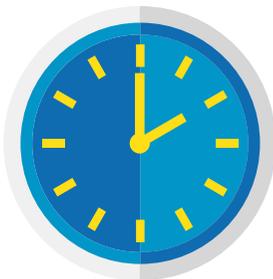
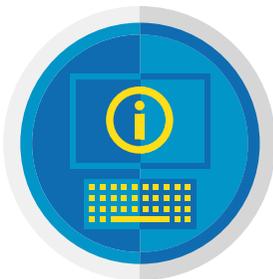
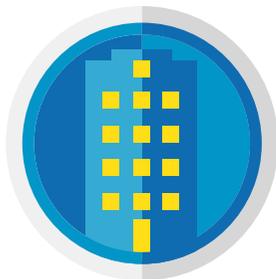


A guide to Retail Mediation Activities Return (RMAR)

PKF

Accountants &
business advisers

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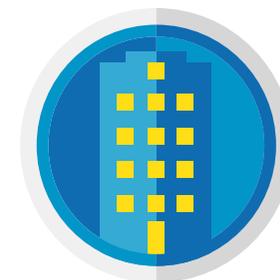
1. Introduction

This guide is intended as a summary document to set out the nature, purpose and contents of the RMAR and to highlight the common queries and problems that firms encounter when completing the form. By its very nature it is not intended to be a fully exhaustive list of 'How to complete your RMAR' and, as such, should not be seen as a replacement for the comprehensive guidance set out in SUP 16 Annex 18B 'Notes for completion of the Retail Mediation Activities Return' (RMAR) of the FCA.

In our experience, we have found that through incorrect completion of the RMAR, a firm can inadvertently cause itself problems. This may be by attracting increased regulatory scrutiny as a result of simply reporting incorrect income figures or capital requirements, or putting in the wrong income figures for fee calculation purposes, therefore costing the firm hard cash. In this document we outline the common areas which are a cause for query in completing a firm's RMAR.

Please email Paul Goldwin (pgoldwin@pkf-littlejohn.com) at PKF Littlejohn if you have any specific queries.

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2. What is the RMAR?

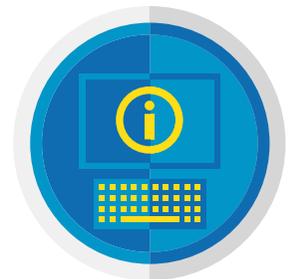
The RMAR was originally introduced by the FSA in April 2005 and is the core regulatory return submitted by firms who provide intermediary services arranging and/or advising on mortgages, non-investment insurance or investment products. It therefore covers all firms with permissions to carry on insurance distribution activity in relation to non-investment insurance contracts, ie FCA authorised insurance intermediaries.

The RMAR is the framework for the collection of information required by the FCA as a basis for its supervision activities.



3. How is the RMAR information collected?

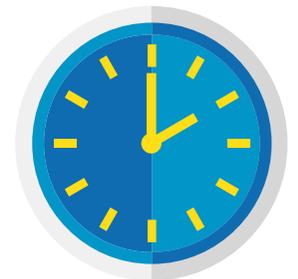
Firms report their RMA data electronically via GABRIEL, which is the FCA's online system for collecting and storing regulatory data. Electronic reporting via GABRIEL enables the FCA to provide baseline monitoring, as it requires firms to submit their data in a manner which allows them to build in various automatic verification checks. Additionally, providing data in a standardised manner, permits the data to be stored in their data warehouse where they can analyse trends and select firms for thematic work etc.



4. How often are firms required to provide their RMA information?

Most firms are required to report their RMA information every six months at a minimum for most sections of the return, based on their accounting reference date. Firms have a period of 30 working days after the end of the return period in which to submit the return.

Some larger non-investment insurance firms (where regulated revenue exceeds £5m per annum) are now required to report their RMA information every quarter, on the same basis as above.



