

07/1

Financial Services Authority

# Integrated Regulatory Reporting (IRR): Certain investment firms

**Addendum** – Impact analysis of reporting changes in Part I and Part II of CP06/11 Integrated Regulatory Reporting (IRR): Credit institutions and certain investment firms.

February 2007





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**Annex 1:** Breakdown of current and future reporting requirements

**Annex 2:** Glossary

This paper reports on our analysis of the overall impact of the reporting changes arising from Part I and II of Consultation Paper 06/11 *Integrated regulatory reporting (IRR): Credit institutions and certain investment firms*. We stated we would do this in Chapter 1 of PS07/1, *Integrated Regulatory Reporting (IRR): Certain investment firms*, published 26 January 2007.

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# 1 Overview

## What this analysis applies to

- 1.1 In May 2006, we published CP06/11, *Integrated Regulatory Reporting (IRR): Credit institutions and certain investment firms*, which set out our initial proposals to revise the reporting requirements for *credit institutions* and certain *investment firms*. CP06/11 was split into three parts:
  - Part I – reporting proposals for *credit institutions*, and *investment firms* affected by the Capital Requirements Directive (CRD).
  - Part II – reporting proposals for the non-CRD *investment firms* and non-financial reporting.
  - Part III – auditors’ reports for certain *investment firms* and consistency review.
- 1.2 At the beginning of CP06/11 we provided a ‘Road Map’ aimed at helping firms decide if they were impacted by the proposals. This was also included as Annex 1 in the subsequent Policy Statements (PSs) referred to below.
- 1.3 Feedback and final revised rules were provided through:
  - Policy Statement 06/10 *Integrated Regulatory Reporting (IRR): Credit institutions and certain investment firms. Feedback on Part I of CP06/11 and made text for 2007 reporting*, published 27 October 2006;
  - Handbook Notice 61 made text for 2008 (and beyond) Part I reporting requirements, published 22 December 2006; and
  - Policy Statement 07/1 *Integrated Regulatory Reporting (IRR): Certain investment firms. Feedback on Part II and III of CP06/11 and made text*, published 26 January 2007<sup>1</sup>.
- 1.4 This analysis examines the overall impact on the amount of data firms will submit to us as a result of the changes to reporting proposed in Part I and II of CP06/11. We finalised these proposals in the above PSs and revised reporting rules.

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1 The final composite rules for reporting for 2009 can be viewed by going to the FSA Handbook website ([www.fsa.gov.uk/Pages/handbook/](http://www.fsa.gov.uk/Pages/handbook/)) and changing the date to 1 January 2009.

## Why we carried out this analysis

- 1.5 In December 2005 we published our Better Regulation Action Plan which outlines how we have improved and will continue to improve the regulation of financial services. This means regulating less where we believe we can, but more where we think it is necessary. Despite our desire to remove unnecessary regulations, there are areas where regulation may increase. We published an update on the Action Plan in June 2006.
- 1.6 In the Action Plan we highlighted some of the changes we have made in recent years and what we aim to deliver in the next few years that will most directly contribute to these objectives. This included an outline of the contribution that our work on reporting has already made so far.
- 1.7 In Chapter 1 of CP06/11 we gave an indication of the impact on the amount of reporting that our proposals would have. We committed to providing a more detailed analysis of the overall impact of the finalised changes taking into account amendments to our proposals during consultation.

## Structure of this addendum

- 1.8 This overview chapter summarises how we have undertaken the impact analysis and the outcome drawing on the detail in the remainder of this addendum which is structured as follows:
  - Chapter 2 – Drivers of future reporting requirements.
  - Chapter 3 – Method used.
  - Chapter 4 – Impact of changes to financial reporting arising from Part I of CP06/11.
  - Chapter 5 – Impact of changes to financial reporting arising from Part II of CP06/11.
  - Chapter 6 – Impact of changes to non-financial reporting arising from Part II of CP06/11.
  - Annex 1 – Breakdown of current and future reporting requirements.
  - Annex 2 – Glossary of the Handbook definitions used and acronyms.

## Drivers of future our reporting requirements

- 1.9 In our 2003/2004 *Plan and Budget* we made a commitment to review the regular standardised information required of firms that we inherited from the regulators that operated before N2<sup>2</sup>. The review was completed with CP06/11 and brings reporting in line with our risk-based approach to regulation while harmonising reporting formats and eliminating redundant data. Undertaking this review was a key driver of our future reporting requirements.

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2 1 December 2001 when the FSA was given its statutory powers.

- 1.10 At the same time we had to take account of other drivers of change to our future reporting requirements. These arise mainly from increases in the scope of activities we regulate and the EU directives. The CRD has been a significant driver of changes to our reporting requirements covered by Part 1 of CP06/11.
- 1.11 Overall we aim to require firms to submit data that provides information we can use to enable regulatory reporting to be effective and proportionate as a supervisory tool. In CP06/11 we set out in detail the policy approach we have taken and will continue to take when developing reporting requirements to accommodate these drivers of change. We repeat these in Chapter 2 of this addendum for ease of reference.

## Method used

- 1.12 We have estimated the impact of reporting changes by measuring the declines or increases in reporting requirements between the current reporting regime and the future one. We have taken the number of *data elements* (formerly referred to as data cells) contained in *data items* (formerly referred to as regulatory returns) as the indicator to assess the impact of reporting changes. However, we do not assume that this ‘data element counting’ method reads directly across to cost for firms. Some *data elements* are much more expensive to produce than others so that we cannot derive any conclusions on costs for firms of providing the data. The costs to firms were estimated in the cost-benefit analysis (CBA) carried out under CP06/11 (Annex 5).
- 1.13 The impact of the reporting changes have been calculated taking into account the frequency the data is reported under two methods defined as:
- **Maximum reporting** – this assumes that firms would report every single *data element* contained in the *data items* they submit; and
  - **Effective reporting** – this method estimates the actual reporting likely to be performed by most firms. In practice, most firms only report a part of each *data item* and in some cases do not report *data items* at all. This will continue to be the case for future reporting requirements. Going through the *data items*, we estimated the number of *data elements* likely to be reported by firms<sup>3</sup>.
- 1.14 To extract the effective reporting figures, we have excluded *data items* from the counting when we estimated that less than 15% of firms are likely to report it. We have applied the same threshold to exclude *data elements*. The fact that the new reporting requirements have been designed to cover numerous types of firms mean that some *data items* or at least parts of *data items* will not be relevant to all firms.
- 1.15 The uniqueness of each firm and the uncertainty over future effective reporting among other factors limit the interpretation of the reporting changes figures presented below. We will only be able to assess with precision the level of effective reporting when the firms actually report the full set of *data items*, as they apply to them, from 2009.

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3 When interpreting the changes in effective reporting and the changes in maximum reporting in Tables 4.5 and 5.4, the relationship between them is non-linear, being a function of the effective reporting for each *data item* and the frequency for each *data item*. Although the frequency of reporting may be unchanged, any changes in the effective reporting rates will cause the percentage changes to differ between maximum and effective reporting.

- 1.16 As referred to above, the CRD is a significant driver for changes to our reporting requirements covered by Part I of CP06/11. We also recognise that we have introduced new reporting (no previous equivalents) as well as revising existing reporting. For the firms affected by Part I of CP06/11, we have therefore included in our analysis a further three ratios:
- **CRD Compliance monitoring ratio** – this estimates the impact of the CRD on future reporting requirements. It indicates the future reporting requirements we put forward to monitor compliance with the CRD as a percentage of total financial reporting requirements. This does not imply that we would have not collected at least some of the data in the absence of the CRD. It measures the risk-based and proportionate amount of data we believe we need to help us meet our obligations to monitor firms' compliance with the CRD.
  - **FSA monitoring (new reporting requirements) ratio** – this estimates the new reporting requirements we put in place to monitor risks as a percentage of total financial reporting requirements. This is new reporting as there was no previous near equivalent data.
  - **FSA monitoring (revised reporting requirements) ratio** – this estimates the revised reporting requirements put forward by us as a percentage of total financial reporting requirements.
- 1.17 CP06/11 Part II reporting has taken into account of the impact of the Markets in Financial Instruments Directive (MiFID). The impact of MiFID has been minimal and there was no new financial reporting applied. The new non-financial reporting is covered separately under Chapter 6. We have not therefore given this further breakdown in the impact analysis for Part II reporting.

### **What the impact analysis says**

- 1.18 The impact analysis is detailed in Chapters 4, 5 and 6 and sets out:
- The type of firms affected and the proportion of the total firms in a particular group (except for Chapter 6 as not applicable).
  - The number of *data elements* reported under maximum and effective reporting (described above in paragraph 1.13) comparing current with future reporting.
  - The percentage decrease or increase in reporting for each type of firm again under maximum and effective reporting. In Chapter 4 this is further broken down to show the impact of the CRD, our new and revised reporting (described above in paragraph 1.16).
- 1.19 The overall outcomes we have drawn from the analysis are detailed in each chapter and we summarise them below.

