FINANCIAL CONDUCT AUTHORITY

Creation of baseline financial resilience regulatory return

Consultation Paper

CP22/19***

October 2022

How to respond

We are asking for comments on this Consultation Paper (CP) by **2 December 2022**.

You can send them to us using the form on our website at: www.fca.org.uk/cp22-19-response-form

Or in writing to:

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1 Summary

Why we are consulting

1.1 We are seeking views on our proposed rules to introduce a new financial resilience regulatory return for solo-regulated firms. The new return will be referred to as 'FIN073 - Baseline Financial Resilience Report'. This will replace the current FCA Financial Resilience Survey (FRS) data collection (formerly "Covid-19 Impact Survey"). The FRS is a short survey we launched in June 2020 to collect basic financial data from approximately 23,000 legal entities. We have continued to collect this data via additional surveys as this data set has been essential in helping us to understand the risk of firm failure as well as risks across the financial services sector.

1.2 Over the last two years, having access to high quality baseline financial resilience data on a regular basis has improved our ability to meet our objectives to protect consumers and ensure market integrity. This data allows us to rapidly assess financial resilience risks at firms, resulting in early intervention where appropriate (see Annex 2, paragraphs 36-38). The data has helped us monitor the risk of firm failure through both the Russia/Ukraine conflict, and other macroeconomic changes. Ultimately, this data helps in delivering our strategic commitment[1] of reducing harm from firm failure. However, the current approach of collecting the data through ad hoc surveys places significant administrative burden on firms. We are, therefore, proposing to rationalise and standardise this data collection in the form of a regulatory return.

Who this applies to

1.3 The proposals in this Consultation Paper (CP) will be of interest to all FCA regulated *firms* except:

- a credit broker
- a MIFIDPRU investment firm
- a not-for-profit debt advice body
- a PRA-authorised person
- a supervised run-off firm; and
- a Temporary Permission firm

The proposals also apply to:

- an authorised electronic money institution
- an authorised payment institution
- a registered account information service provider
- a small electronic money institution
- a small payment institution; and
- a UK RIE

1 FCA's three-year strategy

1.4 Our proposals will also interest Trade Associations.

What we want to change

1.5 Since June 2020 we have issued our Financial Resilience Survey to around 23,000 solo-regulated firms approximately every quarter. The data collected gives us a baseline set of financial resilience information across this population and is a key component of our financial resilience assessments. These assessments allow us to evaluate our solo-regulated firms on a timely/periodic basis, both providing assurances and identifying concerns in relation to firms' financial arrangements. Based on this data, we have acted earlier than we may otherwise have done on over 100 firms where this data assessment helped identify material concerns. These firms had to increase capital, put new wind-down plans in place and/or were prevented from taking on new business while they address the underlying issues. As a result of these actions, these firms are less likely to undertake a disorderly wind-down that could have resulted in harm for both consumers and market integrity.

1.6 We propose to move this data collection onto RegData, the FCA's data collection platform for gathering regulatory data from firms. In doing this we are seeking to reduce both the administrative and financial burden that an ad hoc survey places on firms. We also want to increase the quality and consistency of financial resilience data received from our solo-regulated firms. Over the last two years this data has improved our understanding of the financial resilience of a vast number of firms. In addition to reducing harm from firm failure, baseline financial resilience data is also helpful to deliver our commitments of dealing with problem firms and strengthening the UK's position in global wholesale markets.

1.7 Firms in scope of FIN073 will benefit from the standard features of RegData that a survey tool does not offer. These include easier access to guidance, including data definitions, and the ability to access previous submissions. Firms will also be able to see FIN073 in their forward schedule in RegData, making it significantly easier for them to plan.

1.8 In September 2021, the survey was selected as a use case for "Transforming Data Collection (TDC)", a joint FCA/Bank of England project with industry to transform data collection[2] . Through this programme we are also redesigning the RegData form structure to make it more intuitive. We are going to do this by making it easier for firms to access relevant and question-specific guidance, written in plain English. We are also looking to provide a short description at the top of forms to explain what the return is and why the data is being collected. If the intuitive form pilot is successful, it will be extended to FIN073.

2 Joint Bank of England, Prudential Regulatory Authority and Financial Conduct Authority Dear CEO letter on Transforming Data Collection – an update on progress and plans for 2022

Measuring success

1.9 We will use several different measures to assess the success of FIN073. As part of our commitment to reduce harm from firm failure under the three-year FCA Strategy, we seek to ensure that firms subject to financial or other stress which may lead to firm failure are quickly identified and the situation is rectified by the firm, it winds down solvently, or it enters insolvency in a way which minimises harm to consumers and market participants. The data from FIN073 is fundamental to achieving this outcome. It is a key tool in identifying financial resilience concerns early, enabling swift action.

1.10 As set out in the FCA outcomes and metrics publication, we are developing a metric, PFF3-M01, which will enable us to monitor the accuracy with which we identify firms' resilience to financial stress. We will measure the contribution of FIN073 data to this metric allowing us to assess the contribution of this data to deliver a key FCA strategic priority.

1.11 Another key measure of success will be feedback provided by those firms in scope of the return. We will actively gather feedback from Industry, including Trade Associations, to understand if and how the form can be improved, particularly with an aim to reduce the administrative burden placed on firms.

1.12 As well as feedback, we will monitor the volume of calls received by our Supervision Hub from firms requesting help in completing the return. We will use current volumes in relation to the FRS as our baseline and will seek to see a reduction in calls as a result of both the move from a survey tool to RegData, and the new intuitive form design (subject to a successful pilot).

Next steps

1.13 We want your feedback on our proposals in this CP. Please send your answers to the questions in this CP by Friday 2 December 2022 using one of the methods in the 'How to respond' section on page 2.

1.14 Following this consultation, we will consider your feedback and publish a policy statement and final rules in Spring 2023.

