____	_____	_____	_____
E2.18	2.75 < 3.00	_____	_____	_____	_____
E2.19	3.00 or over	_____	_____	_____	_____
E2.20	Other	_____	_____	_____	_____
E2.21	TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
E2.21a	of which: Not evidenced	_____	_____	_____	_____

F(1) LENDING: Arrears analysis

(£000s)

F(1)

Arrears categorisation by type of loan	Cases entering higher (ie more serious) arrears band in quarter			Position on all arrears cases at end of quarter			Performance of current arrears cases during the quarter
	Number	Amount of arrears	Balance outstanding	Number	Amount of arrears	Balance outstanding	%
F1 Residential loans to individuals: Regulated							
F1.1 1.5 < 2.5 %							
F1.2 2.5 < 5 %							
F1.3 5.0 < 7.5 %							
F1.4 7.5 < 10 %							
F1.5 10% or more							
F1.6 In possession							
F1.7 TOTAL							
F2 Residential loans to individuals: Non regulated							
F2.1 1.5 < 2.5 %							
F2.2 2.5 < 5 %							
F2.3 5.0 < 7.5 %							
F2.4 7.5 < 10 %							
F2.5 10% or more							
F2.6 In possession							
F2.7 TOTAL							
F3 Residential loans to individuals: All loans							
F3.1 1.5 < 2.5 %							
F3.2 2.5 < 5 %							
F3.3 5.0 < 7.5 %							
F3.4 7.5 < 10 %							
F3.5 10% or more							
F3.6 In possession							
F3.7 TOTAL							

F(2) LENDING: Arrears analysis

(£000s)

F(2)

Arrears categorisation by type of loan	<u>Cases entering higher (ie more serious) arrears band in quarter</u>			<u>Position on all arrears cases at end of quarter</u>			<u>Performance of current arrears cases during the quarter</u>		
	Number	Amount of arrears	Balance outstanding	Number	Amount of arrears	Balance outstanding	%		
F4 Other secured loans									
F4.1 1.5 < 2.5 %									
F4.2 2.5 < 5 %									
F4.3 5.0 < 7.5 %									
F4.4 7.5 < 10 %									
F4.5 10% or more									
F4.6 In possession									
F4.7 TOTAL									
F5 Arrears management	Those cases no longer reported (ie not included in F1 to F4.7)			Arrears cases reported in F1 to F4.7 at end quarter					
	<u>Possession sales during quarter</u>			<u>Capitalisation of arrears cases in quarter</u>			<u>Number of cases for which there is in place:</u>		
	Number		Balance outstanding	Number	Amount of arrears	Balance outstanding	A temporary concession	A formal arrangement	No concession arrangement
Residential loans to individuals :									
F5.1 Regulated									
F5.2 Non regulated									
F5.3 Total									
F5.4 Other secured loans									
F5.5 TOTAL									

G0 Do you need to complete tables G and H ?

If you have a mortgage lenders permission, and only administer your own on-balance sheet loan book, and do not have any off-balance sheet loans to administer, **then** please tick

this box (and do not complete the rest of this section).

Otherwise, please complete sections G1 and G2, and table H in your capacity as a loan administrator.

		<u>Residential loans to individuals</u>		
G1 Mortgage contracts administered at end of quarter		<i>Regulated loans</i>	<i>Non regulated loans</i>	<i>All loans</i>
G1.1	Number of loans administered for :			
	a) Firms with a mortgage lender's permission	_____	_____	_____
	b) Other firms	_____	_____	_____
	c) SPVs	_____	_____	_____
	d) Total	<input type="text"/>	<input type="text"/>	<input type="text"/>
G1.2	Balance outstanding on loans administered for :			
	a) Firms with a mortgage lender's permission	_____	_____	_____
	b) Other firms	_____	_____	_____
	c) SPVs	_____	_____	_____
	d) Total	<input type="text"/>	<input type="text"/>	<input type="text"/>

Residential loans to individuals administered for third parties

G2 Lenders for whom mortgage administration was being carried out at end of quarter		<u>Details of lender</u>		<u>Balances outstanding at end of quarter</u>			
		<i>FSA firm reference (if available)</i>	<i>Name of firm</i>	<i>Regulated loans £000's</i>	<i>Non regulated loans £000's</i>	<i>All loans £000's</i>	
G2.1	Firms with a mortgage lenders permission : [top 5 only]	1	_____	_____	_____	_____	
		2	_____	_____	_____	_____	
		3	_____	_____	_____	_____	_____
		4	_____	_____	_____	_____	_____
		5	_____	_____	_____	_____	_____
G2.2	Other firms : [top 5 only]	1	_____	_____	_____	_____	
		2	_____	_____	_____	_____	
		3	_____	_____	_____	_____	_____
		4	_____	_____	_____	_____	_____
		5	_____	_____	_____	_____	_____
G2.3	SPVs: [top 5 only]	1	_____	_____	_____	_____	
		2	_____	_____	_____	_____	
		3	_____	_____	_____	_____	_____
		4	_____	_____	_____	_____	_____
		5	_____	_____	_____	_____	_____

Arrears categorisation by type of loan	<u>Cases entering higher (ie more serious) arrears band in quarter</u>			<u>Position on all arrears cases at end of quarter</u>			<u>Performance of current arrears cases during the quarter</u>
	<u>Number</u>	<u>Amount of arrears</u>	<u>Balance outstanding</u>	<u>Number</u>	<u>Amount of arrears</u>	<u>Balance outstanding</u>	%
H1 Residential loans to individuals: Regulated							
H1.1 1.5 < 2.5 %							
H1.2 2.5 < 5 %							
H1.3 5.0 < 7.5 %							
H1.4 7.5 < 10 %							
H1.5 10% or more							
H1.6 In possession							
H1.7 TOTAL							
H2 Residential loans to individuals: Non regulated							
H2.1 1.5 < 2.5 %							
H2.2 2.5 < 5 %							
H2.3 5.0 < 7.5 %							
H2.4 7.5 < 10 %							
H2.5 10% or more							
H2.6 In possession							
H2.7 TOTAL							
H3 Residential loans to individuals: All loans							
H3.1 1.5 < 2.5 %							
H3.2 2.5 < 5 %							
H3.3 5.0 < 7.5 %							
H3.4 7.5 < 10 %							
H3.5 10% or more							
H3.6 In possession							
H3.7 TOTAL							

**Arrears categorisation
by type of loan**

H4 [Other secured loans] [Not relevant to this analysis of arrears by Loan Administrators, but structure maintained as per table F in order to make use of the same guidance notes].

H5 Arrears management

Those cases no longer reported (ie not included in H1 to H3.7)

Arrears cases reported in H1 to H3.7 at end quarter

Possession sales during quarter

Capitalisation of arrears cases in quarter

Number of cases for which there is in place:

Number

Balance outstanding

Number

Amount of arrears

Balance outstanding

A temporary
concession

A formal
arrangement

No concession
arrangement

Residential loans to individuals :

H5.1	Regulated								
H5.2	Non regulated								
H5.3	Total								

J1	Fee tariff measures by regulated activity:	FSA measure (a)	FOS measure (b)
J1.1	Mortgage lending activity:	<input type="text"/>	<input type="text"/>
J1.2	Mortgage administration activity:	<input type="text"/>	<input type="text"/>
J1.3	Total for these activities:	<input type="text"/>	<input type="text"/>

Notes: a), b) Details of the particular measure to be used are found in the MLAR guidance notes

It should be noted that the definitions of these measures may change from time to time, and therefore the current definitions must be established by reference to the guidance notes which provide details of where such definitions are to be found in the website version of the Handbook.

**NOTES FOR COMPLETION OF THE MORTGAGE LENDING &
ADMINISTRATION RETURN ('MLAR')**

Contents

Introduction:	General notes on the return
Section A:	Balance Sheet
Section B:	Profit & Loss Account
Section C:	Capital
Section D:	Lending: Business Flows & Rates
Section E:	Residential Lending to Individuals: New Business Profile
Section F:	Lending: Arrears Analysis
Section G:	Mortgage Administration: Business profile
Section H:	Mortgage Administration: Arrears analysis
Section J	Fee tariff measures

1. Introduction

This section covers a number of points that have relevance across the return generally:

- Overview
- Purpose of reporting requirements
- Regulated mortgage contracts and the wider mortgage market
- Accounting conventions
- Accuracy
- Time period
- Loans made before 31 October 2004
- Specific items:
 - (i) positions to be reported gross
 - (ii) foreign currencies

2. Overview of reporting requirements

The data requirements for *firms* carrying on the *regulated activities* of *mortgage lending* and *mortgage administration* consist of quarterly, half yearly and annual information. This *guidance* deals only with the quarterly requirements, however, which are referred to as the Mortgage Lending and Administration Return (*MLAR*). The remaining data requirements are applied to *firms* through existing rules within the following sections of the *Handbook*:

- the Dispute resolution: Complaints sourcebook for complaints reporting; and
- Chapter 16 of the Supervision manual for *controllers* reports (section 16.4), *close links* reports (section 16.5) and annual accounts (section 16.7).

Because the *MLAR* is activity based, it sets out the reporting requirements for a number of different *firm* types. We expect *firms* to complete the requirements as follows:

- a *firm* carrying on both *mortgage lending* and *mortgage administration* will need to complete the whole of the *MLAR*;
- a *firm* carrying on *mortgage lending* but not also *mortgage administration* will need to complete the whole of the *MLAR* except sections G and H;
- a *firm* carrying on *mortgage administration* , but not also *mortgage lending* , will need to complete sections A, B, C, G, H and J of the *MLAR*.

However, the above requirements are subject to the further details below, which are designed to avoid any duplication between *MLAR* reporting requirements and any other reporting requirements arising from the *firm's* other *regulated activities* (eg as a *bank*, *building society*, *securities and futures firm* etc). The *rules* in *SUP* 16 (section 16.7) provide full details of which sections of the *MLAR* do not apply for each *firm* type.

Firm	Sections of the <i>MLAR</i> not required
<i>Mortgage lender/administrator</i> with no other activities (a)	No duplication, so complete all sections described above this table
<i>Mortgage lender/administrator</i> that is also subject to the <i>RMAR</i> (a)	Duplication in <i>RMAR</i> , but complete all <i>MLAR</i> sections described above this table
<i>Securities & futures firm</i> or <i>investment management firm</i>	A1, A2 and B1
<i>Incoming EEA firm</i> (b)	A1, A2, B1 and C
<i>UK branch</i> of a <i>non-EEA bank</i>	No duplication, so complete all sections described above this table
<i>Members' adviser</i>	No duplication, so complete all sections described above this table
<i>Authorised professional firm</i>	No duplication, so complete all sections described above this table
Other <i>firm</i> types/ <i>regulated activities</i> (except above)	A1, A2, B1 and C

Key: **A1:** Assets **A2:** Liabilities **B1:** Profit & Loss **C:** Capital

Note (a) : a *firm* which is a solo-consolidated *subsidiary* of an authorised credit institution is not required to complete section C of the *MLAR*.

Note (b) : *Credit Institutions* passporting under *BCD* for *mortgage lending* (which also includes *mortgage administration*), or other *firms* passporting under another EU Directive for a non-*mortgage* activity and holding a *top-up permission* from the *FSA* for *mortgage lending* and/or *mortgage administration*. Also includes *firms* classed as "*Treaty firms*" under Schedule 4 of the *Act*. But any other *EEA firm* type should complete in full all sections of the *MLAR* described above this table, as it would not be eligible for any reduction in reporting requirements.

Commencement and transitional provisions

The *MLAR* sections on **Arrears** (tables F and H) are not required to be submitted as part of a *firm's* first *MLAR* submission (in respect of the *firm's* first financial quarter starting on or after 1 April 2005). They should however be included in all subsequent quarterly submissions. A *firm* may of course submit these sections from the outset, but is not obliged to do so.