## *Impact of CRD for Credit institutions and investment firms (Chapter 4)*

- 1.20 The proportion of future reporting to monitor compliance with the CRD is significant, particularly for *investment firms*:

	Average proportion
<b><i>Credit institutions</i></b>	
<i>Banks</i>	35%
<i>Building societies</i>	30%
<b><i>Investment firms</i></b>	
<i>Securities and futures firms</i>	80%
<i>Investment management firms</i>	81%
<i>Personal investment firms</i>	81%

- 1.21 This reflects the:

- Risk-based approach to setting capital requirements introduced by the CRD which provides more flexibility to firms and may lead to a decrease in capital requirements for these firms<sup>4</sup>.
- Consequential additional monitoring that this more sophisticated approach requires.

- 1.22 We have sought to minimise the burden by translating the CRD in a risk-based and proportionate fashion. For example we will collect far less *data elements* than our EU counterparts. The Committee of European Banking Supervisors (CEBS) put in place a common reporting (COREP) framework across the EU (also covered *investment firms* impacted by the CRD). The CEBS package is made up of core data and detailed requirements and each member state supervisor selects the amount of data they will collect.

Maximum CEBS <i>data elements</i> (not frequency adjusted)	Core data 1200	Detailed data 21000
Expected average use by EU supervisors:		
• <i>Data elements</i>	1000	13250
• Proportion of total	83%	63%
Average use by FSA:		
• <i>Data elements</i>	240	1050
• Proportion of total	20%	5%

### *Credit institutions and CRD investment firms – overall changes (Chapter 4)*

- 1.23 The following have been extracted from Table 4.5 in Chapter 4 and show the average range of overall percentage declines or increases, frequency adjusted.

<sup>4</sup> See CP06/3: Strengthening capital standards 2, February 2006, Annex 2: CBA of capital compliance costs for further details. ([www.fsa.gov.uk/pubs/cp/cp06\\_03.pdf](http://www.fsa.gov.uk/pubs/cp/cp06_03.pdf)).

	Reporting requirements % decline (-) or increase (+)			
	Maximum reporting range		Effective reporting range	
<b>Credit institutions</b>				
<i>Banks</i>	-58	-32	+27	-54
<i>Building societies</i>	-3		-47	
<b>Investment firms</b>				
<i>Securities and futures firms</i>	-53	-32	-78	-55
<i>Securities and futures firms (consolidated)</i>	+384		+355	
<i>Investment management firms</i>	+712	+359	+258	+109
<i>Personal investment firms</i>	+ 421	+109	+126	+34

1.24 For *credit institutions*:

- Most will experience a significant decline in reporting even when taking into account the impact of CRD. This addresses the overlap in reporting requirements between the pre-N2 regime and our risk-based approach.
- The exception is solo consolidated *banks* which accounts for the 27% increase on an effective reporting basis. Data for these firms will include new CRD requirements which are specific to them. However the current data is not so widely applicable so starts from a low base when compared with future reporting.

1.25 For *investment firms*:

- Most *securities and futures firms* will experience a significant decline in reporting requirements. The exception is a consolidated firms (*BIPRU 730K* specifically) where there is limited reporting at present.
- *Investment management firms* will experience a significant increase in reporting requirements. However, the reporting requirements are rising from a low base and are compared to future reporting which addresses an underlap in previous reporting requirements. We have brought future reporting in line with our risk-based approach which applies the same risk assessment, mitigation and supervisory tools (of which reporting is one) to particular activities regardless of what type of firm undertakes them. One example of this is the approach to the activity of principal position taking where former SFA<sup>5</sup> regulated firms currently report significant information on principal position taking activities. An *investment management* firm doing the same activity currently provides much less information as their reporting is based on that required by IMRO<sup>6</sup>.
- The outcome for *personal investment firms* where current reporting is based on that applicable under the PIA<sup>7</sup> is similar to *investment management firms*. However, 95% of *personal investment firms* are not impacted by the CRD and will generally continue to report through the Retail Mediation Activities Return (RMAR) introduced in 2005.

5 SFA: Securities and Futures Authority.

6 IMRO: Investment Management Regulatory Organisation.

7 PIA: Personal Investment Authority.

### *Investment firms not impacted by CRD (Chapter 5)*

- 1.26 The following have been extracted from Table 5.4 in Chapter 5 and show the average range of overall percentage declines or increases, frequency adjusted.

	Reporting requirements % decline (-) or increase (+)			
	Maximum reporting range		Effective reporting range	
<i>Investment management firms</i>	+29	+23	+33	+27
<i>Securities and futures firms</i>	-80	-81	-75	-74
<i>Personall investment firms</i>	+55	+48	+90	+81
<i>UCITS firms</i>	+29		+33	

- 1.27 In the main these changes reflect the addressing of what we believe was:
- Over reporting in a number of areas by *securities and futures firms*.
  - Under reporting in terms of a need for higher level of granularity in Balance sheet and Income statement.
- 1.28 Overall the future reporting requirements for these firms range from between 549 to 575 *data elements*. This is significantly less than CRD investment firms where the number of future *data elements* range from between 5273 to 2187.

### *Non-financial reporting requirements (Chapter 6)*

- 1.29 These apply to any firm which undertakes investment activities (excluding retail investment activities<sup>8</sup>) regardless of which prudential category and hence financial reporting applies to it. There is little current reporting to compare with so we have only included future reporting in the analysis. We have also not applied the effective reporting method. Generally if a firm is required to submit these *data items* they will complete all *data elements* in them which in total amount to 104.

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8 *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*.

# 2 Drivers of future reporting requirements

- 2.1 In our 2003/2004 *Plan and Budget* we made a commitment to review the regular financial reporting requirements that pre-dated N2. The review was completed with CP06/11 and brings reporting in line with our risk-based approach to regulation while harmonising reporting formats and eliminating redundant data. Undertaking this review was a key driver of our future reporting requirements.
- 2.2 At the same time we had to take account of other drivers of change to our future reporting requirements:
- Changes in the scope of activities regulated by us. For example mortgage and general insurance business which we first began regulating in October 2004 and January 2005. From April this year we will start regulating all personal pension schemes and also home reversion/home finance activities.
  - EU Directives. For example, the implementation from 2007 of the CRD and MiFID. EU Directives change the regulatory environment in which firms operate and therefore impacts on the way we supervise firms and the tools we use such as regulatory reporting.
- 2.3 In CP06/11 we set out in detail the policy approach we have taken and will continue to take in developing future reporting requirements to accommodate these drivers of change. We repeat these in this chapter for ease of reference.

## **Regulatory reporting as a supervisory tool**

- 2.4 ARROW<sup>9</sup> guides the way in which we risk assess and supervise firms, and target our thematic work on consumers, sectors or multiple firms. ARROW sets out our process for assessing risks and deciding on the action (if any) that needs to be taken to mitigate those risks. We have several tools for supervising firms within ARROW which are used on a differentiated basis. For firms deemed to be a higher impact (generally 'large' firms) we expect to maintain a continuous regulatory relationship to develop and sustain a detailed understanding of the risks these firms pose to our statutory objectives. This involves using tools such as regular meetings with firms'

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9 Advanced Risk Responsive Operating frameWork (ARROW).

senior management, firm-specific risk assessments, visits, thematic reviews, and ‘skilled persons’ reports, together with regular standardised regulatory reporting. We also request information on an ad hoc basis but try to keep this to a minimum. Regulatory reporting is an important supervisory tool for identifying risk as part of our ‘baseline monitoring’ which includes the analysis of firm-specific and industry data to identify trends and anomalies. This helps us to determine the thematic (sector wide) and firm-specific work we should undertake.

- 2.5 Smaller firms on the other hand are likely to represent a low impact in terms of risks to our statutory objectives but collectively the risks they pose may be higher. For these firms the regular use of some of these tools would not necessarily be proportionate. Our supervision of such firms therefore tends to centre on ‘baseline monitoring’.
- 2.6 As a supervisory tool the reporting covered by CP06/11 will be contained in Chapter 16 of the Supervision Manual (*SUP*) which is part of the block in the FSA Handbook that sets out the rules about our regulatory processes. The current reporting rules in *SUP* 16.7 predominantly relate to what data we need to monitor and mitigate risks to our objectives associated with whether firms are maintaining adequate financial resources required under *Principle 4*<sup>10</sup> and the underlying prudential rules. This started to change over the past two years with the introduction of the Retail Mediation Activities Return (RMAR) and Mortgage Lending & Administration Return (MLAR) which also used reporting to monitor and mitigate risks to our objectives associated specifically with the way firms conduct their business. This approach was continued for firms undertaking investment activities in CP06/11.
- 2.7 We have also been progressively moving regulatory reporting from being based on pre-N2 firm types to being based on the regulated activities a firm carries out, along with aligning all reporting periods to firms’ *accounting reference dates* (financial year ends). The information will enable us to monitor and mitigate risks to our objectives relative to the mix of regulated business a firm undertakes; this is essential to our risk-based approach to regulation. It will also better enable firms to use the information we require for our regulatory purposes for their own internal monitoring purposes as well. We again continued this approach in CP06/11.
- 2.8 Overall the reporting requirements proposed in CP06/11 cover firms that undertake a very wide range of regulatory activities and where there will be a mixture of ‘large’ and ‘small’ firms within which the sophistication of the mixture of activities will vary quite considerably. They also cover reporting to monitor prudential and conduct of business risks at a firm level and a market level. Our underlying aim has been for reporting to be used as a supervisory tool where it embodies our following values as a regulator, embedded within ARROW:
  - risk-based;
  - proportionality;
  - economy and efficiency; and
  - principles-based and outcome-focused.

