

## **A Guide to Integrated Regulatory Reporting (IRR) and Mandatory Electronic Reporting (MER) for Investment Firms**

### **Introduction**

The FSA has reviewed the type and quality of regular, standardised information it requires from firms in order to increase its effectiveness as a risk-based regulator. In so doing, its aim has been twofold:

- to harmonise the many inconsistent reporting formats inherited from pre-N2 regulators, and
- to meet the needs for transparency required by the Capital Requirement Directive (CRD) and the Markets in Financial Instruments Directive (MiFID) through effective communication of data.

To achieve this, the FSA has created a set of standardised forms called 'data items' that replace the existing financial return formats and adopt some of the reporting requirements of MiFID and CRD.

Firms will be required to use all the new data items by 31<sup>st</sup> August 2008. Firms subject to the CRD and MiFID will need to submit each data item as they are introduced during the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> August 2008 (except for FSA009 who's last reporting date was 31<sup>st</sup> December 2007).

Until firms switch to the CRD, they should continue to use the existing reporting methods. From 1<sup>st</sup> January 2007, firms in this position have also been submitting the new data item, FSA009. This data item has helped integrate the automatic elements of the CRD that came into effect from 1<sup>st</sup> January 2007 with the current financial returns and reporting statements.

This regulatory update introduces the new data items and outlines specific reporting requirements under Integrated Regulatory Reporting (IRR) for Investment Management firms, Securities and Futures firms and firms who enter into regulated mortgage contracts and/or administer regulated mortgage contracts. It also sets out the transitional arrangements that will operate until 31<sup>st</sup> August 2008, and the FSA's new system of Mandatory Electronic Reporting (MER), now known as GABRIEL (Gathering Better Regulatory Information Electronically) which was due to go live from the 30<sup>th</sup> June 2008. However, the FSA have delayed the introduction of GABRIEL which was due to start on 30<sup>th</sup> June 2008, until 26<sup>th</sup> August 2008. Full scope 730k firms and MTFs will now have to report the required data items on the GABRIELLA system up to 26<sup>th</sup> August 2008. Once GABRIEL is fully up and running these firms will need to start reporting on this system, and resubmit all past reports submitted on GABRIELLA, onto GABRIEL. Once GABRIEL is running, GABRIELLA will no longer exist. All 125k, 50k firms have also been affected by the delay to the introduction of GABRIEL which was due to start on 30<sup>th</sup> June 2008 and will now begin reporting on GABRIEL on 26<sup>th</sup> August 2008. These firms should continue to report on ERS until GABRIEL starts on 26<sup>th</sup> August 2008. The FSA was also intending GABRIEL to replace Firms Online from

Visit our online bookshop or access our revolutionary on-line Money Laundering training system at [www.cpaaudit.co.uk](http://www.cpaaudit.co.uk)

October 2008, and from August 2009, the new complaints reports will be submitted under GABRIEL.

### The new data items

Full details of the new data items are outlined in SUP16 of the FSA Handbook. Included in this document are tables which should make clear what data items firms need to report, how often they need to be reported, and the associated deadline for submission. In order to establish which data item firms need to report, firms must establish which Regulated Activity Groups (RAGs) they fall into. It is entirely possible that a firm may fall into more than one group. If this is the case, data items need to be reported from all applicable groups.

### Regulated Activity groups

There are 10 RAGs in total. If firms fall under more than one RAG, they may find that the same data item is required more than once. In this case, the data item should only be reported once under the lowest RAG, unless the data item relates to FSA fees, the FSCS or FOS levy, or threshold conditions which must be reported for each RAG. The complexity of requirements will increase with the increase in own funds requirements. The easiest way to establish which RAGs firms fall under is to compare their permissions, as recorded on the FSA register, with the regulated activities table. Table 1 below shows what RAGs various permissions relate to, and highlights which RAGs are more specialised. To demonstrate, Firm A, that deals with retail clients has permissions to:

- Advise on investments (except on Pension Transfers and Pension Opt Outs)
- Arranging (bringing about) deals in investments
- Arranging safeguarding and administration of assets
- Dealing in investments as agent
- Dealing in investments as principal
- Making arrangements with a view to transactions in investments
- Safeguarding and administration of assets (without arranging)

Therefore Firm A falls under RAGs 3, 6, 7 and 8.