The position regarding **building society reporting** merits specific comment. Societies have previously reported a range of information on *mortgage lending* that has much in common with certain sections of the *MLAR*. Now mortgage reporting requirements have been finalised, societies' existing reporting will change from the implementation of the *MLAR* to avoid duplication. When societies begin to submit the *MLAR*, they will no longer be required to submit the following sections of the QFS1:

- QFS1 table G (1): All sections
- QFS1 table G (2): All sections
- QFS1 table J: Sections J2 and J3 only (Note (a))
- QFS1 table K (1): Sections K1 and K2 only
- QFS1 table K (2): Sections K4 and K5 only (Note (a))

Note (a): These sections should however continue to be completed in respect of *subsidiaries* that hold mortgages but which are not required to complete the *MLAR* (ie they are not authorised to undertake a *mortgage lending* activity).

NB: A society may however continue to submit these sections of the QFS1, if it so wishes (in addition to the *MLAR*). This option is intended to cater for those circumstances where a society has automated the production of its QFS1 and wishes to avoid additional work involved in cutting back on reporting as specified above.

3. Purpose of reporting requirements

The reasons why the *FSA* requires this data from *mortgage lenders* and *administrators* are as follows:

- to assess the probability of the failure of *firms* and the impact of failure on the ability of the *FSA* to meet its statutory objectives, including an assessment of compliance with the *threshold conditions*;
- to assist with prudential supervision of *firms*; and
- to help assess the risks in the mortgage market as a whole to inform, for example, the *FSA*'s thematic work. By this we mean that we will use some of our supervisory resources to examine issues (known as 'themes') that affect a number of *firms* rather than *firms* individually. The data collected will be considered alongside other information we receive, to identify trends and issues that inform our supervision of *firms*.

The *MLAR* requires *mortgage lenders* and *administrators* to submit four types of data:

- financial data to assist in the prudential supervision of *mortgage lenders* and *administrators*. A quarterly financial return is required, including a balance sheet and profit and loss account;
- quarterly reporting of quantitative and qualitative data by all *mortgage lenders* and *administrators* to enable monitoring of compliance with the requirements of *MCOB*;
- quarterly provision of qualitative mortgage information by all *mortgage lenders* and *administrators* to enable the *FSA* to understand developments in the mortgage markets as a whole, and to inform future policy developments and prudential supervision; and

- quarterly information on fee tariff measures.

The reporting requirements set out in the *MLAR* will enable the *FSA* to realise these information needs. In particular:

Tables A to C: provide the framework for the *FSA*'s financial monitoring and prudential supervision of *mortgage lenders* and *administrators*;

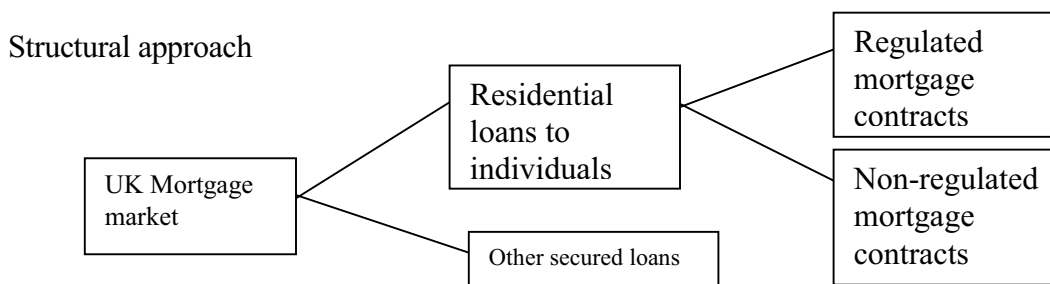
Tables D to F: provide the framework for the provision of qualitative mortgage information by *mortgage lenders*

Table G, H: provides the framework for the *FSA*'s monitoring of mortgage administration activities.

Table J provides information on fee tariff measures for *mortgage lenders* and *administrators*.

4. Regulated mortgage contracts and the wider mortgage market

Given this background to reporting requirements, the *FSA*'s approach to obtaining information on *mortgage lending* has been structured so that **regulated mortgage contracts** are seen within the wider context of the **UK mortgage market as a whole**. This approach can be illustrated as follows:



Each of these key terms is explained below:

(i) UK Mortgage market

This refers to all lending secured on land and buildings in the United Kingdom, whether to individuals, housing associations or corporates. However, given the importance of mortgages to individuals we have chosen to look at the market in terms of two components, namely 'residential lending to individuals' and 'other secured lending'.

(ii) **Residential loans to individuals**

This is a discrete category of the mortgage market, and has characteristics (e.g. in terms of products, lending criteria and methods of credit assessments) that are often markedly different from those applying to other types of secured lending (e.g. to corporates).

It is lending to individuals secured by mortgage on land and buildings where the lender has either a first or second (or subsequent) charge, where at least 40% of the land and buildings is used for residential purposes, and where the premises are for occupation by either the borrower (or dependant), or any other third party (e.g. it includes 'buy to let' lending to individuals)

Regulated mortgage contracts are therefore a subset of this market category.

Examples of **non-regulated mortgage contracts** which fall under the wider category of residential loans to individuals include: buy-to-let loans and other types of loan where the property is not for use by the borrower (or qualifying dependants); residential loans to individuals where the lender does not have a first charge.

It is important, therefore, to separate this category from all other forms of secured lending.

(iii) **Other secured lending**

This covers all other forms of lending secured on land and buildings in the United Kingdom. Primarily it covers secured lending to corporate bodies (including to housing associations), but it also includes lending to individuals which, although being secured on land and buildings, is not deemed to be residential (e.g. the residential element is less than 40%).

(iv) **Regulated mortgage contract**

This is defined in the *Handbook* as follows:

- (a) (in relation to a contract) (in accordance with article 61(3) of the *Regulated Activities Order*) a contract which, at the time it was entered into, meets the following conditions:
 - (i) a lender provides credit to an individual or to trustees (the 'borrower'); and
 - (ii) the obligation of the borrower to repay is secured by a first legal mortgage on land (other than timeshare accommodation) in the United Kingdom, at least 40% of which is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a person who is in relation to the borrower or (in the case of credit provided to trustees) a beneficiary of the trust:
 - (A) that person's spouse; or

(B) a person (whether or not of the opposite sex) whose relationship with that person has the characteristics of the relationship between husband and wife; or

(C) that person's parent, brother, sister, child, grandparent or grandchild.

- (b) (in relation to a *specified investment*) the *investment*, specified in article 88 of the *Regulated Activities Order*, which is rights under a *regulated mortgage contract* in (a).

This means that in relation to a *regulated mortgage contract*, the following conditions must all be satisfied:

- the borrower must be an individual or trustee;
- the lender must take a first legal mortgage over *UK* property; and
- the property must be at least 40% occupied by the borrower or his immediate family.

The definition of a *regulated mortgage contract* means that many kinds of loan are caught by regulation, not just loans for house purchase. For example it includes a significant amount of short-term first charge lending. This includes lending for home improvements (including some in-store credit), lending for debt consolidation, lending to finance a business, and some specific banking products such as secured overdrafts, secured credit cards, bridging loans and loans secured by all monies charges.

5. Accounting conventions

Unless the contrary is stated in these guidance notes, the return should be compiled using generally accepted accounting practice.

6. Accuracy

It is expected that entries on the return will be actual values, or in some cases close approximations established or drawn from the *firm's* systems and prepared on the basis of being the best information in the time available for their compilation.

If such 'close approximations' are considered by the *firm* as likely to be materially different from the underlying actual values, the *firm* should advise its supervisory team of data items affected.

7. Time periods

Where stock figures are required (e.g. balance sheet, capital position etc) the information is required as at the *firm's accounting reference date* and the three quarter ends following this date (see SUP 16.3.13R).

Where flow figures are required, these are either for **3 months only** (i.e. the latest quarter) as in for example lending figures in tables D and E, or **cumulative in the 'year to date'**, (e.g. profit and loss in table B etc), covering the period from the *firm's accounting reference date* to the end of the reporting quarter.

8. **Loans made before 31 October 2004**

Any loans made before 31 October 2004, that otherwise satisfy the specific requirements of a *regulated mortgage contract*, should be reported as **non-regulated loans** in the various parts of the *MLAR* (since only those loans advanced after this date are required to be treated as a *regulated mortgage contract* for the purposes of *MLAR* reporting).

This reporting basis for loans made before 31 October 2004 should continue until such time, if ever, that a subsequent transaction on the loan causes it to be formally treated as a regulated contract.

9. **Specific items**

9(i) **Positions to be reported gross**

In general, liabilities and assets should be shown gross, and not netted off (unless there is a legal right of set-off). Thus an account which moves from credit to debit will move from one side of the balance sheet to the other.

A notable exception to this however concerns the reporting of loan assets which are subject to **'linked presentation'** (e.g. under FRS5). Such assets should be shown in the balance sheet net of linked funding and also on this basis in other tables where balances are reported on the same basis. Only sections A3 and D2 require the reporting of such loan assets on a 'gross' basis.

The treatment of loan assets that are being operated as part of a current account **offset mortgage** product (or similar products where *deposit* funding is offset against loan balances in arriving at a net interest cost on the account) will depend on the conditions pertaining to the mortgage product. The balance outstanding on such loans will need to be reported on the basis of the contractually defined balance according to the terms of the mortgage product. This might be the amount of loan excluding any offsetting funds, or it might be the net amount.

9(ii) **Foreign currencies**

Amounts in foreign currencies, including also any loans denominated in foreign currencies, should be translated into their equivalent sterling value using an appropriate rate of exchange at the reporting date, or where appropriate, at the rates of exchange fixed under the terms of any relevant currency hedging transaction, and that value used in the return. Thus all entries in the form represent sterling amounts. *Firms* should apply the same accounting treatment as for their published accounts.

SECTION A: BALANCE SHEET

Balance sheet analysis

A1, A2 The balance sheet is intended to reflect the practices used in compiling published or other accounts (e.g. those prepared under the UK Companies Acts), although its format in the *MLAR* (with 'total assets' and 'total liabilities') will not necessarily be the same as that used by *firms* in their regular accounts. However, the differences should only be presentational.

A1.6 **Loans to customers** may be a non-standard accounting sub-head for some *firms* whose business is not primarily mortgage related. But since this is an explicit *MLAR* data requirement, it should be split out from the sub-head under which it is routinely shown in the *firm's* other accounts.

A3 **Analysis of loans to customers**

This section recognises that some lenders may have securitised loans on their balance sheet, and hence provides for unsecuritised/securitised loans to be shown separately.

Unsecuritised balances are analysed in terms of three elements: gross loan balances (before deduction of any provisions); provisions balances in respect of those balances; and the net balances after deduction of such provisions.

Securitised balances are analysed in a similar way, except that 'gross' also means before the deduction of any linked non-recourse funding, the amount of which is also to be shown separately.

A3.1-4 See Introduction (paragraphs 4 (i) to (iv)) for details of the coverage of these terms.

A3.5 **Other loans** refers to any lending secured on land and buildings outside of the UK, any loan for which security is provided other than by land and buildings, together with all unsecured loans (e.g. consumer credit, personal loans, or such loans to corporates).

A3.6 It is expected that net balances on unsecuritised loans plus net balances on securitised loans will equal the entry shown at A1.6 in the main balance sheet analysis of assets.

SECTION B: PROFIT & LOSS ACCOUNT

B0 Financial year to date

In terms of **reporting period**, the analysis should be compiled on a 'year to date' basis, covering successively 3, 6, 9 or 12 months from the *firm's accounting reference date*.