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10 Financial prudence: A *firm* must maintain adequate financial resources.

## Impact of EU Directives

- 2.9 In developing the reporting requirements in CP06/11 we were conscious of the impact that EU Directives can have on what is required of firms and so how we need to supervise them. This is particularly so of the CRD which has introduced a fundamental change in the calculation of regulatory capital for credit institutions and investment firms subject to it. Where such fundamental change occurs we need to have some experience of supervising firms under the new regime before being certain on the precise content of the reporting. So we intend to carry out an assessment of the effectiveness of the revised reporting in CP06/11 two to three years after implementation of the changes to reporting requirements which will be phased in during 2007, 2008 and 2009. Generally, we intend to keep our reporting requirements under review to ensure they continue to meet our needs and as far as possible enable firms to make use of the same data as changes occur in the regulatory environment on which both we and the firms operate.

## Requirements of supra-national organisations

- 2.10 Supra-national organisations, such as the International Monetary Fund (IMF) and the European Central Bank (ECB) have an impact on the data collected for the credit institutions covered by CP06/11. We do challenge any request for data these organisations make on us and consequently on firms to provide it. In doing so we aim to strike the right balance between continuing to fulfil existing commitments to provide data to the IMF/ECB and our commitment to only collect data we use.

## Principles of Good Data and Good Data Collection

- 2.11 In determining our reporting requirements we have followed our own Principles of Good Data and Good Data Collection which we published in Annex 1 of CP06/11. These challenge us to ensure we are clear why we need to collect each *data element*, and how we will use it. We classify the use of data under three general headings:
- **compliance** – data used for monitoring compliance with specified FSA rules;
  - **risk** – data used to monitor, manage and mitigate risk; and
  - **market** – data used for sector and theme analysis.
- 2.12 In Annex 9 of CP06/11 we gave an overview of the benefits and uses of the data proposed, based on these general areas of compliance, risk and market data.

# 3 Method used

## Quantitative reporting changes

- 3.1 The reporting changes have been estimated by measuring the declines or increases in reporting requirements between the current reporting regime and the future one. The future reporting regime will be fully implemented on 1 January 2009 when firms will need to submit the entire set of new reporting requirements.
- 3.2 The reporting requirements have been defined as the number of *data elements* (formerly referred to as data cells) contained in the *data items* (formerly referred to as regulatory returns) a firm submits to us.
- 3.3 The reporting changes have been calculated under two methods defined as:
- (1) Maximum reporting: this assumes that firms would report every single *data element* contained in the *data items* they submit.
  - (2) Effective reporting: this method estimates the actual reporting likely to be performed by most firms. In practice, most firms only report parts of most *data items* and in some cases do not report *data items* at all. This will continue to be the case for future reporting requirements. Going through the *data items*, we estimated the number of *data elements* likely to be reported by firms.
- 3.4 The reporting changes have been calculated in frequency adjusted terms using the following formula:
- Number of *data elements* in a *data item* × reporting frequency over one year = **total reporting.**
- 3.5 To estimate the effective reporting figures, we have excluded *data items* from the counting where we think that less than 15% of the population of firms are likely to report it. The same threshold has been applied to exclude *data elements*. The fact that the new reporting requirements have been designed to cover numerous types of firms mean that some *data items* or at least parts of *data items* will not be relevant to all firms (for instance *data item* FSA016 covering solo consolidation).

- 3.6 The uniqueness of each firm and the uncertainty over future effective reporting among other factors limit the interpretation of the reporting changes figures presented above. We will only be able to assess with precision the level of effective reporting once the firms actually report the full set of *data items*, as they apply to them, from 2009.
- 3.7 Some *data items* are still subject to consultation such as the taster items contained in Annex 11 of CP06/11 and are not included in the calculations presented above. *Data item* FSA015 (Sectoral information including arrears) is still under consultation but we have included it in the counting since any potential changes in the total number of *data elements* contained is likely to be small.
- 3.8 The frequency of collection also remains under review<sup>11</sup> for those firms covered in Chapter 5. This could lead to changes in the reporting change figures.
- 3.9 Overall, the reporting change figures provided in Chapter 4 and Chapter 5 should be considered as broad estimates of expected reporting changes.

### **Details on effective reporting change calculations for CP06/11, Part I firms**

- 3.10 We provide below some details on the method and the main adjustments applied to current and future reporting requirements to derive the effective reporting changes for the firms included in Part I and II of CP06/11.

#### *Consolidated UK banks*

- 3.11 The reporting figures have been derived from the five largest consolidated groups and the input of a supervisor using regulatory data collected at the end of the financial year 2005.
- 3.12 We estimated that 60% of the *large exposures* form (LE3) was filled in on average by the five firms. For the BSD3<sup>12</sup>, M1<sup>13</sup> and SLR1<sup>14</sup>, the figures have been estimated at 40%, 35% and 100% respectively.
- 3.13 We have assumed that *data item* FSA017 (Interest rate gap report) would be subject to a waiver so that this *data item* has been excluded from the counting.

#### *Solo consolidated banks*

- 3.14 Our estimates are based on a sample of six diverse solo consolidated *banks* including a UK retail *bank*, an former *building society*, a UK private *bank*, a US *bank*, a Japanese *bank* and a South African *bank* to calculate the reporting changes based on December 2005 data.

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11 See Chapter 5 of PS07/1 paragraphs 5.13 to 5.17.

12 BSD3: Capital adequacy return.

13 M1: Holdings of credit and financial institutions' and non-financial companies' capital instruments return.

14 SLR1: Stock Liquidity Return.

- 3.15 For future reporting requirements, the threshold set for the frequency of reporting of *data item* FSA003 (Capital adequacy) means that only 7.5% of banks (12 out of 160) would be expected to report this *data item* on a monthly basis. This is below the 15% threshold we set so we have excluded *data item* FSA003 (Capital adequacy) from the calculation.
- 3.16 For current reporting, the average data usage is low for the BSD3 at 15% against an estimated 50% for the LR<sup>15</sup> form and 60% for the large exposures LE3 form.
- 3.17 For future reporting, fewer than 15% of the solo consolidated *banks* are expected to report *data items* FSA005, FSA006 on *market risk* and *data item* FSA007 on *operational risk*. These three *data items* have been excluded from the effective reporting calculations.

### *Building societies*

- 3.18 The effective current reporting has been estimated by analysing the whole reporting population of 63 *building societies*<sup>16</sup>. We used the December 2005 reporting figures.
- 3.19 We estimated that about 45% of the AFS1<sup>17</sup> form is completed and this figure climbs to 75% for the QFS1<sup>18</sup> form.
- 3.20 The statistical returns which will be collected by the Bank of England from 31 December 2007 have been excluded from the calculations. This concerns the following returns: MFS1<sup>19</sup>, MFS1 supplementary<sup>20</sup>, MFS2<sup>21</sup> and QFS2<sup>22</sup>, which we currently collect. These returns will be replaced by statistical forms from the Bank of England.
- 3.21 We have also excluded Table G2 and Section K of the QFS1 return to offset the implementation of the MLAR<sup>23</sup> return (from 1 April 2007), which is not covered in this analysis.
- 3.22 For future reporting requirements, we reckon that fewer than 15% of *building societies* were expected to report *data item* FSA005 and *data item* FSA006 on *market risk*. These *data items* have therefore been excluded from the counting.

### *BIPRU 730K, 125K and 50K securities and futures firms*

- 3.23 We have estimated the current and future reporting requirements for *BIPRU 730K, 125K and 50K securities and futures firms* by relying on the qualitative assessment of an experienced supervisor.
- 3.24 In terms of current reporting requirements, the *BIPRU 50K securities and futures firms* cannot have a trading book business and are not allowed to hold client money. This lowered the number of *data elements* a *BIPRU 50K securities and futures firm* currently report in the current Standard reporting statement.

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15 LR: Liquidity Return.

16 As of 31 December 2006, there are 60 *building societies*.

17 AFS1: *Building society* Annual Statement.

18 QFS1: *Building society* Quarterly Statement.

19 MFS1: *Building society* Monthly Statement.

20 MFS1 supplementary: *Building society* Monthly Supplementary Statement.

21 MFS2: *Building society* (Company) Monthly Statement.

22 QFS2: *Building society* Quarterly Statement.

23 MLAR: Mortgage Lending and Administration Return.

- 3.25 The use of Tier 2 and Tier 3 capital is believed to be rare among *BIPRU 50K securities and futures firms*. So we have excluded the *data elements* related to that topic from the counting. This applies to all *BIPRU 50K firms*.
- 3.26 For future reporting requirements, using thresholds for credit risk and *market risk* in particular will lower significantly the reporting requirements as less than 15% of *securities and futures firms* are expected to provide *data items* FSA004 (Further breakdown of certain credit risk data), FSA005 (Market risk) and FSA006 (Market risk – supplementary data).
- 3.27 Therefore, we have excluded these *data items* from the calculation for the three categories of *securities and futures firms*.
- 3.28 Since only a few firms are expected to report *data item* FSA007 on *operational risk* (as most are likely to adopt the Basic Indicator Approach), this *data item* has been excluded. Few of these firms are expected to apply for solo consolidation, so FSA016 (Solo consolidation data) is also excluded.

