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Thematic Review of data integrity of regulatory returns submitted to the Central Bank of Ireland by investment firms, fund service providers and stockbrokers.

Dear Sir/Madam

The Central Bank of Ireland (the “Central Bank”) recently undertook thematic reviews to assess the extent to which the Central Bank can rely on the regulatory returns submitted by authorised investment firms, fund service providers and stockbrokers (“Firms”). The purpose of this letter is to provide feedback in relation to the findings and outcomes of those thematic reviews.

Regulatory reporting is a central pillar in the supervision of Firms. The information received is used by supervisors to monitor a Firm’s financial standing and adherence to regulatory capital obligations. Regulatory returns also inform the Central Bank’s assessment of a Firm’s risk profile.

The reviews were conducted by Authorised Officers of the Central Bank (“Authorised Officers”) and focused on data contained in the regulatory returns of a selected sample of Firms. The returns reviewed included FINREP accounts, annual audited financial statements and regulatory capital returns.

Authorised Officers also conducted on-site reviews of a number of Firms where the following areas were examined:

- (I) The structure of the finance function, including the controls, procedures and governance arrangements around the production of regulatory returns;
- (II) The oversight of financial and regulatory returns by the Board of Directors (the “Board”) and senior management of the Firm; and
- (III) The production and reporting of management information within the Firm.

The importance Firms place on financial management reporting was evident during the review. The Central Bank identified adequate controls around the production of regular, timely financial management accounts with oversight by the Board and senior management of Firms, which is supplemented by the external audit process. **However, all Firms do not apply the same level of controls and oversight over the production of regulatory returns.** Authorised Officers identified a number of misclassifications, discrepancies and omissions in these returns, in particular regulatory capital returns, which indicate a potential lack of attention and importance given by Firms to their regulatory reporting obligations. It is imperative that each Firm and its Board fully appreciates and



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understands its obligation to ensure that all regulatory reporting to the Central Bank is complete, timely, accurate and in compliance with relevant legislation and Central Bank guidance.

The Central Bank is making a number of recommendations with a view to ensuring the quality of data contained in regulatory returns. These recommendations are outlined in the attached schedule to this letter.

In addition to implementing these recommendations, Firms should review their existing procedures within their financial reporting functions to ensure that due care and attention is given to the production, oversight and reporting of all regulatory returns.

Please be advised that, where there is non-compliance with relevant regulatory requirements, the Central Bank will have regard to these recommendations, when exercising its regulatory and enforcement powers.

Should you have any queries in relation to the contents of this letter, please contact your supervisor in the Investment Firms and Fund Supervision ("IFFS") division.

Yours sincerely

Patricia Dunne

Deputy Head of Investment Firms and Fund Supervision

Schedule of Recommendations

Finding – Documented Procedures

A number of Firms reviewed had inadequate or no procedures for the production of regulatory returns. Procedures were not detailed enough on how to complete regulatory reporting and did not incorporate review and oversight processes.

Recommendation 1

Firms should have documented procedures for the production of regulatory returns which should inter alia include:

- Calculation methodologies for each data field
- Reconciliation processes for all regulatory returns, against the data contained in audited financial statements and management accounts, where appropriate
- A checklist to ensure that the Firm's capital is calculated in accordance with regulatory requirements

These procedures should be approved by the Board and reviewed at least annually.

Recommendation 2

The procedures for the production of regulatory returns should include adequate oversight provisions. In particular all regulatory returns should be reviewed by a senior member of the Finance Function before submission via the Central Bank's ONR system.

Finding – Knowledge of Financial Reporting

In a number of Firms the relevant staff could not demonstrate a detailed knowledge of the firm's regulatory reporting obligations or the methodologies used to calculate the financial information contained in regulatory returns. In particular there was a lack of knowledge of the regulatory capital requirement and the Central Bank's on-line reporting (ONR) process. This was evident through the misclassifications, discrepancies and omissions within FINREP accounts and the Capital Returns reported by Firms. For example-

- (I) Figures used to complete regulatory capital returns were not sourced from the most recent annual financial statements and/or management accounts;
- (II) A number of Firms included unaudited current year profits and failed to include current year losses in the calculation of own funds/financial resources; and
- (III) A number of Fund Service Provider firms availed of allowable expense deductions from total annual audited expenses in the calculation of the Expenditure Requirement, which were neither clearly identified in the most recent annual audited financial statements nor supported with a letter from auditors confirming the figures. These items are only allowable deductions if they are evidenced with the necessary supporting documentation.

Recommendation 3

Firms must ensure that all staff within the finance function involved in the preparation of regulatory returns have the necessary skills and training. Relevant staff should have a sufficient knowledge of:

- The Central Bank's ONR reporting process;
- The Firm's regulatory reporting obligations and
- The methodologies used to calculate the financial information contained in the returns, in particular the Firm's regulatory capital requirement.

Finding – Reporting to the Board

For a number of Firms reviewed, financial reporting to the Board did not include the Firm's capital position. In addition, there was no discussion of the Firm's regulatory reporting process at Board meetings.

Recommendation 4

The Board is ultimately responsible for ensuring that all regulatory reporting is complete, accurate, timely and in compliance with relevant legislation. The Board should be satisfied as to the quality of the policies and procedures employed to produce regulatory reports having due regard to these Central Bank recommendations.

Recommendation 5

The Board should regularly monitor the capital position of the Firm.

Finding – Senior Management Reporting

In a number of Firms reviewed, financial reporting to senior management did not routinely include regulatory reporting.

Recommendation 6

Periodic financial reporting to the senior management should include regulatory capital, providing the current capital position of the Firm together with comparative figures and full year forecasts. The latest regulatory returns should also be included highlighting any key issues that arise in the production of the return.