B1 Profit & Loss Account

The P&L section is intended to reflect the practices used in compiling accounts prepared under the Companies Acts, although its format in the *MLAR* (with explicit focus on financial items such as interest, fees & commission etc) will not necessarily be the same as that used by *firms* in their regular accounts.

The reason for this approach is that most lenders to which this section is applicable are mortgage specialists, and as such it is considered desirable to put their P&L format onto a similar basis as that used for *banks* and *building societies*.

The analysis therefore requires the *firm's* profit & loss account to be re-structured in a way that makes a number of items explicit in the interests of achieving consistency with other reporting *firms*.

B1.1 Focuses on **gross profit from non-financial activities**.

B1.2-1.7 Covers a range of **income elements** which are more closely related to financial activities, including in particular those associated with mortgage lending.

B1.9-1.13 Covers a range of **expenditure elements**, including those related to non-financial and also to financial (including mortgage related) activities.

B1.15 **Operating Profit** is total income less total expenses.

B1.16 **Provisions** covers write-offs and provisions charges on bad and doubtful debts, (including for example on mortgage loans); any suspended interest (i.e. any interest included in Interest Receivable which, through loan default, impairment or otherwise, is deemed unlikely to be received); and any other provisions for contingent liabilities.

B2 Provisions analysis

This supplementary analysis draws together the key movements in provisions balances from the *firm's* accounting reference date up to the reporting quarter end.

The two 'flow items', namely **write-offs** and **provisions charges**, are those relating to the period from the *firm's* accounting reference date up to the reporting date.

The total of **provisions charges** in line B2.6 [column 3] will not necessarily be the same as the provisions charge in the Profit & Loss analysis at B1.16 (since

this latter item may include further provisions against other asset items not included in B2.6, or provisions arising from other sources).

SECTION C: CAPITAL

INTRODUCTION

The *threshold conditions* state that the resources of a *firm* must be adequate in the opinion of the *FSA* in relation to the *regulated activities* that the *firm* seeks to carry on or carries on. In addition, a *firm* is required to maintain 'adequate financial resources'. A *mortgage lender/administrator* should have adequate capital and funding in order to be able to meet these requirements.

In addition, the *FSA* operating framework requires us to identify the main risks to our statutory objectives. In assessing *firm*-specific risks we are required to assess the risks arising from the financial failure of a *firm* (due to business risks from the external environment, or control risks arising from the *firm* itself) which might affect both the market and individual *customers*. The specific *FSA* objectives that are potentially impacted are those relating to market confidence and consumer protection.

Details provided in this Section on Capital are drawn from the appropriate provisions of 'PRU 9.2: Capital Resources for Insurance and Mortgage Mediation Activity and Mortgage Lending and Administration'.

C1-2 CAPITAL RESOURCES

C1 and C2 set out first the individual components of **eligible capital** and secondly the **separate deductions** that should be made to arrive at qualifying capital.

Components of eligible capital are:

(1) Share capital

Share capital must be fully paid (i.e. the *firm* is under no obligation to repay this capital unless and until the *firm* is wound up) and may include ordinary *share* capital or preference *share* capital (excluding preference *shares* redeemable by shareholders within two years).

(2) Partnership or sole trader capital

Partnership capital is capital made up of the *partners*' capital account. The capital account is an account into which capital contributed by the *partners* is paid and from which, under the terms of the *partnership* agreement, an amount representing capital may be withdrawn by a *partner* only if he ceases to be a *partner* and an equal amount is transferred to another such account by his former *partners* or any *person* replacing him as their *partner*, or the *partnership* is otherwise dissolved or wound up.

Sole trader capital is the net balance on the *firm's* capital account and current account.

(3) Audited reserves

Audited reserves are audited accumulated profits retained by the *firm* (after deduction of tax, dividends and proprietors' or *partners'* drawings) and other reserves created by appropriations of *share* premiums and similar realised appropriations. Reserves also include gifts of capital, for example, from a parent company. For *partnerships*, audited reserves include *partners'* current accounts according to the most recent financial statement.

(4) Interim net profits and partners' interim current accounts

A *firm* is not required to take into account interim net profits. However, if it does, the profits have to be verified by the *firm's* external auditors, net of tax, anticipated dividends or proprietors' drawings and other appropriations.

In terms of the verification for inclusion, for the first, second and third financial quarters *firms* may include interim profits in their *MLAR*, on the understanding that the *firm* will obtain the required verification from its external auditors within two months of the financial quarter end. (The *FSA* may ask for a copy of the verification statement.) For the fourth quarter the *FSA* will rely on the forthcoming audited accounts as providing verification and accordingly the full year's profits should be included in the make-up of Eligible Capital under Interim Profits in the return.

(5) Revaluation reserve

Firms should report reserves relating to the revaluation of fixed assets.

(6) General provisions

Firms should report general provisions that are held against potential losses that have not yet been identified, but which experience indicates are present in the *firm's* portfolio of assets. Such provisions must be freely available to meet these unidentified losses wherever they arise. General provisions must be verified by external auditors and disclosed in the *firm's* annual report and accounts.

(7) Subordinated loans

Subordinated debt (i.e. the amount of principal outstanding before amortisation) must not form part of the capital resources of a *firm* unless it meets the following conditions:

- (1) it has an original maturity of at least five years or is subject to five years' notice of repayment;
- (2) the claims of the subordinated creditors must rank behind those of all unsubordinated creditors;

- (3) the only events of default must be non-payment of any interest or principal under the debt agreement or the winding up of the *firm*;
- (4) the remedies available to the subordinated creditor in the event of non-payment or other default in respect of the subordinated debt must be limited to petitioning for the winding up of the *firm* or proving the debt and claiming in the liquidation of the *firm*;
- (5) the subordinated debt must not become due and payable before its stated final maturity date except on an event of default complying with (3);
- (6) the agreement and debt are governed by the law of England and Wales, or of Scotland, or of Northern Ireland;
- (7) to the fullest extent permitted under the rules of the relevant jurisdiction, creditors must waive their right to set off amounts they owe the *firm* against subordinated amounts owed to them by the *firm*;
- (8) the terms of the subordinated debt must be set out in a written agreement or instrument that contains terms that provide for the conditions set out in (1) to (7); and
- (9) the debt must be unsecured and fully paid up.

Treatment of eligible capital items (listed above) in section C1:

C1.1 Reserves: include items

- audited reserves
- revaluation reserves

C1.2 Interim profits: include items

- externally verified interim net profits
- externally verified *partners'* interim current accounts

C1.3 Issued capital: include items

- *share* capital
- *partnership* or *sole trader* capital
- subordinated loans

C1.4 General provisions

C1.5 Other eligible capital: includes

- any other item of eligible capital not required to be included in items C1.1 to C1.4.

C1.6 Total Eligible Capital

This is the sum of the components listed in C1.1 to C1.5.

C2 Deductions from capital

C2.1 Investments in own shares represents any investment in the *shares* of the company, quantified as fixed assets in the balance sheet.

C2.2 Intangible assets are the full balance sheet value of goodwill, capitalised development costs, brand names, trademarks and similar rights and licences. However, the balance sheet value for goodwill does not have to be deducted here until 14 January 2008. See *PRU* 9.3.53R

C2.3 Interim net losses refers to the cumulative amount covering the period from the *firm's accounting reference date* to the end of the current quarter. All the current year's losses should be reported. Unpublished losses from the previous accounting period should also be shown here.

C2.4 Other deductions from capital: include

- **Excess of drawings over profits for *partnerships* or *sole traders*:** *firms* should report the difference between the personal drawings of a *partnership* or *sole trader* and the profit in the period, where the drawings exceed the profit for the period.

C2.5 Total Deductions

This is the sum of the components listed in C2.1 to C2.4.

C3 Total Capital Resources

This is total eligible capital less total deductions (C1.6 – C2.5).

C4 Capital requirements

C4.1 The capital requirement for *mortgage lenders* or *mortgage administrators* that have the *regulated mortgage contracts* that they administer on their balance sheet is asset-based, and the information required is detailed in C4.2 to C4.4.

C4.2 Total assets: this is the total value of fixed and current assets.

C4.3 Undrawn commitments

Undrawn commitments means the total of those amounts which a borrower has the right to draw down from the *firm* but which have not yet been drawn down.

However, undrawn commitments should not be included in the calculation of capital requirements if they have an original maturity of up to one year or if they can be unconditionally cancelled at any time by the lender.

Similarly, existing mortgage offers should not be included in the calculations of capital requirements if the offer has an original maturity of up to one year or can be unconditionally cancelled at any time by the lender.

C4.4 Intangible assets: this is the amount shown at C2.2.

C4.5 Total adjusted assets: this is the sum of C4.2 and C4.3, less C4.4

C5 Capital requirements

C5.1 This section sets out the income-based capital requirements applicable to *mortgage administrators* that have been appointed by *persons* that are not authorised to administer *regulated mortgage contracts* on their behalf, and which therefore do not have the assets that they administer on their balance sheet. The information requirements are detailed in C5.2 – 5.4.

C5.2 Total income

Firms should report the amount of total income in their most recent audited (or other) financial statements, and an estimate of income for the current reporting year.

Total income should include both revenue and gains arising in the course of the ordinary activities of a *firm*. Revenue consists of commissions, fees, net interest income, dividends, royalties and rent. Only gains that are recorded in the profit and loss account should be included in income. What is relevant for the calculation of income is the amount of actual income generated rather than the gross cash streams of any one transaction.

C5.3 Relevant adjustments

The following exceptional items must be deducted from the *firm's* total income:

- (1) profit on the sale or termination of an operation;
- (2) profit arising from a fundamental reorganisation or restructuring having a material effect on the nature and focus of the *firm's* operations; and
- (3) profits on the disposal of fixed assets, including *investments* held in long-term portfolio.

C5.4 Total relevant income

Is the sum of C5.2 minus C5.3.

SECTION D1: LENDING – BUSINESS FLOWS AND RATES

D1-D4 For details of the terms '**Residential lending** to individuals' (and regulated/unregulated) and '**other secured loans**', see Introduction, paragraphs 4 (i) – (iv).

D1 Loans: Advances/Repayments – Row & Column Analysis

For the two categories of loan assets, details are requested under various **transaction columns** that explain the transition from the previous quarter's balances to the current quarter's balances.

D1 Loans: Advances/Repayments – Transactions (columns)

Advances made in quarter should include:

- (a) instalments released in the quarter for instalment advances;
- (b) re-advances, i.e. where previous charge cancelled;
- (c) further advances;
- (d) in the case of loans that have a facility to draw down extra amounts over and above the sum originally advanced, the total of any further amounts drawn down in the quarter;
- (e) the deduction from advances made of advance cheques cancelled;

but should exclude:

- (f) the amount of any loan books acquired in the quarter (which should be reported in 'other debits/credits etc');
- (g) retentions imposed, which should be included as they are released;
- (h) sundry debits, i.e. any items not approved and not included in commitments, e.g. insurance debits, fines, insurance guarantees, valuation fees, arrangement fees etc. (unless formally treated as part of loan).

Repayment of principal should include:

- (a) repayment of principal including capital repayments, full or partial redemptions and the principal element of the normal monthly payment;
- (b) mortgage receipts temporarily posted to *investment* accounts;
- (c) transfers from *investment* accounts to mortgage accounts;

but should exclude:

- d) the amount of any loan book sold during the quarter (to be reported in 'other debits/credits etc');
- (e) sundry credits to accounts, such as insurance premiums, fines, fees, etc;
- (f) advance cheques cancelled;
- (g) *investment* receipts temporarily posted to mortgage accounts.

In determining the amount shown under **repayment of principal**, it is recognised that *firms* may need to estimate the amount of interest repaid where amounts repaid include both interest and principal, and/or where the amount of interest repayable is not the same as the amount charged (e.g. annual review or deferred interest schemes, or where a loan is not being fully serviced).