#### *BIPRU 730K, 125K, 50K investment management firms*

- 3.29 We have estimated the reporting requirements through the assessment of an experienced supervisor.
- 3.30 For future reporting requirements, the following *data items* are unlikely to be relevant to more than 15% of *investment management firms* and are therefore excluded: FSA004 (Further breakdown of certain credit risk data), FSA005 (Market risk), FSA006 (Market risk – supplementary data), FSA007 (Operational risk), FSA016 (Solo consolidation data) and FSA028 (Non-EEA sub-groups).

#### *BIPRU 730K, 125K, 50K personal investment firms*

- 3.31 We have estimated the reporting requirements through the assessment of an experienced supervisor.
- 3.32 The current reporting requirements are met by Sections A to E of the RMAR<sup>24</sup>.
- 3.33 For future reporting, *data items* FSA004 (Further breakdown of certain credit risk data), FSA005 (Market risk), FSA006 (Market risk – supplementary data), FSA007 (Operational risk), FSA016 (Solo consolidation data) and FSA028 (Non-EEA sub-groups) are unlikely to apply to most *personal investment firms* and so we have excluded these *data items* from the effective reporting change calculations.
- 3.34 Annex 1 provides a breakdown of current and future reporting requirements for the firms covered by Part I of CP06/11.

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24 RMAR: Retail Mediation Activities Return.

## **Details on effective reporting change calculations for CP06/11, Part II firms**

- 3.35 The reporting changes have been estimated through the assessment of an experienced supervisor.

*Investment management firms, securities and futures firms and personal investment firms, which are exempt CAD firms*

- 3.36 These firms can report *data items* FSA031 (Capital adequacy for exempt CAD firms subject to IPRU(INV) Chapter 9) or FSA032 (Capital adequacy for exempt CAD firms subject to IPRU(INV) Chapter 13) for capital adequacy.
- 3.37 To accommodate this, we have taken the average number of *data elements* effectively reported in *data items* FSA031 and FSA032 to derive the capital adequacy reporting.

*Investment management firms, securities and futures firms and personal investment firms, which are not exempt CAD firms*

- 3.38 These firms can report *data items* FSA033 (Capital adequacy for firms subject to IPRU (INV) Chapter 3), FSA034 (Capital adequacy for firms subject to IPRU (INV) Chapter 5 not subject to the exemption in IPRU(INV) 5.2.3(2)R), FSA035 (Capital adequacy (for firms subject to IPRU (INV) Chapter 5 subject to the exemption in IPRU(INV) 5.2.3(2)R), FSA036 (Capital adequacy for UCITS firms subject to UPRU with the exception of *personal investment firms*), or *data item* FSA037 (Capital adequacy for firms subject to IPRU(INV) Chapter 13)
- 3.39 Again, we have calculated an average of the relevant *data items* to derive the capital adequacy reporting requirements of these firms.
- 3.40 Annex 1 provides a breakdown of current and future reporting requirements for the firms covered by Part II of CP06/11.

## **Changes in reporting requirements applicable to CRD, new reporting introduced and revised reporting**

- 3.41 The regulatory landscape continues to be influenced by international developments. In that context, the EU initiatives like the implementation of the CRD influenced our data requirements significantly. We also recognise that we will introduce new reporting (with no current equivalents) as well as revising existing reporting. For Part I of CP06/11 reporting we have therefore included in our analysis three ratios contained in columns 3, 4 and 5 of Table 4.5 in Chapter 4. This is to indicate the extent to which the reporting requirements are applicable to the CRD, new reporting introduced by ourselves and revised reporting. These three ratios are described below:

*Table 4.5, column (3) CRD Compliance monitoring ratio*

- 3.42 The ratio estimates the impact of the CRD on future reporting requirements. It indicates the future reporting requirements needed to monitor compliance with the CRD as a percentage of total financial reporting requirements (some of these *data items* would be collected even in the absence of the CRD). It measures the risk-based and proportionate amount of data we believe we need to help us meet our obligations to monitor firms' compliance with the CRD.
- 3.43 We have calculated this as the following ratio (based on maximum reporting, frequency-adjusted basis):

**New reporting requirements to monitor CRD compliance/Total financial reporting requirements (%)**

- 3.44 The new reporting requirements to monitor CRD compliance consist of the following *data items*:
- FSA003 (Capital adequacy);
  - FSA004 (Further breakdown of certain credit risk data) ;
  - FSA005 (Market risk);
  - FSA007 (Operational risk);
  - FSA008 (Large exposures);
  - FSA016 (Solo consolidation data);
  - FSA019 (Pillar 2 questionnaire); and
  - FSA028 (Non-EEA sub-groups).

*Table 4.5, column (4) FSA monitoring (new reporting requirements) ratio*

- 3.45 The ratio estimates the new reporting requirements we put in place to monitor risks as a percentage of total financial reporting requirements. They are new as there is no current near equivalent *data items* for most firms.
- 3.46 We have calculated this as the following ratio (based on maximum reporting requirements, frequency-adjusted basis):

**New reporting requirements arising from FSA review/Total financial reporting requirements (%)**

- 3.47 The new reporting arising from our review consist of the following *data items*:
- FSA006 (Market risk);
  - FSA014 (Forecast data);
  - FSA015 (Sectoral information including arrears); and
  - FSA017 (Interest rate gap report).

*Table 4.5, column (5) FSA monitoring (revised reporting requirements) ratio*

- 3.48 This ratio estimates the revised reporting requirements we put forward as a percentage of total reporting requirements.
- 3.49 It has been calculated as the following ratio (based on maximum reporting requirements, frequency-adjusted basis):

**All future reporting requirements other than those identified for ratios 3 and 4/Total financial reporting requirements (%).**

**Non-financial reporting arising from Part II of CP06/11**

- 3.50 The five non-financial *data items* discussed in Chapter 6 mainly represent new reporting requirements. There is little current reporting to compare with so we only include future reporting in the analysis. We have also not applied the effective reporting method. These *data items* will only apply to firms carrying on specific regulated activities or will be triggered by other factors such as the way in which they conduct their business under those activities. Generally, if a firm is required to submit these *data items* they will complete all *data elements* in them.

# 4 Impact of changes to financial reporting arising from Part I of CP06/11

## The selection of representative firms

- 4.1 Part I of CP06/11 identifies eight types of *credit institutions* which are re-stated in Table 4.1 below. The actual financial reporting requirements were detailed in the overview of reporting requirements provided in Annex 7, Table 1 in CP06/11. The overview of final reporting requirements following consultation is contained in Annex 3, Table 1 of PS06/10.

Table 4.1: *Credit institutions categories*

Consolidated UK bank	<i>Building society</i>	Solo consolidated bank	Non-EEA bank	EEA bank	Non-deposit taking EEA bank	ELMI	Small e-money issuers
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Source: FSA

- 4.2 The reporting changes affecting UK consolidated *banks*, solo consolidated *banks* and *building societies* are covered in greater detail because of the impact of reporting changes. The other *credit institutions* are subject to either smaller reporting requirements or minimal changes in reporting requirements and are not affected by the CRD.
- 4.3 Part I of CP06/11 identified nine types of *investment firms* split between *securities and futures firms*, *personal investment firms* and *investment management firms*. These are re-stated in Table 4.2 below which provides an indication of how we expect the firm categories to map across to the CRD regime. The categories do not map across directly to CRD for all firms. In any case, the categories of firms will fall to three under CRD for reporting purposes. The actual reporting requirements were detailed in the overview of reporting requirements provided in Annex 7, Table 2 in CP06/11. The overview of final reporting requirements following consultation is contained in Annex 3, Table 2 of PS06/10.

Table 4.2: Investment firm categories

Firm categories			Firm categories under CRD
<i>Securities and futures firms</i>	<i>Personal investment firms</i>	<i>Investment management firms</i> <sup>25</sup>	
Category A	Category A1	Euro 730,000	BIPRU 730K
Category B	Category A2	Euro 125,000	BIPRU 125K
Category C	Category A3	Euro 50,000	BIPRU 50K

Source: FSA

- 4.4 We have analysed the reporting changes for the nine types of *investment firms*. Our internal information showed the following split among the three categories of BIPRU firms – BIPRU 730K: 14%, BIPRU 125K: 17%, BIPRU 50K: 69%.

### Number of firms affected by the CRD

- 4.5 Table 4.3 provide an estimate of the number of firms affected by the CRD who will have to provide the new set of reporting requirements. While all *banks* and *building societies* are caught by the future reporting requirements, this is not expected to be the case for all categories of *investment firms* (we estimated that only 5% of the total population of *personal investment firms* would be caught by the new reporting requirements. This proportion is expected to climb to 77% and 85% for *securities and futures firms* and *investment management firms* respectively.

