

10/1\*

Financial Services Authority

Quarterly  
consultation

(No 23)

January 2010



# Contents

1	Introduction	3
2	Proposed change to the Principles for Businesses (PRIN)	4
3	Proposed amendments to Chapter 16 of the Supervision manual (SUP)	5
4	Proposed changes to the Collective Investment Schemes sourcebook (COLL)	16
5	Proposed changes to the Disclosure and Transparency Rules sourcebook (DTR)	19
6	Introduction of a new Guidance Note on financial regulation for social housing	25
<b>Appendix 1:</b>	Introduction	
<b>Appendix 2:</b>	Proposed change to the Principles for Businesses (PRIN)	
<b>Appendix 3:</b>	Proposed amendments to Chapter 16 of the Supervision manual (SUP)	
<b>Appendix 4:</b>	Proposed changes to the Collective Investment Schemes sourcebook (COLL)	
<b>Appendix 5:</b>	Proposed changes to the Disclosure and Transparency Rules sourcebook (DTR)	
<b>Appendix 6:</b>	Introduction of a new Guidance Note on financial regulation for social housing	

The Financial Services Authority invites comments on this Consultation Paper. Comments on all the proposed amendments should reach us by 6 March 2010. You can submit your comments electronically using the form on our website (at [www.fsa.gov.uk/pubs/cp/cp10\\_01response.html](http://www.fsa.gov.uk/pubs/cp/cp10_01response.html)).

Or you can respond by email: [cp10\\_01@fsa.gov.uk](mailto:cp10_01@fsa.gov.uk)

If you wish to respond by letter, please send your comments to the person named at the end of each chapter and set out below:

Chapter 2: Susan Cooper Telephone: 020 7066 5956 or  
Fax: 020 7066 5957

Chapter 3: Amera Khan Telephone: 020 7066 2404 or  
Fax: 020 7076 2405

Chapter 4: Victoria Connolly Telephone: 020 7066 3914 or  
Fax: 020 7066 3915

Chapter 5: Andrew Broughton Telephone: 020 7066 0780 or  
Fax: 020 7066 0781

Chapter 6: Colin Kinloch Telephone: 020 7066 7362 or  
Fax: 020 7066 7363

If you are responding in writing to several chapters, please send your comments to Roslyn Anderson in Communications Division, who will pass your response on as appropriate.

All responses to the above people should be sent to:

Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

**It is our policy to make all responses to formal consultation available for public inspection, unless the respondent requests otherwise. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure.**

**A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.**

Copies of this Consultation Paper are available to download from our website – [www.fsa.gov.uk](http://www.fsa.gov.uk). Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

# 1 Introduction

In this Consultation Paper (CP), we invite comments on miscellaneous amendments to the Handbook. We propose amendments to:

- the Principles for Businesses (PRIN), to reflect the amendment the Treasury made in section 145 of the Financial Services and Markets Act (FSMA) in 2006 that allowed us to properly implement the MiFID communication rules;
- Chapter 16 of the Supervision manual (SUP) relating to the reporting requirements in SUP 16.12 – Integrated Regulatory Reporting;
- the Collective Investment Schemes sourcebook (COLL) to provide greater clarity on winding up and terminating authorised funds; and
- the Disclosure and Transparency Rules (DTR) to clarify the Transparency Rules within DTR that were created on 20 January 2007 in order to implement the Transparency Directive 2004/109/EC (TD) in the UK.

We are also proposing to introduce a new Guidance Note on financial regulation for social housing providers.

Responses to this CP should be received by **6 March 2010**.

The proposals in Chapters 2 and 4 may be of interest to consumers.

# 2 Proposed changes to PRIN 3.2.2R

- 2.1 A minor, technical amendment is proposed for PRIN 3.2.2R to ensure this rule, which details how the Principles apply to firms communicating or approving financial promotions, accurately reflects our rule-making powers under FSMA section 145.
- 2.2 In particular, this amendment will reflect the amendment the Treasury made to section 145 of FSMA in 2006 that allowed us to properly implement the MiFID communication rules.
- 2.3 No cost benefit analysis or market failure analysis has been prepared as we consider that this amendment will have no impact on firms' behaviour and will result in either no or negligible costs for stakeholders.
- 2.4 The text of the proposed changes is set out on Appendix 2.

## Contact

Comments should reach us by **6 March 2010**. Please send them to:

Susan Cooper  
Investment Policy  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Telephone: 020 7066 5956  
Fax: 020 7066 5957  
Email: [cp10\\_01@fsa.gov.uk](mailto:cp10_01@fsa.gov.uk)

# 3 Proposed changes to SUP 16

## Introduction

- 3.1 This chapter proposes amendments to Chapter 16 of the Supervision manual (SUP) relating to the reporting requirements in SUP 16.12 – Integrated Regulatory Reporting. We would make these amendments under sections 138, 156 and 157 of FSMA. The text of the proposed amendments is set out in Appendix 3 to this CP.
- 3.2 The proposed amendments affect the following provisions:
- various rules and guidance between SUP 16.12.1R to SUP 16.12.33R; and
  - SUP 16 Annex 24R (reporting forms) and SUP 16 Annex 25G (guidance on completing the forms).
- 3.3 Our amendments and proposed changes are driven by recent enquiries and requests for clarification of reporting requirements. Some of the proposals include validation changes to our reporting system (GABRIEL)<sup>1</sup> and some firms may need to adjust their systems to take account of these changes.
- 3.4 We are also proposing amendments to the guidance, which is designed to help firms complete their returns. Our aim is to make it easier for firms to follow our reporting requirements and we do not intend to impose an extra financial or reporting burden on them.

## Proposed amendments – SUP 16.12.1R to 16.21.33R

- 3.5 This is relevant to:
- firms subject to the Capital Requirements Directive (CRD);
  - UK consolidation groups;

---

<sup>1</sup> Gathering Better Regulatory Information Electronically.

- firms which are unable to hold client money in relation to MiFID business and do not have a safeguarding and administering investments permission (exempt Capital Adequacy Directive (CAD) firms);
- other investment firms;
- Lloyd’s members’ advisers; and
- firms carrying out contracts of insurance.

## Summary of amendments

3.6 The proposals in this chapter are:

- correcting reporting rules (SUP 16.12);
- changes in guidance (SUP 16 Annex 25G);
- changes to validations (SUP 16 Annex 25G); and
- changes to data items.

3.7 Our intention is to clarify existing reporting requirements rules and policy by revising some of the wording in SUP 16.12. We intend the amendments to help firms to better understand the data items they need to report.

## Clarifying SUP 16.12 rules and notes

### *FSA007 – Note 3 in SUP 16.12.6R and 16.12.7R*

3.8 Note 3 in SUP 16.2.6R states that the reporting date for FSA007 (Operational risk) is six months after a firm’s most recent Accounting Reference Date (ARD). The original policy intention for this was to allow firms time for their data to be audited. However, a restriction in the GABRIEL system that prevents firms from entering the data until six months after the firm’s ARD is causing confusion.

3.9 We propose to remove this restriction in the GABRIEL system, which will allow firms to submit data into FSA007 within six months after the ARD has passed. The reporting period is 12 months, ending on the firm’s ARD. We also propose to amend SUP 16.12.7R to reflect our expectation of firms to submit within six months after the ARD.

### *FSA044 – SUP 16.12.6R*

3.10 SUP 16.12.6R incorrectly states that UK consolidation groups should report on a half-yearly basis. We intend to change this rule to require firms to report on a quarterly basis. This will reflect how FSA044 is currently collected on the GABRIEL system and our initial intention as set out in paragraph 7.24 of CP07/17 *Integrated Regulatory Reporting (IRR): Changes to reporting requirements affecting most firms* (July 2007).



## Changes to SUP 16 Annex 25G guidance

### *FSA002 – Data elements 9B and 10B*

- 3.11 Data element 9B requires performance fees to be documented, while data element 10 requires input on investment management fees. To avoid double counting, we propose to include guidance stating that data elements 9B and 10B are mutually exclusive.

### *FSA002 – Data element 6B and 31B*

- 3.12 We have identified a problem with FSA002 guidance in relation to the reporting of interest rate swaps. To ensure firms are clear about where they should report interest paid and received on swaps, we propose to add guidance for data element 6B and 31B. Guidance for 6B will instruct firms to report any interest received on swaps entered into for the purposes of hedging interest here. Any interest paid on such swaps should be reported in 31B.

## Proposed changes for UK consolidation groups

In paragraphs 3.13 to 3.17, we explain some proposals for reporting by UK consolidation groups.

### *FSA003 – Data element 77A to 84A, 85A to 89A and 94A to 102A*

- 3.13 We propose to clarify the guidance for UK consolidated group reporting in these data elements to reflect our original intention in this regard. This clarification is required because guidance for these data elements has been misinterpreted by a limited number of firms, to the detriment of our ability to understand, across groups, the implications of the Capital Requirement Directive (CRD) and its impact on macro-prudential issues.
- 3.14 The proposed changes would ensure that all capital requirements calculated under BIPRU 3 and 4 (for the credit risk capital component), BIPRU 6 (for operational risk capital requirement), and BIPRU 7 (for market risk capital requirements) include, for UK consolidation groups, the equivalent capital requirements calculated under the CRD for other European Economic Area (EEA) firms in the UK consolidation group. These data elements would of course be reported after any consolidation adjustments, which would remove inter-group capital requirements.
- 3.15 As a result, the data elements 78A, 86A and 94A are being renamed and should in future include only the relevant capital requirements that have not been calculated under the provisions of BIPRU 3, 4, 5 or 7 or their equivalents under the CRD. These data elements are expected to include only the various capital requirements for firms incorporated outside the EEA, and those firms that are incorporated in the EEA but are not subject to BIPRU or the CRD. Any UK consolidation group that only comprises BIPRU firms and other EEA firms subject to the CRD will not report any figures in these data elements.

#### *FSA004 – Guidance change*

- 3.16 We propose to remove the reference to BIPRU 8.7.13R(2) and add guidance to state that, for UK Consolidation groups, we require credit risk data calculated under the Standardised Approach (SA)/Internal Ratings Based (IRB) approaches to be detailed within this data item. The guidance will also ask firms to exclude any part of the consolidated credit risk requirement that has been calculated using the rules of a non-EEA regulator.

#### *FSA005 – Guidance change*

- 3.17 We propose to remove the reference to BIPRU 8.7.13R(2) and add guidance to state that, for UK Consolidation groups, firms should exclude any market risk capital requirement that has not been calculated under BIRPU 7 or under the equivalent provisions of the CRD (in the case of firms incorporated outside the UK).

#### *FSA007 – Guidance change*

- 3.18 To ensure consistency with the guidance changes for FSA004 and FSA005, we propose to add to the guidance for FSA007 to state that, for UK Consolidation groups, firms should exclude any operational risk capital requirement that has not been calculated under BIPRU 6 or under the equivalent provisions of the CRD (in the case of firms incorporated outside the UK).

#### *FSA015 – UK and non-UK split*

- 3.19 The guidance recommends that, where a split of exposures between UK and non-UK is required, this should be done based on the location of the lending entity. However, this guidance appears to be at odds with the wording in rows 21–22 and 24–25, where exposures to UK/non-UK financial institutions and to UK/non-UK non-financial institutions need to be reported separately.
- 3.20 To resolve this, we propose that our current guidance – which requires the split of exposures to be based on the location of the lending entity – will apply to the retail and corporate sector sections of FSA015. We also propose to add that the financial sector and non-financial institutions categories need only be split by domicile of the counterparty to which the firm have an exposure. If the firm does not have details of the counterparty, then it should report using the same basis for the UK/non-UK split as for retail and corporate sectors, i.e. the location of the lending entity.

#### *FSA015 – Columns J to M*

- 3.21 For FSA015 we are expecting firms to report figures for the latest quarter or half-year only in columns J-M headed ‘in period’. To ensure firms understand this, we propose to define the ‘in period’ data as the amount of write-offs or impairment charge raised since the last reported FSA015. In most cases this will mean the last quarter, whereas for a UK consolidation group this will mean the last half-year.
- 3.22 We will also add guidance to inform firms that completing column J may be a difference due to accounting convention, as write-offs should be reported as a

positive figure. On FSA015 a negative number will be taken to indicate a write-back. Similarly for columns K and L, where an impairment charge is reported on the Income Statement (FSA002) it should be reported on FSA015 as a positive amount. A negative number will indicate the release of an impairment charge (reduction in provision).