2 The wider context

2.1 In June 2020 we launched a short, compulsory, financial resilience survey. This was issued to our solo-regulated population (subject to several exclusions), using our section 165 information gathering powers. The initial purpose of the survey was to provide us with greater insight into the firms whose financial resilience and business arrangements put them at greatest risk of failure in the context of the Covid-19 crisis.

2.2 Although firms submit regulatory returns to us, there were significant gaps in this data which limited our ability to assess the impact of the pandemic on the financial resilience of firms. The main driver of the survey was to fill our data gaps, particularly in relation to the liquidity position of firms, where we had little baseline data.

2.3 The FCA Financial Resilience Survey has given us a common baseline across the solo-regulated population. It has allowed us to identify trends, detect anomalies in groups of similar business models, and intervene where appropriate. The data collected via this survey has now been integrated into our supervisory framework and practices. It is used across Supervision to help triage the FCA solo-regulated firms based on their financial resilience using a data-led approach. This data is also essential for cross-industry economic analysis.

2.4 In September 2021, the survey was selected as the FCA's first use case for the TDC programme, with a focus on "optimising the RegData user journey". RegData is the FCA's data collection platform for gathering regulatory data from firms and is (in our view) more user-friendly than the survey tool. As part of this programme, we have engaged with industry and asked for early input from firms to inform our plans to collect this data via a regulatory return in the long term, which was fed back as the preferred option.

2.5 We have also realised significant value from the survey data above and beyond the context of the Covid-19 crisis for which it was originally intended. The survey data has allowed us to prioritise more effectively firms that require supervisory intervention.

2.6 However, some external stakeholders have raised concerns about the burden that the survey places on firms given its manual nature and its lack of integration with regulatory reporting. The continuance of the collection post-pandemic and lack of transparency regarding how the data is used have also been highlighted as points of contention.

2.7 We propose to replace the survey with a permanent regulatory return that will allow us to collect baseline financial resilience information for liquidity, income, and net asset position (see Chapter 4, Table 1). Subject to feedback to this consultation, we aim to launch this new return in the second half of 2023. The transition to a regulatory return will make the process less manual for firms by standardising the data submission through RegData. We have also increased transparency around the use of this data through our Annual Report and Data strategy updates. We expect to continue providing regular updates in future. The move to RegData will also allow us to better analyse the data and provide greater transparency to firms.

2.8 To reduce the burden on firms we propose to make the new regulatory return significantly shorter than the current survey (Chapter 4, Table 2). We also propose to reduce the firms in scope (see paragraph 1.3) by removing over 3,000 investment firms subject to MIFIDPRU[3] . This is because the regulatory reporting under MIFIDPRU already provides us with the baseline level of financial resilience data we need.

2.9 We are proposing to bring into scope a small number (fewer than 100) of non-MIFIDPRU firms that are currently subject to the Automated Financial Resilience Monitoring (AFRM) programme, and have previously been excluded from the FRS. We propose to do this so we can continue to receive baseline financial resilience information from these firms on a permanent basis.

3 The new prudential sourcebook for MIFID investment firms, part of the FCA handbook, which came into force on 1 January 2022.

3 How it links to our objectives

Consumer protection

3.1 As a data-led regulator we rely on high quality data to make regulatory judgements. Through access to up-to-date financial resilience data for a large proportion of our solo-regulated firms we are able to quickly assess financial resilience risks. This allows us to prioritise our supervisory intervention, resulting in reduced harm to consumers. We can also combine the financial resilience data with data on other key risk indicators to form a more comprehensive view of risks to consumers.

Market integrity

3.2 The ability to triage firms using a data-led approach also allows us to reduce the likelihood of both disorderly failures and the adverse impact they have on market participants, improving general confidence in the market. When used in conjunction with an assessment of harm in failure, baseline financial resilience data allows us to focus on firms that are most likely to cause market disruptions. Firm financial resilience data, when combined with macroeconomic data, also allows us to identify vulnerabilities in specific market segments.

Competition

3.3 Firms that do not devote sufficient resources to financial resilience can get a short-term unfair competitive advantage over well-behaving competitors. For example, they can use the associated savings to offer lower prices to consumers. However, this comes at the cost of an increased risk of harm to consumers through an increased likelihood of firm failure. Having access to baseline financial resilience data across a significant proportion of our solo-regulated firms allows us to better identify firms with low levels of financial resilience that may be gaining an unfair competitive advantage while posing material risk of harm to consumers.

Wider effects of this consultation

3.4 Annex 2 sets out our analysis of benefits and costs to firms from our proposals.

Equality and diversity considerations

3.5 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

3.6 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

3.7 In the meantime, we welcome your input to this consultation on this.

4 Scope, content and frequency

4.1 This section covers the proposed set of questions we will be asking as part of FIN073 and discusses the frequency at which it will issued.

Scope

4.2 We are proposing that FIN073 is applied to all FCA regulated firms *except*:

- a credit broker
- a MIFIDPRU investment firm
- a not-for-profit debt advice body
- a PRA-authorised person
- a supervised run-off firm; and
- a Temporary Permission firm

For the avoidance of doubt, we propose to apply the return to:

- an authorised electronic money institution
- an authorised payment institution
- a registered account information service provider
- a small electronic money institution
- a small payment institution; and
- a UK RIE

4.3 This proposal helps to ensure we have timely baseline financial resilience data for the population of financial services firms where harm in failure could occur. Importantly, we believe this proposed scope is proportionate and takes account of existing reporting obligations. In addition to existing reporting obligations, we would supplement this data with commercially available company credit data to inform our view of financial resilience.

