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## **Notes on FSA PS04/8**

### **Regulatory Reporting – a new integrated approach**

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**Notes on FSA PS04/8**  
**Regulatory Reporting – a new integrated approach**

- Following consultation on CP198 – FSA have revised certain of their proposals and made rules which will be implemented with effect from **1 April 2005**
- **MER**
- Mandatory Electronic Reporting (MER) is to be introduced so that all of the FSA reporting requirements applicable to a given firm will, ultimately need to be submitted electronically in one of two ways:
  - A web-browser based forms interface, where firms will log onto a secure website area and complete forms online; or
  - A direct channel for system-to-system communication, where a firm's system will connect directly to FSA's system over a secure internet link
- It is recognised that the system-to-system approach will involve a cost to the firms which, for smaller firms will not be viable (the amount of time saved in manually inputting the data online will be outweighed by the IT costs of automation)
- FSA are already in consultation with the major software houses to build integrated solutions into their retail systems
- In response to concerns raised during consultation – MER will be implemented by a phased approach over the next three years although the first submissions will be due from 1 April 2005 – FSA take the view that the 12 months lead in time to this date should be sufficient (in the expectation that most firms will use the online route to MER at least initially)
- The XBRL standard has been chosen as the appropriate language
- FSA plan to publish an XBRL taxonomy and pre-submissions validation rules for the integrated regulatory return (IRR) to allow firms to build and test their system to system facilities, based on FSA's own system specifications
- Technical information on the XBRL requirements is included in Annex 4 to PS04/8 and will be of interest to IT personnel
- FSA is looking into the most appropriate means of securing the data submitted to it in the course of MER – both for its own comfort, to address the concerns of the firms responding to the CP and, of course, for legal and data protection reasons
- **Revised Complaints Data**
- The sourcebook "DISP" (Dispute Resolution: Complaints sourcebook) within the FSA handbook lays down requirements for complaint handling, including the requirements for the FSA complaints return
- CP198 made certain proposals to revise the requirements of this return in terms of the data required and also the timing of the return submissions
- The proposed changes included
  - additional product types;
  - additional complaint types;
  - number of complaints upheld by the firm in the given period;
  - total amount of redress paid to customers in the given period;
  - Number of complaints referred to FOS in the period.

- The last three of these generated some concerns amongst the respondents
- A number of changes to the proposals and additional guidance have been introduced as a result of the feedback
- The content of the revised complaints return is given at Annexes B and C to PS04/8.
- FSA point out that the layout of these may not be identical to that which will be presented in the online form to submit to FSA – but the data content will be the same
- Complaints upheld by the firm in the period
- There was a degree of concern over proposals here – as they did not make clear FSA’s expectations – for example if a complaint is upheld in part but not in others – is it to be reported as upheld
- FSA have now issued further guidance making clear that if any part of a claim is upheld – the whole complaint should be treated as upheld for reporting purposes
- Where a firm rejects a complaint, but elects to make an ex-gratia payment to the complainant, the complaint should be treated as rejected for reporting purposes
- Number of Complaints referred to FOS in period
- The requirement here is to report to FSA on all complaints which the FOS has agreed to investigate and which the firm will, therefore, be charged for by the FOS
- No additional detail – such as number upheld by FOS, etc. is currently sought
- Total amount of redress paid in period
- FSA have clarified that it will require firms to report on the total amount of financial redress paid in the period on all reportable complaints
- DISP 1.2.17R requires firms to provide a complainant with fair compensation for any acts or omissions it was responsible for
- Compensation or redress would normally be any amount paid by the firm where a cash value can be readily identified, examples include:
  - Amounts paid for distress or inconvenience
  - Where a firm provides a free transfer to another provider that would normally be paid for
  - Ex-gratia payments and goodwill gestures
  - Interest on delayed settlements
  - Waiver of an excess on an insurance policy
  - Payments to put the consumer back in the position they would have been in but for the act or omission
- NOTE – It would NOT include repayments or refunds of premium taken in error – e.g. where a firm had been taking by direct debit twice the actual premium due. The refund or overcharge would not count as redress
- Categories of complaint
- A number of firms requested guidance e.g. on how to record a complaint which could fall under various categories. and clarification of the difference between certain categories