#### *FSA015 – Columns B to G, rows 1 to 11*

- 3.23 We propose to clarify the guidance to state that the balance of the account in arrears should be reported within these columns. We are also clarifying where to include properties in possession.
- 3.24 We will also change the headings of columns B to D because the current symbols are ambiguous. For example, column B is headed 1.5 < 2.5% and column C is headed 2.5 < 5%, so an account exactly 2.5% in arrears could be entered in either column. For this reason, we intend to make the changes below to the symbols so the bandings are consecutive. An account in 2.5% in arrears will now go into column B, which is now headed clearly for amounts equal to or less than 2.5% but greater than 1.5%. We will add to the guidance to reflect these changes. The bandings are themselves unchanged.

Column B 1.5 <= 2.5 %

Column C 2.5 <= 5.0 %

Column D 5.0 <= 7.5 %

Column E 7.5 < =10 %

Column F >10%

#### *FSA015 – Column H*

- 3.25 We propose to add further guidance to make it clear that a firm should report in this column that data which is included in the balance sheet valuation of items made under IFRS or UK GAAP, as appropriate. For example, where a firm is using IFRS and including derivatives on its balance sheet when it is reporting FSA001, then the firm should also include the derivative figures in Column H of FSA015.

#### *FSA015 – Column B and Column C rows 12 to 26*

- 3.26 To clarify the existing guidance where a proportion of the balance is past due, we propose to include guidance that states these columns should contain the total balance.

#### *FSA015 – Column D rows 12 to 26*

- 3.27 We intend to amend the guidance to reflect that column D should contain the balance of exposures that are impaired.

#### *FSA030 – Data elements 1A to 4A*

- 3.28 Due to the generic nature of FSA030, not all data elements regarding dealing, profit or loss are necessarily relevant to the business undertaken by a firm. To ensure firms only complete the sections of FSA030 that are relevant to its business, we propose to

insert guidance to reflect this position in the introduction section and in the header of the Dealing/Profit (Loss) section.

#### *FSA030 – Data elements 7A to 10A*

- 3.29 Data elements 7A to 10A are within the grouping of revenue data elements 5A to 14A, with data element 14A showing the total revenue of the aggregate of data elements 5A to 13A. We require the proportion of revenue attributable to UCITS management fees to be disclosed separately, under data element 10A, from other investment management fees, under data element 7A.
- 3.30 The format of the data item allows the total revenue (data element 14A) to be split as applicable under data elements 7A to 13A. To avoid any ambiguity, we propose to add to the guidance to state that the data elements 7A and 10A are mutually exclusive of each other.

#### *FSA031 – Data elements 35E to 35H*

- 3.31 FSA031 requires a firm to input its Professional Indemnity Insurance (PII) limits of indemnity (LOI) in the same currency as the rest of the data items, i.e. if a firm inputs data in sterling, it must input its LOI in sterling too. We therefore believe that as the PII LOIs are set in Euro currency limits, firms should have the option to report them in Euros.
- 3.32 In order to accommodate the above proposal, a guidance change is required. If a firm takes out a PII in a currency other than Euros then the relevant rule requires the LOI to be complied with at the date of commencement or renewal. This follows instructions as set out in MIPRU 3.2.8R. We propose to update guidance for rows 35E to 35H accordingly.

#### *FSA032 – Data elements 38E to 38H*

- 3.33 Like FSA031, we propose to allow firms to report PII LOIs for FSA032 in Euros.
- 3.34 Allowing firms to report this data item in Euros will initiate the same guidance change as set out in paragraph 3.32 above. We also propose to update the guidance for rows 38E to 38H accordingly.

#### *FSA044 – Data elements 10A to 10G*

- 3.35 We propose to include examples of ‘other financial assets’, these being Over the Counter Residual Value (OTC RV) balances, estimated margin balances and long trading inventory positions. Investments should be included here, unless they are investments in subsidiaries, in which case they should be reported in 13A ‘other assets’.

#### *FSA044 – Data elements 13A*

- 3.36 We propose to add further guidance stating that investments in subsidiaries should go into this data element. The guidance will also ask firms to detail goodwill and intangible assets here.

#### *FSA044 – Data elements 28A to 28G*

- 3.37 We propose to provide additional guidance to make it clear that liabilities should be reported here and allocated to the time bands on a best efforts basis.

#### *FSA044 – Accrued interest*

- 3.38 Following queries from firms on how to report accrued interest, we intend to add guidance to ensure firms are not reporting this in data elements 13 and 28 as other assets or liabilities. The guidance will read ‘Accrued interest should be allocated along with the underlying exposure to the appropriate data elements’ in FSA044.
- 3.39 Some firms have queried whether figures in FSA044 need to match those in FSA001. We propose to include guidance to make it clear that, although for some firms FSA001 and FSA044 will be similar, there may legitimately be differences due – for example, for some netting being allowable on FSA001 but not on FSA044 and the inclusion of derivatives on the balance sheet for FSA001 but being excluded from FSA044.

#### *FSA044 – Maturity (columns B to D)*

- 3.40 We also propose to clarify the term ‘unconditionally cancellable’ in the guidance, to state that this means simply that an obligation is unconditionally cancellable, where a firm has an absolute right to cancel it for any reason.
- 3.41 Following queries received on short inventory positions, we will include guidance to state that the maturity of a short inventory position should be shown as the maturity of the transaction, i.e. the maturity of the stock borrow or reverse repo.

#### *FSA044 – Columns C to D headings*

- 3.42 Column C has the heading ‘Cancellable < 1yr’, which means that it has residual maturity of < 1yr. Column D has the heading ‘Cancellable > 1yr’, which means that it has residual maturity of > 1yr. We propose to add to the guidance to make these headings clear and to make firms aware that the residual maturity definition applies to lines 32 to 39 inclusive.

#### *FSA044 – Data element 30*

- 3.43 We propose to define the term ‘reserves’ used in the guidance as being accounting reserves that would include profit and loss, revaluation and Market to Market (MTM) adjustments and Available for Sale (AFS) securities.
- 3.44 We also intend to make it clear that loan loss reserves should be netted against the relevant loan asset lines.

#### *FSA044 – Data element 34*

- 3.45 We propose to add guidance for this data element to explain that mortgage commitments should be included here.

### **SUP 16 Annex 25G – changes to validations**

#### *FSA003 – change to validation 91 and 110*

- 3.46 Where a firm's base capital requirement is higher than its variable capital requirement, the validations for data elements 106 and 107 force firms to calculate the surplus according to data item 70, variable capital requirement. To ensure this is corrected, we propose to change the guidance notes and validations so that the capital requirement number in data elements 106 and 107 is the higher of lines 69 and 70. However, if a firm's base requirement is higher, it can only use capital from tiers one and two. So the validations will be changed to the following to reflect this:

$$91 \quad 106A = 15A - 70A \text{ or, where } 69A > 70A, 57A - 69A$$

$$110 \quad 107A = (15A/70A) * 100 \text{ or, where } 69A > 70A, (57A/69A) * 100$$

#### *FSA004 – Removal of validation 13*

- 3.47 Data element 36 'Non-credit obligation assets' forces the exposure value to be reported as a capital requirement figure, which is then to be divided by 8% and therefore implies a 100% weighting. However, given that it is possible that the risk weight applied is less than 100%, we propose to remove validation 13 below:

$$36B = 36A/8\%$$

#### *FSA005 – Removal of validation 25G*

- 3.48 We have noted that there is an error in the validation for data element 25G in FSA005 – the figure in element 25G should also include 23G multiplied by 2%. For this reason, we propose to amend the validation below:

$$25G = (22G \times 2\%) + (24G \times 4\%)$$

The new validation will include the additional 23G multiplied by 2%:

$$25G = (22G \times 2\%) + (24G \times 4\%) + (23G \times 2\%)$$

#### *FSA008 – Removal of validation 5N*

- 3.49 We propose to remove the validation below for 5N Trading book concentration risk because it does not reconcile with the guidance for that data item. No new validation will be put in its place.

$$5N = (5H + 5K) / 4B * 100$$

### *FSA008 – Removal of validation 8H*

- 3.50 Firms may experience a fluctuation of capital resource levels across the reporting period. Because the capital resources on the day the concentration risk is calculated can be substantially different to the level at the reporting date, this can cause some firms to have difficulty in passing the validation check for data item 8H. For this reason, we propose to remove the validation below for 8H ‘Amount of non-exempt exposures in excess of 25% of capital resources’ under BIPRU 10.5.4. No new validation will be put in its place.

$$8H = 8F + 8G - (4B/4)$$

### *FSA017 – Removal of validation 31N*

- 3.51 Guidance in FSA017 incorrectly states that the validation rule for this data item is:

$$31N = 28N$$

We intend to amend the guidance to reflect the correct rule, which is currently being applied by the GABRIEL system:

$$31N = 31P + 28N$$

### *FSA029 – Change to validation 28A*

- 3.52 We propose to amend the validation for data element 28 ‘total assets less total liabilities’ because the current validation rule is wrong. The new validation will be:

$$28A = 4A + 13A - 55A - 27A$$

### *FSA035 – Change to validation 18A and 19A*

- 3.53 Date elements 18A and 19A are ‘either/or’ scenarios, i.e. firms are subject to one or the other. Under FSA035 the internal validations show the following:

$$18A = 0 \text{ or } 5 \text{ and } 19A = 0 \text{ or } 4000$$

- 3.54 As it is more appropriate for ‘not applicable’ fields to be left blank than have zeroes in them, we propose that the guidance is amended to reflect the Data Reference Guide (DRG) as follows:

$$18A = \text{blank or } 5, 19A = \text{blank or } 4000.$$

Please note that the DRG is a FSA guide that specifies the required format for Extensible Mark-up Language (XML) regulatory data submitted through the GABRIEL system.

## Changes to data items

### *FSA028 – Question 1A*

- 3.55 We propose to make a small alteration to Question 1 of this data item to ensure that it is consistent with its accompanying guidance. Question 1 will include ‘solo-consolidated’ to ensure that the reader identifies whether the non-EEA sub-group reporting requirement is satisfied by their solo-consolidated FSA003/FSA009. Also, the second word in question 1A will be changed to ‘your’ to correct a typographical error.

Q1: Do you agree with the proposed changes to SUP 16.12 and SUP 16 Annexes 24R and 25G?

## Cost benefit analysis

- 3.56 Section 155 of FSMA requires us to publish a cost benefit analysis (CBA) of the implications of the proposed amendments. The requirement, under section 155 of FSMA, does not apply if there will be no increase in costs or if any increase in costs will be of minimal significance.
- 3.57 In view of the nature of the proposed changes, we expect that any increase in costs will be of minimal significance. Most proposals are guidance and validation changes that will not significantly alter how firms are currently reporting to us. Costs may arise from system changes, but we believe these to be negligible amounts. In all other cases, we expect compliance costs arising from these proposals to be minimal. This expectation is based on consultations with GABRIEL specialists at the FSA and on informal feedback received from firms.

## Compatibility statement

- 3.58 The data collected through observance of SUP 16.12 rules are designed to help us meet our consumer protection and market confidence objectives. The proposals in this consultation will have no impact on our other statutory objectives.
- 3.59 By ensuring that our guidance and the data we collect is accurate, we expect to acquire a better understanding of data submitted to us. We believe that this will enhance our ability to identify issues that may undermine market confidence or lead to consumer detriment. We are, therefore, satisfied that these proposals are compatible with our general duties under section 2 of FSMA.
- 3.60 As we expect the costs of proposed changes to be minimal, we believe that the burden of our proposals is proportionate to their expected benefits. There will be no effect on the remaining principles of good regulation.
- 3.61 For these reasons, we believe that we have had regard to the principles of good regulation and consider these proposals to be the most appropriate way of meeting our statutory objectives.



## Contact

Comments should reach us by **6 March 2010**. Please send them to:

Amera Khan  
Operational and Reporting Policy  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Telephone: 020 7066 2404  
Fax: 020 7066 2405  
Email: [cp10\\_01@fsa.gov.uk](mailto:cp10_01@fsa.gov.uk)

# 4 Proposed changes to the Collective Investment Schemes sourcebook

## Introduction

- 4.1 This chapter proposes a number of amendments to the Collective Investment Schemes Sourcebook (COLL) to provide greater clarity on winding up and terminating authorised funds.
- 4.2 We would make these amendments under sections 138, 156, 157(1), 242 and 248 of FSMA and regulation 6 of the Open-Ended Investment Companies Regulations 2001 (OEIC Regulations). The text of the proposed amendments is set out in Appendix 4 of this CP.