5. What information is captured by the RMAR and why?

The information captured by the RMAR falls into the following broad categories:



This can be summarised as follows

Financial Information

Information reported	Information required	Reasons for collection
RMA-A Balance Sheet	Summary data showing the firm's financial position as at the accounting reference date.	To assist the FCA in monitoring the firm's financial position at the accounting reference date and ongoing solvency.
RMA-B Profit and loss	Financial results reported on a cumulative basis throughout the firm's financial year.	To provide the FCA with details of regulated business revenue and financial results for the year.
RMA-C Client money and assets	Client money held by the firm in the course of carrying on regulated activities.	To allow the CASS team to monitor the firm's compliance with the client money rules in respect of client money for which the firm is responsible for its protection.
RMA-D1 Regulatory capital	Calculation of regulatory capital and capital resource requirements calculated in accordance with MIPRU 4.	To enable the FCA to monitor a firm's capital resources and ensure it is adequate in relation to the regulated activities it carries out.
RMA-E Professional Indemnity	Confirmation that there is adequate PII cover in place and a summary of cover (or confirmation that no change since last reporting date).	To enable the FCA to monitor that the firm has adequate PII in place.



Threshold Conditions

Information reported	Information required	Reasons for collection
RMA-F Threshold conditions	Verification on compliance with various issues related to threshold conditions for close links and controllers.	To enable the FCA to ensure that firms have complied with their threshold conditions on close links and controllers and met the ongoing notification requirements.

Training and competence/conduct of business

Information reported	Information required	Reasons for collection
RMA-G Training and competence	Information on staff, advisers and their qualifications.	To satisfy the FCA that a firm has suitably qualified staff to undertake their regulated activities and to enable the FCA to assess the nature of the firm's compliance with the training and competence requirements.
RMA-H Conduct of business	Information on a variety of aspects of how a firm carries out its business.	To enable the FCA to monitor and identify any 'bad practice' so as to minimise bad customer outcomes.
RMA-I Supplementary product sales data	Product information and details of insurance chains, broken down by product type.	Enables the FCA to get a clearer picture of the product range in the market and helps target thematic work.
RMA-J Data required for collection of fees	Regulated revenue calculated in accordance with detailed criteria.	To provide the FCA with the information required to calculate the periodic fees that firms are required to pay to the FCA, FOS and FSCS.



6. Common areas of interest / Pitfalls in completing the RMAR

We have identified a number of areas that firms and their advisers commonly get wrong in completing their RMAR bringing the firm within closer FCA regulatory scrutiny. This is not an exhaustive list, but a selection of the more common occurrences.

RMA-A Balance Sheet

- **Intangible assets** - although reportable on Box 1 RMA-A, this amount should be deducted when calculating a firm's total capital resources per Box 30 or 36 of RMA-D on the basis that these are not instantly realisable and, as such, should not form part of a firm's capital resources.
- **Insurance assets** - insurance/client assets being amounts due from clients (insurance debtors), client money bank accounts and amounts due to insurers (insurance creditors), which should all balance down to £Nil should be excluded from RMA-A on the assumption that they do not belong to the firm.
- **Group undertakings etc** - where debtors include amounts owed by their Directors, group undertakings or undertakings in which the firm has a participating interest, the total amount falling due to the firm within one year must be entered in the section described "Memo (1)".
- **Investment in group undertakings** - where firms include shares in group undertakings as part of their investments, where such investments are held as current assets these should be entered in the section described as "Memo (2)".
- **Appointed Representation (ARs)** - firms that have ARs should note that the Balance Sheet should reflect the financial position of the firm only and not the ARs.
- **Recoverability of debtors** - firms should exclude a debtor from RMA-A if it has reason to doubt that a debt may either not be paid in full or not paid at all, or that it will take a disproportionate amount of time to recover in full.