Table 4.3: Number of firms impacted by Part I of CP06/11

	Number	% of the total
<b>Credit Institutions</b>		
UK banks	168	100%
Building societies	60	100%
Non-EEA banks	81	100%
EEA banks	96	100%
<b>Investment firms</b>		
Securities and futures firms (1)	1084	77%
Personal investment firms (2)	316	5%
Investment management firms (1)	1508	85%

Source: FSA

(1) We have assumed that the balance of *securities and futures firms* and *investment management firms* not affected by the CRD will be subject to the reporting requirements contained in Part II of CP06/11.

(2) We have assumed that the balance of *personal investment firms* not affected by the CRD will continue to report the Retail Mediation Activities Return (RMAR) only with the exception of the eight firms managing investments and which are caught by the reporting requirements contained in Part II of CP06/11.

25 The *investment management firms* includes UCITS *investment firms* which are treated as if they were BIPRU 125 K firms.

## Estimates of reporting changes

- 4.6 Table 4.4 provides estimates of the absolute numbers of *data elements* expected to be reported by the firms using both the maximum and effective reporting methods.

*Table 4.4: Number of data elements reported (frequency adjusted)*

	Maximum reporting		Effective reporting	
	Current reporting (1)	Future reporting (2)	Current reporting (3)	Future reporting (4)
<b>Credit institutions</b>				
Consolidated UK banks <sup>26</sup>	10534	4424	5016	2313
<i>Building societies</i>	8738	8448	7273	3883
Solo consolidated banks	22240	12282	6547	8293
Non-EEA banks	3872	2596	N/A	N/A
EEA banks	3688	2488	N/A	N/A
ELMIs	200	200	N/A	N/A
Small e-money issuers	30	30	N/A	N/A
<b>Investment firms</b>				
<i>BIPRU 730K Consolidated securities and futures firms</i>	438	2121	222	1011
<i>BIPRU 730K Solo/unconsolidated securities and futures firms</i>	7754	5273	6966	3061
<i>BIPRU 125K securities and futures firms</i>	7754	3617	6849	1527
<i>BIPRU 50K securities and futures firms</i>	3226	2187	1790	809
<i>BIPRU 730K investment management firms</i>	1149	5273	1026	2939
<i>BIPRU 125K investment management firms</i>	445	3617	430	1539
<i>BIPRU 50K investment management firms</i>	445	2187	351	733
<i>BIPRU 730K personal investment firms</i>	2520	5273	2316	3115
<i>BIPRU 125K personal investment firms</i>	840	3617	772	1387
<i>BIPRU 50K personal investment firms</i>	420	2187	364	823

Source: FSA

- 4.7 Table 4.5 (columns 1 and 2) derives percentage changes both in maximum and effective reporting terms. The columns 3, 4 and 5 provide additional ratios which estimate the proportion of changes in reporting requirements applicable to CRD, new reporting we introduced and revised reporting requirements.

*Table 4.5: Changes in reporting requirements applicable to CRD, new reporting introduced and revised reporting*

	Reporting requirements % decline (-) or increase (+)		CRD Compliance Monitoring	FSA Monitoring	
	Maximum reporting (1)	Effective reporting <sup>27</sup> (2)	% of future reporting to monitor compliance with CRD (3)	% of future new FSA reporting (4)	% of revised FSA reporting (5)
<b><i>Credit Institutions</i></b>					
Consolidated UK banks <sup>28</sup>	-58	-54	36	55	9
<i>Building societies</i>	-3	-47	30	56	14
Solo consolidated banks	-45	+27	34	38	28
Non-EEA banks	-33	N/A	N/A	N/A	N/A
EEA banks	-32	N/A	N/A	N/A	N/A
ELMIs	0	N/A	N/A	N/A	N/A
Small e-money issuers	0	N/A	N/A	N/A	N/A
<b><i>Investment firms</i></b>					
<i>BIPRU 730K Consolidated securities and futures firms</i>	+384	+355	78	7	15
<i>BIPRU 730K Solo/unconsolidated securities and futures firms</i>	-32	-56	81	3	16
<i>BIPRU 125K securities and futures firms</i>	-53	-78	78	4	18
<i>BIPRU 50K securities and futures firms</i>	-32	-55	85	0	15
<i>BIPRU 730K investment management firms</i>	+359	+186	81	3	16
<i>BIPRU 125K investment management firms</i>	+712	+258	78	4	18
<i>BIPRU 50K investment management firms</i>	+391	+109	85	0	15
<i>BIPRU 730K personal investment firms</i>	+109	+34	81	3	16
<i>BIPRU 125K personal investment firms</i>	+330	+80	78	4	18
<i>BIPRU 50K personal investment firms</i>	+421	+126	85	0	15

Source: FSA

27 When comparing the figures in columns 1 and 2 of table 4.5, the footnote 3 (in Chapter 1) provides an explanation of the differences that may arise between the columns.

28 See paragraph 4.15 and 4.16 on additional reporting savings arising from the change in consolidated reporting rules.

## Impact of the CRD

- 4.8 The CRD has a significant impact on reporting requirements, since we will be using financial reporting to monitor firms' compliance with it. For *investment firms*, we estimated that over two-thirds of future reporting requirements will serve to monitor compliance with the CRD. The proportion is also significant for *credit institutions*. In particular for consolidated *banks* at 36%.
- 4.9 This risk-based approach to setting capital requirements introduced by the CRD provides more flexibility to the firms and it is expected to lead to a decrease in capital requirements for *banks*, *building societies* and *investment management firms*<sup>29</sup>. The CRD is likely to enhance financial stability for the UK financial system and should reduce the possibility of regulatory arbitrage.
- 4.10 However, the approach adopted is more sophisticated and so necessitates additional monitoring of the institutions. We believe that the detailed calculations for setting capital requirements are already performed by most firms so that reporting them to us should not prove unduly burdensome.
- 4.11 The scope and the complexity of the *data items* have widened for *investment firms* in particular. This led to increases in data requirements, particularly for *personal investment firms* and *investment management firms*, but we have sought to minimize the burden by translating the CRD in a risk-based and proportionate fashion.
- 4.12 Our reporting proposals take into account the work undertaken by the Committee of European Banking Supervisors (CEBS) to put in place a common reporting (COREP) framework across the EU. The CEBS package is made up of two layers of data. The core data comprises 1,200 *data elements* while the detailed requirements contain about 21,000 *data elements*.
- 4.13 The average use of the core data by EU supervisors is expected to be 83% for the core data and 63% for the detailed data. In light of our commitment to a risk-based approach to supervision, we will rely on far less *data elements* by collecting about 20% of the 'core' data and 5% of the 'detailed' requirements.

## Credit institutions

- 4.14 Because of our risk-based approach, we expect most *credit institutions* will experience declines in reporting requirements (Table 4.5, columns 1 and 2) on a maximum reporting basis. This includes taking account of the extra reporting resulting from the CRD.
- 4.15 It is also worth noting that consolidated *banks* will benefit from additional reporting savings aside from those identified in the tables above due to changes in consolidation rules arising from the CRD. From 1 January 2008 we will only require reporting by a firm on an unconsolidated or solo consolidated basis, and at the *UK consolidation group* level.

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29 See CP 06/3: Strengthening capital standards 2, February 2006, Annex 2: CBA of capital compliance costs for further details. ([http://www.fsa.gov.uk/pubs/cp/cp06\\_03.pdf](http://www.fsa.gov.uk/pubs/cp/cp06_03.pdf)).

- 4.16 One example of a large UK banking group we looked at shows that the number of reporting entities would drop from 11 to 7 leading to an estimated reduction in reporting of 60% on a maximum reporting basis and 19% on an effective reporting basis.
- 4.17 We anticipate that solo consolidated *banks* will experience a rise in reporting requirements in effective terms, which is in contrast to the significant decline we anticipate in maximum reporting terms. There are two main reasons for this. First, *data item* FSA016 (Solo consolidation data), is a new CRD requirement for solo consolidated *banks* with a high effective reporting as this is pertinent for these firms. Second, the percentage of the current *data items* being completed was estimated to be very low at about 30% against an estimated 75% for future reporting requirements. This lowers the effective number of *data elements* reported under the current regime and this base effect largely contributed to the increase in requirements.

### CRD impacted investment firms

- 4.18 In effective reporting terms the declines in reporting requirements are expected to be more significant for the *securities and futures firms*. Since we have designed the *data items* to cover several types of business, most small *securities and futures firms* running a simple business with little complexity will find that many of the *data elements* are not relevant.
- 4.19 The *investment management firms* and the *personal investment firms* (about 5% of the total) are set to experience significant increases in reporting requirements. However, the reporting requirements are rising from a low base in absolute terms as shown in Table 4.4. The increases for *personal investment firms* and *investment management firms* reflect the need to address the different approaches in financial reporting between the predecessor investment firm regulators. We have brought this reporting in line with our risk-based approach which applies the same assessment risk, mitigation and supervisory tools (of which reporting is one) to particular activities regardless of what type of firm undertakes them.
- 4.20 For example, an *investment management firm* may be able to carry out the activities of a *securities and futures firm*, although under the current reporting framework it would not have to report significant information on its principal position taking activities. Similarly, a *securities and futures firm* may be able to undertake the activities of an *investment management firm* although it would not report on its asset management activities. While the firms formerly regulated by the SFA<sup>30</sup> are currently reporting a significant amount of information on their principal position taking activities in the form of market risk information, the firms formerly regulated by IMRO<sup>31</sup> and PIA<sup>32</sup> firms do not. We estimated that the *investment management firms* and *personal investment firms* carrying out principal position taking activities would see their current reporting requirements increase by about 240 *data elements* to match the principal position taking requirements for *securities and futures firms*.