## Proposed amendments

- 4.3 Recent events in financial services have led to a number of authorised fund managers (AFMs) reviewing the products they offer, with a view to reducing the number of funds available for investment or perhaps winding up funds that are no longer commercially viable. Mergers between AFMs have also occurred, and in these instances the merging firms may look to rationalise fund ranges and remove any duplicate or similar fund offerings.
- 4.4 When an AFM wants to close a fund authorised under COLL, it must follow the rules laid out in Chapter 7. There are separate rules depending on whether the AFM is winding up or terminating an authorised unit trust (AUT) or an Investment Company with Variable Capital (ICVC). The latter must also take account of obligations arising from company law.
- 4.5 We have received an increasing number of queries relating to the process of winding up or termination where the scheme<sup>2</sup> is structured as an AUT. These discussions have indicated to us that the rules for AUTs, and the obligations these impose on AFMs and depositaries, are not as clear as the equivalent rules for ICVCs.

---

2 Reference to 'scheme' can be read as a sub-fund or an umbrella scheme, as appropriate.

4.6 We are therefore proposing to amend the section in Chapter 7 relating to the winding up of AUTs to more closely align it with that for ICVCs. Specifically this means:

- recreating the guidance table, setting out the main steps when winding up or terminating a scheme; and
- clarifying that there is a requirement to notify unitholders in writing of the commencement of winding up or termination, if this has not already been provided.

4.7 We also propose to add further detail on the production of a final or termination account to clarify that an audited account must be produced for the final annual accounting period, and to set out the contents of this account.

Q2: Do you agree that the rules for winding up or terminating an AUT need clarification?

Q3: Do you agree with our proposals?

4.8 We are also using this opportunity to amend a reference in COLL 7.4.4R(6). The rule requires that a request be sent to us following one of the events listed in COLL 7.4.3R(2)(c), (d) or (e) for the authorisation order to be revoked. We are proposing to amend the rule to include the event referred to in COLL 7.4.3R(2)(f), the effective date of an approved scheme of arrangement, which results in that AUT being left with no scheme property.

Q4: Do you agree with the proposal to amend to COLL 7.4.4R(6)?

## **Cost benefit analysis**

4.9 Section 155 of FSMA requires us to publish a cost benefit analysis (CBA) of the implications of the proposed amendments. The requirement under section 155 of FSMA does not apply if there will be no increase in costs or if any increase in costs will be of minimal significance.

4.10 Given the nature of the proposed changes, we do not expect them to lead to a cost increase of more than minimal significance. The proposed amendments to existing rules clarify that the same treatment is to be applied consistently to both ICVCs and AUTs during winding up or termination, which the majority of firms are already doing. However, we are seeing an increasing number of queries from industry participants, indicating that there is scope for clarification.

## **Compatibility statement**

4.11 The proposals aim to meet our statutory objectives of market confidence and consumer protection. By clarifying the current rules we expect that the requirements of authorised fund managers and depositaries will be more clearly defined, allowing the winding up or terminating of an authorised fund to be carried out in a more efficient way, with equivalent/better protection for investors in those funds.

- 4.12 We have considered the principles of good regulation and in particular the principle that a burden or restriction should be proportionate to the expected benefits. Our analysis indicates that cost impact will be minimal for all of the changes proposed. The changes proposed are mostly intended to clarify that the existing rules apply equally to funds with a corporate structure and funds structured as unit trusts. By amending our rules we minimise the need for firms to raise queries on this process with us, enabling us to use our resources in a more efficient and economic way.

## Contact

Comments should reach us by **6 March 2010**. Please send them to:

Victoria Connolly  
CIS Policy  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Telephone: 020 7066 3914  
Fax: 020 7066 3915  
Email: [cp10\\_01@fsa.gov.uk](mailto:cp10_01@fsa.gov.uk)

# 5 Proposed changes to the Disclosure and Transparency Rules

## Introduction

- 5.1 In this chapter we are consulting on amendments to the Disclosure and Transparency Rules (DTR) Chapters 4 and 5.
- 5.2 The Transparency Rules within the DTRs were created on 20 January 2007 in order to implement the Transparency Directive 2004/109/EC (TD)<sup>3</sup> in the UK. Chapter 4 of the DTRs implements Articles 4–8 of the TD regarding periodic financial information, and Chapter 5 implements Articles 9–17, which require all major shareholders of listed issuers to make public their positions should they cross certain designated thresholds (set out in DTR 5.1.2R).
- 5.3 This chapter will be of interest primarily to listed issuers, including issuers of debt (including those whose registered office is in a non-EEA State), their advisers and investors in listed issuers.

### *Proposed amendment to DTR 4.4.3R and 4.4.8R – exemptions for debt issuers and non-EEA States whose rules have been deemed equivalent for the purposes of DTR 4*

- 5.4 We are inserting extra text to clarify that DTR 4.1.7R(4) does not apply to an issuer of *debt securities* referred to in DTR 4.4.2R. This also ensures that our rules reflect Article 45 (1) of the Statutory Audit Directive (SAD).<sup>4</sup>
- 5.5 We are also proposing an amendment to DTR 4.4.8R to clarify that the exemption provided does not extend to DTR 4.1.7R(4). In effect, an issuer whose registered office is in a non-EEA State and whose relevant laws are considered equivalent by us is not exempted from the rules on audit reports as they are for annual reports as a whole (DTR 4.1).
- 5.6 The powers under which these amendments would be made are set out in Appendix 5 and the text of the proposed amendment is set out in Part 1 of that Appendix.

---

3 See [http://www.cesr-eu.org/index.php?page=contenu\\_groups&id=41&docmore=1](http://www.cesr-eu.org/index.php?page=contenu_groups&id=41&docmore=1)

4 See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0107:EN:PDF>

Q5: Do you agree that our proposed amendments to the DTR 4.4 Exemptions chapter properly reflect the application of the Statutory Audit Directive?

## Cost benefit analysis

- 5.7 Section 155 of FSMA requires us to publish a cost benefit analysis (CBA) of the implications of any proposed amendments. However, the requirement under section 155 of FSMA does not apply if there will be no increase in costs or if any increase in costs will be of minimal significance.
- 5.8 Given the clarifying nature of the proposed changes and that we already expect firms to comply with this rule, we do not envisage that they will lead to a cost increase of more than minimal significance.
- 5.9 DTR 4.1.7R(4) was originally introduced in December 2007. For more information on this, please consult the original CBA for these amendments, which can be found in CP07/24.<sup>5</sup>

### *Proposed amendment to DTR 5.3 – passive receipt of nil-paid rights*

- 5.10 This amendment will allow investors who passively receive rights during a rights issue period an exemption from any obligation to announce a change in holdings otherwise triggered by receipt of these rights.
- 5.11 The proposed exemption would not be available for any of the nil-paid rights received if, during the rights issue period, the investor undertakes any trading in any of the nil-paid rights, or any trading in disclosable instruments relating to the issuer.
- 5.12 The powers under which the amendments would be made are set out in Appendix 5 and the text of the proposed amendment is set out in Part 2 of that Appendix.

## Background

- 5.13 DTR 5.3.1R was drafted to implement Article 13 of the TD regarding the requirement to include certain financial instruments (that generally give the holder the right to acquire the underlying shares on their own initiative) within the calculations of a major shareholding. These instruments are set out within Article 11 of the TD implementing directive 2007/14/EC.
- 5.14 The scope of financial instruments required to be included within these calculations was broadened under our rules on Disclosure of Contracts for Difference (PS09/3) to include instruments ‘with a similar economic effect’<sup>6</sup> to those financial instruments outlined in Article 13 of the TD. These rules came into effect on 1 June 2009.

---

5 See [http://www.fsa.gov.uk/pubs/cp/cp07\\_24.pdf](http://www.fsa.gov.uk/pubs/cp/cp07_24.pdf)

6 ‘a financial instrument has a similar economic effect to a qualifying financial instrument in DTR 5.3.1R(1)(a), if its terms are referenced, in whole or in part, to an issuer’s shares and, generally, the holder of the financial instrument has, in effect, a long position on the economic performance of the shares, whether the instrument is settled physically in shares or in cash...’

- 5.15 These new rules resulted in a number of additional financial instruments being brought within the scope of the major shareholdings regime. Among these are instruments with nil-paid rights received from an issuer in the context of a rights issue.
- 5.16 The concern is that those shareholders who had no wish to alter their economic exposure to the issuer would be required under DTR 5.3.1R, as a result of the passive receipt of nil-paid rights, to aggregate those nil-paid rights with their previous holdings and calculate their position based on the current shares in issue figure, which would not include the new shares being issued. For example, Company A has one million shares in issue, Shareholder X has 25,000 shares (2.5%). Company A launches a 1-for-1 rights issue and shareholder X intends to take his full entitlement in nil-paid rights in order to maintain economic exposure to the issuer upon completion of the rights issue. Shareholder X therefore has 25,000 shares and 25,000 rights resulting in a cumulative position of 50,000 in Company A. Until the rights issue completes this means effectively that Shareholder X is holding a 5% (50,000/1,000,000) position in Company A and a notification requirement would be triggered.

### **Proposed amendments**

- 5.17 We are proposing an amendment that exempts the passive receipt of nil-paid rights from being aggregated with other holdings of the investor for the purposes of considering whether a new disclosure obligation arises. This is based on the absence of shareholder intention to change their economic exposure in relation to the issuer.
- 5.18 The receipt of nil-paid rights will not be eligible for this exemption if, during the rights issue period, the shareholder either trades in nil-paid rights, or otherwise trades in any disclosable instruments relating to the issuer, as this would indicate a positive wish to change their economic exposure to the issuer. In that case, whether or not the trading involves reaching or falling below a relevant threshold, the investor would need to aggregate all of the nil-paid rights received with any previous holdings of disclosable instruments in order to calculate whether a new disclosure obligation arises.

Q6: Do you agree that the passive receipt of nil-paid rights should be exempted from aggregation with other holdings under the major shareholdings regime, dependent on the shareholder not undertaking any trading in nil-paid rights nor any trading in disclosable instruments relating to the issuer during the rights issue period?

### **Cost benefit analysis**

- 5.19 We do not consider that the proposal will impose any material burden or restrictions on a person, as it will allow shareholders to exempt themselves from aggregating any passively received nil-paid rights with any other holdings in the issuer, so long as

they do not engage in any trading in the issuer. This should reduce the potential for announcements being made by shareholders and actually decrease any potential financial burden.

*Proposed amendment to DTR 5.6 – disclosure by issuers of total voting rights*

- 5.20 This amendment will require issuers to announce a change in the total number of voting rights of each class of share that it has admitted to trading on a regulated or prescribed market, at any time during a month in which it changes significantly (e.g. due to the completion of a rights issue).
- 5.21 The powers under which the amendments would be made are set out in Appendix 5, the text of the proposed amendment and of the alternative are set out in Part 3 of that Appendix.

## **Background**

- 5.22 DTR 5.6 implements Article 15 of the TD. Article 15 stipulates that, in order for shareholders to calculate whether they have crossed a major shareholding threshold, the home Member State shall, at the least, require the issuer to make public the total number of voting rights and capital (TVR) at the end of each calendar month in which an increase or decrease of such total number has occurred. While the TD allows a Member State to impose more stringent requirements on an issuer, DTR 5.6 only requires publication of a new TVR at the end of the calendar month in which a relevant change to the TVR occurred.
- 5.23 Under DTR 5.6, it may be the case that a change in the TVR of an issuer could occur on the second day of the month and they would not be required to make an announcement until the end of the calendar month.
- 5.24 This may lead to notifications occurring that could be seen as misleading to the market. For instance, an issuer has a current TVR of one million shares. The issuer completes a one-to-one rights issue on the second day of the month, raising its shares in issue to two million. It does not announce the new TVR. A shareholder who takes up their full entitlement (in order to maintain their percentage holding in the company) doubles the number of shares they hold in Company A, but as they must make their calculation based on the TVR figure that has been made public (this would be the TVR before the dilution) any announcement required due to a threshold being breached could result in the suggestion that they had doubled their position in the issuer. Once the new TVR is made at the end of the month they would then need to recalculate their position and (potentially) re-announce.