Write offs in quarter

This is the amount written off mortgage balances in the quarter (and off provisions charged to the income and expenditure account) and is to be on a basis consistent with amounts shown in the *firm's* published accounts as 'written off' within the analysis of changes in loss provision usually appearing as Notes to the Accounts.

The amount written off may arise for example from:

- sale of a property in possession where there is a shortfall; or
- a decision to write down the mortgage debt on a loan still on the books. This may arise where the *firm* has taken the view that it is certain that a loss will arise and that it is prudent to write down the mortgage debt rather than carry the full debt and an offsetting provision. Examples might include certain fraud cases, or where arrangements have been reached with the borrower to reduce the mortgage debt repayable.

Other debits/(credits) and transfers (net) include:

- (a) interest charged to the loan account in the period;
- (b) interest repaid during the period;
- (c) amounts charged to loan accounts and amounts received from borrowers in respect of such items as insurance premiums, valuation fees, and fines etc.;
- (d) mortgage balances acquired following takeover / merger;
- (e) loan books acquired from other lenders in the quarter;

- (f) loan books sold to other lenders in the quarter;
- (g) loan books securitised during the quarter;
- (h) the transfer of any securitised assets back onto the balance sheet (e.g. following the closure of a securitised pool of loans);
- (i) transfers (net) should include any reclassified loans (e.g. where there has been a change in the use of the land on which the loan is secured to/from residential; or change in status of loan from/to regulated/non-regulated etc).

NB Balances on loan books acquired/sold/securitised should be as at the date of the relevant event.

D2 **Loans: Book movements**

The '**transactions in the quarter**' columns are analyses of amounts already included within the 'other debits/(credits) and transfers (net)' column of section D1.

- (i) '**loans acquired**' represents balances on any relevant loan books acquired during the quarter from other lenders;
- (ii) '**loans sold**' represents balances on any relevant loan book (i.e. parcel of loans) sold during the quarter to another lender;
- (iii) '**loans securitised**' represents balances on any loans that the *firm* has 'securitised' in the quarter. It includes balances on loans subject to securitisation transactions qualifying either for the 'linked presentation' or 'derecognition' methods of accounting as described in FRS 5;
- (iv) '**other**' represents the net amount of other transaction amounts included in 'other debits/(credits) and transfers (net)' in D1.

NB: As a result, D2 [item (i) – item (ii) – item (iii) + item (iv)] should equal D1 [item 'other debits/(credits) and transfers (net)].

The final column '**balance at end quarter on loan assets subject to non-recourse funding**' represents all such loan assets (and not just the amount treated as transactions in the quarter), and requires the 'gross amount' of such loan assets to be reported against relevant line item categories. The 'gross amount' is the amount of any such loan that, under the 'linked presentation' method of accounting, would be shown in a *firm's* published or other balance sheet as X in the example below:

gross loan asset	=	X
less non-recourse funding	=	Y
net loan asset	=	X-Y

In the analysis here at D2, it is therefore the gross loan asset at the end of the reporting quarter that should be reported in the final column. Once securitised, it is recognised that end quarter gross balances will not necessarily remain constant (due either to borrower repayments, the possibility of any further advances, or other arrangement for 'topping up' a pool of securitised loans etc).

D3 **Loans: Interest rates**

Basis

Interest rates in this table are **nominal annual rates** charged to the *customer* on loan accounts. They should ignore the effect of any interest rate swaps or other hedging contracts that might exist, and also ignore the effect of any offsetting deposit account (as for example in the case of an offset mortgage).

This provides an analysis of weighted average interest rates for the loan assets reported in the final column of D1 above. 'Interest rates at end of quarter' (columns 4, 5, and 6 of section D3) means rates applying at least throughout the last day of the quarter, so *firms* should not use rates which only come into operation at the beginning of the next quarter. Points to note on specific columns are:

(1) **Balances at end quarter**

Accrued interest should be included (even though it is excluded when computing the weighted average rate).

The first '**of which**' analysis is designed to obtain information on balances subject to **fixed rates** of interest and balances subject to **variable rates** of interest. (The two amounts should add to the balance in column 1). For these purposes:

'**fixed**' means the rate of interest is fixed for a stated period. It should also include any products with a 'capped rate' (i.e. subject to a guaranteed maximum rate) and any products that are 'collared loans' (i.e. subject to a minimum and a maximum rate). Annual review or stabilised payment loans should be excluded (since the purpose is merely to smooth cash flow on variable rate loans);

'**variable**' includes all other interest rate bases (i.e. other than those defined above as 'fixed') applying to particular products, including those at, or at a discount or premium to, one of the *firm's* administered lending rates; those linked to Libor (or other market rate); those linked to an index (e.g. FTSE) etc. However if any such loan products are subject to a 'capped rate', then treat as 'fixed'.

The second '**of which**' analysis is designed to obtain information on loan balances according to whether the nominal annual interest rate charged to the customer at the quarter-end is higher than the prevailing Bank of England

Base (or repo) Rate (BBR). For these purposes the BBR is that applying on the last day of the reporting quarter. The analysis is subdivided into four categories:

- (i) loan balances where the rate charged is **less than 2% above BBR**. Include here also all loan balances where the rate charged is less than BBR (as a result the sum of these four columns will equal the figure in the TOTAL column);
- (ii) loan balances where the rate charged is **2% or up to 3% above BBR**;
- (iii) loan balances where the rate charged is **3% or up to 4% above BBR**;
- (iv) loan balances where the rate charged is **4% or more above BBR**.

(2) **Weighted average nominal annual rates**

- (a) Interest rates reported in Table D3 provide a broad indication of **market rates. They should ignore the effect of any interest rate swap or hedging.** For each line item the weighted average rate should be derived as follows:
 - (i) identify the various nominal/quoted interest rates that apply to elements of this line item; then
 - (ii) for each separate nominal/quoted rate, multiply that rate by the amount of end quarter balances (excluding accrued interest) for which that rate applies; and
 - (iii) add up the results of (ii) for all the different rates for this line item; and
 - (iv) divide the total calculated in (iii) by the end quarter balance in column 1 less accrued interest (against the line item concerned).

NB: in the 'of which' analysis that requires separate reporting of weighted 'fixed' and 'variable' rates, **a cross check for each row** is that the weighted average nominal rate on all balances is equal to the weighted average of the reported fixed and variable rates in the subsequent two columns.

D3.1 –3.8 Other Points

The interest rate to be used is the rate charged to the loan account, which in certain circumstances will differ from the interest rate 'payable' by a borrower. These circumstances include deferred interest loans, interest roll-up loans, annual review schemes or where the loan is not performing.

Advances in quarter refers to the same amount as covered under 'advances in quarter' in the Loans: Advances/Repayments analysis in Section D1 above.

D4

Loan commitments (columns)

Commitments made since end of previous quarter

should include:

- (a) the aggregate of agreed advances (whether or not the mortgage offer has been accepted by the prospective borrower), including amounts recommended for retention, all instalment elements, and further advances;

but should exclude:

- (b) commitments from previous quarters that have been cancelled in the current quarter;
- (c) retentions imposed and subsequently not released;
- (d) instalment commitments that have not been taken up;
- (e) advance cancellations that are not re-issued;
- (f) sundry debits, e.g. insurance guarantee premiums (unless additional to the loan), insurance of contents etc.

Cancellations in quarter

Includes (b), (c), (d) and (e) above.

SECTION E: RESIDENTIAL LOANS TO INDIVIDUALS - Income Multiples & LTV

E1-6 Gross advances in quarter

Covers actual advances made in the quarter. For these purposes separate advances (e.g. stage payments) made in the period on the same mortgage should count as a single advance for the 'number' column in sections E3, E4, E5 and E6.

NB: 'gross advances' should be compiled on the same basis as in section D1 above and therefore relevant totals for each section in E1 to E6 should also agree with the amount of gross advances reported in D1.

E3-6 Balances outstanding

Covers balances at end of the quarter. Relevant sub-totals should agree with corresponding balances shown in the final columns of D1.

E1/2 By Income Multiple and LTV (Loan to Valuation ratio)

The amount to be included in the table is the **gross advance**, but its allocation to a specific cell is determined according to income multiple and LTV which are both defined using the size of the loan (as defined below).

E1/2 By Income Multiple and LTV

Income multiple based on single or joint incomes

For this analysis, '**income**' should be taken as **gross annual income** before tax or any other deductions.

The loan should first of all be categorised to 'single' or 'joint' income basis, and the income multiple calculated as described below:

- (i) **Single income basis.** This means only one person's income was taken into account when making the lending assessment/decision.

The income multiple here is the total loan amount divided by the borrower's total income (total of the borrower's main income and any other reckonable income e.g. overtime etc, to the extent that the *firm* takes such additional income into account in whole or in part).

- (ii) **Joint income basis.** This means that two or more persons' incomes were used in the lending assessment/decision.

The income multiple here is the total loan amount divided by the aggregate income of the two or more borrowers.

- (iii) **Other.** This category is to be used when the loan assessment is based, only partly or not at all, on one or more persons' incomes. Thus include here:

Under Single Income section (E1.6/E1.13)

- **Buy to let** loans where the loan assessment is based on the rental yield of the property (but not buy to let loans based solely on one or more persons' incomes which should be shown against the relevant income multiple category);
- **Lifetime mortgages** since in most if not all instances, the concept of a supporting income is not applicable;
- **Other products** (no current examples)

Under Joint Income Section (E2.6/E2.13)

- **Business loans**, where typically the loan assessment will be based on mixed sources of business/personal income or perhaps just on the capacity of a person's business to support the loan;
- **Other products** that have similar characteristics, that is where the loan assessment is based on either mixed income sources or non-personal incomes.

- (iv) **Not evidenced.** This 'of which' analysis applies to loans made on the basis of one or more persons' incomes, and therefore should exclude any loans reported in "Other" (defined in (iii) above).

It covers loans where: the lender has no independent documentary evidence to verify income (e.g. as provided by an employer's reference, a bank statement, a salary slip, a P60, or audited/certified accounts

For the purpose of **income multiples**, the multiple is of **loan** to income where **loan** is as defined below.

Loan to valuation ratio LTV

Should be based on the following:

- (i) **loan** is defined for:
- (a) **new borrowers** - as the amount of actual advance or, in the case of loans where the amount advanced in the period is less than the total amount of the loan to which the *firm* has agreed to lend (for example loans with additional drawing facilities or loans involving instalments/stage payments/retentions), is the amount of committed advance (including any committed drawing facilities);
 - (b) **existing borrowers** - as the total amount of debt outstanding including the further advance plus any committed drawing facilities at the time of the further advance;

and will include MIG ("mortgage indemnity guarantee"), building and other insurance premiums and other sundry items **if** these are included in the amount advanced;

- (ii) **valuation** is to be taken as the most recent valuation of the property which is subject to the mortgage (the existence of additional collateral on any other property should be ignored when calculating LTV). For these purposes, "recent valuation" can either be based on an actual valuation, or an estimated valuation using indexed valuation methodology applied to an original actual valuation. In the case of staged construction or self-build schemes, valuation means 'expected final value of the property' at the time the *firm* is committed to making the loan (i.e. takes the lending decision).

E3 Credit History

This seeks to categorise lending in terms of a borrower's previous credit history, as measured at the point when the new advance is made. For these purposes, it is only necessary to establish a borrower's credit history at a single point in time, i.e. at the time of making the loan. It is not intended that credit history should be reassessed after the loan has been made.

In particular the aim is to separately identify under the heading 'Impaired credit history', those loans where it appears that the borrower has some form of adverse credit history:

- (i) at the point when the new advance is made and the loan is reported under 'Gross advances';
- (ii) subsequently for reporting under 'Balances outstanding', the amount of the loan at the quarter end to such a borrower (who at the point when the present loan was advanced, was deemed to have had an adverse credit history).

