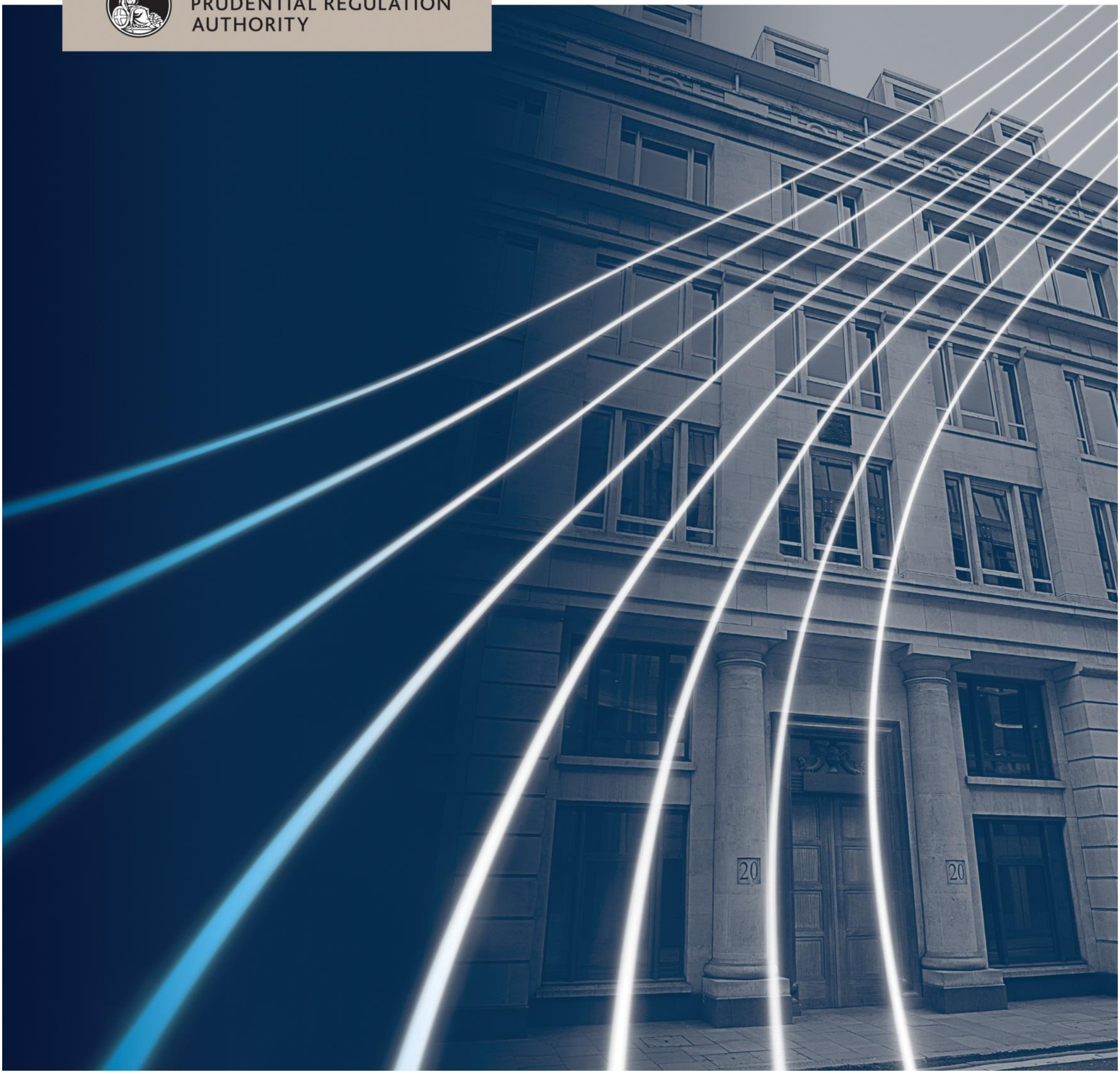
Policy Statement | PS32/16

Responses to Chapter 3 of CP17/16 - forecast capital data

November 2016

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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This policy statement provides feedback on responses received to the capital forecast related proposals in Chapter 3 (paragraphs 3.19 – 3.33) of Consultation Paper (CP) 17/16 'Regulatory Reporting of financial statements, forecast capital data and IFRS9 requirements'. The appendices to this PS set out the final rules, new templates and instructions and a supervisory statement to implement the relevant proposals consulted on in CP17/16.