## Proposed amendment

5.25 We propose to oblige issuers to announce a new TVR at the point the change occurs if the new figure represents a dilution of 10% or more. If this is the only change to occur within the month there will not also be a requirement to announce at the end of the calendar month.

Q7: Do you agree that issuers should be required to announce any change in total voting rights at the time the change occurs if the change results in a significant diluting effect?

Q8: Do you agree that a significance threshold of 10% would be appropriate?

## Cost benefit analysis

5.26 We do not consider that the proposal will impose any material burden or restrictions on a person, as issuers are currently required to make announcements of any changes to the total voting rights at the end of the month and this will result in them making such an announcement earlier. This should also reduce the burden on shareholders to make extra announcements during the month that may be misleading to the market.

## Compatibility statement

5.27 In presenting the proposals set out in this chapter we are satisfied that they are compatible with the general duties given to us in section 73 of FSMA.

*The need to use our resources in the most efficient and economic way*

5.28 The proposals set out in this chapter should not lead to any material change to how efficiently and economically we use our resources.

*The principle that a burden or restriction imposed on a person should be proportionate to the benefits, considered in general terms, which are expected to arise from the imposition of the burden or restriction*

5.29 We do not consider that the proposal to amend DTR 4.4.2R and 4.4.8R will impose any material burden or restrictions on a person, as these amendments do not attempt to change market practice, rather to clarify the existing DTRs.

5.30 We do not consider that the proposal regarding nil-paid rights will impose any material burden or restrictions on a person as it will allow shareholders to exempt themselves from aggregating any passively received nil-paid rights, so long as they do not engage in trading such rights or other disclosable interests with any other holdings in the issuer. This should reduce the potential for announcements being made by shareholders and actually decrease any potential financial burden.

- 5.31 We do not consider that the proposal regarding total voting rights will impose any material burden or restrictions on a person as issuers are currently required to make announcements of any changes to the total voting rights at the end of the month, and this will simply result in them making such an announcement earlier. This should also reduce the burden on shareholders to make extra announcements during the month that may be misleading to the market.

*The desirability of facilitating innovation for listed securities*

- 5.32 We do not consider that our proposals have a direct effect on this duty.

*The international character of capital markets and the desirability of maintaining the competitive position of the UK*

- 5.33 We do not consider that our proposals have a direct effect on this duty.

*The need to minimise the adverse effects on competition of anything done in the discharge of the FSA's functions*

- 5.34 We do not consider that our proposals have a direct effect on this duty.

*The desirability of facilitating competition for listed securities*

- 5.35 We do not consider that our proposals have a direct effect on this duty.

## Contact

Comments should reach us by **6 March 2010**. Please send them to:

Andrew Broughton  
Primary Markets Policy  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Telephone: 020 7066 0780  
Fax: 020 7066 0781  
Email: [cp10\\_01@fsa.gov.uk](mailto:cp10_01@fsa.gov.uk)

# 6 Guidance Note on financial regulation for social housing providers

- 6.1 In this chapter we propose issuing general guidance, under section 157 of FSMA, for the benefit of housing associations and other social housing providers. Such bodies are or may wish to become involved in assisting their residents to obtain appropriate home insurance or banking facilities, or both, and have expressed a wish for guidance from us to assist their understanding of what is and is not permitted without the need to be authorised.
- 6.2 The draft guidance does not contain any particularly new or novel views. For the most part, it simply summarises relevant aspects of general guidance that is already contained in the Perimeter Guidance manual (PERG) and gathers it together in one place in what is hopefully a user friendly and readily understood manner. As such, we do not consider the guidance to be suitable for inclusion in PERG itself. Instead, we propose to make it available in an appropriate manner on our website.
- 6.3 Before publishing the guidance, we would welcome comments on its contents, including any views about whether it could usefully cover any other aspect of financial services that social housing providers might come into contact with.
- 6.4 The draft text of the Guidance Note is set out at Appendix 6.

## Contact

Comments should reach us by **6 March 2010**. Please send them to:

Colin Kinloch  
Financial Capability  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Telephone: 020 7066 7362  
Fax: 020 7066 7363  
Email: [cp10\\_01@fsa.gov.uk](mailto:cp10_01@fsa.gov.uk)



# List of specific consultation questions

## Chapter 3

- Q1: Do you agree with the proposed changes to SUP 16.12 and SUP 16 Annexes 24R and 25G?

## Chapter 4

- Q2: Do you agree that the rules for winding up or terminating an AUT need clarification?
- Q3: Do you agree with our proposals?
- Q4: Do you agree with the proposal to amend to COLL 7.4.4R(6)?

## Chapter 5

- Q5: Do you agree that our proposed amendments to the DTR 4.4 Exemptions chapter properly reflect the application of the Statutory Audit Directive?
- Q6: Do you agree that the passive receipt of nil-paid rights should be exempted from aggregation with other holdings under the major shareholdings regime, dependent on the shareholder not undertaking any trading in nil-paid rights, nor any trading in disclosable instruments relating to the issuer during the rights issue period?
- Q7: Do you agree that issuers should be required to announce any change in total voting rights at the time the change occurs if the change results in a significant diluting effect?

Q8: Do you agree that a significance threshold of 10% would be appropriate?

# Proposed change to the Principles for Businesses (PRIN)

**PRINCIPLES FOR BUSINESSES (APPLICATION) (AMENDMENT)  
INSTRUMENT 2010**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
  - (2) section 145 (Financial promotion rules).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on [*date*].

**Amendments to the Handbook**

- D. The Principles for Businesses (PRIN) are amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Principles for Businesses (Application) (Amendment) Instrument 2010.

By order of the Board  
[*date*]



## Annex

## Amendments to the Principles for Businesses (PRIN)

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 3.2.2 R (1) Subject to (2), PRIN also applies with respect to the communication and approval of financial promotions which:
- (1) ~~if communicated by an unauthorised person without approval would contravene section 21(1) of the Act (Restrictions on financial promotion); and~~
- (2) ~~may be communicated by a firm without contravening section 238(1) of the Act (Restrictions on promotion of collective investment schemes).~~
- (2) PRIN does not apply with respect to the communication and approval of a financial promotion which would benefit from an exemption in the Financial Promotions Order if communicated by an unauthorised person, unless either (a) or (b), or both, apply:
- (a) the financial promotion may be communicated by a firm without contravening section 238(1) of the Act (Restrictions on promotion);
- (b) the FSA considers that any of the requirements of:
- (i) paragraphs 1 to 8 of article 19 of MiFID; or
- (ii) any implementing measure made under paragraph 10 of that article;
- apply to the financial promotion and that the application of the rules is necessary to ensure the financial promotion satisfies these requirements.



# Proposed amendments to Chapter 16 of the Supervision manual (SUP)

**INTEGRATED REGULATORY REPORTING (AMENDMENT NO 6)  
INSTRUMENT 2010**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in or under the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
  - (2) section 156 (General supplementary powers); and
  - (3) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on [*date*].

**Amendments to the Handbook**

- D. The Supervision manual (SUP) is amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Integrated Regulatory Reporting (Amendment No 6) Instrument 2010.

By order of the Board  
[*date*]

## Annex

## Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 16.12.6 R The applicable reporting frequencies for submission of *data items* and periods referred to in *SUP* 16.12.5R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Unconsolidated <i>UK banks and building societies</i>	Solo consolidated <i>UK banks and building societies</i>	Report on a <i>UK consolidation group</i> or, as applicable, <i>defined liquidity group</i> basis by <i>UK banks and building societies</i>	Other members of RAG 1
...				
FSA007	Annually ( <del>note 3</del> )			
...				
FSA044	Quarterly		<del>Half-yearly</del> <u>Quarterly</u>	Quarterly
...				
...				
Note 3	<del>The reporting date for this <i>data item</i> is six months after a <i>firm's</i> most recent <i>accounting reference date</i>.</del> <u>[deleted]</u>			
...				

- 16.12.7 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.6R, unless indicated otherwise.

<del>Data item</del> <u><i>Data item</i></u>	Daily	Weekly	Monthly <del>submission</del>	Quarterly <del>submission</del>	Half-yearly <del>submission</del>	Annual <del>submission</del>

...						
FSA007						≥ 6 months
...						

**16 Annex 24R Data items for SUP 16.12**

...

**FSA003  
Capital adequacy**

...

78	Credit risk <del>for firms not calculated under BIPRU 3 or 4, calculated by aggregation</del> for UK consolidation group reporting	
79	Credit risk capital requirements under the standardised approach	
80	Credit risk capital requirements under the IRB approach	
81	Under foundation IRB approach	
82	Retail IRB	
83	Under advanced IRB approach	
84	Other IRB exposures classes	
85	Total operational risk capital requirement	
86	Operational risk <del>for firms not calculated under BIPRU 6 by aggregation</del> for UK consolidation group reporting	
87	Operational risk basic indicator approach	
88	Operational risk standardised/alternative standardised approaches	
89	Operational risk advanced measurement approaches	
90	Reduction in operational risk capital requirement under BIPRU TP 12.1	
91	Counterparty risk capital component	
92	Capital requirements for which tier three capital may be used	
93	Total market risk capital requirement	
94	Market risk capital requirement <del>for firms not calculated under BIPRU 7 calculated by aggregation</del> for UK consolidation group reporting	
...		

...

**FSA015****Sectoral information, including arrears and impairment**

A	B	C	D	E	F	G
-	<b>Balances of accounts-in arrears/default by band</b>					
All balances (customer)						
at period end	<del>1.5 &lt; 2.5 %</del> 1.5 <= 2.5 %	<del>2.5 &lt; 5 %</del> 2.5 <= 5.0 %	<del>5.0 &lt; 7.5 %</del> 5.0 <= 7.5 %	<del>7.5 &lt; 10 %</del> 7.5 <= 10 %	>=10%	TOTAL

...

**FSA028****Non-EEA sub-group**

- 27 Do you have a non-*EEA* sub-group which you are reporting on behalf of?

Yes/No

If the answer to ~~27A~~ 27 above is ~~no~~ 'No', then you do not have to complete any more of this data item, but it still needs to be submitted to the FSA

- 1 Is ~~you~~ your non-*EEA* sub-group reporting requirement satisfied by your solo-consolidated reporting requirement a UK consolidation group FSA003/FSA009?

If the answer to ~~1A~~ 1 is 'Yes', you do not have to complete the rest of this data item.

...

**16 Annex 25G****Guidance notes for data items in SUP 16 Annex 24G****FSA002 – Income statement**

This data item provides the FSA with information on the main sources of income and expenditure for a firm. It should be completed on a cumulative basis for the firm's current financial year up to the reporting date.

...

**6B Of which: Other**

...

It also comprises any interest received not reported in items 3B to 5B.

Include here any interest received on swaps entered into for the purposes of hedging interest rate risk.

...

**9B Of which: Performance fees**

This will include incentive fees received by the firm.

To avoid double counting, data input here should not include amounts input under data element 10B below. Data element 9B and data element 10B are mutually exclusive.

**10B Of which: Investment management fees**

Include all underwriting fees and commissions, and fees and commissions from valuations, management of investments and unit trusts and pension funds.

To avoid double counting, data input here should not include amounts input under data element 9B above. Data element 9B and data element 10B are mutually exclusive.

...

**31B Of which: On other deposits**

This will only be relevant for *BIPRU investment firms* if they have issued bonds or commercial paper.

Deposit takers will include all interest paid on all other balances not reported in 27B to 30B. It includes interest payments on bonds and subordinated loans, certificates of deposits and commercial paper issued.

Include here any interest paid on swaps entered into for the purposes of hedging interest rate risk

...

**FSA003 – Capital adequacy**

...

**77A Total credit risk capital component**

See *BIPRU 3.1.5R*, as modified if a firm has an IRB permission.



A further breakdown of this figure is provided quarterly in FSA004 for those firms that are required to report that data item.

For UK consolidation group reporting, this is the part of the consolidated credit risk requirement corresponding to the credit risk capital component (i.e. the capital requirements for credit risk excluding concentration risk and counterparty risk). This will be the sum of data elements 78A, 79A and 80A.

[CEBS' CA 2.1]

#### **78A Credit risk for UK consolidation group reporting calculated by ~~aggregation for UK consolidation group reporting~~ under non-EEA rules**

This is only relevant for *UK consolidation groups*, ~~and then only if they calculate their credit risk capital component under BIPRU 8.7.13R(2).~~ The only amount to be included here is the part (if any) of data element 77A calculated (when this is allowed under BIPRU 8) using the rules of a non-EEA regulator.

