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The new Investment Firm Regulation (IFR) and the new Investment Firm Directive (IFD)

New regulatory requirements for investment firms
require immediate action

At the end of November 2019, the European Union adopted new regulatory provisions for investment firms. The new Investment Firm Regulation (IFR) and the new Investment Firm Directive (IFD) create, for the first time, a dedicated regulatory reporting framework for investment firms. The individual EU member states now have until June 2021 to implement the rules.

Investment firms must apply the regulation from June 26, 2021. Despite the ongoing COVID-19 crisis, the start date has not been postponed, leading to an ambitious time frame for the implementation of new regulatory obligations. Depending on the group to which investment firms will be assigned, different requirements will have to be met. The experts at BearingPoint RegTech recommend that institutions start soon to examine the upcoming rules to give themselves enough time to prepare for the new requirements..

Currently, investment firms are subject to the same strict regulatory requirements that also apply to institutions engaged in the lending and deposit business. They therefore report to their supervisors according to the requirements of the CRR/CRD. There are exceptions, particularly for small firms. However, these are usually only nested in the extremely complex set of rules for banking regulation. An amendment of the supervisory requirements and regulations for European investment firms therefore seemed overdue. The amendment is intended to relieve small and medium-sized investment firms of the regulatory burden by replacing the previous complex set of rules. Around 6,000 European investment firms are likely to be affected. Classification of these firms into three groups should make the determination of the regulatory requirements significantly easier:

Group 1: Must still meet the CRR/CRD requirements. Investment firms with a balance sheet total of more than EUR 30 billion must obtain a banking licence.

Group 2: Falls under the new IFR/IFD framework. These requirements include a modified or simplified set of rules for calculating own funds or risk concentration and liquidity.

Group 3: Further simplification of the IFR/IFD framework (compared to Group 2).

The full effect of the new regulation cannot yet be quantified due to the lack of research so far, but they are in any case highly individual and heavily dependent on an institution's business volume. Initial market opinions indicate that small firms will have to meet higher capital requirements, because they have benefited greatly from exceptions to date. For Group-2 market makers, the requirements are likely to be even higher - significantly higher - as transaction volumes and other key figures will have to be included in the future.

Thus, it is even more important to identify the need for action at an early stage. The project schedule should not underestimate the time and effort. A possible implementation approach is outlined as follows:

1. Analysis of the requirements of the new framework depending on the classification into the corresponding group;
2. Derivation of necessary operational steps based on the grouping - from the start of a project team to the application for a banking license (for very large investment firms);
3. GAP analysis of the required data and integration of the data – it is possible that completely new data must be collected;
4. Selection of a software provider;
5. Implementation or linking of the data to the interface of the calculation and reporting software;
6. Registration and first electronic submission for the June 30, 2021 reporting date.
7. By end of June 2021, the report must be prepared on the basis of the new legal text. This means that the first reporting date is June 30, 2021, and electronic submission to the supervisory authority must be made by XBRL using the Data Point Model (DPM) of Version 3.0. Therefore, all investment firms should soon start the technical validation and the subsequent implementation projects.

BearingPoint RegTech has analyzed the new regulation for investment firms and plans to develop a corresponding module for its well-established solution Abacus360 Banking.

Abacus360 Banking already covers a wide range of functionalities for national and international regulatory reporting, statistical reporting, granular reporting (AnaCredit) and ad-hoc reporting. The new IFR/IFD module will include all well-known Abacus360 Banking functionalities, such as, individual data delivery, X2A, sum interface and the editing of data via the user interface.

BearingPoint RegTech

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