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to forecast capital data proposals in Chapter 3 (paragraphs 3.19 – 3.33) of Consultation Paper (CP) 17/16 'Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements' (the 'CP').[1] In relation to capital data, in CP 17/16, the PRA proposed formalising the collection of the existing Capital+ (forecast capital resources and requirements) return through the introduction of three new returns (PRA101-PRA103).

1.2 The appendices to this PS contain the final rules (Appendix 1), Supervisory Statement 34/15 (Appendix 2) and templates and instructions (Appendix 3) for the new reporting requirements relating to forecast capital (Capital+) data in the Regulatory Reporting Part of the PRA Rulebook.

1.3 The PS is relevant to PRA-authorised banks, building societies and designated investment firms.

1.4 CP17/16 also included proposals relating to the future reporting requirements for balance sheet and statement of profit or loss (P&L) data (Chapter 3, paragraphs 1-18). The PRA is deferring publication of the final requirements to harmonise them with upcoming changes relating to International Financial Reporting Standard 9 (IFRS 9) [2] and taxonomy 2.7. This should help to minimise the impact on firms resulting from these changes.

1.5 Chapter 4 of CP17/16 was a discussion chapter on data requirements resulting from the introduction of IFRS 9. A formal consultation paper on the resulting proposals relating to IFRS 9, and the final policy following proposals on balance sheet and statement of P&L in CP17/16, will be published shortly.

1.6 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on the impact of rules on mutuals where the final rule differs from the draft of the proposed rule.[3] The PRA is also required by FSMA to publish a cost benefit analysis of any changes to the consultation proposals which the PRA considers to be significant[4]. The PRA has made some minor changes to the proposed rules and SS34/15 in light of feedback received, but in the PRA's opinion, the impact of the rules as made is not significantly different from the impact of the proposed rules on mutuals or other deposit-takers, nor represents significant changes resulting in the need for further cost benefit analysis.

1.7 The PRA is required by FSMA to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations and its response to them, and to publish details of any significant differences in the rules as made. The PRA received ten written responses to the CP. Overall the PRA does not consider that the responses received necessitate significant changes to the proposals. Chapter 2 outlines the issues raised by respondents in regard to Capital+ reporting and notes the areas where the PRA has made corresponding minor amendments to the proposals in CP17/16.

1 April 2016: www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp1716.aspx.
2 IFRS 9 website: http://www.ifrs.org/current-projects/iasb-projects/financial-instruments-a-replacement-of-ias-39-financial-instruments-recognitio/Pages/Financial-Instruments-Replacement-of-IAS-39.aspx.
3 Section 138K.
4 Section 138J(5).

1.8 The PRA will publish details of the systems which will be used by firms to report these returns on the PRA website by Tuesday 31 January 2017.[1] The PRA is considering various submission mechanisms, including a direct submission of XBRL and a simpler worksheet based submission option, as well as various collection mechanisms such as an automated submission mechanism or an online portal.

1.9 The policy has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

2 Reporting of capital forecasts

2.1 The CP proposed formalising the collection of the existing Capital+ (Forecast capital resources and requirements) return through the introduction of three new returns (PRA101-PRA103) from 1 July 2017. To provide more time for firms to prepare, the PRA confirms that the implementation date will now be 1 October 2017.

2.2 As the date of implementation has been extended, the PRA has also changed the first submission date from the end of one frequency period starting from the initial Capital+ reference date, to the beginning of that frequency period. As a majority of the firms are currently reporting Capital+ on a voluntary basis, this change ensures that firms move to submitting the return on a rules basis without significant gaps in their reporting. For the avoidance of doubt, between 1 October 2017 and the first time a firm's return is due under the new rules, the PRA would expect firms to continue submitting Capital+ returns under any current voluntary arrangements.