4.4 Accordingly, we propose to apply the return to approximately 20,000 firms currently within our regulatory remit. This is lower than the 23,000 firms that receive the FRS as we propose to remove the MIFIDPRU Investment firms from the scope of FIN073 given that we receive all baseline financial resilience data for these firms via existing regulatory returns (see paragraph 2.8). We also propose to continue to exclude around 22,000 credit broking firms from the scope of FIN073 on grounds of proportionality given the limited financial services business undertaken by many of these firms. We are still able to form a view on credit broking firms, albeit less timely and less comprehensively, based on a combination of external data and data from existing regulatory reporting.

Content

4.5 We are proposing to include five questions in FIN073. This is a significant reduction from the nine questions in the existing FRS (see Table 2). We are proposing to rationalise the questions in the FRS, retaining only those we consider are required to give us a view of the baseline financial resilience position. While all FRS questions give us valuable data, we have exercised further proportionality in the proposed transition to FIN073 to reduce the questions and manage the burden on firms.

Table 1: Proposed questions

Question #	Question wording
1	What is the total amount of liquid assets that you control or have unrestricted access to?
2	What are your average monthly cash needs arising from fixed costs?
3	What is your net profit OR loss in the last quarter?
4	What was your revenue in the last financial year?
5	Please report your net asset or liability position at the end of the last (calendar) quarter

4.6 All the questions outlined above will request responses in GBP and in whole figures. We will also make available guidance which will provide definitions and address common questions we expect firms will have. The wording of the questions and the supporting guidance have been aligned to that of the Investment Firms Prudential Regime (IFPR) as far as possible.

Q1: Do you agree with the scope of firms proposed to be subject to FIN073? If not, please explain.

Q2: Do you have any specific comments on our proposed questions? If yes, what would you suggest could be done to improve them, and why?

4.7 By way of comparison, please see below the questions currently posed to firms in the Financial Resilience Survey.

Table 2: Financial Resilience Survey questions

Question #	Question wording
1	What is the total amount of liquidity resources that you control or had unrestricted access to as at [xx/xx/xxxx]? (GBP)
2	What are your estimated cash needs (fixed costs, known variable costs) and expected cash inflows between [xx/xx/xxxx – xx/xx/xxxx]? (GBP)
2.a	Of the 'Cash needs' value provided in Question 2, what are your estimated cash needs to cover your fixed costs?
2.b	Of the 'Expected cash inflows (the firm's own cash)' value provided in Question 2, how much was contractually committed on [xx/xx/xxxx]?
3	Has your firm negotiated any extensions with creditors/delayed payments (i.e., rent, outsources, lines of credit, etc.)?
3.a	By what amount has this reduced your cash needs figure (as given in Question 2 above) over the period between [xx/xx/xxxx – xx/xx/xxxx]?
4	What was your net profit OR loss in the 3 months to [xx/xx/xxxx]? (GBP)
5	Have you had, or are you expecting, a decrease in profits/increase in losses?
5.a	Please provide an estimate for the percentage decrease in profits/ increase in losses over the next 3 months.
6	What impact is the current macroeconomic environment having on your business model?
7	Please provide the level of your safeguarded money/client money as at [xx/xx/xxxx]? (GBP)
8	What was your revenue in the last financial year? (Please provide this for the most recent period, even if not audited)
9	Have you received support under a government-backed loan scheme?
9.a	Amount of support received (GBP)

Source: Financial Resilience Survey, Phase 7 (issued in June 2022)

Guidance

4.8 We propose to make a guidance note available alongside FIN073 which will offer definitions and clarification on the data we are requesting (see Appendix page 33).

Q3: **Do you have any specific comments on our proposed guidance notes? If yes, what would you suggest could be done to improve them, and why?**

Frequency

4.9 As part of this consultation, we are proposing to collect the data every calendar quarter.

4.10 By way of comparison, the FRS has been issued approximately every quarter and asks firms to report on the past three months. The survey is not aligned to firms' Accounting Reference Date (ARD).

4.11 Having access to up-to-date baseline financial resilience data is a key component of our data led approach to assessing financial resilience of firms. This is most relevant to liquidity data which, by its nature, can become out of date very quickly. Liquidity risk can crystallise rapidly and is often a driver of failure for firms that are unable to service their liabilities. We believe that collecting this data on a quarterly basis provides the right balance between utility of the data and frequency of reporting particularly for smaller firms.

4.12 In framing our proposal on frequency, we have considered alternative ideas such as collecting at a lower frequency or creating a two-tier reporting system where some firms report quarterly and some less frequently. However, we believe that collecting liquidity data less frequently than once every quarter would significantly diminish the utility of this data given the dynamic nature of liquidity risk. This would significantly impair our ability to make judgements about firms' financial resilience based on this data.

4.13 We have also considered if it would be appropriate to collect the liquidity data on a more frequent basis, such as every month. While this would give us greater assurance over the financial position of firms, we consider that it would be disproportionate for thousands of small firms proposed to be in scope of this return and not commensurate with the risk of harm from their activities.

Q4: Do you agree with the proposed frequency of FIN073? If not, please explain.

Annex 1
Questions in this paper

Q1: **Do you agree with the scope of firms proposed to be subject to FIN073? If not, please explain.**

Q2: **Do you have any specific comments on our proposed questions? If yes, what would you suggest could be done to improve them, and why?**

Q3: **Do you have any specific comments on our proposed guidance notes? If yes, what would you suggest could be done to improve them, and why?**

Q4: **Do you agree with the proposed frequency of FIN073? If not, please explain.**

Q5: **Do you agree with our cost benefit analysis and conclusion? If you do not, please provide us with an explanation, including any estimated costs or benefits that may be relevant.**

Annex 2
Cost benefit analysis

Introduction

1. The Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as "an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made and an estimate of those costs and those benefits". Section 138I also provides that if, in our opinion, the costs or benefits cannot reasonably be estimated or it is not reasonably practicable to produce an estimate, the cost benefit analysis need not estimate them. In such circumstances the CBA must include a statement of our opinion and an explanation of it.