**Table 1 For further information, see SUP 16.12.4**

<b>RAG number</b>	<b>FSA permissions</b>	<b>Notes</b>
RAG 1	<ul style="list-style-type: none"> <li>• accepting deposits</li> <li>• issuing electronic money</li> </ul>	Mainly banks, building societies, credit unions, Electronic money institutions.
RAG 2.1	<ul style="list-style-type: none"> <li>• effecting contracts of insurance</li> <li>• carrying out contracts of insurance</li> <li>• entering as provider into a funeral plan contract</li> </ul>	<p>The financial reporting requirements for RAG 2.1 activities for insurers, excluding friendly societies, are set out in IPRU(INS).</p> <p><a href="http://fsahandbook.info/FSA/extra/4890.pdf">http://fsahandbook.info/FSA/extra/4890.pdf</a></p>

RAG 2.2	<ul style="list-style-type: none"> <li>managing the underwriting capacity of a Lloyds syndicate as a managing agent at Lloyds</li> <li>advising on syndicate participation at Lloyds</li> <li>arranging deals in contracts of insurance written at Lloyds</li> </ul>	Concerns Lloyds business only.
RAG 3	<ul style="list-style-type: none"> <li>dealing in investment as principal</li> <li>dealing in investments as agent</li> <li>advising on investments (excluding retail investment activities)</li> <li>arranging (bringing about) deals in investments (excluding retail investment activities)</li> </ul>	
RAG 4	<ul style="list-style-type: none"> <li>managing investments</li> <li>establishing, operating or winding up a regulated collective investment scheme</li> <li>establishing, operating or winding up an unregulated collective investment scheme</li> <li>establishing, operating or winding up a stakeholder pension scheme</li> <li>establishing, operating or winding up a personal pension scheme</li> </ul>	
RAG 5	<ul style="list-style-type: none"> <li>entering into a regulated mortgage contract</li> <li>administering a regulated mortgage contract</li> </ul>	See table 3 below.
RAG 6	<ul style="list-style-type: none"> <li>acting as trustee of an authorised unit trust</li> <li>safeguarding and administration of assets (without arranging)</li> <li>arranging safeguarding and administration of assets</li> <li>acting as depository or sole director of an OEIC</li> </ul>	The data items fall under various chapters (3, 5, 9, 13) in IPRU(INV) <a href="http://fsahandbook.info/FSA/extra/4890.pdf">http://fsahandbook.info/FSA/extra/4890.pdf</a>
RAG 7	<ul style="list-style-type: none"> <li>retail investment activities</li> <li>advising on pensions transfers &amp; opt-outs</li> <li>arranging (bringing about deals) in retail investments</li> </ul>	
RAG 8	<ul style="list-style-type: none"> <li>making arrangements with a view to transactions in investments</li> <li>operating a multilateral trading facility</li> </ul>	
RAG 9	<ul style="list-style-type: none"> <li>mortgage mediation activity</li> <li>insurance mediation activity (non-investment insurance contracts)</li> </ul>	
RAG 10	<ul style="list-style-type: none"> <li>the activities of an <i>RIE/RCH</i> (Recognised Investment Exchange, Recognised Clearing House)</li> </ul>	

Table 2 outlines the necessary data items and reporting frequencies for firms that fall under RAG 5. This concerns firms who have permissions to enter into a regulated mortgage contract and/or administer a regulated mortgage contract.