- FSA has not provided any further guidance here and has put the onus firmly back on the firm to have in place documented complaints procedures and to record these and follow them in a consistent manner
- It is up to the firm to decide on appropriate complaint categories and this may be influenced by the nature of the firm's business or any precedents
- **Standing Data**
- This is the firm-specific data which FSA wish to ensure, through regular reporting, remains up to date
- Details of the standing data requirements are to be found in Annex A to PS04/8
- Following consultation, some additional data items are to be added to the standing data set:
  - Inclusion of any trading name(s) used by the firm
  - Annual confirmation of the firm's auditor
- Firm Type
- The initial proposals required that, in their reports, firms indicated which of various "firm types" they belonged in and also identified which of these was their main business focus. As a result of consultation the need to identify the main business focus as part of the standing data has now been dropped
- **Reporting Deadlines and alignment with accounting year end**
- Although the detailed submission dates are not yet available, FSA have proposed aligning all reporting dates with the firms accounting year end
- In consultation on CP198, some firms, mainly smaller firms, expressed a concern that aligning all reporting to this date, when a firm will already be concerned with finalising its accounts, could lead to a bottleneck
- As the number raising this concern was relatively small, FSA is not proposing to change its stance
- **The Integrated Regulatory Return (IRR)**
- A new approach from FSA which will result in firms reporting on the regulated activities they carry out, rather than on firm type. This is designed to result in a more consistent approach with firms carrying on similar regulated activities submitting similar information to each other
- The IRR for a given firm will be the full set of information required by the FSA for that firm based upon the particular combination of regulated activities that firm carries out.
- The information will be submitted electronically to FSA (MER) in a format specified by FSA
- It is important to recognise that the IRR is not a single set of forms, it is a concept. The exact nature of the forms and their content will vary from firm to firm, dependent upon their regulated activities, size, etc. (i.e. the IRR is not 'one size fits all')
- Alongside the IRR, the firm will need to confirm its standing data annually (the standing data confirmation does not form a part of the IRR itself)
- Some elements of the IRR will be common to all authorised firms, e.g. all will need to submit complaints data and information on financial resources – this is termed "Common Data"

- Other elements of the IRR will relate to specific regulated activities and only those firms carrying on those activities (in line with FSA permissions/authorisation to do so) will be required to submit data on those as part of their IRR. These may include such items as arrears information for regulated mortgage lending or persistency data from life insurers. Such data is termed “Specialist/Specific Data” – this will be included as an annex to the IRR
- A table to illustrate potential sets of Common and specialist data is included in PS04/8 at 7.1. No comment is sought on this at this stage as it is draft only and has been included only to aid understanding of the principle.
- FSA is seeking to reduce and remove where possible the potential for duplication of data in a firm’s reporting.
- Each regulated activity will carry its own reporting requirement –but some of these requirements may be common to several regulated activities – in which case the FSA is endeavouring to ask the firm to confirm the data just once (not once for each regulated activity)
- FSA will group together regulated activities which carry common reporting elements. There are ten regulated activity reporting groups
- FSA will generate a full set of reporting requirements for each regulated activity reporting group. For a firm all of whose regulated activities fall within one group – this set of reporting requirements for that group will form the firm’s entire IRR
- Where a firm carries on regulated activities from more than one group the reporting becomes more complex. It will entail FSA identifying the complete data set required across all of the groups the firm is involved in and then “tagging” common and similar data and de-duplicating as necessary
- The data items tagged as similar will then be ranked in a hierarchy – the ten regulated activity groups are ranked in a hierarchy based on:
  - The risks to consumers in the event of the firm’s insolvency;
  - The time it would take to resolve customer claims in the event of financial failure;
  - The nature of the relationship the firm has with the customer (creditor; fiduciary; advisory); and
  - The broader impact on the statutory objectives
- Where a data item with the same “tag” appears in two or more of the firms regulated activity reporting groups then the data item senior in the above hierarchy satisfies the junior requirements in the hierarchy – so only the senior one needs to be included in the firm’s IRR
- Other Factors
- In addition to the regulated activities there are other factors which may affect a firm’s IRR. Examples include: waivers; inward passports, etc.
- Also whether a firm is a mutual or limited company may affect how capital is calculated
- So a firm’s unique regulatory reporting requirement will be defined by a combination of the above
- Regulated Activities + Other Factors = Reporting requirements