If the UK consolidation group is comprised wholly of firms authorised and incorporated in the EEA, this data element will not be applicable.

#### **79A Credit risk capital requirements under the standardised approach**

The *credit risk capital component* calculated under BIPRU 3, using the exposure classes set out in BIPRU 3.2.9R.

For UK consolidation group reporting, this will be that part of their consolidated credit risk requirement included in data element 77A calculated under:

- (a) BIPRU 3; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 1A on FSA004.

[CEBS' CA 2.1.1]

#### **80A Credit risk capital requirements under the IRB approach**

The *credit risk capital component* under BIPRU 3 calculated in accordance with a firm's IRB permission to use the IRB approach and BIPRU 4.

For UK consolidation group reporting, this will be that part of their consolidated credit risk requirement included in data element 77A calculated under:

- (a) BIPRU 4; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

[CEBS' CA 2.1.2]

### **81A Under foundation IRB approach**

The *credit risk capital component* under *BIPRU 3* calculated in accordance with a firm's IRB permission to use the foundation IRB approach and *BIPRU 4*. This figure covers the following exposures classes:

- central government and central banks (*BIPRU 4.3.2R(1)*);
- institutions (*BIPRU 4.3.2R(2)*); and
- corporates (*BIPRU 4.3.2R(3)*).

For UK consolidation group reporting, this will be that part of their consolidated credit risk requirement included in data element 77A calculated under:

- (a) the relevant parts of *BIPRU 4*; or
- (b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU 8*).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree to data element 18A on FSA004.

[CEBS' CA 2.1.2.1]

### **82A Retail IRB**

This covers the *credit risk capital component* under *BIPRU 3* calculated in accordance with a firm's IRB permission to use the advanced IRB approach and *BIPRU 4*, and covers the retail exposure class (*BIPRU 4.3.2R(4)*).

For UK consolidation group reporting, this will be that part of their consolidated credit risk requirement included in data element 77A calculated under:

- (a) the relevant parts of *BIPRU 4*; or
- (b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU 8*).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree to data element 23A on FSA004.

**83A Under advanced IRB approach**

The *credit risk capital component* under *BIPRU 3* calculated in accordance with a firm's IRB permission to use the advanced IRB approach and *BIPRU 4*. This figure covers the following exposure classes:

- central governments and central banks (*BIPRU 4.3.2R(1)*);
- institutions (*BIPRU 4.3.2R(2)*); and
- corporates (*BIPRU 4.3.2R(3)*).

For UK consolidation group reporting, this will be that part of their consolidated credit risk requirement included in data element 77A calculated under:

(a) the relevant parts of *BIPRU 4*; or

(b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU 8*).

It should not include any amount calculated using the rules of a non-*EEA* regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree to data element 28A on FSA004.

[*CEBS' CA 2.1.2.2 minus retail*]

**84A Other IRB exposure classes**

The *credit risk capital component* under *BIPRU 3* calculated in accordance with a firm's IRB permission to use the IRB approach and *BIPRU 4*. This figure covers the following exposure classes:

- equity claims (*BIPRU 4.3.2R (5)*);
- securitisation positions (*BIPRU 4.3.2R (6)*); and
- non credit-obligation assets (*BIPRU 4.3.2R (7)*).

For UK consolidation group reporting, this will be that part of their consolidated credit risk requirement included in data element 77A calculated under:

(a) the relevant parts of *BIPRU 4*; or

(b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU 8*).

It should not include any amount calculated using the rules of a non-*EEA* regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree to data element 33A on FSA004.

[*CEBS'CA 2.1.2.3 plus 2.1.2.4 plus 2.1.2.5*]

**85A Total operational risk capital requirement**

This is only relevant for *UK banks, building societies* and *full scope BIPRU investment firms*. It is also relevant for any *BIPRU limited activity firm* or *BIPRU limited licence firm* that has a waiver under *BIPRU 6.1.2G* (to apply an *ORCR* rather than a fixed overheads requirement).

See *BIPRU* 6.

A *full scope BIPRU investment firm* that meets the conditions set out in *BIPRU* TP 5.1R should enter here the full *ORCR* that would have applied but for *BIPRU* TP 5.7R. The reduction as a result of that rule should be reported in data element 90A.

A further breakdown of this figure is provided in FSA007 for firms on the standardised approach, alternative standardised approach or the advanced models approach.

For UK consolidation group reporting, this is the consolidated operational risk requirement. This will be the sum of data elements 86A, 87A, 88A and 89A, but is subject to the restrictions in BIPRU 8 on combining certain kinds of methods of calculating operational risk capital requirements.

[CEBS' CA 2.4]

### **86A Operational risk calculated by aggregation for UK consolidation group reporting calculated under non-EEA rules**

This is only relevant for *UK consolidation groups* completing data element 89A, and then only if they calculate their *operational risk capital requirement* under *BIPRU* 8.7.13R(2).

The only amount to be included here is the part (if any) of their consolidated operational risk requirement calculated (when this is allowed under BIPRU 8) using the rules of a non-EEA regulator.

If the UK consolidation group consists wholly of firms authorised and incorporated in the EEA, this data element will not be applicable.

### **87A Operational risk basic indicator approach**

This is only relevant for those firms completing data element 85A.

See *BIPRU* 6.3.

For UK consolidation group reporting, this will be that part of their consolidated operational risk requirement calculated under:

- (a) the relevant parts of *BIPRU* 6; or
- (b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU* 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

[CEBS' CA 2.4.1]

### **88A Operational risk standardised/alternative standardised approach**

This is only relevant for those firms completing data element 85A.

See *BIPRU* 6.4.

For UK consolidation group reporting, this will be that part of their consolidated operational risk requirement calculated under:

- (a) the relevant parts of *BIPRU* 6; or
- (b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU* 8).

It should not include any amount calculated using the rules of a non-*EEA* regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree to data element 15A on FSA007.

[*CEBS' CA 2.4.2*]

### **89A Operational risk advanced measurement approaches**

This is only relevant for those firms completing data element 85A.

See *BIPRU* 6.5.

For UK consolidation group reporting, this will be that part of their consolidated operational risk requirement calculated under:

- (a) the relevant parts of *BIPRU* 6; or
- (b) the corresponding rules of another *EEA* regulator (when this is allowed under *BIPRU* 8).

It should not include any amount calculated using the rules of a non-*EEA* regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree to data element 15B on FSA007.

[*CEBS' CA 2.4.3*]

...

### **93A Total market risk capital requirement**

See *BIPRU* 7 and also *GENPRU* 2.2.46R.

A further breakdown of this figure (less 94A in the case of *UK consolidation group* reports) is provided in FSA005 for firms that meet the reporting thresholds defined in *SUP* 16.12.5R (note 4), *SUP* 16.12.11R (note 4), *SUP* 16.12.15R (note 4), *SUP* 16.12.22R (note 4) and *SUP* 16.12.25R (note 4).

For UK consolidation group reporting, this is the consolidated market risk requirement. This will be the sum of data elements 94A, 95A and 102A.

[CEBS' CA 2.3]

#### **94A Market risk capital requirement ~~calculated by aggregation~~ for UK consolidation group reporting calculated under non-EEA rules**

This is only relevant for *UK consolidation groups*, ~~and then only if they calculate their market risk capital component under BIPRU 8.7.13R(2).~~

The only amount to be included here is the part (if any) of their consolidated market risk requirement calculated (when this is allowed under BIPRU 8) using the rules of a non-EEA regulator.

If the UK consolidation group consists wholly of firms authorised and incorporated in the EEA, this data element will not be applicable.

#### **95A Position, foreign exchange and commodity risks under TSA**

See BIPRU 7.

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

[CEBS' CA 2.3.1]

#### **96A Interest rate PRR**

See BIPRU 7.1.7R to BIPRU 7.1.13E, BIPRU 7.2, BIPRU 7.3, BIPRU 7.6, BIPRU 7.9, BIPRU 7.11.12R and BIPRU 7.11.35R.

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 18G on FSA005.

#### **97A Equity PRR**

See BIPRU 7.1.7R to BIPRU 7.1.13E, BIPRU 7.3.48R and BIPRU 7.3.49G, BIPRU 7.6, BIPRU 7.9, BIPRU 7.11.12R and BIPRU 7.11.35R.

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 29G on FSA005.

[CEBS' CA 2.3.1.2]

### **98A Commodity PRR**

See BIPRU 7.1.7R to BIPRU 7.1.13E, BIPRU 7.4 and BIPRU 7.9.

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 40G on FSA005.

[CEBS' CA 2.3.1.4]

### **99A Foreign currency PRR**

See BIPRU 7.1.7R to BIPRU 7.1.13E, BIPRU 7.5, BIPRU 7.6 and BIPRU 7.9.

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 48G on FSA005.

[CEBS' CA 2.3.1.3]

**100A CIU PRR**

See *BIPRU 7.1.7R to BIPRU 7.1.13E, BIPRU 7.6, BIPRU 7.7 and BIPRU 7.9.*

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 55G on FSA005.

**101A Other PRR**

See *BIPRU 7.1.7R to BIPRU 7.1.13E.*

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the standardised approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the corresponding rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 56G on FSA005.

**102A Position, foreign exchange and commodity risks under internal models**

See *BIPRU 7.10.*

For UK consolidation group reporting, this will be that part of their consolidated market risk requirement calculated under the advanced approaches under:

- (a) the relevant parts of BIPRU 7; or
- (b) the rules of another EEA regulator (when this is allowed under BIPRU 8).

It should not include any amount calculated using the rules of a non-EEA regulator. It will be after any consolidation adjustments for inter-group transactions.

This will agree with data element 61G on FSA005.

[CEBS' CA 2.3.2]

...



**106A Surplus/deficit of own funds**

This is 15A less 70A or, where 69A is greater than 70A, 57A less 69A.

This should be a positive figure, showing the amount of excess capital over that required for the variable capital requirement measured at the reporting date or the amount of excess capital over that required for the *base capital resources requirement* where it is greater than the variable capital requirement, as well as any requirements.

[~~CEBS' CA 3.2~~]

...

**107A Overall solvency ratio**

This is 15A divided by 70A, multiplied by 100 (or 57A divided by 69A where 69A is greater than 70A) and represents the firm's overall solvency.

[~~CEBS' CA 3.2.a~~]

...

**FSA003 – Capital adequacy validations****Internal validations**

Data elements are referenced by row then column.

...

91	106A	=	$15A - 70A$ <u>or, where <math>69A &gt; 70A</math>, <math>57A - 69A</math></u>
----	------	---	--

...

110	107A	=	$(15A/70A) * 100$ <u>or, where <math>69A &gt; 70A</math>, <math>(57A/69A)*100</math></u>
-----	------	---	--

...

**FSA004 – Credit risk**

This data item provides details of the credit risk capital requirements of firms reported in FSA003.

For *UK consolidation groups*, the figures reported should exclude any ~~credit risk capital requirement~~ part of the *consolidated credit risk requirement* that has been calculated using aggregation under *BIPRU 8.7.13R(2)* the rules of a non-EEA regulator.

It will be after any consolidation adjustments for inter-group transactions.

...

## **FSA004– Credit risk validations**

### **Internal validations**

Data elements are referenced by row then column.

Validation number	Data element		
...			
13	36B	=	36A/8% [deleted]
...			

...

## **FSA005 – Market risk**

This data item provides the FSA with information on the market risk capital requirement under *GENPRU 2.1.40R*. The data item is intended to reflect the underlying prudential requirements contained in *GENPRU* and *BIPRU* and allows monitoring against the requirements set out there and also those individual requirements placed on firms. We have provided references to the underlying rules to assist in its completion.

For *UK consolidation groups*, the figures reported should exclude any ~~market risk capital requirement~~ part of the *consolidated market risk requirement* that has been calculated using ~~aggregation under *BIPRU 8.7.13R(2)*~~ the rules of a non-EEA regulator.

It will be after any consolidation adjustments for inter-group transactions.

...

## **FSA005 – Market risk validations**

### **Internal validations**

Data elements are referenced by row then column.

Validation number	Data element		
...			
7	25G	=	$(22G * 2\%) + (24G * 4\%) + (23G * 2\%)$
...			

...

**FSA007 – Operational risk**

This data item provides the FSA with information on the operational risk facing a firm. It is intended to reflect the underlying prudential requirements contained in *BIPRU* and allows monitoring against the requirements set out there. We have provided references to the underlying rules to assist in its completion.

