an insight into the Capital Requirements Directive

A recent Financial Services Network joint lecture allowed members to learn more about the Capital Requirements Directive and its implications for reporting standards. Astrid Lovelace reports.

As the main implementation instrument for Basel II, the Capital Requirements Directive (CRD) is a broad and far-reaching entity.

On 27 June ACCA and GARP (Global Association of Risk Professionals) members and Barclays employees gathered at Barclays' Canary Wharf HQ to learn more about the Directive, focusing on its implications on reporting and on smaller institutions such as Islamic banks.

integrated regulatory reporting and its role in the CRD

Graham Fraser from the FSA opened by explaining the aims and objectives of Integrated Regulatory Reporting (IRR).

IRR standardises data collection and is based on an electronic system – Mandatory Electronic Reporting (MER). MER collects core data and makes it easier to use, providing a standard set of information in contrast to the different reporting methods previously used, e.g. some returns being done on paper, some electronically, and all of varying quality.

To further streamline the process, RAGs (Regulatory Activity Groups) have been created, bringing together reporting by regulated groups e.g. RAG 1 applies to deposit investors. These two systems mean that only what is needed is collected, creating a robust system which avoids duplication, and uses a matrix approach. The data is clear and justified and allows for trend analysis and more importantly timely alerts to problems.

fitting in with standard business practice

Data collected for the FSA should be the same data as that collected by companies themselves. The first draft of Solvency II will be out in July, and the FSA is considering what data supervisors should be collecting, getting the balance right between too much or too little information, and making sure it is relevant.

timetable

CAP Gemini is delivering the MER system and is currently ahead of schedule, looking to complete in July 2008. The advantages of this system are reduced costs, a fuller range of submission options, and more time to prepare data.

what this means for accountants

Graham concluded his presentation with some points specific to accountants:

- auditors are not required to check new IRR returns – so they are not tied to publication of accounts
- senior management can determine the degree of verification required
- data items are not defined in detail – this gives firms some flexibility
- senior management are responsible for reporting – any lapses or adaptations must be fully justified.

practical issues surrounding implementation of the CRD

Natalie Schoon – from the House of London and the Middle East – discussed issues around the implementation of the CRD. By positioning the CRD as the replacement for the Capital Adequacy Directive (CAD), Natalie outlined why this update had been necessary. Under the CAD system, National Grid – a big and healthy company – attracted the same risk rating as ENRON and the regional bank of Uzbekistan had a 20% risk rating – the same as that for Barclays and HSBC.

Basel II – translated through the CRD – takes into account credit risk and operational risk. And while CEOs need to know what Basel II is, internal models can be difficult to build and time-consuming. A standardised approach is easier for smaller companies.

key issues

These include:

- the amount of data required – the minimum requirement is seven years' worth but in smaller banks, if anything at all is recorded it is seen as being 'better than nothing'
- national variations – other countries, including India and the US, have followed drastically different timetables for implementation, and as this directive is Europe-wide there are likely to be many different approaches
- bank size – smaller banks tend to go for standardised reporting; this can be seen as a negative by regulators.
- borrower quality – if no default data exists, this means no rating, which appears to be a higher risk.

Copies of the presentations and the question and answer session that followed can be obtained by e-mailing **astrid.lovelace@uk.accaglobal.com**. ■

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