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FCA Publishes “Dear CEO” Letter on Quality of Prudential Regulatory Returns

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On February 19, the UK’s Financial Conduct Authority (FCA) published a “Dear CEO” letter that it recently sent to IFPRU investment firms and BIPRU firms (as defined below) concerning the quality of information submitted to the FCA in prudential regulatory returns.

An IFPRU investment firm is an FCA-regulated firm that has its head office in the UK and is not a BIPRU firm, (i.e., not engaged in investment activities or services under the revised Markets in Financial Instruments Directive (MiFID II)). This designation includes the majority of proprietary trading firms.

A BIPRU firm is a firm authorized by the FCA to provide investment services (i.e., the execution of orders on behalf of clients or portfolio management, or the investment services of receiving and transmitting orders and/or providing investment advice, which will include all UK alternative investment fund managers with MiFID top-up permissions/collective portfolio management investment firms (CPMI firms)).

The FCA uses the returns to assess prudential risk and understand firms’ business models, financial positions and risk exposures. The information contained in the returns also forms a key part of firms’ risk management frameworks. Therefore, the way in which the FCA assesses the quality of firms’ risk management is influenced by the quality of data submitted in the returns.

In its Dear CEO letter, the FCA has identified a number of common issues that result in returns containing inaccurate or incomplete data (or both), which hinders the use of data submitted. Common issues identified by the FCA are firms:

1. failing to complete the underlying templates within the common reporting (COREP) submissions due to inadequate understanding of the prudential rules and inconsistent

completion of COREP returns;
2. failing to submit certain returns, such as the financial reporting return;
3. incorrectly calculating the total sum of risk exposures across various risk categories, for example market and credit risk, which can lead to an inaccurate figure for firms' capital requirements;
4. reporting using incorrect units;
5. not reporting cumulatively (i.e., on a year-to-date basis) on the FCA's FSA002, used for detailing firms' Income Statements.

The FCA notes that while the errors may seem minor in isolation, they can materially distort data aggregated and used by the FCA when it is analyzing a sector or group of firms.

The FCA has therefore asked the chief executive officers of IFPRU investment firms and BIPRU firms to review their firms' regulatory reporting practices to ensure that they are fit for purpose, comply with the relevant reporting provisions and produce materially accurate data.

As of October 1, the FCA will review a sample of firms' returns. If it finds that firms continue to submit materially inaccurate, incomplete and/or poor quality data, the FCA will consider taking further steps to improve the standards of returns.

The FCA's Dear CEO letter is available here.

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