

Policy Statement | PS36/16

Financial statements - responses to Chapter 3 of CP17/16

December 2016



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This policy statement (PS) provides feedback on responses, final rules and a supervisory statement for the balance sheet and statement of profit or loss (P&L) related proposals in Chapter 3 of Consultation Paper (CP) 17/16 'Regulatory Reporting of financial statements, forecast capital data and IFRS 9 requirements'.

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1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback on responses to the financial statements (balance sheet and statement of profit or loss (P&L)) proposals in Chapter 3 (paragraphs 3.1-3.18) of Consultation Paper (CP) 17/16 'Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements' (the 'CP').¹ This PS also includes the final rules for the new reporting requirements relating to balance sheet and P&L data in the Regulatory Reporting Part of the PRA Rulebook (Appendix 1), an update² to Supervisory Statement (SS) 34/15, 'Guidelines for completing regulatory reports' (Appendix 2) and new returns and instructions (Appendix 3-5).

1.2 This PS is relevant to PRA-authorized banks, non-European Economic Area (non-EEA) banks authorised to accept deposits through a branch in the United Kingdom, building societies and PRA-designated investment firms.

1.3 CP17/16 also consulted on changes to PRA rules and SS34/15 relating to the regulatory reporting of forecast capital data, and included a discussion chapter on reporting of International Financial Reporting Standard (IFRS) 9. Feedback and final rules relating to forecast capital data were published on 16 November in PS32/16.³ A consultation paper on the proposals relating to IFRS 9 has been published alongside this PS.⁴

1.4 The final rules in this PS extend the collection of FINREP templates 1.1, 1.2, 1.3, 2.0 and 3.0 and create four new returns collecting forecast balance sheet and P&L data (PRA104-107) and one return collecting balance sheet memorandum items (PRA108).

1.5 The PRA will publish details of the systems which will be used by firms to report these returns on the PRA webpages by Tuesday 28 February 2017.⁵ The PRA is considering various submission mechanisms, including a direct submission of XBRL and a simpler worksheet based submission option, as well as various collection mechanisms such as an automated submission mechanism or an online portal.

1.6 CP17/16 set out the PRA's proposals on future reporting of financial statements (and proposals relating to the future reporting of forecast capital data and a discussion of data requirements resulting from the introduction of IFRS 9). This PS focusses feedback received on the proposals regarding financial statements data. As such the proposals are limited to extending collection of five FINREP templates together with five other returns as outlined in paragraph 1.4 above. The PRA has extended the collection of these FINREP templates in order to obtain a comprehensive view of the risk profile of the activities of, and a view of the systemic risks to the financial sector posed by, the firms subject to these requirements. The PRA is requesting a subset of the full FINREP template suite at Annexes III and IV of the Supervisory Reporting Implementing Technical Standard (ITS) as it obtains the remainder of the information that is necessary to obtain that comprehensive view via its other regulatory reporting requirements.

1 April 2016: www.bankofengland.co.uk/prapages/publications/cp/2016/cp1716.aspx.

2 The changes made to SS34/15 also incorporate minor amendments to the list of appendices as a result of CP26/16. Feedback and final rules for CP26/16 was published in PS35/16, 'Response to CP26/16', December 2016; www.bankofengland.co.uk/prapages/publications/ps/2016/ps3516.aspx.

3 'Responses to Chapter 3 of CP17/16 - forecast capital data', November 2016; www.bankofengland.co.uk/prapages/publications/ps/2016/ps3216.aspx.

4 CP46/16 'IFRS 9: changes to reporting requirements', December 2016; www.bankofengland.co.uk/prapages/publications/cp/2016/cp4616.aspx.

5 CRD firms – reporting requirements webpage: www.bankofengland.co.uk/prapages/regulatorydata/formscrdirms.aspx.

1.7 As the PRA continues with its review of reporting requirements it may propose extending additional FINREP templates to firms which do not report FINREP under CRR Article 99(2), in a proportionate manner, and in such circumstances the proposals will be subject to further consultation - this is occurring in the concurrent consultation on IFRS 9 reporting.