2.3 The PRA has also rearranged the ordering of the draft rules to enhance their readability, including the use of sub-headings, and has made some minor amendments to the draft rules to clarify the treatment of groups under the Capital+ reporting.

2.4 Firms requested a few minor modifications to the proposals, including the use of business days for defining the remittance periods and updating the template to align with the European Banking Authority's (EBA's) Common Reporting framework (COREP), which are covered in detail in the rest of this chapter. The PRA intends to proceed with these proposals with the minor modifications outlined below.

2.5 A worked example of how a firm applies the rules to determine its Capital+ reporting requirements is included at the end of this chapter.

Best Endeavours to be replaced by Reasonable Endeavours

2.6 Respondents requested more detail in relation to the definition of 'Best Endeavours' that was proposed in relation to the standard of reporting in the Capital+ return. The 'Best Endeavours' standard was referred to in the CP in the context of estimates of capital data for the most recent reference period (henceforth, referred to as 'actuals') collected in PRA101. The PRA recognises that there is inevitably a balance between the timeliness and the accuracy of data provided. Hence, the PRA has decided to require the actuals data in PRA101 to be prepared on a 'Reasonable Endeavours' basis rather than on 'Best Endeavours' basis; this is a more proportionate requirement. The instructions have been updated accordingly. Firms should note that the quality of data should be the same or better than the quality of data in

1 CRD firms – reporting requirements webpage: www.bankofengland.co.uk/pra/Pages/regulatorydata/formscrdfirms.aspx.

current Capital+ returns, completed on an ad hoc basis, and be compiled using a consistent and prudent methodology.

2.7 In response to a query from firms about the level of governance required to approve the data, the PRA has clarified in the instructions that firms should have appropriate governance and procedures to ensure the reasonableness of the data.

Capital forecasts

2.8 In response to a query from a respondent asking for clarification on how and when firms should update their forecasts, the PRA has added detail to the instructions to make clear that capital forecasts requested in Capital+ are based on a firm's latest capital plans and are estimates by their very nature. Forecasts should be updated on the next scheduled submission of the Capital+ in line with any revisions to the capital plan. Forecasts, and refreshes of forecasts, should have been subject to appropriate governance and review.

Alignment with COREP

2.9 One respondent requested that Capital+ should be aligned with the latest version of COREP used for EBA reporting. The PRA has updated the templates for Capital+ to align with COREP taxonomy 2.5.

Remittance periods

2.10 Respondents requested that Capital+ should continue to be reported on the basis of business days (as per current practice) rather than the calendar days proposed in the CP. After consideration, the final rules state that PRA101 should be reported 15 business days after period end (the current submission deadline for the monthly Capital+ report) while PRA102 and PRA103 should be reported 30 business days after period end. The move from calendar days proposed in the CP to business days means that costs should not increase for firms as the timelines are in line with current practice and do not decrease the number of business days available for firms to compile the data (as would be the case if calendar days were used).

Branches

2.11 One respondent requested clarification on whether Capital+ is reported by non-EEA banks authorised to accept deposits through a branch in the UK (branches). The proposals in the CP did not bring such branches into scope.

Annual Capital+ submitters

2.12 Whereas under the draft proposals, annual Capital+ submitters may have had to submit their returns six months from their accounting reference date (depending on where their accounting reference date fell relative to the 'initial Capital+ reference date'), under the final rules annual Capital+ submitters will in all cases submit their returns within 30 business days of their accounting reference date. This means that Capital+ reporting for annual Capital+ submitters would in all cases be aligned with firms ' accounting years.

Example of determining reporting requirements

2.13 Below is an example of how a firm's consolidated Capital+ reporting would be impacted by the rules (note that the example does not cover the firm's individual Capital+ reporting). All rule references are to the rules in the instrument set out in Appendix 1.

<u>Example 1</u>: When the rules come into force, the firm meets Capital+ condition 1. It has an accounting reference date of 31 December.

- The initial Capital+ reference date for the firm will be 31 December 2017 (the firm's accounting reference date), so the firm would assess itself against the thresholds on that date. In this example, the firm concludes that it meets the Capital+ condition 1 criteria at that point.
- This makes it a monthly reporter, and its first mandatory PRA101 would be due 15 business days after 31 Dec 2017.
- Its Capital+ reference dates going forward would be 30 June and 31 December every year.