E3.1 Impaired credit history

If any of the following conditions are met at the time of making the loan, the borrower should be reported as having **an impaired credit history**:

- (i) arrears on a previous (or current) mortgage or other secured loan within the last two years, where the cumulative amount overdue at any point reached three or more monthly payments;
- (ii) arrears on a previous (or current) unsecured loan within the last two years, where the cumulative amount overdue at any point reached three or more monthly payments;
- (iii) one or more county court judgements (CCJs), with a total value greater than £500, within the last three years;
- (iv) being subject to an Individual voluntary arrangement (IVA) at any time within the last three years;
- (v) being subject to a bankruptcy order at any time within the last three years;

but *firms* should not include technical arrears as part of the above definition. Technical arrears means circumstances where the borrower has been the victim of a banking error giving rise to late payment.

NB In (i) to (v), *firms* should ignore whether the borrower has subsequently paid off arrears, or has satisfied/discharged a CCJ or IVA or bankruptcy.

E4 Payment type

This section analyses loans in terms of how the borrower is contractually expected to service the loan, and is split into four categories:

- repayment;
- interest only;
- combined; and
- other.

E4.1 Repayment (capital & interest)

This is the traditional payment option available to borrowers. Such loans involve regular periodic payments covering interest for the period and some repayment of capital.

E4.2 Interest only

This is the type of loan which requires the borrower to make regular payments of interest only (i.e. without any obligation to make periodic payments of capital). It includes 'endowment' type loans, others having an independent ultimate repayment vehicle (e.g. PEP, ISA or pension mortgages), as well as other interest only loans where there is either no specific ultimate repayment vehicle in place or where the lender does not formally require one to be in place.

E4.3 Combined

This section is for loans where both of the above payment types are in place (i.e. part of the loan is 'repayment', and part is 'interest only').

E4.4 Other

This category will contain loans where no regular periodic payment obligation is in place, for example secured overdraft facilities or secured credit cards, and *lifetime mortgages*.

E5 By drawing facility

These are loans which include an option to draw down further amounts (i.e. where, at the outset of the loan, extra drawing rights exist over and above the original amount advanced, **but not** those arising only in relation to previous overpayments).

E5.1 Extra drawing facility

These are loans which in general are structured as follows:

Example structure when flexible loan contract agreed

Amount of loan advanced	£65,000
Amount of extra drawing facility agreed to (but not advanced at outset of loan)	£15,000
Total loan facility up to	£80,000

E5.1 a) Loans including unused facility

This means the total loan facility i.e. the sum of the amount of loan advanced and the amount of extra drawing facility agreed (but not advanced at the outset of the loan):

- (i) **gross advances in quarter** should detail those loans that include an extra drawing facility: show the number and amount of such loans;
- (ii) **loans outstanding** means the end quarter balances (on original advance plus any subsequent draw downs) plus the residual amount of any unused drawing facility that remains available to the borrower: show the number and amount of such loans.

E5.1 b) Unused facility

This is the amount of the extra drawing facility that has not been drawn down by the borrower:

- (i) **gross advances in quarter** should detail the unused facility element of such loans: show the amount;
- (ii) **loans outstanding** means the end quarter balances of any unused extra drawing facility that remains available to the borrower: show the amount.

E5.1 c) Net loans

This can be calculated by subtracting the entry in row b) from the entry in row a).

E5.2 Loans with no extra drawing facility

Firms should report all other loans here.

E5.3 TOTAL

This figure should be calculated as follows:

(i) for '**Number**' by adding E5.1(a) and E5.2, and

(ii) for '**Amount**' by adding E5.1(c) and E5.2.

E6 By Purpose

This analysis is to identify the principal purpose of the loan, which should be available from the application form. A loan should therefore only be classified to one category of E6.1 – E6.7. A stage advance should be classified for the same purpose as the main advance.

E6.1/2 House purchase

Loans where the borrower is purchasing a house (or flat etc). *Firms* should include stage payments on such transactions here and not in 'further advances'. A distinction is drawn between loans for house purchase where the purpose is for owner occupation, or for buying with a view to letting ('buy to let').

Loans for owner occupation are required to be sub divided into those to first time buyers (FTBs, that is where the tenure of the main borrower immediately before this advance was not owner-occupier) and those to other buyers.

E6.3 Further advance

A further loan (either as a normal further advance, or as a second charge loan where the *firm* has the first charge) to an existing borrower of the *firm*, secured on the same property.

The underlying purpose of the further advance is not relevant and could include e.g. purchasing freehold interest in a currently owned leasehold property; buying a second property on the security of the first; as a consumer loan fully secured on residential property; or as a 'drawdown' on a flexible mortgage.

E6.4/5 Remortgage

Loans where the borrower is not moving house but is refinancing an existing loan, either one already with the *firm* or one from another lender. The whole amount of the new advance should be classified as 'remortgage' even if it is larger than the existing loan.

E6.6 Lifetime mortgages

This is a specific type of *regulated mortgage contract*, which is defined in the *Handbook* as follows:

A *regulated mortgage contract* under which:

- (a) entry into the mortgage is restricted to borrowers of a specified age; and
- (b) the *mortgage lender* does not generally specify a period at the end of which the amount borrowed (plus interest, if any, outstanding) must be repaid, and while the *customer* continues to occupy the mortgaged land as his main residence:
 - (i) no instalment repayments of the capital and no payment of interest on the capital (other than interest charged when all or part of the capital is repaid voluntarily by the *customer*), are due or capable of becoming due; or
 - (ii) although interest payments may become due, no full or partial repayment of the capital is due or capable of becoming due; or
 - (iii) although interest payments and partial repayment of the capital may become due, no full repayment of the capital is due or capable of becoming due; and
- (c) the loan made to the *customer* is repayable in one or more of the following circumstances:
 - (i) the death of the *customer*; or
 - (ii) the *customer* enters into long term care; or
 - (iii) the *customer* moves into sheltered accommodation or residential care; or
 - (iv) the *customer* acquires another dwelling for use as his main residence; or
 - (v) the *customer* chooses to repay all or part of the loan; or
 - (vi) the *mortgage lender* exercises its legal right to take possession of the mortgaged land under the terms of the contract.

E6.7 Other

Would include for example where a borrower is not moving house but takes a loan on the security of his previously unmortgaged property.

SECTION F: LENDING - ARREARS ANALYSIS

Introduction

The guidance notes in this section serve two purposes: they provide guidance for

- (i) items **F1 to F5** shown in *MLAR* table F.

For these sections, the analysis of lending refers to on-balance sheet loan assets only (ie as included in the final column of section D1 of table D)

- (ii) items **H1 to H5** shown in *MLAR* table H.

For these sections, which cover reporting of arrears by *firms* with a *mortgage administrator's* activity, the analysis should include arrears in respect of the types of residential loans to individuals set out in the guidance notes for table G. For *guidance* on items H1 to H5 see corresponding guidance against items F1 to F5. Similarly references in the *guidance* notes to any items F1 to F5, should also be read as referring to items H1 to H5 when completing table H.

F1 to F4 **Arrears categorisation by type of loan**

For these sections, the analysis of lending is divided into two main types:

- (i) residential loans to individuals (split between regulated and non regulated business);
- (ii) all other secured loans.

The analysis is based on expressing **the amount of arrears** on each loan as a percentage of the **balance outstanding** on the loan, allocating cases to relevant arrears bands, providing details of cases moving up into more serious arrears bands in the quarter, and giving information on loan performance during the quarter. (In cases where there is more than one loan secured on a single property, these should be amalgamated, where possible, in reporting details of arrears cases.)

Definitions of terms used above, and those related to them, are given below in sections having side headings numbered 1, 2, 3, 4, 5 and 6.

F1.6/F2.6 & F3.6/F4.6 **In possession:** cases should be included here where the property is taken in possession (through any method e.g. voluntary surrender, court order etc). For development loans in particular, cases should also be included where the appointment of a receiver and/or a manager has been made, or where the security is being enforced in other ways (which may or may not also involve the existence of arrears e.g. building finance case with interest roll up, no arrears, but a current valuation is less than the outstanding debt).

1. Balance outstanding (columns 3 and 6)

1.1 This is the amount of total debt at the reporting date, and should comprise the total amount outstanding (after deducting any write-offs but without deduction for any provisions) in respect of:

- (i) the principal of the advance (including any further advances made);
- (ii) interest accrued on the advance (but only up to the reporting date), including any interest suspended;
- (iii) any other sum which the borrower is obliged to pay the *firm* and which is due from the borrower, e.g. fees, fines, administration charges, default interest and insurance premiums;

and is intended to be consistent with the basis used for presentation of gross balances outstanding shown in the balance sheet section of the return (i.e. at A3 Column 1 for on-balance sheet or unsecuritised balances, and at A3 column 4 for securitised balances), with the addition for tables F and H of any interest suspended not included in the balance sheet.

2. Amount of arrears (columns 2 and 4)

2.1 Arrears will arise through the borrower failing to service any element of his debt obligation to the *firm*, including capital, interest, or fees, fines, administrative charges, default interest or insurance premiums.

2.2 At the reporting date, the **amount of arrears** is the difference between:

- (i) the accumulated total amounts of (monthly or other periodic) **payments due** to be received from the borrower; and
- (ii) the accumulated total amount of **payments actually made** by the borrower.

2.3 Only amounts which are **contractually due** at the reporting date should be included in 2.2(i) above. That is:

- (i) include accrued interest only up to the reporting date but not beyond;
- (ii) and, only include a proportion of any annual insurance premium if the *firm* permits such amounts to be paid in periodic instalments. However if the terms of the loan or the lender's practice are such as to permit insurance premiums to be added to the loan principal then do not treat such amounts as contractually due;
- (iii) similarly, where 'any other sum' has been added to the loan (see 1.1 (iii) above), only include such proportions as are contractually due (e.g. if it is the practice in particular circumstances to add the sum/charge to the loan and require repayment over the residual term of the loan);
- (iv) in assessing 'payments due' when a borrower has a **flexible loan**, it is important to apply the contractual terms of the loan: for example,

payment holidays which satisfy the terms of the loan should not be treated as giving rise to an arrears position;

- (v) do not however include 'Deeds Store' loans in the arrears figures (that is, loans where the debt is de minimis e.g. £100, but the borrower still has insurance premiums to pay and perhaps some instalments are overdue).

2.4 In the case of **annual review schemes** the 'payment due to be received' under 2.2(i) is that calculated under the scheme. This may well differ from the amount charged to the account but should not of itself give rise to any arrears, providing the borrower is making the level of payments advised by the *firm*. The same principles apply to deferred interest products - if the borrower is making the payments that are required under the loan arrangements then he is not in arrears, even though the debt outstanding is increasing.

2.5 Where a *firm* makes a **temporary 'concession'** to a borrower (i.e., an agreement with the borrower whereby monthly payments are either suspended or less than they would be on a fully commercial basis) for a period, the amounts included in 2.2(i) are those contractually due (and at commercial rates of interest). Hence the borrower will continue to be in arrears and the level of arrears will in fact continue to increase until such time as he is able fully to service the debt outstanding.

2.6 Where the terms of the loan do not require payment of interest (or capital) until a stated date or until redemption or until certain conditions are triggered, as for example in the case of certain building finance loans, then the loan is not in arrears until such time as contractual repayments are overdue. There may be circumstances however where, even though the loan is not in arrears, it falls to be reported under F1.6, F2.6, F3.6 or F4.6. (See notes on F1.6/F2.6/F3.6/F4.6 at beginning of Section F.)