1.8 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on the impact of rules on mutuals where the final rule differs from the draft of the proposed rule.¹ The PRA is also required by FSMA to publish a cost benefit analysis of any changes to the consultation proposals which the PRA considers to be significant.² The PRA has made some minor changes to the proposed rules and SS34/15 in light of feedback received, but in the PRA's opinion, the impact of the rules as made is not significantly different from the impact of the proposed rules on mutuals or other deposit-takers, nor represents significant changes resulting in the need for further cost benefit analysis.

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

2 Feedback to responses

2.1 The PRA received ten responses to the CP. Overall the PRA does not consider that the responses received to CP17/16 necessitate significant changes to the proposals; the minor amendments being made are outlined below.

2.2 In relation to financial statements in CP17/16, the PRA proposed to:

- replace existing returns FSA001 (Balance Sheet) and FSA002 (Income Statement) with relevant Financial Reporting templates (FINREP) issued by the European Banking Authority (EBA) from January 2018;
- replace the existing return FSA014 (Forecast data from firms) with four new returns collecting forecast balance sheet (PRA104-PRA106) and P&L data (PRA107) from January 2018; and
- continue the collection of the Memorandum items section of the current FSA001 return via a new return (PRA108).

Reporting of balance sheet and profit or loss

2.3 The CP consulted on replacing the FSA001 (Balance sheet) and FSA002 (Income statement) returns for UK banks, building societies and designated investment firms with templates 1.1, 1.2, 1.3, 2.0 and 3.0 of FINREP and on replacing FSA002 for non-EEA branches with template 2.0 of FINREP. Additionally, there was a proposal to replace FSA014 (Forecast data) and QFS1 (building society data) for UK banks and building societies with new forecast data templates (PRA104-PRA107). The proposed implementation date for all these changes to take effect was 1 January 2018.

2.4 One respondent requested that the PRA should not proceed with these proposals in light of the outcome of the UK referendum on EU membership. However, several other

¹ Section 138K.

² Section 138J(5).

respondents supported the proposal to move to the use of these FINREP templates. The PRA's view is that regulatory reporting requirements for firms relating to the valuation of on and off balance sheet items and items of income and expense should be aligned to financial reporting requirements where possible. FINREP templates are already a well-established reporting framework; they are closely based on the disclosure requirements in IFRS; and they also accommodate firms that do not use IFRS. The PRA's conclusion is therefore that the use of FINREP templates is the most efficient way to achieve alignment between regulatory and financial reporting requirements, and so the PRA intends to proceed with the implementation of proposals as consulted on.

Implementation date

2.5 Some respondents requested that the PRA delay implementation of the proposals until 2019 to allow firms more time to prepare, as there are a number of other significant banking reforms in progress. The PRA maintains that an implementation date of 1 January 2018 for the new format balance sheet and P&L is necessary, to align with the introduction of the new accounting standard (IFRS 9) for accounting years commencing on or after this date, as the FSA001 and FSA002 currently reported are not compatible with IFRS 9.

2.6 Firms that do not have an accounting year end of 31 December 2017 will be able to apply for a rule modification (via the modification by consent process) which would enable them to delay application of the new rules and new format reporting until the start of their financial year beginning in 2018. This approach would allow alignment with the start date of the new accounting standard IFRS 9 for affected firms. The application form for the rule modification is available on the PRA webpages.¹

2.7 The CP proposed that the balance sheet, P&L and Statement of Comprehensive Income (SOC) FINREP data templates ('the templates') and PRA104-PRA107 would be scheduled on a calendar quarter reporting basis. Firms that do not have an accounting year end of 31 December and wish to report on a schedule linked to their Accounting Reference Date (ARD) can notify the PRA via the form which will be available on the website.²

Balance sheet, P&L and SOC

2.8 Some respondents were concerned that the introduction of the templates would require a firm to change its accounting regime to IFRS. This is not the intention. For all these returns there are two versions of the templates available which are referred to in the final rules. The IFRS version of the FINREP templates found at Annex III of the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions (the 'Supervisory Reporting ITS') should be completed by firms that have adopted IFRS as their applicable accounting framework. Firms using any other accounting framework, including FRS101, should use the templates at Annex IV of the Supervisory Reporting ITS. This is reflected in the rules.