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30 SFA: Securities and Futures Authority.

31 IMRO: Investment Management Regulatory Organisation.

32 PIA: Personal Investment Authority.

- 4.21 In the future reporting regime, we have rebalanced the amount of *market risk* information collected by introducing *data item* FSA005 (Market risk) for all firms but it will only be reported by a limited number of firms. This will result in less *market risk* information being collected for *securities and futures firms* and more information collected for *personal investment firms* and *investment management firms*.
- 4.22 As already highlighted above, we estimated that well over two-thirds of reporting requirements for the *investment firms* will serve to monitor compliance with the CRD (table 4.5, column 3).
- 4.23 Relative to the reporting requirements to monitor compliance with the CRD, the additional new reporting arising from our review is low. This is particularly the case for *investment firms* for which the new reporting are estimated to represent a range of up to 7% of total reporting requirements (table 4.5, column 4).

# 5 Impact of changes to financial reporting arising from Part II of CP06/11

## The selection of representative firms

- 5.1 Part II of CP06/11 identifies seven firms which are *investment firms* undertaking investment activities (excluding retail investment activities<sup>33</sup>), but who are not subject to the CRD (called non-BIPRU *investment firms*). These are re-stated in Table 5.1 below. The actual financial reporting requirements are detailed in the overview of reporting requirements provided in Annex 7, Table 3 in CP06/11. The overview of final reporting requirements following consultation is contained in Annex 3 Table 1 of PS07/1. These overviews of reporting requirements contain the financial *data items* analysed in this chapter and the non-financial *data items* analysed in Chapter 6.

Table 5.1: Non-BIPRU investment firms categories

<i>Investment management firms</i> (which are Exempt CAD Firms)	<i>Investment management firms</i> (which are not Exempt CAD Firms)	<i>Securities and futures firms</i> (which are exempt CAD Firms)	<i>Securities and futures firms</i> (which are not Exempt CAD Firms)	<i>Personal investment firms</i> (wholesale only, which are Exempt CAD Firms)	<i>Personal investment firms</i> (wholesale only, which are not Exempt CAD firms)	<i>UCITS firms</i>
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Source: FSA

## Number of investment firms subject to CP06/11, Part II reporting requirements

- 5.2 Table 5.2 provides estimates of the number of *investment firms* expected to be affected by the reporting requirements contained in Part II of CP06/11.

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33 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.

Table 5.2: Number of investment firms subject to Part II of CP06/11 reporting requirements

	Number	% of the total
<b>Investment firms</b>		
Securities and futures firms	324	23%
Personal investment firms <sup>34</sup>	8	0.1%
Investment management firms	260	15%

Source: FSA

## Estimates of reporting changes

- 5.3 These investment firms' reporting requirements will generally be considerably less than the ones applied to the *investment firms* included in Part 1 of CP06/11 (compare Table 4.4 with Table 5.3). In maximum reporting terms, the firms analysed are expected to report between 549 and 575 *data elements* and between 446 and 470 *data elements* in effective reporting terms. This figure drops to 470 in effective reporting terms (Table 5.3).
- 5.4 The effective reporting figures have been estimated by relying on the qualitative assessment of experienced supervisors.

Table 5.3: Number of data elements reported (frequency adjusted)

	Maximum reporting		Effective reporting	
	Current reporting (1)	Future reporting (2)	Current reporting (3)	Future reporting (4)
<b>Investment management firms</b>				
<i>Investment management firms</i> (which are Exempt CAD firms)	445	573	352	468
<i>Investment management firms</i> (which are not Exempt CAD firms)	445	549	352	446
<b>Securities and futures firms</b>				
<i>Securities and futures firms</i> (which are Exempt CAD Firms)	2830	573	1805	468
<i>Securities and futures firms</i> (which are not Exempt CAD Firms)	2830	549	1805	446
<b>Personal investment firms</b>				
<i>Personal investment firms</i> (wholesale only, which are Exempt CAD Firms)	370	573	246	468
<i>Personal investment firms</i> (wholesale only, which are not Exempt CAD Firms)	370	549	246	446
<b>UCITS firms</b>	445	575	352	470

Source: FSA

34 We have assumed that the balance of personal investment firms not affected by the CRD nor managing investments (which are regarded as wholesale) and represent almost 95% of the population will continue to report the RMAR only.

- 5.5 The *securities and futures firms* are set to benefit from significantly lower reporting requirements measured in both maximum and effective reporting terms.
- 5.6 From a low base in absolute numbers of *data elements*, the *investment management firms*, the wholesale *personal investment firms* and the *UCITS firms* are set to experience significant percentage increases in reporting requirements (Table 5.4).

Table 5.4: Reporting changes

	Reporting requirements. % decline (-) or increase (+)	
	Maximum reporting (1)	Effective reporting <sup>35</sup> (2)
<b>Investment management firms</b>		
<i>Investment management firms</i> (which are Exempt CAD firms)	+29	+33
<i>Investment management firms</i> (which are not Exempt CAD firms)	+23	+27
<b>Securities and futures firms</b>		
<i>Securities and futures firms</i> (which are Exempt CAD Firms)	-80	-74
<i>Securities and futures firms</i> (which are not Exempt CAD Firms)	-81	-75
<b>Personal investment firms</b>		
<i>Personal investment firms</i> (wholesale only, which are Exempt CAD Firms)	+55	+90
<i>Personal investment firms</i> (wholesale only, which are not Exempt CAD Firms)	+48	+81
<b>UCITS firms</b>	+29	+33

Source: FSA

- 5.7 Our commitment to align reporting with our risk-based approach to regulation and to address the differences in financial reporting between the IMRO and the SFA regimes resulted in the following outcomes for reporting requirements:
- decrease for *securities and futures firms* to correct what we believe was over reporting in a number of areas in the former SFA return; and
  - increase for *investment management firms* and *personal investment firms* as the separate Balance sheet and Income statement (Profit and loss) should have a higher level of granularity than the former returns.

35 When comparing the figures in columns 1 and 2 of table 5.4, the footnote 3 provides an explanation of the differences that may arise between the columns.

# 6 Impact of changes to non-financial reporting arising from Part II of CP06/11

- 6.1 Part II of CP06/11 also covered new non-financial reporting requirements. These apply to any firm which undertakes investment activities (excluding retail investment activities<sup>36</sup>), regardless of which prudential category and hence financial reporting applies to it.
- 6.2 The actual non-financial reporting requirements are detailed in the overview of reporting requirements provided in Annex 7, Table 3 in CP06/11. The overview of final reporting requirements following consultation is contained in Annex 3 Table 1 of PS07/1. These overviews of reporting requirements also contain the financial *data items* analysed in Chapter 5.
- 6.3 As we discussed in Chapter 2 where appropriate we are introducing reporting to monitor risks to our objectives associated with the way firms conduct their business.
- 6.4 These reporting requirements concern the *data items* identified in Table 6.1 below. As discussed in Chapter 3 these five non-financial *data items* mainly represent new reporting requirements. There is little current reporting to compare with so we only include future reporting. We have also not applied the effective reporting method. These *data items* will only apply to firms carrying on specific regulated activities or will be triggered by other factors such as the way in which they conduct their business under those activities. Generally, if a firm is required to submit these *data items* they will complete all *data elements* in them.
- 6.5 It should be noted that through consultation one *data item* (Threshold conditions questionnaire) was removed altogether and several *data elements* were removed. These changes to our proposals are detailed in Chapter 3 of PS07/1 paragraphs 3.13 to 3.26. The table below only reflect those *data items* and *data elements* that were finalised.

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36 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.

*Table 6.1: Non-financial reporting*

<b>Data items</b>	<b>Maximum future reporting basis, frequency adjusted (1)</b>
FSA038 - Volumes and Types of Business	8
FSA039 - Client Money and Client Assets	4
FSA040 - Commodity Futures Trading Commission (CFTC) report <sup>37</sup>	68
FSA041 - Asset Managers that use Hedge Fund Techniques Report	12
FSA042 - Undertakings for Collective Investments in Transferable Securities (UCITS)	12
<b>TOTAL</b>	<b>104</b>

Source: FSA

37 As explained in Chapter 3 of PS07/1 (paragraphs 3.21 and 3.22) this *data item* only applies to a very small number of firms who have been granted CFTC Part 30 relief and who operate a bond arrangement to cover forward profits on the London Metal Exchange (LME).