**Table 2 (RAG group 5) For further information see SUP 16.12.18**

<b>Description of data item</b>	<b>Data Item note</b>	<b>Frequency</b>	<b>Submission deadline</b>
Annual accounts	No standard format	Annually	80 business days
Balance Sheet	Sections A.1 and A.2 MLAR	Quarterly	20 business days
Income Statement	Sections B.0 and B.1 MLAR	Quarterly	20 business days
Capital Adequacy	Section C MLAR	Quarterly	20 business days
Lending - Business flow and rates	Section D MLAR	Quarterly	20 business days
Residential Lending to individuals - New business profile	Section E MLAR	Quarterly	20 business days
Lending - Arrears analysis	Section F MLAR	Quarterly	20 business days
Mortgage administration - Business profile	Section G MLAR	Quarterly	20 business days
Mortgage Administration - Arrears analysis	Section H MLAR	Quarterly	20 business days
Analysis of loans to customers	Section A3 MLAR	Quarterly	20 business days
Provisions analysis	Section B2 MLAR	Quarterly	20 business days
Fees and levies	Section J MLAR	Annually	30 business days

In Table 3 below, we have not included requirements for RAG 1, 2.1 (IPRU(INS)), 2.2, 9 and 10 as these are far more specialised types of activities that have a number of data items and reporting responsibilities that are not in common with the majority of other firms. Table 3 describes the reporting timetables and implementation dates for the new data items.

Firms may need to complete nil returns for all relevant data items created by each RAG group. Firms need to be aware that all data items are to be reported on the FSA system GABRIEL, from one of four different dates. The start date of phase one is the 30<sup>th</sup> June, runs to the 1<sup>st</sup> July, and includes data items FSA 001, 002, 003, 004, 008, 010, 011, 012 013, 016, 018, 019, 028 and 045.

The start date of phase two is 31<sup>st</sup> August, runs to the 1<sup>st</sup> September, and includes data items FSA 005, 007, 014, 017, 020, 021, 022, 023, 024, 025, 026, 027, 029, 030, 031, 032, 033, 034, 035, 036, 038 and 042.

The start date of phase three (1) is 30<sup>th</sup> September and runs to the 1<sup>st</sup> October, and includes data items: FSA 15 FSA 44 (old 18) FSA 46 (securitization).

The start date of phase three (2) is 1<sup>st</sup> August 09 – 2 August 09, and includes Complaints (new version to be released in Phase 3, but with deferred use until August 2009, as confirmed in PS07/23).

### **Passwords and usernames for GABRIEL**

If the firm is registered with Firms Online it will continue to use its online password and username on GABRIEL. If the firm is required to report on the Early Reporting System it will continue to use its ERS password and username on GABRIEL. If the firm is currently on both of the above it will continue to use its old ERS password and username for GABRIEL.

**Table 3. For further information see SUP 16.12.3 - SUP 16.12.28**

Data Item	RAG number	Content	BIPRU Firm type		Reporting Period	Deadline (bus. Days)	Implementation date
FSA 001	3, 4, 7, 8	Balance sheet	730k, 125k		Quarterly	20	30 <sup>th</sup> June 2008***
			50k		Half Yearly	30**	
FSA 002	3, 4, 7, 8	Income statement	730k, 125k		Quarterly	20	30 <sup>th</sup> June 2008***
			50k		Half yearly	30**	
FSA 003	3, 4, 7, 8	Capital Adequacy	730k		Monthly	15	1 <sup>st</sup> Jan 2008
			125k		Quarterly	20	
			50k		Half yearly	30**	
FSA 004*	3, 4, 7, 8	Breakdown of Credit Risk Data	730k, 125k		Quarterly	15	1 <sup>st</sup> Jan 2008
			50k		Half yearly	30**	
FSA 005	3, 4, 7, 8	Trading Book Market Risk	£50m + in market risk (may change)	730k, 125k	Quarterly	20	31 <sup>st</sup> August 2008
				50k	Half yearly	30**	
FSA 006	3, 4, 7, 8	Market risk (supplementary)	£50m + in market risk (may change)		Quarterly	20	31 <sup>st</sup> August 2008
FSA 007	3, 4, 7, 8	Operational Risk	Full scope BIPRU firms only		Annually	2 months	31 <sup>st</sup> August 2008
FSA 008	3, 4, 7, 8	Large Exposures	All BIPRU Firms		Quarterly	20**	30 <sup>th</sup> June 2008***
FSA 010	1	Liquidity (other than stock)	Solo & Unconsolidated banks and building socs		Quarterly	15	30 <sup>th</sup> June 2008***
FSA 013	1	Liquidity - stock	UK Banks		Quarterly	15	30 <sup>th</sup> June 2008***

\* This requirement only applies to BIPRU investment firms with credit risk capital component over £10 million that have been notified to report.