RMA-B Profit and Loss

- **Cumulative reporting** - RMA-B requires the profit and loss data items to be reported on a cumulative (year to date) basis throughout the firm's financial year and with reference to the firm's accounting reference date, such that the final RMA-B of the year will correspond to the firm's annual results. Firms often report this information on a quarterly or six-monthly results basis, therefore providing the FCA with incorrect information which leads to questions and increased regulatory scrutiny.
- **Appointed representatives** - as ARs are not FCA authorised entities, they are not required to separately report their results to the FCA under the RMAR. Instead, as they remain the responsibility of the principal authorised firm, the income from the AR should be included in the authorised firm's RMA-B1 Regulated Business Revenue. Additionally, and in order to ensure that the figures reported in RMA-B agree to the underlying statutory or management accounts, there is an equal and opposite adjustment to the firm's expenses figure to agree to the underlying results.
- **Unaudited interim profits** - the information that is entered onto RMA-B represents the results as reported in the latest accounts of the firm to Companies House. A firm is able to include unaudited interim profits in its RMA-B, but care must be taken to ensure that these are not double counted when preparing the final RMA-B for the year.
- **Taxation** - RMA-B should include an estimate of the tax that the firm will pay on the profits of the business for the relevant period of account. This should be based on an estimate of the likely effective tax rates for the year, as applied to the profit or loss arising in the period.
- **Gross/net commissions** - RMA-B requires disclosure of commission income in respect of relevant regulated business to be shown on a 'gross' and 'net' basis. There is often much confusion as to the correct definition of these terms:
 - i. 'Gross' commission will include all commission that is received and passed on to another person, such that this will be disclosed 'gross' of any commission-sharing arrangements or discounts given.
 - ii. It is important to note that where commission is shared between firms, the gross commission should not be double-counted and each firm should only report the commission that it has actually received.
 - iii. 'Net' commission is, therefore, the amount of gross commission that is actually retained by the firm (and its appointed representatives) for each type of business, ie commission which has not been passed on to another person.
- **Accounting convention** - the information contained in RMA-B should be reported on an 'accruals' (and not a cash received) basis in line with UK GAAP or IAS.



RMA-C Client Money and Assets

- **CASS 5 Client Money or Agent of Insurer** - a firm should answer 'yes' or 'no' under each of the headings and may answer 'yes' under both headings.
- **How is your client money held?** - a firm will either hold client money under a Statutory Trust arrangement or a Non-Statutory Trust and must indicate its arrangement. Although unlikely, it may be possible for a firm to hold client money under both headings.
- **If Non-Statutory Trust, has an auditor's confirmation of systems and controls been obtained?** - contrary to popular belief, this is not asking whether a client money audit has been undertaken, as is obligatory for firms operating a Non-Statutory Trust, but whether a separate letter has been obtained from its auditors to confirm that the firm has adequate systems and controls in place to meet the requirements under CASS 5.4.4 relating to the operation of the Trust.
- **Highest 'Client money requirement'** - this refers to the highest client money requirement taken from the firm's client money calculations performed during the period.
- **Highest 'account balance'** - this refers to money held as CASS 5 client money under a Statutory or Non-Statutory Trust. If a firm operates both accounts, the firm should enter two balances, with the highest balance in each. The balance should include client money held as agent of the insurer which is co-mingled with client money in a client money account.

Adjustments made to withdraw an excess or rectify a deficit

- this refers to the amount paid into the client account, or transferred out of the client account, following the client money calculation closest to, and prior to, the end of the reporting date.

- **According to your last client assets audit report, what was your auditor's opinion on your firm's compliance with the client money rules?** - in responding to this question, a firm should select from 'clean', 'qualified' or 'adverse'. A report that confirms compliance, but subject to reported breaches, is not 'clean' but 'qualified'. It should be noted that if a firm has been given an 'adverse' opinion, the client money audit report needs to be sent to the CASS team of the FCA.
- **Have any notifiable client money issues been raised that have not been notified to the FCA since the last reporting period?** - by this, the FCA refers to the following particular breaches:
 - i. Failure of a bank or broker.
 - ii. Failure of the firm to perform client money calculations.
 - iii. Failure by the firm to make good a client money shortfall by close of business day on which the calculation is performed.