2. This CBA presents our analysis and estimates of the impacts of introducing a new regulatory return, FIN073. We provide monetary values for the impacts where we believe it is reasonably practicable to do so.

3. This CBA has the following structure:

- Problem and rationale for intervention
- Proposed intervention
- Baseline and key assumptions
- Summary of costs and benefits
- Costs
- Benefits

Problem and rationale for intervention

4. Firm failure can cause significant harmful effects on consumers, financial markets, and wider society. Disorderly failure can cause harm through loss of money; a loss of confidence and participation in financial markets; or where services provided are not easily replaced by other firms; or a firm cannot pay redress.

5. The services or products provided by a failing firm may not be quickly substitutable so it may take consumers some time to find and switch to an alternate product. This could potentially result in important consumer needs not being met. The inability of failed firms to compensate consumers for loss of client money often results in the transfer of these costs to other market participants via the Financial Services Compensation Scheme (FSCS) levy, placing unnecessary burden on other firms. The financial difficulties at failing firms can spill over to other financial services firms. For example, in the wholesale market, financial difficulties at a key liquidity provider can cause a short-term stress that impacts other market participants. This can threaten the confidence and participation in financial services markets.

6. The three-year FCA strategy explicitly recognises the risk of harm from firm failure and makes a strategic commitment to reduce it. We have seen over the last two years that having access to high quality baseline financial resilience data on a regular basis allows us to regularly assess financial resilience risks at firms, resulting in early intervention (where appropriate), and ultimately helps in reducing harm from firm failure. Therefore, we are consulting on making this data collection permanent in a proportionate manner.

Drivers of harm

7. The drivers of firm failure are usually a combination of weak financial resilience and severe stress(es). Information asymmetry between the FCA and firms about financial resilience levels make it difficult to identify firms that are most vulnerable to stresses and therefore at risk of failure. The impact of firm failure is likely to be exacerbated where firms have not performed any wind-down planning.

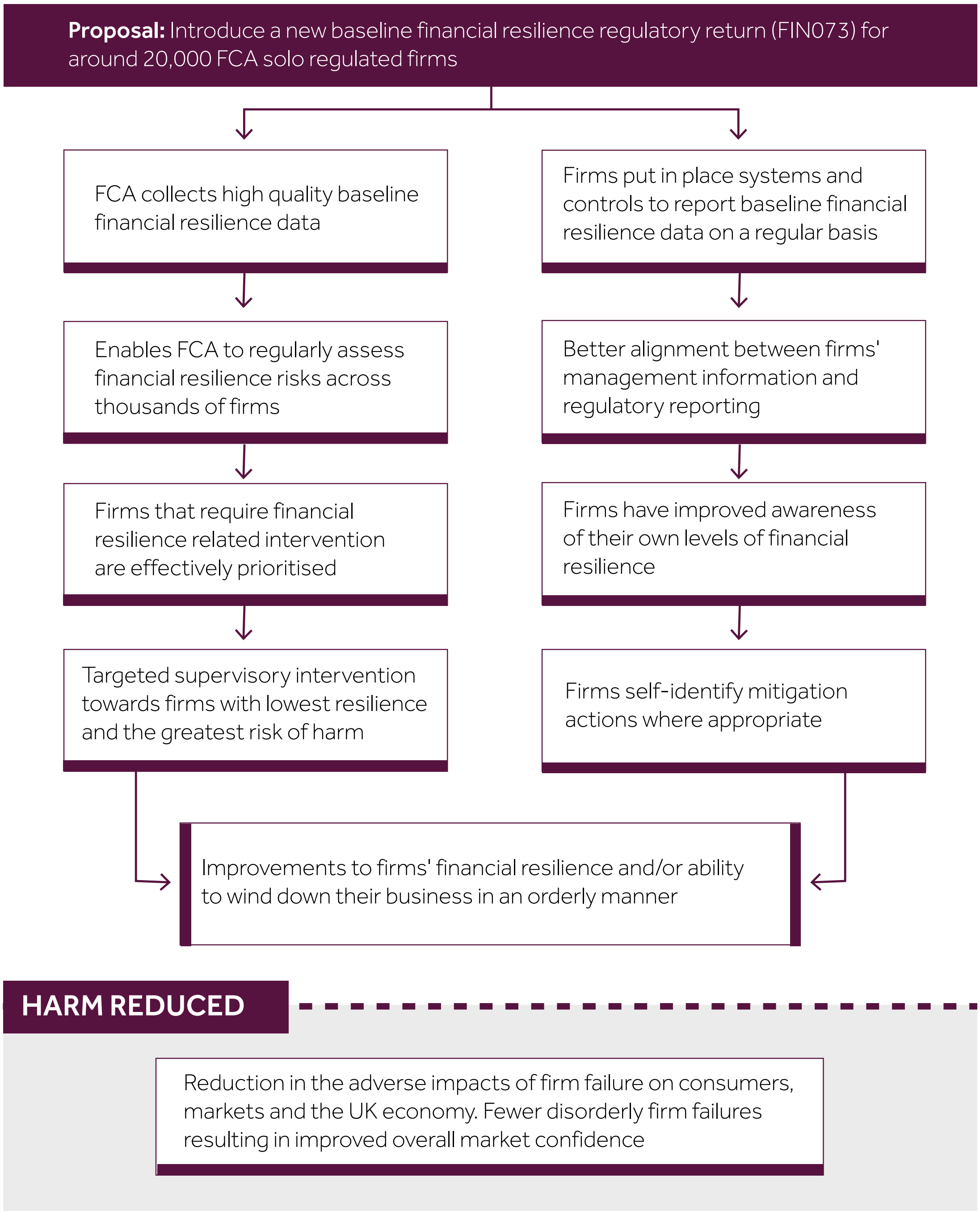
Proposed intervention

8. We intend to introduce a new baseline financial resilience regulatory return, FIN073, replacing the current FRS issued to our solo-regulated firm population. We estimate that our proposal would result in approximately 20,000 firms reporting on baseline financial resilience data on a regular basis. These would be FCA solo-regulated firms of varying size and business models. (See Appendix 1 for full list of firms in scope of FIN073).