- All of the regulatory information FSA requires a firm to report will be identified in SUP 16 (Chapter 16 of the supervision sourcebook). The existing SUP16 is difficult to navigate and will be restructured to this end
- Some illustrative examples (for guidance only) of what the IRR for firms in multiple groups may look like are included in Annex 3 to PS04/8
- **Timetable for implementation**
- Most firms will be impacted by MER from 1 April 2005
- This will affect all firms involved in:
  - Retail investment activities
  - Regulated mortgage lending and administration
  - Mortgage mediation
  - Insurance mediation
  - All firms required to submit complaints returns
- The remaining MER requirements will be phased in during the period from 1/4/05 to 2007 when the remaining requirements for deposit takers and principal position takers will have come into effect
- **The Reporting Rules**
- **Standing Data reporting rules**
- SUP16.10.4R requires a firm to
  - check the accuracy of its standing data through the relevant section of the FSA website within 30 business days of its accounting reference date
  - If the standing data is correct this must be confirmed to the FSA electronically via the website
  - If the standing data is incorrect in any respect the corrections must be notified to the firm's usual supervisory contact at FSA by email (corrections may be notified in this way more frequently than the annual minimum requirement)
- The Standing Data will be the following (as detailed in SUP 16 Annex 16R:

<b>A: communication with a firm</b>	<b>B: Information about a firm on the FSA Register</b>	<b>C: Other information about a firm</b>
1. Name of firm	9. Regulated activities for which the firm has permission	12. Firm types
2. Trading name(s) of firm	10. Whether the firm holds Client Money	13. Passported activities
3. Country of incorporation	11. Whether the firm is an "ISD investment firm"	14. Name and address of firm's auditor
4. Registered Office		15. Legal Status
5. Principal place of business		16. Accounting reference date
6. Website address		
7. Telephone number		
8. The name and email address of the principal compliance contact		

- Note: the firm types referred to at C 12 above are prescribed in SUP 16 Annex 17R
- **Complaints Reporting Rules**
- DISP 1.5.4R requires that a firm must provide FSA **twice a year** with a report in the format set out in DISP 1 Ann 1R
- These complaints returns are to be made within 30 business days of the end of each reporting period
- The reporting periods are 6 months long and on the accounting reference date, and 6 months after the accounting reference date
- Where a complaint could fall into more than one category, the firm should report it in the category which the firm considers to form the main part of the complaint (DISP 1.5.4R)
- The reports must be submitted electronically
- If the firm is unable to submit electronically due to a systems failure of any kind it must notify the FSA without delay and in writing of that systems failure
- The complaints return is divided into “Private Individual Complaints” and “Small Business complaints”
- In both of these the complaints are divided into a list of product categories prescribed by FSA
- Within these product categories the complaints are further subdivided into the following complaint categories:
  - Overcharging
  - Delays
  - Other admin
  - Misleading advice
  - Failure to carry out instructions
  - Poor customer service
  - Misleading advertising
  - Disputes over sums/amounts
  - Switching/churning
  - Breach of contract
  - Arrears handling
  - Other
- If no complaints are received during a reporting period and no complaints were outstanding at the start of that reporting period the firm may submit a NIL return (by ticking the relevant box at the start of the complaints return form)