

A Guide to Integrated Regulatory Reporting (IRR) and Mandatory Electronic Reporting (MER)

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 August 2008. Firms subject to the CRD and MiFID are currently required to complete data items FSA009 and FSA028, and will need to start using the remaining data items as each is introduced during the period from 1st January 2008 to the 31st August 2008.

Until firms switch to the CRD, they should continue to use the existing reporting methods. From 1st 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 1st January 2007 with the current forms. Data item FSA009 is not required to be submitted at the same time as the annual reporting statement.

This technical update introduces the new data items and outlines specific reporting requirements under IRR for Investment Management firms and Securities and Futures firms. It also sets out the transitional arrangements that will operate until 31st August 2008, and the FSA’s new system of Mandatory Electronic Reporting (MER) which will go live from the 1st July 2008.

The new data items

The new data items are identified by codes consisting of a three digit number prefixed by the letters “FSA”. Current reporting periods and deadlines will also alter as set out as in the tables on the following two pages. Full details are outlined in SUP16 of the FSA Handbook.

Data Item	Content	BIPRU Firm type	Reporting Period	Deadline (bus. Days)	Implementation date
FSA 001	Balance sheet	730k, 125k	Half yearly	20	30 th June 2008
		50k	Half yearly	30	
FSA 002	Income statement	730k, 125k	Quarterly	20	30 th June 2008
		50k	Half yearly	30	
FSA 003	Capital Adequacy	730k	Monthly	15	1 st Jan 2008
		125k	Quarterly	20	
		50k	Half yearly	30	
FSA 004	Breakdown of Credit Risk Data	730k, 125k	Quarterly	15	1 st Jan 2008
		50k	Half yearly	30	
FSA 005	Trading Book Market Risk	£50m + in market risk (may change)	Quarterly	15	31 st August 2008
FSA 006	Market risk (supplementary)	730k firms with CAD2 waiver under BIPRU 2.1.40R.	Quarterly	20	31 st August 2008
FSA 007	Operational Risk	Full BIPRU firms only	Quarterly	15	31 st August 2008
FSA 008	Large Exposures	All firms	Quarterly	20	30 th June 2008
FSA 009*	Key Data during 2007	All firms	With pre-IRR forms	With pre-IRR forms	1 st Jan 2007
FSA 019 **	Pillar 2 Information	All Firms	Annual	2 months	30 th June 2008
FSA 028	Non-EEA Sub-Groups	Firms with non-EEA sub-groups	Half yearly	30	1 st Jan 2007

* To be used in conjunction with the existing forms until full adoption of CRD

** Forms part of the ICAAP

Data Item	Content	BIPRU Firm type	Reporting Period	Deadline (bus. days)	Implementation date
FSA 029	Balance Sheet	All Firms	Quarterly	20	31 st August 2008
			Annually	80	
FSA 030	Income statement	Non ISD/Non MiFID and exempt CAD firms.	Quarterly	20	31 st August 2008
			Annually	80	
FSA 031	Capital Adequacy		Quarterly	20	31 st August 2008
FSA 032	Capital Adequacy		Quarterly	20	31 st August 2008
FSA 033	Capital Adequacy		Quarterly	20	31 st August 2008
			Annual	80	
FSA 034	Capital Adequacy		Quarterly	20	31 st August 2008
			Annual	80	
FSA 035	Capital Adequacy		Quarterly	20	31 st August 2008
			Annual	80	
FSA 036	Capital Adequacy		Quarterly	20	31 st August 2008
			Annual	80	
FSA037	Capital Adequacy		Quarterly	20	31 st August 2008
			Annual	80	
FSA038	Volumes and types of business	All firms	Half yearly	30	31 st August 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 are advising that firms should endeavour to complete these returns in a similar way as at present, although this will result in inaccurate financial resources and liquid capital figures being reported.

In addition to submitting these returns according to their existing timetables, firms should submit FSA009 (to the same timetable) which will give the correct calculation of their capital resources and capital requirements, until 1st January 2008 when data item FSA003 will replace FSA009.

Within the existing returns, firms provide information on large exposures, based on the percentage of own funds. In future, this will 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)

Until a firm adopts the CRD, the SRS will not accurately reflect the firm's capital and solvency position after 1st January 2007. This is primarily because the SRS is completed by firms that fall into one of three CRD categories, that is: BIPRU investment firm, BIPRU limited activity firm or BIPRU limited licence firm. Each of these firm types has a capital resources requirement under GENPRU 2.1.15R which differs from that required under the current rules. Rather than amend the SRS to cater for this, FSA have decided to allow firms that have not switched to the CRD to continue submitting the current SRS during 2007 until such time as they do switch to the CRD.

Balance sheet and profit and loss data should be largely unaffected by the changes, but there will be some parts of the current forms that will not be accurate. While firms may be able to correctly show the treatment they are adopting for illiquid assets, and may be able to manipulate the report to

reflect the changes to certain position risk requirements, FSA are advising firms to follow current practice as far as possible during 2007 when reporting on these returns. The correct figures will, however, be reported on FSA009, which should be reported at the same time as the SRS.

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 21A on FSA009 (or data element 73A on FSA003). This will apply to both unconsolidated and consolidated reporting on these forms.

With the CRS, where the information it provides relates entirely to capital adequacy, it is proposed to drop the reporting requirement for it from 1 January 2007, but replace it with the need to report on FSA009 at the same dates and to the same timetable.

Transitional Arrangements

The start date for the new data items, originally scheduled for 1 January 2008, will now start from 30 June 2008 with the exception of data items FSA003 (Capital adequacy) and FSA004 (Credit risk) which start on the 1st January 2008, and FSA009 (Key data) which is reported until December 2007.

In the case of investment firms, many of them submit consolidated financial returns that only contain information relating to capital adequacy. As these figures will be fundamentally wrong during 2007, due to the conflicting requirements of the IPRU rules and the elements of BIPRU in play from January 1st 2007, the need to report on these forms will be dropped for firms affected by the CRD, but will be replaced by the need to provide FSA009 to the same time scale as indicated above.

For reporting purposes, the period from 1 January 2007 to 31 December 2007 inclusive will be known as the 'early reporting period'. In this early reporting period, and in the period from the 1st January 2008 to 30th June 2008, the current reporting regime will apply with the existing submission methods, together with data item FSA009 (which is replaced by FSA003 and FSA004 on 1st January 2008), with data reported according to the existing reporting dates and frequency.

For reporting dates after 30th 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.

Reporting data remaining for deposit takers, investment firms subject to the CRD and other investment firms previously to be reported on 1 January 2009, will now need to be reported on the earlier date of 31 August 2008. These include FSA005 (Trading Book Market Risk), FSA006 (Market Risk) and FSA007 (Operational Risk). Refer previous table for submission dates of all data items.

Mandatory Electronic Reporting

The FSA plans to introduce Mandatory Electronic Reporting (MER) in phases during 2007. From 1st January 2007, the new data item (FSA009 and from 1 January 2008 FSA003) must be submitted under MER through a new FSA system.

From 30th June 2008, all firms subject to the CRD will have to submit the new set of financial data items under MER through the new FSA system. MER will be applied fully from 1st July 2008.

For Article 67(3) MiFID firms, where their financial reporting is affected by recast CAD Articles 7 & 8, MER will be applied from 1st November 2007, the MiFID implementation date.

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

Submission Method	Description
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.