From June 2021 the regulatory reporting requirements for Class 2 and Class 3 investment firms¹ in the UK and Europe will change. In December 2019, the European Banking Authority (EBA) in its Official Journal, published the Investment Firm Directive (IFD) and Investment Firm Regulation (IFR) which will apply to all MiFID authorized and supervised firms. The new regime appropriately reflects the risks posed to investment firms far more than the existing Capital Requirement Directive (CRD) and Capital Requirements Regulation (CRR) which are designed for credit institutions. Given that the UK was a principal proponent for the new regime, it will adopt the IFD and IFR regardless of Brexit. The new regime will form part of the UK’s HM Treasury Prudential standards in the Financial Services Bill.

¹. Article 12(1) of REGULATION (EU) 2019/2033 – the Investment Firm Regulation – provides criteria to define “Small and non-interconnected investment firms” which are commonly referred to as “Class 3” firms if the criteria are met or otherwise “Class 2” if the criteria are not met.
Investment Services Regulation – A New Regime for Investment Firms

With respect to regulatory reporting, the new regime makes changes to own funds, capital requirements and liquidity. It introduces brand new measures referred to as K-Factors as well as proportional criteria to distinguish between non-systemic firms (Class 2) and small and non-interconnected investment firms (Class 3). The biggest change will understandably be in the area of capital requirements where new K-Factors will be used to measure Risk-to-Customer, Risk-to-Market and Risk-to-Firm.

As a result, all Class 2 and Class 3 firms will notice a change to their capital and liquidity requirements. For example, the new Risk-to-Customer metrics will require firms to source data that has never before been requested for the purposes of regulatory reporting, such as reporting the average daily value of client orders handled over the last 9 months, split between cash and derivative trades.

This new regime will therefore have a significant impact on operations and compliance teams that will need to work closely with IT, Finance and Risk to ensure that firms are ready to report when the new obligations go live in June 2021 with the EBA’s Data Point Model v3.0.0. Complying with such a tight deadline will not be possible without strong and focused project management and strategic partnerships. As such, this will be a top priority on the agendas of every CEO, CFO and CRO at MiFID authorized and supervised firms.

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Optimize the data collection process
Wolters Kluwer experts have analyzed the IFR and EBA Data Point Model v3.0.0 in detail so are well placed to advise firms what data they need to be compliant. This saves firms time and money that would otherwise be spent on business analysis.

Automate the regulatory reporting process
OneSumX Regulatory Reporting for Investment Firms enables firms to fast track to data harvesting by implementing the needed data points into our structured data model. This enables our customers to then leverage our calculators and reporting capabilities to deliver a fully automated regulatory reporting solution.

Calculations

Ensure your firm has a sufficient amount of eligible capital
OneSumX Regulatory Reporting for Investment Firms can determine if a firm’s available own capital is eligible to be used for prudential purposes by comparing the capital’s attributes to the requirements specified in Articles 9 and 10 of IFR. The solution can assess how much capital the firm needs, as it implements the Risk-to-Customer, Risk-to-Firm and Risk-to-Market calculations specified in Articles 11-42, including:

Risk-to-Customer
- K-AUM (Assets Under Management)
- K-CMH (Client Money Held)
- K-ASA (Assets Safeguarded and Administered)
- K-COH (Client Orders Handled)

Risk-to-Market
- K-NPR (Net Position Risk)

Risk-to-Firm
- K-TCD (Trading Counter-party Default)
- K-DTF (Daily Trading Flow)
- K-CON (Concentration Risk)

OneSumX Regulatory Reporting for Investment Firms can also derive your initial capital and permanent capital requirements based on your MiFID permissions.

Ensure your firm has a sufficient amount of eligible liquidity
OneSumX Regulatory Reporting for Investment Firms will determine if the properties of the assets in your “Liquid Asset Buffer” are eligible in accordance with Articles 43-45 of IFR, and from there, can assess if you meet the minimum requirements defined in Article 43(1).

Reporting templates, auditability and delivery

Keep up to date with regulatory reporting requirements
Firms will need to report on the items specified in Article 54 of IFR, which includes level and composition of own funds, capital requirements, capital requirements calculations, Class 2 and Class 3 attributes, as well as balance sheet and revenue breakdown, applicable K-factor, concentration risk and liquidity requirements. The final templates will be confirmed as part of EBA DPM v3.0.0 and will be delivered in OneSumX Regulatory Reporting for Investment Firms.