Example 2: When the rules come into force, the firm meets Capital+ condition 5. It has an accounting reference date of 30 October.

- The initial Capital+ reference date for the firm will be 30 October 2017 (the firm's accounting reference date), so the firm would assess itself against the Capital+ thresholds for the first time on that date. In this example, the firm concludes that it meets the Capital+ condition 5 criteria at that point.
- This makes it a half yearly reporter, and its first PRA102 would be due 30 business days after 30 October 2017.
- Its Capital+ reference dates going forward would be 31 April and 30 October every year.

Example 3: When the rules come into force, the firm meets Capital+ condition 7. It has an accounting reference date of 30 September.

- The 'initial Capital+ reference date' for the firm will be 31 March 2018 (6 months after its accounting reference date), so the firm would assess itself against the Capital+ thresholds for the first time on that date. In this example, the firm concludes that it meets the Capital+ condition 7 criteria at that point.
- This makes it an annual reporter, and its first PRA103 would be due 30 business days after its first accounting reference date following the initial Capital+ reference date, ie 30 September 2018.
- Its Capital+ reference dates going forward would be 31 March and 30 September every year.

Example 3 is further discussed below to reflect the change in reporting requirements as the Capital+ conditions which the firm satisfies change.

Example 4: Assessment to an increased frequency of reporting

As at 30 September 2020, the firm in example 3 above concludes it now satisfies Capital+ condition 5.

- It would submit a PRA103 for the period ending 30 September 2020, and would then move to reporting half yearly on PRA102 (while it continues to meet the Capital+ condition 5).
- Its first PRA102 would be due 30 business days after 31 March 2021.
- Its Capital+ reference dates remain 31 March and 30 September.

Example 5: Assessment leading to a further increase in reporting frequency

As at 30 September 2021, the above firm in Example 4 concludes it now satisfies Capital+ condition 1.

- It would submit a PRA102 for the period ending 30 September 2021, and would then subsequently move to monthly submissions of PRA101.
- Its first PRA101 would be due 15 business days after 31 October 2021.
- It would continue to submit PRA101 monthly, 15 business days after the end of each month.
- Its Capital+ reference dates remain 31 March and 30 September.

<u>Example 6: Assessment leading to reporting at a lower frequency</u>

As at 31 March 2022, the above firm in Example 5 concludes it now satisfies Capital+ condition 7:

- It does not move to annual reporting unless it also satisfies Capital+ condition 7 on its next Capital+ reference date.
- It therefore continues to submit PRA101 monthly until 30 September 2022 (its next Capital+ reference date).
- If the firm again satisfies Capital+ condition 7 on 30 September 2022, it would move to annual reporting of PRA103 (as per Capital+ condition 7).
- The firm would submit PRA103 for the first time 30 business days after 30 September 2022.

<u>Example 7: Alternative outcomes</u>

As in Example 6 above, as at 31 March 2022, the firm concludes it now satisfies Capital+ condition 7 for the first time.

- It continues to submit PRA101 monthly until 30 September 2022 (its next Capital+ reference date).

On 30 September 2022:

- As set out above, if the firm continues to satisfy Capital+ condition 7, it will move to annual reporting of PRA103.
- If at that point the firm has increased in size and it goes back to satisfying Capital+ condition 1, there will be no change in its reporting as it did not meet the lower Capital+ condition on two consecutive Capital+ reference dates.
- Alternatively, if at that point it satisfies Capital+ condition 3, it will move to quarterly reporting of PRA101, with the first quarterly return being due 15 business days after 31 December 2022.

Appendices

1	**PRA Rulebook: CRR firms: Regulatory reporting amendment instrument 2016 available at: www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps3216.aspx**
2	**Supervisory Statement 34/15 'Guidelines for completing regulatory reports' update available at www.bankofengland.co.uk/pra/Pages/publications/ss/2016/ss3415update2.aspx**
3	**Capital+ templates (PRA101-PRA103) and instructions available at: www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps3216.aspx**