2.7 The reporting treatment of cases where arrears have been capitalised is dealt with in section 3 below.

2.8 Where a '**capitalisation**' case that has at one time been correctly removed as fully performing (see section 3) but at some later time defaults, then this should be treated as a new default and the amount of arrears taken as that arising from this new default. That is, the previously capitalised arrears should not be reinstated as current arrears.

3. Capitalisation of arrears and reporting criteria

3.1 By '**capitalisation**' we mean a formal arrangement agreed with the borrower to add all or part of a borrower's arrears to the amount of outstanding principal (i.e. advance of principal including further advances less capital repayments received during the period of the loan) and then treating that amount of overall debt as the enlarged principal. This enlarged principal is then used as the basis for calculating future monthly payments over the remaining term of the loan. Where less than the full amount of arrears is capitalised (or indeed where none of the arrears is capitalised) then, providing there are arrangements made for the

borrower to repay the non-capitalised arrears over a shorter period ranging for example from 3 to 18 months, this type of arrangement should also be regarded as an equivalent of 'capitalisation'.

3.2

The decision to 'capitalise' (or treat as if capitalised) is a business decision between the *firm* and the borrower. However for the purposes of consistency in reporting arrears cases in table F (and reporting capitalisations in section F5) the following **reporting criteria** should be used where a *firm* has capitalised the loan (or treated as if capitalised) and reset the monthly payment:

- (i) such an arrears case should continue to be included in sections F1 – F4 as an arrears case until the loan has been '**fully performing**' (see (ii) below) for a period of six consecutive months (any temporary increase in arrears during this qualifying period has the effect of requiring six consecutive months of fully performing **after** such an event). Until that time it should be included in table F, and be allocated to the arrears band applicable at each reporting date as if 'capitalisation' had not taken place;
- (ii) for these purposes a loan is considered to be 'fully performing' only where the borrower has been meeting all obligations on the loan with regard to repayments of principal, interest (at a normal mortgage rate on the full balance outstanding, including as appropriate any relevant past arrears), any payment towards clearing past arrears as agreed with the *firm* and any default payments due levied in respect of previous missed repayments. That is, amounts may be either added to the principal of the loan or otherwise repaid over a shorter period than the residual term of the mortgage, as agreed between *firm* and borrower. But then this revised payment schedule must be fully maintained for a six month period before the arrears can qualify to be treated as capitalised for reporting purposes and hence removed from the arrears cases in table F;
- (iii) arrears cases qualifying as 'fully performing' under (ii) **should then be omitted from sections F1-F4**, and should then be reported in section F5 for the same reporting period during which the removal occurs.

4. **Cases entering higher (i.e. more serious) arrears band in quarter (columns 1 to 3)**

This refers to those cases now included in a particular arrears banding which may have been classified in a **less severe (i.e. lower numerical) band** at the end of the previous quarter, but which have deteriorated sufficiently during the quarter to move to a more severe arrears band. This would mean, for example, that cases that were previously excluded from the arrears table being less than 1.5% in arrears would now be entered in the '1.5 < 2.5%' arrears band (i.e. 1.5% or less than 2.5%) in F1.1, and F1.6 (and F2.6/F3.6/F4.6) will show details of those cases taken into possession during the quarter which were previously classified as in arrears under any of F1.1-1.5 (or F 2.1-2.5/3.1-3.5/4.1-4.5, as the case may be). Cases which have improved during the quarter and which could now be classified in a less severe arrears band should not be included in these 3 columns.

5. Number (of cases) (Columns 1 and 4)

5.1 In cases where there is more than one loan secured on a single property, these should be amalgamated, where possible, in reporting details of arrears cases.

5.2 In cases involving, for example, arrears on loans to property developers (which would come under F4), the loan should count as a single case in the number column irrespective of the number of properties on the development itself.

6. Performance of current arrears cases (column 7)

6.1 This analyses all those arrears cases included in columns 4 to 6 and gives a measure of performance covering all of the loans in a particular arrears band at the end of the quarter. The measure, which compares 'actual' with 'expected' payments, is required to be calculated for a single time period: the 3 months covered by the firm's latest financial quarter. For this time period, the performance measure should be calculated as a percentage as follows:

$$\frac{\text{total of 'payments received' from borrowers}}{\text{total of 'payments due' from borrowers}} \times 100$$

where:

- (i) 'payments due' means amounts due under normal commercial terms (and not the lesser amounts which may have been agreed as part of any temporary arrangement) fully to service the loans: that is the balances outstanding including those elements referred to in 1.1 above such as insurance, fees and fines etc. (If for some reason this is not readily available then a suitable approximation can be derived for each relevant quarter by applying one quarter of the annual interest rate to the appropriate balance outstanding, and adding in other payments due for example insurance, fees and fines etc); and
- (ii) 'payments received' should be limited to regular repayment of interest, capital and other sundry charges to the loan account, and should exclude abnormal repayments (e.g. sale proceeds of property in possession, and large lump sum repayment of part or all of the outstanding balance). The reasoning behind this is that excess payments on one or more arrears cases would otherwise have the effect of compensating for underpayment on other arrears cases and, as a result, give an overstated performance measure. Therefore, in compiling aggregate payment received figures (as part of the payment performance ratio) the contribution from an individual loan in arrears should be limited to no more than the 'payment due' amount.

6.2 The amount to be entered on the return is a percentage to 2 decimal places.

6.3 In calculating the performance measure on possession cases (F1.6, F2.6, F3.6 and F4.6), the following points are relevant:

- (i) 'payments received': in many cases these may be nil, but not always since the property in possession may be let out and a rental income received.

In each case the payment received should be included for the purposes of calculating the performance measure;

- (ii) 'payments due': in recognition of the fact that amounts of interest will still be charged to the borrower's account, then the 'payments due' should be calculated as three months' interest at normal commercial rates of interest;
- (iii) however, in F1.6, F2.6, F3.6 and F4.6, it is likely that the performance measure will in most instances be zero;
- (iv) the relevance of the above however, is that 'payments due' on possession cases need to be computed in order to feed into the overall performance measure at F1.6, F2.6, F3.6 and F4.6.

6.4 The overall measure of performance at F1.7 (and similarly at F2.7, F3.7 and F4.7) includes possessions, and is the ratio of:

- (i) 'payments received' on all cases in F1.1 to F1.6
- (ii) 'payments due' on all cases in F1.1 to F1.6

The same approach should be used for F2.7, F3.7 and F4.7.

F5 Arrears management

Number of Sales/Number of (arrears) cases

In cases where there is more than one loan secured on a single property, these should be amalgamated where possible in reporting details of possession cases sold during the period in F5 (column 1), and details of arrears cases in F5 (columns 3 & 4).

Balance outstanding

In F5 (columns 2 and 5) this is as defined in section F/1 paragraph 1.1 (including in the case of properties sold the costs of sale where these have been debited to the borrower's account), and should be the balance at the end of the quarter.

Possession sales during quarter

Firms should include in F5 (columns 1 and 2) **all** properties sold in the quarter irrespective of whether losses have occurred.

Capitalisation of arrears cases in quarter

Details should be given in respect of those cases which, having previously been in the reported figures in table F on arrears, have now been capitalised (or treated as if capitalised), have satisfied certain performance criteria for six months, and have been **removed** during the latest quarter from the arrears

figures which now appear in sections F1 – F4. Sees paragraph 3 of section F of the *guidance* notes.

Cases involving temporary concession or arrangement

In respect of the number of cases in arrears at the end of the quarter (i.e. reported in F1 to F4.7), details should be given of those cases for which the lender has taken steps to assist the borrower in some way.

Specifically, *firms* should state in how many cases a **temporary concession** has been made (see paragraph 2.5 in Section F), and in how many cases a formal **arrangement** to capitalise has been made (see paragraph 3.1 in section F, which also includes within the term 'arrangement' the example of a borrower making increased monthly payments to reduce some or all existing arrears). The balancing number should be shown in the next column 'No concession/arrangement'.

SECTION G: MORTGAGE ADMINISTRATION – BUSINESS PROFILE

Introduction

Article 61 of the Regulated Activities Order establishes *administering a regulated mortgage contract* as a *regulated activity*. This applies equally to those *firms* that are lenders, and those whose principal business is to undertake mortgage administration on behalf of third parties.

For *firms* that are authorised as *mortgage administrators* only, the information sought in this section will enable the *FSA* to establish the extent and nature of the *firm's* mortgage administration business. The *FSA* will be able to assess the potential risks posed by the *firm's* business activities and tailor its regulatory response accordingly.

A *mortgage administrator* is a *firm* with *permission* (or which ought to have *permission*) for administering a *regulated mortgage contract* and where, as defined in article 61(3)(b) of the *Regulated Activities Order*, *administering a regulated mortgage contract* consists of either or both of:

- notifying the borrower of changes in interest rates or payments due under the contract, or of other matters of which the contract requires him to be notified; and
- taking any necessary steps for the purposes of collecting or recovering payments due under the contract from the borrower;

but does not consist merely of having or exercising a right to take action to enforce the *regulated mortgage contract*, or to require that action is or is not taken.

You should note that this section applies to *firms* with just a *mortgage administrator's* activity and those with both a *mortgage lender's* and *mortgage administrator's* activity.

You should also note, however, that if you have both a *mortgage lender's* activity and a *mortgage administrator's* activity to administer your own book and do not have any off-balance sheet loans to administer, then you should not complete this section of the *MLAR*.

G1

Mortgage contracts administered at end quarter

Collects data on mortgage contracts administered as at the end of the quarter, but only where you are formally acting as principal in exercising a *mortgage administrator's* activity. It therefore excludes the reporting of:

- any loan administration where you, being a firm without a *mortgage administrator's* activity, are merely providing an outsourced service for a third party which does have a *mortgage administrator's* activity and which is exercising it in respect of those loans; and
- any loan administration where you, a firm having a *mortgage administrator's* activity, are acting as agent and providing an outsourced

service for a third party which itself has a *mortgage administrator's* activity and which is exercising it in respect of those loans.

If you also have a *mortgage lender's* activity, then you should treat your own on and off-balance sheet loans as follows:

- (i) your *firm's* on-balance sheet loans should be excluded from G1.1 a) and G1.2 a). These items will therefore only include loans administered for third party lenders who do not themselves have a *mortgage administrator's* activity;
- ii) your *firm's* off-balance sheet loans should be included in G1.1 c) and G1.2 c). These will be the loans you have shown in section A3 "Securitised balances" under "gross balances". (These items G1.1 c) and G1.2 c) will also include loans you administer for other *special purpose vehicles* where you are formally exercising your *mortgage administrator's* activity).

G1.1 Number of loans

You should detail the number of *regulated mortgage contracts* administered as at the end of the quarter for *firms* with a *mortgage lender's* activity, for other *firms* (i.e. lenders for which you administer mortgages but they themselves do not have a *mortgage lender's* activity) and for *special purpose vehicles* ('SPVs') (i.e. *firms* that fall within the *Handbook* definition of a *special purpose vehicle*).

You should also detail the number of non regulated loans administered as at the end of the quarter for *firms* with a *mortgage lender's* activity, for other *firms* (i.e. lenders for which you administer mortgages but they themselves do not have a *mortgage lender's* activity) and for SPVs.

The total (all loans) is the sum of *regulated mortgage contracts* and non-regulated loans.

G1.2 Balance outstanding on loans

You should detail the balances outstanding on all *regulated mortgage contracts* that you administer as at the end of the quarter for *firms* with a *mortgage lender's* activity, for other *firms* (i.e. lenders for which you administer mortgages but they themselves do not have a *mortgage lender's* activity) and for SPVs.

You should detail the balances outstanding on all non regulated loans that you administer as at the end of the quarter for *firms* with a *mortgage lender's* activity, for other *firms* (i.e. lenders for which you administer mortgages but they themselves do not have a *mortgage lender's* activity) and for SPVs.

