FINANCIAL CONDUCT AUTHORITY

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May 2025 update:
This letter is historical.
See our supervisory correspondence page
for more information and current views.

Dear Sir/Madam,

Quality of Prudential Regulatory Returns

The data in prudential regulatory returns (returns) are important for firms and the FCA. However, a significant number of firms submit returns that contain inaccurate and/or incomplete data. This hinders the use of the data within the returns. We are therefore requesting that CEOs of IFPRU investment firms and BIPRU firms review their firm's regulatory reporting practices.

Prudential risk monitoring is a fundamental aspect of a firm's financial management practices. Poor financial management can be a driver of poor conduct outcomes for consumers. In addition, it can ultimately lead to firm failure, which can cause harm to consumers and/or markets.

The FCA uses returns[1] to assess prudential risk. They help us understand firms' business models, financial positions and risk exposures. We also use the data to identify trends within and across sectors. The information in returns informs the decisions we make. So, it is vital that data are accurate and complete.

The information contained in these returns also forms an integral part of firms' risk management frameworks. As such, part of our assessment of the quality of firms' risk management is influenced by the quality of the regulatory data submitted.

The most common issues we have observed with returns include:

- Failure to complete the underlying templates within the COREP submissions due to inadequate understanding of the prudential rules.
- Failure to submit certain returns, such as the Financial Reporting (FINREP) return.

[1] IFPRU investment firms and BIPRU firms are generally required to complete the FSA001 Balance Sheet, FSA002 Income Statement, as well as the Common Reporting (COREP) returns in the case of IFPRU investment firms, or the FSA003 Capital Adequacy return in the case of BIPRU firms. Please note that other regulatory returns may also need to be completed, and it is firms' responsibility to ensure that all compulsory regulatory returns are submitted to the FCA.

- The total sum of risk exposures across various risk categories (market and credit risk for example) is not calculated correctly, leading to an inaccurate figure for firms' capital requirements.
- Inconsistent completion of COREP returns. European Banking Authority (EBA) validation rules dictate that certain data points submitted across different templates within COREP should show identical values or equal the sum of a number of other values. These validation rules are published on the EBA website for all firms to use (https://www.eba.europa.eu/regulation-and-policy/supervisory-reporting; https://www.eba.europa.eu/-/eba-issues-revised-list-of-its-validation-ru-14).
- Reporting using incorrect units.
- Not reporting cumulatively (on a year-to-date basis) on the FSA002 Income Statement.

Although these errors may appear minor in isolation, they can materially distort data that are aggregated and used to analyse a sector or a group of firms.

Next Steps

CEOs of IFPRU investment firms and BIPRU firms should review their firm's regulatory reporting practices to ensure that they are fit for purpose, comply with the relevant reporting provisions and produce materially accurate data.

Without prejudice to our ongoing supervisory function, we will, as of 1 October 2018, review a sample of firms' returns. If we find that firms continue to submit materially inaccurate, incomplete and/or poor quality data, we will consider next steps to improve the standards of returns.

Yours sincerely,

Andrew Bailey
Chief Executive