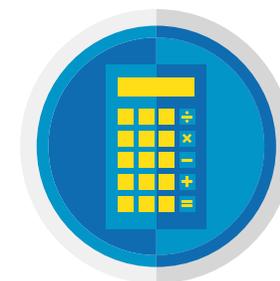
RMA-D1 Regulatory Capital

- A firm's capital requirement is set at the higher of the base requirement and 5% of annual income (for firms that hold client money) or 2.5% of annual income (for firms that do not hold client money). The base requirement is set out in MIPRU 4.2.11R and amounts to £10,000 for firms that hold client money and £5,000 when no client money is held. It should be noted that 'holding client money' refers to having a 'client money permission', irrespective of whether client money is actually held or not. For the purposes of calculating the 'annual income' it is only the regulated business revenue that is taken into account, not all reported revenue.
- A firm's base requirement is increased to £50,000 where it operates under a Non-Statutory Trust arrangement and handles client money for retail clients.
- The FCA may occasionally impose additional capital requirements and, if so, these need to be recorded in RMA-D under 'Other FCA capital requirements'. It must be noted that these are distinct from the additional capital requirements that may apply as a result of any increased excesses that it holds on its PII policies, and as separately calculated from the table set out in MIPRU.
- In calculating the firm's capital resources for the purposes of RMA-D, the following must be taken into account:
 - i. Reserves** - these must be the audited accumulated profits retained by the firm and other applicable reserves. Any reserves that have not been audited should not be included, unless the firm is eligible to include unaudited reserves, which it does when it is eligible for audit exemption under the Companies Act 2006.
 - ii. Interim profits** - these should only be included if verified by the firm's external auditor. Interim profits that have not been externally verified should be excluded, unless the firm is eligible to audit exemption under the Companies Act 2006.
 - iii. Interim losses** - unlike interim profits, interim losses that have not been incorporated elsewhere need to be included as a deduction from the calculation of the capital resources and do not need to be audited.
 - iv. Subordinated loans** - a subordinated loan can be included as part of a firm's capital resources if it meets the detailed requirements set out in MIPRU 4.4.7 and 4.4.8. These include, but are not limited to:
 - a maturity date of 2 years (or 2 years notice of repayment if it does not have a fixed term);
 - the subordinated loan agreement is set out in writing and has been prepared using the FCA standard template; and
 - the amount of subordinated loan in the capital resource calculation cannot exceed four times net assets of the firm (and whereby net assets excludes redeemable preference shares and intangible assets - but not goodwill up to 14 January 2008). This restriction does not apply where no client money is held.



7. Fees calculation

- a.** Firms are required to complete RMA-J ‘Data required for collection of fees’ so that the FCA can calculate the correct level of regulatory fees payable by the firm in respect of the FCA, the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS).
- b.** RMA-J is completed once a year only and its reporting date will cover the financial year ending on the firm’s accounting reference date.
- c.** The relevant detailed information required in RMA-J is the tariff data set out in FEES 4 Annex 1AR, FEES 5 Annex 1R and FEES 6 Annex 3AR (classes B2, C2, D2 and E2) for the FCA, FOS and FSCS respectively.
- d.** The calculation of the fees to be entered in RMA-J represents the single area where firms consistently get it wrong and can lead to calculation errors by the FCA which end up costing the firm hard cash. Although what follows is not an exhaustive list, we set out below some common problems that we see across firms in their completion of RMA-J:
 - Firms are supposed to provide ‘annual’ figures for the fees calculation, and where a firm has not been trading for a full 12 months it should complete Section J on an annualised pro-rated basis.
 - For FCA fees, a firm needs to calculate the ‘annual regulated income’ and where the firm has an Appointed Representative (AR), the ‘annual income’ of the AR should be included and calculated on the same basis as the firm. It should be noted that any commission sharing arrangement between the firm and the AR must be identified and excluded from the calculation to avoid duplication of the same income.
 - For the purposes of calculating fees payable to the FOS, the calculation of the ‘relevant annual income’ should include only income received from ‘consumers’.
 - For FSCS fees, the calculation of ‘annual eligible income’ should include only commission and fees earned in respect of individuals, businesses with a turnover of under £1 million and ‘statutory insurance’, ie compulsory classes of insurance only. This is traditionally an area where firms have ‘over-stated’ their income, leading to incorrect higher fees being levied on the firm.





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