The total (all loans) is the sum of *regulated mortgage contracts* and non-regulated loans.

G2 Lenders for whom mortgage administration was being carried out at quarter end

Collects data only on the top five lenders for each category by value (i.e. the largest five *firms* by value, based on balances outstanding on regulated loans) for whom mortgage administration was being carried out at the quarter end. (Details on other lenders are not required to be shown, over and above the top five listed in each category.)

G2.1 Firms with a mortgage lender's activity

Please detail the top five *firms* (by value) for whom *mortgage administration* was being carried out at the quarter end.

You should include the *firm's* FSA reference number in addition to the name of the *firm*.

You should indicate the value of *regulated mortgage contracts* and non-regulated loans for each of the top five *firms* for whom you administer such contracts.

The total (all loans) for each firm listed is the sum of *regulated mortgage contracts* and non-regulated loans.

G2.2 Other firms

Please detail the top five other *firms* (by value) for whom *mortgage administration* was being carried out at the quarter end (but who themselves do not have a *mortgage lender's* activity).

You should indicate the value of *regulated mortgage contracts* and non-regulated loans for each of the top five other firms for whom you administer.

The total (all loans) for each *firm* listed is the sum of *regulated mortgage contracts* and non-regulated loans.

G2.3 SPVs

Please detail the top five SPVs (by value) for whom *mortgage administration* was being carried out at the quarter end. If your *firm* has off-balance sheet loans (which it has reported in G1.1 c) and G1.2 c)) then please show your *firm* as one of these five SPVs as follows:

- group together all SPVs for which your *firm* is the originator and show the aggregated amounts on a single line (irrespective of whether the total of regulated loans for all such SPVs would rank within the top five);

- under "FSA firm reference" column, put your *firm's FSA* reference number;
- under "Name of firm" column, put your *firm's* name followed by "own SPVs" in brackets, for example XYZ firm name (own SPVs).

You should indicate the value of *regulated mortgage contracts* and non-regulated loans for each of the top five SPVs for whom you administer.

The total (all loans) for each SPV listed is the sum of *regulated mortgage contracts* and non-regulated loans.

SECTION H: MORTGAGE ADMINISTRATION – Arrears Analysis

Type of loans to be reported

This arrears analysis should cover only those types of loan listed below, in respect of which your *firm* is formally acting as principal in exercising a *mortgage administrator's* activity. Thus, irrespective of whether your *firm* has a *mortgage administrator's* activity, if you are merely acting as an administrator for a third party that itself has, and is exercising, a *mortgage administrator's* activity, then you should not include any such loans in this analysis.

The types of loans to be included in the analysis are:

- (i) loans administered for *firms* which do not themselves have a *mortgage lender's* activity. These are the loans reported at G1.2 b) in table G.
- (ii) loans administered for third party SPVs.
- (iii) where your *firm* has a *mortgage lender's* activity, loans that represent your firm's off-balance sheet loans and which you have reported in section A3 of table A as "gross balances" under "Securitised balances".

NB loans in (ii) and (iii) are all those shown in G1.2c of table G.

The information presented in table H should represent the total of all such loan types listed above, in a single version of the table.

H1-H5 Guidance on arrears items

The *guidance* for these items is provided in section F of these guidance notes, where items H1 to H5 correspond to items F1 to F5.

SECTION J: FEE TARIFF MEASURES

J1 Introduction

The purpose of this section is to enable the *firm* to provide data on the current **fee tariff measures** that apply to each of the regulated activities of *mortgage lending* and *mortgage administration*.

This section also distinguishes between the fee tariff measures that apply to the *FSA* (Financial Services Authority) and *FOS* (Financial Ombudsman Service).

Since the relevant fee tariff measures may change from time to time, these *guidance* notes merely define **where** the current definitions of fee tariff measures are to be found. Accordingly the following is a reference to the relevant part of the *FSA's* website where such details can be found:

* Refer to *SUP 20 Annex 1R of the FSA Handbook**

Products covered by the reporting requirement in SUP 16.11

This is the *guidance* referred to in SUP 16.11.6G.

SUP 16.11.3R requires certain *firms* to report product sales data. For reporting purposes, a reportable sale applies where the contract has been made and the premium has been paid.

In the case of mortgage transactions, the reporting requirement only applies to loans for house purchase and remortgages and not to further advances. A reportable mortgage transaction applies where the mortgage transaction has completed (i.e. funds have been transferred and have been applied for the purpose of the mortgage).

Part 1 - Products

The following tables provide *guidance* on the products for which sales data is to be reported. These tables are not intended to be a complete list of relevant products; *firms* should report sales data on all products which would fall within the scope of *retail investments*, *pure protection contracts*, and *regulated mortgage contracts*.

Table 1 – RETAIL INVESTMENTS

Relevant products include:

<p><i>Unit trust scheme /OEIC</i> <i>Investment trust</i> <i>ISA</i> <i>Structured capital-at-risk product</i> With profit bond <i>Unit linked bond</i> Distribution bond Mortgage Endowment With profit endowment Endowment savings plan Guaranteed income/growth/investment bond Trustee investment bond Life annuity Pension annuity Long term care insurance contract Stakeholder pension Personal pension Group personal pension <i>FSAVC</i> <i>Individual pension transfer</i> <i>Pension opt out</i> Section 32 buy out Group section 32 buy out <i>Income drawdown</i></p>

Executive pension
SSAS
Group money purchase
AVC final salary
AVC group money purchase

Table 2 - PURE PROTECTION CONTRACTS

Relevant products include:

Income protection
Standalone critical illness
Critical illness sold as a rider benefit to mortgage protection and mortgage term assurances

Table 3 - MORTGAGES

Relevant mortgage types include:

Fixed rate mortgages
Discounted variable rate mortgages
Tracker mortgages
Capped rate mortgages
Standard variable rate mortgages

Part 2: Supporting product definitions/guidance for product sales data reporting

Part 2 contains *guidance* on the terms used in part 1 and on other relevant material.

Where products have not been defined in the *Glossary*, an explanatory description is provided.

Retail investments

PRODUCT	Guidance
<u>With profit bond</u>	<u>Includes all single premium policies where a lump sum is paid into a with profits fund made up of investments such as company shares, fixed interest securities, commercial property and money. Unitised with profit bonds should be reported under this category.</u>
<u>Unit linked bond</u>	<u>A contract where the premium buys, or is deemed to buy investment units in a selected fund. The value of the policyholder's fund is linked to the value of the units (see guidance relating to distribution bonds).</u>
<u>Distribution bond</u>	<p><u>A single premium investment policy. The funds are invested in equities and gilts and an income is paid each year to the policyholder, dependent on the performance of the investments.</u></p> <p>Only report as a distribution bond where over 50% of the fund allocation relates to the distribution fund. If less than a 50% allocation is made, the product should be reported as a unit linked bond.</p>
<i>Guaranteed income/growth/investment bond</i>	This includes income and growth bonds which include guaranteed income and guaranteed equity bonds that include guarantees and pay a percentage of the movement of more one or more index.
<i>Structured capital-at-risk product</i>	<i>Defined in the Handbook Glossary.</i>
<u>Life/pension annuity</u>	An arrangement by which a life company pays someone a regular income, usually for life, in return for a lump sum premium. This would include <ul style="list-style-type: none"> • deferred and immediate annuities • compulsory purchase annuities • home income plans; and • all other types of life annuities
<u>Unit trust scheme</u>	<i>Defined in the Handbook Glossary.</i>
<u>Investment trust</u>	<i>Defined in the Handbook Glossary.</i>
<u>ISA</u>	<i>Defined in the Handbook Glossary.</i> Cash and insurance ISAs should not be reported
Endowment savings plan	An endowment plan with a fixed term with benefits paid on death within the term or on maturity
Mortgage endowment	This should include any regular premium low cost endowments plus unitised with profit endowments

Long-term care insurance contract	[The FSA consulted in CP 200 on the definition of long-term care insurance contract that will apply from 14 January 2005. The guidance here will cross-refer to the finalised definition.]
Stakeholder Pension	<i>See Handbook Glossary for definition of 'stakeholder pension scheme'.</i>
Personal pension	<i>See Handbook Glossary for definition of 'personal pension scheme'.</i> For reporting purposes do not include Rebate Only Pension business.
Group personal pension	<i>See Handbook Glossary for definition of 'group personal pension scheme'.</i> Phased retirement should include transfer plans that permit staggered annuities to subsequently be purchased. Deferred transfer plans should be excluded. Report each individual policy as a separate case.
FSAVC	<i>Defined in the Handbook Glossary.</i> Do not include Rebate Only Pension business.
Individual pension transfer	<i>See Handbook Glossary for definition of 'pension transfer'.</i>
Pension opt out	<i>Defined in the Handbook Glossary.</i>
Section 32 buy out/ Group section 32 buy out	An arrangement where trustees accept capital from employees who have left <i>occupational pension scheme</i> service and the transfer value is reinvested in an attempt to provide better benefits when the employee retires.
Income drawdown	<i>See Handbook Glossary for definition of income withdrawal'.</i> This should include transfer plans that allow income from a pension plan in advance of an annuity being purchased
Executive pension scheme	An arrangement where each premium paid is identifiable to an individual employee and where an employer has discretion as to whether a pension arrangement is made for a particular employee and to the level of contribution or target benefit under the policy. Report each individual policy as a separate case. Pension premiums should be reported gross.
SSAS	<i>Defined in the Handbook Glossary.</i> Pension premiums should be reported gross. <i>SSAS</i> business should not be reported if you only provide an administration service. Report each individual policy as a separate case.
Trustee investment bond	A lump sum <i>investment</i> vehicle designed for use by <i>pension scheme</i> trustees. Includes <i>SSAS</i> Trustee Investment Bonds and SIPP Trustee Investment Bonds

<u>Group money purchase</u>	An <i>occupational pension scheme</i> which provides <i>money-purchase benefits</i> which is available to employees of the same employer or of employers within a group.
<u>AVC Final salary</u>	Pension premiums should be reported gross.
<u>AVC Group money purchase</u>	Pension premiums should be reported gross.

Mortgages

(a) Types of interest rate

<u>Types of interest rate</u>	Description
Fixed rate	where the interest rate is fixed for a stated period.
Discounted rate	where a discount is applied to the lender's standard variable rate usually for a limited period of time.
<u>Tracker</u>	where the interest rate is guaranteed to move in line with either the Bank of England Base (or repo) Rate (BBR) or another index such as LIBOR (London InterBank Offered Rate).
<u>Capped (and collared) rate mortgage</u>	where the interest rate is guaranteed not to exceed a stated maximum rate (the 'capped' rate) for specific period of time, but where the standard variable interest rate applies when the rate is lower than the capped rate. Also includes products where the interest rate is subject to a minimum rate (the 'collared' rate).
<u>Cashback</u>	a cash amount paid by a <i>mortgage lender</i> to a <i>customer</i> (typically at the beginning of a contract) as an inducement to enter into a <i>regulated mortgage contract</i> with the <i>mortgage lender</i> .
<u>Standard variable rate</u>	<u>the lender's underlying interest rate.</u>

(b) Features

Data Item	Description
Flexible mortgage	<p>A mortgage where you can change the monthly payments and pay off part or all of the loan whenever you like. It is normally linked to any interest rate type.</p> <p>Details vary from one mortgage to another, but for reporting purposes, to be reported as a flexible mortgage, the mortgage should have the following features:</p> <ul style="list-style-type: none"> • interest must be calculated monthly or daily; and • must have an overpayment facility
Offset mortgage – positive and/or negative offset	An offset mortgage will typically have similar facilities to a flexible mortgage, but will also allow the borrower to offset positive (savings and/or current account) and/or

	negative balances (credit card and/or personal loans) against their outstanding mortgage balance.
Loans where income is not evidenced	This applies to loans which are based on one or more <i>persons'</i> incomes. These loans are those where the lender has no independent documentary evidence to verify income (e.g. as provided by an employer's reference, a bank statement, a salary slip, a P60, or audited/certified accounts).
Total gross income	This is the total of the gross annual incomes (before tax or other deductions) of each of the individual borrowers whose incomes were taken into account when the lender made the lending assessment/decision. For these purposes, each borrower's gross income is the sum of that person's main income and any other reckonable income (e.g., overtime, income from other sources etc to the extent that the lender takes such additional income into account in whole or in part). For example if borrower A has gross income of £25,000 and borrower B has gross income of £20,000 then total gross income for the loan would be £45,000

Pure protection contracts

<u>Policy type</u>	Description
Standalone critical illness	These policies are 'pure' critical illness policies i.e. there is no life cover sold alongside them. Under these policies the <i>insurer</i> provides the sum insured to the <i>policyholder</i> in the event of diagnosis of a life threatening condition.
Critical illness sold as a rider benefit to term assurance	For reporting purposes, this applies where critical illness is offered as a rider benefit to either a mortgage protection policy (a <i>life policy</i> that provides by means of decreasing term assurance for a mortgage to be paid off in the event of the borrower's death) or a protection term assurance contract.
Income protection	Insurance contracts arranged by an individual to provide for payment of income during a period of incapacity, due to ill health or accident

REPORTING FIELDS

This is the annex referred to in SUP 16.11.7R.