\*\* UK Consolidation group 45 business days.

\*\*\* Delayed until end of August

Data Item	RAG number	Content	BIPRU Firm type	Reporting Period	Deadline (bus. days)	Implementation date
FSA 014	1	Forecast data	Solo & Unconsolidated banks and building socs	Half yearly	30	31 <sup>st</sup> August 2008
			Consolidated banks and Building socs		45	
FSA 016	1,3,4,8	Solo consolidation data	Consolidated banks and Building socs	Half yearly	30	30 <sup>th</sup> June 2008***
FSA 017	1	Interest rate gap report	Solo & Unconsolidated banks and building socs	Half yearly	45	31 <sup>st</sup> August 2008
			Consolidated banks and Building socs	Quarterly	20	
FSA 018	1,4,7,8	UK integrated group large exposures	UK integrated groups	Quarterly	45	30 <sup>th</sup> June 2008***
FSA 019	3, 4, 7, 8	Pillar 2 Information Forms part of the ICAAP	All BIPRU firms	Annual	2 months	30 <sup>th</sup> June 2008***
FSA 028	3, 4, 7, 8	Non-EEA Sub-Groups	Firms with non-EEA sub-groups	Half yearly	30	1 <sup>st</sup> Jan 2007
FSA 029	3,4,6,8,9	Balance Sheet	Non ISD/Non MiFID and exempt CAD firms.	Quarterly	20	31 <sup>st</sup> August 2008
				Annually	80	
FSA 030	3,4,6,8,9	Income statement		Quarterly	20	31 <sup>st</sup> August 2008
				Annually	80	

Please note that members of a UK consolidation group, as described in BIPRU 8, need to submit an FSA028 in respect on non EEA sub groups, even if no non-EEA sub group exists.

Data Item	RAG Number	Content	BIPRU Firm type	Reporting Period	Deadline (bus. days)	Implementation date	
FSA 031	3,4,6	Capital Adequacy	Non ISD/Non MiFID and exempt CAD firms.	Quarterly	20	31 <sup>st</sup> August 2008	
FSA 032	Personal investment firms	Capital Adequacy		Quarterly	20	31 <sup>st</sup> August 2008	
FSA 033	3,4,6,8,9	Capital Adequacy		Quarterly	20	31 <sup>st</sup> August 2008	
				Annual	80		
FSA 034	3,4,6,8,9	Capital Adequacy		Quarterly	20	31 <sup>st</sup> August 2008	
				Annual	80		
FSA 035	4,6,8	Capital Adequacy		Quarterly	20	31 <sup>st</sup> August 2008	
				Annual	80		
FSA 036	UPRU firms	Capital Adequacy		Quarterly	20	31 <sup>st</sup> August 2008	
				Annual	80		
FSA037	Personal investment firms	Capital Adequacy	Quarterly	20	31 <sup>st</sup> August 2008		
			Annual	80			
FSA038	4	Volumes and types of business	If applicable and firm is non consolidated	Half yearly	30	31 <sup>st</sup> August 2008	
FSA039	3,4,6,7,8	Client Money and Client Assets	If applicable and firm is non consolidated	Half yearly	30	31 <sup>st</sup> August 2008	
FSA040	3,4,6,8	CFTC (If Applicable)	If applicable and firm is non consolidated	Quarterly	15	31 <sup>st</sup> August 2008	
FSA041	4	Asset managers that use hedge fund techniques	If applicable and firm is non consolidated	Annually	30	31 <sup>st</sup> August 2008	
FSA042	4	UCITS	If applicable and firm is non consolidated	Quarterly	20	31 <sup>st</sup> August 2008	
FSA045	3,4,7,8	IRB Portfolio Risk	If applicable and firm is non	125k, 730k firms	Quarterly	20	1 <sup>st</sup> October 2008
				50K firms	Half yearly	30**	