This data item is based on CEBS' COREP Table OPR, OPR Details, and OPR LOSS Details<sup>1</sup>, but reflects the ~~Rules~~ rules and wording in the Handbook, and omits items which are not in our view relevant in the UK. The numbers in parenthesis and italics show the corresponding item(s) in CEBS' Table OPR, OPR Details or OPR LOSS Details and are only provided for information purposes to identify the linkage to the CEBS' data.

For UK consolidation groups, the figures reported should exclude any part of the consolidated operational risk requirement that has been calculated using the rules of a non-EEA regulator.

It will be after any consolidation adjustments for inter-group transactions.

...

**FSA008 – Large exposures validations****Internal validations**

Data elements are referenced by row then column.

...			
36	8H	=	8F + 8G – (4B/4) [deleted]
...			
43	5N	=	(5H+5K)/4B * 100 [deleted]
...			

...

...

**FSA015 – Sectoral information, including arrears and impairment**

...

<sup>1</sup> [www.c-eps.org/documents/GL04\\_OR.xls](http://www.c-eps.org/documents/GL04_OR.xls)

## Definitions

### Column A: "All balances (customer) outstanding at period end"

...

The treatment of loan assets that are being operated as part of a current account offset mortgage product (or similar products where *deposit* funding is offset against loan balances in arriving at a net interest cost on the account) will depend on the conditions pertaining to the mortgage product. The balance outstanding on such loans will need to be reported on the basis of the contractually defined balance according to the terms of the mortgage product. This might be the amount of loan excluding any offsetting funds, or it might be the net amount.

It is not expected that these figures in this column will necessarily reconcile to any of the *firm's* published statutory data.

### Columns B-G, rows 1-11: "Balances of accounts in arrears /default by band"

The balance of the account in arrears should be reported within these columns, rather than the amount of the arrears.

Columns B to F are headed with the following:

Column B  $1.5 \leq 2.5$  %

Column C  $2.5 \leq 5.0$  %

Column D  $5.0 \leq 7.5$  %

Column E  $7.5 < =10$  %

Column F  $>10$ %

$\leq$  This means an amount equal to or less than, so for example, where an account in 2.5% in arrears, this will go into column B which is headed for amounts equal to or less than 2.5% but greater than 1.5%.

The analysis...

...

(ii) for these purposes a loan is considered to be 'fully performing' only where the borrower has been meeting all obligations on the loan with regard to repayments of principal, interest (at a normal mortgage rate on the full balance outstanding, including as appropriate any relevant past arrears), any payment towards clearing past arrears as agreed with the *firm* and any default payments due levied in respect of previous missed repayments. That is, amounts may be either added to the principal of the loan or otherwise repaid over a shorter period than the residual term of the mortgage, as agreed between firm and borrower. But then this revised payment schedule must be fully maintained for a six month period before the arrears can qualify to be treated as capitalised for reporting purposes and hence removed from the arrears cases in this table.

This paragraph deals with properties in possession. Properties in Possession are loans where the security has been taken and is in the process of being realised. Whilst this is happening it is likely the underlying loan continues to exist and may be accruing arrears. Therefore the loan balance should still be included within the relevant arrears band in columns B-F.

Where a property is taken into possession but the loan has not been in arrears, for example if the borrowers are in negative equity and simply hand in the keys, these would be excluded from the numbers until arrears of payments hit 1.5%.

### **Column B rows 12-26**

Include here the amount of any payments that a counterparty has failed to make when they were contractually due.

Where a proportion of the balance is past due, this column should be populated with the total balance of the exposure for which a portion is past due. For example, for a loan of £100,000 where a payment of £5,000 is contractually past due, a value of £100,000 should be recorded in column B, not £5,000.

### **Column C rows 12-26**

Include here the amount by which any *exposures* in column B are also deemed to be impaired.

Where a proportion of the balance is impaired, this column should be populated with the total balance of the exposure, not just the amount by which the account is deemed impaired.

### **Column D rows 12-26**

Include here the ~~amount by which~~ total balance of any other *exposures* which, whilst not past due, are deemed to be impaired. Do not just record the amount of the impairment charge.

Where a firm is using UK GAAP rather than IFRS, any balances in columns D and E should relate to exposures, which even though they are not past due, have been deemed to require either a general or specific provision.

...

### **Column H: All balances (accounting) at period end**

This is the total value of the on balance sheet ~~exposures~~ exposures in each category, valued in line with the *firm's* accounting policies.

A firm should report here the balance sheet valuation of their *exposures*, valued as per IFRS or UK GAAP as appropriate.

Where a firm is using IFRS and including derivatives on its balance sheet when it is reporting the FSA001, then the firm should also include the derivative figures in Column H of this data item.

Whether the balances in Column H are reported net or gross of impairments/ provisions they should also align to how balances are calculated for the *firm's* statutory accounts.

FSA015 is intended to relate to on balance sheet arrears. That means that securitisations that attract off-balance sheet treatment should not be included. However, if a securitisation attracts on-balance sheet treatment (for instance, because there is recourse to the *firm* or, in the case of consolidated returns, the securitisation SPV is included in the scope of the consolidation), it should be included. The appropriate rows of column H should be completed for all the sectors to which the *firm* has an exposure, even if these are all fully performing and there are no associated write-offs or impairment charges.

...

### **Column M: Other Adjustments**

This includes any adjustments made as a result of an acquisition or disposal of a subsidiary company the balance sheet of which includes impairment balances and is included in the consolidation for the particular return. Also include any adjustments made for exchange rate movements in respect of impairment balances denominated in currencies other than the reporting currency. Where the adjustment is negative, report the amount with a minus sign (not brackets).

The “in period” for column J to M is defined as the amount of write-offs or impairment charge since the last reported FSA015.

In completing column J there may be a difference to accounting convention as write-offs should be reported as a positive figure. On FSA015 a negative number will be taken to indicate a write-back. Similarly for columns K and L, where an impairment charge is being put though the Income Statement it should be reported as a positive amount. A negative number will indicate the release of an impairment charge (reduction in provision).

...

### **Sectors (rows)**

#### **UK and Non-UK**

Where For Retail and Corporate sectors, where a split of *exposures* between UK and non-UK is required, this should be done based on the location of the lending entity.

Financial sector and Non-financial institutions categories need only be split by domicile of the counterparty to which the firm has an exposure. If the firm does not have details of counterparty, then it should report using the same basis the UK/Non-UK split as for Retail and Corporate sectors i.e. location of the lending entity.

...

## FSA017 – Interest rate gap report validations

### Internal validations

Data elements are referenced first by row then by column.

...

$$337 \quad 31N \quad = \quad \cancel{28N} \underline{31P} + 28N$$

...

## FSA028 – Non-EEA sub-groups

...

### Data elements

...

#### 1A Is your non-EEA sub-group reporting requirement satisfied by your solo-consolidated reporting requirement FSA003/FSA009?

The diagrams in *BIPRU* 8 Annex 3G, in conjunction with *BIPRU* 8.3, should assist firms in identifying those circumstances when a *non-EEA sub-group* exists and when a solo-consolidated FSA003 or FSA009 will satisfy the reporting requirement. Firms should answer Yes or No. Firms answering Yes do not need complete the rest of the data elements.

Your non-EEA sub-group reporting requirement will only be satisfied by your solo-consolidated reporting requirement where the non-EEA sub-group and the undertakings covered by the solo consolidation waiver are identical.

...

## FSA029 – Balance sheet validations

### Internal validations

Data elements are referenced by row, then column.

...

$$5 \quad 28A \quad = \quad \cancel{13A} + \cancel{21A} \underline{4A} + 13A - 55A - 27A$$

...

## FSA030 – Income Statement

### Introduction

The purpose is to provide a framework for the collection of information required by the FSA as a basis for its supervision activities. It also has the purpose to help the FSA to monitor firms' capital adequacy and financial soundness.

The Income Statement should be reported on a cumulative basis throughout the firm's financial year.

...

Description	Data element	Guidance
<b>Dealing Profit /(Loss)</b>		
<b><u>A firm should complete only the sections relevant to the business it undertakes.</u></b>		
Dealing profits or (loss) - trading	1A	This is the total gross profit or loss which arises from market making and other dealings as principal in the financial year to date. Stamp duty, exchange fees, commissions and brokerage and any related interest paid or payable should be deducted.

...

<b>Revenue</b>	<b>A firm should complete only the sections relevant to the business it undertakes</b>	
...		
Investment management fees	7A	This is the total of underwriting fees and commissions, valuations, management of investments and unit trusts, pension funds, discretionary management and collective investment schemes.  <u>Data element 7A and data element 10A are mutually exclusive.</u>
Investment Advisory Fees	8A	Include all fees arising from investment advice (see <i>PERG 2.7.15G</i> ).
Corporate Finance	9A	This is the total of all income earned by the firm from corporate finance business.
<u>UCITS management fees</u>	<u>10A</u>	<u>The total fees attributable from UCITS fees should be disclosed here.</u>  <u>Data element 7A and data element 10A are mutually exclusive.</u>



Other revenue	12A	You should record here any income that has derived from its business in the financial year, which has not been recorded under commissions or fees.  Such income may include interest on client money, where the firm is permitted to retain this, or payments made by product providers on a basis other than fees or commissions.
<u>Total revenue</u>	<u>14A</u>	<u>This is the sum of the revenue which is split under data elements 5-13.</u>

...

### FSA031 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 9)

#### Introduction

The purpose is to provide a framework for the collection of information required by the FSA as a basis for its supervision activities. It also has the purpose to help the FSA to monitor a firm's capital adequacy and financial soundness.

...

...		
Limit of indemnity required – single	35E	You should record here the required indemnity limits on the firm's PII policy or policies, in relation to single claims. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u>  <u>See MIPRU 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u>
Limit of indemnity required – aggregate	35F	You should record here the required indemnity limits on the firm's PII policy or policies, in aggregate. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u>  <u>See MIPRU 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u>

Limited of indemnity obtained – single	35G	<p>You should record here the indemnity limits on the firm’s PII policy or policies obtained in relation to single claims. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u></p> <p><u>See MIPRU 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u></p>
Limited of indemnity obtained – aggregate	35H	<p>You should record here the indemnity limits on the firm’s PII policy or policies obtained in aggregate. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u></p> <p><u>See MIPRU 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u></p>
...		

...

### FSA032 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13)

#### Introduction

The purpose is to provide a framework for the collection of information required by the FSA as a basis for its supervision activities. It also has the purpose to help the FSA to monitor a firms' capital adequacy and financial soundness.

...

...		
Limit of indemnity required – single	38E	<p>You should record here the required indemnity limits on the firm’s PII policy or policies, in relation to single claims, as under <i>IPRU(INV)</i> 13.1.4(2)R. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u></p> <p><u>See MIPRU 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u></p>

Limit of indemnity required – aggregate	38F	<p>You should record here the required indemnity limits on the firm’s PII policy or policies, in aggregate, as under <i>IPRU(INV)</i> 13.1.4(2)R. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u></p> <p><u>See <i>MIPRU</i> 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u></p>
Limited of indemnity obtained – single	38G	<p>You should record here the indemnity limits on the firm’s PII policy or policies obtained in relation to single claims, as under <i>IPRU(INV)</i> 13.1.4(2)R. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u></p> <p><u>See <i>MIPRU</i> 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u></p>
Limited of indemnity obtained – aggregate	38H	<p>You should record here the indemnity limits on the firm’s PII policy or policies obtained in aggregate, as under <i>IPRU(INV)</i> 13.1.4(2)R. <del>This should be reported in the currency of the report, converted at the closing rate of exchange on the reporting date, if it is in a different currency.</del> <u>These can be reported either in Euros or the currency of the report, if different.</u></p> <p><u>See <i>MIPRU</i> 3.2.8R for requirements about the calculation of indemnity limits where the <i>policy</i> is denominated in a currency other than euros.</u></p>
...		

...

### **FSA035 – Capital Adequacy (for firms subject to *IPRU(INV)* Chapter 5 and to the exemption in *IPRU(INV)* 5.2.3(2)R)**

#### **Introduction**

The purpose is to provide a framework for the collection of information required by the FSA as a basis for its supervision activities. It also has the purpose to help the FSA to monitor firms' capital adequacy and financial soundness.

...

- The requirement that any figures be audited does not apply to small companies exempted from audit under the Companies Act 2006.