9. Our proposal will allow us to target our supervisory interventions towards firms with weak financial resilience, ensuring firms are effectively prioritised, which helps us to deliver our strategic commitment of reducing harm from firm failure. The data from this return will also help deliver our commitments of dealing with problem firms.

10. Figure 1 outlines how we expect the proposed new FIN073 to lead to a reduction in harm.

Figure 1 – Causal chain for our proposed new FIN073



Baseline and key assumptions

11. It is necessary to establish a baseline against which to assess the costs and benefits of an intervention to ensure that only those attributable to the intervention are considered.

12. Our counterfactual scenario is that, without an intervention, we would cease to collect financial resilience data from firms in a regular and consistent manner i.e., we would cease to issue the FRS and it would not be replaced.

13. Our assumption for the counterfactual harm is that it would stay at the same level. We have not quantified this in this CBA.

14. In our analysis, the estimates of one-off and ongoing costs are based on our standardised cost models, in which costs depend on a firm's size. To account for this, we estimated costs for small, medium, and large firms that are representative of the population of firms affected by the proposed new regulatory return. We report the average figures of these estimations for small and medium firms. Because these figures are mean averages, individual firms may experience higher or lower costs than these.

Summary of costs and benefits

15. Table 1 sets out the main costs and benefits we expect as the result of the proposal. We have assessed the costs and benefits of this proposal using the suggested questions for and frequency of FIN073. The cost benefit analysis compares this proposal to the counterfactual scenario in which we would cease to collect financial resilience data from firms in a regular and consistent manner. It should be noted that this counterfactual scenario is improbable as we would be likely to continue to collect this data by way of ad hoc requests on an ongoing basis given its utility, as described below. It should be noted that using this baseline has the effect of raising both the costs and the benefits set out in this CBA compared to using the baseline of continued ad hoc data collections. Please see Annex 1 of the Consultation Paper for areas of the proposal upon which we are inviting feedback.

16. In the sections below, we have considered and assessed both the one-off implementation costs and ongoing costs arising from the proposed new data collection.

17. Most of the one-off costs for firms are to understand the requirements and change their systems to allow them to submit data. Our view is that, once firms have implemented necessary changes, the costs to maintain this on an ongoing basis each quarter should be small.

18. The link between the reporting of baseline financial resilience data and reduction in harm is indirect. We have set out some channels by which we believe benefits could occur (see "Benefits"), but the indirect link and many compounding drivers of the underlying harm from financial resilience risks mean quantifying these is not reasonably practicable.

Table 1: Summary of costs and benefits

	Cost type	Estimate
Costs to firms	One-off	£14.9
	Ongoing	£2.5m
Costs to the FCA	One-off	£47k
	Ongoing	-
Benefits	One-off	Not quantified
	Ongoing	Not quantified

19. We believe that our proposals in this CP will have a net cost in the short to medium term while the benefits (such as reducing the potential for disorderly failure) are ongoing and will likely compound over time.

Costs

Costs to firms

20. Costs to firms include one-off implementation costs and ongoing costs. Almost all firms that are proposed to be in scope of FIN073 have been reporting baseline financial resilience information through the FRS and so will be familiar with the data requested. However, we expect that firms will still incur costs to prepare for and report under FIN073. One-off costs include the time and resources spent by firms familiarising themselves with the proposals and performing a gap analysis to identify necessary changes as a result. Firms may also incur training and IT costs. Ongoing costs include the costs of collating and reporting the data to the FCA every quarter and related costs such as staff training.

21. We use standardised assumptions to estimate firm compliance costs. Further details about our approach can be found in the publication "How we analyse the costs and benefits of our policies".

22. **Familiarisation:** To familiarise themselves with our proposals, including conducting a gap analysis, we expect that all 19,677 (comprising 6 large, 561 medium and 19,110 small) firms will read the consultation, which contains 33 pages. We assume that the number of compliance staff who would need to read the consultation will on average be 5 people at a medium firm and 2 at a small firm. We use an average salary of a compliance function (£56,047), plus 30% non-wage labour costs.

23. We estimate the total cost of familiarisation to be around £1,014 for medium firms, and around £216 for small firms, for the rules consulted on in this CP.

24. **Methodology changes:** We consider that the baseline financial resilience information that we are proposing to collect through FIN073 should already be reviewed as part of a firm's routine procedures. However, some firms may need to make one-off adjustments to existing procedures to report on a calendar quarter basis as proposed. We assume that a medium firm will spend 1 person days to implement a change (Project Manager plus team). We expect this change may involve adjusting accounts and updating internal procedures to ensure the data the firm is submitting is aligned with the request. We also assume that this change will need to be reviewed by Senior Managers at each firm. We estimate a small firm will spend 0.5 person days to implement. The total cost of this change is expected to be around £393 for medium firms, and around £149 for small firms.

25. **IT changes:** In addition to the costs set out above, firms will also need to update their systems to comply with updated reporting requirements. We assume, based on our supervisory judgement, that medium firms have an in-house IT capability and will spend 2 person days to implement this change, while small firms are likely to rely on external consultants and spend the equivalent of 1 person days to implement the IT change. We expect the total cost of this change to be around £772 for medium firms, and £298 for small firms, totalling around £6.2m across our population.