			consolidated			
FSA046	3,4,7,8	Securitisation	If applicable and firm is non consolidated	Half yearly	30**	31 <sup>st</sup> August 2008
Annual Accounts	3, 4, 5, 6, 7, 8	No Standard Format	If applicable and firm is non consolidated	Annually	80	1 <sup>st</sup> January 2008
Solvency statement	6, 7, 8	No Standard Format	Only applicable to partnerships (not Limited Firms or LLPs)	Annually	3 months	1 <sup>st</sup> January 2008
Annual reconciliation <b>(No longer applicable as at April 2008)</b>	3,4,6,8	No Standard Format	Non BIPRU firms	Annually	80	1 <sup>st</sup> January 2008
Annual accounts of the mixed holding company	1,4,7,8	No Standard Format	All BIPRU firms	Annually	7 months	1 <sup>st</sup> January 2008

## **Investment Management Firms**

Four of the forms historically in use by Investment Management firms as part of their current financial returns to FSA are affected by IRR as follows:

- Monthly Financial Return (MFR)
- Quarterly Financial Return (QFR)
- Annual Financial Return (AFR)
- Consolidated Financial Resources Return (CFRR)

Whilst the balance sheet and profit and loss data should be largely unaffected, the MFR, QFR and AFR, which are largely similar, will all be affected by:

- Changes in the capital resources calculation from the beginning of 2007, irrespective of when a firm adopts the new approaches to credit risk.
- Changes in the trading book capital requirements.
- Alternative methods of calculating the capital resources requirement depending on which type of BIPRU investment firm is involved.

The FSA advised that through 2007, and the first half of 2008, firms should endeavour to complete these returns in a similar way as previously done, despite the fact that this resulted in inaccurate financial resources and liquid capital figures being reported. During 2008, if you are an Investment Management firm subject to the CRD, the financial returns you need to continue to submit until 31<sup>st</sup> August 2008 only need to include QFS1, QFS2, QFS5, QFS6.

From the 1<sup>st</sup> January 2008 data item FSA003 needs to be submitted which will give the correct calculation of their capital resources and capital requirements.

Within the existing returns, firms provided information on large exposures, based on the percentage of own funds. This will now need to be based on the capital resources reported by the firm on the previous reporting date, using the new data item FSA008.

## **Securities and Futures Firms**

Four of the forms historically in use by Securities and Futures firms as part of their current financial returns to FSA are affected by IRR as follows:

- Standard Reporting Statement (SRS)
- Large Exposures quarterly reporting statements (LEM1 and LEM2)
- Consolidated Reporting Statement (CRS)

For LEM1 and LEM2, the FSA firms will use the new capital resources figure for the measurement of large exposures (see BIPRU 10 for further information). There does, however, need to be a transition from the current use of own funds, or financial resources and own funds, to using a previously reported capital resources figure from data element 73A on FSA003. This will apply to both unconsolidated and consolidated reporting on these forms. During 2008 Securities and Futures firms subject to the CRD will only need to continue reporting the profit and loss, balance sheet and CFTC part 30 (if applicable) until 31<sup>st</sup> August 2008.

## Transitional Arrangements

For firms who have a year end of 31<sup>st</sup> December 2007, the auditor's reports will need to be completed, even though this requirement which is outlined in SUP 3.9 was deleted on 30<sup>th</sup> December 2007. This is because the FSA still requires the information from the previous period. Only firms that hold client money will need to continue to submit the auditor's reports (concerning client assets, outlined in SUP 3.10) after 30<sup>th</sup> December 2008.

The official start date for the new data items, originally scheduled for 1<sup>st</sup> January 2008, will now start from 30<sup>th</sup> June 2008 with the exception of data items FSA003 (Capital adequacy) and FSA004 (Credit risk) commencing on the 1<sup>st</sup> January 2008.