1 - GENERAL REPORTING FIELDS

The following data reporting fields must be completed, where applicable, for all reportable transactions and submitted in a prescribed format. Shaded boxes represent non-compulsory data items.

Data reporting field	Code (where applicable)	Notes
FSA reference number of product provider	6 digit number	This field must contain the FSA reference number of the <i>firm</i> providing the data report.
FSA reference number of <i>firm</i> which sold the product	6 digit number	This field must contain the FSA reference number of the <i>firm</i> which sold the product. For <i>firm</i> 's own direct sales, enter <i>firm's</i> own FSA reference number. For sales via an intermediary enter the intermediary's reference number.
Advice at point of sale	Y = advised N = non-advised	This information will not have to be reported until July 2006. <i>Firms</i> will however be able to report his information before then if appropriate by using the appropriate code to indicate whether the sale was advised or non-advised. For reporting purposes non- advised includes execution only and direct offer transactions.
FSA reference number of the intermediary's <i>principal</i> or <i>network</i>	6 digit number	This field only applies if the sale has been made by an intermediary who has a <i>principal</i> or is part of a <i>network</i> .

2 - SPECIFIC REPORTING FIELDS

(a) Retail investments

The following data reporting fields must be completed, where applicable, for all *retail investment* transactions, including *structured capital-at-risk products*:

Data reporting field	Illustrative code (where applicable)	Notes
Product type	Numeric	Enter relevant product code. If none of the existing codes apply report sale as 'O' for other.
Post code of customer	e.g. XY45 6XX	Applies to first named customer only.
Method of <i>premium</i> /contribution payment	S = single R = regular	Use code to indicate method of payment.
Total <i>premium</i> /contribution amount	Numeric £	Enter annualised amount rounded to nearest £
Date of birth	DD/MM/YYYY	Applies to first named customer at time of sale i.e. age obtained at proposal stage.

(b) Pure protection contracts

The following data reporting fields must be completed, where applicable:

Data reporting field	Illustrative code (where applicable)	Notes
Policy type	Numeric	Enter relevant product code. If none of the existing codes apply report sale as 'O' for other
Method of <i>premium</i> payment	S = single R = regular	Use code to indicate method of payment.
Total <i>premium</i> amount	Numeric	Enter annualised amount rounded to nearest £.

(c) Mortgages

The following data reporting fields must be completed, where applicable for all regulated mortgage transactions (with the exception of further advances):

Note : In the case of mixed interest rate options/combo mortgages, sales data should only be provided for the rate applying to the largest portion of the overall mortgage balance.

Data reporting field	Illustrative code (where applicable)	Notes
Date mortgage account opened	DD/MM/YYYY	Date of mortgage completion or draw-down of the funds.
Interest rate type	F = fixed rate C = capped rate D = discount T = tracker V = standard variable rate O = other-	Enter the relevant code If none of the existing codes apply enter sale as 'O' to denote 'other'. Only 1 code can be entered
Mortgage characteristics	CB = cashback FF = flexible features (allowing overpayments and underpayments) OS = offset positive and or negative balances. L = the loan is a <i>lifetime mortgage</i> SAM = the loan is a <i>shared appreciation mortgage</i>	Use code to indicate additional mortgage characteristics if applicable. Cashback should only be reported where it is linked to a variable interest rate and where the cashback is not being provided as an incentive to pay legal costs and valuation fees. Where more than 1 code applies, report all
Post code of the mortgaged	e.g. XY45 6XX	

property		
Type of borrower	F = first time buyers M = home movers (2 nd or subsequent buyers) R = remortgagors C= council/ registered social landlord tenant exercising their right to buy O = other N = not known	Use code to indicate type of borrower. Only 1 code should be entered
Method of repayment	C = capital and interest E = interest only/ endowment I = interest only/ ISA P = interest only/ pension U = interest only/ unknown M = mix of capital and interest only N = not known	Use code to indicate method of mortgage repayment Only 1 code should be entered
Term of mortgage	Numeric	Number in whole years. (Optional for <i>Lifetime</i> and <i>Shared appreciation mortgages</i>)
Size of loan	Numeric £	Report the original interest bearing balance at completion of the mortgage.
Value of the mortgaged property	Numeric £	The value reported should be based on: <ul style="list-style-type: none"> • the surveyors valuation (or from a valuation index) or • from the customers estimated value as captured on the application form.

		In the case of staged construction or self build schemes, value means 'expected final value of property at the time lending decision is made'.
Income Basis	S = single income J = joint income	Use code to indicate whether the income assessment has been made on a single or joint basis (Optional for <i>Lifetime</i> and <i>Shared appreciation mortgages</i>)
Age of main borrower	DD/MM/YYYY	Report age of main borrower only.
Remortgage transactions <u>only</u>	N = no extra money raised H = extra money raised for home improvements D = extra money raised for debt consolidation M- extra money raised for home improvements and debt consolidation O = other	Use code to indicate the purpose of the remortgage. Only 1 code can be entered
Employment status of main borrower	<u>F = full time employee</u> <u>S = self employed</u> <u>R = retired</u> <u>O = other</u>	Applies to main borrower only. Only 1 code can be entered
Total gross income	Numeric £	The total income of all borrowers whose income was used in the credit assessment (see guidance notes for further explanation) (Optional for <i>Lifetime</i> and <i>Shared appreciation mortgages</i>)
Income verification	Y = income evidenced N = income not evidenced	Applies to loans based on one or more persons' incomes (see guidance notes relating to 'loans where income is not evidenced') (Optional for <i>Lifetime</i> and <i>Shared appreciation</i>)

		<i>mortgages</i>
County court judgments (CCJs) Value	Numeric £	Applies where borrower/s has one or more CCJs within the last 3 years - either satisfied or unsatisfied - with a total value greater than £500.
Impaired credit history	A = arrears V = IVA Bankruptcy	Use code/s to indicate applicable credit history A = applies to secured loans and unsecured loans where the borrower/s has arrears on a previous (or current) mortgage or other secured loan within the last 2 years where the cumulative amount overdue at any point reached three or more monthly payments or V = applies where the borrower/s have been subject to an individual voluntary arrangement (IVA) at any time within the last 3 years B = applies where the borrower/s have been subject to a bankruptcy order at any time within the last 3 years

3 - OPTIONAL REPORTING FIELDS

1. The following data items are not currently mandatory reporting fields. *Firms* are not obliged to report these items within the data report if the data is not readily available.

Data reporting field	Code (where applicable)	Notes
Initial gross charging rate of interest	numeric	The amount of interest reported should be the initial gross nominal rate charged on the loan and should take into account any discount being provided. Where the advance is split, the interest rate applying to the largest part of the advance should be entered.
Date incentivised rate ends	DD/MM/YYYY	Only applies to fixed, capped or discounted rates where the customer is paying an incentivised rate for a set period.
Date <i>early repayment charge</i> ends	DD/MM/YYYY	If applicable, report date early repayment charge ends.

2. The following data items are not required for regulatory purposes and should only be reported by *mortgage lenders* who currently support the SML (Survey of Mortgage Lenders).

Data reporting field	Code (where applicable)	Notes
Purchase price of property (Purchases only)	£ numeric	Purchase price as stated on application form.
Type of dwelling	B= bungalow D= detached house S = semi – detached house T = terraced house F = flat or maisonette in converted house P= purpose built flat or maisonette O = other	Use code to indicate property type Only 1 code can apply
Number of habitable rooms	numeric	Include kitchen but not bathroom/toilet
Number of bedrooms	numeric	
Does the property have a garage	Y=Yes N=No	The garage should be a permanent structure but does not have to stand on the main site of the property.
Is the dwelling new?	Y=Yes N=No	New refers to the period in which the main structure of the dwelling was completed and also means where a dwelling is being occupied for the first time. Does not therefore include new conversions of older dwellings.
Is mortgage payment protection insurance (MPPI) being taken out with the mortgage?	Y=Yes N=No	MPPI can be any of the following: - full accident, sickness and unemployment insurance; or - accident and sickness only; or - unemployment only. Report 'Yes' even where the policy was sold or provided free and irrespective of whether the premiums are collected by the lender or the insurer.

Annex B

Amendments to the Glossary

In this Annex, all text is new and it is not underlined.

Insert the following new definitions in the appropriate alphabetical position:

<i>exempt insurance intermediary</i>	<p>an <i>insurance intermediary</i>:</p> <ul style="list-style-type: none">(a) whose <i>Part IV permission</i> is limited to or includes <i>insurance mediation activity</i>;(b) which, in relation to <i>insurance mediation activity</i> (but disregarding money or other assets held in relation to other activities) either:<ul style="list-style-type: none">(i) does not hold any <i>client money</i> or other <i>client assets</i> in any form; or(ii) holds <i>client money</i> as trustee under a statutory trust imposed by <i>CASS 5.3</i> (statutory trust) but does not otherwise hold <i>client money</i>; and(c) which (when aggregating the amount calculated in accordance with <i>CASS 5.5.65R</i>) does not in relation to <i>insurance mediation activity</i> hold <i>client money</i> in excess of £30,000 at any time during a <i>financial year</i>.
<i>MLAR</i>	(in <i>SUP</i>) a Mortgage Lending and Administration Return containing data specified in <i>SUP 16 Ann 19AR</i> and relevant to the <i>firm's</i> type and <i>regulated activities</i>
<i>retail investment</i>	<ul style="list-style-type: none">(a) a <i>life policy</i>; or(b) a <i>unit</i>; or(c) a <i>stakeholder pension scheme</i>; or(d) an interest in an <i>investment trust savings scheme</i>; or(e) a <i>structured capital-at-risk product</i>.
<i>retail investment firm</i>	a <i>firm</i> that has <i>permission</i> to carry on an activity which is a <i>retail investment activity</i> .

retail investment activity

- (a) *advising on investments;*
- (b) *arranging (bringing about) deals in investments;*
or
- (c) *making arrangements with a view to transactions in investments,*

in relation to *retail investments*, except when carried on by a *firm* exclusively with or for *intermediate customers* or *market counterparties*.

RMAR

(in *SUP*) a Retail Mediation Activities Return, containing data specified in *SUP* 16 Ann 18A R and relevant to the *firm's* type and *regulated activities*

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