26. **Training:** Finally, we expect firms to incur some training costs. Training may range from formal staff learning through to disseminating information via informal memos and e-mail updates. We assume that attending the training, reading any briefings, and acting on the information will take 2 days for each affected employee. This would result in an average training cost of around £4,629 for a large firm, and around £1,658 for a

medium firm. We have assumed small firms do not require training to implement this change or that the monetary value is negligible (given they are already collecting and reporting data of this type, albeit through a survey).

27. On an ongoing basis, we have reduced the number of hours of training design required as the training material already exists, assuming that some minor updates may be required following its initial creation. This has been reflected in the figures in Table 2.

28. **Collating and reporting data:** The ongoing costs of collating and reporting data to the FCA are calculated as additional staff time required x cost of that time x number of firms. We assume 0.5 days of additional staff time, use an average salary of a compliance function of £56,047 and apply it to 19,677 firms. This is the calculation per return (quarter); for ongoing costs per annum this figure should be quadrupled.

29. Table 2 summarises estimated average and total costs, split according to cost category.

Table 2: Summary of estimated average and total costs to firms by cost category

Cost type	Category	Average per small firm	Average per medium firm	Total over population
One-off	Familiarisation	£0.2k	£1k	£4.7m
	Developing/adapting IT systems	£0.3k	£3k	£6.2m
	Methodology changes (incl. project management & governance)	£0.1k	£0.4k	£3.1m
	Staff training	-	£1.7k	£1m
	All one-off costs	**£0.6k**	**£6.1k**	**£14.9m**
Ongoing	Collecting data	-	-	-
	Collating and reporting data to the FCA (quarter)	£0.1k	£0.1k	£2.5m
	Legal costs	-	-	-
	Staff training (quarter)	-	£0.1k	£44k
	All ongoing costs (quarter)	£0.1k	£0.2k	£2.5m

30. We estimate total one-off costs to firms of £14.9 million and total ongoing costs of £2.5 million per quarter. We expect the largest element of both one-off and ongoing compliance costs will be updating IT systems and familiarisation with the new reporting obligations.

Costs to the FCA

31. We consider that the main cost to the FCA will be in relation to IT system changes. We estimate that this will be a one-off cost of approximately £47,000. We do not consider that there will be any significant ongoing IT costs in relation to our proposed approach.

32. We consider that there will be minor ongoing costs as a result of any manual intervention or assessment to address any anomalies that arise from the reporting obligation. It is not reasonably practicable to quantify these costs.

33. We expect to use existing supervisory resources to supervise firms, and so should be covered by our current supervisory activities, with no additional increase in costs.

Costs to consumers

34. We do not consider that our proposed intervention will give rise to direct costs to consumers.

35. Indirectly, however, if firms used the information in FIN073 to make themselves more financially resilient as a result of the proposal, some consumers could potentially face higher costs from firms. By way of example, to improve their liquidity position some firms may seek to change their payment terms or increase their fees. These potential effects are uncertain and their attribution complex, so it is not reasonably practicable to estimate their cost to consumers.

Benefits

36. Having permanent access to baseline financial resilience data significantly reduces information asymmetry, allowing the FCA to identify firms with financial resilience weaknesses. The data collected gives us a baseline set of financial resilience information across the solo-regulated firm population and is a key component of our financial resilience assessments. These assessments allow us to evaluate our solo-regulated firms on a timely/periodic basis, providing assurances on firms' financial arrangements and identifying concerns in others. When coupled with macroeconomics data, this data also provides a better view on the (sub-)sector trends to enable better resource planning within the FCA.

37. Based on the FRS data to date, we have acted earlier than we may otherwise have done on over 100 firms where this data assessment helped identify material concerns. These firms had to increase capital, put new wind-down plans in place and/or were prevented from taking on new business while they address the underlying issues. As a result of these actions, these firms are less likely to undertake a disorderly wind-down that could have resulted in harm for both consumers and market integrity.

38. For example, in one case, the data highlighted the loss rate would lead to significant capital deficit on an authorised payment institution holding in excess of £50m of client safeguarded funds and £220m average monthly transactions. We were able to intervene, requiring the firm to secure additional capital, improve its wind-down plan, and complete an assessment on its safeguarding controls that resulted in improvements to those arrangements. Without this early intervention to improve the prudential health of the firm, there would have been an increased likelihood of firm failure.

39. In another case, the FRS data highlighted significant liquidity concerns for a non-payments firm with client asset permissions. Through our information request, it became clear that client assets were not sufficiently segregated. A VREQ was requested to close the firm to all business and restrict any assets from leaving the firm. These actions were to reduce potential harm to consumers of losing client assets and reduce the risk of phoenixing. This was to remain in place until client assets were properly segregated.

40. Should either of the above firms have failed, there would have been a greater likelihood of a disorderly failure had the FCA not intervened. At worst, this could have led to customers incurring harm associated with both an inability to access their safeguarded funds and potential losses to those funds. This can result from the additional costs of disorderly failure (e.g., rebuilding of records) and loss of assets held through inadequate arrangements.

41. A disorderly wind-down can cause harm because consumers can lose their money – with no redress. The number of affected consumers and the losses experienced can be significant. In addition to their considerable financial losses, consumers may suffer both physically and mentally from the experience and lose confidence to participate in financial services markets.

42. The link between reporting of baseline financial resilience data and reduction in harm is indirect. We have set out some channels by which we believe benefits could occur but the indirect link and many compounding drivers of the underlying harm from financial resilience risks mean quantifying these is not reasonably practicable.

43. However, while quantification of the benefits is not reasonably practicable, we believe that the estimated costs of the proposal are proportionate to the potential benefits from a reduction in harm caused by poor financial resilience.

Consumers

44. We consider that there will be indirect benefit to consumers, including having more confidence in the market. This assumes that our proposal will improve financial resilience-related systems and controls for some firms and is in line with feedback provided by firms on the potential benefits of the proposal through workshops as part of the TDC programme.