Leverage powerful analytical tools
OneSumX Regulatory Reporting for Investment Firms will render templates and provide powerful analytical tools such as trend, variance, drill down, drill up and drill through features so that regulatory reporters can attest to the accuracy of the returns and explain movements to managers, executives and regulators. In the event of data quality issues, users are also able to apply manual adjustments that are fully auditable and subject to the four-eyes principles for approval.

Ensure accuracy of reports
OneSumX Regulatory Reporting for Investment Firms will implement all the validation rules specified by the EBA to ensure the integrity of the final submitted reports. In addition, the solution provides easy-to-use features that allow users to validate their data in terms of integrity and completeness.

Limit exposure to regulatory change
OneSumX Regulatory Reporting for Investment Firms operates a subscription-based Regulatory Update Service (RUS). If the regulator refines or updates any of the calculations, classifications, reporting templates, validation rules or XBRL taxonomy, our solution will be updated in line with the regulatory deadlines at no extra cost. If a regulatory change requires a new data attribute, Wolters Kluwer will notify clients well in advance so they can plan for the changes.

Investment Firms will need to comply with new K-Factor requirements for Risk-to-Customer, Risk-to-Firm and Risk-to-Market.
Scalability and performance
OneSumX Regulatory Reporting for Investment Firms is a modular solution which allows firms to mix and match tactical components as they work towards a strategic, automated regulatory reporting solution.

OneSumX Regulatory Reporting for Investment Firms has an intuitive design that provides firms access to their key risk indicators from the moment they start their day. Intra-day updates can also be provided. The solution is a java-based application that uses in-memory processing to deliver both power and scale without compromising on functionality.

SaaS and On-Premise Deployment

Ensure full cost transparency and flexibility
Wolters Kluwer is an experienced provider of SaaS-based solutions delivering over 400 applications and servicing more than 10,000 users globally.

The SaaS version of OneSumX Regulatory Reporting for Investment Firms lets clients focus on value-add activities while Wolters Kluwer takes care of platform management, application support and any additional maintenance.

Additional benefits of the SaaS deployment model include:
- Lower total cost of ownership
- Full cost transparency and predictability

For firms that are not quite ready to switch to a cloud-based regulatory reporting solution, Wolters Kluwer offers the on-premise version of OneSumX Regulatory Reporting for Investment Firms. Wolters Kluwer facilitates training of clients’ IT departments on how to manage the solution or provide clients with experienced consultants to run the solution for them on their own premises.

The Wolters Kluwer Finance, Risk and Regulatory Reporting (FRR) business division is a global market leader in the provision of integrated regulatory compliance and reporting solutions. It supports regulated financial institutions in meeting their obligations to external regulators and their own board of directors.

Wolters Kluwer FRR receives frequent independent recognition of its excellence and innovation, celebrating a record year for award wins. Risk Magazine recently awarded the company its coveted Regulatory Reporting System of The Year award for the second year running and Waters Technology named the company Best Market Risk Solution Provider in its annual Technology Rankings. Wolters Kluwer is also ranked the #1 provider in both Regulatory Reporting and Liquidity Risk according to the RiskTech100 2020, as compiled by Chartis Research.

OneSumX Regulatory Reporting for Investment Firms

Drill Down
- Security Framework
- Version Control
- Documentation
- User & Data Workflow
- History Management
- Drill Down/Up
- Form Validation

Regulatory Update Service
- Four Eyes
- Adjustments
- Submission
About Wolters Kluwer

Wolters Kluwer (WKL) is a global leader in professional information, software solutions, and services for the healthcare; tax and accounting; governance, risk and compliance; and legal and regulatory sectors. We help our customers make critical decisions every day by providing expert solutions that combine deep domain knowledge with specialized technologies and services. Wolters Kluwer reported 2019 annual revenues of €4.6 billion.

The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 19,000 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands. Wolters Kluwer shares are listed on Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices. Wolters Kluwer has a sponsored Level 1 American Depositary Receipt (ADR) program. The ADRs are traded on the over-the-counter market in the U.S. (WTKWY).

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