2.9 A number of respondents requested that the PRA provide additional guidance on the proposed templates. In early 2017, the PRA will publish additional guidance to aid UK Generally Accepted Accounting Principles (GAAP) reporters in completing these returns on its webpages. The guidance will set out which cells the PRA would expect firms to report or to leave empty, depending on which UK Financial Reporting Standard (FRS) they use, and provide section/paragraph references to reconcile the FINREP cells with the FRSs that apply to UK firms

¹ Modification form in relation to para 2.6:
www.bankofengland.co.uk/pr/Pages/authorisations/waivers/waiversbyconsent.aspx.

² Form in relation to para 2.7 above; www.bankofengland.co.uk/pr/Pages/regulatorydata/crdirms.aspx.

(FRS102 in particular). For any subsequent queries from UK GAAP firms, the PRA will use the existing reporting clarification process to clarify any areas of ambiguity that would have a significant impact on the quality of reporting. For any queries from IFRS firms, or where UK GAAP firms raise issues relating to interpreting EBA material, the PRA will encourage firms to use the EBA Q&A process to mitigate the risk of overlapping or contradicting EBA guidance.

2.10 In response to a request from respondents, the PRA clarifies that it only requires the balance sheet, P&L and SOCI FINREP templates (1.1, 1.2, 1.3, 2.0 and 3.0) to be submitted; no other related FINREP tables noted in the 'Breakdown' columns on templates 1.1, 1.2, 1.2 and 2.0 are required. Neither will any parallel reporting of old and new returns be required.

Forecast data

2.11 The proposed forecast balance sheet and P&L returns (PRA104-PRA107) would require firms to provide forecasts of some of the elements reported on FINREP templates 1.1, 1.2, 1.3 and 2.0. A number of respondents considered the proposed forecast returns to be too granular and beyond the level of accounting detail at which their firms forecast internally. After consideration, the level of detail on these returns in the final rules has been reduced and firms will only be required to provide forecasts for the subtotal rows. The templates have been based on the EBA's exposure draft of taxonomy 2.7, which is expected to be the taxonomy in place when these returns are due to be implemented.

2.12 Forecasts should be based on a firm's business plan and updated in line with any revisions to forecasts used in the internal planning process at the time of the next scheduled submission.

2.13 A number of firms requested the submission deadline for PRA104-PRA107 be extended. After consideration, the PRA has decided to extend the deadline from the proposed 30 business days to 45 business days. This allows firms more time to prepare and review forecasts after the compilation of current data.

Non-EEA branches

2.14 In response to a question from a firm, the PRA clarifies that CP17/16 proposed replacing the FSA002 report with just one template, ie Template 2.0 of FINREP, for non-EEA banks authorised to accept deposits through a branch in the United Kingdom (non-EEA branches). The proposals relating to balance sheet, forecast data and capital data did not apply to non-EEA banks. Other than the request for clarification, the PRA received no responses regarding this proposal, so will implement the replacement of FSA002 with FINREP template 2.0 for non-EEA branches from 1 January 2018.

2.15 The same options to align the start date for the new format reporting to a firm's accounting year, or to report on a schedule linked to the firm's accounting year, as outlined in paragraphs 2.6 and 2.7 will be available to non-EEA branches.

Appendices

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- 1** PRA Rulebook: CRR Firms: Regulatory Reporting Amendment Instrument 2016 available at:
www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps3616.aspx

 - 2** Supervisory Statement 34/15 'Guidelines for completing regulatory reports' available at: www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss3415update3.aspx

 - 3** Forecast balance sheet returns (PRA104-PRA106) and instructions, available at:
www.bankofengland.co.uk/pr/Pages/regulatorydata/formscrdfirms.aspx

 - 4** Forecast profit or loss (P&L) return (PRA107) and instructions, available at:
www.bankofengland.co.uk/pr/Pages/regulatorydata/formscrdfirms.aspx

 - 5** Memorandum items return (PRA108) and instructions, available at:
www.bankofengland.co.uk/pr/Pages/regulatorydata/formscrdfirms.aspx