The period from 1<sup>st</sup> January 2007 to 31<sup>st</sup> December 2007 was known as the 'early reporting period'. In this early reporting period, and in the period from the 1<sup>st</sup> January 2008 to 30<sup>th</sup> June 2008, the current reporting regime will apply with the existing submission methods, together with data item FSA009, which was replaced by FSA003 on 1<sup>st</sup> January 2008, with data largely reported according to the existing reporting dates and frequency. During 2008, firms must continue to report existing data from 1<sup>st</sup> January to the 29<sup>th</sup> June 2008; however the frequency of some reports will change as the process of aligning firms to the new reporting frequencies from 30<sup>th</sup> June begins. For BIPRU 730k investment firms, and some 125k Securities and Futures firms, existing monthly returns become quarterly. BIPRU 125k quarterly returns will remain as quarterly reporters. For BIPRU 50k investment firms, existing quarterly returns become half yearly. All 730k firms need to ensure however that they continue to report FSA003 on a monthly basis from 1<sup>st</sup> January 2008, even if their other reporting dates change.

For reporting dates after 30<sup>th</sup> June 2008, all firms subject to the CRD must report their data to the FSA using the full set of new data items, and the existing reporting forms and methods of submission, will be withdrawn.

The remaining data items that were to be reported from 1<sup>st</sup> January 2009, now need to be reported from the earlier date of 31<sup>st</sup> August 2008. These include FSA005 (Trading Book Market Risk), FSA006 (Market Risk) and FSA007 (Operational Risk). Refer to the previous table for submission dates of all data items.

## Mandatory Electronic Reporting

The FSA planned to introduce Mandatory Electronic Reporting (MER) in phases during 2007 and 2008. From 1<sup>st</sup> January 2007, data item FSA009 (and from 1 January 2008 FSA003) was submitted under MER through the early reporting system.

From 30<sup>th</sup> June 2008, all firms subject to the CRD will have to submit the new set of financial data items under MER through GABRIEL. All CAD exempt firms will need to start reporting the new data items from 31<sup>st</sup> August 2008.

MER will be implemented in a number of ways summarised on the following table.

**Table 4**

<b>Submission Method</b>	<b>Description</b>
Online	The firm will log onto the IRR website, enter the MER System and manually key their regulatory data.
Offline (FSA form)	The firm will access a desktop application or a 'downloadable' form from the MER System. They will be able to complete their data offline for upload to the MER System at a later date.
Offline (vendor package)	Similar to the above option, the firm will access a desktop application or downloaded form provided by external software providers.
Web upload	The firm will be able to produce an XML file compliant with schema definitions published by the FSA. A firm choosing this solution will be able to set up routines and software to automatically extract the necessary data from its business and operational systems into an XML instance document. This file will then be transferred to the FSA using an upload facility provided within MER System. They would then submit their data in the same way as if they had manually keyed it into the web forms.
Direct communication (Direct to FSA)	The firm will produce an XML file compliant with schema definitions published by the FSA. This file will be transferred to the FSA using a secure file transfer mechanism. A firm choosing this solution will be able to set up routines and software to automatically extract the necessary data from its business and operational systems and schedule it to be sent to the FSA automatically, thus removing the need for manual input of the data. Validation results will be made available to the firm in the form of an XML instance document. This solution has previously been referred to as system to system' or 'B2B'.
Direct communication (vendor package)	The firm will purchase a package to produce an XML file compliant with schema definitions published by the FSA. This file will be transferred to the FSA using a secure file transfer mechanism. Third party software providers may set up routines and software to automatically extract the necessary data from its business and operational systems and schedule it to be sent it to the FSA automatically, thus removing the need for manual input of the data. Validation results will be made available to the vendor package in the form of an XML instance document.

© CPA Audit LLP. First edition, December 2006; 2<sup>nd</sup> edition, with updates, October 2007; 3<sup>rd</sup> edition, with further updates, January 2008; 4<sup>th</sup> edition with further updates June 2008.