# Breakdown of current and future reporting requirements

Table 1.1: credit institutions (see Note 1 below)

<b>UK banks</b>	Up to 31/12/2006	As currently set out in SUP 16.7.8R (SUP 16 Annex 1R).
	From 1/1/2007 to 31/12/2007	No change, except all firms report in addition FSA009. Some also report FSA028.
	From 1/1/2008	All firms stop reporting the BSD3, M1, LR (or SLR1) and LE3 and report FSA001, FSA002, FSA003, FSA004 and FSA008, and FSA010, FSA013, FSA016 and FSA018 as appropriate. Reporting requirements move to SUP 16.12.
	From 1/1/2009	Firms report on other <i>data items</i> as well.
<b>EEA banks</b> (that can accept deposits)	Up to 31/12/2007	As currently set out in SUP 16.7.10R (SUP 16 Annex 1R).
	From 1/1/2008	All firms stop reporting on Form LR and report on FSA010. Reporting requirements move to SUP 16.12.
<b>EEA banks</b> (that cannot accept deposits)	Up to 31/12/2007	As currently set out in SUP 16.7.10R (SUP 16 Annex 1R).
	From 1/1/2008	All firms stop reporting on Form LR and report on FSA012. Reporting requirements move to SUP 16.12.
<b>Non-EEA banks</b>	Up to 31/12/2007	As currently set out in SUP 16.7.12R (SUP 16 Annex 1R)
	From 1/1/2008	All firms stop reporting on Form B7 and LR and report on FSA002 and FSA010. Reporting requirements move to SUP 16.12.
<b>Building societies</b>	Up to 31/12/2006	As currently set out in SUP 16.7.17R (SUP 16 Annex 3R)
	From 1/1/2007 to 30/12/2007	No change, except all firms report in addition FSA009.
	On 31/12/2007 (and continuing after this time)	As above, but additionally firms report to the Bank of England on their forms at this date.
	From 1/1/2008	Firms stop reporting on MFS1, MFS2 and QFS2. Firms stop reporting on QFS1, and AFS1 (but not interest rate gap reports), and report FSA001, FSA002, FSA003, FSA004, FSA008 and FSA011, and FSA016 if appropriate. Reporting requirements move to SUP 16.12.
<b>Electronic money institutions</b>	Up to 31/12/2008	As currently set out in SUP 16.7.66R (SUP 16 Annex 1R).
	From 1/1/2009	Firms stop reporting on ELM-CA/LE and BSD3, and report the new data items. Reporting requirements move to SUP 16.12.
<b>Small e-money institutions</b>	Up to 31/12/2008	As currently set out in ELM 8.7.1R (ELM 8 Annex 2R).
	From 1/1/2009	Firms stop reporting on ELM-SI, and report FSA027.
<b>Credit unions</b> (for completeness only)		No changes, but reporting requirements move to SUP 16.12 from 1/1/2008.

Table 1.2: BIPRU investment firms (see Note 1 below)

<b>Investment management firms</b>	Up to 31/12/2006	As currently set out in SUP 16.7.36R (SUP 16 Annex 5R)
	From 1/1/2007 to 31/12/2007	As currently set out in SUP 16.7.36R except a) firms report in addition FSA009; b) some firms will also submit FSA028; and c) firms will no longer report on the consolidated supervision return but will instead complete FSA009
	From 1/1/2008	Firms stop reporting the annual financial return and quarterly (or monthly) financial return, and will instead report FSA001, FSA002, FSA003, FSA008 and FSA019, as well as FSA004, FSA016 and FSA018 if appropriate. Reporting requirements move to SUP 16.12. Consolidated reporters will also have to complete a wider range of <i>data items</i> than at present.
	From 1/1/2009	Firms will complete the remaining <i>data items</i> applicable to them.
<b>Securities and futures firms</b>	Up to 31/12/2006	As currently set out in SUP 16.7.25R or SUP 16.7.27R (SUP 16 Annex 10R)
	From 1/1/2007 to 31/12/2007	As currently set out in SUP 16.7.25R or 27R except a) firms report in addition FSA009; b) some firms will also submit FSA028; and c) firms will no longer report on the consolidated supervision return but will instead complete FSA009.
	From 1/1/2008	Firms stop reporting the annual reconciliation, annual financial return, monthly (or quarterly) reporting statements, and LEM1 or LEM2, and will instead report FSA001, FSA002, FSA003, FSA008 and FSA019, as well as FSA004, FSA016 and FSA018 if appropriate. Reporting requirements move to SUP 16.12. Consolidated reporters will complete a wider range of <i>data items</i> than at present.
	From 1/1/2009	Firms will complete the remaining <i>data items</i> applicable to them.
<b>UCITS investment firm (not UCITS firm)</b>	Up to 31/12/2006	As currently set out in SUP 16.7.68R (SUP 16 Annex 16R)
	From 1/1/2007 to 31/12/2007	As currently set out in SUP 16.7.68R except a) firms report in addition FSA009; b) some firms will also submit FSA028; and c) firms will no longer report on the consolidated supervision return but will instead complete FSA009.
	From 1/1/2008	Firms stop reporting the quarterly financial return and instead report FSA001, FSA002, FSA003, FSA008 and FSA019, as well as FSA004, FSA016 and FSA018 if appropriate. Reporting requirements move to SUP 16.12.
	From 1/1/2009	Firms will complete the remaining <i>data items</i> applicable to them.
<b>Personal investment firm</b>	Up to 31/12/2006	As currently set out in SUP 16.7.77R (SUP 16 Annex 18R)
	From 1/1/2007 to 31/12/2007	As currently set out in SUP 16.7.77R except a) firms report in addition FSA009; b) some firms will also submit FSA028; and c) firms will no longer report on the consolidated supervision return but will instead complete FSA009.
	From 1/1/2008	Firms stop reporting sections A, B, C, D and E of the RMAR (the remainder of the RMAR will still apply) and instead report FSA001, FSA002, FSA003, FSA008 and FSA019, as well as FSA004, FSA016 and FSA018 if appropriate. Reporting requirements move to SUP 16.12.
	From 1/1/2009	Firms will complete the remaining <i>data items</i> applicable to them.

Table 1.3: Non-BIPRU investment firms (see Note 1 below)

<b>Investment management firm</b> (which are Exempt CAD Firms)	Up to 31/10/2007	As currently set out in SUP 16.7.36R (SUP 16 Annex 5R)
	From 1/11/2007	New <i>data item</i> FSA043 (Key data) in addition to existing returns.
	From 1/1/2009	Existing returns and FSA043 replaced by FSA029 (Balance sheet), FSA030 (Income statement) and either FSA031 or FSA032 (Capital adequacy). Reporting requirements move to SUP 16.12.
<b>Investment management firm</b> (which are not Exempt CAD Firms)	Up to 31/12/2007	As currently set out in SUP 16.7.36R (SUP 16 Annex 5R)
	From 1/1/2009	The new <i>data items</i> FSA029, FSA030, and FSA033 or FSA034 or FSA035 or FSA037 as required according to the business the firm undertakes, instead of the reports in SUP 16.7.36R. Reporting requirements move to SUP 16.12.
<b>Securities and futures firms</b> (which are Exempt CAD Firms)	Up to 31/10/2007	As currently set out in SUP 16.7.27R (SUP 16 Annex 10R)
	From 1/11/2007	New <i>data item</i> FSA043 (key data) in addition to existing returns.
	From 1/1/2009	Existing returns and FSA043 replaced by FSA029 (Balance sheet), FSA030 (Income statement) and either FSA031 or FSA032 (Capital adequacy). Reporting requirements move to SUP 16.12.
<b>Securities and futures firms</b> (which are not Exempt CAD Firms)	Up to 31/12/2007	As currently set out in SUP 16.7.27R (SUP 16 Annex 10R)
	From 1/1/2009	The new <i>data items</i> FSA029, FSA030, and FSA033 or FSA034 or FSA035 or FSA037 as required according to the business the firm undertakes, instead of the reports in SUP 16.7.27R. Reporting requirements move to SUP 16.12.
<b>Personal investment firm</b> (wholesale PIFs only) (which are Exempt CAD Firms)	Up to 31/10/2007	As currently set out in SUP 16.7.77R (SUP 16 Annex 18R)
	From 1/11/2007	New <i>data item</i> FSA043 (Key data) in addition to existing returns.
	From 1/1/2009	Existing returns and FSA043 replaced by FSA029 (Balance sheet), FSA030 (Income statement) and either FSA031 or FSA032 (Capital adequacy) Reporting requirements move to SUP 16.12.
<b>Personal investment firm</b> (which are not Exempt CAD Firms)	Up to 31/12/2007	As currently set out in SUP 16.7.77R (SUP 16 Annex 18R)
	From 1/1/2009	<b>Wholesale PIFs</b> – Existing returns replaced by FSA029, FSA030, and FSA033 or FSA034 or FSA035 or FSA037, rather than reports in SUP 16.7.77R. Reporting requirements move to SUP 16.12. <b>Other PIFs</b> – Existing RMAR reporting continues. Reporting requirements move to SUP 16.12.
<b>UCITS firm</b>	Up to 31/12/2007	As currently set out in SUP 16.7.68R (SUP 16 Annex 16R)
	1/1/2007 to 31/12/2008	As currently set out in SUP 16.7.68R – but note new references to UPRU not IPRU(INV) Ch 7.
	From 1/1/2009	New FSA data items FSA029, FSA030 and FSA036 instead of reports in SUP 16.7.68R. Reporting requirements move to SUP 16.12.