45. To the extent that reporting FIN073 on a quarterly basis improves firms' understanding of their own financial resilience, it could result in a more resilient financial sector with fewer disorderly firm failures. This would benefit society more widely as it avoids scenarios where consumers suffer financial losses as well as loss of services provided.

Firms

46. We consider that there may be the following indirect benefits to firms:

a. An improvement to a firm's consideration of its own financial resilience. For example:

- adopting some of the information fields into the firm's systems could improve routine analysis and management information.

- it would enable the firm to maintain high compliance standards in relation to COND 2.4 (Appropriate resources) and PRIN 2.1 (Principle 4 - Financial Prudence).
- it would improve their transparency to their regulators and, in some cases, bring their standards in line with other group entities.

b. Reduced risk of disorderly failure and/or general confidence in UK markets may result in consumers having more confidence to make use of UK financial services.

c. The proposal allows the FCA to aggregate a consistent set of financial resilience data to identify trends across sectors to the benefit of firms. This aggregated data may be of benefit to firms as it facilitates peer analysis. The results of the return will also feed into our publications, potentially making it of value to the UK market.

Q5: **Do you agree with our cost benefit analysis and conclusion? If you do not, please provide an explanation, including any estimated costs or benefits that may be relevant.**

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with several legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, as far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K (2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rulemaking) in a way which promotes effective competition in the interests of consumers (s. 1B (4)). This duty applies as far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a few high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of securing an appropriate degree of protection for consumers. They are also relevant to the FCA's objectives of ensuring market integrity and promoting effective competition.

8. Regarding the FCA's operational objective of protecting consumers, these proposals will allow us to quickly assess financial resilience risks, prioritise interventions and seek reductions in harm to consumers. They will also allow us to form a more comprehensive view of risks to consumers. The FCA has in this consultation had regard to the 8 matters listed in s.1C(2)(a)-(h) FSMA on consumer protection.

9. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well. The proposals will allow us to reduce the likelihood of disorderly failures resulting in an adverse impact on market participants, focus on firms that are most likely to cause market disruptions, and allow us to identify vulnerabilities in specific market segments. We also consider these proposals will improve overall market confidence due to fewer disorderly failures. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by s.1F FSMA and include the markets for regulated financial services.

10. Lastly, we expect the proposed changes will improve competition by allowing us to better identify firms with low levels of financial resilience that may be gaining an unfair competitive advantage while posing material risk of harm to consumers.

11. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s.3B FSMA.

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

12. The proposals set out in this consultation paper primarily aim to identify firms most at risk of failure. Used in conjunction with an assessment of the harm in failure, the collection of this data will allow us to target our interventions accordingly to both improve firm resilience, or to ensure firms are better prepared for wind down. This will result in firms being less likely to have a disorderly wind-down, and thus reduce the chance of market disruptions. By focusing new proposals on this specific harm, we ensure our resources are used in the most efficient way and with the greatest impact.

The principle that a burden or restriction should be proportionate to the benefits

13. We have considered the impact of our proposals on both firms and consumers and have undertaken a cost-benefit analysis (CBA) which is included in Annex 2 of this consultation paper. We consider the costs to be proportionate to the benefits.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

14. We consider these proposals are compatible with the desirability of sustainable growth in the economy. Financial resilience supports sustainable growth by allowing us to potentially identify where firm growth is unsustainable or presenting risks.

The general principle that consumers should take responsibility for their decisions

15. Our proposals are not relevant to this principle.

The responsibilities of senior management

16. Our proposals are not relevant to this principle.

The desirability of recognising differences, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

17. Our proposals are not relevant to this principle. Our proposals will not discriminate or treat businesses differently because of the organisations by which they are run.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. This principle is not relevant to our proposals.

The principle that we should exercise our functions as transparently as possible

19. We have worked closely with those in the industry to understand how to shape our proposals through the TDC programme and we will continue to do so as part of this consultation process.

Financial Crime

20. Our proposals are not relevant to this principle.

Expected effect on mutual societies

21. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Equality and diversity

22. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation, and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not and foster good relations between people who share a protected characteristic and those who do not.

23. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in Chapter 3 of this Consultation Paper.

Annex 4
Abbreviations used in this paper

Abbreviation	Description
AFRM	Automated Financial Resilience Monitoring
ARD	Accounting Reference Date
CBA	Cost Benefit Analysis
CP	Consultation Paper
FCA	Financial Conduct Authority
FRS	Financial Resilience Survey
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act
GBP	British pound sterling
IFPR	Investment Firms Prudential Regime
MMF	Money Market Funds
RIE	Recognised Investment Exchanges
TDC	Transforming Data Collection
TP	Temporary Permissions
UK	United Kingdom
VREQ	Voluntary Requirements Notice

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response 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 Rights Tribunal.

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Appendix 1
Draft Handbook text

FINANCIAL RESILIENCE REPORTING INSTRUMENT 2022

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under the following:

(1) the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 139A (Power of the FCA to give guidance);
(d) section 293 (Notification requirements);

(2) regulation 109 (Reporting requirements) and regulation 120 (Guidance) of the Payment Services Regulations 2017; and

(3) regulation 49 (Reporting requirements) and regulation 60 (Guidance) of the Electronic Money Regulations 2011.

B. The rule-making provisions listed at paragraph A(1) above are specified for the purposes of section 138G(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 Financial Resilience Reporting Instrument 2022.

By order of the Board
[*date*]

Annex

Amendments to the Supervision manual (SUP)

In this Annex, the text is all new and is not underlined.

After SUP 16.29 (MIFIDPRU Remuneration Report), insert the following new section, SUP 16.30.

16.30 Baseline Financial Resilience Report

Application

16.30.1 R This section applies to any *firm* except:

(1) a *credit broker*;

(2) a *MIFIDPRU investment firm*;

(3) a *not-for-profit debt advice body*;

(4) a *PRA-authorised person*;

(5) a *supervised run-off firm*; and

(6) a *TP firm*.