Data elements 18A and 19A are 'either or' scenarios i.e. firms are subject to one or the other.

### **FSA035 – Capital Adequacy (for firms subject to (IPRU(INV) Chapter 5 and to the exemption in IPRU(INV) 5.2.3(2)R) validations**

...

Validation number	Data element		
1			[deleted – replaced by validation 8]
2			[deleted – replaced by validation 9]
3	16B	=	10B + 11B + 12B + 13B + 14B + 15B
4	18A	=	<del>0 or 5</del> <u>18A=blank or 5</u>
5	19A	=	<del>0 or 4000</del> 19 A = blank or 4000
6	19A		If 18A = <del>0</del> <u>blank</u> , then 4000, else <del>0</del> <u>blank</u>
7	20B	=	17B – (18A + 19A)
8	9B	=	5A + 6A + 7A + 8A + 22A
9	10B	=	1B + 21B + 2B + 3B + 4B – 9B

...

### **FSA044 – Maturity analysis of assets and deposits**

...

#### **Data elements**

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

#### **Accrued interest**

Accrued interest should be allocated along with the underlying exposure to the appropriate data elements.

#### **FSA001 and FSA044**

Although overall the total balances on FSA001 and FSA044 will be similar for smaller institutions, for more complex ones balances may differ. Some netting is allowed on FSA001.

but none should be done for exposures included on FSA044. Similarly, for firms using IFRS, derivatives are included on-balance sheet when reporting FSA001, but derivatives are excluded from rows 1-31 of FSA044.

...

### **10A - 10G Other financial assets**

This covers financial exposures not included in any of the above categories.

OTC Residual Value balances, Estimated (EMT) margin balances and long trading inventory positions should be included here.

Investments should be included here unless they are investments in subsidiaries, in which they should be reported in 13A “other assets”.

...

### **13A Other assets**

Include here all other assets of a non-financial nature including goodwill and intangible assets.

Investments in subsidiaries should be included here.

...

### **28A - 28G Other**

Include all other non-capital liabilities here. Liabilities should be allocated to the time bands on a best efforts basis.

...

### **30A - 30G Capital**

Includes called up share capital and reserves.

Loan loss reserves ought to be netted against the relevant loan asset lines.

Reserves are accounting reserves which would include profit and loss, revaluation and MTM adjustments and AFS securities.

...

### **Off-balance sheet elements**

#### **Maturity (columns B - D)**

Firms should include in column B any commitments, contingent liabilities or undrawn credit lines inward that are unconditionally cancellable.

An obligation is unconditionally cancellable where a firm has an absolute right to cancel it for any reason.

Commitments, contingent liabilities or undrawn credit lines inward with a residual maturity up to one year should be included in column C and commitments, contingent liabilities or undrawn credit lines inward with a residual maturity over one year should be included in column D.

The maturity of a short inventory position should be shown as the maturity of the transaction i.e. the maturity of the stock borrow or reverse repo.

### **Columns C – D Headings**

Column C has the heading “Cancellable < 1yr” which means that it has residual maturity of < 1yr.

Column D has the heading “Cancellable > 1yr” which means that it has residual maturity of > 1yr.

### **32 Contingent liabilities**

This includes:

- (a) transaction-related contingents, such as performance bonds, warranties and indemnities; bid or tender bonds; advance payment guarantees; VAT, customs and excise bonds; standby letters of credit relating to a particular contract or to non-financial transactions (including arrangements backing, inter alia, subcontractors’ and suppliers’ performance, labour and materials, contracts, and construction bids); and

...

### **34 Commitments**

Include commitments for loans and other on-balance sheet items with certain drawdown. Mortgage commitments should be included here.

Rolling or undated/open-ended commitments should be included providing that they are unconditionally cancellable at any time without notice and subject to credit review at least annually. Unused credit card lines and liquidity facilities provided to ABCP conduits should be reported.

...

# Proposed changes to the Collective Investment Schemes sourcebook (COLL)

**COLLECTIVE INVESTMENT SCHEMES SOURCEBOOK (WINDING UP AND  
SUB-FUND TERMINATION) INSTRUMENT 2010**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 138 (General rule-making power);
    - (b) section 156 (General supplementary powers);
    - (c) section 157(1) (Guidance);
    - (d) section 247 (Trust scheme rules); and
    - (e) section 248 (Scheme particulars rules);
  - (2) regulation 6(1) (FSA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
  - (3) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. The Annex to this instrument comes into force on [*date*].

**Amendments to the Handbook**

- D. The Collective Investment Schemes sourcebook (COLL) is amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Collective Investment Schemes Sourcebook (Winding Up and Sub-fund Termination) Instrument 2010.

By order of the Board  
[*date*]



## Annex

## Amendments to the Collective Investments Schemes sourcebook (COLL)

In this Annex, underlining indicates new text and striking through indicates deleted text.

## 7.3 Winding up a solvent ICVC and terminating a sub-fund of an ICVC

Explanation of COLL 7.3

7.3.1 G ...

(4) COLL 7.3.3G gives an overview of the main steps in winding up a solvent ICVC or terminating a sub-fund under FSA rules, assuming FSA approval.

...

Guidance on winding up or termination

7.3.3 G This table belongs to ~~COLL 7.3.3G~~ 7.3.1G(4) (Explanation of COLL 7.3)

<p>Summary of the main steps in winding up a solvent <i>ICVC</i> or terminating <del>a</del> <u>a</u> <i>sub-fund</i> under <i>FSA rules</i>, assuming <i>FSA</i> approval.  Notes: N = Notice to be given to the <i>FSA</i> under regulation 21 of <i>OEIC Regulations</i>  E = commencement of winding up or termination  W/U = winding up  FAP = final accounting period (<i>COLL 7.3.8R(4)</i>)</p>			
Step number	Explanation	When	<i>COLL</i> rule (unless otherwise stated)
...			
4	Normal business ceases; <del>publish notices</del> <u>notify unitholders</u>	E	7.3.6
...			

...

## 7.4 Winding up an AUT and terminating a sub-fund of an AUT

Explanation of COLL 7.4

7.4.1 G ...

(4) COLL 7.4.2AG gives an overview of the main steps in winding up an AUT or terminating a sub-fund under FSA rules, assuming FSA

approval or revocation by the FSA of the AUT's authorisation order.

...

Guidance on winding up or termination

7.4.2A G This table belongs to COLL 7.4.2R.

<p><u>Summary of the main steps in winding up an AUT or terminating a sub-fund under FSA rules, assuming FSA approval or revocation by the FSA of the AUT's authorisation order.</u></p> <p><u>Notes: N = Notice to be given to the FSA under section 251 of the Act or a request for revocation by the FSA of the AUT's authorisation order under section 256 of the Act</u></p> <p><u>E = commencement of winding up or termination</u></p> <p><u>W/U = winding up</u></p> <p><u>FAP = final accounting period (COLL 7.4.5R(4))</u></p>			
<u>Step number</u>	<u>Explanation</u>	<u>When</u>	<u>COLL rule (unless stated otherwise)</u>
<u>1</u>	<u>Receive the FSA approval or notice that the FSA has made an order for revocation of the AUT's authorisation order</u>	<u>N + one month</u>  <u>On receipt of notice from the FSA</u>	<u>Section 251 of the Act</u>  <u>Section 256 of the Act</u>
<u>2</u>	<u>Normal business ceases; notify unitholders</u>	<u>E</u>	<u>COLL 7.4.3R</u>
<u>3</u>	<u>Trustee to realise and distribute proceeds</u>	<u>ASAP after E</u>	<u>COLL 7.4.4R(1) to (5)</u>
<u>4</u>	<u>Prepare final account or termination account and have account audited</u>	<u>On completion of W/U or termination</u>	<u>COLL 7.4.5R(4A)</u>
<u>5</u>	<u>Send final account or termination account and auditor's report to the FSA and unitholders</u>	<u>Within 2 months of FAP</u>	<u>COLL 7.4.5R(5)</u>
<u>6</u>	<u>In accordance with COLL 7.4.4R(6), request FSA to revoke relevant authorisation order</u>	<u>On completion of W/U</u>	<u>COLL 7.4.4R(6)</u>

When an AUT is to be wound up or a sub-fund terminated

- 7.4.3 R (1) Upon the happening of any of the events or dates referred to in ~~paragraph~~ (2) and not otherwise:
- (a) *COLL 6.2 (Dealing), COLL 6.3 (Valuation and pricing) and COLL 5 (Investment and borrowing powers) cease to apply to the AUT or to the units and scheme property in the case of a sub-fund;*
  - (b) *the trustee must cease to issue and cancel units;*
  - (c) *the manager must cease to sell and redeem units;*
  - (d) *the manager must cease to arrange the issue or cancellation of units under COLL 6.2.7R (Issue and cancellation of units through an authorised fund manager); and*
  - (da) *no transfer of a unit may be registered and no other change to the register of unitholders may be made without the sanction of the person responsible for the register in accordance with COLL 6.4.4R(1); and*
  - (e) *the trustee must proceed to wind up the AUT or terminate the sub-fund in accordance with COLL 7.4.4R.*
- (1A) *If the manager has not previously notified unitholders of the proposal to wind up the AUT or terminate the sub-fund, it must as soon as practicable after winding up or termination has commenced give written notice of the commencement of the winding up or termination to the unitholders.*
- (2) The events referred to in (1) are:
- (a) *the authorisation order of the AUT is revoked;*
  - (b) *alterations to the AUT's trust deed and prospectus that will be required if the sub-fund is terminated ~~taking~~ take effect in accordance with section 251 of the Act;*

...

...

...

Manner of winding up or termination

7.4.4 R ...

- (6) On completion of the winding up in respect of the events referred to in *COLL 7.4.3R(2)(c)*, *COLL 7.4.3 R(2)(d)*, ~~*or*~~ *COLL 7.4.3R(2)(e)* or *COLL 7.4.3R(2)(f)*, the *trustee* must notify the *FSA* in writing and at the same time the *manager* or *trustee* must request the *FSA* to revoke the relevant *authorisation order*.

#### Accounting and reports during winding up or termination

##### 7.4.5 R ...

- (4A) The final account must state the date on which the *AUT's* affairs were fully wound up and the date stated must be regarded as the final *day* of the accounting period of the *AUT* then running ('final accounting period').
- (4B) In respect of the final *annual accounting period*, the *manager* must prepare an account of the winding up or termination showing:
- (a) how it has been conducted; and
  - (b) how the *scheme property* has been disposed of.
- (4C) The account in (4A) must, if the *manager* has:
- (a) more than one *director*, be approved by at least two *directors* of the *manager*; or
  - (b) only one director, be signed by the director of the *manager*.
- (4D) Once signed, this account is the "final account" for the purposes of the winding up of an *AUT* and the "termination account" for the purposes of the termination of a *sub-fund*.
- (4E) The *manager* must ensure that the *AUT's* auditor makes a report in respect of the final account or termination account, which states the auditor's opinion whether the final account or termination account has been properly prepared for the purpose of (1).
- (5) Within two *months* after the end of the final *annual accounting period* or the winding up of the *AUT* or the termination of the *sub-fund*, the annual reports of the *manager* and *trustee* must be published and sent, together with a copy of the final account or termination account and the auditor's report on it, to the *FSA* and to each *person* who was a *unitholder* or the first named of joint *unitholders* immediately before its end.

# Proposed changes to the Disclosure and Transparency Rules sourcebook (DTR)

**DISCLOSURE RULES AND TRANSPARENCY RULES SOURCEBOOK  
(AMENDMENT NO 2) INSTRUMENT 2010**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in or under the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 73A (Part 6 rules);
  - (2) section 89A (Transparency rules);
  - (3) section 89B (Provision of voteholder information);
  - (4) section 89C (Provision of information by issuers of transferable securities);
  - (5) section 89D (Notification of voting rights held by issuer);
  - (6) section 89E (Notification of proposed amendment of issuer’s constitution);
  - (7) section 89F (Transparency rules: interpretation etc);
  - (8) section 89G (Transparency rules: other supplementary provisions);
  - (9) section 89O (Corporate governance rules);
  - (10) section 101 (Part 6 rules: general provisions);
  - (11) section 138 (General rule-making power);
  - (12) section 156 (General supplementary powers);
  - (13) section 157(1) (Guidance); and
  - (14) schedule 7 (The Authority as Competent Authority for Part VI).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on [*date*].

