Financial Conduct Authority

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Financial Crime Data Return (REP-CRIM)

Lead regulator: FCA

Date of assessment: 7 September 2016

Commencement date: 31 December 2016

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? N/A

Which areas of the UK will be affected? The rules apply to firms in the life insurance sector in all areas of the UK

Brief outline of proposed new or amended regulatory activity

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The purpose of financial crime supervision is to reduce the risk of firms being used for financial crime purposes. At present, the Financial Conduct Authority's (FCA) financial crime supervisory work relies on the use of ad hoc data requests to gather information about firms' systems and controls. We do not currently routinely gather information from firms about financial crime, the risks they are exposed to, or how they manage those risks. This affects our ability to operate a truly risk-sensitive supervisory approach in line with global standards.
Consequently, we are introducing a financial crime return for the first time. In December 2015, we consulted on a proposal to introduce a financial crime return (REP-CRIM) (https://www.fca.org.uk/publication/consultation/cp15-42.pdf).

A response to the consultation was published in July 2016 (https://www.fca.org.uk/publications/policy-statements/ps16-19-financial-crime-reporting-feedback-chapter-6-cp15-42-and). We propose to automate the collection of this information using our electronic reporting system, GABRIEL, with the exception of electronic money institutions, which currently don't have access to this system.
We will use the data collected by this return to support our financial crime supervision strategy. It will also ensure we have better quality and more consistent comparable data, allowing us to accurately risk-rate firms and better target our specialist resources on firms that pose the highest financial crime risk. This reduces the need to visit firms posing lower risk – an unnecessary burden for those firms and an inefficient use of our resources – and to make ad hoc data requests from firms.

Which type of business will be affected? How many are estimated to be affected?

REP-CRIM affects the following types of firms subject to the Money Laundering Regulations (MLRs):

- banks
- building societies
- designated investment firms
- investment firms
- mortgage lenders
- electronic money institutions
- full permission consumer credit firms
- life insurers
- retail investment intermediaries, and
- mortgage intermediaries.

We have included a proportionality rule for some of the above firms. This rule means the following firms are not required to send us this return:

- Retail investment intermediaries and mortgage intermediaries with revenue of less than £5m (as at the last accounting reference date).
- Investment firms with revenue of less than £5m (as at the last accounting reference date).
- Consumer credit firms with revenue of less than £5m (as at the last accounting reference date).
- Electronic money institutions with revenue of less than £5m (as at the last accounting reference date).

These thresholds are calculated from all regulated and unregulated income, whether or not it comes from MLR-relevant business. Firms that are subject to the reporting requirement will only be required to complete REP-CRIM for the areas of their business subject to the MLRs.
In total and taking into account the proportionality rule, REP-CRIM will apply to approximately 1,400 firms.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	31/12/2016	10	-£16.9	1.8	9.0

The BIT score is the net cost to business for five years.

Please set out the impact to business clearly with a breakdown of costs and benefits

COSTS

To estimate the costs of completing REP-CRIM we looked at similar FCA reporting requirements, and consulted with trade bodies, including the British Banking Association (BBA) and Association of Foreign Banks (AFB) as well as a selection of larger and smaller firms.
These additional consultations only provided a limited amount of data and therefore estimating the financial impact of reporting implementations is challenging. The incurred cost was noted likely to vary significantly between firms and be heavily dependent on firm-specific factors, including complexity and legacy IT systems.
Responses received were split into complex and non-complex groups. The complex group consisted of firms who have multiple subsidiaries of the parent entity. They have the flexibility to provide a single return that covers their entire group or complete a return on an individual entity basis.

Feedback from the responses provided a range of estimated one-off and annual ongoing compliance costs of collecting and reporting data for REP-CRIM. The range of responses received are summarised for complex and non-complex groups below:

Entity Type	*One-off costs*		*Ongoing annual costs*	
	Min.	*Max.*	*Min.*	*Max.*
Complex	*Negligible*	*£100k*	*Negligible*	*Negligible*
Non-complex	*Negligible*	*£85k*	*Negligible*	*£12k*

Since firms vary significantly in size and complexity, an average of reported compliance costs was taken. The average reported one-off cost for complex firms was £77,000, and negligible ongoing costs. The average reported one-off cost for non-complex firms was £7,000 per firm, and the average on-going cost was £500.
To estimate the aggregate costs to business of collecting and reporting data for REP-CRIM, the average per-firm estimates were multiplied by the total number of firms. There are 13 complex groups, with the remainder of firms considered to be non-complex. No adjustment was made for the possible overlaps between complex and non-complex groups. The aggregate estimates are reported below*:*

Entity Type	*Average one-off cost per firm*	*Average on-going costs per firm*	*Number of firms*	*Total one-off cost*	*Total ongoing costs*
Complex	*£77k*	*Negligible*	*13*	*£1 million*	*Negligible*
Non-Complex	*£7k*	*£0.5k*	*1,400*	*£9.9 million*	*£0.7 million*
			TOTAL	***£10.9million***	***£0.7 million***

Regarding small firms, as explained above we have applied a £5 million revenue proportionality threshold to most sectors completing REP-CRIM, meaning most small firms are unaffected.

BENEFITS

The benefits of this proposal cannot be calculated in financial terms. The benefits of improved supervision derive from preventing the harms that arise from financial services being used for financial crime, both in terms of the underlying crime and the impact this has on the UK financial services sector. Implementing this return will help us to ensure a more hostile environment for money launderers and other financial criminals. As such, it will make an important contribution to reducing crime and consequent social harm. Given that this supervisory activity is inherently hard to quantify, we are unable to meaningfully assess the financial benefits of the reporting provision and these cannot therefore be reasonably estimated.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.