16.30.2 R This section also applies to:

(1) an *authorised electronic money institution*;

(2) an *authorised payment institution*;

(3) a *registered account information service provider*;

(4) a *small electronic money institution*;

(5) a *small payment institution*; and

(6) a *UK RIE*.

16.30.3 R In this section, a reference to a *firm* includes the *firms* listed in *SUP* 16.30.2.

Purpose

16.30.4 G The purpose of this section is to require *firms* to provide the *FCA* with regular information in a standard format. This information will assist the *FCA* in assessing *firms'* financial resilience and targeting supervisory resources according to *firms'* risk of failure and the harm they would cause if they failed.

Reporting requirement

16.30.5 R A *firm* to which this section applies must submit FIN 073 ('the Baseline Financial Resilience Report'):

(1) in the format set out in *SUP* 16 Annex 53R;

(2) in accordance with the instructions in *SUP* 16 Annex 54G;

(3) online, through the appropriate systems accessible from the *FCA's* website.

16.30.6 R The information in the Baseline Financial Resilience Report must be denominated in pound sterling.

Frequency and timing of report

16.30.7 R A *firm* to which this section applies must submit the Baseline Financial Resilience Report to the *FCA* quarterly, within 20 business days following the last business day in:

(1) March;

(2) June;

(3) September; and

(4) December.

After SUP 16 Annex 52 (Guidance notes for the MIF008), insert the following new annexes, SUP 16 Annex 53 and SUP 16 Annex 54.

Data items for FIN 073 (the Baseline Financial Resilience Report)

16 Annex 53R This annex consists of a form which can be found through the following link:

[*Editor's note*: insert link to document containing data items for the Baseline Financial Resilience Report]

FIN073 - Baseline Financial Resilience Report

Completion Guidance

Guidance on completing this data item can be accessed via the help link next to the data item name.

All monetary values should be completed as whole numbers.

Data items

1	Firm Reference Number (FRN)	
2	Total amount of liquid assets that you control or have unrestricted access to	

3	Average monthly cash needs arising from fixed costs	
4	Net profit OR loss in the last quarter	
5	Revenue in the last financial year	
6	Net asset or liability position at the end of the last (calendar) quarter	

Guidance notes on the data items for FIN 073 (the Baseline Financial Resilience Report)

16 Annex 54G	This annex consists of guidance which can be found through the following link: [*Editor's note:* insert link to document containing guidance on completing data items for the Baseline Financial Resilience Report]

Guidance notes for FIN073 ('Baseline Financial Resilience Report')

Introduction

The purpose of FIN073 ('Baseline Financial Resilience Report') is to ensure that the Financial Conduct Authority (FCA) receives regular information in a standard format to assist it in assessing the financial resilience of certain firms.

Consolidated reports

This form should be completed by all firms except:

- a credit broker
- a MIFIDPRU investment firm
- a not-for-profit debt advice body
- a PRA-authorised person
- a supervised run-off firm
- a TP firm

This form should also be completed by:

- an authorised electronic money institution
- an authorised payment institution
- a registered account information service provider
- a small electronic money institution
- a small payment institution
- a UK RIE

Currency

All monetary values should be provided in Pound Sterling.

Data elements

All data should be entered in full figures, not rounded (for example, to 000s).

Basis of completion

1 – FRN

Firms must enter their Firm Reference Number (FRN).

2 – Total amount of liquid assets that you control or have unrestricted access to

Firms should report the total liquid assets that they have unrestricted access to, as at the final day of the business quarter, as a positive number. If they do not have access to any liquid assets, firms should report a zero.

'Control' or 'have unrestricted access to' means that the firm is able to decide when and how to access these without external input (e.g., from their parent or another member of their group).

Liquid assets are financial assets that firms have available to quickly meet their obligations. These include cash, available committed facilities and the other high quality liquid assets listed below.

Cash includes coins and banknotes, unencumbered short-term deposits held at a credit institution (such as cash at bank), and reserves held in a central bank. It may include money received as part of a government-backed loan scheme but does not include client money.

Available committed facilities mean a credit facility which has been formally agreed between the firm and a lender, such as a loan or revolving credit facility with no material adverse change clause. Available committed facilities should be reported as positive values.

For the purposes of FIN073, only the following constitute high quality liquid assets:

- assets representing claims on, or guaranteed by, the UK government or the Bank of England
- units or shares in a short-term Money Market Fund (MMF)
- units or shares in a third country fund that is comparable to a short-term MMF

A short-term MMF is a regulated money market fund that meets the definition of a 'short-term MMF' in article 2(14) of the Money Market Funds Regulation.

3 – Average monthly cash needs arising from fixed costs

Fixed costs are costs that cannot be easily reduced or eliminated. This is likely to include, for example, salaries, rents and business rates. Cash needs arising from fixed costs include all fixed costs that result in a cash outflow. When assessing the average monthly cash needs arising from fixed costs, a three-month forward looking time horizon should be considered.

4 – Net profit OR loss in the last quarter

This is the net profit or loss after tax over the relevant reporting period (calendar quarter) with loss reported as a negative number. This should not be reported on a cumulative basis for the year but instead as the profit (loss) over the relevant reporting period.

5 – Revenue in the last financial year

Revenue is the total income generated before deducting any expenses for the last full financial year, even if this has not been audited. Revenue may be zero but cannot be negative. If you have not completed a full financial year, you should report a zero.

We expect firms to enter the same value for four consecutive returns when reporting on a quarterly basis.

6 – Net asset or liability position at the end of the last (calendar) quarter

Net asset position is the total assets minus total liabilities at the end of the relevant reporting period (calendar quarter). This should be reported as a negative number if the liabilities are greater than the assets.

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FINANCIAL
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