**Amendments to the Handbook**

- D. The Disclosure Rules and Transparency Rules sourcebook (DTR) is amended in accordance with the Annex to this instrument.

**Notes**

- E. In the Annex to this instrument, the “note” (indicated by “**Note:**”) is included for the convenience of readers but does not form part of the legislative text.

**Citation**

- F. This instrument may be cited as the Disclosure Rules and Transparency Rules Sourcebook (Amendment No 2) Instrument 2010.

By order of the Board  
[*date*]

## Annex

## Amendments to the Disclosure Rules and Transparency Rules sourcebook (DTR)

In this Annex, underlining indicates new text and striking through indicates deleted text.

## Part 1

- 4.4.2 R The *rules* on annual financial reports ~~in (DTR 4.1)~~ (including DTR 4.1.7R(4)), half-yearly financial reports (DTR 4.2) and interim management statements (DTR 4.3) do not apply to an *issuer* that issues exclusively *debt securities admitted to trading* the denomination per unit of which is at least 50,000 Euros (or an equivalent amount).

[**Note:** article 8(1)(b) of the *TD* and article 45(1) of the *Audit Directive*]

...

- 4.4.8 R An *issuer* whose registered office is in a *non-EEA State* whose relevant laws are considered equivalent by the *FSA* is exempted from the *rules* on annual financial reports ~~in (DTR 4.1)~~ (other than DTR 4.1.7R(4) which continues to apply), half-yearly financial reports (DTR 4.2) and interim management statements (DTR 4.3).

## Part 2

- 5.3.1 R (1) A *person* must make a notification in accordance with the applicable thresholds in DTR 5.1.2R in respect of any *financial instrument* which they hold, directly or indirectly, which:
- (a) ...
  - (b) unless (2) or (2A) applies:
    - (i) are referenced to the *shares* of an *issuer*, other than a non-UK *issuer*; and
    - (ii) have similar economic effects to (but which are not) qualifying *financial instruments* within DTR 5.3.2R.
- (2) Paragraph (1)(b) does not apply to *financial instruments* held by a client-serving intermediary:
- ...
- (2A) Paragraph (1)(b) does not apply to *financial instruments* comprising nil-paid rights received from an *issuer* during a rights issue but only if the person receiving those instruments does not, during the rights issue period, dispose of any of them, or acquire or dispose of a holding in a

financial instrument within the scope of *DTR 5* relating to the *issuer*.

- 5.3.1A G (1) The effect of *DTR 5.3.1R(2A)* is to provide an exemption, from the obligation to make a notification in relation to *financial instruments* which are referenced to the *shares* of an *issuer* and which have similar economic effects to qualifying *financial instruments*, for nil-paid rights passively received by an existing shareholder during the course of a rights issue.
- (2) The exemption is not available if the person receiving the nil-paid rights does either of the following during the rights issue period:
- (a) disposes of any of them;
- (b) acquires or disposes of holdings in *financial instruments* falling within the scope of *DTR 5* including in any nil-paid rights received by other shareholders.
- (3) If the exemption is not available in relation to any of the nil-paid rights, the person receiving them should aggregate the whole of the voting rights related to nil-paid rights received, either upon receipt or from the date that the exemption becomes unavailable, with any other previous holdings in the *issuer*, in order to calculate whether a new disclosure is required in accordance with relevant thresholds in *DTR 5.1.2R*.

### Part 3

5.1.2 R Subject to the exemption for certain third country *issuers* (*DTR 5.11.6R*), a *person* must notify the *issuer* of the percentage of its voting rights he holds as *shareholder* or holds or is deemed to hold through his direct or indirect holding of *financial instruments* falling within *DTR 5.3.1R(1)*, subject to the exemption in *DTR 5.3.1R(2)*, (or a combination of such holdings) if the percentage of those voting rights:

- (1) ...
- (2) reaches, exceeds or falls below an applicable threshold in (1) as a result of events changing the breakdown of voting rights and on the basis of information disclosed by the *issuer* in accordance with *DTR 5.6.1R* and *5.6.1AR*;

...

...

5.6.1 R ~~An~~ Except where disclosure is required earlier under *DTR 5.6.1AR*, an *issuer* must, at the end of each calendar month during which an increase or decrease has occurred, disclose to the public:

- (1) the total number of voting rights and capital in respect of each class of



*share* which it issues ...; and

- (2) the total number of voting rights attaching to *shares* of the *issuer* which are held by it in treasury.

5.6.1A R (1) An issuer must, on the same day as a significant increase or decrease of voting rights occurs, disclose to the public the information in DTR 5.6.1 R(1) and (2).

- (2) A significant increase or decrease for the purposes of (1) occurs when the issuer completes a transaction the effect of which is to dilute the number of shares already in issue by more than 10%.

5.6.1B G The effect of DTR 5.6.1AR is that an issuer is required to disclose new figures for total voting rights on the day that a transaction is concluded which results in dilution to existing shareholders of more than 10%. This may occur for example in relation to a rights issue or share split where the voting rights of the ordinary shares already in issue are diluted by more than 10%.

...

5.6.3 R Responsibility for all information drawn up and made public in accordance with DTR 5.6.1R and DTR 5.6.1AR lies with the *issuer*.



# Introduction of a new Guidance Note on financial regulation for social housing

# FSA

## Guidance Note on financial regulation for social housing providers

*No. 9 (2010)*

*Date of coming into effect: [date]*

### Application

1.1 This Guidance Note is relevant to social housing providers.

### Introduction

- 2.1 This Guidance Note seeks to assist social housing providers to understand what activities they may carry on without being subject to regulation by the FSA or breaching restrictions on financial promotion.
- 2.2 It is intended to have continuing effect.
- 2.3 It explains the circumstances in which some social housing providers may be exempt from the need to be authorised in the area of insurance mediation and what activities involving deposits are subject to FSA regulation. It also explains how financial products can be promoted by social housing providers without breaching restrictions on making financial promotions.
- 2.4 This Guidance Note concerns guidance on the legislation. It does not provide guidance on the provisions of the FSA's Handbook of Rules and Guidance but does draw heavily on guidance already contained in Chapters 2, 5 and 8 of the FSA's Perimeter Guidance manual (PERG).
- 2.5 We know that social housing providers (Housing Associations and Local Authorities (LAs) and their Arm's Length Management Organisations (ALMOs)) are eager to promote financial inclusion among their residents.
- 2.6 We also know that some providers have concerns about making financial products available to their residents because of concerns about the boundaries of regulation.
- 2.7 Because of this potential uncertainty, the FSA has produced this simple guide to clarify the regulatory position on the most popular types of financial products and services that housing providers may consider making available to their residents. These would be the provision of home contents insurance and of banking facilities.

## Guidance

### *General*

#### **What is it that social housing providers must do to avoid breaching the regulatory provisions of the Financial Services and Markets Act 2000 (FSMA)?**

- 3.1 Housing providers will need to ensure that they do not:
- carry on a regulated activity for which they would need FSA authorisation; or
  - communicate a financial promotion unless it is exempt from the restriction in section 21 of FSMA or has been approved by an authorised person. Broadly speaking, a financial promotion means an invitation or inducement to buy or sell most financial products (including insurance contracts) or to receive investment advice or other services.
- 3.2 The following paragraphs explain where FSA authorisation is not required by social housing providers and sets out how to communicate with residents in a compliant manner.

### *Insurance*

#### **What is the regulatory position for social housing providers wishing to arrange contents insurance for their residents?**

- 3.3 Registered Social Landlords (RSLs) or LAs do not need to be authorised by the FSA to arrange or advise on contracts of general insurance as they have a specific exemption<sup>1</sup>. This means that they can arrange contents insurance for their residents and even recommend a particular product. It also means that a housing association offering an insurance-with-rent scheme can accept an additional sum on top of rent to pass on to an insurer as premium without needing to be authorised.
- 3.4 This exemption from regulation does not apply to ALMOs. However, ALMOs will not need to be regulated if they are not remunerated for arranging the insurance. This is likely to arise where the ALMO is not paid by the resident for arranging the insurance, passes on any commission received to the Local Authority and does not receive any non-monetary rewards as a result of administering the resident's contents insurance scheme.

### *Savings and bank accounts*

#### **Do social housing providers need to be regulated if they wish to enter into partnerships with credit unions, building societies or banks ('deposit-takers') to set up banking accounts or savings schemes for their residents?**

- 3.5 The activities of arranging and advising on savings schemes involving deposits are not subject to FSA regulation. 'Deposits' include current accounts, term accounts

---

<sup>1</sup> <http://www.opsi.gov.uk/si/si2003/20031675.htm#note2>

(often called ‘bonds’), savings accounts and building society share accounts and are essentially sums of money paid on terms under which they are repayable.

- 3.6 Hence, a social housing provider can establish a partnership with a deposit-taker to set up a savings-with-rent scheme or a bank account for a resident without needing to be authorised. This assumes that the scheme involves the residents opening savings accounts directly with the deposit-taker and not with the housing association itself, which acts simply as an intermediary.
- 3.7 This approach to savings with rent also applies to social housing providers seeking to establish partnerships to make saving gateway accounts available to their residents from 2010 onwards.
- 3.8 If social housing providers were to arrange for their residents to access a savings scheme based on a financial product other than a deposit account (such as life insurance or unit trusts) they may require authorisation.

### *Advice*

#### **In what areas can social housing providers give advice on financial products and services to their residents?**

- 3.9 As mentioned, social housing providers can offer advice on deposits and those that are RSLs or LAs can offer advice on general insurance products. ALMOs can offer advice on general insurance products provided they are not remunerated in any way for doing so. If social housing providers were to provide advice on any other financial product they may require authorisation.
- 3.10 This does not preclude social housing providers from introducing residents to FSA-regulated firms which provide independent investment advice, from offering financial capability training or from taking part in the FSA’s money guidance work.
- 3.11 Social housing providers may also provide advice to residents about loans available at local credit unions or Community Development Finance Institutions.

### *Restrictions on financial promotion*

- 3.12 Encouraging your residents to consider taking out specific home contents insurance products or a particular current or savings account with a deposit-taker is liable to mean that you will be communicating financial promotions.
- 3.13 The restriction on financial promotion applies even where arranging and advising activities are not regulated and there are no specific exemptions for RSLs and LAs in terms of their financial promotions.
- 3.14 However, there are a few simple steps that can be taken to ensure that a social housing provider can promote insurance, or current or savings accounts with a deposit-taker, without falling foul of the restriction. These are that any promotions should either be:

- ‘real time promotions’ (that is promotions made during the course of a face-to-face or telephone conversation);
  - posters, leaflets or brochures that are issued by an FSA authorised person (typically the relevant insurer/broker or deposit-taker);
  - written promotions issued by the social housing provider but whose contents have been approved by an authorised person; or
  - written promotions that contain basic information about the insurer (full name, country of incorporation, identity of regulator and existence of a complaints or compensation scheme) or bank, building society or credit union as the case may be (full name, country of incorporation, identity of regulator, existence of a complaints or compensation scheme and certain specified capital information). This capital information, assuming the deposit-taker to be a body corporate, is either the amount of its paid up capital and reserves, described as such, or a statement that the amount of its paid up capital and reserves exceeds a particular amount (stating it).
- 3.15 The last-named two forms of promotion could include a poster or a leaflet in which the social housing provider uses its own brand.
- 3.16 This guidance is not exhaustive and in the case of more complex queries we advise you to consult the FSA’s Perimeter Guidance manual (PERG) which is available at [www.fsa.gov.uk](http://www.fsa.gov.uk) or seek professional legal advice.

### **Commencement, duration and status**

- 4.1 (1) This Guidance Note:
- (a) is made on [*date*]; and
  - (b) comes into force on [*date*].
- (2) It has the same status, and you may rely on it to the same extent, as other general guidance given by the FSA. This is explained in Chapter 6 of the Reader’s Guide to the FSA’s Handbook of Rules and Guidance.
- (3) It will remain in force until further notice.
- 4.2 This guidance is given under section 157 of FSMA.
- 4.3 Queries on this Guidance Note should be addressed to [colin.kinloch@fsa.gov.uk](mailto:colin.kinloch@fsa.gov.uk)

**PUB REF: 002098**

The Financial Services Authority  
25 The North Colonnade Canary Wharf London E14 5HS  
Telephone: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099  
Website: <http://www.fsa.gov.uk>

Registered as a Limited Company in England and Wales No. 1920623. Registered Office as above.