**Note 1:** The three tables above only detail current and future financial reporting requirements for the firms stated. The five, mainly new, non-financial data items discussed in Chapter 6 will also apply to these firms if they carry on specific regulated activities or are triggered by other factors such as the way in which they conduct their business under those activities.



# Glossary

The following glossary includes Handbook Text, proposed Handbook Text and non-FSA defined terms. The existing and proposed Handbook Text is in italics

<b>Term</b>	<b>Definition</b>
ARD	<i>Accounting reference date</i>
Bank	(a) a firm with a Part IV permission which includes accepting deposits, and: <ul style="list-style-type: none"> <li>(i) which is a credit institution; or</li> <li>(ii) whose Part IV permission includes a requirement that it comply with the rules in GENPRU and <i>BIPRU</i> relating to <i>banks</i>; but which is not a building society, a friendly society or a credit union;</li> </ul> (b) an EEA bank which is a full credit institution.
BCD	Banking Consolidation Directive (2006/48/EC)
<i>BIPRU</i>	The Prudential sourcebook for <i>banks, building societies and investment firms</i> .
<i>BIPRU 50K firm</i>	Has the meaning in <i>BIPRU 1.1.20R</i> (Types of investment firm: <i>BIPRU 50K firm</i> ) which in summary is a <i>BIPRU</i> investment firm that satisfies the following conditions: <ul style="list-style-type: none"> <li>(a) it satisfies the conditions in <i>BIPRU 1.1.19R(1)</i> (does not deal in any financial instruments for its own account or underwrite issues of financial instruments on a firm commitment basis) and <i>BIPRU 1.1.19R(3)</i> (offers one or more of certain specified services);</li> <li>(b) it does not hold clients' money and/or securities and it is not authorised to do so; and</li> <li>(c) it is not a UCITS investment firm.</li> </ul>
<i>BIPRU 125K firm</i>	Has the meaning in <i>BIPRU 1.1.19R</i> (Types of investment firm: <i>BIPRU 125K firm</i> ) and <i>BIPRU 1.1.21R</i> (Types of investment firm: limited own account business) which in summary is: <ul style="list-style-type: none"> <li>(1) a <i>BIPRU</i> investment firm that satisfies the following conditions:               <ul style="list-style-type: none"> <li>(a) it does not deal in any financial instruments for its own account or underwrite issues of financial instruments on a firm commitment basis;</li> <li>(b) it holds clients' money and/or securities or is authorised to do so;</li> <li>(c) it offers one or more of certain specified services; and</li> <li>(d) it is not a UCITS investment firm; or</li> </ul> </li> <li>(2) a <i>BIPRU</i> investment firm that falls into <i>BIPRU 1.1.21R</i>.</li> </ul>
<i>BIPRU 730K firm</i>	Has the meaning in <i>BIPRU 1.1.22R</i> (Types of investment firm: <i>BIPRU 730K firm</i> ) which in summary is a <i>BIPRU</i> investment firm that is not a UCITS investment firm, a <i>BIPRU 50K firm</i> or a <i>BIPRU 125K firm</i> .

<b>Term</b>	<b>Definition</b>
<i>BIPRU firm</i>	Has the meaning set out BIPRU 1.1.4 (Application and purpose), which is in summary a firm that is: (a) a building society; or (b) a bank; or (c) a full scope BIPRU investment firm; or (d) a BIPRU limited licence firm; or (e) a BIPRU limited activity firm.
<i>BIPRU investment firm</i>	Has the meaning set out BIPRU 1.1 (Application and purpose), which is in summary one of the following types of BIPRU firm: (a) a full scope BIPRU investment firm; or (b) a BIPRU limited licence firm; or (c) a BIPRU limited activity firm.
BoE	Bank of England
<i>Building society</i>	As defined in section 119(1) of the Building Societies Act 1986) a building society incorporated (or deemed to be incorporated) under that Act.
CAD	Capital Adequacy Directive (2006/49/EC)
CBA	Cost-benefit analysis
CEBS	Committee of European Banking Supervisors
CFTC	The Commodity Futures Trading Commission
COREP	Common Reporting
CP	Consultation Paper
CP06/3	Strengthening Capital Standards 2 (February 2006)
CP06/11	Integrated Regulatory Reporting (IRR): Credit institutions and certain investment firms (May 2006)
CRD	Capital Requirements Directive
<i>Credit institution</i>	In accordance with articles 4(1) and 1072 of the BCD): (1) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or (2) an electronic money institution within the meaning of the E-Money Directive; but so that: (3) (except for the purposes of GENPRU, ELM and BIPRU) an institution within (2) that does not have the right to benefit from the mutual recognition arrangements under BCD is excluded; and (4) for the purposes of BIPRU 10 (Concentration risk requirements) it means: (a) a credit institution as defined by (1) to (2) that has been authorised in an EEA State; or (b) any private or public undertaking which meets the definition in (1)-(2) and which has been authorised in a non-EEA state
<i>Data element</i>	A fact or indication of opinion that is reported by a regulated entity, the context of which is defined by the FSA handbook. This is a particular field within each data item, the most granular piece of data
<i>Data item</i>	One or more related data element that are grouped together into a prescribed format, e.g. a Balance Sheet
<i>Data set</i>	One or more data items relating to the same regulated activity
<i>Deposit-taking firm</i>	A firm which is a bank, building society or credit union
ECB	European Central Bank

<b>Term</b>	<b>Definition</b>
ECFs	CP06/11 referred to Exempt Capital Adequacy Directive (CAD) Firms as Article 67 (3) MiFID firms. An Exempt CAD firm (ECF) is authorised to receive and transmit orders for MiFID instruments from investors and/or to give investment advice, without holding client money or securities for its MiFID scope activities and without permission for any other MiFID scope investment service or activity. For further information, see draft perimeter guidance in Annex to our CP06/9: Organisational systems and controls: common platform for firms' including the answers to questions 62 and 63. We plan to issue a further policy statement later this quarter, covering the final version of our Perimeter Guidance (PERG). MiFID scope investment services and activities are set out in Annex 1 Section A to MiFID [Markets in Financial Instruments Directive].
EEA	The European Economic Area
EEA bank	An incoming EEA firm which is a BCD credit institution.
ELMI	An e-money firm which is not a bank, building society, incoming Treaty firm or incoming EEA firm.
E-money issuer	(in accordance with the definition of an "electronic money institution" in article 1.3 of the E-Money Directive) an undertaking or any other legal person, other than a full credit institution, which issues means of payment in the form of e-money
EU	European Union
IMRO	Investment Management Regulatory Organisation
Investment firm	Any legal person the regular occupation or business of which is the provision of core investment services for third parties on a professional basis, as defined in article 1(2) of the ISD, and (in relation to a person with his or its head office in an EEA State) a person, who is not a legal person, included as an investment firm by his or its Home State
IPRU (INV)	Interim Prudential sourcebook for Investment Businesses
IRR	Integrated Regulatory Reporting
Large exposure	Has the meaning set out in BIPRU 10.5.1 R, which in summary is the total exposure of a firm to a counterparty, connected counterparties or a group of connected clients, whether in the firm's non-trading book or trading book or both, which in aggregate equals or exceeds 10% of the firm's capital resources.
Market risk	(in relation to a firm) the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates
MER	Mandatory electronic reporting
MiFID	the European Parliament and Council Directive on markets in financial instruments (No. 2004/39/EC)
MLAR	(in SUP) a Mortgage Lending and Administration Return containing data specified in SUP 16 Annex 19A R and relevant to the firm's type and regulated activities
non-EAA sub-group	(in accordance with BIPRU 8.2.XR (Scope – Non-EEA sub-groups) a group of undertakings identified as a non-EEA sub-group in BIPRU 8.2.4R to BIPRU 8.2.8R (Scope – Non-EEA sub-groups).
Operational risk	(in accordance with Article 4(22) of the Banking Consolidation Directive) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk
PS06/10	Integrated Regulatory Reporting (IRR): Certain investment firms. Feedback on Part II and III of CP06/112 and made text, October 2006
PS07/1	Integrated Regulatory Reporting (IRR): Certain investment firms. Feedback on Part II and III of CP06/11 and made text, published, January 2007

<b>Term</b>	<b>Definition</b>
Regulated activity	As defined in the FSA Handbook [The activities for which the firm has permission to carry on]
Regulated Activity Group	A collection of one or more regulated activities (with associated investment types and customer types) that is used to determine a firm's reporting requirements. [A firm may fall within more than one regulated activity group]
RMAR	Retail Mediation Activities Return
SFA	Securities and Futures Authority
SUP	Supervision Manual
UK bank	A bank which is a body corporate or partnership formed under the law of any part of the United Kingdom
UK consolidation group	Has the meaning in BIPRU 8.2.1R (Scope - UK consolidation groups), which is in summary a consolidation group that is identified as a UK consolidation group in accordance with the decision tree in BIPRU 8 Ann 1R.
UCITS	Undertakings for Collective Investments in Transferable Securities
UK	United Kingdom
UPRU	Prudential sourcebook for UCITS Firm



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